A Comparative Study of Working Capital Management of Nepal Investment Bank Limited and Nepal SBI Bank Limited

By

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In partial fulfillment of the requirement for the degree of

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RECOMMENDATION

This is to certify that the thesis

By:

Anita Ghosh

Entitled

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Nepal Investment Bank Limited and
Nepal SBI Bank Limited

has been prepared as approved by this campus in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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We have concluded the viva-voce examination of the thesis presented

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and found the thesis to be the original working of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Master's Degree of Business Studies (MBS)

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Date:……./……./…2011……

DECLARATION

I hereby declare that the work reported in this thesis entitled **"A Comparative Study of Working Capital Management of Nepal Investment Bank Limited and Nepal SBI Bank Limited**" Submitted to Padma Kanya Multiple Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for Master's Degree of Business Studies (MBS) under the supervision of Lecturer Ms. Neera Shrestha and Lecturer Mr. Hridhaya Bir Singh, Padma Kanya Multiple Campus, Bagbazar, Kathmandu, Nepal.

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……

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Researcher

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LIST OF ABBREVIATION

A/C	Account
AD	After Death
BC	Before Christ
BS	Bikram Sambat
BTIL	Balaju Textile Industry Limited
CA	Current Assets
CBB	Cash and Bank Balance
CBs	Commercial Banks
CL	Current Liabilities
CS	Cost of Service
DDC	Dairy Development Corporation Nepal
e.g.	For Example
FD	Fixed Deposit
FY	Fiscal Year
GS	Total Deposit
HMG	His Majesty Government
IE	Interest Earned
JVBS	Joint Venture Banks
L & A	Loan and Advance
LTD	Long Term Debt
Ltd.	Limited
M.B.S	Master in Business Studies
Misc	Miscellaneous
NABIL	Nabil Bank Limited
NBL	Nepal Bank limited
NFA	Net Fixed Assets
NGBL	Nepal Grindlays Bank Limited

NIBL	Nepal Investment Bank Limited
NSBI	Nepal State Bank of India
No.	Number
NP	Net Profit
NRB	Nepal Rastriya Bank
NW	Net Worth
P.	Page number
PMs	Public Enterprises
QA	Quick Assets
RBB	Rastriya Banjiya Bank
ROA	Return on Assets
ROE	Return on Equity
Rs	Rupees
SCBNL	Standard Chartered Bank Nepal Limited
SD	Saving Deposit
T.U.	Tribhuvan University
T.A	Total assets

Chapter 1

Introduction

1.1 Background of the Study

Nepal is the landlocked and least developed country, which is locked between the two most populace countries in the world, namely China and India which are financially developed but the scarcity of capital has been the main cause of underdevelopment of Nepal lunched fifth-year plan for economic development more than five decades ago. Now a day, Nepal has adopted the path of economic development through liberalization.

However, any strategy for development requires a fixed supply of medium to long-term capital funds for the productive investment. For the mobilization of investing resources, financial market is an important intermediary through which effective bridging of the demand units and surplus units can be ensured. Financial institutions are engaged in mobilization of saving from surplus units and deploy funds into the demand units for the productive investment. In this respect, financial market plays an important role in mobilizing a constant flow of saving and channeling these financial resources for expanding productive capital in the countries. To increase the place of industrialization within a country, huge amount of capital is needed and at the threshold point actual need of bank or financial institutions occur. In simple language, bank can be defined as a place where the transactions of money take place. In other words, bank is such an institution that collects, scatters deposits and advances loans. A bank collects deposit from different individuals and institutions. These collected deposits are mobilized by giving loans to different industries, commercial enterprises, individuals etc.

A bank doesn’t only perform the activating of receiving deposits and advancing loans but at the same time it performs payment or remittance and other credit activities as well. That’s why bank plays an important role in the economic development of nation. Bank fills the gap between the searcher and provider of the fund. It also provides sufficient bank support for the growth and expansion of trade and industry of the nation, which eventually helps to develop the economic condition of the national.

Early banks were different from modern commercial bank in many respects. The bank which operated in the past combined central bank functions, such as issue of currency with commercial banking like accepting deposits and financing business. In course of time this practice was abandoned and specialized instruction for the central banking functions were created. Now a central bank can be easily distinguished from a commercial bank due to there objectives and unique functions.

Commercial banks are the suppliers of finance for trade and industry and play a vital role in the economic and financial life of the nation. By investing the saving in the productive areas, they help the formation of capital. The qualitative credit policy ensures creation portion of the credit bank in invested in the productive and priority areas so that there may not be shortage of resources in such areas. In addition flexible monetary and credit policy in improved the prevailing slow down in the economic activities to alleviate slow credit expansion to the private sector from the banking sector Rural people of underdeveloped countries like Nepal need various facilities. In most of the countries, the banks are generally concentrated in the urban and semi-urban sector and the rural sector is neglected due to risk and low return. But the main sources of national income of developing countries come from the rural sector. In fact, the rural development is the key to the economic development without other sector of the economic cannot be flourished. Developing countries like Nepal the capacity to save in quite low. This low saving capacity is one of the major causes of bad economic condition of the developing countries. That's why the basic problem of the development is raising the level of saving. Now a days in Nepal, different banks such as development bank, Agriculture bank, joint venture bank, industrial bank, commercial bank, co-operative bank, etc. have been running. Main purpose of bank is to collect the scattered saving and put them in to productive sector so that saving will be safety and properly utilize for the around development of the country.

1.1.1 Evolution of Bank and Banking System

It is very difficult to say exactly about origin of the bank. But through different researches conducted in the sectors revealed that even in ancient time banking transaction took place, which were slightly in crude from the banking compare to today banking process. When the Roman Empire collapsed, European started

commercial and trading activities in sixteenth and seventeenth century similar mainly three communities or groups revived commercial banking transaction.
They are as follows-

[a] The Merchant:- Even in the ancient time, merchant used to go different places for trading . It was impossible for them to carry huge amount of coins with them wherever they go. As merchants were regarded as respected persons in the society, they started to issue letters which was treated as gold money while executing trading instead of setting the trade with coins or money. These letters gave birth to modern negotiable instruments.

[b] Gold-Smith:- People used to keep their valuable assets such as gold, silver and metallic coins in the custody of the gold smith with an intention to protect them from being robbed and theft. Goldsmiths used to charge commission for safeguarding and used to return the values on demand.

[c] Money Leader:- Lending and borrowing and almost as old as money itself. And Moneylenders were the channels through which the activities of lending and borrowing took place. Even in quite primitive communities moneylenders were found. Moneylenders used to give loan to the needy persons out of their own treasury. Later on, savers started depositing their saving with the moneylenders.

Later goldsmiths and money lenders felt the most of the fund available with them remind idle, as all the funds were not withdrawn at a time. As a solution to this problem they started to provide interest on deposits and mobilizing such funds by giving loan to the needy people with charging certain rate of interest. Thus, the above three groups are taken as the ancestor of bankers as they provided the foundation for the modern banking system. It is said that the word ‘bank’ was derived from the Italian word ‘Banko’ which means accumulation of money or stock or shares.

The bank of Venica of Italy was the first banking institution in the world, which was established in 1157AD. The first joint stock bank of the world is the bank of England, which was incorporated in 1694AD. And later on, it became the first central bank of the world in 1944AD. The second bank was established in Spain in 1401AD.

1.1.2 Evolution of Banking Sector in Nepal

Banks are the backbone of the national economic development. It plays a vital role to develop business, industries, and society. Banking development attached to national development because it fulfils the resources for business, industries and nation. To analyze the banking history, 'kastha kala', bastu kala played an important role to develop financial market. Banking service is the oldest service industry in Nepal. It has gone through the various stages of evolution and development since the Vedic time (2000 to 1400BC). Though the modern banking institution has a very recent origin in Nepal, it was recorded that the new era known as Nepal sambat was introduced by Shankhadhar, a sudra merchant of Kantipur in 879 or 880 AD, paying all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. Towards the end of the eighth century, Gunakam Dev had borrowed money to rebuild the Kathmandu valley. In eleventh century, during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business particularly for financing foreign trade with Tibet, become quite popular during Malla regime. However in absence of any regulatory measures, moneylender charged exorbitant rates of interest and other extra dues on loan advance. The Prime Minister Ronoddip Singh establiised Tejarath Adda with the introduction of number of economic and financial reforms in Kathmandu, which was a government financial institutions supplying credit to the people at 5% rate of interest against securities gold, silver and ornament. During the time of Chandra Samsher(1901-1929), credit facilities of Tejarath were extended to some other parts of the country by opening its branches. In the 0ver all development of banking system in Nepal the "tejarath Adda"may be regarded as the father of modern banking institution and for quite a long time it tended a good services to government servants as well as to general public. However, the installation of "kausi Tosha khana" as a banking agency during the regime of king prithivi narayan shah could also lay claim to be regarded as the first step towards initiating banking development in Nepal.

Later, the growing necessity of the commercial banks in the world, Nepal Bank Limited [NBL],the first commercial bank of Nepal, was established in 1937 AD replacing the order system or banking, under the special banking act 1936 having elementary function of commercial banks a semi government organization ,without existence of central bank of country. The inception of Nepal bank limited was landmark in the bank [NRB] was established in twenty-sixth April 1955 with an objectives. Another commercial bank

Fully owned by the government named as Rastriya Banijya bank [RBB} got established in 1965 under Banijya Bank act 1965 AD. In the present scenario different types of banks are being practiced in Nepal, but among them commercial banks play a vital role in the development of the country

Table No: 1.1

Lists of Licensed Commercial Banks

S. No	Commercial Bank's Name	Head Office	Operation Date
1	Nepal Bank Limited	Kathmandu	11/15/37
2	Rastriya Banijya Bank	Kathmandu	01/23/66
3	NABIL Bank Limited	Kathmandu	07/16/84
4	Nepal Investment Bank Limited	Kathmandu	02/27/86
5	Standard Chartered Bank Nepal Limited	Kathmandu	01/30/87
6	Himalayan Bank Limited	Kathmandu	01/18/93
7	Nepal SBI Bank Limited	Kathmandu	07/07/93
8	Nepal Bangladesh Bank limited	Kathmandu	06/05/93
9	Everest Bank Limited	Kathmandu	10/18/94
10	Bank of Kathmandu Limited	Kathmandu	03/12/95
11	Nepal Credit and Commerce Bank Limited	Rupandehi	10/14/96
12	Lumbini Bank Limited	Chitwan	07/17/98
13	Nepal Industrial and Commercial Bank Limited	Morang	07/21/98
14	Machhapuchhre Bank Limited	Pokhara	10/03/00
15	Kumari Bank Limited	Kathmandu	04/03/01
16	Laxmi Bank Limited	Birgunj	04/03/02
17	Siddhartha Bank Limited	Kathmandu	12/24/02
18	Agricultural Development Bank Limited	Kathmandu	03/16/06
19	Global Bank Limited	Parsa	01/02/07
20	Citizens Bank International Limited	Kathmandu	06/21/07
21	Prime Commercial Bank Limited	Kathmandu	09/24/07
22	Sunrise Bank Limited	Kathmandu	10/12/07
23	Bank of Asia Nepal Limited	Kathmandu	10/12/07
24	Development Credit Bank Limited	Kathmandu	01/23/01
25	NMB Bank Limited	Kathmandu	11/26/96
26	Kist Bank Limited	Kathmandu	02/21/03
27	Janta Bank Limited	Kathmandu	2010
28	Megha Bank Limited	Kathmandu	2010
29	Commerz & Trust Bank Nepal Limited	Kathmandu	2010
30	Civil Bank Limited	Kathmandu	2010
31	Century Commercial Bank Limited	Kathmandu	2010

During the mid 1980s they adopted the policy of liberalization, which attracted the foreign banks to come to Nepal. In Arab bank was established as the joint venture bank. After the restoration of democracy in Nepal in 1990, Nepal adopted democratic constitution that was lunched as the best social-legal document in the world. Further the economic liberalized with a view of enhancing private sector. Under the commercial banking sphere, majority occupied by large number of joint venture banks.

1.1.3 A Brief Overview of Joint Venture Banks Selected For the Study

Joint Venture Banks are financial intermediaries, financing deficits units' money deposited with them by surplus units. The financial system or banking industry in precise is a complex network embracing payments mechanism and the borrowing and lending of funds. Though they have other important functions, the key role played by these banks in the system is to act as financial intermediaries channeling funds from those with excess income to those wishing to borrow. Joint venture banks are formed in Nepal as full-fledged commercial bank under the Economic Act 2021 B. S. and operated under the Banijya Bank Act 2031 B. S. All Nepalese JVBs established and operated under the rules, regulation and guidance of Nepal Rastra Bank. Selected joint venture banks' introduction is as follows:-

(A) Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Limited (NIBL), previously, Indosuez Bank Limited, was established in 21st January 1986 as a joint venture between Nepalese and French partners. The French partners (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary one of the largest banking group in the world.

With the decision of the credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% of shareholding of credit Agricole Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd upon approval of banker's annual general meeting, Nepal Rastra Bank and company registrar's office with the following shareholding structure.

Composition of Board of Directors

Mr Prithvi Bahadur Pande ---- Chairman/CEO
Mr Prajanya Rajbhandary ---- Director
Mr Deepakman Sherchan ---- Director
Mr Janardan Dev Pant ---- Director
Mr Krishna Prasad Sharma ---- Director
Mr Binod Aryal ---- Director
Mr Surendra Bahadur Singh ---- Director
Mr Damodar Pd. Sharma Pandey ---- Professional Director

Table No: 1.2

Composition and Ownership of Capital

S.N.	Share holders	No. of Directors	No. of shares
1	A group of companies (Group A)	4	50%
2	Rastriya Banijya Bank(group B)	1	15%
3	Rastriya Beema Sansthan(group C)	1	15%
4	General Public	1	20%
5	Independent Professional Director	1	-
	Total	8	100%

Table No: 1.3

Capital Amount of NIBL

S.N.	Types of capital	Amounts in Rs.
1	Authorized Capital	4,00,00,00,000
2	Issued Capital	2,40,90,97,700

3	Paid up Capital	2,40,90,97,700

Management Soundness:

Highly qualified and motivated staff with sound experienced of the industry.

Table No: 1.4

Financial Indicators of NIBL

Particulars	Indicators	F.Y.2064/65	F.Y.2065/66	F.Y.2066/67
Paid up capital	Rs.	1,20,39,15,000	2,40,70,69,000	2,40,90,97,700
Core capital	%	7.71	8.56	8.50
Capital fund	%	11.28	11.24	10.55
Total loan and advance	Rs.	27,52,93,05,000	36,82,71,57,000	40,94,84,40,000
Total investment	Rs.	6,87,40,24,000	7,39,98,11,700	8,63,55,30,125
Liquidity	%	10.91	10.32	7.77
Total deposit	Rs.	34,45,17,26,000	46,69,81,00,065	50,09,47,25,497
Savings	Rs.	15,38,90,00,985	17,06,62,52,467	14,32,42,55,897
Current	Rs.	5,67,34,96,000	3,75,65,70,350	4,02,58,20,180
Fixed/call	Rs.	12,68,84,08,939	25,14,73,86,760	30,96,51,,74,789
Others	Rs.	69,98,20,076	72,79,90,479	77,94,74,631
Net worth per share	Rs.	223	162	190
Earning per share	Rs.	57.87	37.45	52.55
Loan loss provision	Rs.	53,26,52,000	58,59,51,000	63,01,32,000
Return to assets	Ratio	1.77	1.68	2.19
Market value per share	Rs.	2,450	1,388	705
Net Profit/ Loss	Rs	6,96,732,000	9,00,619,072	1,26,59,49,588
No. of shares	No.	1,20,39,154	2,40,70,689	2,40,90,977
No. of staff	No.	622	766	877

Sources:- Annual Report 2066/67 (2009/2010)

(B) Nepal State Bank of India (Nepal SBI Bank)

Nepal State Bank of India Ltd is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal through the memorandum of understanding signed on 17th July 1992.Nepal SBI Bank was incorporated as a public limited company at the office of the register

on April 28,1S993 under regd No 17- 049/50 with an authorized capital of 12 cores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/L. pa. 17/ 2049/50. NSBI commenced operation with effect from July 7, 1993 with one full-fledged office at Darbarmarga, Kathmandu with 18 staff members. The staff strength has since increased to 511.Under the Bank and Financial Institution Act 2063, Nepal Rastra Bank granted fresh license to NSBI classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/L Pra.Ka. 7/ 062/63.The authorized issued and paid up capital have been increased to 200 cores rupees 186.93 cores and Rs 186.93 cores respectively. The management team and the Managing Director (MD) who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agent. 55% of the total share, capital of the Bank is held by the State Bank of India, 15% is held by Employees Provident Fund and 30% is held by the General Public.

Board of Directors

Mr B. K. Shrestha, Chairman of the Board (Representative of General Public)

Mr Pratip Chaudhari, Director (State Bank of India Nominee)

Mr Rajiv Pal Singh, Director (State Bank of India Nominee)

Mr S. K. Bhattacharyya, Director (State Bank of India Nominee)

Mr Manoj K. Agrawal, Director (Representative of General Public)

Ms. Hasana Sharma, Director (Employees' Provident Fund Nominee)

Mr Mohan Raj Joshi, Director (Professional Expert Director)

Mr N.K. Chari, Managing Director (State Bank of India Nominee)

Audit Committee

Chairman: Ms Hasana Sharma

Member: Mr Manoj K. Agrawal

Member: One of the Directors from SBI (Other than Managing Director)

Member Secretary: Mr Sudeep Khanal (Head, Internal Audit Department)

Central Management Committee

Mr N.K. Chari, Managing Director

Mr. Madhukar Anand, Chief Operating Officer

Mr. Binod Kumar Mishra, Chief Financial Officer

Mr. Tulsi Ram Gautam, AGM(Credit)

Statutory Auditor:

Ms. P.L. Shrestha& Co., Chartered Accountants,

Bhakti Thapa Sadak, Bijuli Bazaar, New Baneswar

P.O. Box: No. 3516, Kathmandu, Nepal

Legal Advisor:

Mr. Purna Man Shakya

Reliance Law Firm, Machagal, Jawalakhel, Lalitpur

G.P.O. Box: 8975, EPC 439, Kathmandu, Nepal

Tax Advisor:

Mr. Sudarshan Raj Pandey, FCA

Bijuli Bazaar, Kathmandu

Company Secretary:

Mr. Ramesh Ghimire, LLM (Commercial Law)

Table No: 1.5

Composition and Ownership of Capital of NSBI

S.N.	Shareholders	No. of Shares
1	State Bank of India	55%
2	General Public	30%
3	Employee Provident Fund	15%
	Total	100%

Table N: 1.6

Capital Amount of NSBI

S.N.	Types of Capital	Amount
1	Authorized Capital	Rs.2,00,00,00,000
2	Issued Capital	Rs.1,66,16,02,896
3	Paid up Capital	Rs.1,65,36,23,877

Management Soundness:

Managed by a team of experienced bankers and professionals having proven track record.

Table No: 1.7

Financial Indicators of NSBI

Particulars	Indicators	F.Y.2064/65	F.Y.2065/66	F.Y.2066/67
Paid up Capital	Rs.	87,45,27,840	7,45,27,840	1,65,36,23,877
Core Capital	%	9.97	10.03	10.89
Capital fund	%	12.32	11.92	12.25
Price earning ratio	%	53.34	52.52	31.28
Total Investment	Rs.	3,08,88,87,000	13,28,61,82,00	16,30,56,33,000
Liquidity	%	5.75	6.67	9.03
Total deposit	Rs.	13,71,53,95,000	27,95,72,21,00	34,89,64,24,000
Loan &Advances	Rs.	12,11,36,98,000	15,13,17,48,00	17,48,05,48,000
Earning per share	%	28.33	36.18	23.69
Book value per share	Rs.	160.57	194.68	147.61
Market Value per share	Rs.	1,511	,900	741
Net profit/gross income	%	22.67	19.14	15.36
ROA	%	206.09	124.76	93.66
ROE	%	17.64	18.58	16.05
No. of branches	No.	15	32	43
No. of Shares	No.	87,45,278	87,45,278	1,65,36,239
No. of staff	No.	249	323	465

(Sources: Annual Report 2009/10)

1.2 Focus of the Study

Generally we divide financial management decisions into the management assets and liabilities in the long term and short term. Short-term financial management is known as working capital management. It deals with management of current assets and current liabilities of firms. As we know that firm's value cannot be maximized in long run unless it survives in the short run. Firms fail most often because they are unable to meet their working capitals needs; consequently, sound working capital management is a requisite for firm survival.

Working capital deals with the matrix of current assets and current liabilities. The conversion process of current assets that include cash, inventory and accounts receivable, etc must be quick as possible to get readily available cash with in one year to meet obligations. In a like manner, the current liabilities comprising sundry debtors, trade creditors, account payable, short-term bank loan, outstanding expenses, etc must be paid in one year as they become due.

Bank is business organization where monetary transaction courses. It creates funds from its clients' saving and lends the same to needy person or business companies in terms of loans, advance and investment. So proper financial decision making is more important in banking transaction for efficiency and profitability. Most of the financial decisions of a bank are concerned with current assets and current liabilities. The working capital management of bank is different from that of other business enterprises. It also needs efficient management. Investment in working capital of other business enterprises is apart of current assets of bank's working capital and we consider deposits and short-term borrowings as a part of current liabilities. So this study focuses the "Working Capital Management of the NIBL & NSBI."

1.3 Statement of the Problem

Banking sector provides investor good investment opportunity with fair return and instant liquidity with minimum risk. It helps mobilize financial resources for the investment development projects and thereby helps to economic development the banking. Among various studies, working capital management play vital role to success banking program.

Working capital management has been regarded as one of the conditioning factor in decision-making issues. The management of working capital is synonymous to the management of short-term liquidity. Working capital is regarded as the lifeblood and nerve of business concern and essential to accommodate the smooth operation of any organizations. Under and over allocation of working capital is harmful to an enterprise to achieve its primary objectives. Therefore, maintaining optimal level of working capital the crux of the problem as it is strongly related to the trade off between risk and return. However, it is difficult to point out as to how much working capital needed by a particular business organization. An organization, which is not

willing to take not financial risk, can go for more short-term liability. The more short-term liquidity means more of current assets and current liabilities. The less current liabilities implies less short-term financial heading to lower returns resulting from the use of more high cost long term financing. So it is very essential to analyze and find out problems and its solution to make efficient use of funds for minimizing risk of loss to attain profit objectives. Inadequate investment in working capital threatens the solvency of enterprise as well as affects its growth. On the other hand, excessive investment in working capital yields nothing. Therefore, working capital should be determined in such way that total cost i.e. cost of liquidity and cost of non-liquidity is minimum. Hence, the goal of working capital management is to manage the firm's current assets and current liabilities in such a way that it should maintain satisfactory level. Working capital management of bank is more difficult than the manufacture and non-manufacture business organizations. Commercial banks are monetary institutions that are playing important role to general welfare of the economic. The responsibility of commercial banks is more than other financial institutions. They must be ready to pay on demand without warning or notice, a good share of their liabilities. Banks collect funds from different types of deposits for providing loan and advances to different sector. To get high return, banks must try to increase funds from deposits as well as their investment. The first motive of banking business is to borrow public saving and lend to needy people. But commercial banks always face the problem of utilizing more deposits as investment fully and productively. The gap between collection of deposits and disbursement of loans increase the cash balance on the bank, which require paying its large amount of liabilities none its depositors' demand with notice. But large amount of idle cash balance also decrease profitability of banks.

Two samples are taken from joint venture banks i.e. Nepal Investment Bank Ltd. (NIBL) and Nepal State Bank of India (NSBI). It is the question of the study that whether there is any relationship of working capital management with regard to their performance and profitability among these banks. So the major problems that have been identified for the purpose of this study are:

(1) How to utilize the liquidity in NIBL and NSBI?

(2) How to built the image of Bank through working capital management?

(3) What are the relationship between profit and working capital of NIBL and NSBI?

(4) What are the major factor affecting the management of working capital of NIBL and NSBI?

(5) Which of the current assets are more problematic in NIBL and NSBI?

(6) What are the lending patron of loan and advances and other investment?

(7) What are the components of working capital, which affects the operating income of NIBL and NSBI?

1.4 Objectives of the Study

In the context of above-mentioned background, the main objective of the study used to analyze the management of working capital of NIBL and NSBI. The specific objectives of the studies are pointed as follows:-

(1) To analyze the current assets and current liabilities of the NIBL and NSBI, and their impact on liquidity and profitability.

(2) To analyze the liquidity, long term solvency and profitability position of NIBL and NSBI.

(3) To analyze the comparative study of working capital management of NIBL and NSBI.

(4) To provide recommendations and suggestion for the improvement of the Nepalese enterprises.

1.4.1 Research Hypothesis

Hypothesis is a quantitative statement about the population parameter. In other words it an assumption that is made about the population parameter and then its validity is tested. Hypothesis test is one of the important applications of statically tools in decisions making. Generally, two complementary are set up at one time i.e. null hypothesis (H0) & (H1). A statistical hypothesis or assumption made about the population parameter to testing its validity for the purpose of possible acceptance is called null hypothesis and a complementary to null hypothesis is called alternative hypothesis.

To fulfill the objectives of the research, the following hypothesis are formulated for testing:

Hypothesis 1

H_0: There is no significant difference in composition of working capital among NIBL and NSBI.

H_1: There is significant difference in composition of working capital among NIBL and NSBI.

Hypothesis 2

H_0: There is no significant difference in liquidity position among NIBL and NSBI.

H_1: There is significant difference in liquidity position among NIBL and NSBI.

Hypothesis 3

H_0: There is no significant difference in profitability position among NIBL and NSBI.

H_1: There is significant difference in profitability position among NIBL and NSBI.

1.5 Significance of the Study

The financial sector of Nepal is expanding day by day. In the recent days, the nation is facing with lots of economic hurdles and other as well. Due to this situation, financial markets are also running slowly. In this situation, this study is helpful to the investor to over view their financial performance and to formulate further strategic to do much better in their horizon. This study will give a clear picture of financial position of the bank.

Banking is a part of the financial market where different saving collect are collected and employed. It serves as a link between suppliers and users of funds. It is a mechanism for the mobilization of public savings and channelizing them in productive investments. Development and expansion of stock market is essential for the rapid economic growth of the country. In other word to enhance the role of banking in economic activities, it is essential to flow financial resources easily and simple manner that would, in turn, help to achieve the economic development of the country. Nepalese financial is small and it is at early stage of growth as compared to big and developed financial market.

Working capital is regarded as the lifeblood and nerve of business concern and is essential to accommodate the smooth operation of any originations. Under and over allocation of working capital is harmful to an enterprise to achieve its primary

objectives. Inadequate investment in working capital threatens the solvency of enterprise as well as affects it growth. On the other hand, excessive investment in working capital yields nothing. Nepalese commercial banks are operating in the competitive environment. In this situation, banks are adopting suitable strategies for the existence. The success or failure of any organization depends on it strategy, which is affected by working capital management. Working capital management is the crux of problem to prepare the proper strategy on its favors. So, the 'Capital Structure Management of Joint venture Banks in Nepal" is beneficial to the scholar, academicians, investors, professionals, decision makers, concern banks etc.

At last, after completion of this study, this report will keep in the library, which will play the role of reference to the students making similar study in the future.

1.6 Limitations of the Study

Every study is not far from limitations, so this study has also some limitations that are presented below:-

1. This study is conducted to fulfill the requirement of master degree in business studies (MBS). So the study cannot cover all the dimensions of the subject matter.
2. Due to the lack of time, this study is based on five years facial data.
3. The study is mainly based on the secondary data.
4. To analyze working capital management, limited tools and techniques are used.
5. Non-availability of the required data, this study may reduce the scope of the study.
6. Out of the various commercial banks, this study is concerned with the two commercial banks i.e. NIBL, and NSBI.
7. Although there are various aspects of financial management, this study mainly concerned with the working capital aspect of the sample banks.

1.7 Organization of the Study

This study has been organized into five different segments or chapters to make the study more systematic. The chapter one to five conveys the following titles:-

1. Introduction:- The first chapter contains the introductory part of the study. It describes the major issues and background of the study; it also deals with the scope of

the study, statement of the problem, objective of the study, hypothesis setting, significant of the study, limitation of the study and organization of the study.

2. Review of literature: - the second chapter deals with the conceptual frame work, review of empirical works, relevant research studies, review of major studies in Nepal and finally concluding remarks of the literature.

3. Research methodology:- The third chapter contains research methodology employed in the study. It explains the research methods, research design, nature and sources of the data, data processing, procedure, the basic tools and techniques and definitions of the key terms.

4. Presentation and analysis of the data:- The fourth chapter contains presentation and analysis of the data. In this chapter, data is collected through different sources such as balance sheet, profit and loss account and presented in tables. Using ratio analysis and statistical tools has performed analysis and interpretation of data.

5. Summary Conclusion and Recommendation:- The fifth chapter contains summary and conclusion of the study, after that all necessary recommendation are presented for the improvement of the further study and research.

CHAPTER 2

Review of literature

2.1 Introduction

This is the second chapter of the thesis. The purpose of reviewing the literature is to develop some expertise in one's area to see what new contribution can be made, and to receive some ideas for developing a research design. Their relevant finding issue, argument 'logic and suggestion which will give glimpses, guideline to go further to the depth of the study. In other words there has to be continuity in research is insured by linking the present study with the post research study. The chapter has been divided into segments. They are conceptual frameworks and review of the literature. Conceptual framework provides the conceptual thoughts about the commercial bank and review of the literature provides the analysis of related books, articles and thesis.

2.2 Conceptual Framework

2.2.1 Meaning of the Banks

"Financial intermediaries not only transfer money and securities between user and saver but also they create new financial products. They gain economics of scale in analysis of the credit worthiness of potential borrows, in processing and collecting loan, and minimize cost of information and make easy of transaction. *(Peter, Rose, 1999: P4).*

"Banking institution is inevitable for resource mobilization and all round development of the country. It is resource for economic development; it makes economic confidence of various segments and extends credit to people" *(Ronald Grywinshki, 1993:87).*

2.2.2 Meaning of Commercial Banks

The concept of evolved from the concept of commerce bank actually denotes commercial bank. Commercial bank is that financial institution which deals in accepting depositing of person and institutions and giving loans against securities. Commercial bank serves accepting deposit, providing loan, purchasing bills and letter

of exchange, transferring money, taking agency function, and foreign currency transaction, etc. Commercial bank also provides technical and administrative assistant to industries, trade and business.

In today's context the operating function of the commercial bank are, (a) to collect working capital, (b) to utilize the working capital in the various purpose, (c) by utilizing the working capital, it earns profit and (d) part of the profit is distributed as dividend and part of the profit is retained for the expiration of banking transaction. *(Garg, K.N. 1997: P 127)*

Commercial Bank Act 2031 B.S. of Nepal has defined it as "A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions which is not a bank meant for co-operating agriculture, industries or for such specific purpose. The commercial Bank Act, 2031 also pointed the functions of commercial banks. They take deposits and grant loans in different forms. They purchase and discount bill of exchange, promissory note, and exchange of foreign currency. They discharge various functions on behalf of their customers provided that they are paid for their services". *(Commercial Bank Act, 2031B.S)*

American institute of banking defines commercial bank as "Commercial Bank is a corporation which accepts deposits subject to check and makes short term loans to business enterprises, regardless, of the scope of its other services." The institution also aid down the four functions of commercial bank as receiving and handling deposits (Deposit Function), handling payment of money (Payment Function), making loans, and investments (Loan Function) and creating money by extension (Money Function). *(American Institution of Banking, Principle of Bank Operation, USA, 197: P345)*

2.2.3. Meaning of Joint Venture Banks

"A joint Venture is forming of two forces between two or more enterprises for the purpose of carrying out of specific operation (industrial or commercial investments, production trade)" *(Gupta, D.P., 1984: P15).*

Nepalese Joint Venture Banks should take initiation in search of new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. At the same time, the bank and financial institution are offering very low deposit interest rate. In this situation Nepalese Joint venture Banks required to explore new opportunities to make investment if they want to survive in the competition market. Since commercial banks can inspire entrepreneurship, the bank should also consider national interest and government emphasis for the economic growth of the country.

2.2.4. Meaning of Working Capital

According to I.M. Pandey, there are two concepts of working capital: gross concept and net concept. The gross working capital, simply called as working capital, refers to the farm's investment in current assets. Current assets are the assets which can be converted into cash within one accounting year (or operating cycle) and include cash, short-term securities, debtors, bill receivable and stocks. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those of outsiders, which are expected to mature for payment with in an accounting year includes creditors' bills payable, bank overdraft and outstanding expenses or accrued income. Net working capital can be positive or negative. A positive working capital can be arise when current assets exceed current liabilities and negative working capital net working capital occurs when current liabilities are in excess of current assets. Net working capital concept also covers the question of judicious of long term and short-term funds for financing current assets *(Panay, I.M., 1992: P796-797).*

Working capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. Without cash, bills cannot be paid without receivable the firm cannot allow timing different between delivering goods to services and collecting the money to pay them, without inventories the firm cannot be engaged in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets the management of working capital is one of the most important areas in determining whether a firm will be successful. Need of working capital is directly related to firm growth. The term working capital refers to the current assets of the firm's those items that can converted into cash within the

year. Net working capital is defined as the difference between current assets and current liabilities *(John J. Hamption and Cealia L. Wagnerm, 1989: P34).*

"Working capital may be defined as the funds developed by the company in the form of cash, stock, sundry debtors and other current assets. The total sum of the funds deployed in such assets is termed as gross working capital. Net working capital is defined as the difference gross working capital and current liabilities. The term working capital generally means net working capital. The liquidity position of a company is dependent of the investment in the working capital" *(Pradhan, Surendra, 1992: P 148).*

2.2.5. Objectives of Working Capital in Banks

A bank undertakes many transactions daily. Sometimes, customers deposit large quantity and sometimes customers withdraw from their deposits in high quantity. Investment funds of the bank are covered by deposit collections of different types of account holder. A bank should have to pay the money to depositors when they want to withdraw. For daily operation of office and to meet the administrative expenses, a bank should have certain level of working capital. Working capital is required to run the business smoothly and efficiently in the context of set objectives. There is no doubt that no company can achieve its goal without proper use of working capital. Therefore, it can compare as lifeblood to the organization.

The main objectives of working capital management are:-

(a) To pay depositors,

(b) To maintain cash reserve ratio (CRR)

(c) To maintain statutory liquidity ratio (SLR)

(d) To increase the attraction of business

(e) To achieve goal and smoothly run business.

(f) To take risk and economic fluctuation in the future.

2.2.6 Determinants of Working Capital in Banks

Many factors are affected to determine the capital structure of banks. They are cauterizing in two ways. And presented as below:-

(A) External Factor

a. Prevailing interest rate:-

When interest rate is high, the cash demand and liquidity need tend to be low.

b. Saving and Investment rate:-

When income & saving scale of people is high, liquidity decreases. If investment in commercial field is high, there is high liquidity.

c. Growth & slacking position of financial market:-

When financial market of bank is in growth and prosperity, then low liquidity and if opposite, high liquidity.

(B) Internal Factor

a. Lending Policy of bank:-

Largest quantity for long term investment needs high liquidity and if short term loan policy, low liquidity.

b. Management Capacity:-

If management is efficient & ready to bear risk, there is low liquidity.

c. Strategic Planning & funds flow situation:-

Liquidity depends upon planning, & Strategic. Current account needs high liquidity and fixed deposit needs low liquidity.

2.3 Review of Literature

Review of literature includes the review of books, thesis and other different studies.

2.3.1 Review of Books

The well-known professors Weston and Brigham have given some theoretical insights into working capital management after their various research studies on it. The conceptual finding of their study provides their sound knowledge and guidance for the further studies on the field of management working capital in any enterprise and naturally to this study as well. They explain, in the beginning, the importance of working capital, concept of working capital, financing of working capital, the use of short term versus long term debt, relationship of current assets to fixed assets. In the

next chapter they are dealt with the various components of working capitals and their efficient management of cash, they have explained the major sources and forms of short term financing, such as, trade credit, loans from commercial banks and commercial paper. *(Weston, J. F. & Brigham E.F., 1984: P 332)* Another well known expert, professor and writer, James C. Van Horne has given the concept of capital structure management in his book. 'Financial Management and Policy'. It usually described as involving the administration of these assets namely cash, marketable securities, receivables, inventories and the administrative of current liabilities. It means the working capital management is concern with the problem that arise in attempting to manage the current assets, the current liabilities and the inter relationship that exit between them. He has also described the different methods for efficient management of cash and marketable securities and various models for balancing cash and marketable securities for the management of receivable, different credit and collection policies have been described and various principles of inventory have been examined for inventory management and control *(James C.Van Horne, 2000: P 183).* Dr. Radhe Shyam Pradhan has published a book on management of working capital in Nepalese PEs. This book is based on the study of nine manufacturing public enterprises of Nepal for the duration of ten years from 1973 to 1982 AD. In his study, he aimed at examining the various aspects of management of working capital in selected manufacturing public enterprises of Nepal. The specific objectives undertaken in his study were.

1. To conduct risk return analysis of liquidity of working capital position.
2. To assess the short term financial liquidity position of the enterprises.
3. To assess the structure and utilization of working capital.
4. To estimate the transaction demand functions of working capital its various components.

Some major findings he found in his study, most of the selected enterprises have been activating a tradeoff between risk and return thereby following neither an aggressive nor a conservative approach. Most of the enterprises have poor liquidation position, the poor liquidity position has been noticed as the enterprises have either negative cash flows or negative earnings before tax or they have excessive net current debts which cannot be paid in a year.

The Nepalese manufacturing PEs have on an average half of their total assets in the form of current assets. Different components of the current assets, on an average, the share of the inventories in total assets is the largest followed by receivables and cash in most of the selected enterprises. The economics scales of scale have been highest of inventories followed by cash and gross working capital, receivable and net working capital. The regression results also show that the level of working capital and its components and enterprise desires to hold only on sales but on holding cost also. *(Pradhan, R.S. 1986)* According to Sunita Shrestha's "Portfolio Behavior of Commercial Banks in Nepal" based on the study of two local commercial banks, three joint venture banks and development bank. His study mentioned as following findings:

1. Total deposits have been the major sources of fund for all the banks.
2. Capital and reserve funds do not seem to have changed much over the year.
3. The user of the fund analysis shows that the resources of commercial banks are allocated in the liquid funds, investment on securities, loans and advances, bills purchases and discount.
4. Among the portfolio, for Nepalese banks loan and advances share highest volume of the resources and the bills purchased and discount list over year.
5. The excess reserves of the commercial banks show unused resources. The cash reserve exceeds much more than the required cash reserve. *(Shrestha, Suniti, 1995)*

According to the Professor I.M. Pandey has described some conceptual ingredients, which are based on his various research studies. He has described various aspects of working capital management into five chapters.

The first chapter deals with the working, need for working capital, determents of working capital, dimension of working capital management, optimum level of current assets, and working capital trends.

In the second chapter, he has described the management of cash and marketable securities, where he has dealt with facts of cash management, motives for holding cash, cash planning, managing the cash flows, determining the optimum cash balance, investment in marketable securities.

In the third chapter, he has described the management of receivable, in which he has dealt with goals with credit management, optimum credit policies, aspect of credit policies, credit producers for individual accounts.

In fourth chapter on inventory management, he has described the need to hold inventories, objectives of inventory management, inventory management technique, selective inventory control technique and financial manager's role in inventory management.

In the fifth chapter, he has described conclusion and recommendation. *(Pandey, I.M. 1992: P 790).* Another writer Surendra Pradhan, in his book "Basic of Financial Management" has shed light on financing of working capital as "There are two ways of financing working capital requirement i.e. internal and external sources. Internal sources use of retained earnings, depreciation fund and share capital. External sources include trade credit, advance from customers, short term deposit, cash credit, short term government loan etc." generally a source or contribution of various sources of financing to be used depends on the types of current assets(permanent and variable) to maintain. The long term sources such as stock issue, debt and bonds are spontaneous type of short term sources are not enough to cover the required size of permanent current assets. *(Pradhan, Surendra, 2000 : P144)* .

2.3.2 Review of Thesis

Prem kumar shrestha has carried out a study on working capital management of Bhrikuti Paper Mill Limited. He has analyzed the financial statement of the mill for five year (044/45 to048/49). The objectives of the study were to analyze the current assets and current liabilities and impact of current assets and one current liability. He has used ratio analysis as major tools of his study. In his study he found that cash and bank balance, inventories and receivable were the major component of current assets. Cash and bank balance have held the largest part of the current assets. He found the increasing trend in liquidity decreasing in current assets turnover. Finally he has concluded the discouraging profitability caused by the low return on total investment of the mills *(Shreshta, Prem Kumar, Y.U. 1994).*

Bashudev Giri has carried out the study on working capital management in Birgunj Sugar Factory Ltd. He has analyzed the financial statement of the factory for nine

years (041/42 to 050/51). The objectives of the study were to analyze the net working capital and relationship between current assets and current liabilities, effect on working capital on profitability and other operation. He has used financial ratio as the major tools of his study. He found that inventories, receivable, cash and bank balance were major share of current assets. Inventory had held the major portion of current assets. Inventory held the major portion of current assets. He found the fluctuating trend in current assets, and their improper use. Moreover he found the unsatisfactory profitability position of the factory *(Bashudev Giri, T.U. 1996).*

Anir Raj Bhandari, in his thesis entitled "working capital management", has done research work for the ten year period (2034 to 2043 B.S.). He has drawn some major findings from his study were as follows:-

1. The bank has heavy liquid assets that reflect the improper utilization of the bank's fund due to heavy growth in deposit and other borrowed capital, the volume of share capital become insufficient.
2. Rate of return on shareholders investment is considered insufficient; the bank could not fully utilize its fund and not paid attention to the portfolio management in investment *(Bandari, Anir Raj, T.U. 1986).*

According to *Narendra Bahadur Amatya*, in his thesis entitled, "An appraisal of financial position of Nepal Bank Limited" main findings of his study are as follows:-

1. Regarding the liquidity management, the bank is in a better position. The bank has been following a uniform policy to finance current assets and current liabilities.
2. The bank is successful in deposit collection but it has always adopted conservative and traditional credit policy.
3. The trade commerce advances are paying major role in credit composition of the bank although the reserve of the bank is increasing gradually. The reserve plays a nominal role in the credit expansion control.
4. The major portion of investment of the bank is in Nepal Government's securities. And the volume of transaction is high in all respects but the bank does not show higher ratio of profit or it shows a decreasing trend of profit *(Amatya, Nagendr Bahadur, T.U. 1993).*

Ramji Poudel in his thesis entitle “A Comparative analysis of financial performance between NBL and NGBL” has drown some major findings. Although the liquidity position of NBL is better than NGBL but on the hole of the current assets of these banks are adequate to meet the current liabilities. NGBL has better credit position than NBL, in term of short term investment. It also found that NBL has better turnover and highly levered than NGBL. Joint venture banks such as NGBL is fast growing, the overall profitability are higher but government owned commercial banks such as NBL has higher expenditure and profit making capacity is lower and gradually decreasing *(Poduel, Regmi, T.U. 1993).*

Niraj K.C. in his thesis entitles “Comparative study of Working Capital Management of NBL and Nabil Ltd” aims to examination the management of working capital in NBL and Nabil. Main objectives of his study, to study the current assets and current liabilities and their impact and relationship to each other of NBL and Nabil; to analyze the comparative study of working capital management of NBL and Nabil; to recommended and suggest for improvement of working capital management NBL & Nabil. His study suggest to NBL & Nabil as follows:-

1. The average bank and cash balance and loan and advance are higher on Nabil than NBL.
2. Management of loan and advances is more problematic in NBL than Nabil.
3. Interest income of NBL is better than Nabil.
4. Liquidity management of these two banks is significantly different.
5. Nabil has been better utilization of deposits in income generating activity than NBL. It also shows that Nabil has better investment efficiency in loan and advances.
6. Due to more conservative working capital policy risk of insolvency is lesser but cost of fund is higher on NBL and Nabil.
7. Profitability position of Nabil is far better although NBL earned higher interest than Nabil *(K.C., Niraj, Shanker Dev Campus: 2000).*

Mr. Arjun Lal Joshi has conducted another study relating to Working Capital Management. He has analyzed the financial statement of Biratnagar jute Mill for five years (2036/037 to 2040/41). This study has focused on problem of working capital

management, and the current assets and current liabilities. He has used financial ratios as the major tools of his study. He found that inventories held the major share of current assets followed by the debtors and very negligible cash balance. Mill's had poor liquidity position and financed by short-term sources. He found mills had not earned sufficient profit even to pay the interest on short-term loans. Moreover, he found the operation deficiencies caused by managerial imprudence and gross negligence in working capital management (Joshi, Arjun Lal, T.U. 1986).

Mr. Rajendra Giri in his study has attempted to evaluate working capital management of Balaju Textile Industry Ltd (BTIL). The major findings of his study are no significant improvement in working capital during study period. Increased working capital is financed by sales of fixed assets or sources of share capital. Current assets were financed by long term financing and high level of sluggish inventory's amount to unnecessary tied up funds, impairment of profit and increased cost *(Giri, Rajendra, T.U. 1986).*

Mr. Pradeep Kumar Pathak has carried out another study relating to working capital management. He has tried to make an evaluation of working capital management of Nepal Lube Oil Ltd. He analyzed the working capital management of the Oil Ltd for five fiscal years from 2043/44 to 2047/48. He has focused on the working capital management with respect to cash credit and inventory management, and relationship sales and different variables of working capital. He has used ratio analysis; Karl Pearson's co-efficient of correlation (r) and t-test.

Major findings of his study were high portion of current assets, unfavorable liquidity position and very low level of cash. Inventories have occupied the major portion of current assets, but the share of the finished goods stock is very low. Receivable has the second place in current and it is continuously growing. Finally he concluded that this company had adopted the moderate financing policy *(Pathak, Pradeep Kumar, T.U. 1994).*

Mr. H. P. Lamsal had undertaken a entitled "A Comparative Study of Working Capital Management of NABIL and SCBNL". The main objective of his study was to study the current assets and current liabilities and their impacts on liquidity and profitability as well as to analyze, the liquidity, assets utilization, long term solvency

and profitability position of selected banks. He used five years financial data from 2054/55 to 2058/2059. His findings are as follows:-

1. NABIL and SCBNL maintain current ratio of 1.31 in an average respectively. Trend values of current ratio were negative. The average quick ratio of NABIL and SCBNL were 0.64 and 0.75 respectively. Liquidity of SCBNL was always better than NABIL during the period.
2. SCBNL had more short-term and less costly resources of fund then NABIL. NABIL had better investment efficiency on loans and advance. Both banks follow conservative working capital policy though NABIL has mare. SCBNL has better profitability than NABIL *(Lamsal, H.P., T.U. 2004).*

A thesis submitted by Gopal Prasad Regmi a capital structure management of "Nicon Air Limited". The study should that the company as operating with debt capital relatively higher than equity in total debt capital and if it's not possible, they need to issue more equity share or convert preferences share in to equity share. He further added that the company should minimize its operational cost and apply technological based management to suggest that the management should adopt competitive strategy policy to balance with its different inventors as well as identify and select the best alternative financing from available fund *(Regmi, M.R., T.U. 1998).* Kisharjung Baral had completed his study on capital structure and cost of capital in public sector enterprise in Nepal. He has used correlation coefficient as an analytical tool for conduction is research. Trend analysis and ratio analysis are subsidiary tools. He has concluded that capital structure of corporate enterprise in public sector in Nepal more or less in outcome of the deliberate decision of Government of Nepal but not a product of market and their structure further the added the debt performances of PEs is very poor and they are not supporting to increase the wealth of the society but diluting it and hand lingering the development of the country *(Baral,K.J., T.U., 1996).*

Deepak Khanal has presented his dissertation "The Capital Structure Management They should improve their performance efficient *(Khanal, Deepak, T.U., 1992).* Mr. Madhav Prasad Gautam had undertaken a study entitled "A Capital Structure Management of J. V. Commercial banks with SCBNL and NBBL". The main objectives of his study was to study, analyzed and interpret different aspects of capital

structure management of selected joint venture commercial bank and to see whether these commercial banks had optimal capital structure or not. The main objectives were as follows:-

1. To study the existing capital structure of financial position of selected joint venture banks and to analyze its impact on the profitability.
2. To access the debt servicing capacity of the joint venture commercial bank.
3. To examine the correlation and the significance of their relationship between different ratios related to capital structure.
4. To provide suggestions and recommendations for the optimum capital structure of the joint venture bank.

He used only secondary data. He also used financial and statistical tools to examine the soundness of banks i.e. ratio analysis, correlation coefficient, etc. The major findings are as follows:-

1. All JVB's has used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner claim. On an average, NBBL bank constitutes 16.27 times of D/E ratio, which should be reduced as quickly as possible. The financial risk of the banks NBBL average degree of financial leverage constitutes 3.73times which indicates the highest degree of financial risk.
2. The average ROE of JBV's i.e. SCBNL are 37.36 &21.15 respectively. The ROE ratio has great impact to show the realities performance and strength of the bank in attractive future investment. SCBNL earning of 37.06% has been able to utilize the shareholder's equity in efficient way than NBBL.
3. The ICR shows that all banks are able in paying interest in comparison SCBNL is operating efficiency in terms of ICR. NB should make effort to retire excessive debt to comfortable coverage ratio.
4. EPS of SCBNL increasing trend than NBBL. In those regard, public would be attracted to buy the share. So the banks are suggested to collect the funds through issuing shares.
5. The NI approach implies that portion of higher leverage consequently increasing the value of the firm. This approach is well acquainted with this study as the value of banks has increased in according to portion of leverage

6. The KO of bank is positive even though the rate of return in last three years has been in declining trend.

The private sector banks have been successful in increasing their deposit and credit portfolio is remarkable over the last one year. The figures also show that most of these banks have been cautious about loans and advances. The operating profits of all private sector commercial banks have gone up, so they have the provision for loan loss. In short the banking sector in Nepal is somehow doing well even though it has to face a number of hurdles during the past few years.

Mr. Resha Shrestha had undertaken a study entitled "A Study on Working Capital Management of NABIL". The main objectives of her studies were as follows:-

1. To analyze the liquidity, composition of working capital, assets utilization and profitability utilization of Nabil.
2. To know whether the Nabil bank has maintained optimum or working capital or not.
3. To analyze the current assets policy of Nabil bank.
4. To analyze the current liabilities policy of Nabil bank.
5. To analyze the financing pattern of working capital of Nabil bank.
6. To identify the liquidity position of nabil bank.
7. To examine the relationship between liquidity and profitability of Nabil bank.
8. To point out the valuable recommendations and suggestion based on analysis.
9. To suggest the appropriate management system of working capital of the Nabil.

The major findings of her study are summarizing below:-

1. The major components of current assets in Nabil bank are cash and bank balance, loan and advances, and government securities. Other current assets are also the component of the current assets. The average percentages covered by these components during the study are cash and bank balance is 20.18%, loan and advances is 54.40%, loan and advances 19.52%, and other current assets are 5.85%. it shoes that the average percentage of loan and advances is higher and then in the second place comes cash and bank balance after that comes government securities. Other current assets hold very little percentage of total current assets. The trend value of loan and advance are government securities proportion are positive and trend value of cash and bank balance is negative,

which implies that Nabil bank is investing its current assets in income generating sectors. The trend values shows that the management of loan and advances is more problematic in the bank's current assets management.

2. Among the major three current assets components, government securities hold the smallest portion and it is fluctuating every year with in the study period. The ratio ranges from 30.97% to 8.34%. The total average percentage of loan & advances and government securities are 54.4% and 19.52% respectively. It shows that interest income is satisfactory.
3. The liquidation position of bank is analyzed with current ratio, quick ratio, cash and bank balance to current, margin and other deposit ratio. The current ratio is ranging from 1.7 to 1.34. Nabil has maintained its current ratio of 1.49 in average over the study period. The current assets ratio trend is negative. The average quick ratio is 0.6. So it is found that the current ratio and quick ratio of the bank can be considered good but still it is not meeting the standared ratio i.e. 2:1 and 1:1respectively. The trend of quick ratio and current ratio are decreasing which shows that the bank is trying to reduce its idle cash & bank balance. Although higher liquidity consider as low risk, lower profit but in commercial bank higher liquidity is not always the cause of lower profitability.
4. Correlation between investment on government securities and total deposit are not significant. It shows that there is no closely relationship between investment on government securities and total deposits. The significant correlation of between government securities and total deposit shows that only idle cash balance are invested on government securities if there is no more opportunities to invest on loan and advances. Loan and advances are total deposit are significantly correlated with coefficient value r=0.91. It shows that the bank utilizes its total deposit on loan and advances effectively.
5. Coefficient of correlation between cash and bank balance and current liabilities is 0.58. It shows that holding of cash and bank balance is not related with current liabilities.
6. Coefficient of correlation between cash and advances and net profit is 0.38, which is less than 6 percent. It shows that the net profit is significantly related with loan & advances. It shows that the change on loan & advances do not change the amount of profit significantly *(Shrestha, Resha, T.U. 2004).*

2.3.3 Review of Different Studies:-

This part is mainly focused on the review of journal articles published by different management experts in working capital management. Proff. M. K. Shrestha on "Analysis of capital structure in public enterprises." He has found that the selected public enterprises under study have a very confusing capital structure since the corporations are not guided by objectives based financial plans and policies. In many instance atomism become the basis of capital structure and most of them want eliminate debt if possible to relive financial obligation. He has further pointed out that there were neither public enterprise nor government developed criteria in determining capital structure and this is the reason as to way debt equity ratio because a ticklish problem. He has also suggested that the debt equity ratio should neither highly. Levered to created to much financial obligation that he beyond capacity to meet nor should it be much lower levered to infuse operational strategy to bypass responsibility without performance *(Shrestha, M.K., 1985).*

Dr. R.S. Pradhan and K.D. Koirala studied on the "Aspects of working capital management in Nepalese corporations" during 031/32 to 035/36. Among the eleven public corporations, there are five manufacturing and six non-manufacturing corporations. The problem dealt in this study were size of investment in current assets management and it also dealt with the motive for holding cash and inventory and major factors affecting the size of investment. In this study report, they concluded that investment of current assets had declined over the period of time in both types of corporations. However, the Nepalese PEs had consistently more investment in cash and receivables as compared to non-manufacturing corporations due to more liberal and less consistent credit policies. Inventory management is of great significance to manufacturing corporations and management of cash and receivables is of great significance to non Manufacturing Corporation. The major motive of holding cash in Nepalese corporation was to provide a reserve for routine net out flows of cash and for holding inventory was to facilitate smooth operation of production and sales. They are found that working capital was more difficult to manage than fixed capital. Further more, the inventory in Manufacturing Corporation and cash receivables in non-manufacturing ones were more problematic to manage.

With reference to the above problems and findings they recommended that need to control investment in working capital as a whole manufacturing corporation as the average proportion of working capital to sales increased over time. Since manufacturing and non- Manufacturing Corporation had been trying to control investment in receivables. The focus of the attention should be derived to control of investment in cash and inventory. But Manufacturing Corporation should pay attention to control the investment in inventory *(Pradhan, R.S. & Koiral, K.D., T.U. 1982).*

Dr. K. Acharaya, has published an article relating on working capital management. He has defined the two major problem i.e. operational problems, regarding the working capital management in Nepalese public enterprises. The operational problems; he found were increase of current liabilities then current assets, nomn allowing the current ratio 2:1 and slow turnover of inventories. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, then transmutation of working capital employed to sales, absent of apathetic management information system. Break-even analysis and ratio analyses were either undone ineffective for performance evaluation. Finally, monitoring of the proper functioning working capital management has never been considered as managerial job.

In the second part, he has listed the organizational problems in the public enterprises there is lack of regular and internal external audit system as well as evaluation of financial results. Similarly, very few public enterprises have been able to present their capital requirement functioning of finance department is not satisfactory and some public enterprises are even facing the under utilization of capacity *(Acharaya K., 1985).*

L.D. Mahat has published article relating to spontaneous resources working capital management. He has defined the three major sources of working capital management i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing include short-term bank financing such as bank overdraft, cash credit, bills purchases and discounting, letter of credit etc. whereas spontaneous sources of working capital include trade credit, provisions and accrued expenses.

Mr. Mahat has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst corporate finance such an environment should be efficient enough to cope with the possible worst happenings in future for working capital management. He had said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by way of debt financing, the company should have to bear interest, which may causes to increase in the percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital in order to improve its performance *(Mahat, L.d., 2004)*.

Murari Raj Sharma in "Joint Venture Bank in Nepal coexisting or crowding out" pointed that it would be definitely being unwise for Nepal not to let the JVB's to operate in the country. Also not to take advantages of them as additional means of resources mobilization as well as harbinger of new era in Banking. But it will certainly be unfortunate for country to develop the JVB's at the cost of domestic banks so for one should admit frankly that no different treatment has been extended to the domestic and JVB's also shows their alacrity to come forward to share the trials and tribulations of poor country. Both types of banks will coalesce and exit, complimenting each other and contributing for the nations accelerated development on the country. If JVB,s use their strength against their trading in to the cumbersome path of development along with the domestic bank and the government, they will eventually crowed out the domestic bank from the more profitable urban area and uncreative urban sector unless remedying by determination of the government *(Sharma, M.R., 1980: P 31-42)*.

Prof. M.K. Shrestha "Analysis of capital structure in selected public enterprise". He has found that the public selected enterprises under study have very confusing capital structure since the corporations are not guided by objectives based financial plans and policies. In many instance atomism becomes the basis of capital structure and most of them want to eliminate debt if possible of relive financial obligations. He has further pointed out that there were neither the public enterprises nor government developed

criteria in determining capital structure and this is the reason as to way debt equity ratio should neither highly levered to create too much financial obligation that beyond the capacity to meet nor should it be much low levered to infuse operational strategy to by-pass responsibilities without performance *(Shrestha, M.K., 1985)*.

Rima Devi Shrestha conducted to the study on the tropic of focus on capital structure.Selected and listed public companies. She used data from 19 companies and study had covered different sectors manufacturing finance, utility services and other allied area. She had found that most of these companies have debt capital relatively very higher than equity capital. Consequently most of the areas operating at losses to the extent that payment of interest on loan have been seriously issued. Most of the losses are after charging interest on loan. She suggested that the government has to consider in public enterprises that of evaluating the relationship between use of debt and its impact on overall earning of public enterprises. So government should be sure in knowing how to return will be minimize by using debt capital. Government having invested large amount of many public enterprises were of the responsibility to repay the debt schedules. The other thing which needs to be made publicity transparent the government money is not a lost less found. Government has to analyses; cost and risk return trade off. Thus, capital structure needs to be more determined by realistic analysis of cost *(Shrestha, Rima Devi, 1993)*.

From the review of above mentioned bunch of research work, it is clear that there are very few of research work on study of working capital management of NIBL & NSBI has been carried out with a view to fulfill that gap.

Chapter 3
Research Methodology

3.1 Introduction

This is the third chapter of this thesis. This chapter is named as Research Methodology. Research Methodology is the way to solve the research problem systematically. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It also high lights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated etc. *(Joshi, P.R, 2002: P 19)*

This chapter describes the methodology employed in this study. It consists of research design, population and sample study, sources of data, data processing procedure and technique of analysis of data. This study is more analytical and empirical. It covers quantitative methodology using financial and statistical tools. This study is mainly based on secondary data gathered from respective annual report of commercial bank especially from profit and loss account, balance sheet and other publications made by the bank.

3.2 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtained answer to the questions and to control variance *(Kerlinger, F.N., 1986: P 275).* It describe the general framework for collecting, analyzing and evaluating data after identifying, what the researchers want to know, and what has to be dealt with in order to obtain required information. *(Wolf and Pant, 2000, P 209) the* research design refers to the entire process of planning and carrying out a research study. *(Wolf and Pant, 2000, P 53)* In order to conduct this study, descriptive cum analytical research design has been adopted. Descriptive research design has been utilize mainly for conceptualization of the problem. Analytical research design has been followed mainly to analyze the relationship of capital structure and its variable.

3.3 Population and Sample

At present there are 31 commercial banks 20 joint venture banks in Nepal. Among them NIBL and NSBI, the first two commercial joint venture banks, has been taken as a sample for the study. Financial statements of last five fiscal years from F.Y. 2062/63 to 2066/67 have been taken as sample data for comparative study of working capital management. These joint venture banks are chosen as they account for considerable market share of the banking sectors.

3.4 Nature and Sources of Data

This study based on secondary data only. The necessary data information have been collected from various sources covering a period of five years. The data relating to the financial performance are directly obtained from concerned bank. And other information are obtained from unpublished official records of concerned bank, booklets, journals, bank's official website, related publications of performance and other organization like Nepal Rastra Bank.

3.5 Data Processing Procedure

Analysis is the careful study of available facts so that's so that one can understand and draw conclusions from them on the basis of established principals and sound logic. Data are analyzed by using simple methods so that everyone would easily understand it. The obtained data are presented in various tables, diagrams and chart, which definitely helps to reach towards meaningful interpretation of the presented data. For the sake of convenience, the calculations that cannot be shown in the body part of the report are presented in the appendices section.

3.6 Tools and Techniques of Analysis

Different tools and techniques are used to analysis the numerical data. Under this study, financial as well as statistical tools have been to analysis the gathered data and information.

3.6.1 Financial Tools

In this research study various financial tools are employed for the analysis. There are various ratios but in this study some selected ratios among them are used.

3.6.1.1 Ratio Analysis

The main focus will be on ratio analysis. Ratio analysis is the most important tools of the financial analysis, which help to ascertain the financial conditions of the originations. “Ratio analysis is such a power full tool of financial analysis that thought the help of it economic and financial position of business unit can be fully x-rayed” (C.P. Kothari, 1994: P 187). Ratios are calculated to obtain the better insight into real situation of working capital management of sample banks. Various ratios are employed grouped for the analysis of composition of working capital, liquidity position, activity or turnover position, profitability position and capital structure or leverage position.

(A) Composition of Working Capital

Working capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. Simply, working capital refers to the current assets of the firms that can be converted into cash within one year. The main composition of working capital is as follow:-

(a) Cash and Bank balance

(b) Loan and Advances

(c) Government Securities

(d) Money at call or short notice

Composition of working capital is analyzed by calculating the following ratio:-

I. Cash and Bank balance to Total Current Ratio $= \frac{\text{Cash and Bank Balance}}{\text{Total Current Assets}} \times 100\%$

II. Money at Call to Total Current Assets Ratio $= \frac{\text{Money at Call}}{\text{Total Current Assets}} \times 100\%$

III. Loan & Advances to Total Current Assets Ratio $= \frac{\text{Loan \& Advances}}{\text{Current Assets}} \times 100\%$

IV. Government Securities to Total Current Assets Ratio $= \frac{\text{Government Securities}}{\text{Total Current Assets}} \times 100\%$

What percentage of working capital cover is shown by this ratio? Lower the ratio means higher will be risk, profitability and vice-versa.

(B) Liquidity Ratios

Liquidity ratio measure the firm's ability to meet current obligations. It reflects the short-term financial strength of business. One of the main objectives of working capital management is keeping sound liquidity position. Cash is the main liquid assets and other assets which can be easily converted into cash are also called near cash or liquid assets. So managing or maintaining liquid assets is termed as liquidity. In banking sector liquidity is very essential for smooth operation of daily banking business. There are two ratios under liquidity ratio which are as follows:

(I) Current Ratio:- A ratio between current assets and current liabilities is known as current ratio. Current assets are those assets which can be converted into cash with in short period of time, normally not exceeding one year. Cash in hand, cash at bank, bills receivable, marketable securities, short term investment, inventory, debtors, prepaid or paid in advance, accrued or outstanding income, loan and advances, account receivable, government securities etc are current assets.

Current liabilities are those obligation which are payable with in short period, normally not exceeding one year. Creditors, bank overdraft, short term loan bills payable, provision for tax, provision for dividend received in advance, outstanding expenses, account payable, etc are current liabilities.

The calculation is made by dividing total of current assets by total of current liabilities. Thus,

$$\textbf{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Higher the current ratio better is the liquidity position. In banking sector business 2:1 is considered to be an adequate ratio. If the current ratio of a bank is less than 2:1 the solvency position of the firm is not good. The cash may not be available to pay current liabilities. If the current ratio is more than 2:1, the bank may have an excessive investment in current assets then do not produce adequate return.

(II) Quick ratio:-A ratio between quick assets and current liabilities is known as quick ratio. The calculation is made by dividing total quick assets by total current liabilities.

Thus,

$$\textbf{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Therefore, Quick assets = Current assets – Inventory – Prepaid expenses

Higher the quick ratio better is the liquidity position. For banking types of business 1:1 is considered to be an adequate ratio. If the quick ratio of the bank is less than 1:1 the solvency position of the bank is not good. The cash may not available to pay current liabilities. If the quick ratio is more than 1:1 then the company may have an excessive investment in quick assets that do not produce adequate return.

(III) Cash and Bank Balance to Total Deposit Ratio:- This ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balance total deposit.

Thus,

$$\textbf{Cash and Bank balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}} \times 100\%$$

(IV) Saving Deposit to Total Deposit Ratio :-Saving deposit is interest bearing short-term deposit. The rate of interest in this deposit is less than fixed deposit. In this deposit only limited amount of money can be withdrawn each day. The limit of withdrawing from this account differs according to banks' rules and regulations. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short-term in nature. It is found out by dividing the total amount of saving deposits by the total amount of deposit. The ratio is calculated as follows:-

$$\textbf{Saving Deposit to Total Deposit Ra}\text{tio} = \frac{\text{Total Saving Deposit}}{\text{Total Deposit}} \times 100\%$$

(c) Activity or Turnover Ratio:- Activity ratios are employed to evaluate the efficiency with which bank manages and utilizes its assets. The ratios are also called turnover ratio because they indicate the speed with which assets are being converted

turnover into sales. These ratios are intended to measure the effectiveness of employment of the resources in a business concern. Through these ratios, it is known whether the funds employed have been used effectively in the business activities or not.

(I) Loan and Advances to Total Deposit Ratio:-

This ratio assesses to what extent the bank is able to utilize to depositors' funds to earn profit by providing loans and advances. It is computed dividing the total amount of loans and advances by total deposited funds. This ratio is calculated as follow:-

$$\textbf{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}} \times 100\%$$

Higher ratio is the symptom of higher or proper utilization of funds and low ratio is the signal of balance remained utilized or idle.

(II) Loans and Advances to Saving Deposit Ratio:-

This ratio examines that how many times the fund is used in loan and advances against saving deposits. For commercial banks, saving deposits are short term interest bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by saving deposits. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is calculated as follows:-

$$\textbf{Loan and Advances to Saving Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Saving Deposit}} \times 100\%$$

This ratio examines to what extent the saving deposits are utilized for income earning purpose.

(II) Loans and Advances to Fixed Deposit Ratio:-

This ratio assesses, how many times the fund is used to loans and advances against fixed deposits. Fixed deposits are interest bearing long term obligations and major sources of investment in loans and advances for income generating purpose by commercial banks. This ratio indicates how many times the long term interest bearing deposits are utilized for generating income. This ratio is calculated by dividing the

amount of loans and advances by total deposit in fixed account. The ratio is calculated as follows:-

$$\textbf{Loans and advances to Fixed Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Total Fixed Deposits}} \times 100\%$$

(D) Capital Structure or Leverage Ratio

Leverage ratios show the proportions of debt and equity in financing the bank's assets. Long term creditors, like debenture holder, financial institution etc. are more concerned with the firm's long term financial strength. In fact, a bank should have a strong short as well as long term financial position. To judge the long term financial position of the bank, financial leverage, or capital structure ratios are calculated.

(I) Long term Debt to Net Worth Ratio:-

Long term debt refers to the amount of fixed deposits and loans of the banks. This ratio measures the proportion of outsiders and owners' fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the banks by owners' claim. It is calculated as follows:-

$$\textbf{Long term Debt to Net worth Ratio} = \frac{\text{Long Term Debt}}{\text{Net Worth}} \times 100\%$$

A high ratio shows the large share of financing by the creditors, as compare to that of owners. This means creditors would suffer more in times of distress than the owner. This is why creditors prefer low debt equity ratio high ratio high risk and profitability, and vice versa.

(II) Net Fixed Assets to Long term Debt Ratio:-

Net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times not fixed assets are compared to the fixed liabilities. It is computed dividing net fixed assets by long term debt.

$$\textbf{Net fixed Assets to long term Debt Ratio} = \frac{\text{Net Fixed Assets}}{\text{Long Term Debt}} \times 100\%$$

(III) Interest Coverage Ratio:-

A ratio between earnings before interest and tax and interest is known as interest coverage ratio. It measures the debt servicing capacity of the bank. It also known as time- interest- earned ratio. It is calculated in the following ways:-

$$\textbf{Interest Coverage Ratio} = \frac{\text{Earning before interest and tax}}{\text{Interest}} \times 100\%$$

A high ratio is a sign of low burden of borrowing of a business. From the point of view of creditors, the larger the coverage, the greater the ability of the bank to make the payment of the interest to the creditors.

(E) Profitability Ratios

Profit is the difference between revenues and expenses over a period of time. A bank should earn profit to survive and grow over a long period of time, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the banks in term of profits. The profitability ratios are calculated to measure the operating efficiency of a bank. Besides management of the bank, creditors and owners are also interested in the profitability of the bank. Creditors want to get the interest and payment of the principal regularly. Owners want to get a reasonable return on their investment. This is possible only when the bank earns enough profits.

(I) Interest Earned to Total Assets Ratio:-

It is the ratio, which is formed to find out the percentage of the interest earned to the total assets. This is derived by dividing the amount of interest earned by the total assets of the bank. It is calculated in the following ways:-

$$\textbf{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}} \times 100\%$$

Higher ratio indicates the return from investment is higher. Higher ratio is more efficient of management and utilization of share holder’s fund.

(II) Net Profit to Total Assets Ratio:-

The ratio is very much crucial for measuring the profitability of fund invested in the bank’s assets. It measures the return on assets. It is computed by dividing the net profit after tax by total assets. The formula used for computing this ratio is :-

Net Profit to Total Assets Ratio $= \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$

This ratio measures the profitability of all financial resources invested in the firm's assets. Hence, the higher ratio implies that the available source and tools are employed efficiently and vice versa.

(III) Net Profit to Shareholders' Equity Ratio:-

This ratio tells us the earning power on shareholders' book investment and is frequently used in comparing two or more firms in an industry. The return on equity or net profit to shareholders' equity ratio is calculated by dividing the amount of net profit after tax by the amount of net worth. The following formula I used to calculate net profit to total deposit ratio.

Net Profit to Shareholders' Equity Ratio $= \frac{\text{Net Profit After Tax}}{\text{Net Worth}} \times 100\%$

(IV) Net Profit to Total Deposit Ratio:-

This ratio is used for measuring the internal rate of return from deposits. It is computed by dividing the net profit by total deposits. The following formula is used to calculate net profit to total deposit ratio.

Net Profit to Total Deposit Ratio $= \frac{\text{Net Profit After Tax}}{\text{Total Deposit}} \times 100\%$

Higher ratio indicates the return from investment on loan and advances are desirable and higher ratio is more efficient of management and utilization of shareholders' fund and lower ratio indicates the funds are not properly mobilizing.

(V) Services Cost to Total Assets Ratio:-

A sound management always tries to utilize its larger amount of assets with minimum cost. This ratio is useful in measuring the assets utilization with the cost of services. The ratio is computed dividing the cost of services by total assets.

Service Cost to Total Assets Ratio $= \frac{\text{Total Service Cost}}{\text{Total Assets}} \times 100\%$

Higher ratio indicates the return from investment is not desirable and higher ratio is not good enough to the management and utilization of shareholders' fund and lower ratio shows more efficient of management and resources are well mobilizing.

3.6.2 Statistical Tools

In this research study some statistical tools are used for the analysis of the data more accurately. They are given below.

3.6.2.1 Trend Analysis

The tools are used to show grandly increase or decrease of variables over a period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly. The following formula I used to calculate trend analysis.

Yc=a+bx

Where,

$$\mathbf{a} = \frac{\sum y}{\mathbf{n}}, \quad \mathbf{b} = \frac{\sum xy}{\sum x^2}$$

3.6.2.2 Correlation Analysis

Correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. If two quantities vary in a related manner show that a movement- an increase or decrease in one trend accompanied by a movement in the same or opposite direction. In other words, they are called correlated. If the relationship is direct, they are called positively correlated and if the relation is inverse they are called negatively correlated. If any change in one does not affect the variable, they are called uncorrelated. The correlation may be perfect, imperfect or zero. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and – 1, r is +1, it means there is perfect relationship between two variables and vice versa. When r is 0, it means there is no relationship between two variables. The following formula I used to calculate correlation analysis.

Correlation r, $= \frac{pXY}{\sqrt{pX^2 pY^2}}$ **,** $\mathbf{PEr} = \left(0.6745 \frac{1-r^2}{\sqrt{N}}\right)$ **and 6PEr**

3.6.2.3 Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two (or more) variables and to make estimation (or fore diction) of one variable on the basis of the other variable (s). In other words, regression is that statistical tool with the help of which the unknown value of one variable can be estimated one the basis of known value of the other variable. The following formula I used to calculate regression analysis.

$$\mathbf{Y = a + bx}$$

Where,

$$\mathbf{py = na + bpx}$$

$$\mathbf{pxy = apx + bpx^2}$$

3.6.2.4 Hypothesis Test

Hypothesis test is one of the important applications of statistical interference in decision making. In hypothesis test, an assumption is made about the population parameter. To test whether the assumption or hypothesis is right or not, a sample is selected from the population and sample statistics is obtained. The main goal of hypothesis test is to test the characteristics of hypothesized population parameter based on sample information whether the difference between population parameter and sample static significant or not. Smaller the difference, the sample means closed to hypothesized value and large the difference the hypothesized value has low chance to correct.

Generally, two complementary are set up at one time i.e. a) Null Hypothesis (H_0) and (b) Alternative Hypothesis (H_1). A statistical hypothesis or assumption made about the population parameter to testing its validity for the purpose of possible acceptance is called null hypothesis and complementary hypothesis to null hypothesis is called alternative hypothesis. Among this two hypothesis if one is accepted, then the other hypothesis is rejected and vice versa. I used One Way ANOVA Table for hypothesis test.

CHAPTER-4
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This is the fourth chapter of this thesis. This chapter is the most important part of this thesis work. It is the heart of the internal report. After the collection of the data, an analysis of the data and interpretation of the results are necessary. Analysis of the data comes prior to interpretation. The facts and figures collected are to be processed with a view to reducing them to manageable proportions. Only be such a careful and statistical treatment and meaningful interpretation. The main purpose of the study is known thoroughly about the working capital management of sample banks i.e. NIBL and NSBI. The major variables of this study are cash and bank balance, money at call or short notice, loan and advance, government securities. The relevant data and information of working capital as well as financial performance of sample banks are presented, tabulated and analyzed accordingly to reach toward accurate interpretation this study analyze composition of current assets and current liabilities, relationship between current assets and fixed assets, current assets and total assets, turnover position, liquidity position and profitability position. It covers to analyze the ratio as well as the trend with the use of least square method. It also uses correlation analysis and hypothesis test.

4.2 Composition of Working Capital

Business needs different types of assets to operate its activities. Few needs assets are for long term fulfillment of the business activities and few assets are needed to carry out the day to day operation of the business are known current assets. The composition of current assets of NIBL and NSBI are cash and bank balance, money at call or short notice, loan and advance and government securities. Miscellaneous current assets are also a component of current assets. Prepaid expenses, outstanding income like interest receivable and other current assets included in miscellaneous current assets included in miscellaneous current assets.

The following table shows the amount of cash and bank balance money at call or short notice, loan and advance, government securities and miscellaneous current assets of the sample banks i.e. NIBL and NSBI.

Table No. 4.1

Current Assets Components

(in Million)

S.N.	Banks	Fiscal Year	Cash & Bank Balance	Money at Call or Short Notice	Lone & Advances	Government Securities	Misc. Current Assets	Total
1	NIBL	2062/063	2,336.52	70.00	12,776.21	2,522.30	201.09	17,906.12
		2063/064	2,441.51	362.97	17,286.43	3,256.40	234.80	23,582.11
		2064/065	3,754.94	-	26,996.65	3,155.00	277.60	34,184.19
		2065/066	7,918.00	-	36,241.21	2,531.30	390.65	47,081.16
		2066/067	6,815.89	-	40,318.31	4,201.85	399.44	51,735.49
2	NSBI	2062/063	1,481.36	215.00	7,626.74	3,591.77	250.26	13,165.13
		2063/064	1,472.69	350.00	9,460.45	2,345.58	211.39	13,840.32
		2064/065	1,646.97	304.01	12,113.70	3,035.55	217.67	17,317.90
		2065/066	1,176.44	-	15,131.75	3,306.58	318.49	19,933.26
		2066/067	3,441.26	-	17,480.55	4,313.32	401.99	25,637.12

(Source: Annual Report 2009/10)

From the above table, the amounts of current of current assets are shown NIBL has higher current assets all over the selected sample years. NSBI has lowest current assets all over the selected years. The lowest current asset is Rs. 13,165.13 million of NSBI in FY 2062/063 and the highest is Rs. 51,735.49 million of NIBL in FY 2066/067.

According to the above, we came to know that each item of current assets contain different amount of rupees. To be clear about the proportion of each item i.e. cash and bank balance, money at call or short notice, loan and advances, investment in government securities and miscellaneous current assets.

The percentage of each item of current assets to total assets has been taken and shown.

Table No. 4.2

Current Assets Components

(In Percentage)

S.N.	Banks	Fiscal Year	Cash & Bank Balance	Money at Call or Short Notice	Lone & Advances	Government Securities	Misc. Current Assets	Total
1	NIBL	2062/063	13.05	0.39	71.35	14.09	1.12	100
		2063/064	10.35	1.54	73.30	13.81	1.00	100
		2064/065	10.98	-	78.98	9.23	0.81	100
		2065/066	16.82	-	76.97	5.38	0.83	100
		2066/067	13.18	-	77.93	8.12	0.77	100
		Average	12.88	0.97	75.71	10.13	0.91	
2	NSBI	2062/063	11.25	1.63	57.93	27.28	2.00	100
		2063/064	10.64	2.53	68.35	16.95	1.53	100
		2064/065	9.51	1.76	69.95	16.58	1.26	100
		2065/066	6.00	-	77.21	15.16	1.63	100
		2066/067	13.42	-	68.18	16.83	1.57	100
		Average	10.17	1.97	68.32	18.56	1.59	

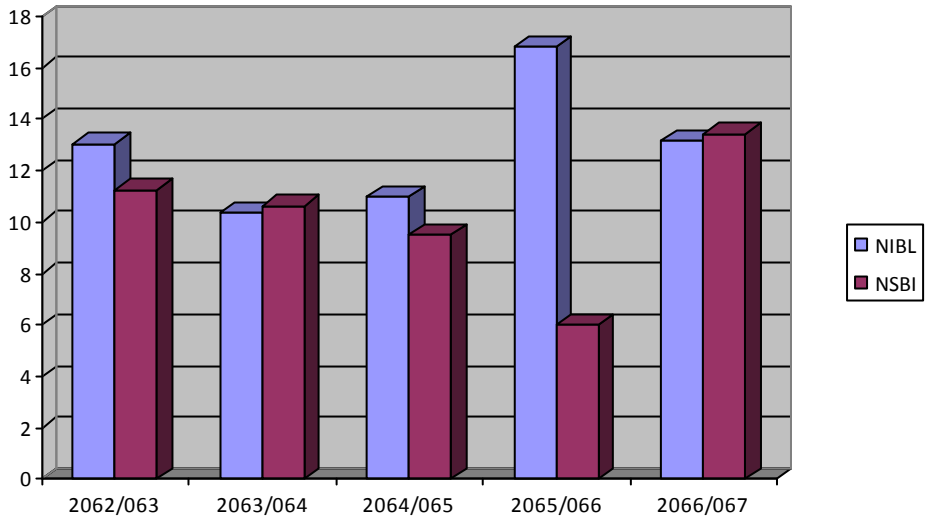
(Source: Annual Report 2009/10)

4.2.1 Cash and Bank Balance

According to the above table no. 4.2; samples banks' cash and bank balance percentage are fluctuating over the study period. Following bar diagram shows this clearly.

Bar Diagram No. 4.1

Cash and Bank Balance



According to above bar diagram, the sample banks allocate their cash and bank balance as their needs.

NIBL,

In the first year, the bank has invest 13.05% of their current assets in cash and bank balance. In the second year, cash and bank balance is decrease to 10.35% and then third year, it is increased to 10.98 %. In the fourth year, cash and bank balance is highly increased to 16.82 % and then again in the final year, it is decreased to 13.18 %.

NSBI,

The bank has decreasing and increasing trend. In the first year, the bank has invested 11.25% of their current assets in cash and bank balance. Then, it is decreased to 10.64%, 9.51% and 6.00% in second, third and fourth year respectively. In the final year, it is highly increased to 13.42%.

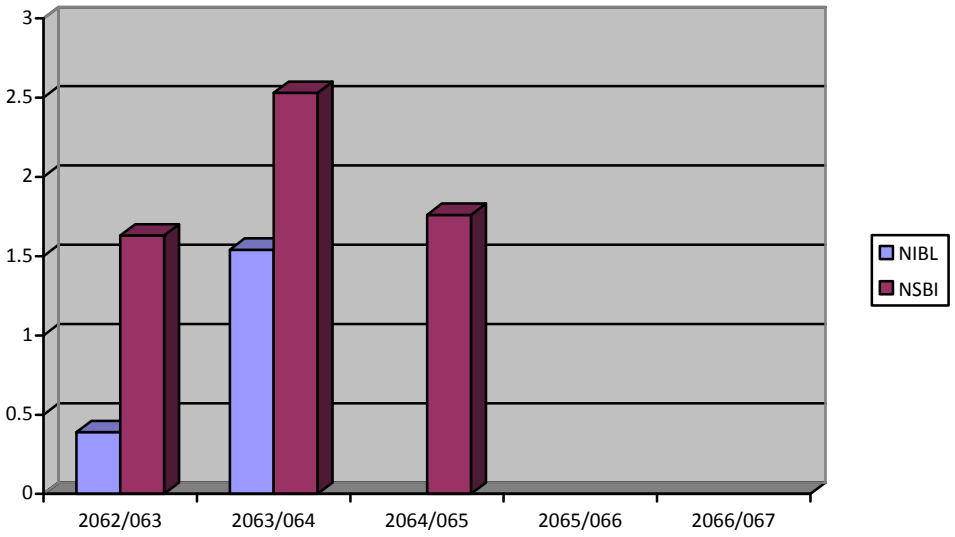
The average cash and bank balance percentage of NIBL and NSBI are 12.88% and 10.17% respevtively.

4.2.2 Money at Call or Short Notice

According to the table no. 4.2 it is clear that money at call or short notice percentages of sample banks are fluctuating all over the study period. Following bar diagram shows in clearly.

Bar Diagram No. 4.2

Money at Call or Short Notice



NIBL,

In the first year, money at call or short notice is 0.39% and it is slowly increased to 1.54% in second year. Third, fourth and final year, money at call or short notice is nil, NIBL has invested their current assets in money at call or short notice in first and second year only.

NSBI,

In the first year, money at call or short notice is 1.63%. Then, it is increased to 2.53% in second year. In third year, it is decreasing to 1.76%. In the fourth and final year, money at call or short notice is nil. Its means the bank has not invested their current assets in money at call or short notice.

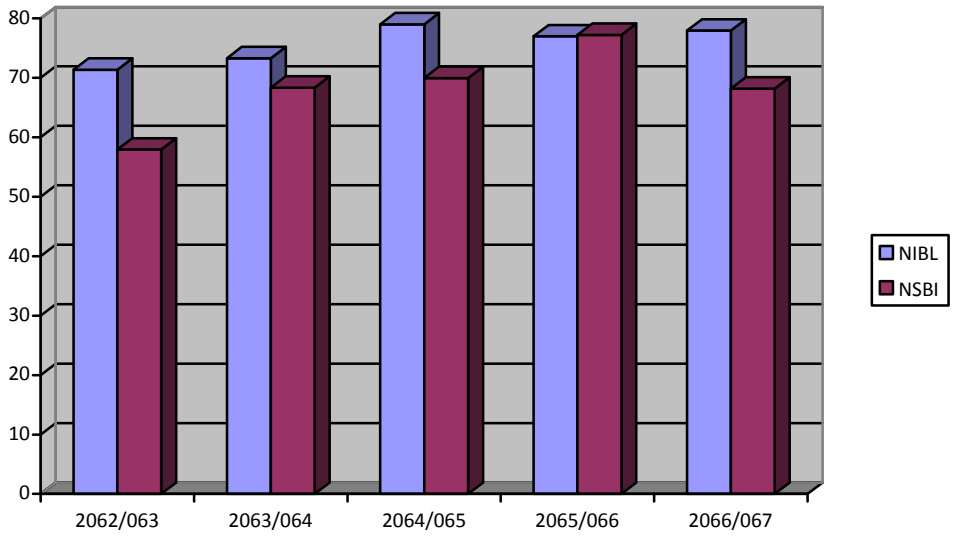
The average money at call or short notice percentage of NIBL and NSBI are 0.97% and 1.97% respectively. NIBL has invested a small portion of current assets in his money at call or short notice.

4.2.3 Loan and Advances

According to table no 4.2; it is clear that percentage of sample banks is fluctuating all over the study period. Following bar diagram shows it clearly.

Bar Diagram No. 4.3

Loan and Advances



According to above bar diagram, the sample banks allocate their loan and advance as their needs.

NIBL,

In the first year, loan and advance is 71.35% and it is slowly increased to 73.30% in the second year. In the third year, it is increased to 78.98%. Suddenly in the fourth year, it is decreased to 76.97%. In the final year, the percentage of loan and advance is increased to 77.93%.

NSBI,

In the first year, loan and advance is 57.93% and it is highly increased to 68.35%, 69.95%, 77.21% in second, third and fourth year respectively. In the final year, the percentage of loan and advance is highly decreased to 68.18%. The bank has increasing and decreasing trend.

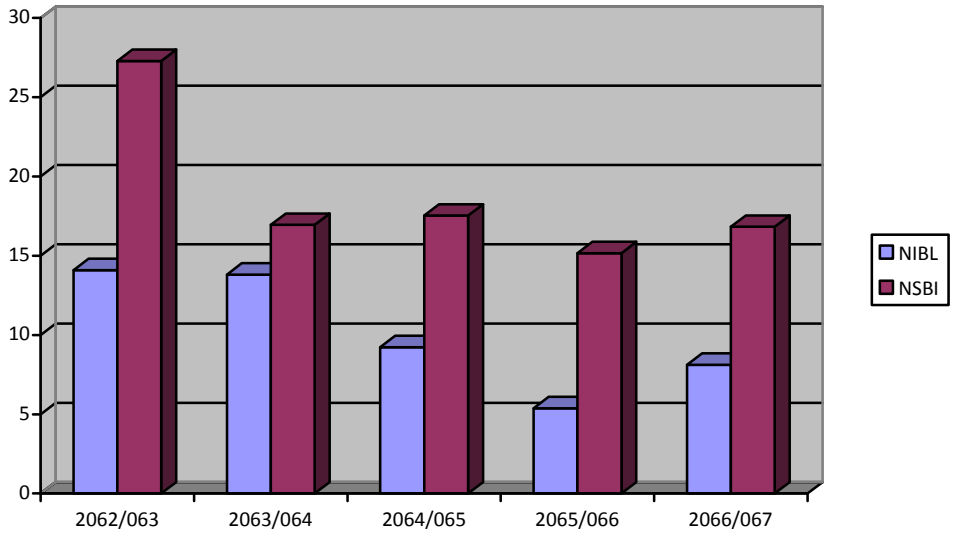
The average loan and advance percentage of NIBL and NSBI are 75.71% and 68.32% respectively. NSBI has invested a less portion of current assets in his loan and advances than NIBL.

4.2.4 Government Securities

According to the table no. 4.2; it is clear that government securities of sample banks is fluctuating all over the study period. Following bar diagram shows it clearly.

Bar Diagram No. 4.4

Government Securities



According to above bar diagram, the sample banks allocate their government securities as their needs.

NIBL,

The bank has decreasing and increasing trend. In the first year, it has invested 14.09% of their current assets in government securities. In the second, third and fourth year government security is decreased to 13.81%, 9.23% and 5.38% respectively. In the final year, the percentage of government security is increased to 8.12%.

NSBI,

In the first year, it has invested 27.28% of their current assets in government security. In the second year it is decreased to 16.95% and then third year, it is increased to 16.58%. In the fourth year, it is again decreased to 15.16% and in the final year it is increased to 16.83%.

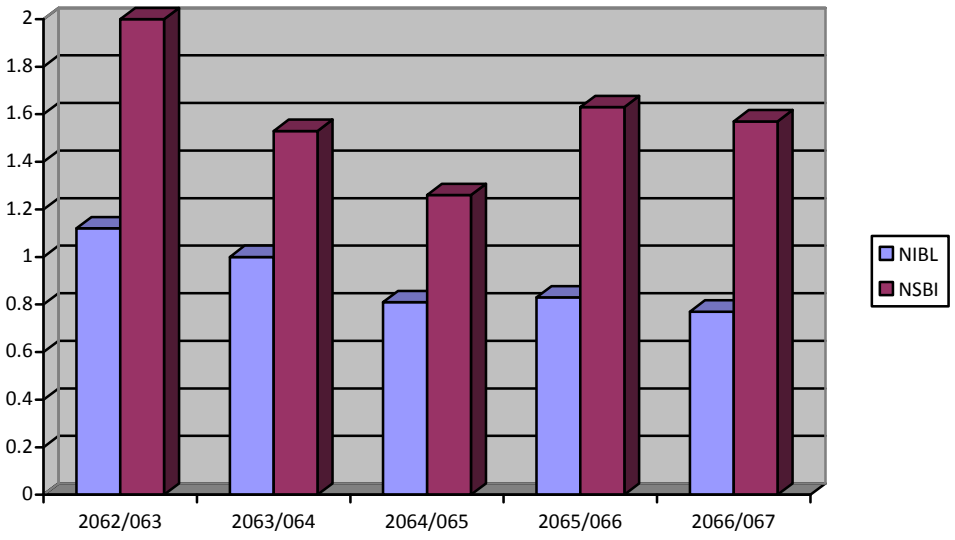
The average percentage of government securities of NIBL and NSBI 10.13% and 18.56% respectively. NIBL has invested small portion of current assets in his government securities.

4.2.6 Miscellaneous Current Assets

According to the table no. 4.2; it is clear that miscellaneous current assets percentage of sample banks is fluctuating all over the study period. Following bar diagram shows it clearly.

Bar Diagram 4.5

Miscellaneous Current Assets



According to above bar diagram, the sample banks allocate their miscellaneous current assets as their needs.

NIBL,

In the first year, miscellaneous current assets are 1.12% and it is slowly decreased to 1% and 0.81% in second and third year respectively. In the fourth year, it is slowly increased to 0.83% and the final year, it is again decreased to 0.77%.

NSBI,

In the first year, the bank has invested 2% current assets in miscellaneous current assets. In the second and third year, it is decreased to 1.53% and 1.26% respectively. In the fourth year, it is slowly increased to 1.63%. In the final year, it is again slowly decreased to 1.57%.

The average percentage of miscellaneous current assets of NIBL and NSBI are 0.91% and 1.59% respectively. The average percentage of miscellaneous current assets of NSBI has higher than the NIBL.

From the overall analysis of the composition of working capital of NIBL have better utilized their funds on loan and advance to earn interest. NSBI has invested low percentage of total current assets on loan and advance but has invested in money at a call or short notice, miscellaneous current assets and government securities. So, the composition of working capital of sample banks are different.

4.3 Liquidity Position

Liquidity of an organization is directly related with the working capital or current assets and current liabilities of that organization. Liquidity is one of the main objective of working capital management. These ratios provide insight into the present cash solvency in the event of adverse financial condition. In case of banks working capital management is mainly concerned with the liquidity management. And a bank is not operating its function without sound liquidity. To, measure the banks' liquidity position. Various liquidity ratios are calculated.

4.3.1 Current Ratio

The current ratio measures the short-term solvency position of a bank, i.e. ability to meet its current obligations. Higher current ratio indicates better liquidity position. In these words, current ratio represents a margin of safely, i.e. 'cushion' protections for creditors and higher the current ratio, greater the margin of safety, larger the amount of current assets in relation to current liabilities and more the banks liabilities and more the bank's ability to meet its obligations.

The calculation is made by dividing total of current assets by total of current liabilities.

Thus,

$$\textbf{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The following table shows the current ratio of NIBL and NSBI.

Table No. 4.3

Current Ratio (Times)

(Rs. in Million)

Fiscal Year	NIBL			NSBI		
	CA	CL	Ratio	CA	CL	Ratio
2062/063	17,906.12	19,350.83	0.92	13,165.13	11,898.76	1.10
2063/064	23,582.11	24,899.12	0.94	13,840.11	12,469.44	1.11
2064/065	34,184.19	35,123.46	0.97	17,815.92	15,550.70	1.14
2065/066	47,067.16	48,040.61	0.98	19,933.26	28,951.26	0.67
2066/067	51,735.49	51,632.73	1.00	25,637.03	35,217.40	0.73
Average			0.96			0.95
Total Average of the sample banks = 0.95						

(Sources: Appendix 1 & 2)

According to the table 4.3 the sample bank's current ratio is different all over the study period. They allocate their current assets according to their needs.

NIBL,

In the first year, current ratio is 0.92 and it is slowly increased to 0.94 in the second year. In the third year, fourth year and final year, it is even increased to 0.97, 0.98 and 1.00 respectively. The bank has slowly in increasing trend.

NSBI,

The bank has increasing and decreasing trend. In the first year, its current ratio is 1.10. In the second and third year, it is slowly increased to 1.11 and 1.14 respectively. In the fourth year, it is decreased to 0.67. In the final year, the current ratio is increased to 0.73.

The average current ratio of NIBL and NSBI are 0.96 and 0.95 respectively. The total average of current assets of sample banks is 0.95. NSBI has invested small portion in current assets. From the above analysis, it can be concluded that although the banks are not meeting the standard ratio i.e. 2:1. Its current ratio can be considered good. Its current assets excess current liabilities. NIBL has highest current ratio but not meet the standard. However, NIBL is best than NSBI.

4.3.2 Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An assets is liquid if it can be converted into cash immediately or reasonably soon without loss of margin value. Cash is most liquid assets under this study cash and bank balance, money at call or short notice and government securities are included in quick assets. A ratio between quick assets and current liabilities is known as quick ratio. The calculation is made by dividing total quick assets by total current liabilities.

Thus,

$$\textbf{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

The following table shows the quick ratio of NIBL and NSBI.

Table No. 4.4
Quick Ratio (Times)

(Rs. in Million)

Fiscal Year	NIBL			NSBI		
	QA	CL	Ratio	QA	CL	Ratio
2062/063	4,928.82	19,350.83	0.25	5,288.13	11,898.76	0.44
2063/064	6,060.88	24,899.12	0.24	4,168.27	12,469.44	0.33
2064/065	6,909.94	35,123.46	0.20	4,986.53	15,550.70	0.32
2065/066	10,449.30	48,040.61	0.22	4,147.56	28,951.26	0.14
2066/067	11,017.74	51,632.73	0.21	7,754.58	35,217.40	0.22
Average			0.22			0.29
Total Average of the sample banks = 0.26						

(Sources: Appendix 1 & 2)

According to the table 4.4; the sample banks' quick ratio is different all over the study period. They allocate their quick assets according to their needs.

NIBL,

In the first year, quick ratio is 0.25 and it is slowly decreased to 0.24 and 0.20 in the second year and the third year respectively. In the fourth year it is increased to 0.22 and in the final year, it is decreased to 0.21.

NSBI,

In the first year, its quick ratio is 0.44. Then, it is slowly decreased to 0.33, 0.32 and 0.14 in the second, third and fourth year respectively. In the final year, it is increased to 0.22.

The average quick ratio of NIBL and NSBI are 0.22 and 0.29 respectively. The total average of quick assets of sample banks is 0.26. NIBL has invested small portion in quick assets.

From the above analysis, it can be concluded that although the banks are not meeting the standard ratio i.e. 1:1. Its quick ratio can be considered good, as its quick assets equal to current liabilities. There is increasing and decreasing trend of quick ratio of sample banks. NSBI has highest quick ratio than NIBL but not meet the standard. However, NSBI is best than NIBL. NIBL has lowest quick ratio among sample banks so the bank has no sound manageable of working capital.

4.3.3 Cash and Bank Balance to Total Deposit Ratio (Excluding Fixed)

The ratio shows the ability of banks immediate funds to cover their deposit. It can be calculated by dividing cash and bank balance by deposits (excluding fixed deposit).
Thus,

$$\textbf{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit Ratio}} \text{ X } 100\%$$

The following table shows the quick ratio of NIBL and NSBI.

Table No. 4.5
Cash and Bank Balance to Total Deposit Ratio (%)

(Rs. in Million)

Fiscal	NIBL	NSBI

Year	CBB	TD	Ratio	CBB	TD	Ratio
2062/063	2336.52	13514.34	17.29	1481.36	4885.87	30.32
2063/064	2441.51	16972.17	14.38	1472.69	5927.82	24.84
2064/065	3754.94	26507.49	14.17	1646.97	6860.51	24.01
2065/066	7918.00	35064.70	22.58	1176.44	10518.81	11.18
2066/067	6815.89	33269.62	20.49	3441.26	12747.48	26.99
Average			17.78			23.47
Total Average of the sample banks = 20.63						

(Sources: Appendix 1 & 2)

According to the table No. 4.5; the sample bank's cash and bank balance to total deposit ratio is different all over the study period. They allocate their cash and bank balance according to their needs.

NIBL,

In the first year, cash and bank balance to total deposit ratio is 17.29% and it is slowly decreased to 14.38% in the second year. In the third year, it is even decreased to 1.17%. In the fourth year it is increased to 22.58% and in the final year, it is decrease to 20.49%.

NSBI

In the first year, cash and bank balance to total deposit ratio is 30.22%. Then, the second, third and fourth year it is decreased to 24.84%, 24.01% and 11.18% respectively. In the final year, it is increased to 26.99%.

The average cash and bank balance to total deposit ratio of NIBL and NSBI are 17.78% and 23.47% respectively. The total average of cash and bank balance to total deposit ratio of sample banks is 20.63%. NIBL has invested small portion in cash and bank balance.

From the above analysis, it can be concluded that although the banks have decreasing and increasing trend. An idle cash and bank balance badly affected the profitability of the bank as well. So, the decreasing trend can be considered as a plus point of the

bank but the same time low cash and bank balance reduces the promptness of bank to reply its current, margin, call and saving deposits whether demanded by its customers. So, the banks must be careful about it. NIBL has lowest cash and bank balance to total deposit ratio. So, the bank invested their funds to earn more interest. NSBI has greater cash and bank balance to total deposit ratio. So, NSBI have more idle fund and less risky.

4.3.4 Saving Deposit to Total Deposit Ratio

Saving deposit is interest bearing short-term deposit. The ratio is developed in order to find out the proportion of saving deposit. Which is interest bearing and short-term in nature. It is calculated by dividing the total amount of saving deposit by the amount of total deposit. Which is as follows?

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Total Saving Deposit}}{\text{Total Deposit}} \text{ X } 100\%$$

The following table shows the saving deposit to total deposit ratio of NIBL and NSBL.

Table No. 4.6

Saving Deposit to Total Deposit Ratio (%)

(Rs. in Million)

Fiscal Year	**NIBL**			**NSBI**		
	SD	**TD**	**Ratio**	**SD**	**TD**	**Ratio**
2062/063	8081.98	18927.31	42.70	2832.64	11002.04	25.75
2063/064	10742.33	24488.86	43.87	3274.69	11445.29	28.61
2064/065	13688.77	34451.73	39.73	4176.18	13715.4	30.41
2065/066	17066.25	46698.10	36.55	5822.29	27957.22	20.83
2066/067	14324.25	50094.72	28.58	1348.97	34896.43	21.06
Average			38.29			25.33
Total Average of the sample banks = 31.81						

(Sources: Appendix 1 & 2)

According to the table No. 4.6 the sample bank's saving deposit to total deposit ratio is different all over the study period.

NIBL,

The bank has increasing and decreasing trend. In the first year, saving deposit to total deposit ratio is 42.70%. It is slowly increased to 43.87% in the second year. In the third, fourth and final year saving deposit to total deposit ratio decreased to 39.73%, 36.55% and 28.59% respectively.

NSBI,

In the first year, saving deposit to total deposit ratio is 25.75% and it is slowly increased to 28.61% and 30.41% in the second and third year respectively. In the fourth year it is decreased to 20.83%. In the final year, it is slowly increased to 21.06%.

The average saving deposit to total deposit ratio of NIBL and NSBI are 38.29% and 25.33% respectively. The total average of saving to total deposit ratio of sample banks is 31.81%. NSBI has lowest portion of saving deposit.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Higher saving deposit shows higher risk and highest gain. So, the large amount of saving deposit in total deposit shows the high liquidity of the bank. For saving deposit bank has to pay interest but current, margin and other deposit non-interest bearing deposit. They are nominal cost fund. As the bank has to pay on saving deposit, higher amount of saving deposit to total deposit increases the burden of interest payment to the bank, which may affect the profitability. So, the bank must be careful about it. NSBI has lowest saving to total deposit ratio. So, the bank has lowest burden and low risk. However, NIBL has greater saving to total deposit ratio. So, the bank has more burden and high risky. NSBI has sounded manageable of working capital and lowest risky.

4.4 Activity Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also employed to evaluate the speed with which

assets are being converted and turnover. These ratios moreover, help in measuring the bank's ability to utilize their available resources. It has had direct impact on the efficiency of the company. There are no standard of ideal management through a greater turnover is regarded as efficient utilization of the assets.

4.4.1 Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which banks are successful in utilizing the profit generating purpose. In other words how quickly collected deposits total are converted into loan and advances given to the client to earn income. It is calculated by dividing loan and advance by total deposit.

Thus,

$$\text{Loan an Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit Ratio}} \text{ X } 100\%$$

The following table shows the loan and advance to total deposit ratio of NIBL and NSBI.

Table No. 4.7

Loan and Advance to Total Deposit Ratio (%)

(Rs. in Million)

Fiscal Year	NIBL			NSBI		
	L & A	TD	Ratio	L & A	TD	Ratio
2062/063	12776.21	18927.31	67.50	7626.74	11002.04	69.32
2063/064	17286.43	24488.86	70.59	9460.45	11445.29	82.66
2064/065	26996.65	34451.73	78.36	12113.70	13715.40	88.32
2065/066	36241.21	46698.10	77.61	15131.75	27957.22	54.12
2066/067	40318.31	50094.72	80.48	17480.55	34896.43	50.10
Average			74.91			68.91
Total Average of the sample banks = 71.91						

(Sources: Appendix 1 & 2)

According to the table No. 4.7 the sample bank's loan and advance to total deposit ratio is different all over the study period.

NIBL,

In the first year, loan and advance to total deposit ratio is 67.50% and it is increased to 70.59% and 78.36% in the second and third year. In the fourth year, it is decreased to

77.61%. In the final year, loan and advance to total deposit ratio is increased to 80.48%.

NSBI,

The bank has increasing and decreasing trend. In the first year, loan and advance to total deposit ratio is 69.32% and it slowly increased to 82.66% in the second year. In the third year, it is even increased to 88.32%. In the fourth and final year, loan and advance to total deposit ratio is decreased to 54.12% and 50.10% respectively.

The average loan an advance to total deposit ratio of NIBL and NSBI are 74.91% and 68.91% respectively. The total average of loan an advance to total deposit ratio of sample banks is 71.91%. NIBL has highest portion of loan an advance to total deposit ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Higher loan and advance to total deposit ratio shows higher risk and higher turnover. So, NIBL has invested its deposit in loan and advance to earn higher a profit. However, NSBI has lower loan and advance to total deposit ratio. So, it is less risky and earn lower profit. NIBL has sound manageable of working capital.

4.4.2 Loan and Advance to Fixed Deposit Ratio

This ratio examines that how many times the fund is used in loan and advances against fixed deposit. Fixed deposits are interest bearing long term obligation where as loan and advances are the major sources of investment in generating income for commercial bank. This ratio indicates how many times the long term interest bearing deposits are utilized for generating income. It is calculated by dividing the amount of loan and advances by total deposit in fixed account. The ratio is calculated as follows:-

$$\textbf{Loan and Advance to Fixed Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Fixed Deposit Ratio}} \text{ X } 100\%$$

The following table shows the loan and advance to fixed deposit ratio of NIBL and NSBL.

Table No. 4.8

Loan and Advance to Fixed Deposit Ratio (%)

Fiscal Year	NIBL			NSBI		
	L & A	FD	Ratio	L & A	FD	Ratio
2062/063	12776.21	5412.97	236.03	7626.74	6116.17	124.70
2063/064	17286.43	7516.69	229.97	9460.45	5517.47	171.72
2064/065	26996.65	7944.23	339.83	12113.70	6854.89	176.72
2065/066	36241.21	11633.40	311.53	15131.75	17438.41	86.77
2066/067	40318.31	16825.10	239.63	17480.55	22148.95	78.92
Average			271.40			127.71
Total Average of the sample banks = 199.55						

(Sources: Appendix 1 & 2)

According to the table No. 4.8 the sample bank's loan and advance to fixed deposit ratio is different all over the study period.

NIBL,

In the first year, loan and advance to fixed deposit ratio is 236.03% and it is slowly decreased to 229.97% in the second year. In the third year, it is increased to 339.83%. In the fourth year, loan and advance to fixed deposit ratio decreased to 311.53% and it is again decreased to 239.63% in the final year.

NSBI,

The bank has increasing and decreasing trend. In the first year, loan and advance to fixed deposit ratio is 124.70% and in the second year, it is increased to 171.46%. It is even increased to 176.72% in the third year. In the fourth year, it is decreased to 86.77%. In the final year, loan and advance to fixed deposit ratio is decreased to 78.92%.

The average loan and advance to fixed deposit ratio of NIBL and NSBI are 271.40% and 127.71% respectively. The total average of loan and advance to fixed deposit ratio of sample banks is 199.55%. NIBL has highest portion of loan and advance to fixed deposit ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Higher loan and advance to total fixed deposit ratio shows lowest risk and higher turnover. So, NIBL has invested more in loan and advance to earn highest profit than NSBI. NSBI has invested less in loan and advance. So, it has higher risk and it has lower portion to earn NIBL has sound manageable of working capital.

4.4.3 Loan and Advance to Saving Deposit Ratio

These ratios examine that how many times the funds is used in loan and advances against saving deposits. For commercials banks, saving deposits are short-term interest bearing obligations, whereas investment in loans and advances are the main sources of earning. The ratio is computed dividing loans and advances by saving deposit as under. A low ratio indicates idle cash balance. It means total funds not properly utilized. The ratio is calculated as follows:-

$$\textbf{Loan and Advance to Saving Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Saving Deposit}} \text{ X } 100\%$$

The following table shows the loan and advance to saving deposit ratio of NIBL and NSBI.

Table No. 4.9

Loan and Advance to Saving Deposit Ratio (%)

Fiscal Year	NIBL			NSBI		
	L & A	SD	Ratio	L & A	SD	Ratio
2062/063	12776.21	8081.98	158.08	7626.74	2832.64	269.24
2063/064	17286.43	10742.33	160.92	9460.45	3274.69	288.90
2064/065	26996.65	13688.77	197.22	12113.70	4171.18	290.41
2065/066	36241.21	17066.25	212.36	15131.75	5822.29	259.90
2066/067	40318.31	14324.25	281.47	17480.55	7348.97	237.86
Average			202.01			269.62
Total Average of the sample banks = 235.82						

(Sources: Appendix 1 & 2)

According to the table no. 4.9; the sample bank's loan and advance to saving deposit ratio is different all over the study period.

NIBL,

The bank has in increasing trend. In the first year, loan and advance to saving deposit ratio is 158.08% and it is slowly increased to 160.92% in the second year. In the third

year and fourth year, it is increased to 197.22% and 212.36% respectively. In the final year, loan and advance to saving deposit ratio is increased to 218.47%.

NSBI,

The bank has increasing and decreasing trend. In the first year, loan and advance to saving deposit ratio is 269.24% and it is increased to 288.90% in the second year. It is even increased to 290.41% in the third year. In the fourth year it is decreased to 259.90%. In the final year, loan and advance to saving deposit ratio is decreased to 237.86%.

The average loan and advance to saving deposit ratio of NIBL and NSBI are 202.01% and 269.62% respectively. The total average of loan and advance to saving deposit ratio of sample banks is 235.82%. NSBI has highest portion of loan and advance to saving deposit ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Higher loan and advance to saving deposit ratio shows lower risk and higher turnover. So, NSBI has invested more in loan and advance to earn highest profit than NIBL. NIBL has invested less in loan and advance. So, it has higher risk and it has earned lower portion of profit NSBI has sound manageable of working capital.

4.5 Capital Structure or Leverage Ratio

Leverage refers to the ratio of debt to equity in capital structure of the firm. Debt and equity are long term obligations and remaining parts in the liabilities side of the balance sheet are termed as short term obligations. Both types of obligations are required in forming the capital structure of the firm. The long term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk proportion of outsider fund and owner's capital used by the firm.

4.5.1 Long Term Debt to Net Worth Ratio

Long term debt refers to the amount of fixed deposits and loan of the banks. This ratio measures the proportion of outsiders and owners fund employed in the capitalization

of banks' it is calculated by dividing the fixed obligations of the banks owner's claim. It is calculated as follows:

$$\textbf{Long Term Debt to Net Worth Ratio} = \frac{\text{Long Term Debt}}{\text{Net worth Ratio}} \text{ X } 100\%$$

The following table shows the long term debt to net worth ratio of NIBL and NSBI.

Table No. 4.10

Long Term Debt to Net Worth Ratio (%)

Fiscal Year	**NIBL**			**NSBI**		
	L TD	**NW**	**Ratio**	**L TD**	**NW**	**Ratio**
2062/063	5976.84	1415.44	422.26	6326.43	982.38	643.99
2063/064	8330.29	1878.12	443.54	5730.39	1163.29	492.60
2064/065	9007.04	2686.79	335.23	7076.88	1414.70	500.24
2065/066	12695.75	3907.84	324.88	17691.18	1712.61	1032.99
2066/067	17887.37	4585.39	390.09	22411.69	2450.55	314.56
Average			383.2			716.88
Total Average of the sample banks = 550.04						

(Sources: Appendix 1 & 2)

According to the table no. 4.10; the sample bank's long term debt to net worth ratio is different all over the study period.

NIBL,

In the first year, long term debt to net worth ratio is 422.26% and it is increased to 443.54% in the second year. In the third year, it is decreased to 335.23% and it is even decrease to 324.88% in the fourth year. In the final year, long term debt to net worth ratio increased to 390.09%.

NSBI,

In the first year, long term debt to net worth ratio is 643.99% and it is decreased to 492.60% in the second year. In the third year, long term debt to net worth ratio is increased to 500.24% and it is increased to 1034.99% in the fourth year. In the final year, long term to net worth ratio is decreased to 914.56%. The average long term to net worth ratio of NIBL and NSBI are 383.2% and 716.88% respectively. The total

average of long term to net worth ratio of sample banks is 550.04%. NSBI has highest portion of long term to net worth ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Higher long term to net worth ratio shows higher risk and higher turnover. So, NSBI has invested more on long term debt to earn highest profit. However, NIBL has invested less on long term debt. So, NIBL has less risk and earn lower portion of profit. Here, NSBI has sound manageable of working capital.

4.5.2 Net Fixed Assets to Long Term Debt Ratio

Net fixed assets are applied to both physical and financial assets are compared to the fixed liabilities. It is computed dividing net fixed assets by long term debt.

$$\textbf{Net Fixed Assets to Long Term Debt Ratio} = \frac{\text{Net Fixed Assets}}{\text{Long Term Debt}} \text{ X } 100\%$$

The following table shows the net fixed assets to long term debt ratio of NIBL and NSBI.

Table No. 4.11
Net Fixed Assets to Long Term Debt Ratio (%)

Fiscal Year	**NIBL**			**NSBI**		
	NFA	**LTD**	**Ratio**	**NFA**	**LTD**	**Ratio**
2062/063	343.45	5976.84	5.75	66.71	6326.43	1.05
2063/064	759.46	8330.29	9.12	97.22	5730.39	1.69
2064/065	970.10	9007.04	10.77	120.22	7076.88	1.70
2065/066	1060.75	12695.75	8.35	253.58	17691.18	1.43
2066/067	1136.24	17887.37	6.35	418.25	22411.69	1.87
Average			8.07			1.55
Total Average of the sample banks = 4.81						

(Sources: Appendix 1 & 2)

According to the table no. 4.11; the sample bank's net fixed assets to long term debt ratio is different all over the study period.

NIBL,

The bank has increasing and decreasing trend. In the first year, a net fixed asset to long term debt ratio is 5.75% and it is increased to 9.12% in the second year. It is even increased to 10.77% in the third year. In the fourth year, it is decreased to 8.35% and in the final year, it is decreased to 6.35%.

NSBI,

In the first year, net fixed asset to long term debt ratio is 1.05% and it is slowly increased to 1.69% in the second year. In the third year, it is even increased to 1.70%. In the fourth year, it is decreased to 1.43%. In the final year, a net fixed asset to long term debt ratio is increased to 1.87%.

The average net fixed assets to long term debt ratio of NIBL and NSBI are 8.07% and 1.55% respectively. The total average of net fixed assets to long term debt ratio of sample banks is 4.81%. NIBL has highest portion of net fixed assets to long term debt ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend and very low portion of long term debt is used in the fixed assets. It means large portion of long term debt is used in the capital formulation of the sample banks.

4.6 Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. Under this study various profitability ratios are developed upon the profit under different circumstances to measure the operation efficiency of these three sample banks.

4.6.1 Interest Earned to Total Assets Ratio

This ratio helps to find out how much a firm has earned interest from its investment with reference to its total assets. It is the ratio, which formed to find out the percentage of the interest earned to total assets. This is derived by dividing the

amount of interest earned by the total assets of the bank. It is calculated in following ways.

Interest Earned to Total Assets Ratio = $\frac{\text{Interest Earned}}{\text{Total Assets}}$ X 100%

The following table shows the interest earned to total assets ratio of NIBL and NSBI.

Table No. 4.12

Interest Earned to Total Assets Ratio (%)

Fiscal Year	NIBL			NSBI		
	IE	TA	Ratio	IE	TA	Ratio
2062/063	1172.74	21330.14	5.50	708.72	13035.84	5.44
2063/064	1584.99	27590.84	5.74	831.12	13901.20	5.98
2064/065	2194.28	38873.31	5.64	970.51	17187.45	5.65
2065/066	3267.94	53010.80	6.16	1460.45	30916.64	4.72
2066/067	4653.52	57305.41	8.12	2269.70	38047.68	5.97
Average			6.23			5.55
Total Average of the sample banks = 5.89						

(Sources: Appendix 1,2,3 & 4)

According to the table no. 4.12; the sample bank's interest earned to total assets ratio is different all over the study period.

NIBL,

In the first year, interest earned to total assets ratio is 5.50% and it is slowly increased to 5.74% in the second year. In the third year, it is decreased to 5.64% and it is increased to 6.16% in the fourth year. In the final year, interest earned to total assets ratio increased to 8.12%.

NSBI,

The bank has increasing and decreasing trend. In the first year, interest earned to total assets ratio is 5.44% and it is slowly increased to 5.98% in the second year. In the third year, it is decreased to 5.65% and it is even decreased to 4.72% in the fourth year. In the final year, interest earned to total assets ratio is increased to 5.97%.

The average interest earned to total assets ratio of NIBL and NSBI are 6.23% and 5.55% respectively. The total average of interest earned to total assets ratio of sample banks is 5.89%. NIBL has highest portion of interest earned to total assets ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. NIBL has highest portion of interest earned to total assets ratio, it means NIBL earns more interest on the basis of total assets but the bank has not satisfactory earn. However, NSBI has less interest earn to total assets ratio. So, NSBI has not sound manageable of working capital.

4.6.2 Net Profit to Total Assets Ratio

This ratio helps to find out the profitability of all financial resources invested in the firm's assets. The return on assets (ROA) or net profit to assets ratio is calculated by dividing the amount of net profit by the amount of total assets employed. The ratio can be express as follows.

$$\textbf{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} \text{ X } 100\%$$

The following table shows the net profit to total assets ratio of NIBL and NSBI.

Table No. 4.13

Net Profit to Total Assets Ratio (%)

Fiscal Year	NIBL			NSBI		
	NPAT	TA	Ratio	NPAT	TA	Ratio
2062/063	350.54	21330.14	1.64	117.00	13035.84	0.89
2063/064	501.40	27590.84	1.82	254.91	13901.20	1.83
2064/065	696.73	38873.31	1.79	247.77	17187.45	1.44
2065/066	900.62	53010.80	1.69	316.37	30916.64	1.02
2066/067	1265.35	57305.41	2.21	391.74	38047.68	1.03
Average			1.83			1.24
Total Average of the sample banks = 1.54						

(Sources: Appendix 1,2,3 & 4)

According to the table no. 4.13; the sample bank's net profit to total assets ratio is different all over the study period.

NIBL,

In the first year, net profit to total assets ratio is 1.64% and it is slowly increased to 1.82% in the second year. In the third year, it is decreased to 1.79% and it is even decreased to 1.69% in the fourth year. In the final year, net profit to total assets ratio increased to 2.21%.

NSBI,

The bank has increasing and decreasing trend. In the first year, net profit to total assets ratio is 0.89% and it is increased to 1.83% in the second year. In the third year, it is decreased to 1.44% and it is even decreased to 1.02% in the fourth year. In the final year, net profit to total assets ratio is increased to 1.03%.

The average interest earned to total assets ratio of NIBL and NSBI are 1.83% and 1.24% respectively. The total average of net profit to total assets ratio of sample banks is 1.54%. NIBL has highest portion of net profit to total assets ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Both the sample banks profitability position is not good. NIBL has earn more net profit on the basis of its total assets. However, NSBI has less net profit to total assets ratio. So, it has not earned sound profit.

4.6.3 Net Profit to Shareholders' Equity Ratio

This ratio tells us the earning power on shareholders' book investment and is frequently used in comparing two or more firms in an industry. The return on equity or net profit to shareholders equity ratio is calculated by dividing the amount of net profit after tax by the amount of net worth. The following formula is used to calculated net profit to total deposit ratio.

$$\textbf{Net Profit to Shareholders' Equity Ratio} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}} \text{ X } 100\ \%$$

The following table shows the net profit after tax to net worth of NIBL and NSBI.

Table No. 4.14

Net Profit to Shareholders' Equity Ratio (%)

Fiscal Year	NIBL			NSBI		
	NPAT	**NW**	**Ratio**	**NPAT**	**NW**	**Ratio**
2062/063	350.54	1415.44	24.77	117.00	982.38	11.91
2063/064	501.40	1878.12	26.70	254.91	1163.29	21.91
2064/065	696.73	2686.79	25.93	247.77	1414.70	17.51
2065/066	900.62	3907.84	23.05	316.37	1712.61	18.47
2066/067	1265.35	4585.39	27.61	391.74	2450.55	15.99
Average			25.61			17.16
Total Average of the sample banks = 21.39						

(Sources: Appendix 1,2,3 & 4)

According to the table no. 4.14; the sample bank's net profit after tax to net worth is different all over the study period.

NIBL,

The bank has increasing and decreasing trend. In the first year, net profit after tax to net worth is 24.77% and it is increased to 26.70% in the second year. In the third year, it is decreased to 25.93% and it is also decreased to 23.05% in the fourth year. In the final year, net profit after tax to net worth is increased to 27.61%.

NSBI,

In the first year, net profit after tax to net worth is 11.91% and it is increased to 21.91% in the second year. In the third year, it is decreased to 17.51% and it is increased to 18.47% in the fourth year. In the final year, net profit after tax to net worth is decreased to 15.99%.

The average net profit after tax to net worth of NIBL and NSBI are 25.61% and 17.16% respectively. The total average of net profit after tax to net worth of sample banks is 21.39%. NIBL has highest portion of net profit after tax to net worth ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Both the sample banks profitability position is not good. NIBL earns

more net profit on basis of its net worth. However, NSBI has weak position, so NSBI has not more efficient using its working fund.

4.6.4 Net Profit to Total Deposit Ratio

This ratio is used for measuring the internal rate of return from deposits. It is computed by dividing the net profit by total deposits. The following formula is used to calculate not profit to total deposit ratio.

Net Profit to Total Deposit Ratio $= \frac{\text{Net profit}}{\text{Total Deposit}} \text{ X } 100\%$

The following table shows the net profit after tax to total deposit ratio of NIBL and NSBI.

Table No: 4.15

Net profit to Total Deposit Ratio (%)

Fiscal Year	NIBL			NSBI		
	NPAT	Td	Ratio	NPAT	TD	Ratio
2062/063	350.54	18927.31	1.85	117.00	11002.04	1.06
2063/064	501.40	24488.86	2.05	254.91	11445.29	2.23
2064/065	696.73	34451.73	2.02	247.77	13715.40	1.81
2065/066	900.62	46698.10	1.93	316.37	27957.22	1.13
2066/067	1265.35	50094.72	2.53	391.74	34896.43	1.12
Average			2.08			1.47
Total Average of the sample banks = 1.77						

(Sources: Appendix 1,2,3 & 4)

According to the table no. 4.15; the sample banks' net profit after tax to total deposit ratio is different all over the study period.

NIBL,

The bank has increasing and decreasing trend. In the first year, net profit after tax to total deposit ratio is 1.85% and it is slowly increased to 2.05% in the second year. In the third year, it is decreased to 2.02% and it is even decreased to 1.93% in the fourth year. In the final year, net profit after tax to total deposit ratio is increased to 2.53%.

NSBI,

In the first year, net profit after tax to total deposit ratio is 1.06% and it is increased to 2.23% in the second year. In the third year, it is decreased to 1.81% and in the fourth year, it is decreased to 1.13%. In the final year, net profit after tax to total deposit ratio is decreased to 1.12%.

The average net profit after tax to total deposit ratio of NIBL and NSBI are 2.08% and 1.47% respectively. The total average of net profit after tax to total deposit ratio of sample banks is 1.78%. NIBL has highest portion of net profit after tax to total deposit ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Both the sample banks' profitability position is not good. NIBL earns more net profit on basis of its total deposit. However, NSBI has weak position. So, NSBI has not more efficient using its working fund.

4.6.5 Services Cost to Total Deposit Ratio

A sound management always tries to utilize its larger amount of assets with minimum cost. This ratio is useful in measuring the assets utilization with cost of services. The ratio is computed dividing the cost of services by total assets.

$$\textbf{Services Cost to Total Assets Ratio} = \frac{\text{Services Cost}}{\text{Total Assets}} \text{ X } 100\%$$

The following table shows the services cost to total assets ratio of NIBL and NSBI.

Table No: 4.16

Services Cost to Total Assets Ratio (%)

Fiscal Year	NIBL			NSBI		
	SC	TA	Ratio	SC	TA	Ratio
2062/063	611.61	21330.14	2.87	385.31	13035.84	2.96
2063/064	830.90	27590.84	3.01	465.49	13901.20	3.35
2064/065	1137.53	38873.31	2.93	529.81	17187.45	3.08
2065/066	1912.69	53010.80	3.61	946.69	30916.64	3.06
2066/067	2833.70	57305.41	4.94	1574.03	38047.68	4.14
Average			3.47			3.32
Total Average of the sample banks = 3.40						

(Sources: Appendix 1,2,3 & 4)

According to the table no. 4.16; the sample banks' services cost to total assets ratio is different all over the study period.

NIBL,

The bank has increasing and decreasing trend. In the first year, services cost to total assets ratio is 2.87% and it is increased to 3.01% in the second year. In the third year, it is decreased to 2.93% and it is increased to 3.61% in the fourth year. In the final year, services cost to total assets ratio is increased to 4.94%.

NSBI,

In the first year, services cost to total assets ratio is 2.96% and it is increased to 3.35% in the second year. In the third year, it is decreased to 3.08% and it is decreased to 3.06% in the fourth year. In the final year, services cost to total assets ratio is increased to 4.14%.

The average services cost to total assets ratio of NIBL and NSBI are 3.47% and 3.32% respectively. The total average of services cost to total assets ratio of sample banks is 3.40%. NIBL has highest portion of services cost to total assets ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Both the sample banks profitability position is not good. NIBL earns

more net profit on basis of its total assets. However, NSBI has weak position. So, it has not using its working fund more efficiently.

4.7 Trend Analysis

The tools that are used to shows grandly increase or decrease of variables over the selected period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly. It is a part of time series analysis. For a long period it is desire to indicate whether the present data is increasing or decreasing. It is also attempted to find out growth factor. The trend analysis projects the rate of change, so that budgeting and planning can be made easier. Therefore, trend analysis is taken as a tool to find out future behaviour of the data. Least square method of trend analysis is used for the study.

4.7.1 Trend Analysis of Cash and Bank Balance

Under this topic an efforts has been made to calculate the trend values of NBBL and NSBI for five years from mid July 2005/06 to 2009/10 and forecasted for next five years from mid July 2010/11 to 2014/15.

Table No. 4.17

Trend Value of Cash and Bank Balance of NIBL and NSBI

Fiscal Year	Trend Value of NIBL	Trend value of NSBI
2005/06	1766.33	1119.02
2006/07	3209.85	1481.44
2007/08	4653.37	1843.74
2008/09	6096.89	2206.10
2009/10	7540.41	2568.46
2010/11	8983.93	2930.82
2011/12	10427.45	3293.18
2012/13	11870.97	3655.54
2013/14	13314.49	4017.90
2014/15	14758.01	4380.26

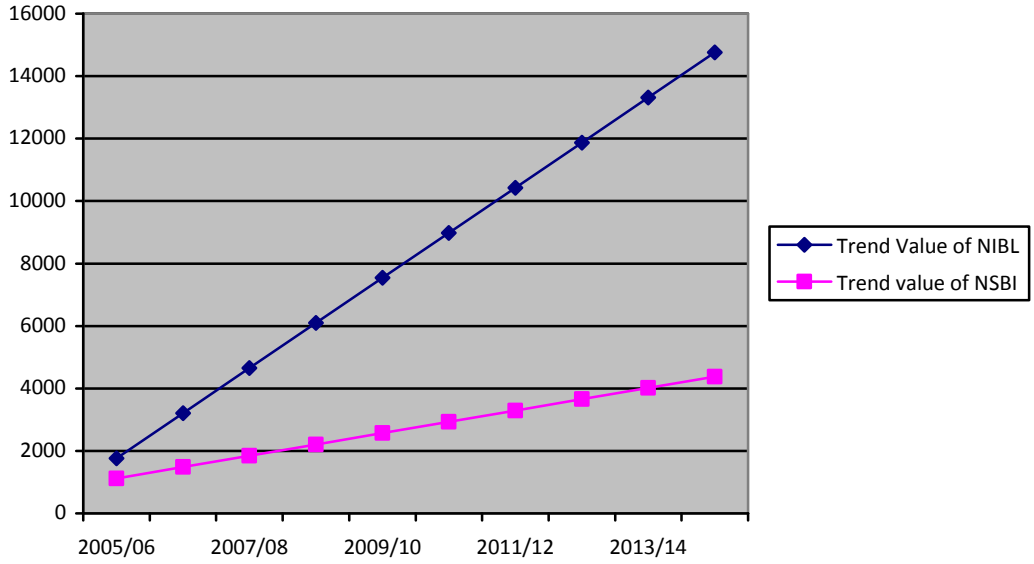
(Source: Appendix 5)

Table No. 4.17 shows that the trend analysis of cash and bank balance of NIBL and NSBI is increasing trend in every fiscal year 2005/06 to 2014/15 of the study period. According to the trend analysis principle, if the value of 'b' is positive that means the trend is increasing. The cash and bank balance of NIBL and NSBI have in the increasing trend. Cash and bank balance of NIBL is higher among the two banks, under the study period. The calculated value of 'b' is 1443.52 million of NIBL that

indicate the trend value is increasing by 1443.52 million per year and the calculated value of 'b' is 362.36 million of NSBI. Which indicate the trend value is increasing by 362.36 million. In the above table the given value of fiscal year 2010/11 to 2014/20 is forecasted value and it is assumed that the value is increasing per year by 1443.52 million of NIBL and 362.36 million of NSBI.

Figure No. 4.6

Trend Analysis of Cash and Bank Balance of NIBL and NSBI



4.7.2 Trend Analysis of Money at Call or Short Notice of NIBL and NSBI

Here the trend values of money at call or short notice of NIBL and NSBI have been calculated for five years from mid July 2005/06 to 2009/10 and forecasted for next five year from 2010/11 to 2014/15.

Table No. 4.18

Trend Value of Money at Call or Short Notice of NIBL and NSBI

Fiscal Year	Trend Value of NIBL	Trend value of NSBI
2005/06	317.08	445.67
2006/07	266.78	367.67
2007/08	216.49	289.67
2008/09	166.19	211.67
2009/10	155.89	133.67

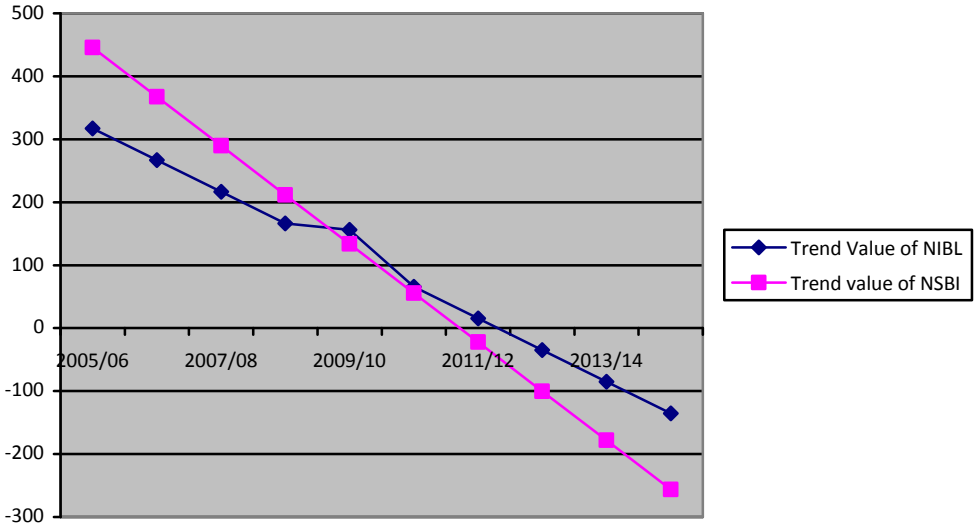
2010/11	65.59	55.67
2011/12	15.30	-22.33
2012/13	-35.00	-100.33
2013/14	-85.30	-178.33
2014/15	-135.59	-256.33

(Source: Appendix 6)

The table no. 4.18 shows that the trend value of money at call or short notices of two banks have in decreasing trend. The trend value of money at call or short notice of NSBI is higher than NIBL in the fiscal year 2005/06 and 2009/10. In the fiscal year 2010/11 and 2011/12, the trend value of money at call or short notice of NIBL is higher than NSBI. In the forecasted fiscal year of next five year from 2010/11 to2014/15, the NSBI has maintained highest decreasing trend.

Figure No. 4.7

Trend Analysis of Money at Call or Short Notice of NIBL and NSBI



4.7.3 Trend Analysis of Loan & Advance of NIBL and NSBI

Here trend values of Loan & advance of NIBL and NSBI have been calculated for five years from mid July 2005/06 to 2009/10 and forecasted for next five year from 2010/11 to 2014/15.

Table No. 4.19
Trend Value of Loan & Advance of NIBL and NSBI

Fiscal Year	Trend Value of NIBL	Trend value of NSBI
2005/06	11915.96	7286.86
2006/07	19319.86	9824.75
2007/08	26723.76	12362.64
2008/09	34127.71	14900.53
2009/10	41531.61	17438.42
2010/11	48935.51	19976.31
2011/12	56339.41	22514.20
2012/13	63743.31	25052.09
2013/14	71147.21	27589.98
2014/15	78551.11	30127.87

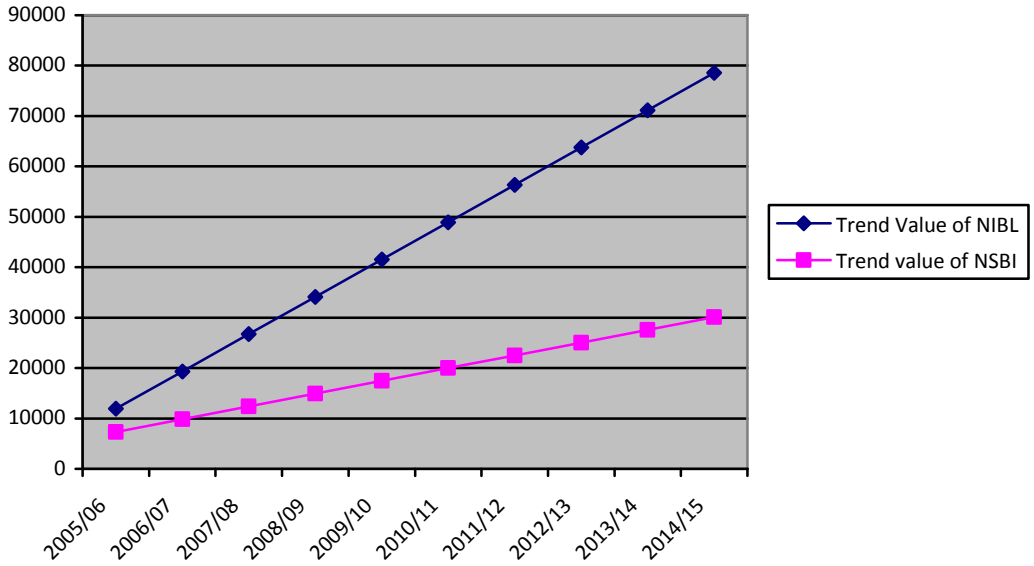
(Source: Appendix 7)

The table no. 4.19 shows the trend value of loan and advance from 2005/06 to 2014/15 of two banks. Loan and advance of both banks have been in increasing trend. If other things remain same, total loan and advances of NIBL and NSBI will be 78551.11 million by 2014/15. Similarly the total loan and advances of NSBI will be 30127.87 million. Total loan and advance of NIBL is highest than NSBI. From the

above analysis it is found the loan and advances position of NSBI is comparatively lower than NIBL i.e. 2537.89 and 7403.90 million respectively.

Figure No. 4.8

Trend Analysis of Loan & Advance of NIBL and NSBI



4.7.4 Trend Analysis of Government Securities

For this topic, an effort made to calculate the trend value of government securities from mid July 2005/06 to 2009/10 have been calculated and forecasted from mid July 2010/11 to 2014/15. The table no 4.7.4 shows the trend values of government securities from mid July 2005/06 to 2014/15 of the NIBL and NSBI.

Table No. 4.20
Trend Value of Loan & Advance of NIBL and NSBI

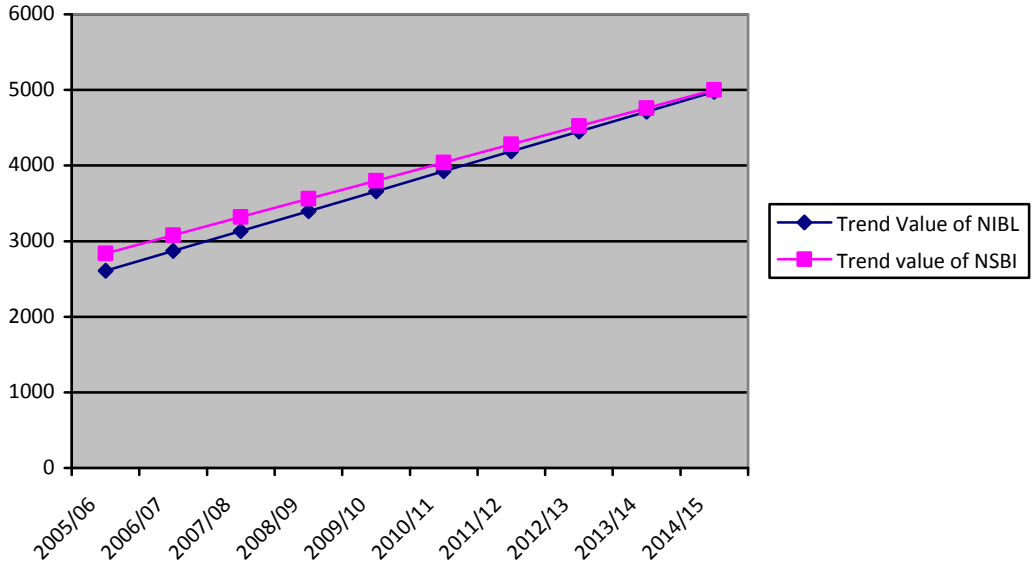
Fiscal Year	Trend Value of NIBL	Trend value of NSBI
2005/06	2606.57	2837.74
2006/07	2869.97	3078.15
2007/08	3133.37	3318.56
2008/09	3396.77	3558.97
2009/10	3660.17	3799.38
2010/11	3923.57	4039.79
2011/12	4186.97	4280.20
2012/13	4450.37	4520.61
2013/14	4713.77	4761.02
2014/15	4977.17	5001.43

(Source: Appendix 8)

Government securities of NIBL and BSBI have the increasing trend value. The government securities of NIBL will be 4977.17 million in the mid July 2014, which is lowest in comparison with NSBI i.e. 4977.17<50001.43 million. In this way, we can say that NIBL has invested less in government securities. NSBI has invested in government sector due to low risk and priory sector.

Figure No. 4.9

Trend Analysis of Government Securities of NIBL and NSBI



4.7.5 Trend Analysis of Net Profit

Under this topic, an effort has been made to analyze profit of NIBL and NSBI from mid July 2005/06 to 2009/10 and forecasted from mid July 2010/11 to 2014/15, the table no. 4.21 shows the trend values of net profit of 10 years from mid July 2005/06 to 2014/15.

Table No. 4.21

Trend Analysis of Net Profit of NIBL and NSBI

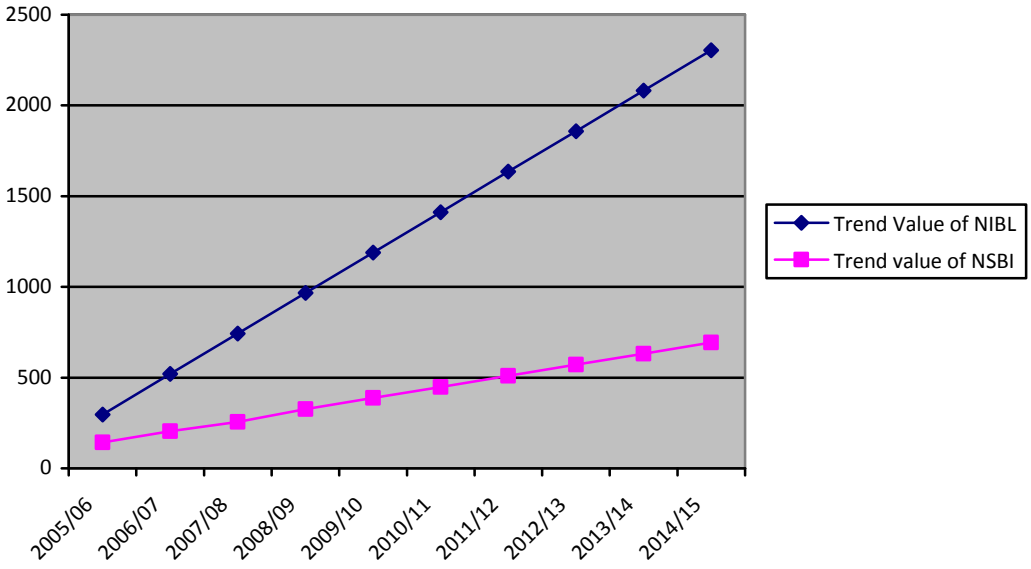
Fiscal Year	Trend Value of NIBL	Trend value of NSBI
2005/06	297.05	143.38
2006/07	520.05	204.47
2007/08	743.05	256.56
2008/09	966.05	326.65
2009/10	1189.05	387.74
2010/11	1412.05	448.83
2011/12	1635.05	509.92
2012/13	1858.05	571.01
2013/14	2081.05	632.10
2014/15	2304.05	693.19

(Source: Appendix 9)

The above table 4.21 shows the net profit of two banks. Both banks have in the increasing trend. The net profit will be 693.19 million in the mid July 2014/15 which lowest in comparison with NIBL i.e. 693.19<2304.05. The calculated value of 'b' of NIBL and NSBI is 223 and 61.9 million respectively. In the above table the given values of fiscal year 2010/11 to 2014/15 is forecasted value and it is assumed that the net profit is increasing per year by 223 million and 61.09 million in NIBL and NSBI respectively.

Figure 4.10

Trend Analysis of Net Profit of NIBL and NSBI



4.8 Correlation Analysis

Correlation is the statistical tool, which measure the relationship between two or more variables of a population or a sample. In other words, it describes the degree to which one variable is linearly related to another. The coefficient of correlation measure the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Person's method is applied in the study. The result of coefficient of correlation is always between +1 and -1 when r is +1, it means there is perfect relationship between two variables and vice versa. Where r is 0 it means there is no relationship between two of them.

4.8.1 Co-efficient of Correlation between Investment on Government Securities and Total Deposit

The co-efficient of correlation between investment on government securities and total deposit is to measure the degree of relationship between government securities and total deposit. Banks utilize their collected deposit on loan and advance as well as in government securities. But commercial banks use large amount of deposit on loan and advances. Only the idle deposit is invested on government securities. The purpose computing correlation is to justify whether the excess deposits are significantly used in government securities or not or whether there is any relationship between these two variables. The following table shows the coefficient of correlation between deposits and government securities.

Table No. 4.22

Bank	Correlation	PEr	6PEr
NIBL	0.33	0.27	1.61
NSBI	0.63	0.18	1.10

Source: Appendix 12 A,B

According to above table no. 4.8.1; shows the correlation, PEr and 6PEr of the sample banks.

NIBL,

The bank has correlation between government securities and total deposit is 0.33 which shows positive correlation, probability error (PEr) is 0.27 and 6PEr is 1.61. Correlation value is less than 6PEr which indicates that there is not significant between government securities and total deposit.

NSBI,

The bank has correlation between government securities and total deposit is 0.63 which shows positive correlation, probability error (PEr) is 0.18 and 6PEr is 1.10. Correlation's value is less than 6PEr which indicates that there is not significant between government securities and total deposit.

It is concluded that both banks NIBL and NSBI have positive correlation but no significant between government securities and total deposit.

4.8.2 Co-efficient of Correlation between Investment on Loan and Advance and Total Deposit

The co-efficient or correlation between investment on loan and advance and total deposit is to measure the degree of relationship between loan and advance and total deposit. Banks utilize their collected deposit on loan and advance. Commercial banks use large amount of deposit on loan and advances to earn more interest. The purpose of computing, correlation coefficient is to justify whether the excess deposits are significantly used in loan and advance or not or whether there is any relationship between these two variables. In correlation analysis, total deposit is independent variable and loan and advance is dependent variable. The following table shows the coefficient of correlation between loan and advance and total deposit.

Table No. 4.23

Bank	Correlation	PEr	6PEr
NIBL	0.98	0.012	0.07
NSBI	0.98	0.11	0.07

Source: Appendix 13 A,B

According to above table no. 4.8.; shows the correlation, PEr and 6PEr of the sample banks.

NIBL,

The bank has correlation between loan and advance and total deposit is 0.98 which shows positive correlation, probability error (PEr) is 0.012 and 6PEr is 0.07 Correlation value is greater than 6PEr which indicates that there is highly significant between loan and advance and total deposit.

NSBI,

The bank has correlation between loan and advance and total deposit is 0.98, probability error (PEr) is 0.011 and 6PEr is 0.07. Correlation's value is greater than

6PEr which indicates that there is highly significant between loan and advance and total deposit.

It is concluded that both banks NIBL and NSBI have positive correlation and highly significant between loan and advance and total deposit.

4.8.3 Co-efficient of correlation between Loan and Advance and Net profit

The co-efficient of correlation between loans and advance and net profit is to measure the degree of relationship between loans and advance and net profit. Commercial banks use large amount of deposit on loan and advances to earn more interest and profit. The purpose of computing correlation coefficient to justify whether the excess deposits are significantly used in loan and advance to earn more net profit or not or whether there is any relation between these two variables. In correlation analysis, total loan and advance is independent variable and net profit is dependent variable. The following table shows the coefficient of correlation between loan advance and net profit.

Table No. 4.24

Bank	Correlation	PEr	6PEr
NIBL	0.97	0.02	0.12
NSBI	0.94	0.03	0.22

Source: Appendix 14 A & B

According to above table no. 4.8.3; shows the correlation, PEr and 6PEr of the sample banks.

NIBL,

The bank has correlation between loan and advance and net profit is 0.97 which shows positive correlation, probability error (PEr) is 0.02 and 6PEr is 0.12. Correlation's value is greater than 6PEr which indicates that there is highly significant between loan and advance and net profit.

NSBI,

The bank has correlation between loan and advance and net profit is 0.94 which shows positive correlation, probability error (PEr) is 0.03 and 6PEr is 0.22. Correlation's value is greater than 6PEr which indicates that there is highly significant between loan and advance and net profit.

It is concluded that both banks NIBL and NSBI has highly significant. Both banks NIBL and NSBI have positive correlation and highly significant between loan and advance and net profit.

4.8.4 Co-efficient of Correlation between Cash and Bank Balance and Current Liabilities

The co-efficient of correlation between cash and bank balance and current liabilities is to measures to degree of relationship between cash and bank balance and current liabilities. Commercial banks use large amount of cash and bank balance to meet their current obligation. The purpose of computing correlation coefficient is to justify whether the excess cash and bank balance are significantly used to meet current obligation or not or whether there is any relationship between these two variables. In correlation analysis, total cash and bank balance is independent variable and current liabilities are dependent variable. The following table shows the coefficient of correlation between cash and bank balance and current liabilities.

Table No. 4.25

Bank	Correlation	PEr	6PEr
NIBL	0.95	0.03	0.18
NSBI	0.64	0.18	1.06

Source: Appendix 13 A,B

According to above table no. 4.8.4 shows the correlation, PEr and 6PEr of the sample banks.

NIBL,

The bank has correlation between cash and bank balance and current liabilities is 0.95 which shows positive correlation, probability error (PEr) is 0.03 and 6PEr is 0.18

Correlation's value is greater than 6PEr which indicates that there is highly significant between cash and bank balance and current liabilities.

NSBI,

The bank has correlation between cash and bank balance and current liabilities is 0.64, which shows positive correlation, probability error (PEr) is 0.18 and 6PEr is 1.06. Correlation's value is less than 6PEr which indicates that there is no significant between cash and bank balance and current liabilities.

It is concluded that NIBL has highly significant. Both banks NIBL and NSBI have positive correlation. Although NSBI has positive correlation but no significant between cash and bank balance and current liabilities.

4.9 Regression Analysis

Regression is the statistical tool which is used to dertermine the statistical relationship between two or more variables and so make estimated of one variable on the basis of the others variable regression is the line which gives the best estimate of one variable for any given value of the other variable. The regression line of y on x estimate the most probable values of y for given values of x.

x is independent variable

y is dependent variable

The regression equation of y on x expressed as y=a+bx

Where, a and b are parameters of the line.

To fine out the exact relationship between different variable simple regressions analysis has been done and results of the analysis have been table.

4.9.1 Regression Equation between Net Profit on Total Working Fund

According to table no. 4.29, shows the regression equation of net profit and net working fund in NIBL and NSBI. According to the table regression equation of net profit on net working fund y=-132.206+0.02209x in NIBL is negative. The regression coefficient is positive i.e. 0.02209 which indicates the positive relationship exists between net profit and net working fund or it can be said that one million increase in

total deposit lead to average 0.02209 million increase in net profit. The value of (a) indicates that if net working fund is 0 then value of net profit is -132.206 million so from an analysis it shows that net profit will be decrease and net working fund also decrease.

Similarly in case of NSBI, regression coefficient of (b) is positive. Which indicates that one million increase in net working fund lead to average about 4.29 regression equation of net profit on net working fund regression coefficient is positive which reveals the positive relationship between net profit and net working fund.

Table No. 4.26

Calculation of Regression Equation between Net Profit on Total Working Fund

Banks	Regression Equation	value (a) constant	Regression Coefficient
NIBL	-132.206+0.02209x	-132.206	0.02209
NSBI	-1564.148+0.8028x	-1564.148	0.08028

(Source: Appendix 30 & 31)

4.9.2 Regression Equation between Net Profit on Total Deposit

According to table no 4.30 is the collection of major output of simple regression analysis of net profit on total deposit.

The regression equation of net profit (x) dependent variable on total deposit (x) independent variable y=518+0.02536 in NIBL is positive i.e. 0.2536 which indicates the positive relationship exists between net profit and total deposit or it can be said that one million increase in total deposit leads to average 0.02536 million increase in net profit. Similarly, in case of NSBI the regression coefficient is positive or in other words one million increases in total deposit leads to average about 0.00243 million increase in net profit. The increase and total deposit also increase. The regression coefficient is positive in both banks which reveals the positive relationship between net profit and total deposit. The value of constant (a) is relatively low in NSBI.

Table No. 4.27

Calculation of Regression Equation between Net Profit on Total Deposit

Banks	Regression Equation	value (a) constant	Regression Coefficient
NIBL	y=518.39+0.2536x	518.39	0.02536
NSBI	y=217.44+0.00243x	217.44	0.00243

(Source: Appendix 32 & 33)

4.10 Test of Hypothesis

Hypothesis test is one of the important applications of statistical interference in decision making. In hypothesis test, an assumption is made about the population parameter. To test whether the assumption or hypothesis is right or not a sample is selected from the population and sample statistic is obtained. The main goal of hypothesis test is to test the characteristics of hypothesized population parameter based on sample information where the differene between population parameter and sample static is significant or not smaller the difference the sample mean is close to hypothesized value and large the difference, the hypothesized value has low change to correct.

In this study three hypothesis sets are set to identify whether there is significant different or not in (i) composition of working capital management, (ii) liquidity position and (iii) profitability position among three sample banks. Here, two complementary are set up at one time i.e. (a) Null hypothesis (H_O) and (b) Alternative hypotheses (H_1). Among these two hypothesis if one is accepted then the other hypothesis is rejected and vice versa.

Hypothesis 1

H_0 : There is no significant difference in composition of working capital among NIBL and NSBI.

H_1 : There is significant difference in composition of working capital among NIBL and NSBI.

Hypothesis 2

H_0 : There is no significant difference in liquidity position among NIBL and NSBI.

H_1 : There is significant difference in liquidity position among NIBL and NSBI.

Hypothesis 3

H_0 : There is no significant difference in profitability position among NIBL and NSBI.

H_1 : There is significant difference in profitability position among NIBL and NSBI.

Since two banks are taken consideration as samples in this study, F-test is applied to test the validity of our assumptions. For applying F-test in the contest of small sample, the F value is calculated first and compared with the table value of F at a 5% level significance for given degree of freedom. If calculated value is greater than tabulated value, the null hypothesis is rejected i.e. the difference is significant at 5% level of significance. But if F is less than the conserving table value of F the null hypothesis is accepted i.e. the different is not significance. For the commutating of value F, analysis of variance (ANOVA), a statistical tool is used. It is powerful statistical technique for the test of significant to evaluate difference among two variables. For the test of hypothesis one factor analysis of variance is used.

4.10.1 Composition of Working Capital

The composition of working capital of sample banks i.e. NIBL and NSBI are tested as follows by formulating null and alternative hypothesis.

Null Hypothesis

H_0 : There is no significant difference in composition of working capital among NIBL and NSBI.

Alternative Hypothesis

H_1 : There is significant difference in composition of working capital among NIBL and NSBI.

The following table shows the mean value, calculated F value and tabulated F value to measure the composition or structure of working capital management of sample banks.

Table No. 4.28

Composition of Working Capital

Working Capital	**NIBL (Mean)**	**NSBI (Mean)**	**Calculated F-value**	**Tabulated F-value**	**Decision**
Cash and Bank Balance	12.88	10.17	2.62	5.32	H_0 accepted
Money at call or short notice	0.97	1.97	9.28	5.32	H_0 reject
Loan and advance	75.71	68.32	4.70	5.32	H_0 accepted
Government Securities	10.13	18.75	8.53	5.32	H_0 reject
Other Current Assets	0.91	1.59	27.20	5.32	H_0 reject

Sources: Appendix 16, 17, 18, 19 & 20

According to above table no. 4.9.1; shows mean, F value and decision of the sample banks.

A. Cash and Bank Balance

The sample banks NIBL and NSBI have cash and bank balance mean values are 12.88 and 10.17. Their calculated (1,8) value is 2.62 and tabulated F value at 5% level of significant for (1,8) is 5.32 i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F, there is no significant difference and H_0 is accepted.

B. Money at Call or Short Notice

The sample banks NIBL and NSBI have money at call or short notice mean values are 0.97 and 1.97. Their calculated F(1,8) value is 9.28 and tabulated F-value at 5% level of signification for (1,8) is 5.32 i.e. $F_{0.05}$(1,8) equal to 5.32. Since, the calculated value of F is greatest than tabulated value of F, there is significant difference and H_0 is rejected.

C. Loan and Advances

The sample banks NIBL and NSBI have loan and advances mean values are 75.71 and 68.32. Their calculated F(1,8) value is 4.70 and tabulated F-value at 5% level of significance for (1,8) is 5.32 i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is less than tabulated value of F, there is no significant difference and H_0 is accepted.

D. Government Securities

The sample banks NIBL and NSBI have government securities mean values are 10.13 and 18.75. Their calculated F(1,8) value is 8.53 and tabulated F-value at 5% level of significance for (1,8) is 5.32 i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

E. Miscellaneous (other) Current Assets

The sample banks NIBL and NSBI have miscellaneous current assets mean values are 0.91 and 1.59. Their calculated F(1,8) value is 27.20 and tabulated F-value at 5% level of significance for (1,8) is 5.32 i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

It is conducted that the sample banks cash and bank balance, loan and advances ratio are accepted but money at call or short notice, government securities and other current assets ratio are significantly different. Although, it is concluded that there is significant difference in composition of working capital among NIBL and NSBI.

4.10.2 Liquidity Position

The liquidity position of sample banks i.e. NIBL and NSBI are tested as follows by formulating null and alternative hypothesis.

Null Hypothesis

H_0 : There is no significant difference in liquidity position among NIBL and NSBI.

Alternative Hypothesis

H_1 : There is significant difference in liquidity position among NIBL and NSBI.

The following table shows the mean value, calculated F value and tabulated F value to measure the Liquidity position of working capital management of sample banks.

Table No. 4.29

Liquidity Position

Working Capital	NIBL (Mean)	NSBI (Mean)	Calculated F-value	Tabulated F-value	Decision
Current Ratio	0.96	0.95	0.019	5.32	H_0 accepted
Quick Ratio	0.22	0.29	1.62	5.32	H_0 accepted
Cash and Bank Balance to Total Deposit	17.78	23.47	2.42	5.32	H_0 accepted
Saving Deposit to Total Deposit	38.29	25.33	14.92	5.32	H_0 reject

Sources: Appendix 21, 22, 23, & 24

According to above table no. 4.9.2; shows mean, F value and decision of the sample banks.

A. Current Ratio

The sample banks NIBL and NSBI have current ratio mean values are 0.96 and 0.95. Their calculated F(1,8) value is 0.019 and tabulated F-value at 5% level of significance for (1,8) is 5.32 i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is less than tabulated value of F, there is no significant difference and H_0 is accepted.

B. Quick Ratio

The sample banks NIBL and NSBI have quick ratio mean values are 0.22 and 0.29. Their calculated F(1,8) value is 1.62 and tabulated F-value at 5% level of significance for (1,8) is 5.32 i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is less than tabulated value of F, there is no significant difference and H_0 is accepted.

C. Cash and Bank Balance to Total Deposit

The sample banks NIBL and NSBI have cash and bank to total deposit mean values are 17.78 and 23.47. Their calculated F(1,8) value is 2.42 and tabulated F-value at 5% level of significance for (1,8) is 5.32 i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is less than tabulated value of F, there is no significant difference and H_0 is accepted.

D. Saving Deposit to Total Deposit

The sample banks NIBL and NSBI have saving deposit to total deposit mean values are 38.29 and 25.33. Their calculated F(1,8) value is 14.92 and tabulated F-value at 5% level of significance for (1,8) is 5.32 i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

It is conducted that the sample banks current ratio, quick ratio and cash and bank balance to total deposit ratio are accepted but saving deposit total deposit ratio is significantly different. Although, it is concluded that there is significant difference in liquidity position among NIBL and NSBI.

4.10.3 Profitability Position

The profitability position of sample banks i.e. NIBL and NSBI are tested as follows by formulating null and alternative hypothesis.

Null Hypothesis

H_0 : There is no significant difference in profitability position among NIBL and NSBI.

Alternative Hypothesis

H_1 : There is significant difference in profitability position among NIBL and NSBI.

The following table shows the mean value, calculated F value and tabulated F value to measure the profitability position of sample banks.

Table No. 4.30

Profitability Position

Ratio	NIBL (Mean)	NSBI (Mean)	Calculated F-value	Tabulated F-value	Decision
Interest Earn to Total Assets	6.23	5.55	1.60	5.32	H_0 accepted
Net profit to Total Assets	1.83	1.24	8.59	5.32	H_0 reject
Net Profit to Shareholders' Equity	25.61	17.16	21.70	5.32	H_0 reject
Net Profit to Total Deposit	2.08	1.47	5.31	5.32	H_0 accepted
Cost of Services to Total Assets	3.47	3.32	0.11	5.32	H_0 accepted
Long term Debt to Net Worth	383.2	716.88	8.82	5.32	H_0 reject
Net Fixed Assets to Long Term Debt	8.07	1.55	49.37	5.32	H_0 reject

Sources: Appendix 25, 26, 27, 28, 29, 30 & 31

According to above table no. 4.9.3 shows mean, F value and decision of the sample banks.

A. Interest Earned to Total Assets Ratio

The sample banks NIBL and NSBI have interest earn to total assets ratio mean values are 6.23 and 5.55. Their calculated F(1,8) value is 1.60 and tabulated F-value at 5% level of significance for (1,8) i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is less than tabulated value of F, there is no significant difference and H_0 is accepted.

B. Net profit to Total Assets Ratio

The sample banks NIBL and NSBI have net profit to total assets ratio mean values are 1.83 and 1.24. Their calculated F(1,8) value is 8.59 and tabulated F-value at 5% level of significance for (1,8) i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

C. Net Profit to Shareholders' Equity Ratio

The sample banks NIBL and NSBI have net profit to shareholders' equity ratio mean values are 25.61 and 17.16. Their calculated F(1,8) value is 21.70 and tabulated F-value at 5% level of significance for (1,8) i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

D. Net Profit to Total Deposit Ratio

The sample banks NIBL and NSBI have net profit to total deposit ratio mean values are 2.08 and 1.47. Their calculated F(1,8) value is 5.31 and tabulated F-value at 5% level of significance for (1,8) i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is less than tabulated value of F, there is no significant difference and H_0 is accepted.

E. Cost of Services to Total Assets Ratio

The sample banks NIBL and NSBI have cost of service to total assets ratio mean values are 3.47 and 3.32. Their calculated F(1,8) value is 0.11 and tabulated F-value at 5% level of significance for (1,8) i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is less than tabulated value of F, there is no significant difference and H_0 is accepted.

F. Long term Debt to Net Worth Ratio

The sample banks NIBL and NSBI have long term debt to net worth ratio mean values are 383.2 and 716.88. Their calculated F(1,8) value is 8.82 and tabulated F-value at 5% level of significance for (1,8) is 5.32 i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

G. Net Fixed Assets to Long Term Debt Ratio

The sample banks NIBL and NSBI have net fixed assets to long term debt ratio mean values are 8.07 and 1.55. Their calculated F(1,8) value is 49.37 and tabulated F-value at 5% level of significance for (1,8) is 5.32 i.e. $F_{0.05}$ (1,8) equal to 5.32. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

It is conducted that the sample banks' net profit to total assets ratio, net profit to shareholders' equity ratio, long term debt to net worth ratio and net fixed assets to

long term debt ratio are significantly different but interest earned to total assets ratio, net profit to total deposit ratio and cost of services to total assets ratio are not significantly different.

4.11 Major Findings

The major findings of this study during the period of five fiscal year i.e. 2062/063 to 2063/064 are summarized as follows.

1. The average major components of the current assets i.e. cash and bank balance, money at call or short notice, loan and advance, government securities and miscellaneous current assets are 12.88%, 0.97%, 75.71%, 10.13% and 0.91% on NIBL ; 10.17, 1.97%, 68.32%, 18.75% and 1.59% on NSBI respectively. It shows cash and bank balance and loan and advance percentages are higher in the NIBL. Money at call or short notice, government securities and miscellaneous are higher in NSBI.
2. The liquidity positions of the sample banks are analyzed with the current ratio, quick ratio and cash and bank balance to total deposit ratio. The average current ratio of NIBL and NSBI are 0.96 and 0.95 respectively. Similarly, average quick ratio of NIBL and NSBI are 0.22 and 0.29 and cash and bank balance to total deposit ratios are 17.78% and 23.47% respectively. NIBL have highest current ratio and NSBI have highest quick ratio and cash and bank balance to total deposit ratio.
3. The average saving deposit to total deposit ratio of NIBL and NSBI are 38.29% and 25.33%. It shows that NIBL have 38.29% deposit on saving account out of total deposit over the study period. NIBL have more short term and less costly sources of fund than NSBI.
4. The activity turnover ratio of banks are analyzed with the loan and advance to total deposit ratio, loan and advances to fixed deposit ratio and loan and advance to saving deposit ratio. The average value of loan and advance to total deposit ratios, loan and advance to fixed deposit ratios and loan and advance to saving deposit ratios are 74.91%, 271.40% and 202.01% on NIBL; 68.91%, 127.71% and 269.62% on NSBI respectively. From the analysis, it is found that NIBL is employing its fund more effectively than NSBI.

5. The profitability position of the sample banks are measured by various angles. It measure the strength and efficient of the banks. Average interest earned to total assets ratio, net profit to total assets ratio (ROA), net profit to shareholders' equity ratio (ROE), net profit to total ratio and services cost to total assets ratio are 6.23%, 1.83%, 25.61%, 2.08% and 3.47% on NIBL; 5.55%, 1.24%, 17.16%, 1.47% and 3.32% on NSBI. NIBL's average interest earned to total deposit ratio, net profit to total assets ratio net profit to shareholders' equity ratio, net profit to total deposit ratio and services cost to total assets ratio are better than NSBI.
6. Leverage measures the long term solvency position of the sample banks. Average long term debt to net worth ratio is 383.2% and 716.88% on NIBL and NSBI respectively. NIBL has lowest ratio than NSBI. Similarly, average net fixed assets to long term debt ratio is 8.07% and 1.55% on NIBL and NSBI respectively. NIBL has highest ratio than NSBI. Although, all the sample banks have lowest net fixed assets portion as compare to long term debt.
7. The trend analysis of cash and bank balance of NIBL and NSBI have increasing trend. From the trend analysis it is forecasted that the cash and bank balance of NIBL in 2014/15 will be 14758.01 million which is higher than NSBI i.e. 14758.01>4380.26 million respectively. The cash and bank balance position is better than NSBI.
8. The trend analysis of money at call or short notice NIBL and NSBI have in decreasing trend. From the trend analysis is forecasted that money at call or short notice of NIBL 2014/15 will be negative 135.59 million and NSBI will be negative 256.33 million. Both banks are maintained decreasing trend.
9. From the trend analysis of loan and advances it has been seen that the total loan and advances of two banks have in increasing trend. Total loan and advances of NIBL will be 78551.11 in the mid July 2014, which is highest amount than NSBI i.e. 78551.11>30127.87 million.
10. From the trend analysis of government securities of NIBL and NSBI have in increasing trend. The government securities of NSBI will be 5001.43 million in the mid July 2014, which is highest than NIBL i.e. 5001.43>4977.17

million. It is forecasted that NSBI will be invested more in government securities in future.

11. The net profits of both two banks have in increasing trend. The net profit of NIBL by the year 2014/15 is projected to be 2304.05 million, which is highest value under the study period. Similarly the total net profit of NSBI will be 693.19 million in 2014/15.
12. Correlation between government securities and total deposit of NSBI is highly significant; it shows there is close relationship between two variables. But there is not close correlation between government securities and total deposit of NIBL. There is significant correlation between loan and advance and total deposit on NIBL and NSBI. The banks have been better utilization of their total deposits on loan and advance to net profit i.e. increase in loan and advance which is positive impact in profit. Correlation between cash and bank balance and current liabilities of NIBL is highly significant but no significant relationship between cash and bank balance and current liabilities of NSBI.
13. From the calculation of hypothesis, the composition of working capital are case and bank balance, money at call or short notice, loan and advances, government securities and miscellaneous current assets are significantly different. There is significance in composition of working capital among NIBL and NSBI. Since, the main value of loan and advance on total current assets of the sample banks are significantly high and invest their fund in income generating sectors.
14. From the calculation of hypothesis, liquidity position of the sample banks current ratio, quick ratio, cash and bank balance to total deposit ratio is significantly different. Since, the mean value of current ratio and saving deposit to total deposit ratio of NIBL is higher than NSBI but quick ratio and cash and bank balance to total deposit ratio of NIBL is lower than NSBI. However, liquidity position of NIBL is better than NSBI. Although, there is significant difference in liquidity position among NIBL and NSBI.
15. From the calculation hypothesis, profitability position of the sample banks net profit to total assets ratio, net profit to shareholders' equity ratio, long term debt to net worth ratio and net fixed assets to long term debt ratio are

significantly different, but no significantly different in interest earned to total assets ratio, net profit to total deposit ratio and cost of services to total assets ratio. Although, it is concluded that there is significant different in profitability position among NIBL and NSBI. The mean value of interest earned to total assets ratio, net profit to total assets ratio, net profit to shareholders equity ratio, net profit to total deposit ratio, cost of services to total assets ratio and net fixed assets to long term debt ratio of NIBL is higher than NSBI, but the mean value of NSBI's long term debt to net worth ratio is higher than NIBL. So, average profitability position of NIBL is sound and manageable than NSBI.

16. The simple regression of net profit on net working fund is negative in the both sample banks NIBL and NSBI. It indicates one million increases in net working fund leads to average 0.02209 and 0.08028 decreases on net profit of NIBL and NSBI respectively.
17. The simple regression of net profit on total deposit is positive in the sample banks NIBL and NSBI. It indicates one million increases on total deposit leads to average 0.02536 and 0.00243 increases on net profit of NIBL and NSBI. Correlation between government securities and total deposit of NSBI is highly significant; it shows there is close relationship between two variables. But there is not close correlation between government securities and total deposit of NIBL. There is significant correlation between loan and advance and total deposit on NIBL and NSBI. The banks have been better utilization of their total deposits on loan and advance to net profit i.e. increase in loan and advance which is positive impact in profit. Correlation between cash and bank balance and current liabilities of NIBL is highly significant but no significant relationship between cash and bank balance and current liabilities of NSBI.

CHAPTER-5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter explains the summary of whole study, conclusion of the study and forwards the applicable recommendations for better and efficient management of working capital management as well as financial performance of NIBL and NSBI to the reader and interest person.

5.1 Summary

Nepal is the landlocked and least developed country, which is locked between the most populace countries in the world, namely china and India which is financially developed by the scarcity of capital has been the main cause of underdevelopment of Nepal. For development requires a fixed supply of medium to long-term capacity funds for the productive investments. Financial institutions are engaged in mobilization of saving from surplus units and deploy funds into the demand units for productive investment. In this respect, financial market plays important role in mobilizing a constant flow of saving and channeling these financial resources for expanding productive capital in the countries. To increase the place of industrialization with in a country huge amount of capital is needed and at the threshold point actual need of bank or financial institution occurs. Bank is such institutions that collect scattered deposit and advance loans. A bank collects deposit from different individuals and institutions. These collected deposits are mobilized by giving loans to different industries, commercial enterprises, individuals etc. In this process, joint venture banks are putting their best effort. Such bank helps to transfer foreign investment and advanced technology from one country to another. Nepal has adopted different liberal and free economy policy to encourage such foreign investment in banking sector.

The main objective of the study was to study the analysis of the working capital management as well as financial performance of joint venture banks i.e. NIBL and NSBI. Most of the financial decisions of the banks are concerned with the current assets and current liabilities. Working capital management is concerned with current assets and current liabilities. Generally, working capital refers to the difference

between current assets and current liabilities. So, working capital management is one of the important factors of decision making, related to short term financing.

To make this thesis most understandable to the interested party, available date and information are presented in different tables, diagram with appropriate analysis and interpretations. This thesis work has been divided into five chapters. They are introduction, review if literature, research methodology, data presentation and analysis and finally summary, findings and recommendation.

To carry out thesis work secondary data have been used. The necessary data are derived from the balance sheet and profit and loss account of NIBL and NSBI. Only five fiscal years data i.e. 2062/063 to 2066/067 is taken as sample.

To fulfill the objective of this study and specific objective. Which described in chapter one, an appropriate research methodology has been developed, which includes the ratio analysis as financial tools as statistical tools and trend analysis, correlation coefficient and test of hypothesis as statistical tools. The major ratio analysis consists of the composition of working capital position, liquidity position, turnover position, capital structure position and profitability position. To test the relation between various components of working capital, Karl Pearson's co relation coefficient r is calculated and analyzed. Some null hypotheses are sets, calculated and tested the validity by using F-test.

5.2 Conclusion

Working capital components of the sample banks are fluctuating all over the study period. Cash and bank balance, money at call or short notice and miscellaneous current assets cover the small portion of the total current assets. Loan and advance and government securities cover huge portion of total current assets. NIBL invests more in loan and advance to earn more income than NSBI. NSBI invests more in government securities to earn more and secured income. It is found that NSBI segregates its fund in working capital soundly and manageable.

NIBL has highest current ratio than NSBI and NSBI has highest quick ratio than NIBL. However, the both sample banks are efficient in the management of the fund but failed to maintain minimum required level of the liquidity. So, the liquidity position of the NIBL is betters than NSBI. NIBL has higher interest earned to total asset ratio, net profit to total assets ratio, net profit to shareholders' equity ratio net profit to total deposit ratios cost of services to total assets ratio and net fixed assets to long term debt ratio than NSBI but long term debt to net worth ratio of NSBI is higher than NIBL. Over all study period of the working capital management of the both sample banks are sound and manageable. NIBL is in first rand and NSBI respectively.

5.3 Recommendation

On the basis of analysis and major findings of the study following recommendations are made.

1. NSBI segregates low portion in the loan and advance. So, it is unable to maximize the shareholders' value. NSBI must have to increase loan and advance portion from 68.32% to 80%. The bank should have to improve its current investment policy about loan and advance.
2. All the sample banks liquidity position is not good. Their current and quick ratio is very low than the normal standard. They will have to face liquidity problem in the near future. It is better, as soon as the NIBL and NSBI maintain the standard by increasing current and quick assets.
3. Saving deposit is the less cost bearing fund. So, it is beneficial that higher saving deposit increasing the profit and decreasing the fund cost. Both banks NIBL and NSBI have 50% under saving to total deposit ratio. So, the banks must have to increase the saving deposit. Other side both banks have lowest cash and bank balance to total deposit ratio and it is suggest that the banks must have to increase the cash and bank balance to maintain liquidity position.
4. Activity turnover ratio is fluctuating all over the period NSBI used low percentage of total deposit in loan and advance. Fixed assets turnover position of NSBI is also not good. Due to the poor turnover position of NSBI is also not debts and non earning idle fund are high. So, the bank

should have to give proper attention. Both banks have to improved and change their investment policy to utilize funds in more productivity sectors.

5. Profitability position of the sample bank are not reasonable. Interest earned to total assets ratio, return on assets (ROA), return on equity (ROE), net profit to total deposit, service cost to total assets ratio of NSBI is not satisfactory. So, both the banks should give proper attention to improve investment policy and utilize funds in income generating sectors.
6. All the sample banks profitability position is not satisfactory. It is due to high cost of the fund. So, the bank should reduce fund cost through increasing noninterest bearing fund.
7. By adopting the matching working capital management policy instead of adopting, conservative working capital policy. The banks can improve in its profitability in short-run as well as in the long run.

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