CHAPTER –I

INTRODUCTION

1.1 Background of the study

Business firm needs various types of assets for regular operation. Some assets are required for long term and some others are required to meet daily needs and short term obligations. The assets such as cash, marketable securities, account receivables and inventories are required in order to meet daily operation. These assets are short terms assets, termed as current assets and they are liquid assets in the sense they are liquidated within the period of less than one year. The capital invested in these assets is known as working capital. The management of such assets is known as working assets management. The management of such assets describes as working capital management. Working capital measures how much a company has invested in liquid assets in order to run a business smoothly. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth. Working capital is the capital needed to conduct the day to day operation of business. Proper financial management is great importance for every business enterprises from the point of view of achieving success. In this respect working capital plays a significance role in every aspect of every enterprise whose structure and function depends upon it. Working capital refers to the current assets holding of an enterprise. This is also sometimes called gross working capital, for manufacture enterprises therefore the average levels of holding of raw material, goods in process, finished goods, receivables, cash and other current assets together constitute the working capital. The fund employed in business enterprises may be classified into two components i.e. fixed capital and working capital. Fixed capital is invested in fixed assets (capital assets) which enable enterprises to manufacture goods for sale and earning profit. On the other hand, Working capital is employed in purchasing those

items which are transformed into saleable goods by the production process. Working capital refers to the merchandise itself. The difference between the fixed capital and working capital may be expressed in another manner. The assets representing working capital rapidly convert into one form into another in a short period of time. Thus cash converts into raw material, which in turns converts in process and finally into finished goods. The finished goods can be sold in market in cash or credit terms and in the process is converted back to cash again. On the other hand assets representing fixed capital i.e. fixed assets are put to sale only when the assets have lived their economic lives or other assets of higher productivity efficiency is required. The cash conversion time in respect of fixed assets may be very high, usually years. (Smith, 1984)

The main objective of working capital management is to minimize the cost of maintaining current assets. The cost for monitoring necessary current assets depends on the size of such assets to be held. How much working capital is needed to afirm to run its regular activities? What types of financing is appropriate to use for working capital? Does the size of working capital needed is to be changed when sale of volume of business changed? Questions like these provide a basis to frame a sound working capital policy. Dealing with these issues requires a proper analysis of sales forecast, cash flow cycle, accessibility to capital and money market, opportunity cost of various types of financing and the nature of business. The objective of managing working capital is the same as the basic objectives of the firm. That is to maximize the value of the firm. In this case working capital contributes in the value maximization. The cost of maintaining the working capital depends on the sources of finance used. The short term sources generally cost less than the long term sources but they are riskier in the sense that the short term financing requires pay off within a short period of time usually less than a year. The reasonable approach is to balance the cost of working capital and the risk associated. Working capital management is the functional area of finance that covers all the current assets of the firm. It is concerned with the adequacy of current assets as well as the level of risk posed by current liabilities. It is a discipline that seeks proper policies for maintaining current assets and current liabilities and practical techniques for maximization of the benefits from managing working capital. Working capital is sometimes referred as circulating capital, as it keeps on circulating in the

course of business operation. The circulating capital is highly description and meaningful term. Working capital is constantly fluctuating and changing. (Horne & James, 1996)

1.2 Statement of the problem

The Management of working capital plays an important role in maximizing the value of an enterprise. The inefficient management of working capital will not only lead to loss in the short run but it will ultimately lead to the downfall of the enterprises in the long run. A deeper understanding of the importance of working capital can lead not only to material saving in the economic use of capital but can also assets in furthering the ultimate aim of business. An excessive investment in working capital will lower the rate of return while inadequate investment will increase the solvency position and hamper in the growth of an enterprise.

The accelerating pace of the development of industries in the private and private sector of Nepal has created many managerial problems, an important role of which is the management for working capital. It is a well accepted fact that Nepal has abundant human and natural resources to exploit but at the same time it has inadequate financial resources. It is essential that working capital utilization should be improved. This study therefore attempts to indicate the improvement in working capital utilization of manufacturing enterprises of Nepal. The study deals with the types of working capital policy that has been followed by the selected companies. It also deals with the capability of those companies to pay their currents debts, the structure of working capital in the selected companies, the nature of working capital utilization, the demand for working capital and various components varies proportionately or less than in proportion to change in their volume of sales or not.

The study has tried to answer the following questions:

a. How the companies have managed the current assets and current liabilities?
b. What is the level of inventory and receivables of the companies?
c. What is the level of profitability and liquidity position of the companies?

1.3 Objectives of the study

The basic objective of this study is to examine the behavior and management of working capital of Dabur Nepal PVT Ltd and Unilever Nepal Limited. The Specific objectives are as follows.

a. To evaluate the current assets and current liabilities management of both companies.
b. To analyze the level of inventory and receivables of the companies.
c. To identify the level of profitability and liquidity position of the companies.

1.4 Significance of the study

Compare to developed countries, the role of manufacturing enterprises in the underdeveloped countries is rather limited. Even the study of the working capital behavior of manufacturing enterprises in a country like Nepal is important for several reasons. Firstly the private corporate sector is expanding day by day. Thus knowledge about the representative member of a small sector today can provide a useful insight for the important sector after few years. Secondly there are reasons to believe on a priority ground that the behavior in corporate and unincorporated enterprises is similar the study of working capital behavior of the former on which financial data are available will give an ideas about the working capital behavior of the latter also, and thirdly it is likely that the private corporate sector is most sensitive to monetary control measures. Thus the study of working capital behavior of the public enterprises may be very rewarding.

1.5 Limitation of the study

All the studies have their own limitations. No studies can be free from constraints such as of resources, time and money etc. This study is done for the partial fulfillment for master of the business studies. This is not far from several limitations. The study is conducted within certain limitations and constraints. The major limitations of the study are as follows:

1. This study covers only two manufacturing companies.
2. The study covers the periods from fiscal year 2006-2007 to 2010-2011 only.
3. Limited statistical tools like simple percentages, bar diagram and correlation coefficient are used for presentation and analysis of data.

1.6 Organization of the study

The study has been organized into five parts each devoted to some aspects of the study "Working capital management of manufacturing companies, Unilever Nepal Ltd and Dabur Nepal Pvt Ltd". The rationale behind this kind of organization is to follow a simple research methodology approach. The contents of each of the parts of this study are briefly mentioned below.

The first chapter deals with background of the study focus of the study, statement of the problems, objectives of the study, limitations and chapter scheme of the study. The second chapter is devoted to theoretical analysis and brief review of related literature. The third chapter is concern with research methodology. The research design, nature and sources of data, population and sample of data, period cover, data collection a method and presentation and analysis of techniques and tools has been described. Forth chapter presents the analysis of data. To analysis data this chapter uses different charts, tables and statistical and financial tools for better understanding of data and to reach towards accurate interpretations. The fifth and final chapter include the summary of the study, findings of the study, conclusion and recommendation is also presented on the basic findings. Lastly, bibliography and appendices were indicated at the end of this study.

CHAPTER –II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Every business firm needs various types of assets in order to carry out the functions without any interruption. They are fixed and current assets. Some fixed assets have physical existences and are required to produce goods and services over a long period. These types of fixed assets are called tangible assets. It includes land, building, plants and machinery and so on. Working capital is concerned with the problem that arises in the management of the current assets and current liabilities. It affects the overall functional area of the firms. The success of any manufacturing firm ultimately depends upon the efficiency of working capital management. Therefore it is crucial aspects of any firm.

Each and every institutions whether private or public, manufacturing or non manufacturing that need just adequate working capital to compete with competitive market. It is because over or under adequacy of working capital is dangerous from the firms objectives points of view. Over investment on working capital affects the firm's profitability just being idle investment. In the other hand, under investment on working capital affects the liquidity position of the firm and causes to financial hindrance and failure of the company. The Goal of working capital management is to support the long term operational and financial goals of the business. This involves recognizing the relationship between risk and return when managing working capital. (Finney & Miller, 1963)

The term working capital management closely relates with short term financing, it is concerned with collection and allocation for resources. Working capital management relates to problem that arises in attempting to manage the current assets, the current liabilities and inter relationship between them. (Smith, 1984)

Insolvency: This Condition occurs when a firm can no longer pay its bill and defaults on obligation and possibility declares bankruptcy. A firm without adequate levels of working capital may have to face the risk.

Profitability of assets: Different levels of current assets will have varied effects on profit. A high level of inventory will requires high carrying cost. At the same the firm will have a wide range of gods to sell and may be to generate higher sales and profits. Each decision on the level of cash, receivables and inventory should consider the effects to different level.

Cost of Financing: When Interest rates are high its cost more to carry inventory then when rates are low. Large cash balance may not earn the return as cash can be converted into operating assets. The cost of debt and opportunity costs of alternative investment are items to consider when evaluating working capital levels.

Every manufacturing company needs various types of assets in order to carry out are function without any interruption. They are fixed and currents assets. Some fixed assets have physical existence and required produce goods and services over long period i.e. plans machinery furniture and so on However if reflects the right of the firms. It is called intangible fixed assets. It represents patents, copyright, trademarks and goodwill. Both fixed are written off over a period. Working capital management is the effective life-blood of any business. Hence, the management of working capital plays a vital role for existence of public enterprises successfully. It is the centers of the routine day to day administration of current assets and current liabilities. Therefore, working capital management in public enterprises is very important mainly for four reasons. Firstly, public enterprises must need to determine the adequacy of investment in current assets; otherwise it could seriously erode their liquidity base. Secondly, they must select the assets suitable for investments to raise their operational efficiency. Thirdly, they are required to ascertain the concerns and lastly they must find out the appropriate sources of funds to finance the current assets. (Agrawal, 1996)

Capital management is usually described as process of administration of these assets namely cash, marketable securities, receivables inventories and the administration of

current liabilities. It means the working capital management is concerned with the problem that arises in attempting to manage the current assets, current liabilities and the interrelationship that exists between them.(Horne & James, 1996)

There are two concepts of working capital i.e. gross and net working capital. Simply we can say that working capital refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year like cash, short term securities, bills receivables and stocks. The net working capital refers to the difference between current assets and current liabilities. Current liabilities are claim of those outsides, which are expected to mature for payment within an accounting year, and include creditors, bills payable and outstanding expenses. Net working capital can be both negative and positive. A positive working capital will arise when current assets exceeds current liabilities and negative net working capital vice versa. Net working capital concept also covers the question of judicious mix of long term and short term funds for financing current assets. (Pandey, 2002)

It is therefore recognized fact that any mistake made in management of working capital can cause to adverse effects in business and reduces the liquidity, turnover and profitability and increase the cost of financing of the enterprises. Working capital management is concerned with the problem that arises in attempting to manage the current assets, the current liabilities and interrelationship that exists between them. The goal of working capital management is to manage the firm's current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. This is because if the firm cannot maintain satisfactory level of working capital, the firm can be insolvent and may be forced into bankruptcy. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Batch of current assets must be managed efficiently in order to maintain that liquidity of the firm but over financing on current assets may also be harmful to a firm. Batch of the short term sources of financing must be continuously managed to insure that they are obtained and used in the best possible way. The interaction between current assets and current liabilities is therefore the main theme of the theory of working capital

management. There are two concept of working capital management. (Bajrachrya, Ojha, Goet&Sharma, 2004)

a. Gross working Capital: The term "Gross Working Capital" means the total current assets.
b. Net Working Capital : The term "Net Working Capital" can be defined in two ways :
    i. The most common definition of net working capital (NWC) is the difference between the current assets and current liabilities.
    ii. The NWC is the difference between the current assets and the total current liabilities. In other works it is the excess of current assets over current liabilities. Net working capital can be positive or negative. A positive net working capital arises when current assets exceed current liabilities. A negative working capital occurs when liabilities are in excess of current assets.

2.1.1Types of working capital

Working capital can be classified into two parts, permanent working capital and variable working capital; these two types of working capital are necessary for continuous production and sales without any interruption.(Horne & James, 1996)

I. Permanent working capital

Permanent working capital refers to that level of current assets which is required on a continuous basis over the entire year. A manufacturing concern cannot operate regular production and sales functioning in the absence of this portion of working capital. Therefore a manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted production and sales function. This portion of working capital is directly related to the firm's expansion of operation capacity.

II. Variable working capital

Working capital which is temporarily employed should be called as variable working capital. Variable working capital is the additional amount of current assets which is required when there is fluctuation in demands, production and sales.

2.1.2Objectives of working capital

Working capital is required to run the business smoothly and effectively in the context of the set objectives. It is no doubt that no company can achieve its goal without proper use of working capital. Therefore, it can compare as blood to the organization. The main objectives of arranging capital are as follows.(Agrawal, 1996)

a. To fulfill the present need of the business.
b. To run the business smoothly.
c. To perform the task as power objectives of the business.
d. To increase the attraction of business etc

2.1.3 Working capital policy

The working capital investment policy refers to the policy that regulates current assets. The policy provides guidelines to monitor and manage current assets and deals with the following issues.(Manmohan & Goyal, 1992).

a. Current assets investment policy

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are there alternatives current assets invest policies, fat-cat policy, lean and mean Policy and Moderate.

i. Fat-cat policy: This is known as relaxed current assets investment policy. In this policy the firm holds relatively large amount of cash, marketable securities, inventory and receivables to support a given level of sales. This policy creates the longer receivables collection period due

to the liberal credit policy. Thus this policy provides the lowest expected return on investment with low risk.

ii. Lean and mean policy: In lean and mean policy, a firm holds minimum amount of cash, marketable securities, inventory and receivables to support a given level of sales. This policy ends to reduce the inventory and receivable to support a given level of sales. The policy tends to reduce the inventory and receivables conversion cycle, under this policy firm follows a tight credit policy and hears the risk of losing sales.

iii. Moderate policy: In moderate policy a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and return are moderate in this policy.

b. Current assets financing policy

It is the manner in which permanent and temporary current assets are financed. Current assets are financed with the funds raised from different sources. Thus current assets financing policy clearly outline the sources of financing. Aggressive, conservative and matching policies are the three policies that can be used for current assets financing.

i. Aggressive policy : In an aggressive policy, the firm fiancés a part of its permanent current assets with short term financing and rest with long term financing, In other words, the firm fiancés not only temporarily current assets but also a part of the permanent assets with short term financing. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus under normal conditions, the firm borrows on a short term financing rather than long term financing. On the other hand, if the firm fiancés its permanent current assets by short term financing to runs the risk of renewing the borrowing again and again. This continued financing exposes and it may be difficult for the firm to raise funds during the credit periods. In

conclusion there is higher risk, higher return and low liquidity position under this policy.

ii. Conservative policy: In conservative policy the firm uses long term financing to finance not only fixed and permanent current assets but also part of the temporary current assets. It means that firm depends more on the long term sources for financing needs. This policy leads to high level that that of aggressive policy and liquidity position is higher than aggressive one. The risk adverse management follows this policy.

iii. Moderate policy: In this policy, the firm finances the permanent current assets with long term financing and temporary with short term financing. It lies in between the aggressive and conservative polices. It leads to neither high nor low level of current assets and current liabilities. Temporary working capital is financed by short term financing and permanent by long term financing. Thus, no working capital financed by long term funds. Hence net working capital is zero under this policy.

2.1.4 Working capital financing

Financing any assets or projects is concerned with two major factors, cost and risk. Often the issue of trade off between the cost and the risk associated with various types of financing poses an important question with respect to optimal financing policy. Financing policy should clearly outline the sources of finance (short and or long term) to be used. Generally a source of a combination of various sources depends on the types of current assets (permanent and temporary) to be maintained. The long term sources such as stock issues, debts and bonds are appropriate to use for the permanent type of current assets only if the spontaneous type of short term sources are not enough or not available to cover the required size of permanent current assets.(Manmohan & Goyal, 1992).

There are some short term sources of spontaneous nature such as trade credits and accruals. They are in most cases free of cost and most appropriate for the permanent current assets. The following is the list of sources of the short term and long term finance for working capital.

a. Short Term: Short-term sources can be grouped into two parts as below :
    i. Operating sources: - Regular business transaction usually takes place on credit basis. Purchase and other payables, especially the following provide a short term interest free financing like Accounts Payable or trade credit and Accruals taxes, wages etc.
    ii. Banking sources: - Commercial banks provide various type of financing for working capital under different terms and conditions. Some common types of bank finance include: Accounts receivable loan (Factoring and pledging of receivables), Inventory loans (Inventory pledging and blanket lien), Short term loan and notes payable which can be secured or unsecured loans, Line of credit and overdraft provision.

b. Long term: The long term sources of financing are:
    i. Long term debt-term loan and bonds.
    ii. Stock issues –common stocks and preferred stocks
    iii. Retained earning

In view of a wide range of financing sources available for working capital, it is important for financial managers to make a selection taking into account the cost and risk that are associated with any combination of sources. A combination of any type of short and long term financing can be used for working capital. However, appropriateness of any combination depends on various factors such as cost of financing, level of risk involvement and access to money and capital markets.

2.1.5 Determinant of working capital

There are no rules or formulate to determine the working capital requirement of any firms. A large number of factors, each having a different importance can influence working capital need of any firms. Therefore analysis of relevant factors should be made in order to determine total investment in working capital. The following is the description of factors, which generally influences the working capital requirement of the firm.(Bajrachrya, Ojha, Goet&Sharma, 2004)

a. Nature and size of the business

It is true that the working capital ratio is dependent upon its nature and size of the firm. Larger firm requires larger amount of the working capital, if the firm is bigger than it requires more working capital while smaller firm requires less working capital. Trading and financial firm have a very small investment in fixed assets but requires a large sum of money to be invested in working capital and have to invest abundantly in fixed assets. Their working capital requirement are normal because they may have only cash sales and supply services, not products whereas manufacturing concerns to fall down the tow extreme requirement of trading firms and public enterprises.

b. Production policy

Working capital ratio is also determined by firm's production policy. If the firm produces seasonal goods than the firms has to invest high amount in working capital during that period of production, as raw material for that goods will be available for the certain period only. Stocking of raw material and finished goods should be done in high quantity, which will increase investment in current assets.

c. Manufacturing cycle

Manufacturing or production cycle also influence for determination of the working capital requirement. It refers to the time involved to make the finished goods from the new material. The long process of manufacturing cycle the larger will be working capital requirement and vice versa.

d. Credit policy

Credit policy also pays vital role to determine working capital requirement. Working capital requirement is depended upon the terms of sales. Different terms may be followed to different customers according to their credit worthiness. If the firms follow the liberal credit policy, then it requires more working capital and if the firm follows the strength credit policy then it requires less working capital.

e. Availability of credit

Creditors avail a liberal credit term, then the firm will need less working capital and vice versa.

f. Growth and expansion

Other thing remaining the same, growing firm needs more working capital then those static ones.

g. Price level change

Generally rising price level will requires a firm to maintain higher amount of working capital. Some will face no working capital problem, when working capital problem is faced, firms will feel effects of increasing general price level differently as individual prices may move differently. It is possible that some companies will not be affected by rising policies while other may be badly hit by it.

h. Operating efficiency

The operating efficiency of the firm relates to the optimum utilization of resources at minimum cost. The firms will be effectively contributing in keeping the working capital investment at a lower rate, if it is efficient in controlling operating cost and capital better utilization of resources can be improved which in result tend to improves profitability.

i. Profit margin

If the firm deals with the high quality product then it has sound management of marketing which may causes, monopoly in the market and earn large amount of profit and vice versa. If the firms can earn more profit then it requires fewer amounts to be invested in working capital as the product cycle will be faster.

j. Level of taxes

The amount of taxes to be paid in advance is determined by the prevailing tax regulation. Nevertheless, profit may not be constant and predetermined. Therefore the provision for tax liability is one of the important aspects of working capital planning. If tax liability increases it need to increase in working capital too and vice versa.

2.1.6 Goal of working capital policies

Working Capital policies are the basis guidelines or strategies to achieve target financial performance in relation to working capital. Following are the firm's goals of working capital.(Bajrachrya, Ojha, Goet&Sharma, 2004).

a. Adequate liquidity

The most important goal of working capital policy is to achieve adequate liquidity for the conduct of day to day operation with the lack of sufficient cash to pay their bills when due, they will have to face many problem so the liquidity position should be maintain by each and every firm.

b. Minimization of risk

Relatively current assets are the sources of fund and have to be maintained at adequate level at all the time. The firm must ensure that these short term obligation or current liabilities do not become excessive compared to the current assets as they had to be paid well in time. The matching of current assets and current liabilities is a task of minimizing the risk.

c. Contribution to maximize the firm's value

The firm retains working capital for some purpose, as a firm holds any other assets to maximize the present value of common stock and value of the firm. The investment of excess cash, minimizing the inventories, speedy collection of receivables and limitation on unnecessary and costly short term financing etc will contribute to maximize the value of the firm.

2.1.7 Liquidity vs. Profitability

The firm may follows a conservative or an aggressive policy which involves risk return trade off. Determination of the appropriate level of investment in the different component of current assets and size of current liabilities involves decision concerning the tradeoff between liquidity and profitability and risk. The objectives of conducing risk return analysis is to know whether the firms are following an aggressive, a conservative or a modern approach. When a firm has followed an aggressive approach, the current liabilities are used to finance a position of fixed assets, In the conservative approach, the firm uses only long term fund to finance all kinds of current assets and fixed assets without making use of any of the current liabilities. On the moderate approach firm uses long term funds to fiancé a portion of current assets. When current assets holding at the minimum level, would mean interrupted production, sales and solvency. Holding of the current assets depends on working capital policy.(Bajrachrya, Ojha, Goet&Sharma, 2004).

2.1.8 The cost of trade off

Working capital management involves decision upon the amount and composition of current assets and how fiancés these assets. The decision involves tradeoff between risk and profitability. Cost maintaining at a particulars level of current assets. These costs are the cost of liquidity and the cost of illiquidity. The cost of liquidity increases with the level of current assets. The cost of illiquidity is the cost of holding insufficient current assets. The grater the relative proportion of liquid assets, the lesser the risk of running out of cash if all things are equal, result will be less profitability. In

determining the optimum level of current assets, the firm should balance the profitability-solvency level by minimizing total cost. The firm should maintain its current assets at the level where the sum of cost of liquidity will be at minimum level. (Bajrachrya, Ojha, Goet&Sharma, 2004).

2.2Review of Related Research Studies

Management of working capital is crucial for increasing productivity of every manufacturing enterprise. Several studies were made on the topic. The reviews of some of the previous studies help to get knowledge about subject matter covered and relevant findings.

2.2.1 Review from books

Guthmann (1959) defines working capital as the portion of a firm's current assets which are financed from long term funds. Working capital can be defined as the excess of current assets over current liabilities.

Kulkarni (1983) describes current assets are those assets which are expected to be converted into cash in the ordinary course of business within one fiscal year or within such longer period as constitute the normal operating cycle of a business. Similarly current liabilities are those obligations which are normally expected to mature for payment within an accounting cycle. He concludes that the difference between the current assets and current liabilities is known as working capital.

Agrawal (1983) defines that working capital management is the management of assets that are current in nature. Current assets, by accounting definition are the assets normally converted in to cash in a period of one year. Hence working capital management can be considered as the management of cash, market securities receivable,inventories and current liabilities. In fact, the management of current assets is similar to that of fixed assets the sense that is both in cases the firm analyses their effect on its profitability and risk factors.

Donnel (1986) explains that working capital to any firm is required to finance inventories and receivables by avoiding interruption in the production schedule and sales.

Verma (1989) defines working capital management in two concepts, gross working capital, which is also simply known as working capital, refers to the firm's investment in current assets and net working capital refers to the difference between the current assets and current liabilities. Another aspect of gross working capital points out the need of arranging funds to finance the current assets. The gross working capital concept focuses attention on two aspects of current assets management, firstly optimum investment in current assets and secondly in financing the current assets. These two aspects will help in remaining away from the two danger points of excessive or inadequate investment in current assets. Whenever a need of working capital funds arises due to increase in level of business activity or for any other reason the arrangement should be made quickly, and similarly if some surpluses are available, they should not be allowed to lie ideal but should be put to some effective use. Net working capital can be positive as well as negative. Positive working capital refers to the situation where current assets exceed current liabilities and negative working capital refers to the situation where current liabilities exceed current assets. The net working capital helps in comparing the liquidity of the same firm over time. For purposes of the working capital management, therefore Working Capital can be said to measure the liquidity of the firm. In other words, the goal of working capital management is to manage the current assets and liabilities in such a way that a acceptable level of net working capital is maintained.

2.2.2 Research papers, articles and journals

Joshi (1985) has described the major problems of working capital management in Nepalese manufacturing companies which can be stated as operational problem. In his study he has pointed the following operational problems i) increase of CLs than CAs, not allowing the CR 2:1 & slow turnover of inventory ii) change in WC in relation to fixed capital had very slow impacts over the profit-abilities, He has made some

suggestion to correct the above deviations: i) The PEs should avoid the system of crisis decision which prevailed frequency in their operation. ii) avoid fictitious holding of assets, iii) the finance staff should be acquainted with the modern scientific tools used for the presentation and analysis of data and iv) to make optimum working capital policy.

Nazir (2000) in his study explained that the polled regression result shows the presence of economic of scale with respect of the demand for working capital and its various components. The regression result suggests strongly that the demand for working capital and its components are functions of both sales and their capital costs. The estimated results show that the inclusion of capacity utilization variables in the model seems to have contributed to their demand functions for cash and new working capital only.

Sayaduzzaman (2002) has considered ten selected manufacturing companies, to study Working capital management of thosecompanies. He has focused on the liquidity, turnover and profitability position of those enterprises.From the analyses of those enterprises four companies has maintain adequate liquidity position, two companies had excessive and the remaining four companies had failed to maintain desirable liquidity position. Two companies had negative working capital turnover, four had adequate turnover, one had high turnover and remaining three had not satisfactory turnover on working capital. Out of the tens companies six were operating at loss while rests four were getting some percentages of profits. In his study he has given some issue because of which those companies are having a loss like, lack of financing planning, negligence of working capital management, inability to show positive relationship between turnover and return on net working capital.

Pradhan&Koirala (2003)in their study explained about the difficulty, importance, problem of current assets management. They tried to find out the motive for holding out the basis constraints and distributed 200 questionnaires to different manufacturing and non manufacturing enterprises as sample companies. After analyzing the collected data, they concluded that in manufacturing corporations, working capitals as well as fixed

capital both are difficult to manage. However, in non manufacturing corporations working capital is more difficult to manage as compared to fixed capital. The management of current assets had more problems as compared to the management of accounts receivables and inventories. However, inventory management is problematic to manufacturing companies and the management of cash and receivable is more problematic to non-manufacturing companies. The major factor affecting the larger investment in receivable is found to be the liberal credit policy followed by Nepalese corporations. The late paying practice of customers is also responsible for larger investment in receivables. However, corporations are reluctant in take inefficient collection of trade credits as one of the major affecting receivables.

2.2.3 Review of Master level thesis

Shrestha (2004) has studied the need of working capital to conduct the day to day operation of business. Proper financial management is great importance for every business enterprise from the point of view of achieving success. In this respect working capital plays significance role in every aspect of every enterprise whose structure and function depends upon it. Working capital management helps to find the liquidity position, composition of working capital, assets utilization and profitability position of an enterprise. It helps to determine the structure and utilization of working capital of the firm. The study focused to analyze the relationship between different working capital variables. Every business firm needs various types of assets in order to carry out its functions without any interruption. They are fixed and current assets. Some fixed assets have physical existence and are required to produce goods and services over long period. This type of fixed assets is called tangible fixed assets. It includes land, building, plant, m machinery, furniture and so on. However, some others recourses do not generate goods and services directly. However, it reflects the right of the firm. It is called intangible fixed assets. These are patents, copyrights, trademarks and goodwill. Both fixed assets are written off over a period. Current assets are those resources of the firm, which are either held in the form of cash or expected to be converted into cash within an operation cycle of the business. It includes, cash, marketable securities, account receivable, stock of raw materials, work in process and finished goods. Among

these some assets are required for day to day expenses and short term obligations. Current liabilities are those claims of outsiders such are expecting to be matured within an accounting year. It includes, creditors, bills payable and outstanding expenses. Working capital management is concerned with the problem that arises in the management of the current assets and current liabilities. It affects the overall functional areas of the firm. Thus, the success or failure of any manufacturing firm ultimately depends upon the efficiency of working capital management. Therefore, it is crucial aspect of any firm.

Darshani (2007) had pointed that working capital management is the functional area of finance that covers all the current assets of the firm. It is concerned with the adequacy of current assets as well as the level of risk posed by current liabilities I is a disciplines that seeks proper policies for making current assets by current liabilities and practical techniques for maximization of the benefits from managing working capital. Working capital is sometimes referred to as circulating capital as it keeps on circulating in the course of business operation. The circulating capital is highly description and meaningful term. Working capital is constantly fluctuating and changing. Its objectives and perform its operation. The study was done to identify the working capital fluctuation and investing approach adopted by the selected manufacturing companies, to assess the liquidity position of the selected listed manufacturing companies, to identify the impact of working capital policy on risk and return relationship, to find and compare the average time elapse between the acquisitions of raw material a final cash realization, to determine the effect of the volume of sales capacity utilization, cash conversation cycle and cost of capital on working capital and its various components. The study had pointed that most of the manufacturing companies concedes the current assets represents about 40% of the total assets. To determine the size of current assets making working capital is a major managerial concern. Financial manager spend most of their time in day to day internal operation for the firm which revolves around working capital management. The relationship between growth in sales and working capital used is direct and close so far as the firm is more concerned about maximizing sales revenue it must involves in working capital management Working capital help to maintain control of its account receivables a inventory can ensure the regular glow of

cash. Thus the researcher has concludes that the working capital management helps for effective management of receivables, improve liquidity position, effective inventory management.

Paudyal (2010) has pointed that working capital deals with the matrix of current assets and current liabilities. Working capital is the conversion process of current assets that includes cash, inventory and current receivables. Working capital refers to the amount of capital which readily available in cash or readily convertible in to cash and organizational commitment for which cash will be soon required. Working capital measures how much in liquid assets a company has available to builds its business. Working capital management refers to the proper management realizing the interrelation and interaction that exists between them. It is concern with all decision and all that influence the determination of the appropriate level of current assets and their efficient use as wear as the choice of the methods of fining them. Working capital management has been the most intricate and challenger area of modern corporate finance. The study was concern to appraise the working capital mgmt with respect to cash, credit and inventory management, to study the relationship between sales and different variable of working capital, to find the relations of working capital components with each other, to find the proper relation both current assets and total assets,

Sharma (2011) has defined working capital is the capital needed to conduct the day to day operation of a business. It is the difference between resources in cash and reading creditable into cash (current assets) and organizational commitment for which cash will be soon be required. The study was concerned to assess the level of current assets and liabilities of the selected companies, to analyze the profitable position of the selected enterprises with respect to working capital, to determine the structure and utilization of working capital variables, to provide suggestion and recommendation to improve working capital management. The research help to know the liquidity position, it has provide the guidelines to manage the balance and co ordinate its day to day operation, it help to maintain optimum level of working capital for future needs and finally help to know the profitability position. Finally researcher has concluded that to run day to day

business activities more efficient level of current asset, which s also called gross working capital should be maintained. The research shows that Nepalese manufacturing companies ha not seriously examined the working capital policy so that most of the manufacturing companies are followed aggressive policy abut opposite impact in revenue. Every manufacturing firms needs various types of assets to run the production process without any interruption so this study focuses on how working capital is manage in Nepalese manufacturing companies. Thus working capital management involves the relationship between firm's short term assets and its short term liabilities. The goal of working capital management is to ensure that it has sufficient ability to satisfy both short term debts and upcoming operational expenses.

2.3 Research gap

Many research studies have been conducted by the different students, experts and research about working capital management. Some studies are related to single company and some are comparative in nature.

The previous studies mentioned above are mostly concerned with private enterprises. These studies therefore are some similar and may of little value with reference to other private organization. Many previous studies conducted with the help of old data may be less relevant in recent circumstance. So, it bridges the gap of time enabling is to analyze and evaluate new practices of working management.

Different analytical tools have been added to make the study more effective Karl's Pearson correlation coefficient, different ratio like credit ration, stability ratio, correlation analysis etc are used in this research.

Therefore, this research study on " working capital management of manufacturing companies, Unilever Nepal Ltd and Dabur Nepal Pvt Ltd will be an efforts to analyze in detail about the manufacturing companies in present situation with the help of various related financial as well as beneficial to scholars student teacher lecturer professors business and concerned parties.

CHAPTER –III

RESEARCH METHODOLOGY

Research methodology is the process of arriving at the solution of a problem through a planned and systematic dealing with the collection, analysis and interpretation of the facts and figures. The objectives of this study are to analyze the working capital management of Unilever Nepal Limited (UNL) and Dabur Nepal Pvt Ltd (DNPL).

This chapter contains nature of research and sources of data, data gathering procedure and techniques for the analysis of data.

3.1 Research design

A research design is the arrangement of conditions for collection and analysis of data in a nature that aim to combine relevance to the research purpose with economy procedure. Research design is the plan, structure and strategy of investigation conceived. So as to obtain answer to research question and to control variance to achieve of the study, descriptive and analytical research design has been used.

3.2 Population and sample

All manufacturing industries which are involved in consumable goods is considered as population, In Nepal currently 7 multinational companies are established for the production of consumable goods out of them only Unilever Nepal Limited (UNL) and Dabur Nepal Pvt Ltd (DNPL) are taken as a sample. For selection of the sample there are many techniques, in this study judgment or purposive sampling is taken for selection of the sample companies. In this method the researcher selects the sample companies according to personal judgment. In other words, the researcher uses self judgment in the choice and includes only those from the universe as a sample which are conveniences to him/her.

3.3 Nature and sources of data

Information is like blow of any research. The data and information used in this study are of secondary nature. The main sources of secondary data are annual reports and audited financial statement of the company.

3.4 Collection of data

Financial data required to achieve the set objectives of this study have been directly extracted from the balance sheet and income statement of the company. In order to collect the supportive data and review of the related documents have been carried out.

3.5 Data processing and analysis tools

This study is mainly based on the secondary data. Thus, after collection of financial statement, master sheet of financial data was prepared and necessary financial data have been extracted and tabulated as per the need of the study, in order to process the data financial statement and other available information were reviewed. The data were grouped in different tables and charts according to their nature.

3.5.1 Financial tools

The collected data was analyzed by using financial tools such as ratio analysis, cash flow analysis; comparative statement analysis etc. out of these, only ratio analyses has been used as a mean of financial tools to analyze the gathered data.

From the view point of this study, ratio have been classified into three groups

1. Current assets investment policy
    a. Ratio of current assets to fixed assets

$$= \frac{\text{Current Assets}}{\text{Fixed Assets}}$$

b. Percentage of current assets to sales

$$= \frac{\text{Current Assets}}{\text{Sales}}$$

c. Percentage of current assets to total assets

$$= \frac{\text{Current Assets}}{\text{Total Assets}}$$

2. Turnover Ratio

a. Inventory turnover ratio

$$= \frac{\text{Cost of goods sold or Cost of sales}}{\text{Average Inventory}}$$

b. Total Assets Turnover Ratio

$$= \frac{\text{Sales}}{\text{Total Assets}}$$

c. Debtors turnover ratio

$$= \frac{\text{Sales}}{\text{Average Debotrs}}$$

3. Profitability Ratio

a. Gross Profit Margin

$$= \frac{\text{Gross Profit}}{\text{Saless}}$$

b. Net Profit Margin

$$= \frac{\text{Net profit after Tax}}{\text{Saless}}$$

3.5.2 Statistical tools

In order to test the significance of the relationship in between two variables during the period of this study, Karl Pearson's Correlation Coefficient (r) is used and is calculated as

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

where,

X= First Variables

Y= Second Variable

N= Number of Variable.

$$\text{Probable Error (P.E)} = \frac{0.6745\ (1-r^2)}{\sqrt{n}}$$

Where,

r= Coefficient of Correlation

Interpretation of Correlation Coefficient (r) and Probable Error (P.E)

1. It lies always between +1 and -1
2. When r=+1, there is perfect positive correlation
3. When r=-1, there is perfect negative correlation
4. When r=0, there is no correlation
5. When r lies between 0.7 and 0.999 (-0.7 to -0.999) there is a high degree of positive (or negative) correlation.
6. When r lies 0.5 to 0.699, there is moderate degree of correlation
7. When r is less than 0.5 there is low degree of correlation.
8. If r < P.E, then the value of r is not significant (i.e. insignificant)
9. If r > 6xP.E, then r is definitely significant.
10. In other situation of r and P.E nothing can be calculated with certainty.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is the most important stage of the study. In this chapter data collected from secondary sources are prescribed and analyzed by using different statistical and financial tools and techniques. To analyze and evaluate the financial performance of the concern companies, this chapter will present the analysis components of working capital of Unilever Nepal Limited and Dabur Nepal Private Limited, which consist of current assets and current liabilities relationship between current assets and fixed assets, turnover positions, liquidity position, profitability position and financing policies of both companies.Working capital policy refers to the firm's basic policies regarding the target level of each category of current assets and liabilities. Working capital management refers to the management of all current assets and current liabilities in a proper way. Every Firm wants to maximize the wealth of its shareholders. In order to achieve this target it has to perform many functions, for this purpose firm has to determine the suitable current assets investment policy, maintain proper relation of current assets with fixed assets and sales and finance the current assets with short term as well as long term sources. Thus the better performance of current assets is the integral part of working capital management.

4.1 Current assets investment policy

Every firm need current assets as well as fixed assets to operate its activities effectively. Current assets policy refers to the policy regarding the total amount of current assets required to support the given level of sales. Firm may follow the different investment policy according to their attitude towards the risk and the nature of the business. The current assets policy of the UNL and DPNL has been analyzed in terms of relationship between current assets with fixed assets and current assets with sales.

4.1.1 Ratio of current assets to fixed assets

For the Success of any manufacturing concerns, firms should invest in current assets as well as fixed assets to support a particular level of output. Therefore the firm should determine the proper portion of current assets with fixed assets. Dividing current assets by fixed assets gives current assets to fixed assets ratio. Assuming a constant level of fixed assets higher current assets to fixed assets ratio indicated a conservative current assets policy whereas lower ratio reflects aggressive policy, conservative policy indicates a greater liquidity and lower risk, while on aggressive policy indicates higher risk and poor liquidity.

Table No 4.1

Calculation of ratio of current and fixed assets of UNL and DNPL for five fiscal year

(Rs. In Lacs)

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal PvtLTd (DNPL		
	TCA	FA	Ratio	TCA	FA	Ratio
2006/2007	6,399.68	1,278.86	5.00	18,840.05	9,607.96	1.96
2007/2008	7,443.04	1,348.86	5.52	20,518.94	11,888.12	1.73
2008/2009	7,921.97	1,216.36	6.51	17,644.01	12,086.41	1.46
2009/2010	7,589.69	1,529.95	4.96	17,553.82	11,407.50	1.54
2010/2011	7,458.30	1,484.88	5.02	26,004.80	13,340.48	1.95
Average	7,362.54	1,371.78	5.37	20,112.32	11,666.09	1.72

Sources: Annual Report of UNL and DNPL

The above table shows the ratio of current assets to fixed assets of UNL and DNPL for the last five fiscal years. The ratio of current assets to fixed assets of UNL has fluctuated during the study period. i.e least ratio of 4.96 times in the fiscal year 2009/2010 and highest of 6.51 times in the fiscal year 2008/2009. The average ratio of UNL for the last five fiscal yearsis 5.37 times.

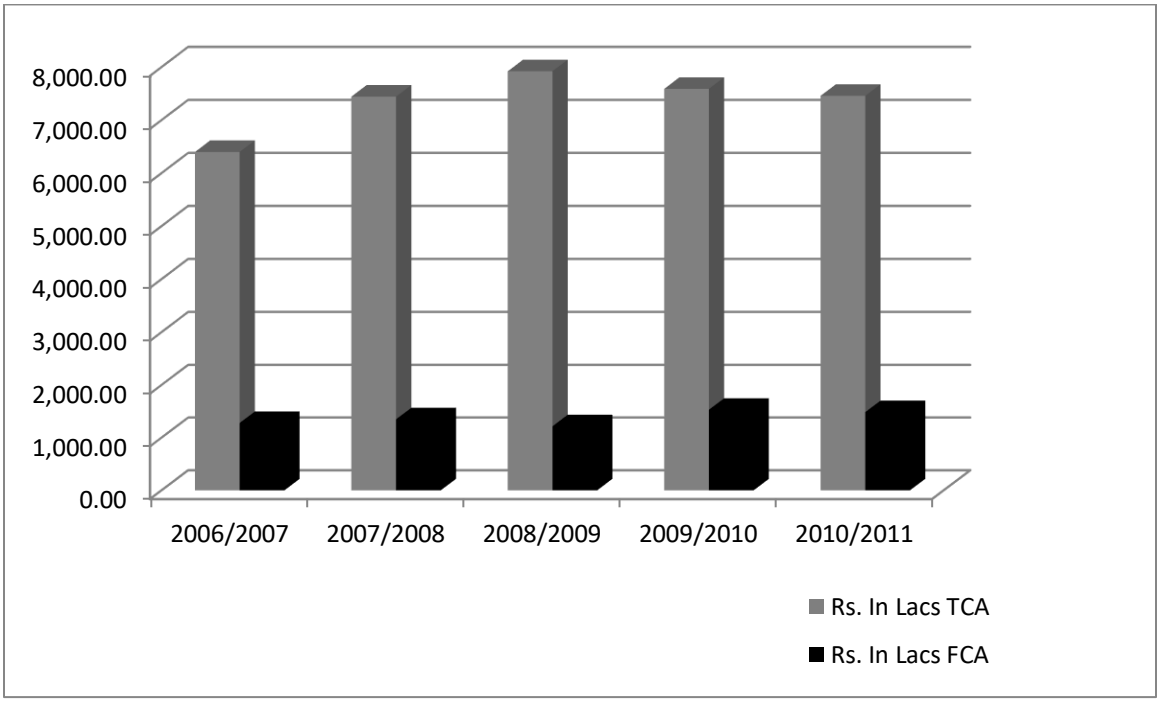
Similarly the ratio of current assets to fixed assets of DNPL is also fluctuated from 1.72 to 1.96 times. On fiscal year 2008/2009 the ratio is s least with 1.46 times and maximum of 1.96 times

in the fiscal year 2006/2007. The average ratio of DNPL is 1.72 times. Thus we can say that UNL adopted aggressive policy and DNPL had adopted conservative policy.

The graphical presentation of level of current assets and fixed assets of UNL is as follows.

Figure No 4.1

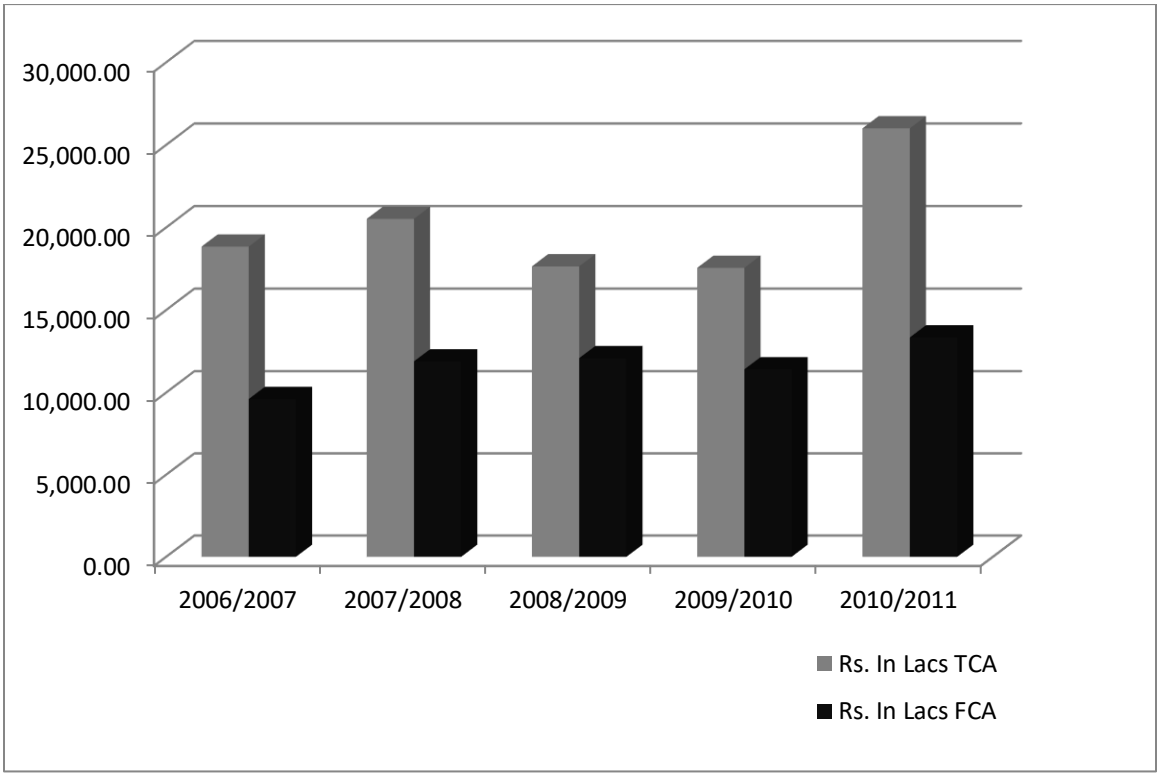
Level of current assets and fixed assets of UNL.



The graphical presentation of level of current assets and fixed assets of DNPL is as follows.

Figure No 4.2

Level of current assets and fixed assets of DNPL.



4.1.2 Percentage of current assets to sales

Sales are only those activities which generate cash flows. So it is vital for manufacturing company. The survival and growth of every manufacturing depends on the proportion of sales policy and also the availability of resources and demands for the products. It is greatly affected

by the financial policy and their strategies planning. Therefore the coordination between these elements of the company is the most important. Thus the company invests in current assets to support the given level of sales. The amount of investment in current assets is to support the given level of sales which depends upon the current assets investment policy and the attitude of management. When a firm holds relatively large amount of current assets to support a given level of sales then it is called fat cat policy, when a firm holds relatively minimum amount of current assets to support sales then it is called lean & mean policy and tradeoff between these two polices is called a moderate policy.

Table No 4.2.

Calculation of ratio of current assets to sales of UNL and DNPL for five fiscal year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal Pvt Ltd (DNPL		
	TCA	Sales	Ratio	TCA	Sales	Ratio
2006/2007	6,399.68	18,185.27	35.19%	18,840.05	35,181.32	53.55%
2007/2008	7,443.04	21,445.89	34.71%	20,518.94	39,159.92	52.40%
2008/2009	7,921.97	26,258.26	30.17%	17,644.01	43,519.23	40.54%
2009/2010	7,589.69	30,550.70	24.84%	17,553.82	44,268.25	39.65%
2010/2011	7,458.30	35,566.62	20.97%	26,004.80	52,335.45	49.69%
Average	7,362.54	26,401.35	27.89%	20,112.32	42,892.83	46.89%

Sources: Annual Report of UNL and DNPL

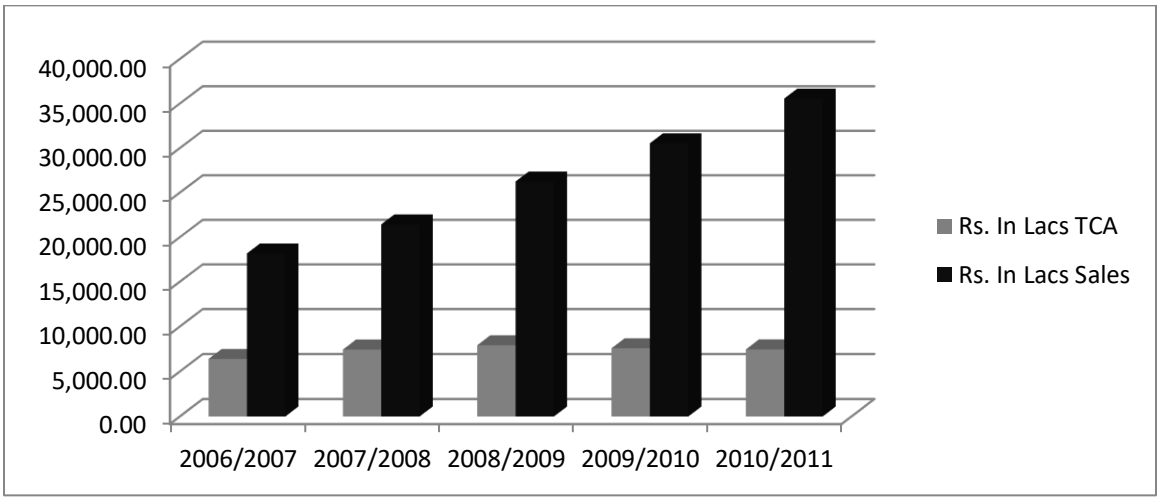
The given table shows the information about the percentage of current assets to sales of UNL and DNPL. From the table it is clear that the percentage of current assets to sales of UNL is fluctuatingi.e highest at 35.19% in the fiscal year 2006/2007 and least at 24.87% in the fiscal year 2009/2010. The average percentage of current assets to sales of UNL is 27.89%. Similarly the percentage of current assets to sales of DNPL is fluctuating i.e highest 53.55% in the fiscal year 2006/2007 and least 39.65% in the fiscal year 2009/2010. The average percentage of current assets to sales of UNL is 46.89%

From this we can say that UNL invest average of 27.89 percentages of sales to total current assets whereas DNPL invest average of 46.89 percentages. Hence we conclude that the UNL invest fewer amounts in current assets than the DNPL. These facts suggest that both companies follow fact-cat policy.

The graphical presentation of level of current assets and sales of UNL is as follows.

Figure No 4.3

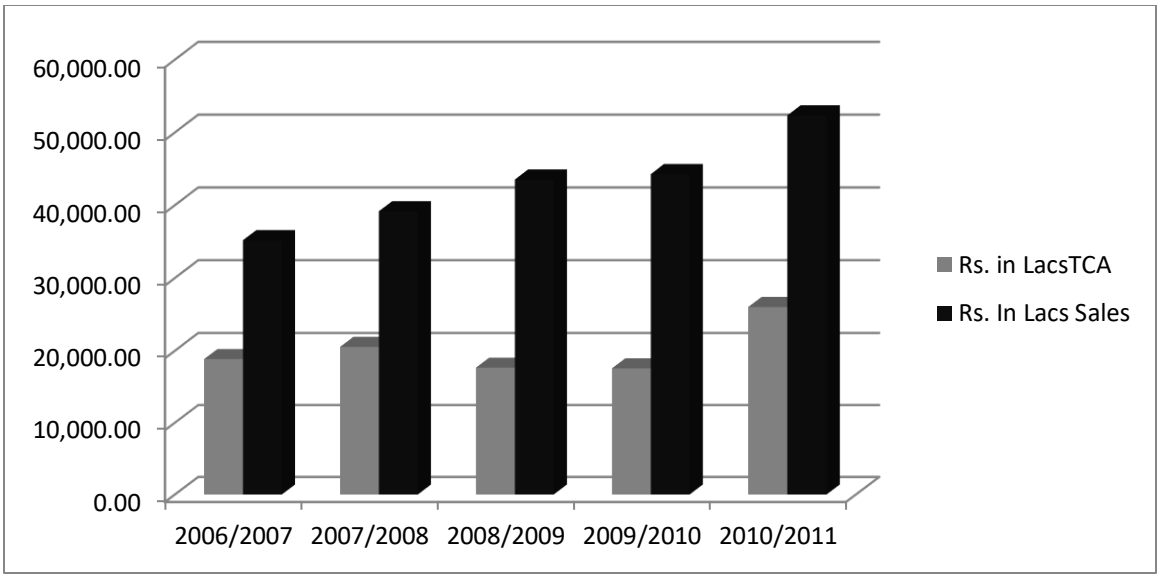
Level of current assets and sales of UNL



The graphical presentation of level of current assets and sales of DNPL is as follows.

Figure No 4.4

Level of current assets and sales of DNPL



4.1.3 Percentage of current assets to total assets

The success and failure of a company depends on its utilization of resources on the day to day business activities. To run any company smoothly, appropriate level of current assets should be maintained. There should be proper management of current assets to achieve the principal goal of any company i.e. maximization of profit as well as share holder wealth.

High ratio of current assets to total assets does not convey a high liquidity position because current assets consist of cash, receivables and inventories. Except cash, receivables and inventory other assets have to wait for larger time for conversion of those assets into cash. Therefore they are less liquid.Current assets ratio shows qualitative liquid current assets as it has zero conversion period i.e. cent percent liquid. The quality of current assets can be judged with individual holding of cash, receivables and inventories.

Table No 4.3

Calculation of ratio of current assets to total assets of UNL and DNPL for five fiscal year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)	Dabur Nepal PvtLTd (DNPL

	TCA	TA	Ratio	TCA	TA	Ratio
2006/2007	6,399.68	7,678.54	83.35%	18,840.05	28,448.01	66.23%
2007/2008	7,443.04	8,791.90	84.66%	20,518.94	32,407.06	63.32%
2008/2009	7,921.97	9,138.33	86.69%	17,644.01	29,730.42	59.35%
2009/2010	7,589.69	9,119.64	83.22%	17,553.82	28,961.32	60.61%
2010/2011	7,458.30	8,943.18	83.40%	26,004.80	39,345.28	66.09%
Average	7,362.54	8,734.32	84.29%	20,112.32	31,778.42	63.29%

Sources: Annual Report of UNL and DNPL

From the table it is clear that percentage of current assets to total asset of UNL is fluctuating. It is highest with 86.69% in the fiscal year 2008/2009 and lowest with 83.22% in the fiscal year 2009/2010.The average ratio of UNl is 84.29%. Similarly the highest percentage of current assets to total assets of DNPL is 66.23% in the fiscal year 2006/2007 and lowest with 59.35% in the fiscal year 2008/2009. The average percentage of current assets to total assets of DNPL is 63.29. Thus we can say that DNPL invest lower amount in current assets than UNL.

The graphical presentation of current assets and total assets

Figure 4.5

Level of current assets and total assets of UNL

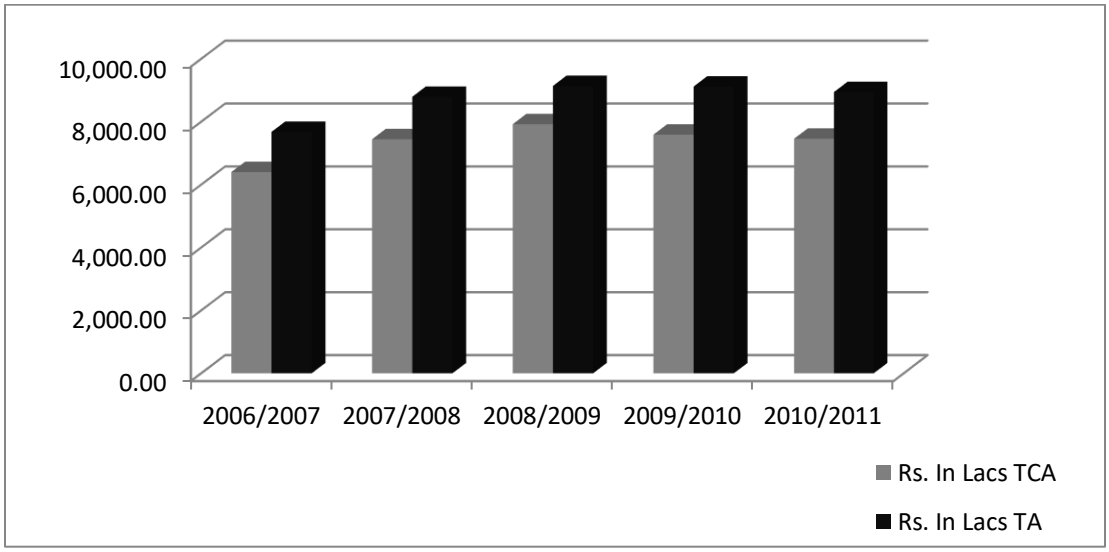
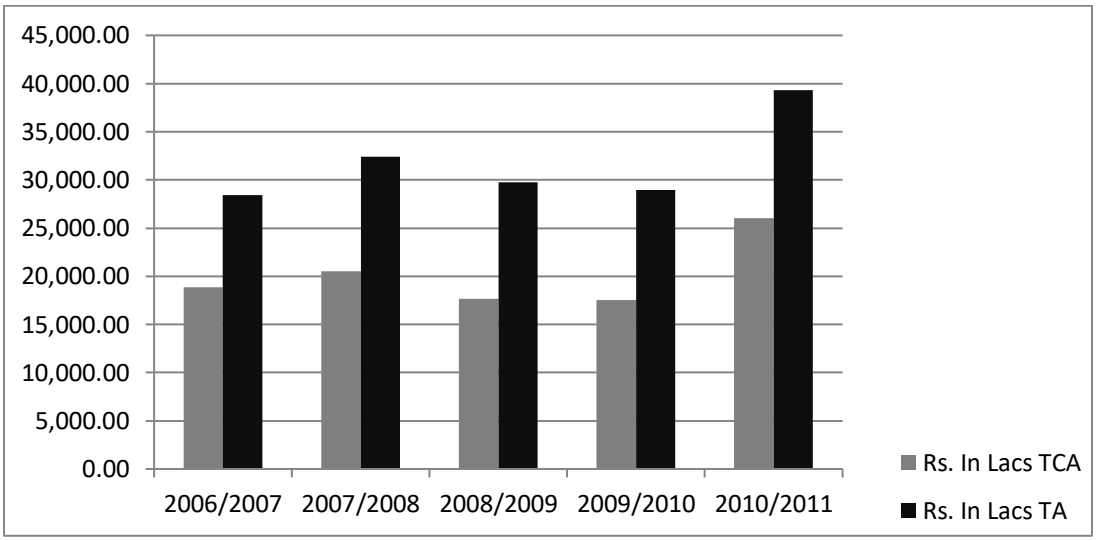


Figure 4.6

Level of current assets and total assets of DNPL



4.2. Turnover ratio

4.2.1 Inventory turnover ratio

An enterprises is required to maintain inventory or stock for efficient, smooth procurement, production and sales operation. As such, inventories constitute a big share at the current assets requiring huge investment. So it is necessary to manage inventories efficiently and efficiently to avoid unnecessary investment, inventory turnover assets indicates the efficiency with which the inventories of the firm follows a conservative policy, it will have low inventory turnover ratio and high conversion period and vice versa.

Inventory turnover ratio can be computed in various ways as

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold or Cost of sales}}{\text{Average Inventory}}$$

When, Cost of goods sold = Opening Stock +Purchase - Closing Stock

$$\text{Average Inventory} = \frac{\text{Opening Stock+Closing Stock}}{2}$$

Or,

$$\text{Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Average Inventory at selling price}}$$

Or,

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

Table No 4.4

Calculation of inventory turnover ratio of UNL and DNPL for five fiscal year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal Pvt Ltd (DNPL)		
	Cost of Goods Sold	Average Inventory	Ratio (In times)	Cost of Goods Sold	Average Inventory	Ratio (In times)
2006/2007	12816.20	3053.78	4.20	27493.28	7020.22	3.92
2007/2008	13622.72	3658.70	3.72	30407.45	8428.42	3.61
2008/2009	16965.57	3279.33	5.17	34792.13	9353.07	3.72
2009/2010	18128.52	3444.64	5.26	33948.97	10104.14	3.36
2010/2011	22750.98	4364.63	5.21	40201.53	13702.57	2.93
Average	16856.80	3560.22	4.73	33368.67	9721.68	3.43

Sources: Annual Report of UNL and DNPL

From the above table, it is clear that the inventory turnover ratio if UNL is varying during the period. The ratio is lowest with 3.72 times in the fiscal year 2007/2008 and highest in fiscal year 2009/2010 with 5.26 times. The average ratio of UNL is 4.73 times. Similarly the turnover ratio of DNPL is slightly fluctuated. The least ratio is 2.93 times in the fiscal year 2010/2011 and highest of3.92 times in the fiscal year 2006/2007.The average ratio is 3.43 times. We can say that UNL manage the current assets efficiently and adopted aggressive working capital policy whereas DNPL adopted conservative policy.

4.2.2 Working Capital turnover ratio

The amount of sales, current assets and it annual ratio are presented in table.

Table No 4.5

Calculation working capital ratio of UNL and DNPL for Five Fiscal Year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal PvtLTd (DNPL		
	Sales	CA	Ratio	Sales	CA	Ratio
2006/2007	18185.27	6399.68	2.84	35181.32	18840.05	1.87
2007/2008	21445.89	7443.04	2.88	39159.92	20518.94	1.91
2008/2009	26258.26	7921.97	3.31	43519.23	17644.01	2.47
2009/2010	30550.70	7589.69	4.03	44268.25	17553.82	2.52
2010/2011	35566.62	7458.30	4.77	52335.45	26004.80	2.01

Average	26401.35	7362.54	3.57	42892.83	20112.32	2.13

Sources: Annual Report of UNL and DNPL

The given table shows the information about sales, current assets and working capital turnover ratio of UNL and DNPL.

From the table it is clear that there is fluctuation in the ratio of working capital ratio of UNL. It is highest with 4.77 times in the fiscal year 2010/2011 and lowest with 2.84 times in the fiscal year 2006/2007 and has an average of 3.57 times. Similarly the ratio of DNPL is highest in 2009/2010 with 2.52 times and lowest in fiscal year 2006/2007 with 1.87 times and the average ratio is 2.13 times.

Higher the ratios better the working capital management. Here both companies UNL and DNPL have similar average working capital ratio.

The graphical presentation of level of working capital and sales

Figure No 4.7

Level of working capital and sales of UNL

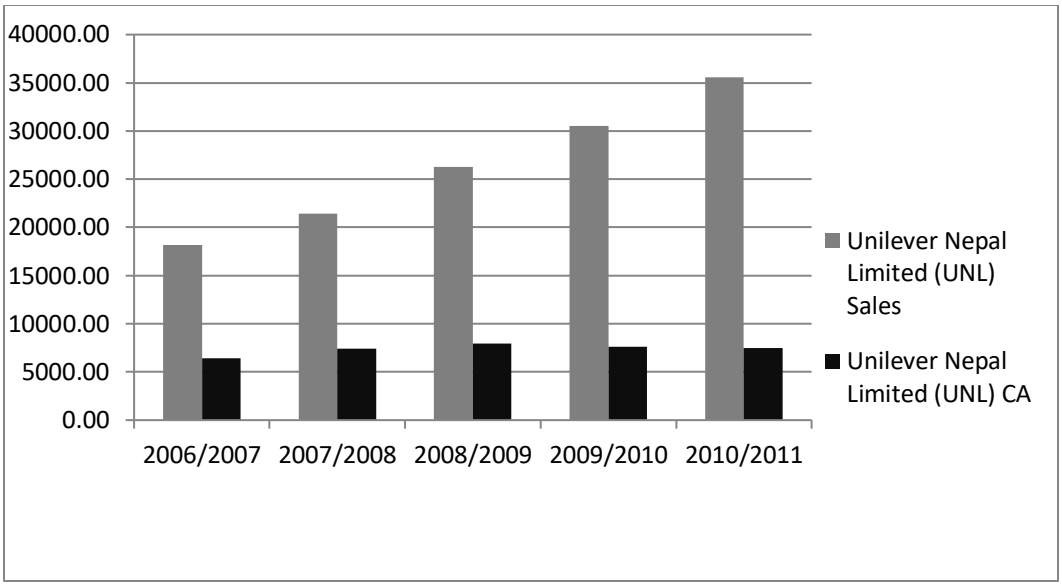
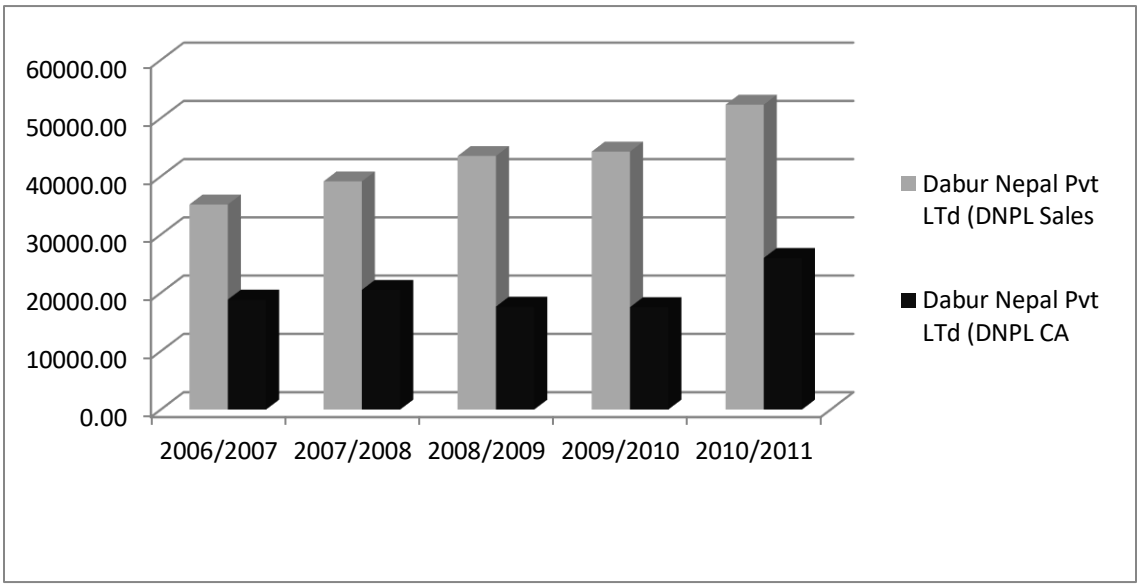


Figure No 4.8

Level of working capital and sales of DNPL



4.2.3 Total Assets Turnover Ratio

Total assets turnover ratio seeks to measure the efficiency in the management of total assets of the firm. Total assets represents both fixed (tangible and intangible) and current assets. Itignore factious assets like discount on issue of share and debentures, preliminary expenses, accumulated losses and deferred expenditures etc. The appearance of this ratio is as

Total assets turnover ratio= $\frac{\text{Sales}}{\text{Total Assets}}$

This ratio shows the effectiveness in utilization of total assets along with the adequacy or liquidity of assets to support sales of operation.

Table No 4.6

Calculation total assets turnover ratio of UNL and DNPL for five fiscal year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal PvtLTd (DNPL)		
	Sales	TA	Ratio	Sales	TA	Ratio
2006/2007	18185.27	7678.54	2.37	35181.32	28448.01	1.24
2007/2008	21445.89	8791.90	2.44	39159.92	32407.06	1.21
2008/2009	26258.26	9138.33	2.87	43519.23	29730.42	1.46
2009/2010	30550.70	9119.64	3.35	44268.25	28961.32	1.53
2010/2011	35566.62	8943.18	3.98	52335.45	39345.28	1.33
Average	26401.35	8734.32	3.00	42892.83	31778.42	1.35

Sources: Annual Report of UNL and DNPL

The above table shows the relationship between sales and total assets of UNL and DNPL, during the last five years.

According to the above table, the total assets turnover ratio of UNL is increasing; the ratio is highest with 3.98 times in the fiscal year 2010/2011 and lowest with 2.37 times in the fiscal year 2006/2007. The average total assets turnover ratio of UNL in the last five fiscal years is 3.00 times. Similarly, the total assets turnover ratio of DNPL is highest with 1.53 times in the fiscal year 2009/2010 and lowest with 1.21 times in the fiscal year 2007/2008. The average total assets turnover ratio of DNPL in the last five years is 1.35 times. In conclusion we can say that UNL manages the total assets more efficiently to generate more sales than DNPL.

4.2.4 Debtors turnover ratio

When credit is used as a tool for the promotion of sales, debtors or account receivables and bills receivables emerge in the enterprise's book of accounts. As the firm requires to wait over a short period in future to get payment against goods or services delivered to the customer the relative share of firm' resources. As a matter of fact, investment in debtors should justify its worthy by publishing up the sales of an enterprise. Debtors turnover indicates the number of times the debtors rotate in a year and is calculated as

$$\text{Debtor's turnover ratio} = \frac{\text{Sales}}{\text{Average Debotrs}}$$

Table No 4.7

Calculation of debtors turnover ratio of UNL and DNPL for five fiscal year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal PvtLTd (DNPL)		
	Sales	Debtors	Ratio (Times)	Sales	Debtors	Ratio (Times)
2006/2007	18185.27	1364.49	13.33	35181.32	4847.32	7.26
2007/2008	21445.89	1481.32	14.48	39159.92	5365.60	7.30
2008/2009	26258.26	1338.68	19.62	43519.23	6585.28	6.61
2009/2010	30550.70	1279.84	23.87	44268.25	2714.86	16.31
2010/2011	35566.62	2343.10	15.18	52335.45	4178.72	12.52
Average	26401.35	1561.49	17.29	42892.83	4738.36	10.00

Sources: Annual Report of UNL and DNPL

The above table shows the debtors turnover ratio of two companies, the ratio of UNL is highest with 23.87 times in the fiscal year 2009/2010 and lowest with 13.33 times in the fiscal year 2006/2007 and average of 17.29 times. Similarly the ratio of DNPL is highest with 16.31 times in the fiscal year 2009/2010 and is lowest with 6.61 times in the fiscal year 2008/2009 and average of 10.00 times, the ratio is fluctuating.

4.3 Liquidity ratio

Liquidity ratio is the ratio that provides the quick measure of the liquidity position or the ability of the firm to meet its current obligation. In other words, liquidity ratios are the indicators of short term solvency or financial strength of the firm. Current ratio helps to know the liquidity position of the firm.

4.3.1 Current ratio

Current ratio establishes the relationship between current assets and current liabilities. It is computed by dividing current assets by current liabilities.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

As organization should have enough current assets to meet its commitment or to pay its current liabilities. A high current ratio indicates excessive investment in current assets with last opportunity cost. Low current ratio naturally reveals illiquidity position having adverse effects on the goodwill and the very existence of the organization.

Table No 4.8

Calculation of current ratio of UNL and DNPL for five fiscal Year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal PvtLTd (DNPL		
	CA	CL	Ratio	CA	CL	Ratio
2006/2007	6399.68	3857.82	1.66	18840.05	6952.06	2.71
2007/2008	7443.04	2991.47	2.49	20518.94	12661.68	1.62
2008/2009	7921.97	1905.65	4.16	17644.01	10903.84	1.63
2009/2010	7589.69	1926.75	3.94	17553.82	5489.55	3.20
2010/2011	7458.30	1877.26	3.97	26004.80	13902.32	1.87
Average	7362.54	2511.79	3.24	20112.32	9981.89	2.20

Sources: Annual Report of UNL and DNPL

The above table shows the liquidity position of UNL and DNPL, during the last five fiscal years. UNL has its highest current ratio with 4.16 times in the fiscal year 2008/2009 and lowest with 1.66 times in the fiscal year 2006/2007 and average of 3.24 times during its entire five fiscal years. Similarly DNPL has 3.20 times in the fiscal year 2009/2010 as highest current ratio and 1.62 times in the fiscal year 2007/2008 and average of 2.20 times. Thus we conclude that UNL maintain the better liquidity position then the DNPL.

Figure No 4.9

Level of current assets and current liabilities of UNL

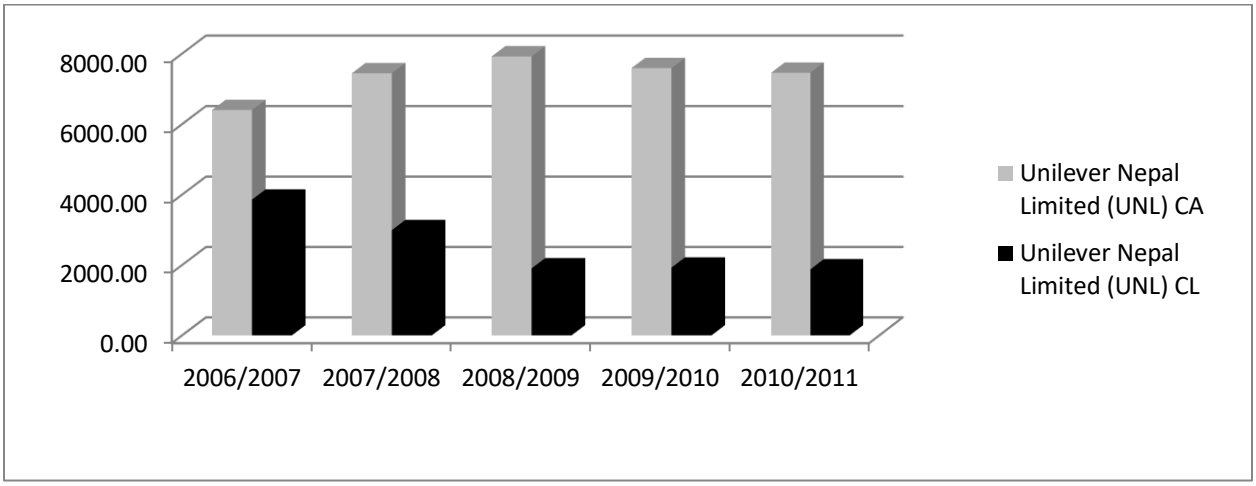
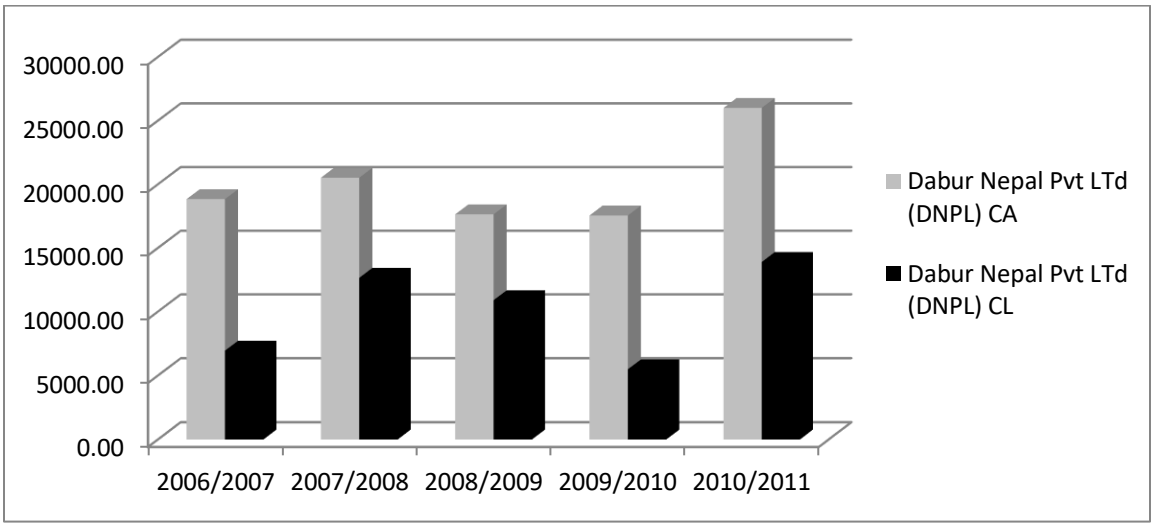


Figure No 4.10

Level of current assets and current liabilities of DNPL



4.3.2 Quick ratio

Quick ratios establish relationship between quick assets and current liabilities. Satisfactory quick ratio is 1:1. It is calculated by dividing Quick assets with current liabilities.

$$\text{Quick ratio} = \frac{\text{Quick ssets}}{\text{Current Liabilities}}$$

Quick Assets = Current Assets – Closing stock and prepaid.

Table No 4.9

Calculation of quick ratio of UNL and DNPL for five fiscal year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal PvtLTd (DNPL)		
	QA	CL	Ratio	QA	CL	Ratio
2006/2007	2380.51	3857.82	0.62	4882.14	6952.06	0.70
2007/2008	2471.20	2991.47	0.83	5918.70	12661.68	0.47
2008/2009	5159.17	1905.65	2.71	6979.82	10903.84	0.64
2009/2010	2912.50	1926.75	1.51	4863.52	5489.55	0.89
2010/2011	2913.41	1877.26	1.55	7256.48	13902.32	0.52
Average	3167.36	2511.79	1.44	5980.13	9981.89	0.64

Sources: Annual Report of UNL and DNPL

From the table we can be clear that UNL has highest quick ratio in the fiscal year 2008/2009 with 2.71 times, the lowest ratio is 0.62 times in the fiscal year 2006/2007 and average quick ratio is 1.44 times. The ratio is fluctuating. Similarly DNPL has highest ratio with 0.89 times in the fiscal year 2009/2010 and lowest 0.47 times in the fiscal year 2007/2008 but can maintain average of 0.64 times. We can conclude UNL has maintain better quick ratio than DNPL

Figure No 4.11

Level of quick assets and current liabilities of UNL

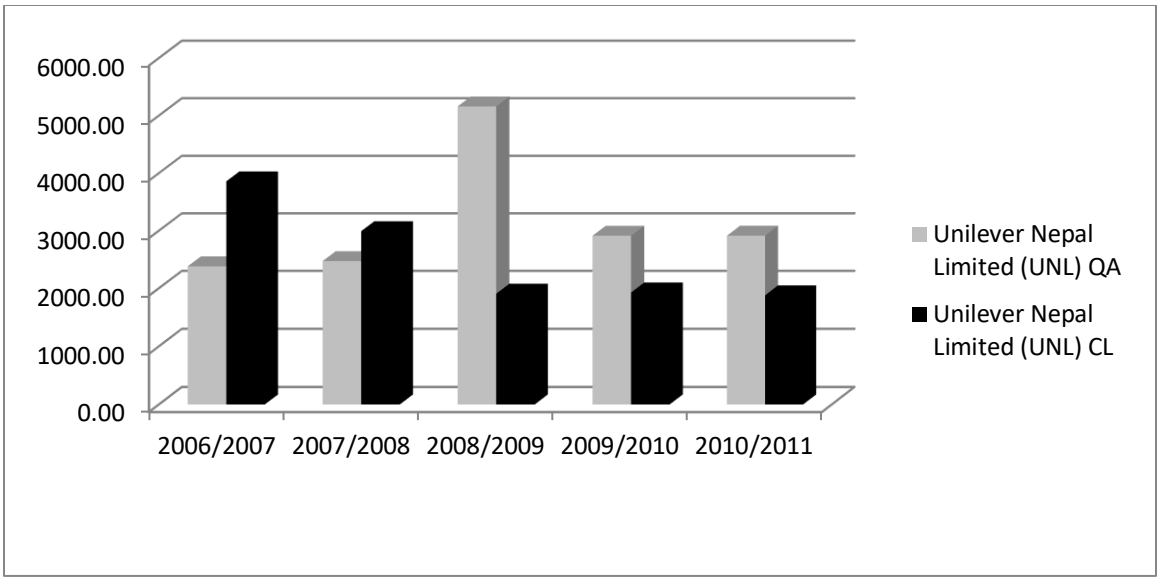
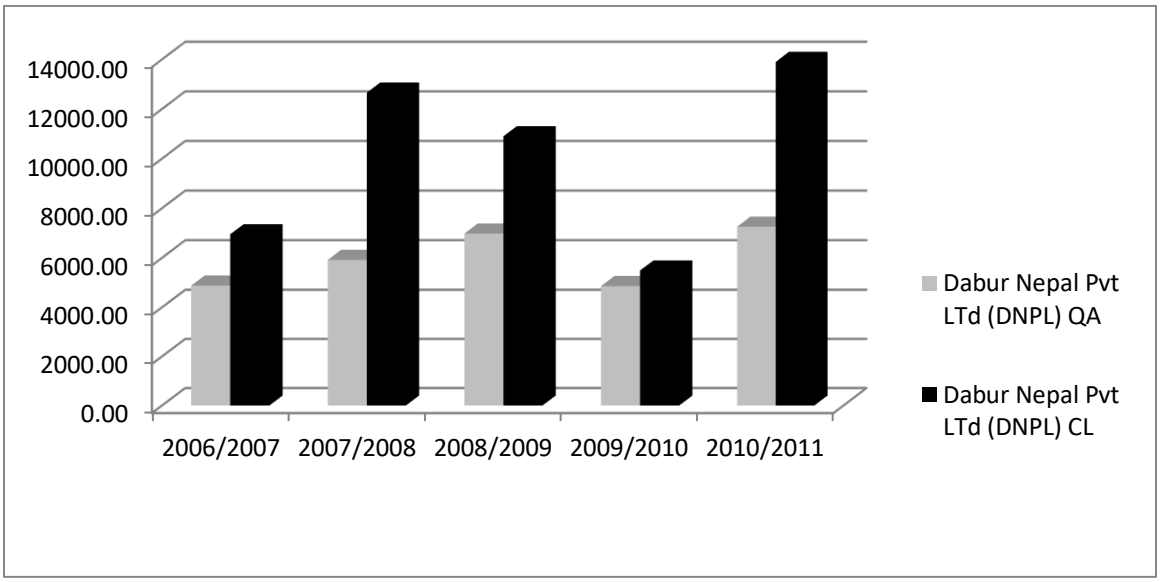


Figure No 4.12

Level of quick assets and current liabilities of DNPL



4.4 Profitability ratio :

As organization should earn profit to survive and grow the long period of time but at the cost of employees, customer and society obviously, organization will have no future if it is unable to

make reasonable profit from its operation. The profitability ratios are used as a measure to judge the operating efficiency of an organization. Profitability ratio is usually computed by relating if either with sales or investment.

4.4.1 Gross Profit Margin

This ratio measures the relationship between profit and sales and is computed as

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Saless}} \quad \text{or,} \frac{\text{Sales} - \text{Cost of goods Sold}}{\text{Saless}}$$

The purpose of computing this ratio is to measures the effectiveness in the production and sales of an organization. Normally a high ratio is an indication of efficiency where as a low ratio is the signal of danger. It is so because gross profit provides a cushion to meet operating expenses and provide surplus to satisfy owners.

Table No 4.10

Calculation of gross profit margin of UNL and DNPL for five fiscal year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal PvtLTd (DNPL)		
	Sales	Gross Profit	Ratio	Sales	Gross Profit	Ratio
2006/2007	18185.27	5369.07	29.52%	35181.32	7688.04	21.85%
2007/2008	21445.89	7823.17	36.48%	39159.92	8752.47	22.35%
2008/2009	26258.26	9291.32	35.38%	43519.23	8727.10	20.05%
2009/2010	30550.70	12422.18	40.66%	44268.25	10319.28	23.31%
2010/2011	35566.62	12815.64	36.03%	52335.45	12133.92	23.18%
Average	26401.35	9544.28	35.62%	42892.83	9524.16	22.15%

Sources: Annual Report of UNL and DNPL

The above table shows the gross profit of UNL and DNPL during five fiscal years. The gross profit margin of UNL in the fiscal year 2006/2007 is 29.52% which is lowest during the five year study period and 40.66% in the fiscal year 2009/2010 which is highest profit margin and

has maintained 35.62% on an average. Similarly DNPL has maintained 22.15% of average gross profit margin with 23.31% as highest in fiscal year 2009/2010 and 20.05% as least on fiscal year 2008/2009.

The graphical representation of gross profit margin of these two companies is given below.

Figure No 4.13

Level of gross profit and sales of UNL

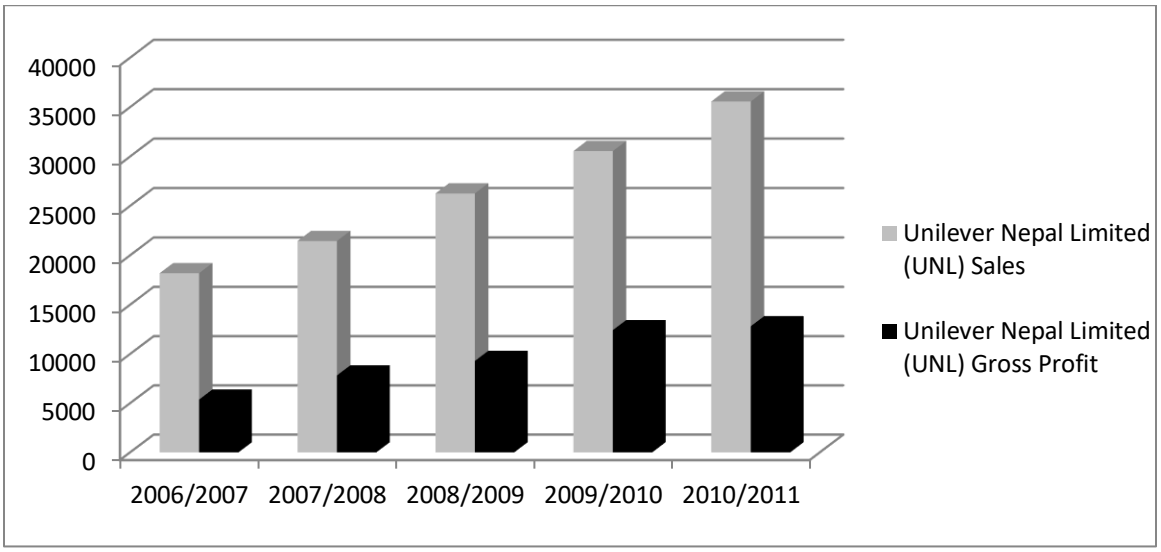
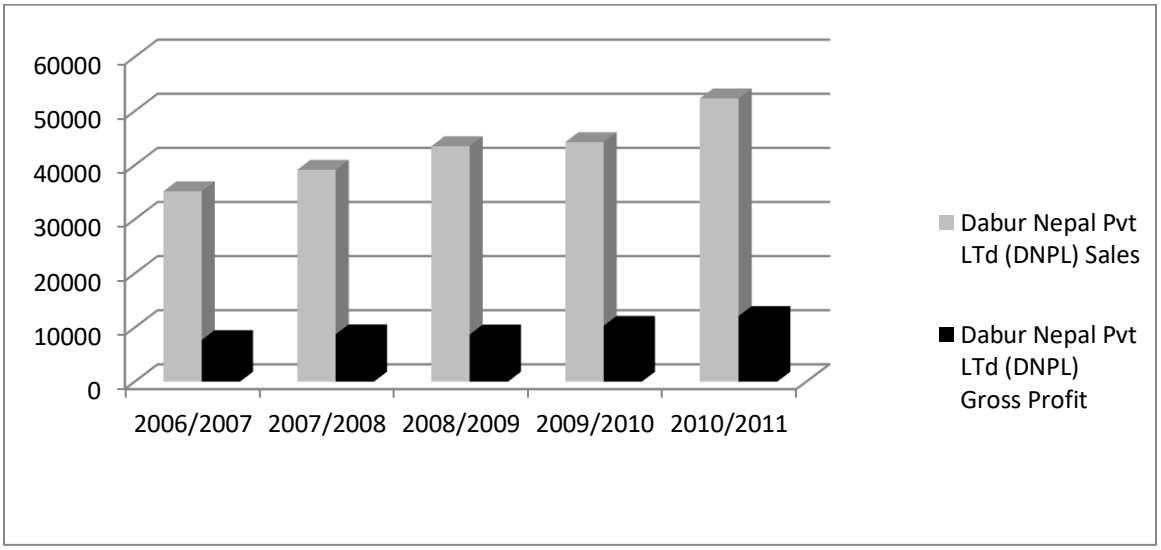


Figure no 4.14

Level of gross profit and sales of DNPL



4.4.2 Net Profit Margin

Relationship between net profit and sales is measured through net profit margin and is computed as

$$\text{Net Profit Margin} = \frac{\text{Net profit after Tax}}{\text{Saless}}$$

Net profit after tax represents the margin left over cost of goods sold, other operating expenses and tax payable from the sales revenue. Higher margin indicates the management's ability to operate business successfully. So, higher the net profit margins the better for the organization.

Table No 4.11

Calculation of net profit margin of UNL and DNPL for five fiscal year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal PvtLTd (DNPL)		
	Sales	Net Profit	Ratio	Sales	NetProfit	Ratio
2006/2007	18185.27	3455.64	19.00%	35181.32	1086.24	3.09%
2007/2008	21445.89	4331.21	20.20%	39159.92	906.78	2.32%
2008/2009	26258.26	5636.26	21.46%	43519.23	28.03	0.06%
2009/2010	30550.70	7241.81	23.70%	44268.25	1922.03	4.34%
2010/2011	35566.62	7611.41	21.40%	52335.45	2284.97	4.37%
Average	26401.35	5655.27	21.15%	42892.83	1245.61	2.84%

Sources: Annual Report of UNL and DNPL

In the table above the net profit margin of UNL has fluctuated, it is 19.00% as least in the fiscal year 2006/2007 and highest of 23.70% in the fiscal year 2009/2010. UNL is able to maintain average of 21.15% of net profit margin. Similarly, DNPL has highest of 4.34% of net profit margin in the fiscal year 2009/2010 and lowest of 0.06% in the fiscal year 2008/2009. DNPL is able to maintain 2.84% of average net profit margin in last five fiscal years. Thus we can conclude that UNL has greater profit margin than that of DNPL.

The graphical representation of net profit and sales of these two companies is given below.

Figure No 4.15

Level of Net profit and sales of UNL

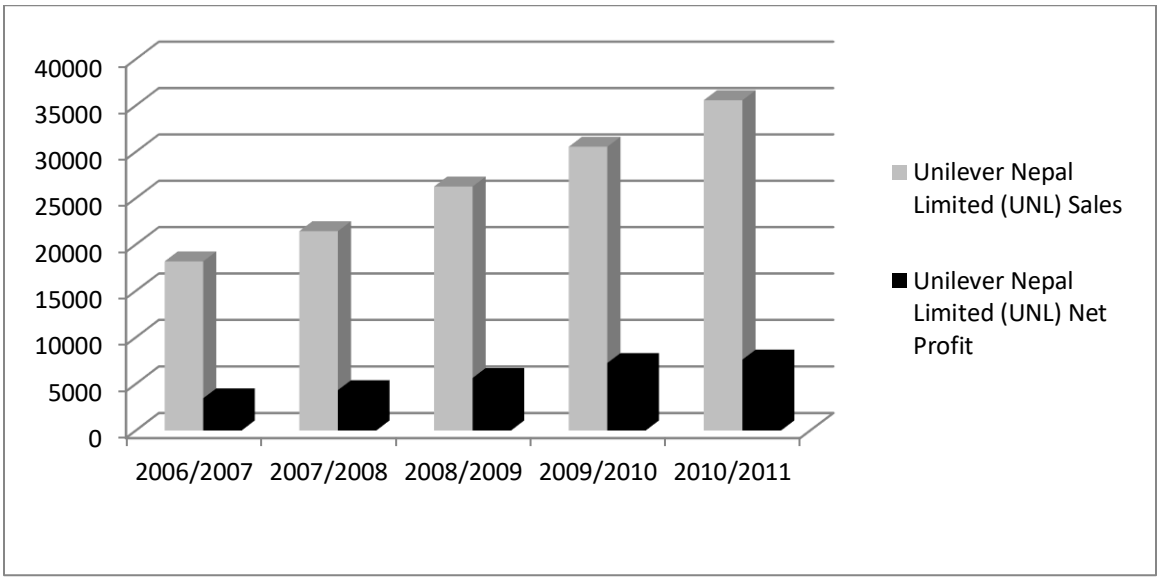
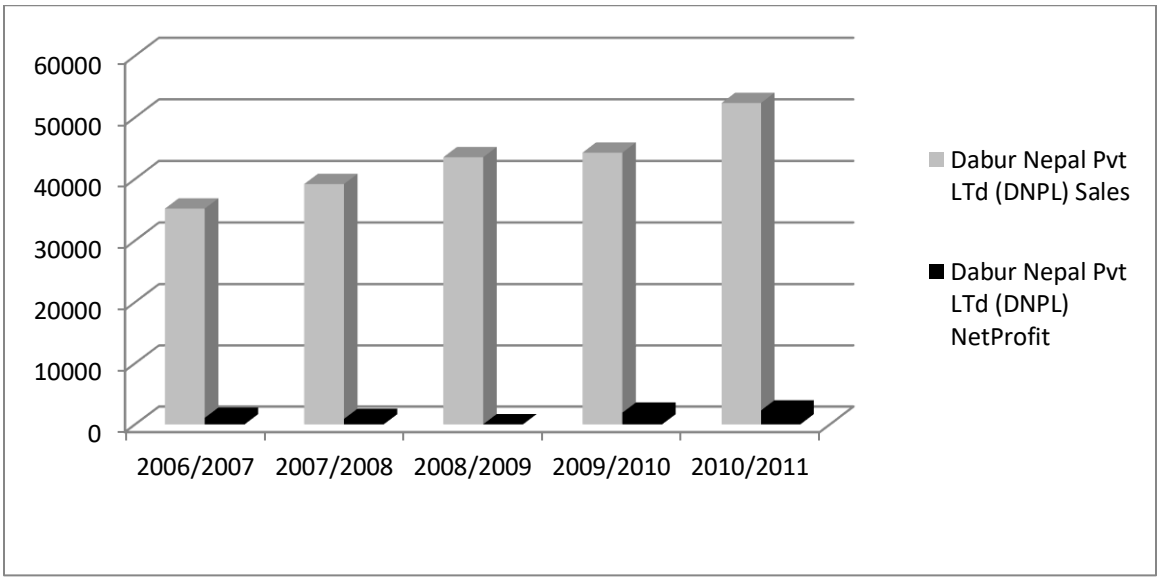


Figure No 4.16

Level of net profit and sales of DNPL



4.4.3 Return on total assets

Return on total assets measures the rate of return earned by the firm as awhile for all its investors which is computed as

$$\text{Return on total assets} = \frac{\text{Net profit after tax}}{\text{Total Assets}}$$

Higher ratio indicates the higher return on assets or on amount contributed by investors on account of efficient management of assets or capital.

Table No 4.12

Calculation of Return on total assets of UNL and DNPL for five fiscal year

Rs. In Lacs

Fiscal Year	Unilever Nepal Limited (UNL)			Dabur Nepal PvtLTd (DNPL)		
	TA	NPAT	Ratio	TA	NPAT	Ratio
2006/2007	7678.54	2630.64	34.26%	28448.01	852.50	3.00%
2007/2008	8791.90	3351.21	38.12%	32407.06	906.78	2.80%
2008/2009	9138.33	4440.42	48.59%	29730.42	23.64	0.08%
2009/2010	9119.64	5765.34	63.22%	28961.32	1509.76	5.21%
2010/2011	8943.18	6098.85	68.20%	39345.28	1858.88	4.72%
Average	8734.32	4457.29	50.48%	31778.42	1030.31	3.16%

Sources: Annual Report of UNL and DNPL

The above table gives the information about the efficient management of assets of UNL and DNPL for the last five fiscal years.

According to the table, the return on total assets of UNL is highest with 68.20% in the fiscal year 2010/2011 and lowest with 34.26% in the fiscal year 2006/2007 and an average of 50.48%. Similarly, the return on total assets of DNPL is highest with 5.21% in the fiscal year 2009/2010 and lowest with 0.08% in the fiscal year2008/2009 and an average of 3.16%.Thus we can say investors of UNL have higher return than that of DNPL.

4.5 Correlation Coefficient

Two variables are said to be correlated when they are so related that the change in the value of one variable is accompanied by the change in the value of the other variable. Correlation measures can be called as the correlation coefficient which shows the degree and direction of movement between two given variables. But the important thing that is to be noted here is correlation analysis only helps in determining the extents to which the two variables are correlated but if does not tell us about cause and effect relationship. Karl Pearson's correlation coefficient is defined by r_{xy}or simply r .

Karl Pearson's correlation coefficient can be calculated by following formula

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

Where u= x-a and v= y-b, a and b are assumed mean of series x and y.

To test the reliability of the calculated value of 'r', probable error (PE) can be calculated as,

$$PE= \frac{0.6745\ (1-x^2)}{\sqrt{n}}$$

Where, r= the calculated value of correlation coefficient from a sample of 'n' pair of observations.

n= number of pair of observations.

Table No 4.13

Relationship between gross working capital and other values of UNL

Variables	Correlation (r)	Probable Error (P.E)	6x(P.E)
CA to FA	0.16	0.29	1.74
Sales to CA	0.58	0.20	1.20
Sales to TA	0.70	0.15	0.90
Sales to Debtors	0.65	0.17	1.02
CA to CL	-0.88	0.07	0.42
Sales to NPAT	0.98	0.01	0.06

From the above tables, it is clear that there is low degree of positive correlation between current assets and fixed asset, as "r" is less than 0.5. Similarly "r" is less than P.E so the ratio is insignificant.

There is moderate degree of positive correlation between sales and current assets, as "r" lies between 5.0 and 0.6999. Here neither "r" is less than P.E nor is r" greater than 6XP.E so nothing can be calculated with certainty.

There is high degree of positive correlation between sales and total assets, as "r" lies between 0.7 and 0.999. Here neither "r" is less than P.E nor is r" greater than 6XP.E so nothing can be calculated with certainty.

There is moderate degree of positive correlation between sales and debtors, as "r" lies between 5.0 and 0.6999. Here neither "r" is less than P.E nor is r" greater than 6XP.E so nothing can be calculated with certainty.

There is high degree of negative correlation between current assets and current liabilities as "r" lies between -0.7 and -0.999. Here "r" is less than P.E so the ratio is not significant (Insignificant).

There is high degree of positive correlation between sales and net profit after tax, as "r" lies between0.7 and 0.999. Here "r" is greater than 6XP.E hence the ratio is definitely significant.

Table No 4.14

Relationship between gross working capital and other values of DNPL

Variables	Correlation (r)	Probable Error (P.E)	6x(P.E)
CA to FA	0.64	0.18	1.08
Sales to CA	0.65	0.17	1.02
Sales to TA	0.78	0.12	0.72
Sales to Debtors	-0.27	0.28	1.68
CA to CL	0.73	0.14	0.84
Sales to NPAT	0.54	0.21	1.26

From the above tables, it is clear that there is moderate degree of positive correlation between current assets and fixed asset, "r" lies between 5.0 and 0.6999. Here neither "r" is less than P.E nor is r" greater than 6XP.E so nothing can be calculated with certainty.

There is moderate degree of positive correlation between sales and current assets, as "r" lies between 5.0 and 0.6999. Here neither "r" is less than P.E nor is r" greater than 6XP.E so nothing can be calculated with certainty.

There is high degree of positive correlation between sales and total assets, as "r" lies between 0.7 and 0.999. Here "r" is greater than 6XP.E so ratio is definitely significant.

There is low degree of negative correlation between sales and debtors, as "r" is less than -0.5 Moreover here P.E is greater than "r" so the ratio is not significant.

There is high degree of positive correlation between current assets and current liabilities as "r" lies between 0.7 and 0.999. Here neither "r" is less than P.E nor is r" greater than 6XP.E so nothing can be calculated with certainty.

There is moderate degree of positive correlation between sales and net profit after tax, as "r" lies between 5.0 and 0.6999. Here neither "r" is less than P.E nor is r" greater than 6XP.E so nothing can be calculated with certainty.

4.6 Major findings :

1. The ratio of current assets to fixed Assets of Unilever Nepal Limited for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 5.00, 5.52, 6.51, 4.96, 5.02 times respectively and has an average of 5.37 times. Similarly the ratio of current asset to fixed assets of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 1.96, 1.73, 1.46, 1.54, 1.95 times respectively and has an average of 1.72 times. The current assets to fixed assets measures how much of amount is invested by the company in its current assets and fixed assets which comprises of total assets. Higher the ratio shows that the company has invested the higher amount in current than that on fixed assets. Here UNL has higher ratio as compare to DNPL.

2. The ratio of current assets to sales of Unilever Nepal Limited for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 35.19, 34.71, 30.17, 24.84, 20.97 percentage respectively and has an average of 27.89 percentage. Similarly the ratio of current assets to sales of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 53.55, 52.40, 40.54, 39.65, 49.69 percentage respectively and has an average of 46.89 percentage. The current assets to sales ratio measures how well a company is making use of its assets in generating sales. A lower current assets to sales ratio is generally a positive sign, indicating the company may have increase the production, increase the amount of i and resultantly the total current assets. Here the current assets to sales ratio of UNL are lower than of DNPL, Hence UNL has made effective use of current asset in generating sales.

3. The ratio of current assets to total assets of Unilever Nepal Limited for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 83.35, 84.66, 86.69, 83.22, 83.40 percentage respectively and has an average of 84.29 percentage. Similarly the ratio of current assets to total assets of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 66.23, 63.32, 59.35, 60.61, 66.09 percentage respectively and has an average of 63.29.

4. The inventory turnover ratio of Unilever Nepal Limited for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 4.20, 3.72, 5.17, 5.26, 5.21times respectively and has an average of 4.73 times. Similarly the inventory

turnover ratio of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 3.92, 3.61, 3.72, 3.36, 2.93 times respectively and has an average of 3.43 times. Inventory turnover ratio is used to measure the inventory management efficiency of a business. In general, a higher value of inventory turnover indicates better performance and lower value means inefficiency in controlling inventory levels. A lower inventory turnover ratio may be an indication of over-stocking which may pose risk of obsolescence and increased inventory holding costs. However, a very high value of this ratio may be accompanied by loss of sales due to inventory shortage. Here the Inventory turnover ratio of UNL is better than that of DNPL.

5. The working capital (sales to current assets) ratio of Unilever Nepal Limited for the fiscal year 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 2.84, 2.88, 3.31, 4.03, 4.77 times respectively and has an average of 3.57 times. Similarly the working capital (sales to current assets) ratio of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 1.87, 1.914, 2.47, 2.52, 2.01 times respectively and has an average of 2.13 times. A decreasing sales to current assets ratio is generally a negative sign, indicating the company may have slowed production, decreasing the amount of Inventories and resultantly the total current assets. Here UNL is better ratio than that of DNPL.

6. The total assets turnover ratio of Unilever Nepal Limited for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 2.37, 2.44, 2.87, 3.35, 3.98 times respectively and has an average of 3.00 times. Similarly the total assets turnover ratio of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 1.24, 1.21, 1.46, 1.53, 1.33 times respectively and has an average of 1.35 times. The lower the total asset turnover ratio the more sluggish the firm's sales. This may indicate a problem with one or more of the asset categories composing total assets - inventory, receivables or fixed assets. Here the ratio of UNL is better than that of DNPL.

7. The debtors turnover ratio of Unilever Nepal Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 13.33, 14.48, 19.62, 23.87, 15.18 times respectively and has an average of 17.29 times. Similarly the debtors turnover

ratio of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 7.26, 7.30, 6.61, 16.31, 12.52 times respectively and has an average of 10.00 times. The higher the value of debtor's turnover the more efficient is the management of debtors or more liquid the debtors are. Similarly, low debtors turnover ratio implies inefficient management of debtors or less liquid debtors. It is the reliable measure of the time of cash flow from credit sales. Here UNL has better control over the debtors as compare to DNPL.

8. The current ratio of Unilever Nepal Ltd for the fiscal year 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 1.66, 2.49, 4.16, 3.94, 3.24 times respectively and has an average of 3.24 times. Similarly the current ratio of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 2.71, 1.62, 1.63, 3.20, 1.87 times respectively and has an average of 2.20 times. Current ratio is a financial ratio that measures whether or not a company has enough resources to pay its debt over the next business cycle (usually 12 months) by comparing firm's current assets to its current liabilities. The higher the current ratio is, the more capable the company is to pay its obligations. Here the current ratio of UNL is better than that of DNPL.

9. The quick ratio of Unilever Nepal Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 0.62, 0.83, 2.71, 1.51, 1.55 times respectively and has an average of 1.44 times. Similarly the quick ratio of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 0.70, 0.47, 0.64, 0.89, 0.52 times respectively and has an average of 0.64 times. Quick ratio specifies whether the assets that can be quickly converted into cash are sufficient to cover current liabilities. Quick ratio is an indicator of company's short-term liquidity. It measures the ability to use its quick assets (cash and cash equivalents, marketable securities and accounts receivable) to pay its current liabilities. If quick ratio is higher, company may keep too much cash on hand or have a problem collecting its accounts receivable. Higher quick ratio is needed when the company has difficulty borrowing on short-term notes. Here the quick ratio of UNL is better than that of DNPL.

10. The gross profit margin of Unilever Nepal Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 29.52, 36.48, 35.38, 40.66, 36.03 percentage respectively with has an average of 35.62 percentage. Similarly gross profit margin of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 21.85, 22.35, 20.05, 23.31, 23.18 percentage respectively and has an average of 22.15 percentage. Gross profit margin measures company's manufacturing and distribution efficiency during the production process. It is a measurement of how much from each amount of a company's revenue is available to cover overhead, other expenses and profits. High gross profit margin indicates that the company can make a reasonable profit, as long as it keeps the overhead cost in control. A low margin indicates that the business is unable to control its production cost. Her the UNL has better gross profit margin than that of DNPL

11. The net profit margin of Unilever Nepal Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 19.00, 20.20, 21.46, 23.70, 21.40 percentage respectively and has an average of 21.15 percentage. Similarly net profit margin of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 3.09, 2.32, 0.06, 4.34, 4.37 percentage respectively and has an average of 2.84 percentage. Net profit margin measures how much of each amount earned by the company is translated into profits. A low profit margin indicates a low margin of safety: higher risk that a decline in sales will erase profits and result in a net loss.Net profit margin provides clues to the company's pricing policies, cost structure and production efficiency. Different strategies and product mix cause the net profit margin to vary among different companies. Here profit margin of UNL is better than that of DNPL

12. The return on total assets of Unilever Nepal Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 34.26, 38.12, 48.59, 63.22, 68.20 percentage respectively and has an average of 50.48 percentage. Similarly return on total assets of Dabur Nepal Pvt Ltd for the fiscal years 2006/2007, 2007/2008, 2008/2009, 2009/2010 and 2010/2011 is 3.00, 2.80, 0.08, 5.21, 4.72 percentage respectively and has an average of 3.16 percentage. Return on Assets ratio gives an idea of how efficient management is at using its assets to generate profit. The only common rule is that the higher return on assets is, the better, because the company is

earning more money on its assets. A low return on assets compared with the industry average indicates inefficient use of company's assets. Here UNL has higher return on total assets than that of DNPL.

13. There is low degree of positive correlation between current assets and fixed asset, moderate degree of positive correlation between sales and current assets, high degree of positive correlation between sales and total assets, moderate degree of positive correlation between sales and debtors, high degree of negative correlation between current assets and current liabilities, high degree of positive correlation between sales and net profit after tax of Unilever Nepal Limited over the study period.

14. There is moderate degree of positive correlation between current assets and fixed asset, moderate degree of positive correlation between sales and current assets, high degree of positive correlation between sales and total assets, low degree of negative correlation between sales and debtors, high degree of positive correlation between current assets and current liabilities, moderate degree of positive correlation between sales and net profit after tax of Dabur Nepal Pvt Ltd over the study period.

CHAPTER V

SUMMARY CONCLUSION AND RECOMMENDATION

This chapter summarizes the whole study. Summary of the study has been mentioned in the first section. The second reflects the conclusion drawn from the study and the third part is recommendation.

5.1 Summary

Working capital is an indispensible component of financial management. "Working capital principally is needed by a firm to pay for stock and to cover the amount of credit extended to customers. It is fluid and fluctuates with the level of business. The working capital cycle links directly with the cash operating cycle, which is conversion of cash into inventory, inventory into sales, sales into debtors and debtors again into cash.

Working capital has two concepts; its gross concept includes all the current assets of the firm that is cash, stock and debtors and net concept comprises short term net assets, stock, debtors and cash less creditors. To control the working capital, the firm must focus on its main element or components like cash, stock debtors and creditors. Working capital may be permanent or temporary. Permanent working capital is that minimum level of current assets which is continuously required by the firm to carry on its business operations. Temporary working capital is created by the firm to meet liquidity requirements that will last only temporary and it varies according to the seasonal requirements of the firm.

There are basically three approaches to invest in working capital. In matching or hedging approach expected life of the assets are matched with expected life of the source of the fund raised to finance assets i.e maturity period of both assets and sources of the finance should be the same. According to conservation approach, firm fiancés its permanent assets and a part of temporary current assets with long term financing which is less risky and when firm has no temporary current assets then the surplus fund is

invested in marketable securities. In aggressive approaches, the firm uses more short term financing even in the permanent current assets.

For forecasting working capital there are different techniques like operating cycle method, estimation of current assets and current liabilities, cash forecasting method, projected balance sheet, and profit and loss adjustment method.

This study aims to compare the structure of working capital, efficiency of working capital and its impact on profitability of UNL and DNPL. For these assessments, various financial tools like turnover ratio, profitability ratio, and liquidity ratio are calculated and analyzed. Statistical tools like correlation coefficient of different working capital components are also computed to evaluate and reach at the certain conclusion.

5.2 Conclusion

In conclusion, it can be said that working capital is the most important part of manufacturing company and it should not be neglected. Manufacturing companies are not getting prosperous position due to their administrative negligence in day to day operation, unnecessary blockage of inventory and lack of specific working capital policy. While pinpointing of the sample company, we can find that investment in current assets is high with respect to net fixed assets, DNPL and UNL has excess level of CA with average of 63.28 percent and 84.29 percent respectively in comparison to standard 30 to 60 percent of total assets. The efficient management of working capital is tradeoff between the confliction objects of liquidity and profitability.

The working capital efficiency of enterprises is measured by evaluating a various turnover ratios. From the study of turnover ratio of sample companies DNPL and UNL, the average inventory turnover ratio is 3.43 times and 4.73 times respectively. Total assets turnover ratio is 1.35 times and 3.00 times respectively. The higher the liquidity the lower would be the risk of technical insolvency or vice versa. In the study it is found that the current ratios which are the measures of liquidity of DNPL and UNL are

2.20 and 3.24 times respectively. This shows that the UNL maintain the better liquidity position than the DNPL.

Similarly after analyzing the various profitability ratios, it can be concluded that there is operating efficiency in sample companies and overall return position of the companies are also not a favorable condition because of inefficient utilization of current assets, total assets and shareholders wealth. The outcome of cash conversion cycle of both sample companies are not satisfied for long run because analysis shows that there is long ACP of UNL which is favorable only for short run and it will cause negative impact from its trade creditors in upcoming days of the company. UNL has followed aggressive policy whereas DNPL followed conservative.

The correlation coefficient of the variables selected for the statistical analysis shows that UNL has low degree of positive correlation between current assets and fixed asset, and is insignificant. There is moderate degree of positive correlation between sales and current assets and nothing can be calculated with certainty. There is high degree of positive correlation between sales and total assets and nothing can be calculated with certainty. There is moderate degree of positive correlation between sales and debtors; nothing can be calculated with certainty. There is high degree of negative correlation between current assets and current liabilities and the ratio is not significant (Insignificant). There is high degree of positive correlation between sales and net profit after tax and the ratio is definitely significant.

The correlation coefficient of the variables selected for the statistical analysis shows that DNPL has moderate degree of positive correlation between current assets and fixed asset, nothing can be calculated with certainty. There is moderate degree of positive correlation between sales and current assets; nothing can be calculated with certainty. There is high degree of positive correlation between sales and total assets, so ratio is definitely significant. There is low degree of negative correlation between sales and debtors, so the ratio is not significant. There is high degree of positive correlation between current assets and current liabilities and nothing can be calculated with certainty. There is moderate degree of positive correlation between sales and net profit after tax and so nothing can be calculated with certainty.

We can say that positive correlation means both the variables are moving towards the same direction the findings suggest that UNL has strong relationship between each variable than that of DNPL.

5.3 Recommendation

On the basis of findings of the study, following recommendations for the overall improvement of working capital management are forwarded for the management of both DNPL and UNL.

1. DNPL should try to improve liquidity position because current ratio is less than the standard. So the company should increase its current assets by investing in trade bills.
2. The overall profitability position of DNPL is less than the UNL which is not a good sign, which is due to the conservative working capital policy thus the management, is advised to revise their working capital policy because conservative policy increase the cost of financing which ultimately decreases the overall profitability position of the company.
3. Inventory turnover ratio of DNPL is low with comparison to UNL, so the management of DNPL should reduce the huge amount of inventory or the optimum level should be adjusted according the sale and productivity. An effectiveness control techniques like EOQ, ABC, LIFO, FIFO etc should be introduced in order to control inventory in accordance with their value and importance and thus maintain inventory position.
4. Thus for the effective management and to develop managerial ability to take risk there should be training and participation in management conference. Foreign enterprises tour and development programs should be conducted regularly.

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