

**A STUDY ON WORKING CAPITAL MANAGEMENT
OF
NEPAL BANK LIMITED
TANSEN**

By

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Recommendation

This is to certify that the thesis

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Has been prepared as approved by this department in the prescribed format
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VIVA VOCE SHEET

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Entitled

“A study on working capital management of Nepal Bank Limited Tansen” and found the thesis to be original work of the student and written according to the prescribed format. We commend the thesis to be accepted as partial fulfillment of the requirement for master’s Degree in Business studies (M.B.S.)

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DECLARATION

I hereby declare that this thesis entitled “A study on working capital Management of Nepal Bank Limited Tansen Branch” submitted to office of the dean of Tribhuvan Multiple Campus. Faculty of Management, Tribhuvan University is my original work for the partial fulfillment of the requirement for the Master’s Degree in Business Studies (MBS) prepared under the guidance and supervision of Mr Keshava Raj Sharma, Tribhuvan Multiple Campus. Tansen, Palpa.

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ABBREVIATIONS

WIPL	Western International Pvt.Ltd.
NRB	Nepal Rastra Bank
CVP	Cost Volume Profit
CM	Contribution Margin
BEP	Break Even Point
MOS	Margin of Sefety
V C	Variable Cost
F C	Fixed Cost
A S	Actual Sales
CMPU	Contribution Margin Per Unit
SPPU	Selling price per unit
VCPU	Variable cost per unit
BES	Break even sales
PPC	Profit Planning Control
DLH	Direct Labour Hour
DLC	Direct Labout Cost
VMOH	Variable manufacture overhead
PVR	Profit volume ratio
NPAT	Net profit after tax
N B L	Nepal Bank Limited
WCM	Working Capital Management
A D B	Agriculture Development Bank

Introduction

1.1. Historical Background of Banking:

In ancient Vedic-era, there was crude form of banking because they pass pledge policy of loan and interest rate can tracked from 'Manusmriti' in 15th and 16th century Roman Empire collapsed as a result. Revival of commercial and trading activities started in European countries. Similarly, commercial banking transaction was also revived. The ancestors banking at that time were,

1.1 Merchant Traders

1.2 The gold smith and

1.3 The money lender

Whereas, in connection to traceable origin and development of banking institution in the world, "The Bank of Venice" of Italy was established in 1157 A.D. as the first banking institution in the world. The second banking institution namely, "The Bank of Barcelona" of Spain was established in 1401 A.D. "The bank of England" was incorporated in 1694 A.D. as a joint stock bank and later on it became the first central bank in the world in 1844. In India, "The Bank of Bengal" was established in 1809 A.D. "The bank of Bombay" was established in 1840. "The bank of Madras" was established in 1843. These three banks were known as "Presidency Bank". In 1921 A.D. "The Imperial Bank of India" was established through merging the presidency bank. In 1955. The imperial bank of India was covered into "state Bank of India" (S.B.I.). There are several subsidiary banks under state Bank of India group. Besides these banks there are several national and foreign banks operating in India.

Nepal is an ancient country. Different dynasties of king have ruled over the country over a period of time. These were not much economic activities except limited foreign trade with India and Tibet until reunification of Modern Nepal by His Majesty Prithivi Narayan Shah. Even after, reunification of Nepal she could not achieve any economic growth as political unrest was prevailing. In a century of Rana regime some ideas of economic development were generated but very few of them were implemented because of their autocratic nature, lack of economic

infrastructure, experience and technology. However, some offices like “Tejarath Adda” ,”MulikiKhana” were established during the same period. The primary task of Mulikikhana was to attract deposit in government’s exchange and grand loans. It stood a safeguard of total national deposits. Due to such activities of the government’s organizations and impact of global wave of economic development, need of the organization that could provide financial services were realized. As a result, a commercial bank named “Nepal Bank Limited” was established as the first commercial bank in Nepal in 1994 B.S.

Financial institutions, financial markets and other financial intermediaries are the vital elements of financial system of an economy. Among them, financial institution e.g. bank highly activate the pace of economic growth of any country as stimuli through saving mobilization and resource allocation. In general, a bank in as institution, which deals with the transaction of money? They perform several financial, monetary and economic activities that are essential to accelerate the ratio of economic growth of the country. They bridge between depositors or surplus spending units. Those who have deficiency of money and are willing to use it in productive sectors.

“Banking sector plays a vital role for the country’s economic development. Bank is resources mobilizing institution, which accepts from various sources, and invests such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism etc. the commercial bank has its own role and contribution and it is sources for economic development. It maintains economic confidence of various segments and expends credit to people”¹

“A bank is business organization that receives and holds deposits or funds by written orders of depositors.”²

“Banking system: The establishment of a group of a financial institution which foster a flow of credit and money that will facilitate orderly economic growth. Early banking systems served mainly as depository for funds. While the more modern systems have considered the supplying of credit their main purpose. A system of banks now serves three main functions:

1. It lends money
2. It accepts money on deposits and
3. It creates and lends its own credit.”³

“Commercial Bank is a corporation that accepts demand deposits subject to cheque and makes short-term loan to enterprises, regardless of the scope of its other services.”⁴

“A Commercial bank is one which, exchange money, deposits money, accepts deposits, grants loan etc.”

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1. Grywinshki R (1993) “The new fashioned Banking” *Harvard Business review*, May-June p87
 2. *Encyclopedia* (1984) “The World Book” Americana; Gralier Incorporated Vol. 3
 3. “The Mac Graw Hill Book Dictionary of Modern Economic” (1985)
 4. *American Institute of Banking* (1972). “Principles of Bank operation’ USA P345
 5. *Nepal commercial Bank Act*

Banking plays an immensely valuable role in the economic life of every country whether it may be small or big. The banking services were available since very beginning of human life. Though, it has given different names by different countries or people but the objectives of these all were nearly the same, i.e. dealing of money and related matters. It may be lending of money or collecting deposits.

Banks are not simply the traders in money and credit who accepts deposits; grant deposits; grants loans, discount the bills and remitting. They are also corers for money and credit. In fact, they are the backbone of economic development. The existence and development of a good

banking system in any country is a reflection and an idea of its economic progress. Both are not only interrelated but also independent.

Nepalese modern commercial banking history begins with the establishment of Nepal Bank Limited in 1994 B.S. under the Nepal Bank Act 1993 B.S. with authorized and paid up capital 10 and 0.845 million respectively. The bank also performed central banks function unit Nepal Rastra Bank was established.

Nepal Rastra Bank in the form of central Bank was established in 2013 B.S. under the Nepal Rastra Bank Act 2012 B.S. It proved to be a great event towards the development of Nepalese banking sector. At that time there was Nepal Bank Limited as only commercial bank with its 13 branches. In course of organization development of commercial banks, realizing the increasing need of banking services for the overall balanced economic development. “Rastriya Banijya Bank” Came in existence in 2002 B.S. under the Rastriya Banijya Bank Act 2021 B.S. with solely government undertaking.

These after, by the purpose of enhancing agriculture development “Agriculture Development Bank” was established in 2024 B.S. under the “Agricultural Development Bank Nepal Act 2023 B.S.” and this bank is also performing commercial transactions since 2041 B.S.

1.1.1 Introduction to Nepal Bank Limited (NBL)

We know that bank is a financial institution in which NBL is one of the major commercial bank. It is the first bank in Nepal and prior to this, there was no such organized banking system in the country. The NBL was established in the year 1994 B.S. 30 Kartik, in accordance with the provision of NBL. It is established with an authorized capital of Rs 10 million and paid up capital Rs 2.5 million. It's $\frac{1}{4}$ of shares is subscribed by government and remaining issued to public. The main purpose of

establishing this bank is to remove the inconvenience caused to the people with a view to tend to well being of the people and the country by bringing in to operation the bank business in NEPAL. Its main objective is to provide banking service to the people and business in the country with this objectives .NBL has extended its banking services to all part of nation by establishing and operating its branch office.

Now, it has the largest network & at present it is serving in 61 districts through its 107 Branches, which is situated in 61 districts in urban area, mountain area & Rural Terai area of the country.NBL is running more than 107 Branch Office; among them one is located in Tansen, Palpa. Tansen is a municipality city. It is located in hilly region. The main occupation of the people of TANSEN is business and agriculture. The income of the businessman is nominal, their saving is little. In order of uplift the standard of living of people of these towns NBL established its branch office in 2017 B.S. It is located in the heart of city. Generally it collect deposit from local in form of current deposits, Fixed deposit and saving deposit and allowed advance and loan to local residential people.

Beside that it performs function of remittance and provide guarantee. At the present stage 2057 B.S., all together there is 22 staff. They are performing banking function under the control of manager. In present year 2066 it collected RS 355847371.66 as total deposit and provided RS 67467403.37 as loan. Thus NBL branch office trying is best to improve and of lift the standard of local people.

1.2. Focus of the study:

Bank is business organization where monetary transactions occur. It creates funds from its clients saving and lends the same to needy person or business companies in term of loans, advances and investment. So proper financial decision making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions of a bank are concerned with correct assets and current liabilities. The working capital management of a bank is different from other types of business organizations or enterprises. A bank plays a significant role to fulfill the requirement of working capital of any type of business enterprise. It also needs efficient management of its own working capital. Investment in working capital of other business enterprises is a part of current assets of banks working capital and we can consider deposits and short-term borrowings as a part of current liabilities.

Working capital refers to the capital bank requires for day to day operation or more specifically for financing the conversion of saving into leading. Among the most important items of working capital of current assets and current liabilities. Analysts look at these items for sing of bank's efficiency and financial strength. One of the crucial aspects of financial management is the management of the working capital. The success and failure of any business organization or bank is highly dependent upon the start of efficiency of it's working capital management.

No absence of adequate amount of working capital. It includes those types of capital which circulates vital role in every business organization whether they are trading, manufacturing or service concerns. So adequate amount of working capital will be helpful in keeping solvency position, goodwill, credit worthiness as well as capability to face the financial bottleneck. Both excessive as well as inadequate working capital positions are dangerous from the business point of view.

Hence, there should be optimum investment in working capital. So, with a view to gaze the importance of working capital, as attempt has been made to illustrate it on a study of working capital management of Nepal Bank Limited Tansen Branch.

1.3. Introduction of Bank under Study:

Banks are the heart of the financial system. They hold the deposits of money persons. Government establishment and business units. They make funds available through their leading and investing activities to borrowers: Individuals, business firms and government establishments. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government.

Nepal Bank Ltd has been establishment in 1994 B.S. This is the first Commercial Bank of Nepal. This is started from Kathmandu” it express our commitment toward peace and development. This Bank started its Banking transaction since 30th November 1994 B.S.. (i.e. Kartik 1994)

The Bank has an authorized capital of Rs. 10 millions, out of which its issued capital of ¼ an millions, paid-up capital of Rs2.5. millions The share holding pattern is 51% HMG Government and 49% of public and staff.

Under the co-ordination of board of directors’ executive chief office look its top management of Bank function of financial development, policy formation and implementation. The board secretary/manager will supervise the function of sub-ordinate and implement the bank’s policy. The daily function of bank will regulate by the manager, with help of other officers and staffs.

Salient features of the bank:

- ✓ Maximum benefit and security to depositors.
- ✓ Loan facility to entrepreneurs on easy process and in low cost interest.
- ✓ Special program to use the technology and human resources.
- ✓ Easy and quick computerized banking services.
- ✓ Money transfer facilities.
- ✓ Remittance facilities through western Union Money Transfer.

Bank is committed to do following works achieve its objectives:

- ✓ To provide loan on sector of agriculture, Industry, Trade, SME, Micro credits, Housing and loan development and service business sector by utilizing available resources and skills.
- ✓ To operate special programme by selecting poor and backward populated socially for upgrading their life style.
- ✓ To providing banking service and help them for select and implement of right project for rural, semi rural and urban sector of its geographical people according bank concept.
- ✓ To develop and implement alternative scheme for mobilization of internal resources as well as external resources.
- ✓ To provide certain level of loan against group liabilities to less income generated people and scheduled group for their suitable projects.

1.4 Statement of the problem:

Nepal Bank Ltd. It is a financial institution. This bank is playing very important role in the economic development of the country. Wrong decision of working capital management of this bank not only affect the liquidity and profitability of the bank but also economic condition of the country.

The management of working capital is synonymous to the management of short-term liquidity. It has been regarded as one of the conditioning factor in the decision making issues. It is no doubt. Very difficult to point out as to how much working capital needed by a particular business organization. An organization, which is not willing take more financial risks can go for more short-term liquidity. The more of short-term liquidity means more of current assets and less of current liabilities. The less current liabilities implies less short-term financing heading to the lower returns. So it is very essential analyze and find out problems and its solution to make efficient use of funds for minimizing the risk of loss to attain profit objective.

Working capital management on bank also difficult as that of manufacturing and non-manufacturing organization financial institutions. Commercial banks are great monetary institutions which are playing

important role to the general welfare of the economy. The responsibility of commercial Banks are more than any other financial institution. They must of ready to pay on demand without notice or warning, a good share of their liabilities. Bank collects and advances to different sectors. To get higher return, banks must try to increase their funds from deposits as well as their investment. The first motive of banking business is to borrow public saving and lead to needy people. But commercial banks always face the problem for utilizing more deposits as investment fully and productively. The gap between collection of deposits and disbursement of loans increase the cash balance on banks, which require to pay large amount of liabilities on its depositors, demand without notice. But large amount of idle cash balance also decries profitability of banks.

As mentioned above, following are the major problems that have been identified for the purpose of this study:

1. What are the major factors affecting the management of working capital in Nepal Bank Limited?
2. What is the management attitude towards risk?
3. What is the lending pattern of loan and advances and other investment?
4. What are the components of working capital, which affect the operating income of Nepal Bank
5. How have the Bank been utilizing their debt capital?
6. How have the Bank been raising the required fund?

1.5 Objective of the study:

The Main objective of this study is to examine of the management of working capital in Nepal Bank Ltd Tansen Branch. The specific objectives of this study are as follows:

1. To review the related literature of recent development in working capital management.
2. To study the working capital position of Nepal Bank Ltd.
3. To examine the effects of working capital on profitability.
4. To present the main issues and problems of Nepal Bank Ltd.
5. To Analyze the financial study of Nepal Bank Ltd.

6. On the basic of the analysis, to provide recommendation and suggestions for the improvement of working capital management of Nepal Bank Ltd in the future.

1.6. Need or significance of the study:

The study has multidimensional significance, which can be divided into four broader headings.

1. Its significance to the shareholders.

The study will helpful to aware the Government and shareholders regarding the working capital management i.e. liquidity and profitability of their banks.

2. Its significance to the management.

The study will helpful to go deep into the matters as to why the working capital management of their bank is better or worse than their competitors.

3. Its significance to the outsiders.

Among outsiders, mainly the customers, financing agencies, stock exchanges and stock traders are interested in the performance of banks and the customers both [depositors and debtors] can identify to which bank they should go. The financial agencies can understand where their fund is more secured and stock exchange, stock brokers and stock traders can find out the relative worth of the of each bank.

4. Its significance to the policy makers.

Policy makers' here refer to the government and Nepal Rasta Bank. The study will helpful to them while formulating the policy regarding banks.

Therefore, considering all these facts the study of working capital management of Nepal Bank Limited is considerable importance.

1.7. Limitation of the study:

None of the study can go beyond the boundary of some limitations. The present study is also not an exception. Limitations of the study are given below.

1. The study is done mostly on the basis of the published financial documents like Balance Sheet, profit and loss account, other related journals, books, magazine, and web side of Nepal Bank Limited.
2. Mainly financial tools and statistical tools are employed for analyzing the working capital management of Nepal Bank Ltd.
3. This study is concerned with the study of working capital management of Nepal Bank Limited.
4. This study is basically done as the requirement for the partial fulfillment of master's degree in business studies (MBS) of Tribhuvan University (T.U.)
5. The period covered by the study over five fiscal years i.e. 2061/062 to 2066/067.

1.8 Design of the study:

This study has been divided into five major chapters. These are the follows:

1. Introduction:

The first chapter deals with historical background of banking. Focus of the study, introduction of bank under study, statement of the problems, objectives of the study, significance of the study, limitations of the study and the chapter scheme.

2. Review of Literature:

The second chapter "Literature review" deals with the conceptual frame work of Bank, concept of working capital management, types of working capital objective of working capital, need for working capital and review of related literatures and available studies written and prepared by different exports and researchers in the field of working capital management.

3. *Research Methodology:*

The third chapter Research methodology, presents the methodology used in this study. It deals with research design, nature and sources of data, collection of data, data processing and method of analysis.

4. *Presentation and analysis of data:*

The fourth chapter fulfills the objectives of the study by presenting the data and analyzing them with the help of various financial and statistical tools followed by methodology. At the last part of this chapter, an explanation of the interview and the major finding of the whole study have been presented. It is the main part of this research.

5. *Summary, major findings, conclusion and recommendation:*

The fifth chapter summarizes the whole study; moreover, it draws the conclusions and forwards the recommendations & suggestions for the improvement of working management of Nepal Bank Limited Tansen Branch.

CHAPTER-TWO

❖ REVIEW OF LITERATURE

This chapter highlights upon literature that is available in this particular topic. This chapter is divided into two parts. First part deals with conceptual framework of bank and theory of working capital management. Second part deals with relating of some available literature including review of books, articles, journals and dissertation in the field of working capital management.

2.1 Conceptual frame work of Bank:

A bank undertakes many transactions daily. Some times customers deposit large quantity and sometimes customers withdrew from their deposits in high quantity. Investment fund of bank is covered by deposit collections of different types of account holder. A bank should have to pay the money to depositors when they want to withdraw, for daily operation of office and to meet the administrative expenses, a bank should have liquidity. The liquidity or working capital is very necessary:

1. To pay to depositors
2. To satisfy the customers by granting loans promptly
3. To meet the administrative expenses.
4. To get ready for risk and economic fluctuation in future.
5. To maintain cash reserve Ratio (CRR) and statutory Liquidity Ratio (SLR)

A commercial bank must keep at least 4% of deposit money of last four weeks perfectly liquid cash in vault compulsorily, 8% of deposit money in current account & saving account and 6% of fix deposit should be kept by commercial banks as cash reserve ratio (CRR) at Nepal Rastra Bank as fully liquid assets. It should meet the deposit of last four weeks.

2.2 Concept of working capital management:

The management of the funds of financial institution can be described as financial management. Financial management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities, in other words, long term investment and sources of funds. Secondly, current uses and sources of funds. Both of these types of funds play a vital role in business finance.

Working capital management is concerned with the management of short-term investment. It refers to the resources of the firm that used to conduct day-to-day operations, which makes the business successful, without cash, bills can not be paid, without receivable, the firm can not allow timing difference between delivering goods or services and collecting the money to pay for them. Without inventories the firm can neither engage in production nor can it stock goods to provide immediate deliveries, as a result of the critical nature of current assets the management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of the firms i.e. those items that can be converted into cash within the year, similarly net working capital is defined as the different between current assets and current liabilities.⁶ Another way of defining working capital s that portion of firm's current assets financed with long term fund. Both liquid assets and liabilities are important in working capital management.

In the words of K.V. smith, "The term working capital management is closely related with short-term financing and it is concerned with collection and allocations of resources. Working capital management is related to the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationships that exist between them."⁷

Working capital management is a process of short-term decision making regarding the current assets and current liabilities affecting the

long-term operation of an enterprise, it is a process of planning and controlling the level of mix of current assets of the firm as well as financing these assets. It concludes decision regarding cash, marketable securities of maximizing the overall value of a firm of financial institution.

According to I.M. Pandey, there are two concepts of working capital:

- a) Gross concept and
- b) Net concept

The gross working capital, simply called as working capital, it refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash, short-term securities, and debtors, bills receivable and stock. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include

bills payable and outstanding expenses. Net working capital will arise when current assets exceed over current liabilities and a negative net working capital occurs when current liabilities are in excess of current assets. He also added that net working capital concept also covers the question of judicious mix of long-term and short-term funds for financing current assets.⁸

To analyses the above concept about working capital, we concluded that, all the co-operations, whether public or private, manufacturing or non-manufacturing, have just adequate working capital to survey in competitive market. It is become excessive or inadequate working capital is dangerous from the firm's point of view. Excessive investment on working capital affects

the liquidity position of the bank and leads to financial embarrassment and failure of the banker any business firm.

The goal of working capital management is to support the long-term operational and financial goals of the business firm. In effect, this involves recognizing the relationship between risk and return. Three elements must of included in analyzing the trade-off between risk and return when managing working capital.

6 *John J. Hampton and Lealia L. wagner, working capital management, (new York: west publishing)*

7. *K.V. Smith, Management of W.C. (New York, west Publishing company;1974)P. 109*

8. *I.M. Pandey: Financial Management, (New Delhi; Vikash Publishing House, 1991) P. 796-797*

1. *Insolvency:*

This condition occurs when a firm can no longer pay its bills and must default o obligation and possibility deplore bankruptcy. A business firm without adequate levels of working capital may have to face this risk.

2. *Profitability of assets:*

Different level of current assets will have varied effects on profits. A high level of inventory will require high currying cost. At the same time, the firm will have a wide range of goods to sell and may be able to generate higher sales and profit. Each decision on the level of cash receivable and inventory should consider the effects to different level.

3. *Cost of financing:*

When interest rates are high, its costs more to carry inventory the when rates are low, large cash balances may not earn the return that is possible if the cash is converted into operating assets. The cost of

debt and the opportunity cost of alternative investments are items to consider when evaluating working capital level.⁹

Proper management of working capital must ensure adequate amount of working capital as per need of business firms. It should be in good health and efficiently circulated. To have adequate health and efficient circulation of working capital, it is necessary that working capital be properly determined and allocated to its various segments effectively controlled and regularly reviewed.¹⁰

It is therefore, a recognized fact that any mistake made in management of working capital can lead to adverse effects in backs and reduce the liquidity , turnover and profitability and increases the cost of financing of the financial institutions.

2.3 Types of working capital:

Working capital can be classified into two groups on its nature i.e. permanent working capital and temporary working capital. These two types of working capital are needed for smooth running of any productive or non-productive organization.

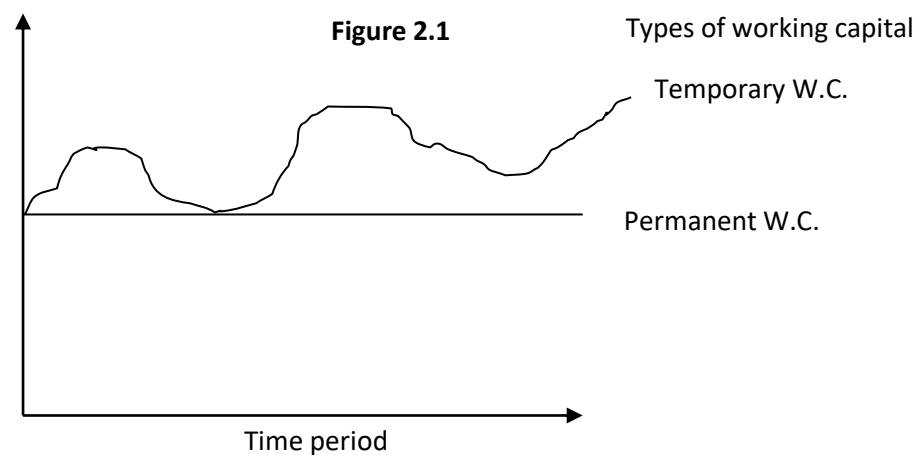
1. Permanent (fixed) working capital:

The permanent W.C. refers to that level of current assets which is required on a continuous basis over the entire year. A manufacturing concern can not operate regular production and sales functions in the absence of this portion of working capital. Therefore, a manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted production and sales functions. This portion of working capital is directly related to the business expansion of operation capacity

2. Temporary (Variable) working capital:

The temporary W.C. represents that portion of working capital which is required over permanent working capital. Its volume is dependent

upon the nature of organization. If production and sales of product of any organization is reasoned variation then it should stock more raw materials, work-in-progress and inventory of finished goods. Therefore, the relation between labour and management directly affects the portion of temporary working capital. If firm has sound management of this portion of working capital that means that firm is stronger I its competition and con easily obtain its goals.



Source: I.M. Pandey, "Financial Management, (New Deli, Vikash Publishing House, 1998) P.808

9 John J. Hampton & cealin L. wagner, 1989 "WCM" USA page 10

10 Bikram Gurung, "A study on W.C.M. of Nepal level Ltd.. (Unpublished M.C. thesis Shanker Dev Campus) P.18

2.4 Objectives of working capital:

Working capital is required to run the bank or business firm smoothly and efficiently in the contest of the set objectives. It is no doubt that no bank can achieve its goal without proper use of working capital.

Therefore, it can compare as blood to the bank. The main objectives of arranging capital are as follows;

1. To fulfill the present need of bank as well as get ready for risk of economic fluctuation in future.
2. To run the bank smoothly
3. To perform the task as per objective of the bank.
4. To increase the attraction of bank
5. To maintain cash reserve ratio statutory liquidity ratio

2.5 Need for working capital:

The need for working capital or current assets cannot be overemphasized. The objective of financial decision making is to maximize the share holders' wealth. To achieve this, it is necessary to generate sufficient profits. The extent to which profit can be earned will naturally depend upon the magnitude of the sales among other things. A successful sales programme is in other words, necessary for earning profit by any business enterprise or financial institutions. However, sales does not convert into cash instantly, there is invariably a time lag between the sales of goods and receipt of cash. There is therefore a need for working capital in the form of current assets to deal with the problem arising out of the lack of immediate realization of cash against leading. Therefore, sufficient working capital is necessary to sustain lending activities.

Most of the firms aim at maximizing the wealth of shareholders. The firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of demand among the other things. For constant operation of business, every firm needs to hold the working capital components like cash, receivable, inventories etc. therefore, every firm needs working capital to meet the following motives;

1. The transactional motive: According to transactional motive, a firm in regular. Thus, the needs the working capital to meet the transaction motive.

2. The precautionary Motive: precautionary motive is the need hold cash & inventories to guard against the risk of unpredictable strike, failure of important customer, unexpected such as collection of account receivable, cancellation of some order for demand and some other for demand and some other unexpected emergency. Thus, the firm needs the working capital to meet any contingencies in future.
3. The speculative motive: speculative motives refers to the desire of a firm or bank to take advantage of following opportunities
 - a) Opportunities of profit making investment.
 - b) To speculate of purchasing saves at a reduced price on payment of immediate cash.
 - c) An opportunity of purchasing saves at a reduced price on payment of immediate cash.
 - d) To make purchase of raw materials at favorable price etc.
4. Compensating balance requirement: The commercial banking system performs many functions for business firms. Business firms pay for these services in part by direct fees and sometimes in part by maintaining compensating balances at the bank. Compensating balance represents the minimum leaves that the firms agree to maintain in its checking account with the banks. The bank can give loan such funds on a longer basis, earning a return, which is an indirect fee to bank. This represents institutional reason why a bank holds cash. Thus bank need the working capital to meet the compensating balance requirement.

2.6 Working capital policy:

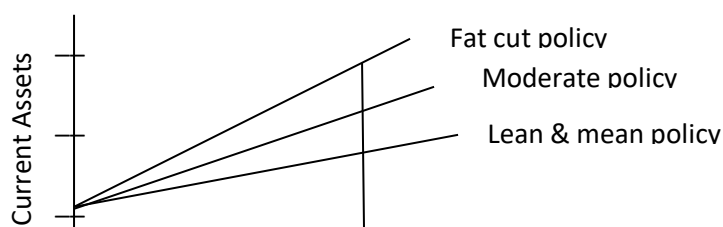
Working capital policy refers to the banks basic policies regarding target level of each category of current assets and how current assets will be financed. So first of all, the bank has to determine how much funds should be invested in working capital gross concept. Every bank can adopt different financing policy according to the financial manager's attitude towards the risk-return is how much current liabilities should be used to finance current assets. Every bank has to find out the different sources of funds for working capital.

- Current assets Investment policy:

Current asset investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of

demand. There are three alternative current assets investment policies, viz, fat cat, lean & mean and, moderate.¹¹

- i) Fat cat policy: This is known as relaxed current assets investment policy. In this policy, the bank holds relatively large amount of cash, marketable securities, inventory and receivable to support a given level of demand. This policy creates longer inventory and cash conversion cycles. It also creates the longer receivable collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with lower risk.
- ii) Lean & mean policy: In lean & mean policy, a bank holds the minimum amount of cash. Marketable securities, inventory and receivable to support a given level of demand. This policy tends to reduce bank follows a tight credit policy and bears the risk of losing demand.
- iii) Moderate policy: In moderate policy, a holds the amount of current assets in between the relaxed and restrictive policies. Both risk and return are moderate in this policy.



Adopted from: Weston, Besley & Brigham, Essentials of Management finance P.345

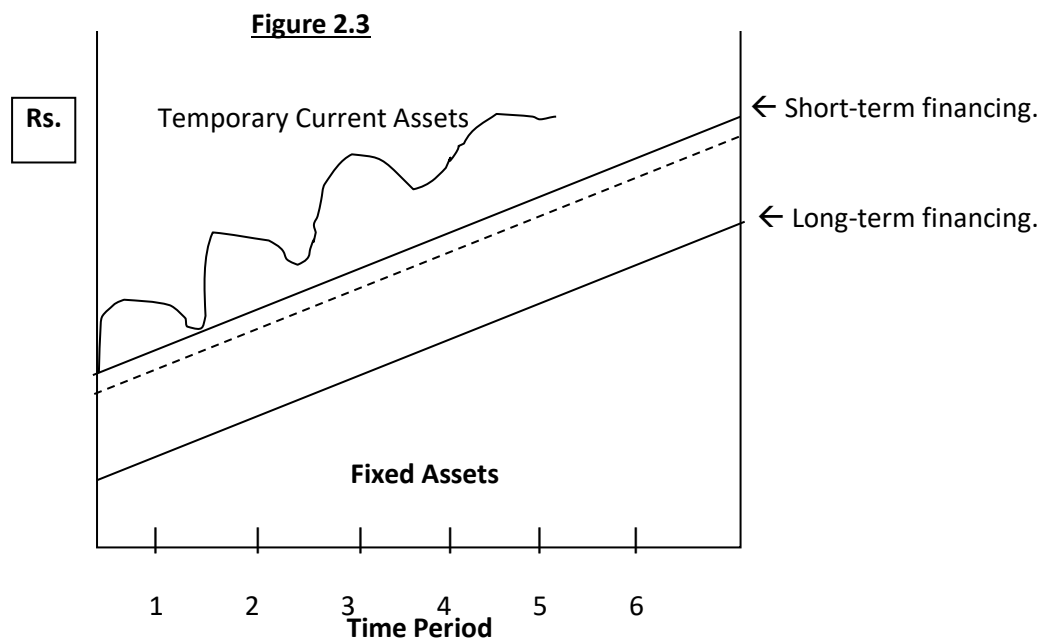
- **Current Assets financing policy:**

It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Thus current assets financing policy should clearly outline the sources of

financing. There are three variants aggressive, conservative and matching policies of current assets financing

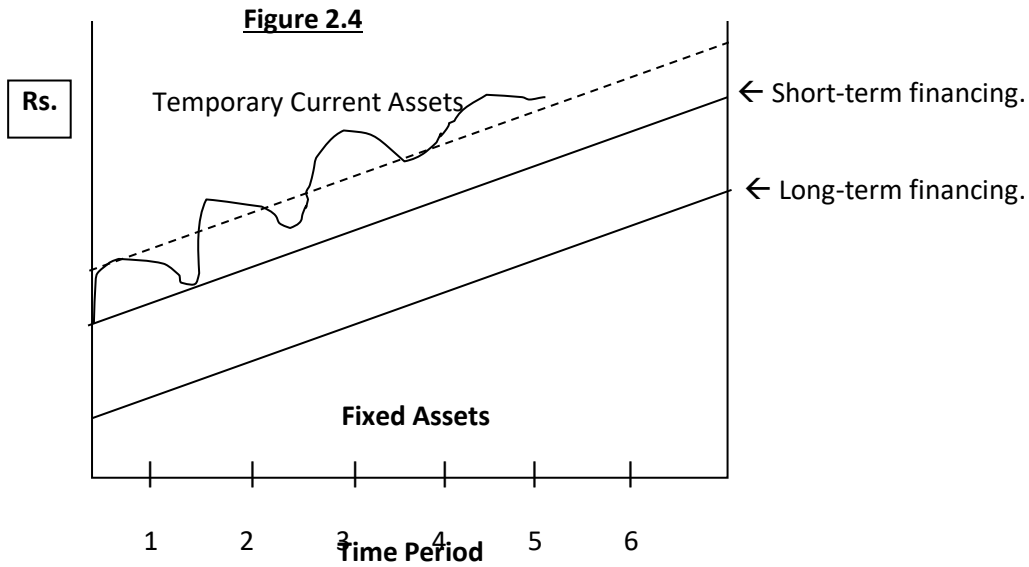
11 Weston, Besley and Brigham, E MF 11th Equation P. 344

- **Aggressive financing policy:** In an aggressive financing policy, the bank finances a part of its permanent current assets with short-term financing and rest with long-term financing. In other words the bank finances not only temporary current assets but also a part of permanent current assets with short-term financing. Fig. 2.3 shows that short-term financing finances 50% of the permanent current assets. On general, interest rate increases with time i.e. shorter the time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal situation the bank borrows on a short-term financing rather than long-term financing. On the other side, if the firm finances its permanent current assets by short-term financing, then it runs the risk of renewing the borrowing again and again. This continued financing exposes the bank to certain risk. It is because, in future the interest expenses will fluctuate widely during the stringent credit periods. In conclusion, there is higher risk, higher return and low liquidity position under this policy.



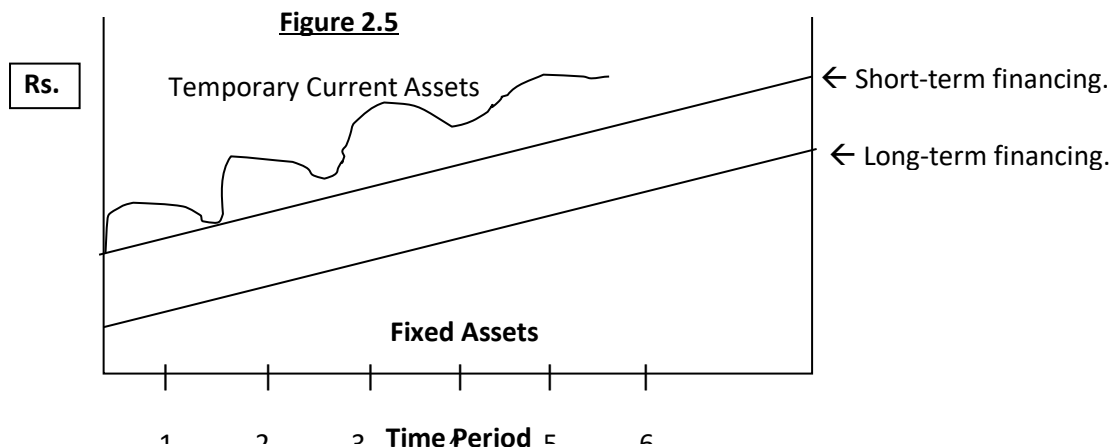
Adopted from: Weston, Besley and Brigham, Essentials of Management (Finance, page 347)

- Conservative financing policy: In this policy, the bank used long-term financing to finance not only fixed and permanent assets, but also a part of the temporary current assets. This policy leads to high level of current assets, with long conversion cycle, low level of current liabilities and aggressive policy and liquidity position is higher than that of aggressive one. The risk adverse management follows this policy.



Adopted from: Weston, Besley and Brigham, Essentials of Management (Finance, page 347)

- Maturity matching financing policy: In this policy the bank finances the permanent current assets with long-term financing and temporary with short-term financing. It lies in between the aggressive and conservative policies. It leads to neither high nor low level of current assets and current liabilities. Fig. 2.5 shows temporary working capital is financed by short-term financing and long-term by long-term financing. Thus no working capital is zero under this policy.



*Adopted from: Weston, Besley and Brigham, Essentials of Management
(Finance, page 347)*

2.7 Financing of working capital:

This bank's working capital assets policy is never set in a vacuum; it is always established in conjunction with the bank's working capital financing policy. Every manufacturing concern or organization requires additional assets whether they are in stable or growing conditions. The most important function of financial manager is to determine the level of working capital and to decide how it is to be financed. Financing of any asset is concerned with two major factors—cost and risk. Therefore, the financial manager must determine and appoint a financing mix, or decide how current liabilities should be used to finance current assets. However, a number of financing mixes are available to the financial manager. He can resort generally to three kinds of financing. There are three ways of financing working capital, which are as follows.

- i) Long-term financing: Long-term financing has liquidity and low profitability. Ordinary share, debenture, preference share, retained earning and long-term debts of financial institution are major sources of long-term financing.
- ii) Short-term financing: Short-term financing is obtained for a period less than one year. A firm must arrange its short-term credit in advance. The sources of short-term financing of working are trade credit and bank borrowing. Bank determines the maximum credit based on the margin requirement of the security. The types of loan provided by commercial banks are loan arrangement, overdraft arrangement, commercial papers etc.
- iii) Spontaneous financing: Financing manager of the bank would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of current assets financing is either short-term or long-term sources. Thus, the financing manager concentrates his power in short-term versus long-term financing. Hence, the financing of working capital depends upon the working capital policy which is perfectly dominated by management attitude towards the risk-return.

2.8 Determinates of working capital:

There are no set rules or formula to determine the working capital requirement of the organization or bank. The importance of efficient working capital management is an aspect of overall financial management. This is a bank plans its operations with adequate working capital requirement or it

should have neither too excess nor too inadequate working capital. A number of factors affect different bank indifferent ways. Internal policies

and environment changes also affect the working capital. Generally, the following factors affect the working capital requirement of the bank.

- i) Nature and size of Business: The working capital requirement of a bank is basically related to size and nature of the business. If the size of the bank is bigger, then it requires more working capital, while a small bank needs less working capital. Trading and financial institutions require a larger amount of working capital relatively to public utilities. In contrast, public enterprises have a very limited need of working capital and have to invest abundantly in fixed assets. Their working capital requirements are nominal because manufacturing companies have to fall between the two extreme requirements of trading firms and public enterprises.
- ii) Manufacturing cycle: Working capital requirements of an enterprise are also influenced by the manufacturing or production cycle from the raw materials. During the process of the manufacturing cycle, funds are tied up. The longer the manufacturing cycle, the larger will be the working capital requirement and vice-versa.
- iii) Production policy: Working capital requirement is also determined by its production policy. If a firm produces seasonal goods, then its production and sales volume fluctuate with different seasons. This type of fluctuating policy affects the working capital policy of the firm.
- iv) Credit policy: Credit policy also plays a vital role to determine working capital requirement. Working capital requirement depends upon the terms of sales. Different terms may be followed by different customers according to their credit worthiness. If the firm follows the liberal credit policy, then it requires more working capital. Conversely, if a firm follows the stringent credit policy, then it requires less working capital.
- v) Availability of credit: Availability of credit facility is another factor that affects the working capital requirements. If the creditors avail a liberal credit policy, then the firm will need less working capital and vice-versa. In other words, the firm can get credit facility easily on favorable conditions. Thus, it requires less working capital to run the firm; otherwise, more working capital is required to operate the firm smoothly.

Growth and expansion: Growth and expansion also affect the working capital requirement of financial institute or any firm. However, it is difficult to precisely determine the relationship between the growth and

- vi) expansion of the firm and working capital needs. But the other things being the same growing firm needs more working capital than those static ones.
- vii) Price level change: Price level change also affect the working capital requirement of a financial institution or any firm. Generally, a fir requires maintaining the higher amount of working capital if the price level rises. Because the same level of current assets implications of changing price level o working capital position will vary from firm to firm depending o the nature and other relevant consideration of the operation of the concerned firms.
- viii) Operating efficiency: Operating efficiency is also important factor, which influences the working capital requirements of the financial institution or firms. It refers to the efficient utilization of available resources at minimum cost. Thus, financial manager can contribute to strong working capital position trough operating efficiency. If a firm has strong operating efficiency then it needs lesser amount of working capital and vice-versa. Better utilization of resources improves profitability and then help in releasing the pressure on working capital.
- ix) Profit margin: The level of profit margin differs from bank to bank or business to business. It depends upon the nature and quality of service, product, marketing management and monopoly power in the market. If the firm deals with the high quality product and has a sound marketing management and enjoyed the monopoly power in the market then it earns quite high profit and vice-versa. Profit is the source of working capital because it contributes towards the working capital as a pool by generating more internal funds.
- x) Level of Taxes: The level of taxes also influences working capital requirement of a firm. The amount of taxes to be paid in advances is determined by the prevailing tax regulations. But the firm's profit is not constant, or can not be predetermined. Tax liability in a sense of short-term liquidity is payable in cash. Aspects of working capital

planning. If tax liability increases, it needs to increase the working capital and vice-versa.

2.9 Issues of working capital:

In the management of working capital, the most posing questions are how much working capital to maintain? What type of financing to use? How to

adjust the working capital when there is a change in the level of business activities? In particular, they face the following issues.

- a) Size of working capital to maintain size of each type of current assets.
- b) Size of permanent and seasonal working capital investment.
- c) Source of financing: short-term or long-term financing.
- d) Cost of financing: cost of short-term Vs Long-term financing
- e) Risk associate with types of financing: trade-off between cost & risk.
- f) Maintenance of current ratio: Minimizing the risk of cash flow problem.

The objective of managing working capital is to aid in the value maximization of the firm by minimizing the cost of working capital. The level of working capital also differs by the types and nature of the business. The cost of maintaining the working capital depends on the source of finance used. The short-term sources generally cost less than the long-term sources, but they are riskier.¹²

2.10. Review of Literature:

In the sub-chapter, related some available literature i.e. Books and Report/Research are reviewed. Various thesis works have done in different aspect of commercial banks and working capital of different organization is also reviewed for the purpose of justifying the study.

2.10.1 Review of Books and articles:

Some available books about working capital management are reviewed here under.

The well known professors Weston and Brigham¹³ have give some theoretical insights into working capital management after their various research studies on it. The bond conceptual findings of their study provide sound knowledge and guidance for the further on the field of management of working capital in any enterprise and naturally to this study as well. They explain in the beginning. The importance of working capital, concept of

working capital, financing of working capital, the use of short-term versus long-term debt, relationship of current assets to fixed assets. In the next chapter they have dealt wit the various components of working capitals and their effective management techniques. The components of working capital they have dealt with are-cash, marketable securities, receivable and inventory. For the efficient management of cash the have explained the different cash management models. They have also explained the major sources and forms of short-term financing. Such as trade credit, loans from commercial banks and commercial paper.

Van Horne¹⁴ has categorized the various components of working capital i.e. liquidity, receivable and inventory and current liabilities and grouping them according to the way they affect valuation. He has also described the different methods for efficient management of cash and marketable securities. For the management of receivable, different credit and collection policies have been described and various principles of inventory have bee examined for inventory management and control.

For the working capital management, a well-know Indian professor I.M. Pandey¹⁵ has described some conceptual ingredients, which are based on his various research studies. He has divided working capital management into five chapters. The first chapter deals with the concepts working

capital dimensions of working capital management, optimum level of current assets, and working capital trends India. In the second chapter, he has described the management of cash and marketable securities, where he has dealt with facts of cash management, motives for holding cash, cash planning, managing the cash flows, determining the optimum cash balance investment in marketable securities. In the third chapter, he has described the management of receivable, in which he has dealt with goals of credit management, optimum credit policy, aspects of credit policy. Credit producers for individual accounts. In fourth chapter on investment management, he has described the need to hold inventories objectives of inventory control technique and financial manager's role in inventory management. For financing of working capital has described the Tondon Committee recommendation on the fifth chapter.

12 Pradhan, Surendra, Basics of Financial Management. 1st edition 1992

13 I. Fred Weston & Eugene F Brigham Management finance 7th edition\

14 James C. Van Horne "Financial management and policy" New Delhi

15 I.M.Pandey "Financial Management" New Delhi

Dr. Radhey Shyam Pradhan¹⁶ has published a book on management of working capital in Nepalese PEs. This book is based on the study of nine manufacturing public enterprise of Nepal for the duration of ten years from 1973 to 1982 A.D. He has aimed to provide useful insight into the existing and forth coming corporations on working capital behavior. In this study, he has death with various issues viz-type of working capital policy followed by those PEs liquidity position, structure of working capital, nature of working capital, utilization and demand for working capital and its various components, with changes volume of sales in those PEs. In the study he reveals that most of the selected enterprises achieved a trade of between risk and return there by following neither an aggressive nor a conservative approach. Almost all the selected PEs had a

positive net working capital and much of the growth in net working capital might, however, be attributed to inflection as the growth in net working capital at deflated prices has been much lower. The liquidity measures showed a poor liquidity position in majority of MPEs. It has been noticed that the enterprises had either negative cash flows or earning before tax, or they had excessive net current debts, which could not be paid within a year. Of the current assets, which is, on an average; half of the total assets in PEs. The share of inventory is the largest followed by receivables and cash. There had been an improvement in utilization of current assets in the majority of PEs. He also noticed that the adjustment speed of actual to desire balance had been observed as highest for cash followed by inventories. However the speed of adjustment was much slower in all these cases. The results were, therefore, surprising as the adjustment of even cash holding was not immediate. Further more, the inclusion of capacity utilization in the models did not seem to have contributed much to the demand functions of working capital and its various components. Thus, provides extensive account sheet characteristics of Nepal banks which are as follows.

Characteristics	Significance	Risk	Return
1. Few fixed assets	Low degree of operating balance	Reduce	Reduce
2. substantial amount of short-term liabilities (Deposits)	To be liquid	Increase	Increase
3. Substantial amount of financial assets.	High degree of operating leverage	Increase	Increase

At last, he added that analysis of financial statements can give a good insight into financial health and performance of a bank.

Dr. Manohar K. Shrestha,¹⁷ in his article has considered ten selected PEs and studied the working capital management in those PEs. He has focused on the found that four PEs had maintained adequate liquidity position. On the turnover, four had adequate turnover, one had high turnover and remaining three had not satisfactory turnover on net working capital. He had also found that out of ten PEs, six PEs were operating at losses while only four were getting some percentage of profits. With reference to those finding he had brought certain policy issues such as lack of suitable financial planning negligence of working capital management, deviation between liquidity and turnover of assets and inability to show positive relationship between turnover and return on net working capital.

Dr. K. Acharya's¹⁸ articles have described the two major problems operational problems and organizational problems regarding the working capital management in Nepalese PEs. The operational problems he found are listed in the first parts which are increases of current liabilities than current assets, not allowing the current ratio 2:1 and slow turnover of

inventory. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, thin transmutation of capital employed to sales. Absent of apathetic management information system, break even analysis, fund flow analysis and ratio analyses were either undone or ineffective for performance evaluation. Finally monitoring of the proper functioning of working capital management has never been considered a managerial job. In the second part, he has listed the organizational problems in the PEs. In most of the PEs, there is lack of regular internal and external audit system as well as evaluation of financial result. Similarly very few PEs have been able to present their capital requirement, functioning of finance department is not satisfactory and some PEs are even facing the under-utilization of capacity. To make an efficient use of funds for minimizing the risk of loss and to attain profit objectives, he has made prevailed frequently in their operation, avoid fictitious holding of assets the finance staff should be acquainted with the modern scientific tools used for the presentation and analysis of data and lastly, he has suggested optimizing its level of investment at a point of time. Neither over nor under investment in working capital is desire by the management of an enterprise because both of these situations will encode the efficiency of the concern.

L.D. Mahat has published article relating to spontaneous resources working capita lmanagement. He has defined the three major sources of working capital. i.e. equity financing, debt financing and spontaneous sources of financing, regarding working capital management.

Debt financing include short-term bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. whereas spontaneous sources of working capital include trade credit, provisions and accrued expenses.

Mr. Mahat has defined that working capital management is one of the important pillars of corporate finance, however, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such an environment should be efficient enough to cope with the possible worst happenings in future of working capital management. He has said that managing the working capital resources for a profit making industries are routine affairs of just making payments and arranging collection of debtors.

In contract, the company in debt trouble, it is rather difficult to meet its working capital gap by way of debt financing, the company should have to bear interest, which may cause to increase in the percentage to operating expenses to the turnover and depletion in the profits. Therefore spontaneous sources of working capital will be better to working capital in order to improve its performance, consequently, in a changing economic scenario, every company should realize that inability to manage working capital might land them in a vicious circle that can be hard to get out from. It is indeed essential for industries to tighten their belts and check their financial stability to face and stand in forth coming competitive day.

2.10.2 Review of Related Thesis:

Various research works have been done by students of MBS in different aspects of commercial Bank such as: Financial performance, working, comparative study of working capital management and working capital management of other organizations are reviewed and conclusions drawn on it will be relevant to justify my study. Some reviewed previous dissertations are as follows:

The dissertation entitled 'An appraisal of financial position of Nepal bank limited' Nerendra Bahadur Amatya analyzed, examined and interpreted the financial position of the bank from 1980/81 to 1989/90. Main findings of his study are as follows:

Regarding the liquidity management, the bank is in a better position. But the bank has been following a uniform policy to finance current assets and current liabilities.

The bank is successful in deposit collection but it has always adopted conservative and traditional credit policy.

The trade and commerce advances are playing the reserve role in the credit composition of the bank. Although the reserve of the bank is increasing gradually, the reserve play a nominal role in the credit expansion control.

The major portion of investment of the bank in is HMGs securities. And the volume of transaction is high in all respects but the bank does not show higher ratio of profit or it shows a decreasing trend of profit.

Niraj K.C. his thesis entitled “Comparative study of working capital management of Nepal Bank Lid and Nepal Arab Bank Ltd.” has covered the span of five years (047/48 to 051/52.). The objectives of the study were to study the current assets and current liabilities and their impact and relationship to each other of NBL and NABIL, to analyses the comparative study of working capital management of NBL and NABIL, to review the related literature of recent development in working capital management. The methodologies used in his study are ratio analysis, trend analysis, correlation analysis and test of hypothesis. And the major findings of this study were as given below:

- i) The Major components of current assets in NBL and NABIL are cash and bank balance, loan advances and government securities. In the study period, the proportion of cash and bank balance, loan and advances and government securities to total current assets on an average are 18.59%, 43.04% and 26.27% in NBL and 20.91, 48.65 and 16.32% in NABIL respectively. The management of loan and advances is more problematic in NBL and NABIL.
- ii) Out of three current assets components, cash & bank balance holds the smallest portion in NBL and is fluctuating every year during the study period. On the other hand, government securities holds the

smallest portion in NABIL and it is increasing in the first four years and decreased in the last year of study period. The interest income of NBL is better than NABIL.

- iii) Significant difference on government securities to total current assets of NBL and NABIL shows that management of NBL is willing to invest its funds on government securities for liquidity as well as safety purpose.
- iv) The liquidity position of NBL is always better than NABIL during the study period. Although higher liquidity is not always the cause of lower profitability. Fixed deposit to total deposit ratio of NBL is always higher than the same ratio of NABIL for the study period. So, it is found that NBL used more long-term and costly sources of fund than NABIL and also NBL is following more conservative working capital policy than NABIL.
- v) Liquidity management policy of these two banks is significantly different.
- vi) NABIL has better utilization of deposits in income generating activity than NBL or NABIL has better investment efficiency on loan and advances than NBL.
- vii) Both of the banks utilize their total deposits on loan and advances effectively but relationship as well as utilization of deposit is better on NABIL. On the other side, insignificant correlation between government securities and total deposits of both banks shows that only idle case balance are invested on government securities as there is no more opportunities to invest on loan and advances.
- viii) Co-efficient of correlation between loan advances and net profit in NBL is 0.13 which is less than 6 per cent as well as per cent. It shows that net profit of NBL is not significantly related with loan and advances NABIL, loan and advances and net profit is significantly related with co-efficient r , 0.92. It shows that change on loan and advances in NBL do not change the amount of profit significantly. It may be due to the use of higher amount of costly fund and other higher cost.

A research work entitled "A study on working capital management of dairy development corporation," had been carried out by Bashudev Shrestha. He conducted his study on the basis of

five years data starting from 2052/53 to 2056/57 B.S. The objectives of his oration, to analyze the current assets & current liabilities of DDC & their impact & relationship to each other.

- i) The Company's investment in the form of working capital has been increasing and dairy development corporation followed the conservative working capital policy with respect to current assets management.
- ii) The average investment in current assets is lower with respect to net fixed assets during the study period and dairy development corporation has no clear vision about the investment in current assets to fixed assets portion.
- iii) Cash and bank balance holds the second largest portion of the current assets and has fluctuating trend.
- iv) Other major components of current assets i.e. inventories and receivables are in fluctuating trend. The company does not follow the credit sales policy.
- v) The company has been able to maintain its current ratio in an average 1.78:1 during the study period which is regarded as a satisfactory level.
- vi) The gross and net profit margin of DDC shows that DDC is suffering from a heavy loss during the study period.
- vii) The overall return position of DDC is negative, not in favorable condition. It is because of inefficient utilization of current assets total assets and shareholders wealth.

Bikram Gurung had carried out "A study on working capital management on Nepal level limited."²³ This study has covered the span of five years from 2053/054 to 2057/058 B.S. The objectives of the study were to analyze the liquidity. Composition of working capital, assets utilization and profitability of N. Ltd. to analyze the financing pattern of working capital of NL. Ltd. and know whether the NL. Ltd. has maintained optimum level of W.C. or not. In his study, the methodologies used are ratio analysis, test of hypothesis and correlation analysis. And the major findings of his study were as given below:

- i) The major components of current assets in NL. Ltd. are inventories, receivable, prepaid expenses and advance. Among these inventory has held the major portion of current assets. It was found that out of total current assets, inventory holds the largest portion followed by miss. Current assets, sundry debtors, cash and bank balance respectively.
- ii) The current ratio of the company ranges in between 0.86 to 1.73 during the study period in fluctuating trend. The company was unable o maintain its current ratio of 2:1 in average of the study period.
- iii) The portion of current assets to sales varied from 19.77% to 36.83% during the study period i.e. the current assets investment policy of NL Ltd. has been shifting towards the moderate policy.
- iv) Sundry creditors have held the major portion of liabilities in NL. Ltd. The average percentages of sundry creditors, short-term loan and miscellaneous are 48.30%, 14.34% and 34.37% respectively.
- v) Profitability is one of the measures of overall efficiency of the management. The profitability of NL Ltd is in increasing trend except in 2055/056. It is the highest in 057/58 and least in 053/054 and been suggested by Mr. Gurung that NL. Ltd. should set the standard for the ratio of current assets to fixed assets. It has no clear vision about the management of current assets to fixed assets. Thus, NL. Ltd. should have the proper plan to improve its profitability in future. It is also recommended that the volume of sales should be increased and the proportion of current assets should be maintained according to its sales volume.

16 Dr. Radhey Shyam Pradhan 1986 "Management of working capital"
New Delhi

17 Dr. Manohar K. Shrestha, July 1992-June 1983. Working capital
management in public enterprises, A study on financial results and
constraints" ISDOC Vol.8

18 Dr. L. Acharya 1985. Problems & pediment in the management of W.C.
in Nepalese's enterprises" ISDOC Vol 10

CHAPTER- THREE

RESEARCH METHODOLOGY

3.1. Introduction:

Research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collections analysis and interpretations of the facts and figures. In other words research methodology means the analysis of specific topic by using proper method. Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with the certain objectives in view²⁶. Therefore we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered at the path from which researcher can systematically solve the research problem.

In this chapter, efforts have been explained specific research design for the sake of attaining the research objective. The major objective of this study as described in first chapter is to study working capital management of Nepal Bank limited Tansen. Thus, it describes the methods and process applied in the entire subject of the study. It is the plan, structure and strategy of investigation conceived to answer the research question. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of Nepal Bank and other publications. This chapter deals with the research design, nature and sources of data, collection of data, data processing and method of data analysis techniques and tools.

3.2. Research Design:

Selection of appropriate research design is necessary to meet the study objectives of any research. Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research question and to control variances. According to Claire Selltitz, "A research design is the arrangement of the conditions for collection and analysis of the data in a manner that aims to combine relevance to the research

purpose with economy in procedure.”²⁷ Therefore we can say that without research design no researcher can conduct the research work.

The study aims to portraying accurately on working capital (or current assets and current liabilities) and its impact on overall financial position of Nepal Bank Limited. The study is based on recent five years data from f/y 2062/63 to f/y 2066/067. The study has been conducted to assets the existing situation of working capital management of the Nepal Bank and describe the situation and events occurring at present. Hence is a historical research.

Figure 3.1: Elements of a Research Design*



*Source: Wolff, H.K. and Pant P.R. op. cit., p. 93

3.3. Nature and Sources of Data

To attain the objective of the study both primary and secondary data have been used. The secondary sources of data are those data that have been used from published sources (such as annual official records and publication of Nepal Bank Limited, report of auditor general office, manager publications) or used by someone previously. And the primary sources of data consist of data collected from the personal approach and

interview, questionnaires, and reports submitted to various seminars and meetings to the employees of the institutions.

The further information to the related problems was also supportive to obtain from the formal and informal discussion with the concerned authorities of the bank.

3.4. Data Collection Procedure:

In course of collecting both the secondary and supplementary data, the research made several visits to the convened bank. In different visits, researcher get permission for conducting the research on their (bank) financial aspects, obtained financial statements (annual reports of the study period) and clarification of the financial items.

Besides these, the researcher has visited the different libraries i.e. campus library of Tribhuvan Multiple Campus, Central library of T.U. and collected related publications and periodical from website of Nepal Bank. Financial data required to achieve the set objectives of this study have been directly extracted from the balance sheet and income statement of the bank. In order to collect the supportive data a detail review of the related documents has been carried on and qualitative information has been collected through interview with the officials of related bank.

3.5. Data Processing: This study is mainly based on the secondary data. Thus, after the collection of financial statement, master sheet of financial data was prepared and necessary financial data have been extracted and tabulated as per the need of this study. The data collected from various sources were not in appropriate forms for our analysis, so first of all irrelevant data were separated relevant data were compiled and processed in appropriate forms. According to their requirement data are described and explained in the light of theoretical basis.

Similarly the collected are presented and arranged and grouped in different tables, charts and graph according to their nature.

3.6. Methods of Data Analysis:

The gathered data, especially the profit & loss and balance sheet of the bank, has been analyzed to get the desired objectives with the help of various financial as well as statistical tools, besides these, some graph charts and tables have been presented to analyze and interpret the findings of the study. The tools applied are:

Financial Tools:

The financial tools used are different ratios like composition of working capital, liquidity ratio, utilization (or activity) ratios, profitability ratios, capital structure ratios and capital adequacy ratios.

Statistical Tools:

The statistical tools used are trend analysis. Correlation co-efficient., probable error, 6 PEr and regression analysis.

26. C.R. Kothari, Quantitative Techniques and analysis. (New Delhi; Vikash publishing House, 1994)

27. Claire Seltiz Research methods in social science. (New York ;the university of Michigan Press; 1959)

3.6.1. Financial tools

In this research study various financial tools are employed for the analysis. There are various ratios but in this study some selected ratios are used. The main focus is ratio analysis. Ratio Analysis.

Ratio analysis is the most important tools of the financial analysis, which helps to ascertain the financial conditions of the organizations. Using various ratios, an organization may be able to evaluate its financial stabilities. Calculation of ratio analysis is simply made by dividing one component to another that help to show their corresponding relationship with each other. "Ratio analysis is such a powerful tool of financial analysis that thought the help of it, economic and financial position of

business unit can be fully. “Ratios are calculated to obtain management in a sample Nepal Bank Ltd. Various ratios are employed and grouped position. Turnover and profitability position.

Composition of working capital:

Working capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. Simply, working capital refers to the current assets of the firm that can be converted into cash within a year. The main components of working capital are cash and bank balance, money at call or short notice. Receivable and inventories. Composition of W.C. is analyzed by calculating the following ratios.

Current assets to total assets ratio:

Current assets to total assets ratio = $\frac{\text{current assets}}{\text{total assets}} \times 100\%$

Mathematically,

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Total Assets}} \{100\} \quad \text{It measures}$$

what ratio shows the risk and profitability will increase and vice-versa.

Current assets to fixed assets ratio:

Current assets to fixed assets Ratio = $\frac{\text{current assets}}{\text{fixed assets}} \times 100\%$

Mathematically,

$$\text{Current assets to fixed assets Ratio} = \frac{\text{Current Assets}}{\text{Fixed Assets}} [100]$$

the relation between current assets and fixed assets is shown by the ratio. Higher ratio of this means the firm has sound working capital position and vice-versa.

Cash and bank balance to current assets ratio:

Cash and bank balance to current assets ratio = cash and bank balance/current assets X 100%

Mathematically,

$$\text{Cash and bank balance to current assets} = \frac{\text{Cash and bank balance}}{\text{Current Assets}} [100]$$

What percent of current assets cover cash & bank balance is show by this ratio. Lower the ratio means higher will be risk. Profitability and vice-versa.

Cash and bank balance to total assets ratio:

$$\text{Cash and bank balance to total assets ratio} = \frac{\text{cash \& bank balance}}{\text{total assets}} \times 100\%$$

$$\text{Cash and bank balance to Total assets ratio} = \frac{\text{Cash and bank balance}}{\text{Total Assets}} [100]$$

What percent of total assets cover cash & bank balance is shown by this ratio. Lower the ratio means higher will be risk. Profitability and vice-versa.

Receivables to current assets ratio:

$$\text{Receivable to current assets Ratio} = \frac{\text{Receivable}}{\text{current assets}} \times 100\%$$

$$\text{Receivable s to Current assets ratio} = \frac{\text{Cash and bank balance}}{\text{Total Assets}} [100]$$

This ratio shown relationship between receivable to current assets. Greater the ratio means increase the working capital and vice-versa.

Receivables to total assets Ratio:

$$\text{Receivable to total assets ratio} = \frac{\text{Receivables}}{\text{Total assets}} \times 100\%$$

$$\text{Receivable to Total assets ratio} = \frac{\text{Receivable}}{\text{Total Assets}} [100]$$

This ratio shows the relationship between receivables to total assets. Greater the ratio means increase the working capital and vice-versa.

Liquidity position:

Liquidity of a bank is identified with the help of liquidity ratio, which measures the banks ability to pay its current obligations. It determines the short-term solvency position of bank. In other words, this ratio provides insight into the present cash solvency in the event of adverse³ financial conditions. This ratio is used to measure the banks short-term obligations with short-term resources available at a given point of time. Therefore, it pays important role in the bank.

Current Ratio:

Current ratio = current assets/current liabilities

Mathematically,

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilites}}$$

Current ratios calculate by dividing the current assets by current liabilities generally, 2:1 current ratio is considered satisfactory. Double of current assets with current liabilities with not be adverse effects on daily operation.

Quick or acid test Ratio:

Quick or acid test Ratio = quick assets/current liabilities

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilites}}$$

Quick ratio is the ratio of quick assets to current liabilities. Quick assets are computed by deducting inventory and prepaid expenses from current assets. Generally, the standard of this ratio is 1:1.

Turnover/Activity position These
ratios are calculated to find the efficiency in assets management as well as effectiveness of the investment of resources in the firm. These ratios are usually calculated based on sales or cost of sales. Therefore, the relationship between sales and various assets can be found with the help of these ratios. Higher these ratios means the better will be the profitability and used of resources.

Debtors/receivables turnover ratio:

Debtors turnover ratio = net credit sales/debtors

Mathematically,

$$\text{Debtor tur nover Ratio} = \frac{\text{net credit sales}}{\text{debtors}}$$

The numbers or times the receivables are turned is found with this ratio. Generally the collectibles of account receivables is measured. Lower the ratio lesser the changes of occurring bad debts.

Average collection period is calculated by the given formula. Average collection period = days in year (360)/receivables turnover ratio. It indicates the number of days taken on an average period to collect receivable during the year.

Current assets turnover Ratio:

Current assets turnover ratio = net sales/current assets.

Mathematically,

$$\text{Current assets turnover Ratio} = \frac{\text{netsales}}{\text{Current assets}}$$

This ratio helps to measure the number of times the average current assets are turned during the year in relation to its sales. Lower ratio indicates greater volume of working capital and vice-versa. Higher turnover of current assets is desirable because of its maximum utilization of current assets.

Cash and Bank balance turnover Ratio:

Cash and bank turnover ratio = net sales/cash & bank balance

Mathematically,

$$\text{Cash and Bank turnover Ratio} = \frac{\text{Net Sales}}{\text{Cash \& bank balance}}$$

This ratio is useful to know the number of times the average cash balance is turned during the year in relation to its sales. Generally, it measures the speed of movement of cash through the organization operations.

Net working capital turnover Ratio:

Net working capital turnover ratio = Net sales/Net working capital

Where net working capital = current assets-current liabilities

The number of times the working capital turned over during the year is indicated by this ratio. Higher the ratio indicates the better utilization of net working capital.

Profitability position:

Profitability position indicates the degree of success in achieving desired profit. It helps to find the efficiency of the organization. Various profitability ratios are calculated to measure the operating efficiency of business firms. Some of the important profitability ratios used are as follows.

Gross profit margin is as follows:

Gross profit margin ratio = Gross profit/net sales X 100%

Mathematically,

$$\text{Gross profit margin Ratio} = \frac{\text{Gross profit}}{\text{net sales}} \{100\}$$

Where gross profit = net sales – cost of goods sold

The productive efficiency of the organization is measured by this ratio. Higher this ratio is better the profitability position of an organization.

Net profit margin Ratio:

Net profit margin ratio = net profit/net sales X 100%

Mathematically,

$$\text{Net profit margin Ratio} = \frac{\text{Net profit}}{\text{net sales}} \{100\}$$

The relationship between net profits to net sales is shown by this ratio. It helps to find overall profitability or bank's ability to earn net profit.

Operating Ratio:

Operating Ratio = cost of goods sold + operating expenses/net sales X 100%

Where, operating expenses = administrative expenses + selling & distribution expenses + financial expenses.

This ratio is used to find the relationship between operating expenses and volume sales. Higher ratio indicates the lower efficiency of company and vice-versa. Therefore, this ratio's better the position of bank.

Return to total assets ratio:

Return to total assets Ratio = Net profit after tax/total assets X 100%

This ratio measures the profitability of the bank by establishing relationship between net profit after tax and total assets. It also helps to know the utilization of assets of the bank.

Return to net worth ratio:

Return to net worth ratio = net profit after tax/net worth X 100%

The shareholder's return is indicated by this ratio. It shows whether the firm has earned return or not. Higher return on net worth ratio indicates higher return to share holder and vice-versa.

Return on working capital ratio:

Return on working capital ratio = $\frac{\text{net profit after tax}}{\text{current assets}} \times 100\%$

This ratio measures the profitability of the bank with respect to current assets. higher ratio indicated higher utilization of current assets to earn profit and vice-versa.

Working capital cash flow cycle:

The continuous flow from cash to supplier, to borrower, to inventory, to account receivable and back to the cash is known as working capital cash flow cycle. It is continuously repeated. The cycle demonstrates the conversion of raw materials and labor to cash. Hence, this concept is also called cash conversion model. The model is more applicable to business that is more complex. It is helpful to analyze the effectiveness of firm's working capital management. Four different factors are required to compute cash conversion model.

Receivable conversion period:

Receivable conversion period indicates the number of days required converting credit sales into cash. it can be helpful to determine collection of debtors and the cash conversion cycle. Generally, the longer the collection period, the more efficient is the management of credit.

Receivable conversion period = $\frac{\text{days in year}(360)}{\text{Re, turnover receivable}}$
turnover = $\frac{\text{sales}}{\text{Inventory}}$

Payable deferral period:

Payable deferral period is the time required for purchasing raw materials, labor, and the payment for them. A higher payable conversion period is favorable for the firm but too much higher period also can hamper the credit worthiness of the firm.

Cash conversion cycle:

Cash conversion cycle is an important financial tool as well as quick and convenient way to analyze the ongoing liquidity of the firm over time. Generally, it measures the length of time that has funds tied up in working capital.

Cash conversion cycle = inventory conversion period + receivable conversion period – payable deferral period.

As we know that inventory and receivable are cash inflows of firm and payable deferral period is a cash outflow. Therefore, the values of cash conversion cycle, has added up by receivable conversion period and inventory conversion period and deducted deferral period.

Capital Structure or leverage ratio:

Leverage refers to the ratio of debt to equity in the capital structure of the firms. Debt and equities are long-term obligations, and remaining parts in the liability side of the balance sheet are termed as short-term obligations. Both types of obligations are required in forming the capital structure of the firm. The appropriate mix of all types of securities in capital structure result a sound position of the firm. Therefore a firm has a strong short-term liquidity as well as long-term financial position. The long-term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsiders fund and owner's capital used by the firm.

Long-term debt to net worth ratio:

Long-term debt to net worth ratio = long term debt/net worth

Mathematically,

$$\text{Long - term debt to net worth ratio} = \frac{\text{long term debt}}{\text{net worth}}$$

Here, long-term debt refers to the amount of fixed deposits and loans of the banks. The ratio measures the proportion of outsiders and owners fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the banks by owners' claim.

Net fixed assets to long-term debt ratio:

Net fixed assets to long-term debt ratio = net fixed assets/long term debt

Mathematically,

$$\text{Net fixed assets to Long - term debt ratio} = \frac{\text{Net Fixed assets}}{\text{Long term debt}}$$

Here, net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities.

3.6.2. Statistical tools

Statistics is the science, which deals with the method of collecting, classifying, presenting and interpreting numerical data collected to throw some light on any sphere of enquiry. Statistical analysis is the method of using statistical knowledge for financial analysis. Various methods can be employed to evaluate financial performance under this tool. The researcher has analyzed the Working Capital Management of NBL using the tools mentioned below.

In this research study some statistical tools are also used for analysis is to support the objective of the research work. The tools are as follows.

Trend analysis:

The movement of data over a long period of time is called the trend i.e. the general tendency of the values to increase or decrease during the long period of time is termed as secular trend. In general, the trend does not show the variations in short period. Trend analysis has been used here to

see the fluctuation in different components of current assets and current liabilities during the study period.

Correlation coefficient (r)

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. The value lie some where ranging between -1to and1. Value of coefficient of correlation is +1 means perfectly positive correlation and -1perfectly negative correlation. In this study simple coefficient of correlation is used to examine the relationship of different factors with working capitals and other variables.

$$r(xy) = \frac{\Sigma xy}{\sqrt{\Sigma x^2 y^2}}$$

Where r (xy) = correlation coefficient between x & y

x = (x-x) defined variables

y = (y-y) defined variables

Standard deviation (σ)

Standard deviation is the most popular and most useful measures dispersion and gives uniform, current and stable result. Its characteristic based on mean but does not gives the clear picture of two distributions will the same average because of its scatter ness.

Following formula have been used calculate standard deviation.

$$\sigma = \sqrt{\frac{\Sigma(x - \bar{x})^2}{N - 1}}$$

Co-efficient of variation (C.V.)

Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on standard deviation in know as the co-

efficient of standard deviation. The percentage of measure of co-efficient of standard deviation is called coefficient of variation. It is used to compare the homogeneity and uniformity of two or more than two distribution. Less the C.V. more the uniformity and consistency and vice-versa.

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100\%$$

Probable error (P.E)

The probable error of the correlation is applicable for the measurement of reliability of the computed value of the correlation (r). It is denoted by P.E the following formula is used to calculate P.E

$$\text{P.E.} = \frac{0.6745(1-r^2)}{N}$$

Where, r= correlation co efficient

N = Number of pairs of observation

P.E is used to interpret whether the calculated value or r is significant or Not.

Decision Rule:

If $r < \text{P.E}$ it is significant. Therefore, there is no evidence of correlation. If $r > \text{P.E}$. It is significance, therefore, there is correlation and in other conditions nothing can be conducted.

If $r = +1$ there is perfect positive relation $r = -1$ there is perfect negative correlation, if r is in between 0.7 to 0.9999 there is high degree (positive or negative depending upon sign) of correlation. If r is between 0.5 to 0.699 there is moderate degree (positive or negative upon sign) of correlation r less than 0.5 there is low degree (positive or negative depending upon sign). The P.E. of correlation coefficient may be used to determine the limits within the population correlation lies. Population correlation coefficient limits are $r \pm \text{P.E}$.

CHAPTER FOUR

PRESENTATION ANALYSIS OF DATA

4.1 Introduction

In order to achieve the objectives set in introduction chapter that data are presented and analyzed in this chapter. This chapter reveals the analysis as well as interpretation of relevant and available data of NBL according to the research methodology as mentioned in the previous chapter. Analysis of these various data provides a picture on the Working Capital Management of NBL.

This chapter is also called the central nervous system, which helps to provide conclusions after detail analysis, so proper recommendation can be given. The gist of research work is presented in the form of major findings, vital issues and recommendation in the fifth chapter. In this way, an effort is made to make proper linkage of every chapter.

Howard K. wolff and Prem R. Pant, Social Science Research and thesis writing, express "The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of organizing, tabulation and performing statistical analysis." In this chapter, gathered data are organized and analyzed to find conclusion i.e. to determine financial strength and weakness of NBL. In order to find out strength and weakness of the finance companies in terms of their financial performance values and viable have been calculated and statistical tools have been used are as follows:

4.2 ANALYSIS OF INCOME, EXPENSES AND DEFICIT

4.2.1 Analysis of Income

Banks earn income by the medium of interest, discount, commission etc. The bank can earn income from the different sources which is either or not involved in the transaction that is related to the assets, sale of investment, commission, assistant/subsidies etc. Different firm has different objective to earn income. The income trend for NBL is given below:

Table 1: Analysis of Income

Fiscal Year	Total Income	Growth rate
2062/63	2084491.64	-
2063/64	1719567.90	-17.5%
2064/65	2566014.18	49.22%
2065/66	4520185.39	76.16%
2066/67	9518390.66	110.58%

Source: NBL Annual Report 2062/6

Figure: 1
Analysis of Income

In 'million'

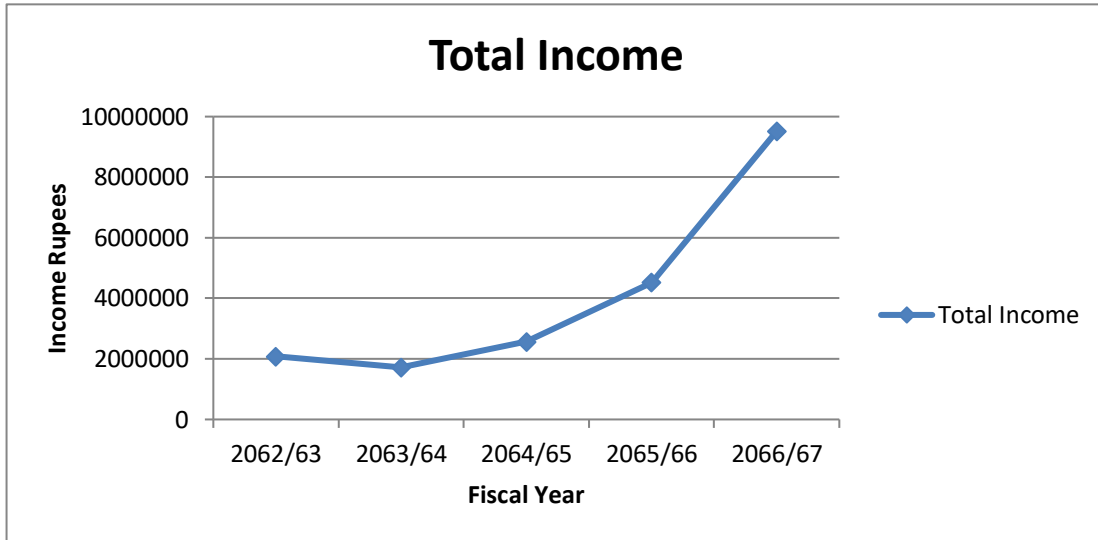
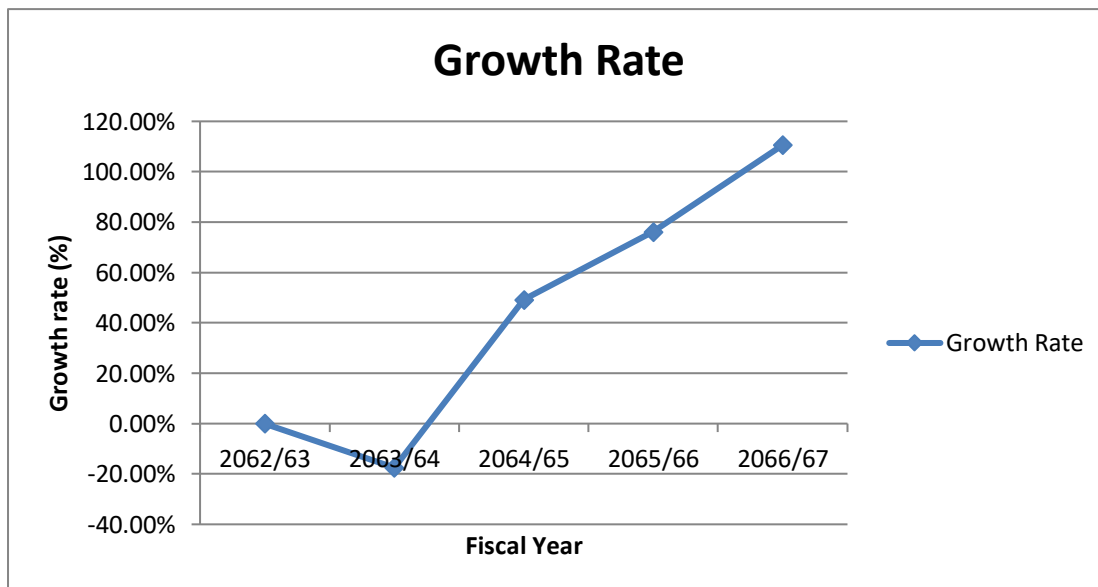


Figure: 2
Growth Rate of income



The above figure shows that income increases in FY 2063/64 comparison to previous year, decreases in FY 2064/65, increases in FY

2065/66, and increases in FY 2066/67. And growth rate is also fluctuating every year. This fluctuation fails the strategies because the aspired fund cannot be collected and lack of fund causes compromise in strategies and plan of NBL.

4.2.2 Analysis of Expenses:

An expense involves staff expenses, interest given in deposit, office expenses and expenses related to other liabilities. For a good financial position, a firm should earn adequate income. Income is the key factor which determines the strength and weakness of a firm. However, we cannot overlook the importance of expenses to determine financial strength.

There will not be any meaning of income if the expenses are not properly managed because all the income might be spent for unnecessary expenses which can descend the firm. The expenses trend for NBL is given below:

Table: 2

Analysis of Expenses

Fiscal Year	Total Expenses	Growth rate
2062/63	11980813.49	-
2063/64	11403053.38	-4.82%
2064/65	11839819.41	3.83%
2065/66	14141482.62	19.44%
2066/67	13979361.82	-1.15%

Figure: 3

Analysis of Expenses

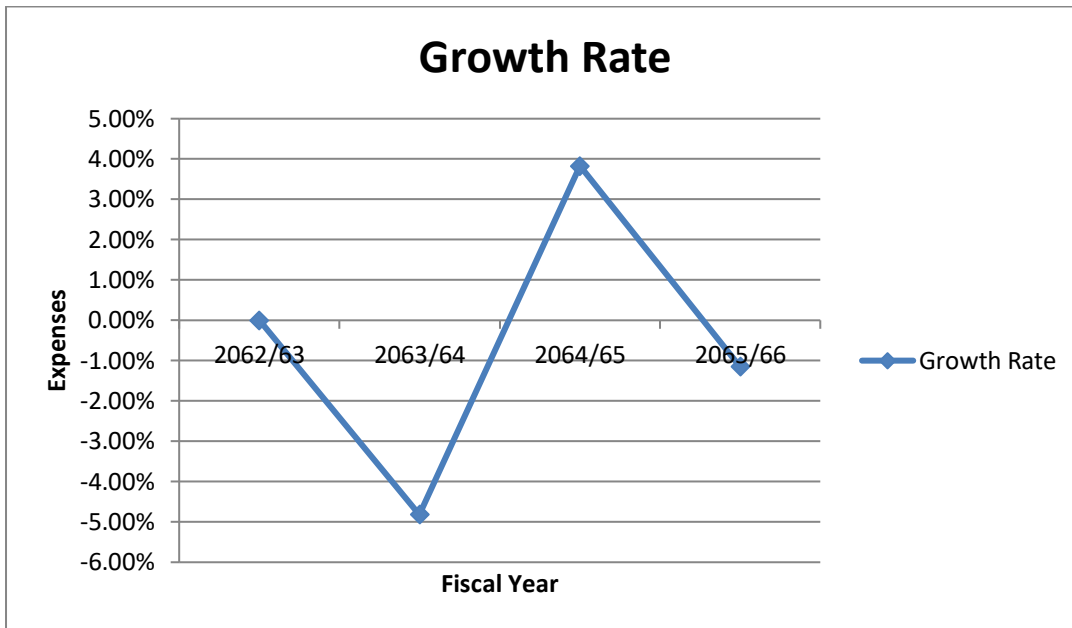
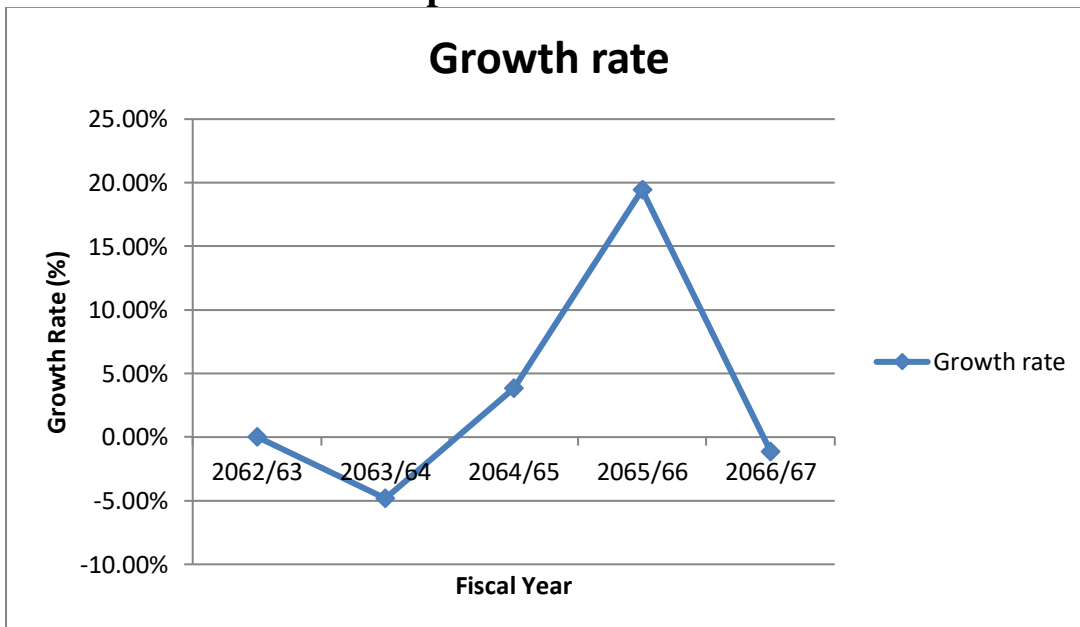


Figure: 4

Growth Rate of Total Expenses



Source: NBL Annual Report 2062/2063 - 2066/2067 The above figure shows the growth rate is negative in year 2063/64 and 2066/67 i.e. -4.82%

and -1.15% respectively. The expenses of NBL increases up to 3 years i.e. 2063/64 to 2065/66 after that it decreases in 2066/67. Here both the expenses and growth rate is fluctuating.

4.2.3 Surplus/Deficit and Subsidy Analysis:

Any firm encompasses with two conditions i.e. surplus and deficit. Surplus means income over expenses and deficit means expenses over income. This shows strong financial position. If a firm has surplus it will be self dependent and everything in the firm go positively. But if a firm suffers from deficit, the firm cannot run properly and the firm maximizes loss. Deficit and subsidies of NBL are given bellow:

Table: 3

Analysis of Surplus/Deficit

Fiscal Year	Total Income	Total Expenses	Deficit	Growth rate%
2062/63	2084491.64	11980813.49	9896351.85	-
2063/64	1719567.90	11403053.38	9683485.48	-2.15%
2064/65	2566014.18	11839819.41	9497483.86	-1.92%
2065/66	4520185.39	14141482.62	9621297.23	-1.30%
2066/67	9518390.66	13979361.82	4460971.16	-53.63%

Source: NBL Annual Report 2062/6

Figure: 5

Analysis of Surplus/Deficit

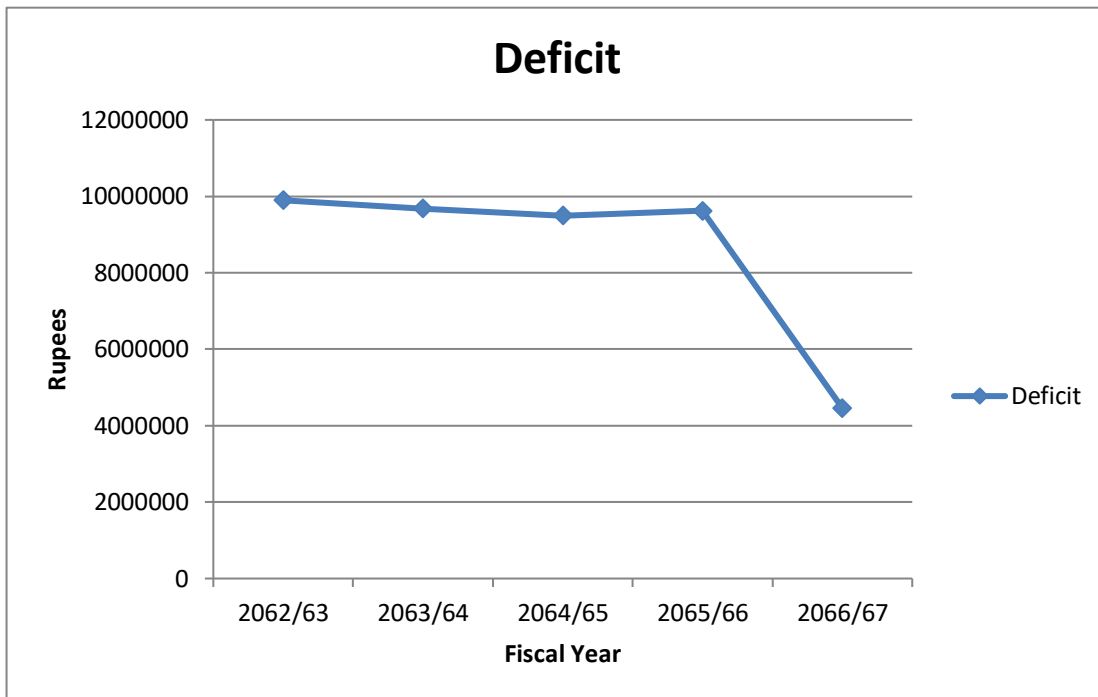
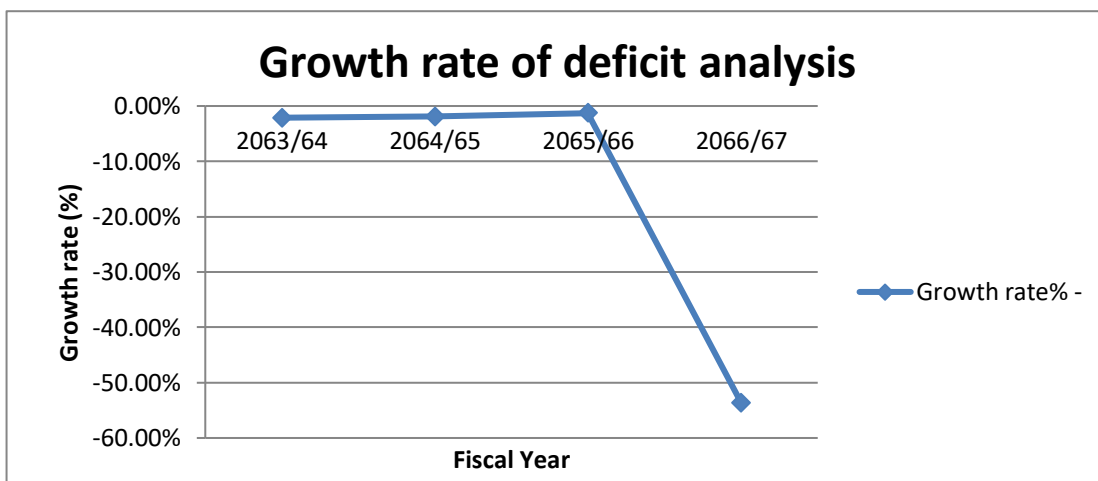


Figure: 6

Growth Rate of Surplus/ Deficit Analysis

In 'million'



The above figure shows that deficit is going negatively every year except in year 2059/60 and the growth rate is decreasing every year in

comparison of previous year except in year 2061/62. That means bank is now running in a good position

4.3 Ratio Analysis

Ratio analysis is defined as the systematic use of ratio to interpret the financial ratio statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. Thus ratio analysis is considered to be very much powerful tool of financial analysis. The ratio are calculated from the balance sheet and profit and loss account and thus calculated ratio will be useful for analyzing and assessing the performance and position of the bank which reflect the relative strength and weakness of NBL over there. All the ratios could not be studied and analyzed which are very much important to evaluate fund mobilization of a NBL. The important ratios that are studied this purpose are analyzed below.

4.3.1 Liquidity Ratio

Liquidity ratio measures the company's ability to meet short term obligations. This ratio provides insight into the present cash solvency in the event of adverse financial conditions. The researcher has described briefly about this ratio in previous chapter. Here for the evaluation the researcher has analyzed the five year data of NBL from 2062/63 to 2066/67 and calculated the required ratios under:

Current ratio

This ratio measures the short-term solvency power due within one year. It indicates each rupee of current assets available for each rupee of current liability. Higher current ratio indicates that the firm is in liquid and has able to pay its current obligations in time as and when they become due. And on other hand lower current ratio represents that the liquidity position of the firm is not good and the firm will face difficulty in payment of current obligations in time. The researcher has analysed and interprets this ratio and tabulated the relevant data of five years period from F.Y. 2062/ 63 to 2066/67 as under:

Table no. 4

Calculation of Current Ratio

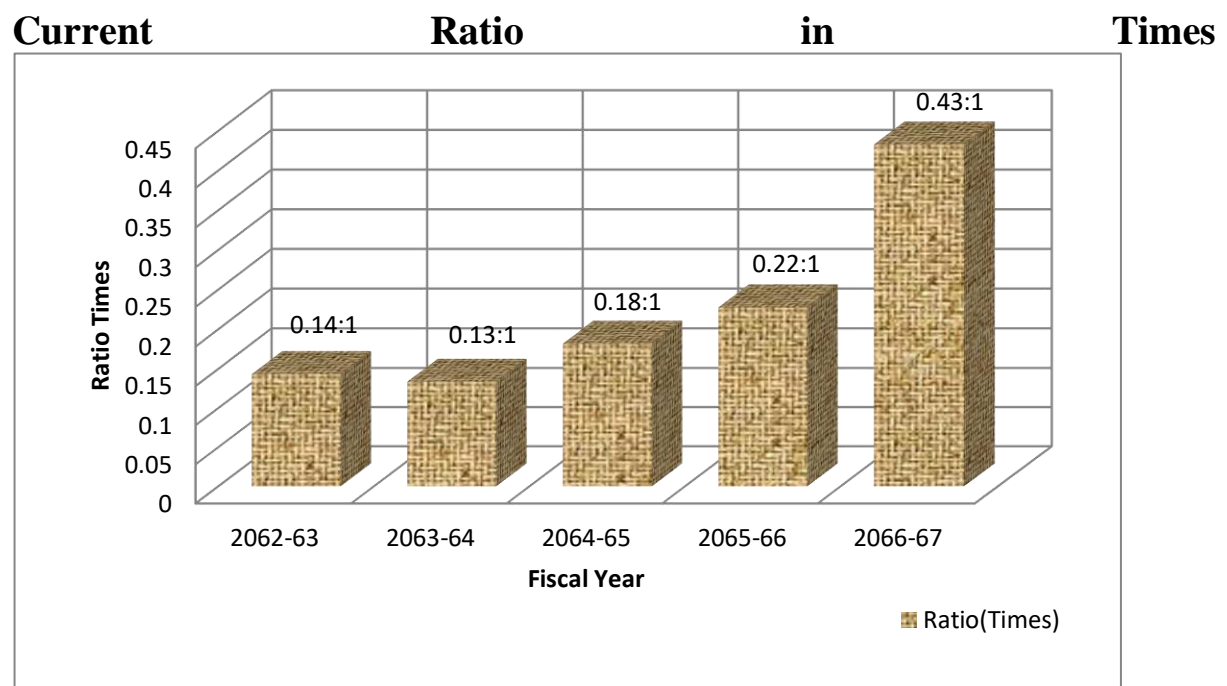
Fiscal Year	Current Assets	Current Liabilities	Ratio in %	Ratio(Times)
2062-63	38042120.30	265669247.10	14.32%	0.14:1
2063-64	39175652.70	293503018.90	13.35%	0.13:1
2064-65	61726534.00	339925625.80	18.16%	0.18:1
2065-66	81298450.15	357630815.00	22.73%	0.22:1
2066-67	126680320.20	292861261.10	43.26%	0.43:1

Source: NBL Annual Report 2062/63-2066/67

The above Table no. 4 reveals that the trend of current assets, current liabilities and their related ratios. It is clear that both the current

assets and current liabilities are in increasing trend. The current assets have risen from the beginning level of Rs. 38042120.30 to Rs.126680320.20. Similarly, the current liabilities have increased from the F.Y. 2062/63 amounted Rs.265669247.10 to F.Y.2065/66 except and 2066/67 is Rs.292861261.10. The ratios of the firm from F.Y. 2062/63 to F.Y. 2066/67 are 14.32, 13.45, 18.16, 22.73, and 43.26 percent respectively. And with comparison to standard ratio the ratios are 0.14:1, 0.13:1, 0.18:1, 0.22:1, and 0.43:1 times respectively.

Figure no. 7



The standard level of current assets to current liabilities is 2:1. In the above Figure no. 1 the firm's current ratio are in fluctuating trend. In the base study period the current ratio was 0.14times. Then after it has

decreased to 0.13 times third, fourth and fifth year it has increased to 0.18 times, 0.22 times and 0.43 respectively. The firm has not been able to meet the standard ratio in any of the study period, which shows that the firm is unable to meet its current obligations and indicates financial difficulties in payment of current obligations in time.

Quick ratio

This ratio is very useful in measuring the liquidity position of the firm. The firm may be able to meet its short term obligation without any financial difficulties to it if this ratio becomes 1:1. Higher ratio indicates that the firm is liquid and low ratio indicates that the firm's liquidity position is not good. The relevant five years data are tabulated and analyzed as under:

Table no. 5

Calculation of Quick Ratio

Fiscal Year	Quick Assets	Current Liabilities	Ratio in %	Ratio(Times)
2062-63	36528782.00	265669247.10	13.75%	0.13:1
2063-64	37647906.69	293503018.90	12.83%	0.12:1

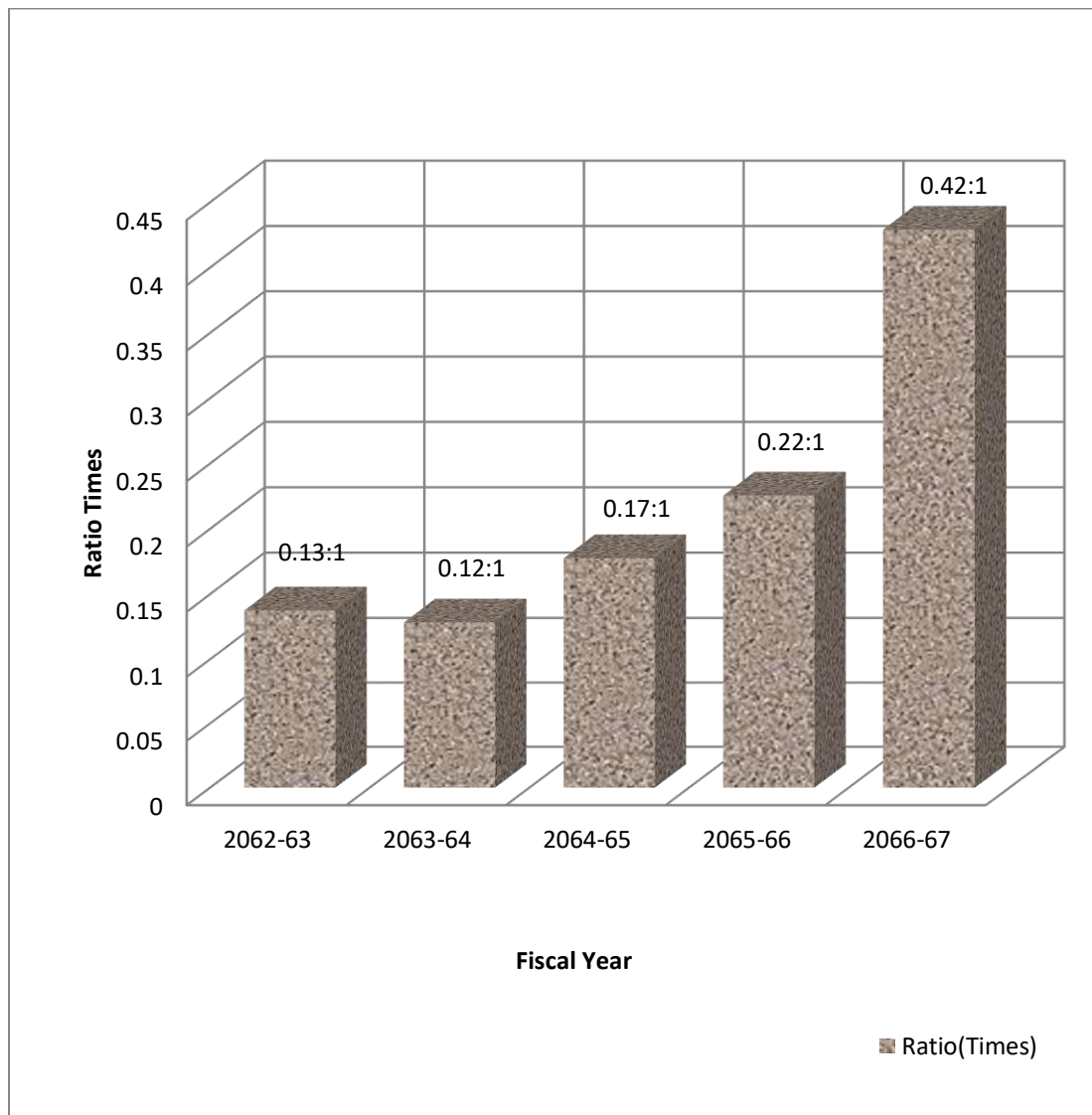
2064-65	60352958.60	339925625.80	17.75%	0.17:1
2065-66	80645139.59	357630815.00	22.55%	0.22:1
2066-67	125760120.70	292861261.10	42.90%	0.42:1

Source: NBL Annual Report 2062/63-2066/67

From the above Table no.5, it is clear that the quick assets have been decreasing from the base study period to the F.Y. 2063/64 and have been increasing from 2064/65 to 2066/67. On the other hand the current liabilities are increasing trend in 2066/67 to Rs 292861261.10 increased from The quick ratios of the firm from F.Y. 2062/63 to F.Y. 2066/67 are 13.75, 12.83, 17.75, 22.55, and 42.90 percent respectively. And with comparison to standard ratio the ratios are 0.13: 1, 0.12: 1, 0.17: 1, 0.22: 1, and 0.42 :1 times respectively. It can also be considered that the quick assets of NBL are not equal to its current liabilities.

Figure no. 8

Quick Ratio in Times



The standard level of quick assets to current liabilities is 1:1. From the above Figure no.5, it is clear that the firm's quick ratio is in fluctuating trend. In the base study period the quick ratio was 0.13 times. Then after in the second year it has decreased to 0.12 times and has decreased to 0.17 times in the third year. In the fourth year it was 0.22 times and again increase to 0.42 times in the final year. The firm is unable to meet the standard ratio during the whole study period, which indicates that the firm

is not in liquid, indicating the alarm of short term solvency position with financial difficulties.

4.3.2 Profitability ratio

Profit is one of the important measuring rods which show the overall efficiency of the firm. Profit is an absolute measure of earning capacity whereas profitability is the relative measure of earning capacity. In this chapter the researcher has used various ratios to evaluate the profitability position and financial performance of the firm. For the evaluation the researcher has analyzed the five years data of the firm as under:

Return on Total Assets (ROTA) Ratio

This ratio helps in measuring the profitability of the firm by dividing NPAT by Total Assets. Higher ratio shows the higher return on the assets used in the firm thereby indicating effective use of the resources available and vice versa.

Table no. 6

Calculation of Return on Total Assets Ratio

Fiscal Year	Net Profit/loss	Total assets	Ratio in %	Ratio (Times)
2062-63	(9896351.85)	40204014.80	-24.62%	0.2462
2063-64	(9683485.48)	41297042.04	-23.44%	0.2344

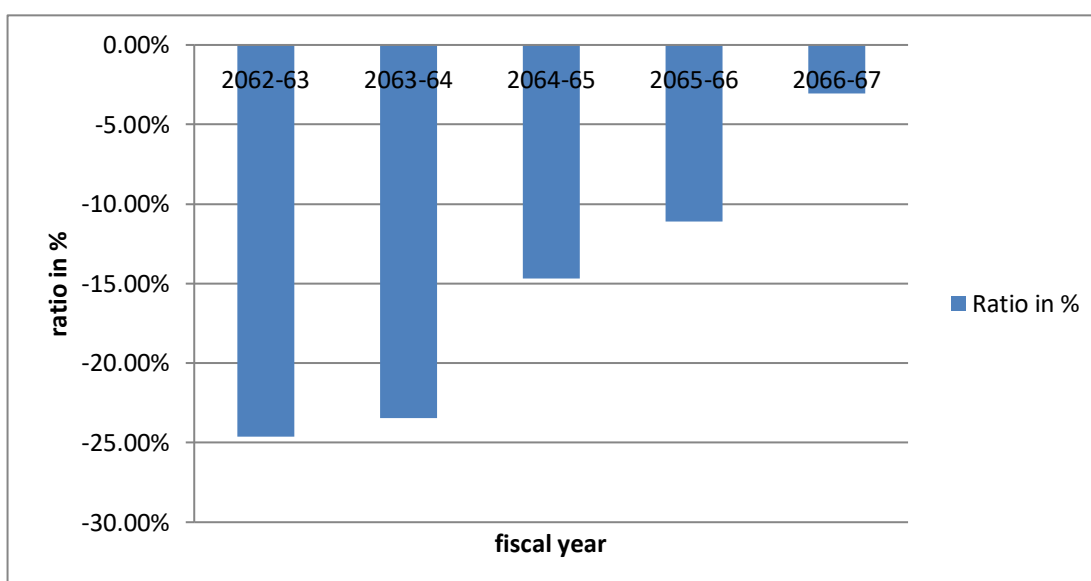
2064-65	(9497483.86)	64576497.39	-14.70%	0.1470
2065-66	(9621297.23)	86743161.41	-11.09%	0.1109
2066-67	(4460971.16)	133416153.00	-3.04%	0.304

Source: NBL Annual Report 2062/63-2066/67

The above Table no.6 exhibits that in the F.Y.2062/63 the net loss is very high in comparison to other fiscal years. Then after the loss has decreased for every years. In the F.Y.2066/67 the loss is the lowest in comparison to other fiscal years, then after in the final F.Y. the loss has decrease. Similarly, the total assets of NBL have been growing from the base level of Rs.40204014.80 in F.Y.2062/63 to Rs.133416153.00 in F.Y.2066/67. The ratio of ROTA is -27.62%, -23.44%, -14.70%, -11.09%, and -3.04% from the F.Y.2062/63 to F.Y.2066/67 respectively and are in fluctuating trend.

Figure no. 9

Return on Total Assets Ratio in Percentage



In the above Figure no. 9 the ROTA in the base study period is - 24.62% which is the lowest percentage in comparison to other years. So, it is clear that in the F.Y.2062/63 NBL used the total fund effectively supplied by the owners and creditors to generate profitability. Then after in the second year the ROTA has increases to -23.44% and has increases to - 14.70% next year and again increases to -11.09% and -3.04% for two years. Finally, in the last year the firm seems to be utilizing its available funds effectively.

Return on Total Deposit (ROTD) Ratio

This ratio informs how well the bank has utilized its total deposit collected from depositor. It reflects bank's efficiency in utilization of the resources collected from depositor. The relevant five years data are tabulated and analyzed as under:

Table no. 7

Calculation of Return on Total Deposit Ratio

Fiscal Year	Net Profit/loss	Total deposit	Ratio in %	Ratio(Times)
2062-63	(9896351.85)	264424028.07	-3.74%	0.2462
2063-64	(9683485.48)	292029586.80	-3.31%	0.2344
2064-65	(9497483.86)	338476525.77	-2.80%	0.1470

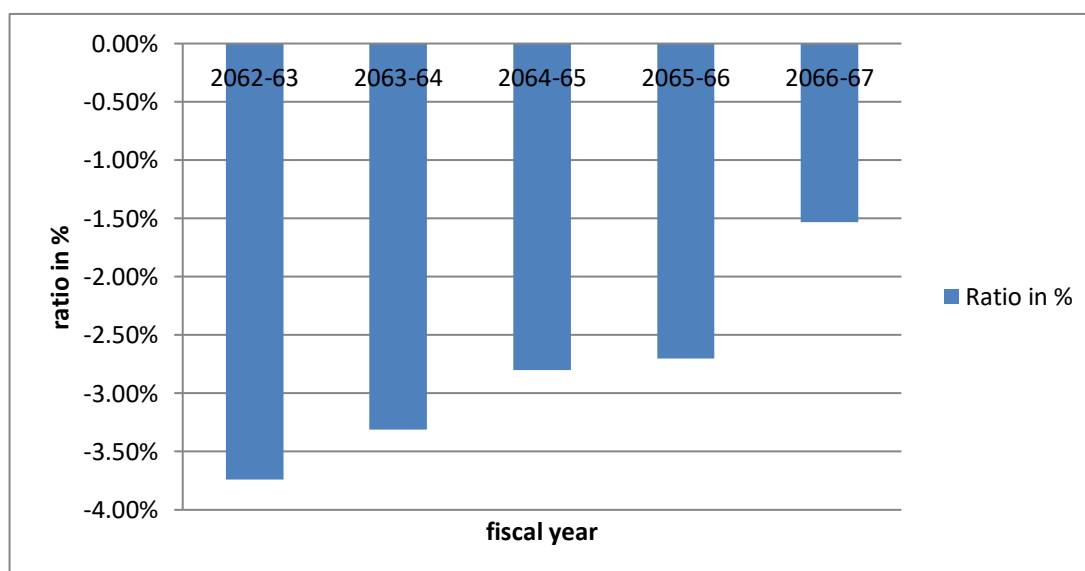
2065-66	(9621297.23)	355847371.66	-2.70%	0.1109
2066-67	(4460971.16)	290978513.63	-1.53%	0.304

Source: NBL Annual Report 2062/63-2066/67

Table no7 depicts that the net loss (deficit) is very high in the F.Y.2062/63 and is very low in the F.Y.2066/67 and in the remaining years it seems to be fluctuating. The total deposit is in increasing trend from the beginning and has reached to Rs.290978513.63 from Rs.264424028.07 ROTD ratios are -3.74%, -3.31%, -2.80%, -2.70%, and -3% respectively from the F.Y.2062/63 to F.Y.2066/67 and are in fluctuating trend.

Figure no. 10

Return on Total Deposit Ratio in Percentage



The above Figure no. 10 clearly shows that the ROTD ratio is high in F.Y.2062/63 i.e.-3.37%, after then the ratio is in high decreasing trend up to F.Y.2062/63. It has decreased to 2.33%, 2.24% and to 1.75%. But in

the F.Y.2063/64 the ratio has slightly increased to 2.55% and seems to be utilizing its total deposit effectively to earn more profit.

Loan and Advances to Total Deposit Ratio:

In this ratio better mobilization of collected deposits is indicated by the high ratio of loan and advances to total deposit and vice-versa. The loan and advances to total deposit ratio of NBL is computed below:

Table: 8

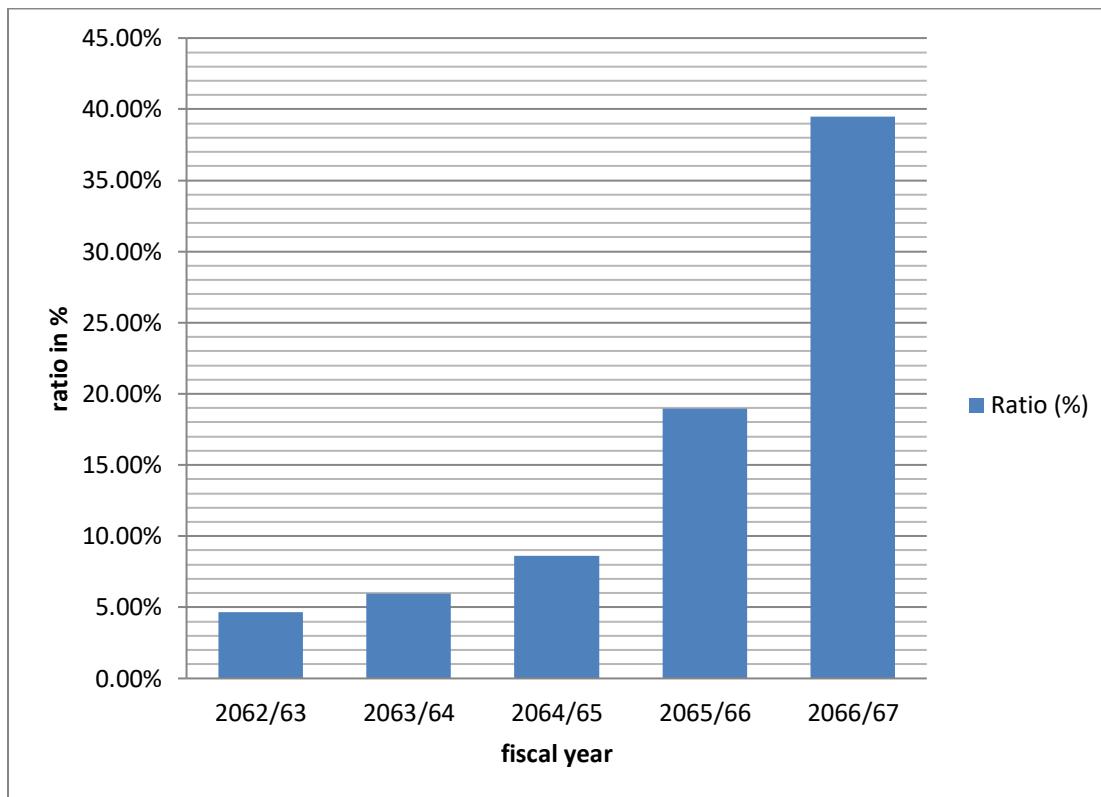
Loan and Advances to total deposit ratio

Fiscal year	Loan and advances	Total deposits	Ratio (%)
2062/63	12261113.81	264424028.27	4.64%
2063/64	17469718.09	292029586.80	5.98%
2064/65	29166905.04	338476525.77	8.62%
2065/66	67467403.37	355847371.66	18.96%
2066/67	114832721.05	290978513.63	39.46%

Source: NBL Annual Report 2062/63-2066/67

Figure no: 11

Loan and Advances to total deposit ratio



From the above analysis it is found that the ratio of NBL seems to be in fluctuating trend. From this, it clear that NBL is fluctuating its mobilization of deposits in different sectors.

Return on Loan and Advance Ratio:

Most loan and advances includes loan cash, overdraft bills purchased discounted. The return on loan and advances ratio of NBL computed below:

Table: 9

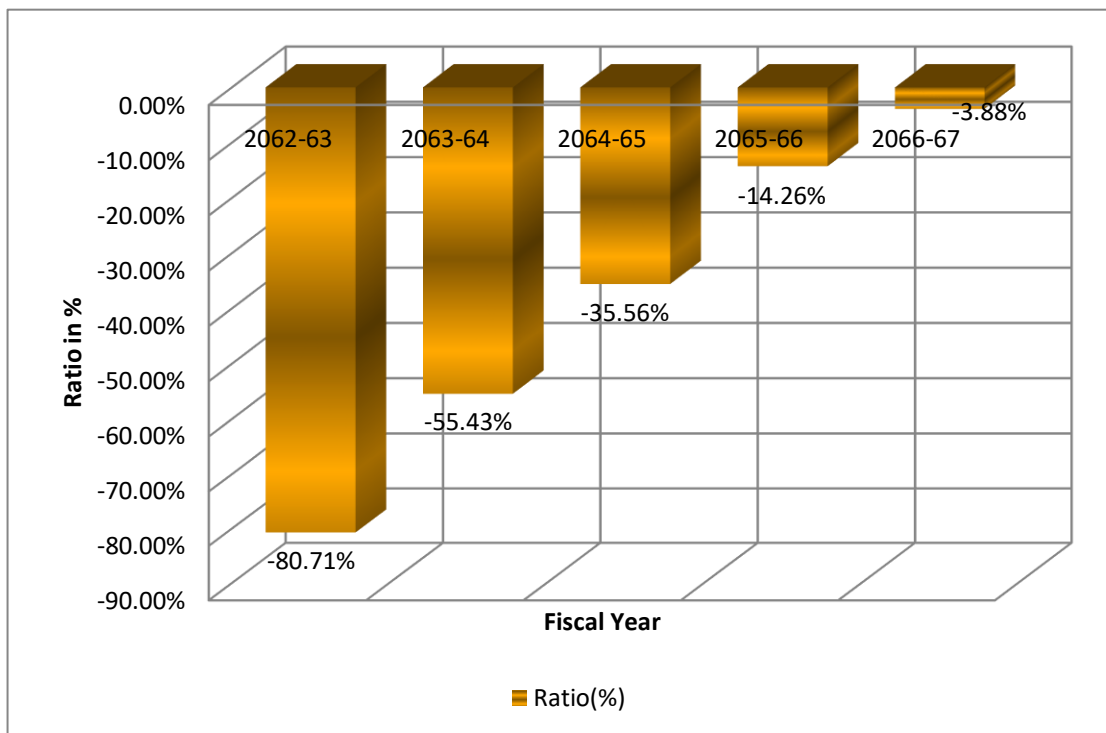
Return on loan and advances ratio

Fiscal year	Net profit/loss	Loan and advances	Ratio(%)
2062/63	(9896351.85)	12261113.81	-80.71%
2063/64	(9683485.48)	17469718.09	-55.43%
2064/65	(9497483.86)	29166905.04	-35.56%
2065/66	(9621297.23)	67467403.37	-14.26%
2066/67	(4460971.16)	114832721.05	-3.88%

Source: NBL Annual Report 2062/63-2066/67

Figure no:12

Return on loan and advances ratio



The above analysis reveals that the ratio of return on loan and advances of NBL is found fluctuating. The highest ratio is found in year 2062/63 that is (80.71%), then after it is going negatively and also in fluctuating trend. That concludes NBL is nowadays better trying to utilize its loan and advances to generate the loss.

4.4 Correlation Analysis:

Correlation analysis contributes to the understanding of economic behavior, aids in locating the critical important variables on which others depends, reveal to the economists the connections by which disturbances spread and suggests to him the paths through which stabilizing forces may become effective.

4.4.1 Correlation between Total Income and Total Expenses:

Correlation between total income and total expenses of NBL is given below:

Table 10

Correlation between Total Income and Total Expenses

Total income (X)	Total expenses (Y)	x = (X - \bar{x})	y = (Y - \bar{y})	xy	x ²	Y ²
2.0844	11.9808	-1.9528	-0.6879	1.3431	3.8122	0.4732
1.7195	11.4030	-2.3174	-1.2657	2.9331	5.3703	1.6019
2.3423	11.8394	-1.6946	-0.8293	1.4053	2.8716	0.6877
4.5201	14.1414	0.4832	1.4727	0.7116	0.2334	2.1688
9.5184	13.9793	5.4815	1.3106	7.1840	30.0468	1.7176
$\sum X =$ 20.1847	$\sum Y =$ 63.3439			$\sum xy =$ 13.577 1	$\sum x^2 =$ 42.3343	$\sum Y^2 =$ 6.6492

Source: NBL Annual Report 2062/67

$$\bar{x} = \frac{\sum x}{N} = \frac{20.1847}{5} = 4.0369$$

$$\bar{y} = \frac{\sum y}{N} = \frac{63.3439}{5} = 12.6687$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = 0.8093$$

Analysis of correlation showed negative relation between total income and total expenses. We know, if $r=0$, there will be no relation between variables, and if $r>0$ there is positive relationship and if $r<0$ there is negative relation. In the above analysis correlation coefficient was 0.8093 which is less than 0. So, it means, there is positive relation between total income and total expenses. Which clears, when income increased, expenses were increased. This means when income increased by 100%, expenses decreased by 80.93%.

$$(PE)*r = 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.1041$$

$$6*(P.E.)r=6*0.1041=0.6246$$

r is less than 6 times PEr , therefore it is not considered significant.

4.4.2 Correlation between Income and Deficit:

The correlation between income and deficit is shown below:

Table: 11

Correlation between total income and deficit

Total income (X)	Total deficit (Y)	x = (X - \bar{x})	y = (Y - \bar{y})	Xy	x²	y²
2.0844	9.8063	-1.9525	1.2645	-2.4689	3.8122	1.5989
1.7195	9.6834	-2.3174	1.0516	-2.4369	5.3703	1.1058
2.3432	9.4974	-1.6937	0.8656	-1.4660	2.8686	0.7492
4.5201	9.6213	0.4832	0.9895	0.4781	0.2334	0.9791
9.5184	4.4609	5.4815	-4.1709	-22.8627	30.0468	17.3964
$\sum x =$ 20.1874	$\sum y =$ 43.1593			$\sum xy =$ -28.7564	$\sum x^2 =$ 42.3313	$\sum y^2 =$ 21.8294

Source: NBL Annual Report 2062/67

$$\bar{x} = \frac{\sum x}{N} = \frac{20.1847}{5} = 4.0369$$

$$\bar{y} = \frac{\sum y}{N} = \frac{43.1593}{5} = 8.6318$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = -0.9450$$

From the above calculation correlation was -0.9450 which shows negative relation. Negative correlation indicates when total income increases, total deficit decreases. For e.g.; when income increased by 100%, deficit decreased by 94.50%.

$$(PE)*r = 0.6745 \frac{1-r^2}{\sqrt{N}} = 0.3225$$

$$6*(P.E)r = 6*0.3225=1.935$$

4.4.3 Correlation between Total expenses and Total deficit:

r is less than 6 times (PE)r, therefore it is considered significant.

Correlation between total expense and total deficit of NBL is shown below:

Table: 12

Correlation between Total expenses and Total deficit

Total expenses (X)	Total deficit (Y)	x = (X- □x)	y =(Y- □y)	Xy	x ²	y ²
11.9809	9.8963	-0.6879	1.2645	-0.8698	0.4732	1.5989
11.4030	9.6834	-1.2174	1.0516	-1.2802	1.6019	1.1058
11.8394	9.4974	-1.6946	0.8656	-0.4688	0.6877	0.7492
14.1414	9.6213	0.4832	0.9895	1.4572	2.1688	0.9791

13.9793	4.4609	5.4815	-4.1709	-5.4663	1.7176	17.3694
$\sum X =$	$\sum Y =$			$\sum xy =$	$\sum x^2 =$	$\sum y^2 =$
63.3439	43.1593			-4.8883	6.6492	21.8494

Source: NBL Annual Report 2062/67

$$\bar{x} = \frac{\sum x}{N} = \frac{63.3439}{5} = 12.6687$$

$$\bar{y} = \frac{\sum y}{N} = \frac{43.1593}{5} = 8.6318$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = -0.4056$$

The correlation computed above was -0.4056. There was negative relationship between expenses and deficit. When expenses increased by 100%, deficit increased by 40.56%.

$$(PE)*r = 0.6745 \frac{1 - r^2}{\sqrt{N}} = 0.2503$$

$$6*(P.E)r = 6*0.0055 = 1.5018$$

r is greater than 6 time of (P.E)r therefore it is considered significant.

4.4.4 Correlation between loan & advances and total deposits:

The correlation between loan and advances and total deposits is specified bellow:

Table :13**Correlation between loan and advances and total deposits**

Loan and advances (X)	Total deposits (Y)	x = (X - \bar{x})	y = (Y - \bar{y})	XY	X ²	Y ²
12.2611	26.4424	-15.2416	-4.3936	66.9503	232.306	19.294
17.4697	29.2029	-10.0330	-1.6321	16.3749	100.661	2.663
29.1669	33.8476	1.6642	3.0126	5.1036	2.769	9.075
67.4674	35.5847	39.9647	4.7497	189.8203	1597.177	22.559
11.1483	29.0978	-16.3544	-1.7372	28.4108	267.466	3.017
$\Sigma X =$ 137.5134	$\Sigma Y =$ 154.175			$\Sigma XY =$ 306.659	$\Sigma X^2 =$ 2200.380	$\Sigma Y^2 =$ 56.612

Source: NBL Annual Report 2062/63-2066/67

$$\bar{x} = \frac{\sum x}{N} = \frac{137.5134}{5} = 27.5027$$

$$\bar{y} = \frac{\sum y}{N} = \frac{154.1754}{5} = 30.8350$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = 0.8689$$

The correlation computed above was 0.8689. There was positive relationship between loan and advances and total deposit. That means when loan and advance increased by 100%, total deposit decreased by 86.89%.

$$(PE)r = 0.6745 \frac{1 - r^2}{\sqrt{N}} = 0.1298$$

$$6*(P.E.)r = 6*0.1298 = 0.7788$$

r is less than 6 times (PE)r, therefore it is not considered significant.

4.4.5 Correlation between Cash and Bank Balance and Current Liabilities:

Correlation between cash & bank balance and current liabilities is shown below:

Table :14**Correlation between Cash & Bank Balance and Current Liabilities**

Cash & Bank Balance (X)	Current Liabilities (Y)	x = (X- □x)	y =(Y- □y)	XY	X²	Y²
18.7366	26.5669	-1.3297	- 4.4248	5.8837	1.7681	19.5789
16.9867	29.3603	-0.4202	- 1.6414	0.6897	-0.1766	2.6942
29.3617	33.9925	11.9548	3.0008	- 35.8739	142.9172	9.0480
11.9094	35.7630	-5.4975	4.7713	- 21.4589	30.2225	22.7654
10.0402	29.2861	-73667	- 1.7056	12.5646	54.2682	2.9090

Source: NBL Annual Report 2062/67

$$\bar{x} = \frac{\sum x}{N} = \frac{87.0346}{5} = 17.4069$$

$$\bar{y} = \frac{\sum y}{N} = \frac{154.9582}{5} = 30.9917$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}} = 0.2935$$

The correlation computed above was 0.2935. There was positive relationship between Cash and Bank Balance and Current liabilities. That means when Cash & Bank Balance increased by 100%, Current Liabilities increased by 29.35%.

$$(P.E.)_r = 0.6745 \frac{1 - r^2}{\sqrt{N}} = 0.2757$$

$$6*(P.E.)_r = 6*0.2757 = 1.6542$$

r is less than 6 times (P.E.)_r, therefore it is not considered significant.

4.5 Regression Analysis:

Analysis of regression is the general process of predicting one variable from another by statistical means, using previous data. In another word regression means the estimation or prediction of an unknown value of one variable with the help of a known value of another variable based on the historical data. The unknown variable is known as dependent variable and the known variable is known as independent variable.

4.5.1 Regression analysis of deficit:

The regression analysis of deficit is given below:

Table: 15

Regression analysis of Deficit

Income year	X	Deficit (Y)	XY	X ²
2062/63	-2	9896351.85	-19792703.70	4
2063/64	-1	9683485.48	-9683485.48	1
2064/65	0	9497483.86	0	0
2065/66	1	9621297.23	9621297.23	1
2066/67	2	4460971.16	8921942.32	4
Total		∑Y =43156889.58	∑XY =- 10632949.63	∑X²=10

Source: NBL Annual Report 2062/63-2066/67

To find the value of 'a' and 'b' we use following equations:

$$y = n \cdot a + b \cdot x$$

$$xy = a \cdot x + b \cdot x^2$$

Substituting the value from the above table:

$$43156889.58 = 5a$$

$$-10632949.58 = 10b$$

After solving the equation;

$$a = 8631377.916$$

$$b = -10632949.958$$

Putting the values in straight line equation;

$$y = a + b \cdot x$$

Where;

y is dependent variable (deficit)

x is independent variable (income year)

Now;

$$y = 8631377.916 + (-1063294.958x)$$

The equation shows deficit will decrease in future.

4.5.2 Regression Analysis of Expenses:

The regression analysis of expenses is given below;

Table : 16

Regression analysis of total expenses

In ‘million’

Income year	X	Total expenses(Y)	XY	X²
2062/63	-2	11980813.49	-23961626.98	4
2063/64	-1	11403053.39	-11403053.38	1
2064/65	0	11839819.41	0	0
2065/66	1	14141482.62	14141482.62	1
2066/67	2	13979361.82	27958723.64	4
Total		∑Y=63344530.73	∑XY=673552.59	∑X²=10

Source: NBL Annual Report 2062/67

To find out the value of ‘a’ and ‘b’, we use the following equations:

$$y = n*a + b*x$$

$$xy = a*x + b*x^2$$

Substituting the value from above table;

$$63344530.73 = 5a$$

$$673552.59 = 10b$$

After solving the equation;

$$a = 12668906.15 \quad b = 67355259$$

Putting the value in straight line equation:

$$y = a + b \cdot x$$

Where;

x is dependent variable (expenses)

y is independent variable (income year)

Now;

$$y = 12668906.15 + 67355.259x$$

The equation shows that expenses will decrease in future.

4.5.3 Regression Analysis of Income:

The regression analysis of total profit is calculated below

Table 17

Regression analysis of total income

Income year	X	Total income(Y)	XY	X²
2059/60	-2	2084491.64	-4168983.28	4
2060/61	-1	1719567.90	-1719567.90	1
2061/62	0	2566014.18	0	0

2062/63	1	4520185.39	4520185.39	1
2063/64	2	9518390.66	19036781.32	4
Total		ΣY =20408649.77	ΣXY =17668415.53	$\Sigma X^2=10$

Source: NBL Annual Report 2062/63-2066/67

Following equation used to find value of 'a' and 'b':

$$y = n*a + b*x$$

$$xy = a*x + b*x^2$$

Substituting the values from above table:

$$20408649.77 = 5a$$

$$17668415.53 = 10b$$

From the solution of above equation;

$$a = 4081729.954$$

$$b = 1766814.553$$

Putting the value in straight line equation:

$$y = a + b*x$$

Where;

y is the dependent variable (total income)

x is the independent variable (income year)

Now;

$$y = 4081729.954 + (1766841.553x)$$

The equation shows that total income will increase in future.

Major Findings:

For the research necessary data were collected, arranged and analyzed to make conclusion to recommend corrective actions to be taken by NBL, for improve its Working capital management in future. The major findings of the study are:

It is seen that none of the collected deposits of NBL are idle and the company has done best in mobilization of the collected deposits and its fund to generate its income.

- From the study it is found that income of NBL were increasing, but the growth rates of income were found fluctuating
- Amount of expenses were decreasing but the growth of expenses were also fluctuating.
- Deficits were increasing and the growth rates of deficits were decreased.
- The net loss of the NBL is decreasing to the total income every year. That means NBL is increasing its profit for future.
- During the study period it is found that due to the negative return on total assets ratio NBL financial performance and position was not sound in year 2059/60. Then every year NBL's return on assets is positive and in increasing form; that means NBL is now performing its good financial position and it is now earning overall return on investment.

- The loan and advance to total deposit ratio is fluctuating every year that means NBL is fluctuating its mobilization of deposits in different sectors every year.
- Return on loan and advance ratio is the ratio of net loss to loan and advance. From the recent study that ratio is negative every year except year 2062/63 that concludes NBL is trying to utilize its loan and advances to generate loss.
- As we know; if $r=0$, there will be no relation between variables, and if $r>0$ there is positive relationship and if $r<0$ there is negative relation. From this analysis it is found that $r=0.8093$ which means there is positive relation between total income and total expenses. That concludes when income increased, expenses were also increased that means when income increased.
- There is negative relation between total income and deficit because $r=-0.9450$, which is greater than 0, that means when NBL's income increased by
- There is positive relation between expenses and deficit. Because we found 100% deficit decreased by 94.50%. $r=-0.4056$, which is less than 0. It means when expenses of NBL increased by 100%, deficit increased by 40.56%.
- The correlation computed showed the positive relation between loan and advances and total deposit. Because we found $r=0.8689$, which is greater than 0, that means when NBL's loan and advances increased by 100% total deposit is also increased.
- The future prediction by regression shows decrease in deficit, decrease in expenses and increase in total income.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Summary:

Nepal is a developing country and its economic development is only possible along with the development of agriculture, industry and trade etc. For the expansion in these sectors, regular supplies of financial resources are necessary which is available through the banking institutions. Development is a continuous process. Moreover, the twenty first century development scenario gives further light of development scenario gives further light of development strategy, covering with the resource transfer from one country to another, or rich to poor. Such a practical phenomena is called foreign aid assistance. Present day globalization mechanism does not allow any country to stay separate. All are dependent therefore; resource transfer is must. Traditionally Nepal's business was confined to trade and cottage industries. Industrialization is a comparatively new phenomenon in Nepal. The outlook of Second World War gave added impetus to this trend. Due to extreme shortage of essential consumer goods in the world market the promoters of various industries could reap wind fall profits within a very short period of time. The early industrialization was the result of external forces. However industrial development in Nepal was started getting regular attention of the government under the development of plans after the democracy in 1951{2007BS}. Several industries were established in the public sector. This process continued till the end of the seventh plan. The capital formation is one of the next important factors in the economic development. The capital formation leads to increase in the size of the natural output, income and employment solving the problem of inflation makes the economy free from the burden of foreign debt.

The banking or the financial institution plays an important role for the economic development of a country. The strong and sound financial sector can promote economic growth, mobilize and allocate resources

efficiently, make capital more productive and create job. The efficient financial sector is prerequisite for overall economic development and reforms. During the post liberalized regime especially after the restoration of democracy in the country, the financial system has developed, diversified, and enriched. Various reform efforts were undertaken in the past to create a healthy financial sector by eliminating the various institutional and structural deficiencies that still characterize the system. The significant amount has been incurred in implementing financial sector reform program increasing loan burden to the citizens of Nepal. It is therefore important that any further loan burden to the citizens due to the commercial banks.

Working Capital resources is more important to accelerate the socio-economic development further the natural calamities and wars further demand huge resources to rehabilitate and reconstruct. Working Capital Management analysis are a helpful tool which helps to measure the financial efficiency which is one of the significant elements to achieve the goal and objective of any enterprises. It is necessary to maintain financial strength/ health and minimized or reduces – financial weaknesses of any enterprises to encourage financial efficiency.

Though several financial companies have been established in our country within short period of time, stable, strong and appropriate financial analysis has not been performed by the companies to earn sufficient return. They have not been able to utilize their funds more effectively and productively. Thus proper utilization of the resources has become relevant and current issue for the banks and financial companies. The directions and guidance provided by the Nepal Bank as the major policy statements for the Nepalese financial companies and commercial banks. The main objective of the study is to find out the better ‘Working Capital Management’ of NBL to advocate resources and channel to improve their Working capital management. The study is based on the secondary data from 2062 to 2067. The data have been basically obtained

from annual reports and financial statements, official reports, and from the interview and meeting with the employees of NBL.

The objective of this study is to observe the financial position of the banking institution. Financial institution with the special reference of NBL, the study has tried to answer the certain question stated in the statement of the problem. The study has tried to examine financial planning system applied by NBL and objectives analysis of ratio analysis, growth rate, and statistical analysis of the actual data. The data are analyzed of five years i.e. 2062/63 to 2066/67. Financial and statistical tools have been used in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to financial position of the banking institution i.e. net profit to total income ratio, earning per share, current ratio analysis, and return on total assets ratio have been made, interpret and analyzed. Under statistical analysis, some relevant statistical tools i.e. correlation analysis, regression analysis have been used. This analysis gives clear picture of the working capital of the company with regard to its financial position.

5.2 Recommendations:

On the basis of analysis and findings, the following recommendations can be made as suggestions to prevail over the weakness, inadequacy and to improve present fund recruitments and Working capital of NBL.

Management expertise should be developed in some

To increase the Working Capital of NBL, better management team should be in great number rather than increase in their volume.

NBL should develop its specific goal for the coming budget. Such goals may be net profit on capital employed, net worth etc.

Highly skilled planners should be involved while preparing financial planning process of the bank.

Research and development objective should be embodied in the organization.

Accounting manual should be communicated from top to lower levels. All personnel should be participated on decision making and planning process.

Financial planning manager or expert should be appointed because the lack of knowledge of modern financial management, tools and technique among existing employees in the organization is one of the cause's deprived Working capital management of the organization.

To get success in competitive banking and financing investment, depositor's money must be utilized as loan and advances to invest in other sectors. Carelessness in controlling this asset could be one of the main reasons of a bank and the financial companies. Therefore it is highly recommended to NBL to follow the lending strategy.

Proper motivation program, reward, and punishment system must be conducted in a great number

5.3 Conclusions:

Based on the analysis and elucidation of data, the following conclusions have been drawn:

In the light of the study, though the country has been confronting with several challenges, the country can open up new avenues of prosperous Nepal. The country is rich in natural resources, it is calling for optimum use of those, the country is rich in manpower-probably the cheapest in the world which can boost comparative advantage, the country is surrounded by the countries with the tiger economy in the world. These opportunities should be in cashed through better management of Human Resource, capital and natural resources. Nepalese Banking is trying out "Competition breeds efficiency and gets the best out of the market players" maxim currently. The competition in the financial sector has started and would blow out the fullest within the current year. Banks are a critical component of any economy. They provide financing for commercial enterprises, basic financial services to a broad segment of the

population and access to payments systems. The financial sector reforms initiated since the middle of 1980s in the wake of balance of payments (BOP) crisis, and accelerated further following the restoration of multiparty system in early 1990s contributed to the evolution of the Nepalese financial system to the present level.

Working capital management is the most essential factor to know the performance of the organization which presents actual situation of the organization. It is a helpful tool which helps to measure the financial efficiency which is one of the significant elements to achieve the goal and objective of any enterprises. Many tools are used to analyze primary and secondary data and found findings which are listed in the previous section from all those findings it is concluded that NBL is now performing its better financial position. Both the Expenses and Deficits were decreasing as compared to the previous year. Incomes were increasing day by day and NBL is now earning its better net profit of Rs.1682.

At the end of the study it is concluded that; People need income safety. Income safety is possible only when changes in price do not falter the living standard. “A man can make money not vice-versa” (T.N. Tiemeyer). But money can make man’s life comfortable if money becomes money in real terms. Authority has the responsibility to make money real-good for the people and good for the nation. Man who makes money should also know to make money work for men. NRB as a supplier of liquidity officially, has a formidable challenge to manage liquidity, both domestic and foreign, in such a way that Nepali economy grows faster than ever before without diluting the income safety of all Nepali. NRB should not leave even any tiny elements as discussed above unattended while performing its functions.

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APPENDIX – 1

PROFIT AND LOSS

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Interest Income	1389279.29	1113615.19	1887494.52	3608698.98	8725339.84
Commission	250484.30	353052.44	24853.18	259113.70	22295.41
Other income	444728.06	252900.27	429987.85	652372.71	770755.41
Total Income	2084491.64	1719567.90	2342335.55	4520185.39	9518390.66
Interest Expenses	5427895.89	4908393.17	5433856.26	6136057.89	5527181.36
Employee Expenses	3983504.38	1556726.19	5575637.11	6992048.11	6459042.50
Office Expenses	1675957.22	4916490.02	787688.04	949351.62	1534404.96
Income Tax Provision	893486.00	21444.00	42638.00	64025.00	458733.00
Net Profit/Loss	(9896351.850)	(9683485.48)	(9497483.86)	(9621297.23)	(4460971.16)
Total Expenses	2084491.64	1719567.90	2342335.55	4520185.39	9518390.66

APPEND 2 Balance Sheet

Capital + Liabilities	2062-63	2063-64	2064-65	2065-66	2066-67
Deposit	264424028.07	292029586.80	338476525.77	355847371.66	290978513.63
Loan Provision	761939	740495	783133	947158	1470171
Bills Payable	144384.70	238257.80	167053.35	466782.77	275118.93
Employee Medicine	151883.51	225073.33	142580.05	45302.59	62309.23
Interest Receipt Loan	1513338.29	1527745.10	1373575.44	653310.56	920199.51
Tax	232214.68	458138.64	214479.28	292185.07	514247.42
Creditor	338895.34	494679.31	498913.67	369502.57	137457.57
Borrowings	227362668.79	254416933.94	277079763.10	271878451.81	160941864.39
Total Liabilities	40204014.80	41297042.04	64576497.39	86743161.41	133416153.00
Assets:					
Cash	11050522.28	7247417.12	11722925.15	5293554.89	6741163.64
Bank	7686093.65	9739372.15	17638782.74	6615938.99	3299038.39
Loan and Advance	1226113.81	17469718.06	29166905.04	67467403.37	11483721.05
Bills Purchase	338382.50	248232.50	228732.50	228732.50	228732.50
Bills Received	4731475.77	2938166.86	1580613.17	1001244.84	555769.15
Fixed Assets	511406.85	479458.94	527703.57	489433.47	1060239.11
Interest earn but not received	1513338.29	1527745.10	1373575.44	653310.56	920199.51
Stationary	80259.45	41118.86	38543.49	35972.51	46933.96
Sundry Debtors	461194	5000	15000	38265	102695.96
Pension	-	115892.45	173026.29	786094.80	2061631.65
Loan (Staff)	1570228.20	145892.45	2110690	4133210.48	3567028.47
Total Assets	40204014.80	41297042.04	64576497.39	86743161.41	133416153.00