WORKING CAPITAL MANAGEMENT PRACTICE IN HOTEL INDUSTRY OF NEAPAL

A Dissertation Submitted to the Office of the Dean, Faculty of Management in Partial Fulfillment of Requirement for the Master's Degree

By

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that have researched and submitted the final draft of dissertation entitled **"WORKING CAPITAL MANAGEMENT PRACTICE IN HOTEL INDUSTRY OF NEAPAL".** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

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

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Raju Duwadi
December, 2024

REPORT OF RESEARCH COMMITTEE

Mr. Raju Duwadi has defended research proposal entitled **"WORKING CAPITAL MANAGEMENT PRACTICE IN HOTEL INDUSTRY OF NEAPAL".** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Asst. Prof. Laxman Raj Kandel and submit the dissertation for evaluation and viva-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled **"WORKING CAPITAL MANAGEMENT PRACTICE IN HOTEL INDUSTRY OF NEAPAL".** presented by Raju Duwadi candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva-voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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ABBREVIATIONS

%	:	Percent
ACP	:	Average Collection Period
APP	:	Average Payment Period
COGS	:	Cost of Goods Sold
CCC	:	Cash Conversion Cycle
C.V	:	Coefficient of Variance
CR	:	Current Ratio
DR	:	Debt Ratio
F/Y	:	Fiscal Year
HAN	:	Hotel Association Nepal
i.e.	:	That is
IRR	:	Internal Rate of Return
ITR	:	Inventory Turnover Ratio
Mgmt.	:	Management
MJMR	:	Nepal Journal Multidisciplinary Research
NEPSE	:	Nepal Stock Exchange
NPM	:	Net Profit Margin
PE	:	Public Enterprises
R	:	Coefficient of Correlation
ROE	:	Return on Equity
ROA	:	Return on Assets
SWOT	:	Strength, Weakness, Opportunities and Threat Analysi
S. D	:	Standard Deviation
TU	:	Tribhuvan University
WCM	:	Working Capital Management
WTTC	:	World Travel and Tourism Council
GDP	:	Gross Domestic Product
SHL	:	Soaltee Hotel Limited
LSG	:	Lufthansa Service Gesellschaft
US	:	United State
USA	:	United State of America

ABSTRACT

This research paper has been prepared for submission to the office of the dean, faculty of management, for partial fulfillment of the degree requirements. This study adopted casual comparative and descriptive research design with secondary data drawn from the annual reports of a five-star listed hotel in Nepal, covering a period 2013/14 to 2022/23, a total of ten years. This paper explores the influence of various working capital components, such as inventory turnover ratio, receivable conversion period, average payment period, cash conversion cycle, debt ratio, and current ratio, on a hotel's profitability, where profitability represented by return on equity and return on assets.

For data analysis, financial tools as well as Pearson's correlation, and logistic regression were utilized. Findings reveal that inventory turnover days (ITR), average payable period (APP), and cash conversion cycle (CCC) have an inverse relationship with hotel's profitability, while the average collection period (ACP), debt ratio (DR) and current ratio (CR) show a positively linked.

Keywords: dependent variable: ROE, ROA

Independent variables: ITR, ACP, APP, CCC, DR, CR

CHAPTER-I
INTRODUCTION

1.1 Background of the Study

The tourism and hospitality sector significantly boosts a nation's economy. It is also crucial for the geographical, cultural, and political development of a region and is among the world's most rapidly expanding industries. Research from the World Travel & Tourism Council (WTTC) indicates that the sector is swiftly recuperating from the severe effects of the COVID-19 pandemic, with an anticipated contribution of $8.6 trillion to global GDP in 2022. In today's world, characterized by shifting consumer expectations and behaviors post-pandemic, alongside the influence of Industry 4.0 technologies, the tourism and hospitality sector is ready to adapt to the changes necessary for the Hospitality 4.0 revolution (Rawal, Soni & Dani, 2022).The hospitality sector is a fundamental component of the global economy, significantly affecting both advanced and emerging economies by creating jobs, attracting foreign investment, and supporting infrastructure development. Hotels are central to this industry, offering services that highlight local customs and traditions to travelers and tourists. In Nepal, celebrated for its natural beauty and diverse cultural heritage, the hospitality sector, particularly hotels, has been a major contributor to economic growth (Shrestha, 2019). The industry not only bolsters tourism but also facilitates regional development. Proper financial management, particularly concerning working capital, is essential for operational efficiency and financial stability within this industry (Khanal, 2020).Working capital, which is crucial for everyday business operations, refers to the funds necessary for these activities (Abosede & Luqman, 2014). This emphasizes the importance of effectively managing short-term assets and liabilities for the overall financial well-being of any entity, as working capital typically represents a significant investment relative to total assets. This situation calls for a comprehensive analysis of working capital management.Effective working capital management should aim to balance the risks of short-term default while avoiding excessive investments in current assets (Raheman & Nasr, 2007). In the competitive and capital-intensive hotel industry, efficient management of working capital is essential. Hotels require substantial current assets to support daily operations, including the purchase of supplies, payment to staff, utility management, and meeting guest needs.Ineffective management of working capital can lead to financial troubles, disrupt operations, and

ultimately harm a company's reputation and profitability. Over the recent decades, Nepal's hotel industry has seen significant growth, fueled by rising numbers of domestic and international tourists, governmental efforts to boost tourism, and substantial investments in hospitality infrastructure. However, challenges such as seasonal variations in tourism, political unrest, and economic instability are persistent in the Nepalese hotel sector. These issues underscore the necessity for effective working capital management to ensure liquidity and operational efficiency. For hotels, managing working capital encompasses overseeing cash, inventory, accounts receivable, and accounts payable. Hotels must adopt strong WCM practices to align liquidity with profitability and ensure they meet their operational and financial responsibilities. Adequate cash flow management is imperative, as hotels confront significant seasonal fluctuations in demand.Effective inventory control is also necessary to prevent overstocking, which can tie up capital, or understocking, which may disrupt service. Additionally, hotels must manage receivables effectively, as delayed payments from travel agencies, corporate clients, and others can adversely impact cash flow. Managing accounts payable is essential for maintaining good relationships with suppliers and securing advantageous credit terms. In Nepal, most hotels are primarily situated in popular tourist destinations such as Kathmandu, Pokhara, and Chitwan. Many of these establishments experience seasonal demand fluctuations, with surges during tourist seasons and declines in off-peak months. This variability makes managing working capital particularly challenging, as hotels must ensure sufficient liquidity to navigate revenue fluctuations (Ojha, 2019). Furthermore, smaller hotels often struggle to access external financing, underscoring the importance of efficient WCM. By implementing effective working capital management practices, hotels can sustain smooth operations and boost profitability, significantly contributing to the growth of Nepal's hospitality sector. For this study, we will examine Soaltee Hotel Limited in Kathmandu, Nepal.

1.1.1 Profile of Soaltee Hotel Limited

Soaltee Hotel Limited was established in 1965 as a luxury five-star hotel and opened its doors on November 25, 1966. From the very beginning, Soaltee Hotel has aimed for service excellence, becoming synonymous with luxury and hospitality in Nepal. Soaltee Hotel Limited (SHL) is a pioneering hospitality company in Nepal, owning Soaltee Crowne Plaza (Kathmandu), a five-star deluxe hotel spanning 12 acres, and

LSG Sky Chefs Kathmandu, which is Nepal's only in-flight catering service that adheres to first-class international standards (Sharesansar, 2019).As a leader in Nepal's hospitality sector, Soaltee Hotel Limited also manages the Horizon Lounge. Green Building Council. Situated in the prime Tahachal area, Soaltee Kathmandu has represented luxury and hospitality since it commenced operations in 1966 and has long been the favored choice of heads of state, dignitaries, top business executives, and celebrities visiting Kathmandu.The hotel is conveniently located just 8 km from Tribhuvan International Airport and 4 km from the city center and key tourist attractions. Spreading over 12 acres of beautifully landscaped grounds, this five-star property features 285 luxurious rooms and suites, including seven regal suites specifically designed for the first SAARC Summit held in Nepal. The exclusive Club Floor and Club Lounge facilities cater perfectly to discerning corporate guests.The hotel boasts three specialty restaurants, providing visitors with exceptional regional and international culinary delights created by expert chefs. Guests can indulge in dining at Bao Xuan, a Chinese restaurant; Kakori, an Indian restaurant; Alfresco, an Italian restaurant; and Garden Terrace, a multi-cuisine all-day dining venue.

“The Soaltee Kathmandu” features distinct meeting spaces equipped with ten modern facilities that can accommodate up to 2,000 guests indoors and 3,000 outdoors, positioning it as the premier destination for conferences and MICE events in Kathmandu. This hotel serves as an excellent choice for leisure, business, meetings, and social gatherings throughout the city.

At the hotel, guests can indulge in more than fifty wellness treatments at The Tranquility Spa. The property also hosts The Prive, an upscale nightclub, and proudly claims to be home to the first and largest casino in Nepal. Visitors can also relax at the hotel’s additional top-tier amenities, which include an inviting outdoor pool, tennis courts, and various recreational options.
For years, “The Soaltee Kathmandu” has represented the pinnacle of luxury hospitality in Nepal, delivering an unmatched experience for its guests. (EMIS, 2024)

1.2 Statement of the Problem

Efficient management of working capital is crucial for the financial stability and effective operations of hotels, as they depend on consistent cash flow to provide

services, control inventory, and maintain customer satisfaction. The hotel sector in Nepal encounters specific challenges stemming from seasonal tourism, economic shifts, and restricted access to funding (Maharjan, 2023).

Decisions surrounding working capital management are particularly sensitive for any business. Several factors influence these choices, and firms must strike a balance in maintaining an optimal level of working capital. Identifying the ideal working capital level presents significant challenges for all businesses, requiring careful consideration of risk versus return. Many organizations in Nepal grapple with working capital management issues due to inexperienced personnel, a narrow focus on procurement, and pressure from investors to generate returns on their investments.

Nepalese companies face various challenges in managing working capital, such as unproductive staff, a vague financial market, and ambiguous government policies. Managers often prioritize procurement over the efficient use of funds. Many businesses lack proper budgeting for the upcoming year, clear market research, and foresight for the future, making working capital management increasingly complex. Effective management of working capital not only impacts short-term profitability but also influences long-term sustainability. Therefore, every company must ensure sound management of its working capital components to utilize funds effectively and efficiently.

Nepal's industrialization process is progressing at a slow pace. Despite the existence of several enticing government policies aimed at promoting industrialization, new investments in the sector remain unsatisfactory.

There are various metrics for assessing working capital management, and this study aims to identify the challenges associated with working capital management specific to the hotel industry in Nepal.

i. What is the existing position of liquidity and profitability situation of Nepalese hotel industry?
ii. What is the relationship between Average collection period (ACP), Average payment period (APP), Inventory turnover ratio (ITR), Debt ratio

(DR), Current ratio (CR) and Cash conversion cycle (CCC) with the profitability of the hotel?

iii. How does working capital management affect the financial performance (ROA and ROE) of the hotel industry?

By examining these inquiries, this research seeks to uncover deficiencies in Soaltee Hotel Ltd.'s present working capital management practices and suggest strategies that could improve financial performance and resilience amidst economic fluctuations in Nepal's hospitality industry.

1.3 Objectives of the Study

This research is focused on analyzing the influence of effective working capital management on business performance and profitability within Nepal's hotel sector. The main objectives include:

i. To examine the liquidity and profitability situation of Nepalese hotel industry.
ii. To examine the relationship between Average collection period (ACP), Inventory Turnover Ratio (ITR), Average Payment Period (APP), Cash Conversion cycle (CCC), Current Ratio (CR) and Debt Ratio (DR) with the profitability of the hotel.
iii. To analyze the effect of independent variable (ITR, APP, ACP, CCC, DR, CR to dependent variable (ROA, ROE).

1.4 Significance of the Study

Working capital addresses the short-term financial needs of a business. It represents trade capital, not held in one form for longer than a year. Throughout regular business operations, the capital invested undergoes transformation. Just as blood circulation is vital for life, a steady flow of funds is essential for sustaining business activities. The amount of working capital indicates the level of investment in various current assets. Each current asset must be managed both efficiently and effectively, as decisions related to working capital impact not only the short-term profitability of the firm but also play a crucial role in its long-term survival. Thus, working capital management should be prioritized by all enterprises.

If the flow of funds is weak, it becomes challenging a business to thrive and endure (Mahar, 2023). Poor management of working capital whether it's too low or excessively high can lead to difficulties for a financial firm, making proper and sustainable working capital essential for ensuring a steady profit inflow. Primarily, working capital pertains to the current assets of a firm, which include inventory, cash, receivables, cash equivalents, and so forth. This component is vital for a financial firm as working capital directly influences its liquidity (Qadir et al., 2017). This research aims to enhance the understanding of working capital management practices within the hotel industry of Nepal. It will provide valuable insights for financial managers in hotels, aiding them in optimizing their working capital cycles. Additionally, the findings will serve as a useful resource for policymakers, academics, and future researchers interested in financial management in the hospitality sector.

1.5 Limitations of the Study

Every research endeavor is conducted within specific constraints. The researcher has made efforts to include all necessary information for this study. Nevertheless, there are some limitations:

1. The study covers a period of ten fiscal years, from 2013/14 to 2022/23.
2. It is focused on a single listed hotel in Nepal, so the conclusions may not be entirely representative of the entire hotel sector in the country.
3. The research depends on secondary data, which may carry potential biases and inaccuracies.

CHAPTER II
LITERATURE REVIEW

A literature review is an essential aspect of research that entails analyzing and summarizing previous studies and theories relevant to the focus area of the research. It lays the groundwork for dissertations and research papers, providing insights into earlier findings while highlighting existing gaps that require further study. This step is vital as it creates a solid theoretical framework and supports the empirical investigation of various relationships.

2.1 Conceptual Framework

Working capital management is the approach used to oversee a company's short-term assets and liabilities, ensuring that it remains operational and capable of meeting its financial commitments. The main objective of managing working capital is to strike a suitable balance between current assets and current liabilities, ensuring sufficient liquidity to sustain everyday operations without holding unnecessary cash or assets. Essentially, it involves the effective management of working capital components like current assets such as cash, inventory, and receivables, alongside current liabilities like payables and short-term debts so that the business can fulfill its financial and operational targets while curbing costs (Upreti, 2022).

The purpose of working capital management is to maintain an adequate level of current assets that ensures the firm can cover its short-term liabilities. Failing to maintain this level could lead to insolvency or bankruptcy. Current assets must be sufficient to meet current liabilities while providing a reasonable buffer to keep liquidity intact. The amount of working capital indicates how liquid the business is; however, merely increasing liquidity does not necessarily guarantee improved profitability. Generally, a higher amount of working capital relative to the total capital employed in the firm can lead to a lower overall return on that capital, assuming other factors remain unchanged. Conversely, reducing working capital may enhance the firm's total return. It is the management's key role to facilitate the continuous flow of adequate working capital, requiring skill in managing assets to ensure smooth transitions through different stages over time (Ojha, 2019).

Working capital, often referred to as gross working capital, pertains to the current assets utilized in operations. Working capital management (WCM) involves overseeing a firm's short-term financing needs, determining the ideal levels of cash, marketable securities, receivables, and inventory while securing financing for that working capital at minimal cost (Brigham & Houston, 2007).

2.2 Components of Working Capital

The structure of working capital illustrates how a business handles its short-term assets and liabilities to facilitate efficient operations. Working capital is defined as the difference between a company's current assets and current liabilities, and its structure is about balancing these elements to maintain liquidity, operational effectiveness, and overall financial stability.

Key Components of Working Capital Structure:

2.2.1 Current Assets

These assets are anticipated to be converted into cash or consumed within a year.

1. Cash and Cash Equivalents: Funds available for daily operations.
2. Accounts Receivable: Money owed by customers for products or services provided on credit.
3. Inventory: Goods and materials held for sale or manufacturing.
4. Short-Term Investments: Investments that can be quickly converted to cash, typically within a year.
5. Prepaid Expenses: Payments made in advance for services or products to be received later.

2.2.2 Current Liabilities

These represent obligations that a company is expected to fulfill within a year.

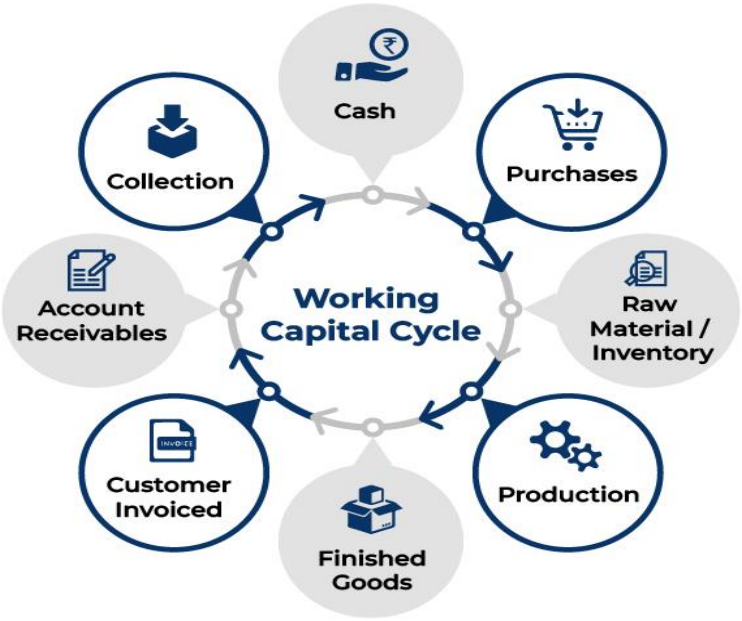
1. Accounts Payable: Money owed to suppliers or creditors for goods or services received.
2. Short-Term Debt: Loans or credit lines that are payable within one year.
3. Accrued Liabilities: Costs that have been incurred but not yet paid, such as wages, taxes, or interest.

4. Unearned Revenue: Payments received for goods or services that are yet to be delivered or performed.

2.3 Working Capital Cycle

The working capital cycle refers to the duration it takes to change net assets and net liabilities into cash. Numerous daily business operations necessitate having cash on hand. Depending on how quickly assets can be converted back into cash, the working capital cycle can be either short or long.

Figure 1: Working Capital Cycle



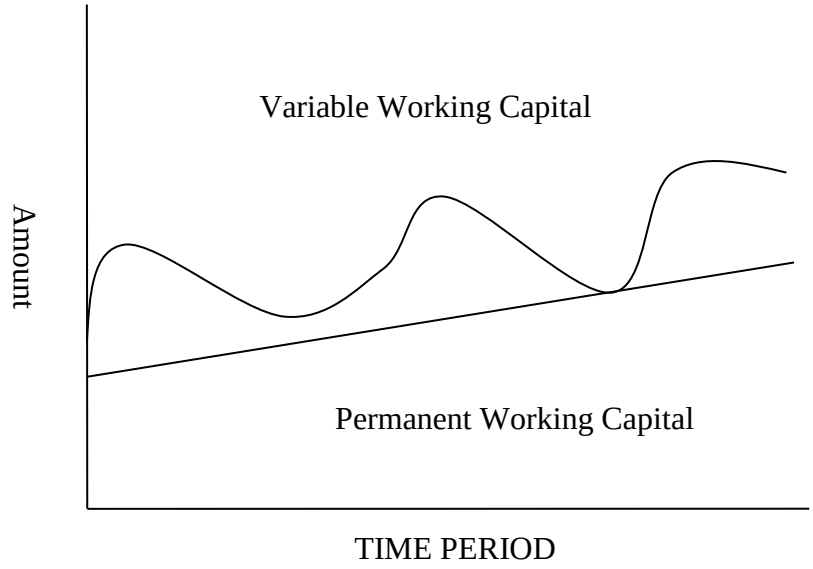
Source: Poonawalla, 2024

The upper section of the diagram illustrates a simplified sequence of events within a company. Each box in this part can be imagined as a tank through which money moves. These tanks, which relate to everyday business actions, continuously receive and disperse funds.

2.3 Types of Working Capital:

There are two categories of working capital: Permanent Working Capital Variable Working Capital. Both types are essential for any business to maintain production and sales without disruptions (Weston & Brigham, 1996).

Figure 2.3: Type of Working Capital



Source: Weston and Brigham, 1996

2.3.1 Permanent Working Capital

Permanent working capital denotes the level of current assets that is needed consistently throughout the year. A manufacturing business cannot function its regular production and sales operations without this segment of working capital. As a result, manufacturers maintain a minimum amount of working capital to ensure smooth production and sales. This portion is closely tied to the expansion of the company's operational capabilities.

2.3.2 Variable Working Capital

Variable Working Capital signifies the amount of working capital that is necessary in addition to the permanent working capital. If a company's production and sales are influenced by seasonal changes, it must hold extra raw materials, work-in-progress, and finished goods inventory. Consequently, this segment of working capital is dependent on the nature of the business's production activities.

2.4 Working Capital Policy

Working capital policy encompasses a firm's fundamental strategies regarding target levels for each category of current assets and the methods of financing these assets (Weston & Brigham, 1996). Initially, a firm must decide how much capital should be allocated to working capital in a broad sense. Different firms may adopt various

financing policies reflecting the financial manager's views on the risk-return balance. A critical decision for the finance manager is determining how much current liabilities should finance current assets. Each business must explore different funding sources for its working capital.

2.4.1 Current Assets Investment Policy

Current assets investment policy outlines the strategy concerning the total amount of current assets maintained to support a specified level of sales. There are three distinct current assets investment policies: Fat, Cat, and Lean & Mean, as well as Moderate.

2.4.1.1 Fat Cat Policy

This is characterized as a relaxed current assets investment policy. Under this approach, businesses hold substantial amounts of cash, marketable securities, and inventories, while promoting sales through generous credit policies, leading to higher levels of receivables. This policy also results in extended periods for receivable collections. Consequently, it generally yields lower expected returns on investment with reduced risk.

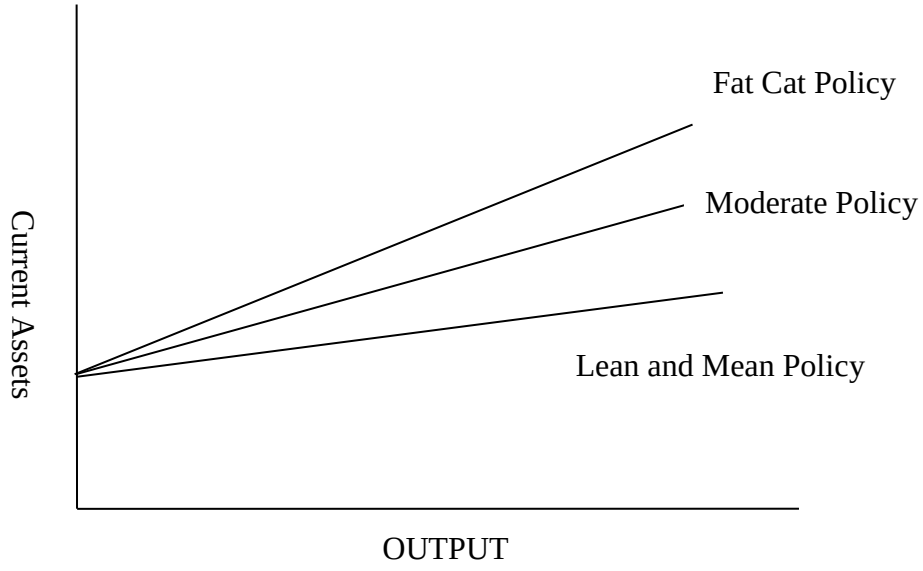
2.4.1.2 Lean and Mean Policy

This policy aims to shorten both the inventory conversion and receivable conversion cycles. Firms employing this strategy adopt stringent credit policies, risking potential sales losses.

2.4.1.3 Moderate Policy

The moderate policy incorporates elements from both relaxed and restrictive strategies. Here, a firm maintains a level of current assets that balances between these two extremes, resulting in moderate levels of both risk and return.

Figure 2.3 Alternative Current Assets Investment Policy



Source: Weston & Brigham, 1996

The connection between output and the level of current assets for these options is depicted in the figure above. The accompanying table clarifies that as output increases there is a greater necessity for investment in current assets to facilitate that output and sales. This connection is grounded in the idea that a relatively larger investment in current assets is needed when only a limited number of output units are produced compared to later stages, when the company can utilize its current assets more effectively.

2.5 Theoretical Literature Review

Working capital management (WCM) involves overseeing short-term assets and liabilities to guarantee that a company can fulfill its daily operational needs and financial commitments. In the hospitality sector, efficient WCM promotes seamless operations, enhances profitability, and supports long-term viability. It involves effectively handling cash, accounts receivable, inventories, and accounts payable. This management is especially vital in the hotel industry, which is capital-intensive and heavily seasonal, where managing liquidity is crucial for keeping operations running during slow periods. The focus of working capital management lies in identifying the ideal level of liquidity, which balances current assets against current liabilities (Awan et al. 2014). In the hotel sector, it is important to find a balance

between liquidity and profitability. Large hotels like Soaltee Hotel Ltd need significant working capital to meet operational expenses, including employee wages, utility bills, maintenance, food and drinks, and guest services. Due to the ever-changing environment in which hotels operate, characterized by seasonal demand, festivals, and economic variations, working capital serves as a means to ensure a smooth flow of funds. Effective management allows hotels to handle immediate financial needs without facing undue stress or accumulating excessive debt.

2.5.1 Cash Conversion Cycle (CCC)

The cash conversion cycle refers to the duration for which financing is necessary during operations. In simpler terms, it measures the average time between the cash outlay for raw materials and the cash inflow from selling finished goods (Upreti, D.R 2022) . The CCC gauges how long it takes for a hotel to turn its inventory and receivables into cash. Managing the CCC effectively in hotels involves streamlining the process between guest bookings, check-ins, and payments, along with negotiating credit terms with suppliers for food and beverage inventory. A shorter CCC signifies effective liquidity management, whereas a prolonged CCC may indicate potential cash flow challenges.

2.5.2 Operating Cycle Theory

The operating cycle within the hotel sector entails converting cash into services and then back into cash. A lengthy operating cycle could result in increased operating expenses, while a shorter cycle aids in maintaining liquidity. Hotels frequently struggle with managing the operating cycle because of late payments from guests and fluctuating demand based on the seasons.

2.5.3 Trade-Off Theory

This theory illustrates the need to find a balance between liquidity and profitability. For establishments like Soaltee, having a high liquidity level minimizes the risk of financial pressure but may also produce lower returns due to opportunity costs. Conversely, higher profits may necessitate maintaining lower liquidity levels, which brings the risk of cash shortages. Thus, achieving equilibrium between liquidity and profitability is a fundamental element of working capital management.

2.5.4 Aggressive vs. Conservative Financing Strategy

Hotels can choose between aggressive and conservative strategies in managing their working capital. An aggressive approach involves minimizing cash reserves and

relying on short-term financing for daily operations, which may offer higher returns but also comes with increased financial risk. A conservative strategy maintains larger cash reserves and prefers long-term financing, reducing risk but potentially lowering returns. Soaltee Hotel Ltd might favor a conservative strategy to effectively manage its operations amid changing demand and high fixed costs.

Research indicates a negative connection between a firm's profitability and its aggressiveness in working capital investment and financing strategies. The findings suggest that managers are unable to add value when adopting an aggressive approach to working capital management. However, if firms take an aggressive stance with their short-term liabilities, investors may assign greater value to them. Interestingly, the same research acknowledges that an aggressive working capital policy can contribute to increased market performance and, in turn, greater wealth for shareholders (Nazir, & Afza; 2009).

The hotel industry in Nepal encounters distinct challenges such as seasonal variation, political instability, and fluctuating tourist numbers, all of which influence working capital management practices. For hotels like Soaltee, aligning their working capital strategies with overall macroeconomic conditions is essential.

Soaltee Hotel Ltd, a premier luxury hotel in Nepal, adheres to well-defined practices for working capital management. The hotel employs advanced systems to oversee its cash flow, receivables, and inventory, ensuring efficient operations. One major concern for Soaltee is managing working capital during the off-peak seasons. Hotel management closely tracks cash inflows from room bookings and other services to match operational costs effectively.

The hotel utilizes a combination of short-term financing and internal cash flow to address its immediate financial requirements. Furthermore, it leans towards a conservative approach in its working capital management, securing enough liquidity to handle unexpected costs or economic shifts. During peak seasons, however, Soaltee may see a rise in working capital needs due to increased demand, prompting necessary adjustments in inventory and accounts payable management.

2.6 Empirical Review

Adhikari (2020) investigated working capital management and corporate profitability in Nepal's manufacturing sector. This study aims to address the lack of literature on working capital management among manufacturing firms in Nepal, providing empirical evidence and serving as a basis for further research. It utilized secondary data from the annual reports of five manufacturing companies over eight years, from 2010/11 to 2017/18. The study assessed the effects of various working capital elements—inventory conversion period, receivable conversion period, payable deferral period, cash conversion cycle, debt ratio, and current ratio—on profitability, represented by return on equity, return on assets, and net income. Analysis methods included Pearson's correlation, ordinary least square regression, and binary logistic regression. The findings revealed that the inventory conversion period, payable deferral period, and cash conversion cycle negatively correlate with manufacturing profitability, while the receivable conversion period, debt ratio, and current ratio show a positive association.

Wanyoike, Onyuma & Kung'u (2021) examined working capital management practices and operational performance in selected supermarkets throughout Kenya. They focused on inventory management, creditors, receivables, and liquidity practices, underpinned by Agency Theory, Iceberg Theory of Money Management, and Cash Management Theory.

Yadav (2016) studied the working capital management of hotels listed on the Nepal Stock Exchange, analyzing hotels such as Yak & Yeti, Oriental, and Soaltee Crowne Plaza. The results indicated an excess of current assets compared to liabilities, with differing management strategies. To finance operations, Yak & Yeti took a cautious approach, while Soaltee and Oriental opted for more aggressive strategy. Although overall liquidity and profitability were adequate, Oriental stood out for its effectiveness in debt collection. Suggestions included adopting solid financing plans to improve working capital management.

Khadka (2016) explored the working capital management techniques used by hotels in Kathmandu. The study revealed that the largest hotels in Nepal, like Soaltee,

struggled to maintain a balance between liquidity and profitability, especially because of the variations in seasonal demand.

In 2017, the Nepal Rastra Bank released a report on the financial state of the hospitality industry, noting that numerous hotels, including Soaltee Hotel, relied significantly on short-term loans to meet their working capital needs. The NRB report pointed out the dangers of this reliance, particularly considering the unpredictable revenue cycles.

Qadir & Dar (2017) concluded their qualitative study, "The Working Capital and Its Ratios," published in the International Journal of Statistics and Actuarial Science, by noting that working capital is an essential element in financial economics for decision-making. Poor management of working capital, whether it is too low or excessively high, can harm a financial institution. Therefore, maintaining a proper and sustainable level of working capital is vital for ensuring a smooth flow of profits. Working capital primarily pertains to a firm's current assets, which include inventory, cash, receivables, and cash equivalents. It is a key component for financial firms, as it directly influences their liquidity.

Kharel (2018) examined "Working Capital Management of Nepal Insurance Company." The study revealed that while the company adhered to a conservative approach to its current assets and enjoyed a strong liquidity position, it faced inefficiencies in working capital utilization, resulting in less-than-optimal returns. Recommendations proposed included enhancing asset management, minimizing long-term working capital financing, and improving turnover ratios for greater efficiency.
Sathyamurthi (2018) analyzed the influence of working capital management on profitability in Botswana's retail sector, finding negative correlations between profitability metrics and the turnaround periods for cash, inventory, receivables, and payables. The study underscored that effective management of these working capital components positively impacted profitability metrics such as return on assets and net operating income.

Ojha (2019) investigated the connection between working capital management and profitability at Pukar International Co. Ltd. The findings indicated a negative

correlation between profitability and both the average collection period and average payment period, while a positive link existed between profitability and the current ratio. Additionally, the current ratio and firm size significantly affected profitability. The primary conclusion drawn from this study was that management could increase shareholder value by shortening the average collection period; firms could also take longer to settle payments with creditors without jeopardizing their relationships with them.

Devkota (2019) focused on "Working Capital Management of Manufacturing Companies Listed in Nepal Stock Exchange." The research identified several challenges these companies faced, including low turnover, profitability concerns, liquidity issues, and insufficient working capital policies. Recommendations included adopting comprehensive policies, optimizing the use of funds, refining credit and inventory management practices, and enhancing employee skills.

Sharma & Rai (2019) investigated the link between working capital management and profitability in Nepali hotels, ultimately concluding that effective working capital management particularly in accounts receivable and inventory is crucial for achieving long-term profitability.

Poudel & Maharjan (2020) explored how the characteristics of firms relate to working capital and profitability in Nepal, focusing on factors such as the cash conversion cycle, days sales outstanding, days inventory outstanding, and the current ratio in relation to return on assets. The descriptive and causal-comparative research design yielded results indicating that the current ratio had a significant positive correlation with profitability, while days sales outstanding negatively impacted the firm's financial performance.

Thapa (2012) investigated working capital management in Nepali manufacturing firms, emphasizing the importance of managing current assets and liabilities for ensuring profitability and business longevity. The study revealed that firms adopting a conservative approach to working capital management were able to mitigate liquidity risks but at the cost of potential profitability.

Deloof (2003) analyzed the relationship between working capital management and corporate profitability in Belgian firms, examining a sample of 1,009 large non-financial companies from 1992 to 1996. The author measured trade credit and inventory policies using various metrics including accounts receivable, inventories, and accounts payable, with the cash conversion cycle being a key indicator of working capital management. Findings indicated that managers could enhance profitability by reducing the durations of accounts receivables and inventories. Notably, less profitable firms tended to take longer to settle their bills.

Sharoff (2012) conducted research on "Working Capital Management in the Hotel Industry." This study assessed working capital management ratios in the Indian hotel sector over a 15-year period, from 1996 to 2010, to understand the structure of current assets in the industry. Financial data for the study was sourced from "Prowess."

Abosede, Soyemi, Luqman, & Olawale (2014) provided a comparative analysis of working capital management among brewery companies in Nigeria in their SSRN Electronic Journal article. This research aimed to assess the costs of working capital and their impact on firm performance, while critically evaluating the liquidity measures adopted by Nigerian firms. Using secondary data from journals, textbooks, and annual reports, the authors employed ratio analysis as a suitable statistical technique for working capital management. Their findings indicated that Guinness Nigeria had a higher volume of current assets compared to Consolidated Breweries. They also noted that Guinness had substantial inventories and debtors, while current liabilities remained moderate, with an exception in 2013. It was concluded that Guinness Nigeria excelled in cash management compared to Consolidated Breweries, which lagged behind. Conversely, in terms of payables management, Consolidated Breweries demonstrated better liquidity and creditor payment practices. The major recommendation was that working capital management should be prioritized across all manufacturing sectors, with a thorough review of collection and payment policies necessary for enhancement. It was suggested that firms should expedite cash collections while extending payment timelines, achievable through professional guidance and oversight. The findings indicated that firm managers could boost performance by minimizing days in inventories, the Cash Conversion Cycle, and the Net Trade Cycle.

Raheman & Mohamed (2007) investigated the relationship between working capital management and profitability in Pakistani firms, published in the International Review of Business Research Papers. They analyzed various aspects of working capital, including the average collection period, inventory turnover, average payment period, cash conversion cycle, and current ratio, in relation to net operating profitability. Control variables included debt ratio, firm size (indicated by the natural logarithm of sales), and financial assets as a proportion of total assets. Employing Pearson's correlation and regression analysis, their results indicated a strong negative relationship between working capital management variables and firm profitability; specifically, a longer cash conversion cycle was associated with lower profitability. Additionally, they found significant negative correlations between liquidity and profitability and a positive relationship between firm size and profitability, along with a negative association between debt levels and profitability.

Mbithi, Muiruri, & Kingi (2015) examined the effects of working capital management practices on the financial performance of tourist hotels in Kenya's coastal region. Utilizing systematic random sampling, 22 hotels were selected from a total of 44 as recorded by the Ministry of Tourism. Primary data was collected through questionnaires distributed to accountants and managers, who were knowledgeable regarding the necessary information. Data analysis involved descriptive statistics to establish means, standard deviations, minimums, and maximums of various variables. Pearson correlation coefficients were used to explore the relationship between financial performance (dependent variable) and independent variables such as inventory turnover days, accounts receivable days, accounts payable days, and the cash conversion cycle. All independent variables exhibited a negative correlation with net operating profit, indicating that reducing the time needed to convert inventory and receivables to cash, along with expediting creditor payments, could enhance profits. The study underscored the importance of efficiently managing working capital components to boost financial performance, suggesting that hotel management should identify unique working capital drivers and risks to develop tailored management policies that align with their business model and overall corporate strategy.

Joshi (2014) explored liquidity management within Nepal's service industry, specifically examining the hotel sector. His findings highlighted that many Nepali

hotels, including Soaltee, encountered significant liquidity issues owing to their reliance on external financing during off-peak periods.

John (1955) investigated the theory of working capital management, likening money to the lubricant that keeps industry functioning smoothly. He stated that it is the manager's duty to secure adequate funds for business operations and to invest those funds profitably. He emphasized the concept of the working capital cycle and noted that finance managers affect all working capital accounts. He defined net working capital as the net current assets position, or the excess of current assets over current liabilities.

2.7 Research Gap

Many studies have looked into working capital management practices among Nepali businesses; however, there is a scarcity of research that specifically addresses the hospitality industry, especially regarding large hotels such as Soaltee Hotel Ltd. This review uncovers several research gaps:

There is a shortage of comparative studies on working capital management (WCM) practices between Nepali hotels and those in neighboring countries like India, China, and Bhutan. Examining Soaltee Hotel's WCM practices and contrasting them with similar establishments in these nations could uncover distinct challenges and potential solutions relevant to Nepal. Most of the current research on WCM has concentrated on the manufacturing or trading sectors, where inventory and supply chain management are crucial. There is a noticeable absence of studies that focus explicitly on the hotel sector, particularly in Nepal's context. This gap presents a valuable opportunity to investigate WCM practices within the distinctive landscape of the hotel industry, which contends with seasonal demand, variable occupancy rates, and substantial operating expenses.

Soaltee Hotel Nepal is a significant player in the country's hospitality sector, recognized for its scale, reputation, and long-standing presence. Nonetheless, there is a lack of in-depth analysis regarding WCM practices at Soaltee. Yadav (2016) assessed the "Working Capital Management of Listed Hotels on the Nepal Stock Exchange," analyzing hotels like Yak & Yeti, Oriental, and Soaltee Crowne Plaza.

The results indicated that current assets exceeded liabilities, with different financing strategies employed. Yak & Yeti adopted a conservative policy, whereas Soaltee and Oriental favored a more aggressive financing approach. While overall liquidity and profitability were satisfactory, Oriental demonstrated superior efficiency in debt collection. Recommendations included developing stronger financial planning to improve working capital management.

(Adhikari, 2020) investigated Working Capital Management and Corporate Profitability within Nepalese Manufacturing Sector, analyzing how various components of working capital—such as inventory conversion period, receivable conversion period, payable deferral period, cash conversion cycle, debt ratio, and current ratio affect profitability, which is measured by return on equity, return on assets, and net income. The study found that the inventory conversion period, payable deferral period, and cash conversion cycle had an inverse relationship with the profitability of manufacturing firms, while the receivable conversion period, debt ratio, and current ratio demonstrated a positive correlation.

A concentrated study on Soaltee Hotel's WCM strategies could clarify whether larger hotels in Nepal employ specific WCM frameworks that differ from those of smaller or emerging hotels. This case could also serve as a benchmark for other large hotels in the region.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

This research will utilize a case study design focusing on Soaltee Hotel Ltd. as a representative example of large hotels in Nepal. A case study approach is appropriate since it facilitates a thorough examination of Working Capital Management (WCM) practices within a particular organizational and industry context. The study takes on a casual comparative and descriptive research design to evaluate the WCM within Nepal's hotel industry.

3.2 Population and Sample

There are currently 10 five-star hotels operating in Nepal, but only 5 of them—Soaltee Hotel Ltd., Shangrila Hotel Ltd., Hyatt Regency, Hotel Yak and Yeti, and The Dwarika's Hotel—are listed on the Nepal Stock Exchange (NEPSE). The population for this study consists of all hotels in Nepal that practice WCM, although Soaltee Hotel Ltd. has been selected as the sample due to its prominence and reputation in the hospitality sector.

3.3 Nature and Sources of Data

This study concerning WCM practices in Nepal's hotel industry, particularly Soaltee Hotel Ltd., will rely on secondary data collection for an extensive quantitative analysis. Secondary data will be drawn from established sources such as financial reports, industry analyses, and company records. Below are the main sources for obtaining quantitative secondary data:

- Audited reports from Soaltee Hotel Ltd.
- Industry Reports from relevant Tourism and Hotel Associations: including the Nepal Tourism Board and the Hotel Association of Nepal (HAN).
- Hotel-Specific Research: Published research papers, articles, and case studies focusing on Soaltee Hotel or similar WCM practices in Nepal, sourced from journals, magazines, or industry publications.

3.4 Collection of Data

The necessary financial data were sourced from the official website of Soaltee Hotel Ltd. This information was gathered through audited annual financial reports, engagement with relevant officials, as well as from published books, journals, bulletins, and magazines.

3.5 Data Processing Procedure

The collected data were organized into tables and charts as per the needs of this study. To process the data, financial statements and any other available information were reviewed. These data were categorized into different tables and charts based on their characteristics.

3.6 Method of Analysis

The initial step in data analysis is to summarize the findings, which will provide a preliminary overview of how Soaltee Hotel's working capital has evolved over the last decade. The financial and statistical tools used to analyze the gathered data include:

3.6.1 Financial Tools

The primary tool for financial analysis is ratio analysis. According to Van Horn (2000: 205), "For a firm to negotiate effectively for external funding, management should be informed about all aspects of financial analysis that outside capital suppliers utilize in their evaluations of the firm." This method is essential for assessing the financial health and performance of a business. Ratios derived from a company's financial statements—mainly the balance sheet, income statement, and cash flow statement—help stakeholders (investors, creditors, analysts, etc.) evaluate several aspects such as operations, liquidity, profitability, and solvency. Key financial tools or categories of ratios used in the analysis include:

3.6.1.1 Liquidity Ratio

Liquidity serves as a vital measure of a company's capacity to meet short-term obligations with its most liquid assets. These ratios provide insight into the hotel's financial health, operational efficiency, and management of cash. The main liquidity ratios used to assess Soaltee Hotel's performance are the current ratio, quick ratio, working capital, and cash ratio.

1. **Current Ratio:** Reflects the ability to meet short-term liabilities with short-term assets, offering insight into liquidity and financial stability.

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

2. **Quick Ratio:** A more rigorous liquidity assessment that excludes inventories from total assets.

$$\text{Quick Ratio} = (\text{Quick Assets}) / (\text{Current Liabilities})$$

3. **Working Capital:** The difference between current assets and current liabilities, indicating the hotel's overall financial well-being and capacity to handle short-term responsibilities.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

3.6.1.2 Profitability Ratio

Profitability remains a predominant concern for any organization, emphasizing the need for efficiency. In today's competitive landscape, organizations face ongoing pressures to enhance employee performance, which in turn affects the overall organizational output (Barney, 1995). The Profitability Position Calculation is a financial analysis tool designed to evaluate a company's capability to generate profits relative to its revenues, expenses, and capital expenditures. It focuses on key profitability metrics, including gross profit margin, operating profit margin, and net profit margin. This calculation sheds light on how effectively a business converts sales into profits after accounting for direct costs such as production and operational expenses. By analyzing Return on Equity (ROE) and Return on Assets (ROA), profitability position also evaluates how effectively the company utilizes its capital and assets. Understanding profitability position can reveal strengths and weaknesses in pricing strategies, cost management, and operational efficiency. This information is valuable for investors and management in determining whether a company can maintain profitability over time and withstand market fluctuations. A favorable profitability position indicates strong management and the ability to sustain healthy margins, while a negative or diminishing position may signify inefficiencies, increasing costs, or declining demand. Particularly in competitive sectors where profit margins are slim, profitability position is critical for informing strategic decisions related to pricing, cost reduction, or investment approaches. It is crucial for long-term viability, as companies must remain profitable to reinvest in growth, innovation, and

shareholder value. Ultimately, profitability position acts as a benchmark for comparing companies within the same sector, helping stakeholders identify leaders, laggards, and emerging industry trends.

1. **Return on Total Assets Ratio (ROA):** This metric assesses a company's efficiency in utilizing its assets to produce profits. It measures how well a company uses its assets to generate earnings, calculated by dividing net income by total assets.

   Return on Total Assets = (Net Income) / (Total Assets)

   A higher ROA suggests that the company is effectively leveraging its assets for profitability, whereas a lower ROA indicates potential inefficiencies in asset utilization.
2. **Return on Equity (ROE):** This measures how efficiently a company employs shareholders' equity to generate sales.

$$\text{Equity Turnover Ratio} = \frac{\text{Net Income}}{\text{Shareholders Equity}}$$

A higher ratio signifies that company is successfully leveraging its to generate sales, whereas a lower ratio may a lack of effectiveness in equity to produce revenue.

Analysis of Working Capital Cash Flow Cycle:

The working capital cash flow cycle, often referred to as the cash conversion cycle (CCC), gauges how adeptly a company manages its working capital to facilitate its daily operations. This cycle reflects the duration it takes for a company to transform its investments in inventory and other resources into cash from sales. Research by (Nastiti et al., 2019) reveals a positive connection between the cash conversion cycle and book return on assets for manufacturing companies in Indonesia during the years 2010 to 2017. Similarly, (Abuzayed, 2012) indicates that a longer cash conversion cycle positively influences profitability on the Amman Stock Exchange from 2000 to 2008. Understanding this cycle is key to assessing liquidity, operational efficiency, and overall financial well-being.

Cash Conversion Cycle (CCC) = DIO + DSO – DPO

Where:

DIO: Days Inventory Outstanding

DSO: Days Sales Outstanding

DPO: Days Payable Outstanding

Statistical Tools Used

The study employs various statistical tools, which are summarized as follows:

Mean

The mean, or average, is the most commonly used measure to represent an entire dataset with a single value. It is calculated by summing all items and dividing this total by the number of items, effectively representing data that tends to lie in between two extremes. The mean can be calculated as:

$$\text{Mean} = \frac{\sum X}{n}$$

Standard Deviation (S.D)

Standard deviation is a crucial measure of dispersion, reflecting how data scatters around the average. It addresses the limitations seen in other dispersion measures. A high standard deviation indicates considerable variability among data points, while a low standard deviation suggests high uniformity.

It is computed as:

$$\text{SD}(\sigma) = \sqrt{\frac{\sum(X - X)}{n}}$$

Coefficient of Variation

The coefficient of variation provides insight into the relationship between the standard deviation and the mean. This relative measure of dispersion, expressed as a percentage of the standard deviation, allows for the comparison of variability between two distributions.

It is defined as:

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

A higher CV means greater variability, indicating that the data is less consistent and more heterogeneous than data with a lower CV.

Simple Correlation Coefficient

Simple correlation examines the relationship between two variables—one dependent and one independent. The most significant way to quantify this correlation is through Karl Pearson's coefficient. This mathematical method assesses the strength of association between the two variables.

$$\text{Coefficient of Correlation (r)} = \frac{\text{CoVariance of X \& Y}}{\sigma_X \quad \sigma_Y}$$

Where:

Cov (X, Y) = Covariance of X and Y

σx = Standard deviation of X

σy = Standard deviation of Y

Regression Analysis

Regression analysis is a statistical approach used to predict the unknown value of one variable based on the known value of another. Given a close relationship between the two variables, we can estimate the dependent variable's value from that of the independent variable. The independent variable is the given value, while the dependent variable is the one being predicted. This statistical tool assesses the relationship between variables by establishing an approximate functional link between them, evaluating whether the independent variable influences the dependent variable. Regression analysis is widely utilized across many scientific fields, particularly in economics and business research, to identify causal relationships among multiple variables.

Model Specification

The regression equations expressing the impact of independent variables are as follows:

$\hat{Y}1 = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + ei$

$\hat{Y}2 = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + ei$

Where:

$\hat{Y}1$ = Return on Assets (Dependent Variable)

$\hat{Y}2$ = Return on Equity (Dependent Variable)

X1 = ACP (Independent variable)

X2 = APP (Independent variable)

X3 = ITR (Independent variable)

X4 = CCC (Independent variable)

X5 = DR (Independent variable)

X6 = CR (Independent variable)

α = Constant

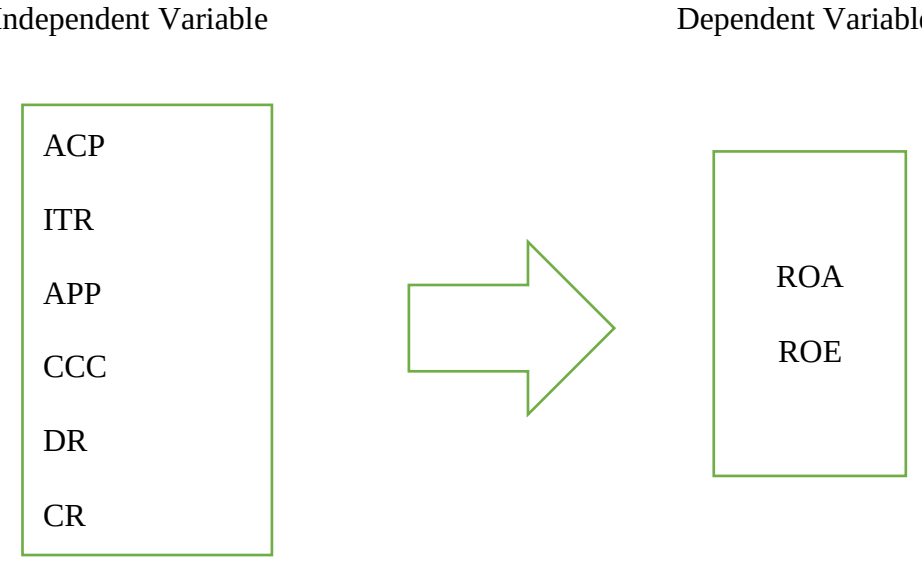
$\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$, $\beta 5$, and $\beta 6$ are regression coefficients of Factor1, Factor2, Factor3, Factor4 Factor5 and Factor6 respectively.

ei = Error Term

Research Framework and Definition of Variables

The conceptual framework for this study is based on earlier research and findings. In his work "Working Capital Management and Corporate Profitability: Empirical Evidence from Nepalese Manufacturing Sector," (Adhikari, 2020) established a conceptual framework that identified Inventory Conversion Period (ICP), Average Payment Period (APP), Inventory Turnover Ratio (ITR), Cash Conversion Cycle (CCC), Debt Ratio (DR), and Current Ratio (CR) as independent variables. Meanwhile, Return on Equity (ROE) and Return on Assets (ROA) were defined as dependent variables. Following this foundation, a new conceptual framework has been formulated for this research:

Figure 3.1 Conceptual Model



Source: Adhikari, 2020

i. Average Collection Period (ACP)

The Average Collection Period is calculated by dividing accounts receivable by total sales, then multiplying the result by 365 (Raheman & Nasr, 2007). Often referred to as the debtors' conversion period, ACP indicates how long it takes to collect payments from customers (Nimalathasan, 2010). Businesses strive to reduce the time between making a sale and receiving cash from the customer (Falope & Ajilore, 2009). Several studies have found a negative relationship between the collection period of receivables and profitability. This includes research on 803 companies listed on Bursa Malaysia (Yunos et al., 2018), firms in Pakistan (Saghir, 2011), a study of 30 firms from the Nairobi Stock Exchange (Mathuva, 2010), 88 American companies listed on the New York Stock Exchange (Gill et al., 2010), and 10 consumer goods companies (Bagchi & Khamrui, 2012).

s

ii. Average Payment Period (APP)

The Average Payment Period measures the time it takes for companies to pay off their obligations to creditors (Sathyamoorthi et al., 2018). For many firms, securing a portion of free credit from suppliers is often the ideal strategy (Falope & Ajilore, 2009). Studies indicate a negative relationship between the average payment period and profitability (Nasr, 2007; Falope & Ajilore, 2009; Saghir, 2011; Charitou, 2016;

Al-Debi'e, 2011). Deloof (2003) highlighted that companies may benefit from discounts for timely payments to suppliers. Furthermore, Azam & Haider (2011) discovered a noteworthy positive connection between the average payment period and profitability measures such as Return on Equity and Return on Assets, aligning with Mathuva's (2010) findings.

iii. Inventory Turnover (ITR)

The inventory turnover ratio reflects the time it takes for a company to convert its inventory into sales (Sathyamoorthi, 2018). A decline in sales can lead to higher inventory levels, potentially damaging a company's profitability (Deloof, 2003). Various studies have reported a negative correlation between the inventory conversion period and business profitability (Al-Debi'e, 2011; Azam & Haider, 2011; Affeef, 2011). This suggests that longer inventory conversion times can result in lower profits. This was further supported by research on Belgian firms (Deloof, 2003), companies from Pakistan (Saghir, 2011), small and medium enterprises in Nigeria firms listed on the Karachi Stock Exchange (Raheman & Nasr, 2007), and manufacturing companies in Sri Lanka (Nimalathasan, 2010). In contrast, a study of Kenyan firms (Mathuva, 2010) and the Malaysian manufacturing sector (Jakpar et al., 2017) found a positive link between the inventory conversion period and company profitability.

iv. Cash Conversion Cycle (CCC)

The cash conversion cycle is determined by subtracting the payable deferral period from the sum of the inventory conversion period and the cash conversion period (Falope & Ajilore, 2009). This cycle represents the interval between the cash spent on acquiring raw materials and the cash received from sales (Yunos et al., 2018). Research shows a negative correlation between the cash conversion cycle and a firm's profitability (Deloof, 2003; Mathuva, 2010; Bagchi, 2012; Yunos et al., 2018; Falope & Ajilore, 2009; Saghir, 2011; Azam & Haider, 2011; Raheman & Nasr, 2007). Conversely, findings by Akoto et al. (2013) and Gill et al. (2010) indicated a positive relationship between the cash conversion cycle and profitability.

v. Debt ratio (DR)

The debt ratio represents the proportion of total debt or liabilities compared to total assets (Jakpar et al., 2017; Raheman & Nasr, 2007). A strong economic environment in a country can led to an increase in a firm's profits, even when the level of debt rises (Falope & Ajilore, 2009). However, many studies present findings that contradict this

relationship. Research by Jakpar et al. (2017), Raheman & Nasr (2007), Dong (2010), Mohamad (2010), Charitou (2016), Al-Debi'e (2011), and Vural et al. (2012) has revealed a significantly negative correlation between the debt ratio and profitability. Debt negatively impacts the profitability of firms and raises the risk of default (Charitou, 2016).

vi. Current Ration (CR)

The current ratio assesses a company's liquidity and is calculated by dividing current assets by current liabilities (Raheman & Nasr, 2007; Paul & Mitra, 2018). It is often referred to as a liquidity or efficiency ratio, as it gauges a firm's capacity to meet its short-term obligations with current assets. A favorable situation is typically represented by a higher current ratio, indicating that current liabilities can be easily settled. Findings indicate that the current ratio and return on assets (ROA) have a low positive correlation, while a significant relationship exists between the current ratio and return on equity (ROE) (Ahmed et al., 2017). A positive and statistically significant association is noted between the current ratio and profitability (Akomeach & Frimpong, 2019; Akoto et al., 2013; Azam & Haider, 2011; Kumari & Anthuvan, 2017). In underdeveloped capital markets, maintaining higher levels of current assets may not diminish shareholder value, as it allows for the settlement of current liabilities and short-term reinvestments (Akoto et al., 2013). However, studies by Mohamad (2010) and Sathyamoorth et al. (2018) have identified a negative relationship between the current ratio and profitability.

vii. Dependent Variables

Financial performance is the dependent variable. Previous studies by Al-Abass (2018), Azam & Haider (2011), and Ahmed et al. (2017) have used return on assets (ROA) and return on equity (ROE) to measure profitability. Consequently, this research utilizes ROA and ROE to assess the profitability of manufacturing firms. ROE is defined as the ratio of net income to total equity, with a higher ROE being beneficial for a company (Akoto et al., 2013). ROA evaluates net income in relation to the book value of assets, reflecting management's effectiveness in turning assets into profits (Falope & Ajilore, 2009; Saghir, 2011). Firms that are more profitable usually report elevated ROA figures, and the opposite is also true (Yunos et al., 2018). Additionally, Charitou (2016), Bagchi & Khamrui (2012), and Nimalathasan (2010) designated ROA as a dependent variable, finding significant correlations with other factors.

CHAPTER IV

RESULT AND DISCUSSION

4.1 Introduction

This section presents and analyzes the working capital management practices of the hotel industry in Nepal, with a specific focus on Soaltee Hotel Ltd. The analysis is based on secondary data collected for the period from 2013/14 to 2022/23. Working capital management refers to the management of short-term assets and liabilities to ensure a company can continue its operations and meet its short-term obligations. The objective of this analysis is to assess the efficiency of Soaltee Hotel Ltd.'s working capital management and its implications on financial performance.2013/014 to 2022/023.Hotel industry requires effective working capital management to ensure smooth operations, as it involves significant daily expenses, including payroll, maintenance costs, utilities, and procurement of goods and services. In Nepal, the hotel sector faces unique challenges like seasonal fluctuations in occupancy rates, which directly impact the working capital needs. Proper working capital management ensures liquidity, reduces financial risk, and maximizes profitability. The following table presents the amount of total current assets & Current Liabilities of soaltee hotel ltd during the fiscal year 2013/14 to 2022/23.

Table 1

Current Assets Composition of Soaltee Hotel Ltd

(Rs in '0000')

Fiscal Year	Inventories	Sundry Debtors	Cash & Bank Balance	Prepaid Advance, Deposit & Misc Receivable	Total Current Assets
2013/014	60,266	233,103	60,850	323,378	677,596
2014/015	66,747	236,646	256,467	257,201	817,060
2015/016	59,791	233,907	194,677	375,372	863,748
2016/017	86,047	211,084	146,406	508,150	951,687
2017/018	88,586	283,913	169,383	87,976	629,858
2018/019	97,396	287,118	195,154	118,883	698,551
2019/020	68,752	202,867	209,916	109,931	591,467
2020/021	74,132	208,955	28,691	37,222	348,999
2021/022	84,944	280,993	31,863	47,942	445,742
2022/023	122,204	325,844	69,544	21,380	538,970
Average	80,886	250,443	136,295	188,744	656,368

Source: Financial Report of Soaltee Hotel from 2013/14 to 2022/023

The table 1 reveals the composition of current assets composition of Soaltee Hotel ltd. The cash & bank balance has experienced significant fluctuations over the years, with a notable drop in 2020/21. The decrease in cash reserves, especially during the pandemic (2020/21), suggests liquidity challenges. Inventories seems highest level at 2022/23 and lowest level at the time year 2015/16. Sundry debtors seem highest level at 2021/22 and lowest level at fiscal year 2016/17. Prepaid advance deposit and Misc receivable at highest level at 2013/14 and lowest level at 2021/22.

Table 2

Percentage of current assets composition of Soaltee hotel ltd.

Fiscal Year	Inventories	Sundry Debtors	Cash & Bank Balance	Prepaid Advance, Deposit & Misc Receivable	Total-%
2013/014	8.89	34.40	8.98	47.72	100.00
2014/015	8.17	28.96	31.39	31.48	100.00
2015/016	6.92	27.08	22.54	43.46	100.00
2016/017	9.04	22.18	15.38	53.39	100.00
2017/018	14.06	45.08	26.89	13.97	100.00
2018/019	13.94	41.10	27.94	17.02	100.00
2019/020	11.62	34.30	35.49	18.59	100.00
2020/021	21.24	59.87	8.22	10.67	100.00
2021/022	19.06	63.04	7.15	10.76	100.00
2022/023	22.67	60.46	12.90	3.97	100.00
Average	13.56	41.65	19.69	25.10	100.00

Source: Financial Report of Soaltee Hotel from 2013/14 to 2022/023

The figure 2 shows the proportion of current assets of Soaltee Hotel ltd for 10 years starting from 2013/14 to 2022/23. The composite portion shows that sundry debtors seem higher percent over the study year compared to `another portion.

4.1.1 Current Assets to Total Assets Ratio

In hotel industry, the Current Assets to Total Assets Ratio generally reflects the proportion of a hotel's total assets that are in the form of liquid or short-term assets. A

higher ratio indicates a greater reliance on current assets, which may suggest a hotel is managing its liquidity effectively but could also mean that it is under-utilizing its long-term assets. Hotels with a higher proportion of current assets may be more adaptable to changes in cash flow and operational needs, but they may also face challenges in maximizing returns from long-term investments. Overall, the ratio highlights the industry's need to balance short-term financial health with long-term capital investment to ensure sustainable growth and profitability.

Table 3

The Percentage of Gross Working Capital (Current Assts) on Total Assets

(Rs in '000')

Fiscal Year	Current Assets	Total Assets	%
2013/014	677,596	1,589,703	42.62
2014/015	817,060	1,834,096	44.55
2015/016	863,748	1,832,399	47.14
2016/017	951,687	1,930,678	49.29
2017/018	629,858	2,227,404	28.28
2018/019	698,551	2,473,456	28.24
2019/020	591,467	2,533,472	23.35
2020/021	348,999	2,195,848	15.89
2021/022	445,742	2,249,733	19.81
2022/023	538,970	2,827,770	19.06
Mean	656,368	2,169,456	30.25
	S. D		12.15
	C.V		40.16

Source: Research data, 2024

The table 3 shows the data which provides the percentage of Gross Working Capital (Current Assets) relative to Total Assets for each fiscal year from 2013/014 to 2022/023. The data shows that Current assets on total assets percent is gradually increasing from 2013/14 to 2016/17. After that Current asset on total assets is almost constant on

2017/18 and 2018//19. In 2019/20 to 2022/23 it is decline significantly due to covid impact.

4.1.2 Net Working Capital on Total Assets

The ratio of Net Working Capital to Total Assets is an important financial indicator that shows the extent to which a company's assets are allocated to working capital, calculated by subtracting Current Liabilities from Current Assets. This ratio provides insight into how much of a hotel's total assets are accessible for everyday operations short-term financial needs.

A higher ratio implies that a significant portion of the assets is committed to working capital, which may reflect strong liquidity; however, it could also indicate inefficiency if the hotel is not managing its assets well. On the other hand, a lower ratio may suggest that the hotel relies more on fixed assets or long-term financing to maintain its operations, which could mean reduced liquidity but a greater focus on long-term investments.

Table 4

Percentage of Net Working Capital on Total Assets

(Rs in '000')

Fiscal Year	Current Assets	Current Liabilities	Net Working Capital	Total Assets	%
2013/014	677,596	246,532	431,065	1,589,703	27.12
2014/015	817,060	336,645	480,415	1,834,096	26.19
2015/016	863,748	369,832	493,916	1,832,399	26.95
2016/017	951,687	353,199	598,488	1,930,678	31.00
2017/018	629,858	409,299	220,559	2,227,404	9.90
2018/019	698,551	442,624	255,927	2,473,456	10.35
2019/020	591,467	443,413	148,053	2,533,472	5.84
2020/021	348,999	561,363	(212,364)	2,195,848	(9.67)
2021/022	445,742	496,423	(50,681)	2,249,733	(2.25)
2022/023	538,970	485,777	53,194	2,827,770	1.88
Mean	656,368	414,511	241,857	2,169,456	12.73
		S. D			13.53
		C.V			106.24

Source: Research data, 2024

From above table 4, We can find that the percentage of net working capital on total assets has varied significantly over the years. It started at 27.12% in fiscal year

2013/14, peaked at 31.00% in 2016/17, and then declined sharply to a negative value of -9.67% in 2020/21, indicating a negative net working capital. After 2020/21, the percentage showed a gradual recovery, reaching 1.88% in 2022/23. The mean percentage over the 10 years is 12.73%, suggesting a generally positive net working capital relative to total assets over the period. The Standard Deviation (S.D.) is high (13.79), reflecting substantial volatility in the percentage across different years.
The Coefficient of Variation (C.V.) is very high (104.62%), indicating extreme variability in the percentage over the years.

4.2 Liquidity Ratio

Liquidity ratios indicate how swiftly a company can transform its assets to fulfill its obligations. A higher ratio signifies a greater capability to settle debts and prevent defaults on payments. This factor is crucial for creditors evaluating a business's eligibility for short-term loans. When a company struggles to meet its obligations, it can negatively influence its creditworthiness and harm its credit rating. Various types of liquidity ratios exist, including the following: -

4.2.1 Calculation of Current Ratio

The current ratio serves as an important financial indicator that evaluates a company's ability to handle its short-term obligations by comparing its current assets to its current liabilities. To determine this ratio, one divides the total current assets by the total current liabilities. Current assets typically consist of cash, accounts receivable, and inventory, while current liabilities include debts that need to be settled within the next year. A current ratio exceeding 1 indicates that the company possesses more current assets than current liabilities, suggesting it may be capable of meeting its short-term debt responsibilities.

Conversely, a current ratio below 1 could point to potential liquidity challenges, implying that the company might not have sufficient assets to fulfill its immediate financial commitments. Nonetheless, having an excessively high current ratio, particularly over 3, may reflect poor asset management, as the company might be holding too much cash or inventory that isn't being effectively utilized. The optimal current ratio can differ from one industry to another, with some requiring a greater liquidity level due to their operational demands.

The Following table shows the current ratio to compare the following capital management of Soaltee Hotel Ltd Kathmandu.

Table 5

Current Ratio

(Rs in '000')

Fiscal Year	Current Assets	Current Liabilities	Times
2013/014	677,596	246,532	2.75
2014/015	817,060	336,645	2.43
2015/016	863,748	369,832	2.34
2016/017	951,687	353,199	2.69
2017/018	629,858	409,299	1.54
2018/019	698,551	442,624	1.58
2019/020	591,467	443,413	1.33
2020/021	348,999	561,363	0.62
2021/022	445,742	496,423	0.90
2022/023	538,970	485,777	1.11
Mean	656,368	414,511	1.73
	S. D		0.73
	C.V		42.28

Source: Research data, 2024

From the data of table, no 5, Over the 10-year period, the current ratio has shown a noticeable decline from 2013/014 to 2022/023. This suggests a decreasing ability to cover short-term liabilities with short-term assets. Particularly, there is a significant drop in the ratio after the 2017/018 fiscal year, falling below 1 in the later years, indicating potential liquidity concerns in those periods this is happen, may be due to covid impact on hospitality.

S.D is calculated as of 0.74 and the C.V is of 42.50% highlight significant variability in the current ratio over the years. A high C.V. suggests that the ratio has fluctuated considerably, with certain years experiencing much lower liquidity compared to others, which might indicate higher financial risk or instability during those years.

4.2.2 Calculation of Quick Ratio

The quick ratio, often referred to as the acid-test ratio, serves as a financial indicator that evaluates a company's ability to handle its short-term liquidity needs. It assesses the firm's capacity to settle its current liabilities without depending on inventory sales. To calculate the quick ratio, one must subtract inventory from current assets and then divide that amount current liabilities. This method offers a stricter perspective on liquidity than the current ratio, which factors in inventory. A quick ratio of 1 or above is typically seen as favorable, suggesting that the company can fulfill its short-term debts with its most liquid resources. Conversely, a ratio below 1 may indicate potential challenges in meeting short-term commitments, reflecting insufficient liquid assets. Nonetheless, an excessively high quick ratio might suggest that the company is not making optimal use of its assets.

Table 6

Quick Ratio

(Rs in '000')

Fiscal Year	Quick Assets	Current Liabilities	Times
2013/014	617,330	717,945	0.86
2014/015	750,314	688,313	1.09
2015/016	803,957	751,740	1.07
2016/017	865,640	1,151,064	0.75
2017/018	541,272	1,288,653	0.42
2018/019	601,155	1,433,965	0.42
2019/020	522,714	1,433,176	0.36
2020/021	274,868	1,594,378	0.17
2021/022	360,798	1,902,298	0.19
2022/023	416,767	1,161,300	0.36
Mean	575,482	1,212,283	0.57
S. D			0.33
C.V			57.37

Source: Research data, 2024

From the table 6, Over the years, the quick ratio has steadily decreased. The quick ratio, which is calculated as Quick Assets divided by Current Liabilities, indicates the company's ability to cover its short-term liabilities with its most liquid assets. Starting from 0.86 in 2013/014, the ratio generally declined, hitting its lowest point of 0.17 in 2020/021. This suggests that the company's liquidity position has worsened, as it consistently has fewer liquid assets compared to its current liabilities.

In the latest fiscal year, 2022/023, the quick ratio improved slightly to 0.36, but it still remains far below 1, indicating potential liquidity concerns. The coefficient of variation (C.V) is 57.37%, which reflects high fluctuation in the ratio. This suggests that the company has experienced substantial swings in its liquidity over the years. The standard deviation (S.D.) of 0.33 indicates how much the quick ratio has deviated from the mean of 0.57

4.3 Analysis of Turnover Position

High turnover can signal underlying issues such as poor job satisfaction, ineffective management, low compensation, or limited career advancement opportunities. It can also be a result of external factors like economic shifts or industry trends. Conversely, low turnover typically suggests a stable workforce with positive organizational culture and job satisfaction. However, excessive turnover is costly for businesses, both financially and in terms of lost knowledge and experience. Recruiting and training new employees also consume valuable resources, and high turnover can disrupt team dynamics and impact overall productivity.

To manage turnover, companies often analyze exit interviews, conduct employee satisfaction surveys, and monitor other key performance indicators like employee engagement. Addressing the root causes of turnover, such as improving workplace culture, enhancing benefits, offering career development opportunities, and ensuring competitive compensation, can help reduce its negative impact. Companies may intentionally reduce turnover in critical roles to retain top talent, whereas turnover in less critical roles can sometimes benefit the organization by bringing in fresh perspectives.

4.3.1 Calculation of Inventory Turnover Ratio

Inventory Turnover Ratio is a financial indicator that assesses how effectively a company handles its inventory. It reflects the number of times a business sells and restocks its inventory within a given timeframe, usually one year. The formula used to determine the inventory turnover ratio is: A higher turnover ratio suggests that a company is quickly selling and restocking its inventory, which can imply effective inventory management and robust sales. Conversely, a lower turnover ratio may point to sluggish inventory movement or excessive stock, potentially resulting in increased

holding costs or outdated products. To analyze the ratio, companies often benchmark it against industry averages or past performance. However, an excessively high ratio may also indicate a risk of inventory shortages. The inventory turnover ratio can differ across industries; for instance, grocery stores commonly exhibit higher turnover ratios compared to retailers of luxury items. By calculating this ratio, businesses can fine-tune their inventory levels, boost cash flow, and improve overall operational effectiveness.

Table 7

Inventory Turnover Ratio

(Rs in '000')

Fiscal Year	COGS	Closing Inventory	Times
2013/014	1,301,289	60,266	21.59
2014/015	1,449,685	66,747	21.72
2015/016	1,001,039	59,791	16.74
2016/017	1,221,303	86,047	14.19
2017/018	1,241,013	88,586	14.01
2018/019	1,369,318	97,396	14.06
2019/020	1,031,555	68,752	15.00
2020/021	532,424	74,132	7.18
2021/022	935,054	84,944	11.01
2022/023	1,445,195	122,204	11.83
Mean	1,152,787	80,886	15
	S. D		4.25
	C.V		28.84

Source: Research data, 2024

Table 7 shows, Inventory turnover ratio over 10 years of period the Over the years, the ratio fluctuates between 14.01% to 21.59% between 2013/14 to 2019/20, in 2020/21it is slightly down on 7.18 % indicating significant variations in how quickly the company is able to sell and replace its inventory. The lowest turnover occurred in the years 2013/014, 2014/015, and 2015/016, with a ratio of 0.05. The highest turnover occurred in 2020/021 with a ratio of 0.14, which suggests that, in that year, the company sold inventory more quickly, possibly due to lower inventory levels or higher sales.

4.3.2 Calculation of Debtors/Receivables Turnover Ratio

The Debtors Receivable Turnover Ratio is a financial indicator that assesses how well a company collects its receivables. It the frequency with which a business can convert its receivables into cash within a specified timeframe, usually one year. A higher ratio implies that the company is proficient in recovering debts and handling credit sales, whereas a lower ratio might signal possible challenges related to cash flow, credit strategies, or clients' payment habits. The formula to calculate the Debtors Receivable Turnover Ratio is:

Receivables Turnover Ratio = Net Credit Sales / Average Accounts Receivable In summary, the Debtors Receivable Turnover Ratio serves as an important measure of operational efficiency and financial stability, with higher values generally being seen as more positive.

Table 8

Debtors Turnover Ratio

(Rs in '000')

Fiscal Year	Net Sales	Debtors	Times
2013/014	1,394,789	233,103	5.98
2014/015	1,424,168	236,646	6.02
2015/016	1,228,469	233,907	5.25
2016/017	1,636,127	211,084	7.75
2017/018	1,834,329	283,913	6.46
2018/019	1,836,840	287,118	6.40
2019/020	1,266,556	202,867	6.24
2020/021	453,927	208,955	2.17
2021/022	1,369,124	280,993	4.87
2022/023	2,254,626	325,844	6.92
Mean	1,469,895	250,443	5.81
	S. D		1.43
	C.V		24.63

Source: Research data, 2024

The Table 8 shows Debtors Turnover Ratio of Soaltee Hotel Ltd shows the efficiency with which the company collects its receivables. Over the period from 2013 to 2023, the ratio fluctuated, indicating variability in the company’s ability to manage credit sales and receivables.

4.3.3 Net Working Capital Turnover Ratio

The Net Working Capital (NWC) Turnover Ratio is a financial indicator that assesses how effectively a company utilizes its working capital to generate revenue. Working capital is defined as the difference between a company's current assets and its current liabilities. This ratio evaluates a company's efficiency in managing its short-term assets and liabilities to facilitate sales.

This ratio reveals the amount of revenue generated for every dollar of net working capital. A higher ratio indicates that the company is effectively using its working capital, leading to more sales with less investment in current assets and liabilities. Conversely, a lower ratio may signal inefficiency, suggesting that the company may be maintaining excessive idle working capital or is not optimizing its resources effectively.

An elevated NWC Turnover Ratio could also imply that the company has a streamlined operational approach, utilizing fewer resources to achieve sales, which can provide a competitive edge. However, it may also suggest that the company is working with very limited working capital, which could heighten the risk of liquidity issues.

Table 9

Net Working Capital Turnover Ratio

(Rs in '000')

Fiscal Year	Net Sales	Net Working Capital	Times
2013/014	1,394,789	431,065	3.24
2014/015	1,424,168	480,415	2.96
2015/016	1,228,469	493,916	2.49
2016/017	1,636,127	598,488	2.73
2017/018	1,834,329	220,559	8.32
2018/019	1,836,840	255,927	7.18
2019/020	1,266,556	148,053	8.55
2020/021	453,927	(212,364)	(2.14)
2021/022	1,369,124	(50,681)	(27.01)
2022/023	2,254,626	53,194	42.39
Mean	1,469,895	241,857	4.87
	S. D		15.88
	C.V		325.97

Source: Research data, 2024

The Table 9 shows Net Working Capital Turnover Ratio fluctuated significantly over the years, with a high peak in fiscal year 2022/23 (42.39 times) and a sharp decline in 2021/22 (-27.01 times). This suggests that the company faced challenges in managing its working capital efficiently during some periods, especially in the years 2020/21 and 2021/22, where the ratios were negative, indicating financial distress. On the other hand, in years like 2017/18 and 2019/20, the ratio was higher (8.32 and 8.55 times), showing better management of working capital. The mean Net Working Capital Turnover Ratio over the 10-year period is 4.87 times, indicating an average turnover of working capital. However, the standard deviation (S.D.) of 15.88 and a coefficient of variation (C.V.) of 325.97% highlight significant volatility in the turnover ratio, reflecting how the company's working capital management performance has been inconsistent across the years.

4.3.4 Calculation of Debt ratio

The debt ratio is a financial measure that reflects the extent to which a company's total assets are financed by debt. It determined by dividing total liabilities by total assets. A higher debt ratio indicates increased financial leverage and potential risk, meaning the company depends more on borrowed funds for its operations. In contrast, a lower debt ratio implies that the company relies less on debt and more on equity for funding.

Table 10

Calculation of debt ratio

(Rs in '000')

Fiscal Year	Total Assets	Total Liabilities	Times
2013/014	1,589,703	613,783	38.61
2014/015	1,839,605	674,795	36.68
2015/016	1,881,598	676,341	35.95
2016/017	2,007,747	634,454	31.60
2017/018	2,227,404	789,414	35.44
2018/019	2,473,456	845,406	34.18
2019/020	2,513,530	856,348	34.07
2020/021	2,195,848	763,604	34.77
2021/022	2,449,733	720,409	29.41
2022/023	2,827,770	721,357	25.51
Mean	2,200,639	729,591	33.15
	S. D		3.64
	C.V		10.98

Source: Research data, 2024

From the above table 10, the percentage of liabilities to total assets has decreased significantly over the years. In 2013/014, the ratio was 38.61%, but by 2022/023, it had reduced to 25.51%. This indicates that the company or entity has been reducing its reliance on liabilities relative to assets, improving its financial stability. The average ratio over the period is 33.15%, with a standard deviation of 3.64%, suggesting some fluctuation, but the overall trend is downward.

4.4 Profitability Position

Profitability ratios are financial indicators that evaluate a company's capacity to generate income in relation to its revenue, assets, equity, or other financial measures. These ratios assist investors and analysts in understanding how well a company

utilizes its resources to create profits. They are computed to assess the operational efficiency of the business.

Profitability ratios are designed to gauge the effectiveness of business operations. (Pandey, 2015) Lenders and investors use these ratios to determine their investment decisions. To achieve the study's goal, the ratios discussed in this chapter will be analyzed.

4.4.1 Net Profit Margin

Net Profit Margin is a financial indicator that quantifies the proportion of profit a company earns from its overall revenue after all expenses, taxes, and interest have been deducted. This metric is derived by dividing net profit by total revenue and then multiplying by 100 to express it as a percentage. This ratio offers valuable insights into how well a company transforms revenue into real profit. A higher net profit margin reflects improved profitability and operational effectiveness, whereas a lower margin points to elevated costs or ineffective cost control. Investors and analysts frequently utilize net profit margin to compare companies within the same sector and assess their financial stability.

Table 11

Net Profit Margin (NPM)

(Rs in '000')

Fiscal Year	Net Profit after taxes	Net Sales	Percent-%
2013/014	243,978	1,394,789	17.49
2014/015	220,091	1,424,168	15.45
2015/016	99,884	1,228,469	8.13
2016/017	203,546	1,636,127	12.44
2017/018	279,238	1,834,329	15.22
2018/019	299,011	1,836,840	16.28
2019/020	112,042	1,266,556	8.85
2020/021	(224,933)	453,927	(49.55)
2021/022	297,243	1,369,124	21.71
2022/023	554,980	2,254,626	24.62
Mean	208,508	1,469,895	9.06
	S. D		20.13
	C.V		222.08

Source: Research data, 2024

From the table no 11 data, Soaltee Hotel ltd has earned highest profit margin occurred in the fiscal year 2022/023, where the company achieved a profit margin of 24.62%. The lowest profit margin was observed in the fiscal year 2020/021 at -49.55% which is may be due to Covid pandemic. The coefficient of variation (C.V.) is very high at 221.99%, which indicates significant variability in profit margins over the years. The company has experienced fluctuating profitability, with some years showing strong margins and others with sharp declines or negative results.

4.4.2 Calculation of Return on Shareholders' Equity (ROE)

Return on Equity (ROE) is a financial metric used to measure a company's profitability relative to the equity invested by its shareholders. It indicates how effectively a company is using the capital from its shareholders to generate profits. A higher ROE typically suggests that the company is more efficient at generating profits from its equity

Table 12

Percentage of Return on Shareholders' Equity

(Rs in '000')

Fiscal Year	Net Profit after Tax	Shareholder's Equity	Percent-%
2013/014	243,978	975,921	25.00
2014/015	220,091	1,164,810	18.89
2015/016	99,884	1,205,257	8.29
2016/017	203,546	1,373,294	14.82
2017/018	279,238	1,437,990	19.42
2018/019	299,011	1,437,990	20.79
2019/020	112,042	1,657,181	6.76
2020/021	(224,933)	1,432,244	(15.70)
2021/022	297,243	1,729,324	17.19
2022/023	554,980	2,106,413	26.35
Mean	208,508	1,452,042	14.18
	S. D		11.62
	C.V		81.96

Source: Research data, 2024

The table no. 12 shows the percentage of return on shareholders' equity of Soaltee. Hotel over the studied year where 25%, 18.89%, 14.29%, 19.42%, 20.79%, 6.76%, 15.70% and 26.35% return has been provided to its shareholders equity over the year 2013/14 to 2022/23 respectively. On 2020/21 there is negative return it is may be the impact of Covid-19 pandemic.

4.4.3 Calculation of Return on Assets (ROA)

Return on Assets (ROA) is a financial metric used to evaluate a company's ability to generate profit from its assets. It measures the efficiency with which a company uses its assets to produce earnings.

Table 13

Return on Assets (ROA)

(Rs in '000')

Fiscal Year	Net Profit after Tax	Total Assets	Percent-%
2013/014	243,978	1,589,703	15.35
2014/015	220,091	1,834,096	12.00
2015/016	99,884	1,832,399	5.45
2016/017	203,546	1,930,678	10.54
2017/018	279,238	2,227,404	12.54
2018/019	299,011	2,473,406	12.09
2019/020	112,042	2,513,530	4.46
2020/021	(224,933)	2,195,848	(10.24)
2021/022	297,243	2,449,733	12.13
2022/023	554,980	2,827,770	19.63
Mean	208,508	2,187,457	9.39
	S. D		7.74
	C.V		82.35

Source: Research data, 2024

The table 13 shows the return on total assets percent of Soaltee hotel ltd, over the past 10 year starting from 2013/14 to 2022/23. Where it is calculated highest level in 2013/14 and lowest level at 2020/2, -10.24 which is negative, may be due to the covid pandemic.

4.5 Analysis of Working Capital Cash Flow Cycle

The working capital cash flow cycle, often referred to as the cash conversion cycle (CCC), assesses how effectively a business handles its working capital to facilitate daily operations. It signifies the duration required for a company to turn its investments in inventory and other assets into cash from sales. Research by Nastiti et al. (2019) identifies a positive correlation between the cash conversion cycle and book return on assets among manufacturing companies in Indonesia from 2010 to 2017. Similarly, Abuzayed (2012) discovers that a longer cash conversion cycle positively influences profitability on the Amman Stock Exchange between 2000 and 2008. This cycle is essential for gaining insights into liquidity, operational effectiveness, and overall financial wellbeing.Key Components of the Working Capital Cash Flow Cycle

1. **Inventory Turnover Ratio (ITR):**

The Inventory Turnover ratio indicates the average number of days a company requires to sell its inventory. A lower DIO signifies faster inventory turnover, which enhances liquidity. It can be calculated as follows:

Table 14

Inventory Turnover Ratio (ITR)

(Rs in '000')

Fiscal Year	COGS	Closing Inventory	Times
2013/014	1,301,289	60,266	0.05
2014/015	1,449,685	66,747	0.05
2015/016	1,001,039	59,791	0.06
2016/017	1,221,303	86,047	0.07
2017/018	1,241,013	88,586	0.07
2018/019	1,369,318	97,396	0.07
2019/020	1,031,555	68,752	0.07
2020/021	532,424	74,132	0.14
2021/022	935,054	84,944	0.09
2022/023	1,445,195	122,204	0.08
Mean	11,527,873	808,864	0.75
	S. D		0.03
	C.V		3.41

Source: Research data, 2024

The table 14 shows the calculation of inventory turnover ratio of Soaltee hotel ltd over 10 past years. ITR has maximum value at 2020/21 and minimum value at 2014/15 is

calculated from the above table. It also shows the average means over 10 year is 0.75, Standard deviation is 0.03 and coefficient of variation is3.41 respectly.

2. Average Collection Period (ACP):

Average collection period is a day to takes for company to collect payment after a sale. (Padachi, 2006) finds that receivables collection period and inventory conversion period indicate negative relationship with return on assets in the Mauritian small manufacturing firms during 1998-2003.

Table

15 Average Collection Period (ACP)

(Rs in '000')

Fiscal Year	Net Sales	Debtors	Times
2013/014	1,394,789	233,103	0.17
2014/015	1,424,168	236,646	0.17
2015/016	1,228,469	233,907	0.19
2016/017	1,636,127	211,084	0.13
2017/018	1,834,329	283,913	0.15
2018/019	1,836,840	287,118	0.16
2019/020	1,266,556	202,867	0.16
2020/021	453,927	208,955	0.46
2021/022	1,369,124	280,993	0.21
2022/023	2,254,626	325,844	0.14
Mean	1,469,895	250,443	0.19
	S. D		0.09
	C.V		47.20

Source: Research data, 2024

The table 15 shows the average collection period of Soaltee hotel ltd over the past 10 years of period. Where it is calculated maximum time in 2020/21 and minimum time at 2016/17. Average mean is calculated as 0.19, S. D is 0.09 and C. V is at 47.20%.

Average Payment period (APP)

APP Measures the average number of days a company takes to pay its suppliers after receiving goods or services.

Table 16

Average payment period

(Rs in '000')

Fiscal Year	Average Payable	COGS	Times
2013/014	115,189	1,301,289	0.09
2014/015	194,054	1,449,685	0.13
2015/016	165,421	1,001,039	0.17
2016/017	148,933	1,221,303	0.12
2017/018	20,987	1,241,013	0.02
2018/019	156,483	1,369,318	0.11
2019/020	158,710	1,031,555	0.15
2020/021	28,809	532,424	0.05
2021/022	75,055	935,054	0.08
2022/023	77,646	1,445,195	0.05
Mean	114,129	1,152,787	0.10
	S. D		0.05
	C.V		46.22

Source: Research data, 2024

The table 16 shows the average payment period of Soaltee hotel ltd during the studied period. Where maximum time taken in 2019/20 and minimum time is taken in 2017/18.

There has been mean is 0.10, S. D is 0.05 and C. V is 46.22 calculated.

3. **Cash Conversion Cycle (CCC)**

Cash conversion cycle assesses the duration a business requires to transform its investments in inventory and other assets into cash from sales. It reflects how effectively a company manages its working capital

CCC = Days Inventory Outstanding (DIO) + Days Sales Outstanding (DSO) - Days Payables Outstanding (DP)

Table 17

Cash Conversion Cycle

(Rs in '000')

Fiscal Year	ITR	ACP	APP	CCC
2013/014	16.90	61.00	32.31	45.59
2014/015	16.81	60.65	48.86	28.60
2015/016	21.80	69.50	60.32	30.98
2016/017	25.72	47.09	44.51	28.30
2017/018	26.05	56.49	6.17	76.38
2018/019	25.96	57.05	41.71	41.30
2019/020	24.33	58.46	56.16	26.63
2020/021	50.82	168.02	19.75	199.09
2021/022	33.16	74.91	29.30	78.77
2022/023	30.86	52.75	19.61	64.00
Mean	27.24	70.59	35.87	61.96
	S. D			49.44
	C.V			79.79

Source: Research data, 2024

The table 17 has shown the cash conversion cycle (CCC) of Soaltee hotel ltd, during the studied pas 10 year. where CCC takes 199.09 days in 2020/21, and 26.63 days takes on 2019/20 for CCC conversion. Mean S.D and C.V were calculated 61.96, 49.44 and 79.79 respectively.

4.6 Analysis of Correlation

4.6.1 Association between key variables

Spearman's Correlation analysis is used to determine the Association between key variables. For this analysis Stata version 18.5 was used in carrying out the analysis and extracted the following results.

Table 18

Descriptive statistics and correlation with respect to ROA.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ROA	1.000						
(2) ITR	-0.643*	1.000					
	(0.045)						
(3) ACP	-0.850**	0.831**	1.000				
	(0.002)	(0.003)					
(4) APP	-0.099	-0.490	-0.279	1.000			
	(0.787)	(0.151)	(0.435)				
(5) CCC	-0.661	0.912	0.924***	-0.615*	1.000		
	(0.037)	(0.000)	(0.000)	(0.058)			
(6) CR	0.348	-0.799***	-0.538	0.485	-0.675**	1.000	
	(0.324)	(0.006)	(0.109)	(0.156)	(0.032)		
(7) DR	-0.319	-0.368	0.137	0.267	-0.066	0.501	1.000
	(0.368)	(0.295)	(0.705)	(0.457)	(0.856)	(0.140)	

pval in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Research data, 2024

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

Table 18 presents the pairwise correlations between ROA and key financial variables. ROA exhibits a negative correlation with ITR (-0.643), significant at the 5% level, indicating that a longer inventory conversion period reduces profitability. Similarly, ACP shows a strong negative correlation with ROA (-0.850), highly significant at the 1% level, suggesting that extended receivables collection periods adversely affect profitability. The correlation between ROA and APP (-0.099) is insignificant, indicating no meaningful relationship. ROA is negatively correlated with CCC (-0.661), significant at the 5% level, reflecting the detrimental effect of longer cash conversion cycles on profitability. The correlation with Current Ratio (0.348) is positive but insignificant, suggesting limited influence of liquidity on ROA. Lastly, the correlation with DR (-0.319) is negative and insignificant, implying that leverage does not significantly impact profitability in this dataset.

Table 19

Descriptive statistics and correlation with respect to ROE.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ROE	1.000						
(2) ITR	-0.709**	1.000					
	(0.022)						
(3) ACP	-0.865***	0.831***	1.000				
	(0.001)	(0.003)					
(4) APP	-0.062	-0.490	-0.279	1.000			
	(0.865)	(0.151)	(0.435)				
(5) CCC	-0.695**	0.912	0.924***	-0.615*	1.000		
	(0.026)	(0.000)	(0.000)	(0.058)			
(6) CR	0.416	-0.799	-0.538	0.485	-0.675*	1.000	
	(0.232)	(0.006)	(0.109)	(0.156)	(0.032)		
(7) DR	-0.195	-0.368	0.137	0.267	-0.066	0.501	1.000
	(0.590)	(0.295)	(0.705)	(0.457)	(0.856)	(0.140)	

pval in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Research data, 2024

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

Table 19 presents the pairwise correlations between ROE and key financial variables. ROE shows a significant negative correlation with ITR (-0.709) at the 5% level, indicating that longer inventory conversion periods are associated with lower profitability. ACP also has a strong negative correlation with ROE (-0.865), highly significant at the 1% level, suggesting that extended receivables collection periods adversely impact profitability. The correlation with APP (-0.062) is insignificant, implying no meaningful relationship. ROE exhibits a negative correlation with CCC (-0.695), significant at the 5% level, indicating that longer cash conversion cycles negatively affect profitability. The correlation with Current Ratio (0.416) is positive but insignificant, suggesting that liquidity has no substantial effect on ROE. Lastly, DR shows a negative correlation with ROE (-0.195), though it is statistically insignificant, indicating no strong relationship between leverage and profitability in this dataset.

4.6.2 Model Summary of Regression Analysis

The analysis of below model Summary gives various results of correlation coefficients after considering a set of data.

Return on Assets with ACP, CCC, DR, ITR, APP, CR

Table 20

Regression Analysis

Linear regression

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
LN_ITR	-24.01	4.656	-5.16	.014	-38.828	-9.191	**
LN_ACP	-29.947	7.032	-4.26	.024	-52.325	-7.57	**
LN_APP	5.555	2.388	2.33	.103	-2.045	13.155	
LN_CCC	19.278	4.381	4.40	.022	5.335	33.221	**
LN_CR	-1.831	2.864	-0.64	.568	-10.944	7.282	
LN_DR	-20.418	10.712	-1.91	.153	-54.51	13.673	
Constant	191.085	37.263	5.13	.014	72.498	309.671	**

Mean dependent var	9.498	SD dependent var	8.204
R-squared	0.786	Number of obs	10
Adjusted R- squared	0.750	Prob > F	0.007
Akaike crit. (AIC)	40.667	Bayesian crit. (BIC)	42.785

**** p<.01, ** p<.05, * p<.1*

The regression results provide significant insights into the determinants of ROA, aligning with prior research in financial performance analysis. The Inventory Conversion Period (LN_ITR) is negatively and significantly associated with ROA (coefficient = -24.01, p = 0.014), suggesting that longer inventory holding periods reduce profitability. This finding is consistent with studies such as Deloof (2003), which demonstrated that efficient inventory management contributes positively to firm profitability. Similarly, the Receivables Collection Period (LN_ACP) has a significant negative effect on ROA (coefficient = -29.947, p = 0.024). This aligns with García-Teruel and Martínez-Solano (2007), who found that delayed receivables collection negatively impacts firm performance by increasing financial constraints.

Interestingly, the Cash Conversion Cycle (LN_CCC) shows a positive and significant effect on ROA (coefficient = 19.278, p = 0.022). This result supports the findings of Lazaridis and Tryfonidis (2006), who highlighted that optimizing the cash conversion cycle enhances firm profitability by improving liquidity management. The Payables

Deferral Period (LN_APP) demonstrates a positive but statistically insignificant relationship with ROA (coefficient = 5.555, p = 0.103), indicating that deferred payments may not directly affect profitability, a conclusion partially supported by Nazir and Afza (2009).

Other variables, such as the Current Ratio (LN_CR) and Debt-to-Equity Ratio (LN_DER), exhibit statistically insignificant effects on ROA, with coefficients of -1.831 (p = 0.568) and -20.418 (p = 0.153), respectively. These findings suggest that liquidity and leverage are not significant determinants of profitability in this context, contrasting with some studies that emphasize their importance (e.g., Akoto, Awunyo-Vitor, & Angmor, 2013). The overall model explains 78.6% of the variation in ROA (R-squared = 0.786), with model significant p values0.007, indicating strong explanatory power and statistical robustness.

In summary, this study corroborates prior research that highlights the importance of efficient working capital management in improving profitability. Specifically, reducing inventory periods and receivables collection time while optimizing the cash conversion cycle significantly enhances ROA, a conclusion supported by Deloof (2003) and Lazaridis and Tryfonidis (2006). However, the results also suggest that some factors, such as liquidity and leverage, may vary in importance depending on the specific context or industry under study.

Regression line

$\hat{Y}1 = \alpha + \beta1\ X1 + \beta2\ X2 + \beta3\ X3 + + \beta4\ X4 + \beta5\ X5 + \beta6\ X6 + ei$

Return on Assets = 191.085 – 24.01 LN_ICP -29.95 LN_RCP+ 5.55 LN_PDP+ 19.278 LN_CCC – 20.41 LN_DR – 1.831 LN_CR + ei

In regression analysis, beta coefficients illustrate the importance of independent variables in accounting for the variance in the dependent variable. Table shows a positive relationship between ROA with the independent variables (ln_APP, and CCC) and a negative relationship between ROA with the remaining independent variables (LN_ITR, LN_ACP, LN_DR and LN_CR). This means that enhancements APP, and CCC result in increased ROA, while enhancements in ITR, ACP, DR and CR result in a decline in ROA, assuming that all other variables are held constant.

Return on Equity with ITP, ACP, APP, CCC, DR, & CR

Table 21

Regression Analysis

Linear regression

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
LN_ITR	-34.457	7.499	-4.60	.019	-58.321	-10.594	**
LN_ACP	-53.276	11.324	-4.70	.018	-89.313	-17.238	**
LN_APP	10.455	3.846	2.72	.073	-1.785	22.694	*
LN_CCC	32.576	7.056	4.62	.019	10.122	55.03	**
LN_CR	-4.027	4.612	-0.87	.447	-18.703	10.649	
LN_DR	-7.474	17.252	-0.43	.694	-62.376	47.428	
Constant	214.234	60.01	3.57	.038	23.257	405.212	**

Mean dependent var	14.181	SD dependent var	12.251
R-squared	0.748	Number of obs	10
Adusted R-squared	0.726	Prob > F	0.009
Akaike crit. (AIC)	50.197	Bayesian crit. (BIC)	52.315

**** p<.01, ** p<.05, * p<.1*

The regression analysis highlights key determinants of Return on Equity (ROE) and reveals statistically significant relationships consistent with prior studies on financial performance. The Inventory Conversion Period (LN_ITR) is negatively associated with ROE (coefficient = -34.457, p = 0.019), indicating that longer inventory holding periods reduce equity returns. This finding is consistent with Deloof (2003), who emphasized the adverse effects of inefficient inventory management on firm performance. Similarly, the Receivables Collection Period (LN_ACP) exhibits a significant negative relationship with ROE (coefficient = -53.276, p = 0.018), reinforcing the findings of García-Teruel and Martínez-Solano (2007), who showed that delayed receivables collection negatively impacts equity returns.

The Cash Conversion Cycle (LN_CCC) shows a positive and significant relationship with ROE (coefficient = 32.576, p = 0.019), suggesting that optimizing the cash conversion process can enhance equity profitability. This aligns with Lazaridis and Tryfonidis (2006), who found that efficient cash cycle management improves financial performance. The Payables Deferral Period (LN_APP) demonstrates a positive but marginally significant relationship with ROE (coefficient = 10.455, p =

0.073), suggesting that extending payment periods may provide liquidity advantages for firms, partially supported by Nazir and Afza (2009).

Conversely, the Current Ratio (LN_CR) and Debt-to-Equity Ratio (LN_DR) show insignificant effects on ROE, with coefficients of -4.027 (p = 0.447) and -7.474 (p = 0.694), respectively. This indicates that liquidity and leverage may not significantly drive equity returns in this sample, diverging from findings in studies like Akoto, Awunyo-Vitor, and Angmor (2013), which emphasize their relevance in broader contexts. The model demonstrates a strong explanatory power, with an R-squared of 0.748 and and p values is 0.009, indicating that the independent variables collectively explain a substantial proportion of the variation in ROE.

Overall, the analysis underscores the importance of efficient working capital management in maximizing equity profitability. Longer inventory and receivables periods adversely affect ROE, while optimizing the cash conversion cycle positively contributes to returns. These findings reinforce the conclusions of Deloof (2003) and García-Teruel and Martínez-Solano (2007) while highlighting the nuanced role of liquidity and leverage in financial performance.

Regression line

$\hat{Y}2 = \alpha + \beta1\ X1 + \beta2\ X2 + \beta3\ X3 + + \beta4\ X4 + \beta5\ X5 + \beta6\ X6 + ei$

Return on Equity = 214.234 -34.46 LN_ITR -53.28 LN_ACP + 10.46 APP +32.57 CCC –7.47 DR – 4.02 CR + ei

In regression analysis, beta coefficients illustrate the importance of independent variables in accounting for the variance in the dependent variable. Table 4.28 shows a positive relationship between ROE with the independent variables (APP & CCC) and a negative relationship between ROE with the remaining independent variables (ITR, ACP, DR and CR). This means that enhancements in APP & CCC result in increased ROE, while enhancements in result in ICP, RCP, DR and CR a decline in ROE, assuming that all other variables are held constant.

4.7 Major Findings:

1. Structure of Working capital

The observation shows that the major portion of current assets was in the form of Sundry debtors in Soaltee hotel ltd, over the past 10 year effective from 2013/14 to 2022/23. Current assets to total assets ratio are increasing level up to year 2016/17, then after it has decrease on 2017/18 and constant level at 2018/19. After that it is slightly decreasing up to 2022/23.

Net working capital on total assets is calculated maximum percent at 2013/14 and negative level on 2020/21, 2021/22 at -9.67% and -2.25%.

2. Liquidity position

Overall, the liquidity position of the firm has been found satisfactory. The current ratio varies from 2.75 times to 1.58 times from 2013/14 to 2018/19 but after it up to 2021/21 it is found below 1.0 times. Average mean has been found 1.73, while standard deviation (S. D) is 0.73 and 42.28%. C.V which highlight significant variability in the current ratio over the years. A high C.V. Average quick ratio found 0.57 times, Standard deviation (S. D) 0.33 times and C, V 57.37% found over the studied year. Liquidity position shows the association between current assets and current liabilities of the firm, over the studied period.

3. Turnover position

Inventory turnover ratio has been fluctuating between 14.01% to 21.59% on fiscal year 2013/14 to 2019/20, in 2020/21it is slightly down on 7.18 % indicating significant variations in how quickly the company is able to sell and replace its inventory. Average mean has been calculated as 15% Sd4.25 and C. V is 28.84%. Average debtors' turnover ratio over is calculated over the studied year is 5.81, while S.D is 1.43 times and C.V is 24.63% found.

Average networking capital turnover ratio is calculated as 4.87 times, S.D is 15.88 times and C.V is 325.97% which is very high level.

4. Debt Ratio Position

Debt ratio is calculated over 30%, during the studied time, where there is decreased and found 25.51% on 2022/23. The average debt ratio is found 33.15%, S.D is 3.64 and CV is 10.98 times. Debt ratio shows the association between the Debt payable and total assets of the firm over the studied period.

5. Profitability Position

Average net profit margin has been calculated only 9.06% Where S.D is 20.13 times and C, V is 222.08% during the studied period, it is raised may be due to the heavy loss occur in 2020/21. It is happened because of effect of Covid 19 pandemic.

Average return on equity is 14.18%, whereas SD is 11.62 and CV is 81.96% found.

The average ROA is calculated as calculated as 9.39% SD is 7.74 and CV is 82.35% Calculated from the studied period. Profitability position shows the association between the Net profit and number of Share or Assets.

6. Working capital Cashflow position

Working capital cash flow shows the cash conversion cycle of the firm where we have calculated average CCC as 61.96 days, while SD is 49.44 and CV is 79.79 days. It is a association between the ITR, ACP, PPP.

7. Association between ROA and Independent Variables

Analysis reflects a positive relationship between ROA with the independent variables (ACP, APP, ITR, and CCC) and a negative relationship between ROA with the remaining independent variables (DR and CR). This means that enhancements in ACP, APP, ITR, and CCC result in increased ROA, while enhancements in DR and CR result in a decline in ROA.

8. Association between ROE and Independent Variables

Data reveals a positive relationship between ROE with the independent variables (ACP, APP, and ITR,) and a negative relationship between ROE with the remaining independent variables (CCC, DR, and CR). This means that enhancements in ACP, APP, and ITR result in increased ROE, while enhancements in CCC, DR and CR result in a decline in ROE.

CHAPTER V
SUMMARY AND CONCLUSION

This chapter serves as the final section encapsulates the research summary, conclusions, and implications of the study. It is divided into three parts. first section offers an overview and summary of the research findings. The second section draws conclusions based on the findings, while the third section presents several recommendations. This chapter summarizes the study and its findings, draws conclusions, and suggests recommendations aligned with the research objectives.

5.1 Summary

The purpose of this study was to investigate working capital management practices within Nepal's hotel industry. The research is divided into five main chapters to thoroughly explore various aspects of working capital management and its overall impact on hotel performance in Nepal. The study addresses metrics such as return on profitability, return on assets, return on equity, and the general performance of hotel businesses. Although numerous studies have examined working capital management in banks, insurance companies, and manufacturing firms, there are relatively few focusing specifically on the hotel sector.

To gather necessary data regarding working capital and related variables, secondary sources were employed. Financial statements, including balance sheets and income statements, for the fiscal years 2013/14 to 2022/23 were sourced from the annual report of Soaltee Hotel Ltd. The research utilized a descriptive design to meet its objectives. Key dependent variables included return on assets (ROA) and return on equity (ROE), while the independent variables consisted of ACP, ITR, APP, CCC, DR, and CR. Data was analyzed using a decade’s worth of financial reports from 2013/14 to 2022/23. Quantitative data were analyzed descriptively and presented in tables, with Stata version 18.5 employed for statistical analysis. Mean values and standard deviations assessed variable positions, while correlation analysis examined the relationships between dependent and independent variables. Regression analysis was utilized to assess the impact of corporate dependent and independent variables on the perceived performance of Nepal's hotel sector.

The study analyzed the size and structure of working capital by comparing current assets and their components with various related variables. Activity and profitability ratios were computed to evaluate working capital efficiency. Liquidity positions were assessed through calculations of several liquidity ratios, such as the current and quick ratios. Trend analysis examined the growth patterns of working capital and its related components. During the study, a significant proportion of current assets at Soaltee Hotel Ltd was identified as accounts receivable. The liquidity ratio remained above 1.33 until the 2019/20 fiscal year but saw a slight decline to 0.62 in 2020/21 and 2021/22, before rebounding to 1.11 in 2022/23. The inventory turnover ratio showed a decline until 2020/21, followed by an increase of approximately 11% thereafter.

5.2 Conclusion

This research explored the connection between working capital management and profitability in the hotel industry, focusing on crucial financial metrics, including the inventory conversion period, receivables collection period, payables deferral period, and the cash conversion cycle. The regression analysis indicates that effective working capital management significantly impacts financial performance, particularly in terms of Return on Assets (ROA) and Return on Equity (ROE).

The findings suggest that a reduced inventory conversion period and more efficient collection of receivables positively influence profitability. These outcomes align with earlier studies that highlight the significance of prompt operations and effective liquidity management. Moreover, an optimized cash conversion cycle enhances financial performance by maintaining sufficient cash flow while minimizing operational delays. Conversely, the payables deferral period indicated mixed results. While delaying payments may temporarily boost liquidity, excessive delays could damage supplier relationships, ultimately affecting profitability.

Additionally, this study indicates that liquidity, as represented by the current ratio, and leverage, reflected in the debt-to-equity ratio, may not significantly influence profitability in this context, highlighting the distinct dynamics of the hotel industry. Despite these limitations, the overall model shows strong explanatory capacity, underscoring the essential role of working capital efficiency in financial success.

Although this research provides valuable insights, its limitations include a confined sample size and specific industry focus. Future investigations could expand by using a larger dataset, exploring other sectors, and examining macroeconomic factors such as market conditions and firm size. Nevertheless, this study establishes a solid foundation for understanding how working capital management practices can enhance financial performance in the hotel industry, offering actionable insights for managers, policymakers, and investors alike.

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ABSTRACT THE HENERAL OBJECTIVE OF THIS STUDY WAS TO EXPLORE THE RELATIONSHIP BETWEEN DEPENDENT VARIABLE, ACP, APP, ITR, CR, DR AND CCC WITH PROFITABILITY OF THE HOTEL. THE ANALYSISIZES DESCRIPTIVE SECONDARY DATA DRAWN FROM THE ANNUAL REPORTS OF A FIVE-STAR LIST HOTEL IN NEPAL, COVERING A PERIOD 2013/14 TO 2022/23, A TOTAL OF TEN YEARS. FOR DATA ANALYSIS WAS DONE USING STATA VERSION 18.5. FINANCIAL TOOLS AS WELL AS PEARSON'S CORRELATION, AND LOGISTIC REGRESSION WERE UTILIZED. FINDINGS REVEAL THAT INVENTORY TURNOVER DAYS (ITR), AVERAGE PAYABLE PERIOD (APP), AND CASH CONVERSION CYCLE (CCC) HAVE AN INVERSE RELATIONSHIP WITH HOTEL PROFITABILITY, WHILE THE AVERAGE COLLECTION PERIOD (ACP), DEBT RATIO (DR), AND CURRENT RATIO (CR) SHOW A POSITIVELY LINKED. KEYWORDS: DEPENDENT VARIABLE: ROE, ROA INDEPENDENT VARIABLES: ITR, ACP, APP, CCC, DR, CR CHAPTER-I INTRODUCTION 1.1 Background of the Study The tourism and hospitality sector significantly boosts a nation's economy. It is also crucial for the geographical, cultural, and political development of a region and is among the world's most rapidly expanding industries. Research from the World Travel & Tourism Council (WTTC) indicates that the sector is swiftly recuperating from the severe effects of the COVID-19 pandemic, with an anticipated contribution of $8.6 trillion to global GDP in 2022. In today's world, characterized by shifting consumer expectations and behaviors post-pandemic, alongside the influence of Industry 4.0 technologies, the tourism and hospitality sector is ready to adapt to the changes necessary for the Hospitality 4.0 revolution (Rawal, Soni & Dani, 2022).The hospitality sector is a fundamental component of the global economy, significantly affecting both advanced and emerging economies by creating jobs, attracting foreign investment, and supporting infrastructure development. Hotels are central to this industry, offering services that highlight local customs and traditions to travelers and tourists. In Nepal, celebrated for its natural