WORKING CAPITAL MANAGEMENT OF NEPAL TELECOM CORPORATION

Submitted by

Punam Thapa

Central Department of Management

Campus Roll No.: 220/065

Symbol No.: 280314/067

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RECOMMENDATION

This is to certify that the thesis

Submitted by:

Punam Thapa

Entitled

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

| --- | --- | --- |
| Dr. Dilli Raj Sharma | Prof. Dr. Bal Krishna Shrestha | Prof. Dr. Bal Krishna Shrestha |
| Supervisor | Chairperson, Research Committee | Head of the Department |

Date: ……..……

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Punam Thapa

Entitled

WORKING CAPITAL MANAGEMENT OF NEPAL TELECOM CORPORATION

and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for

Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Chairperson, Research Committee ----------

Member (Thesis Supervisor) ----------

Member (External Expert) ----------

Member (Central Department of Management) ----------

Date: ----------

DECLARATION

I hereby, declare that the work reported in this thesis entitled **"Working Capital Management of Nepal Telecom Corporation"** submitted to Central Department of Management, University Campus, T.U., Kirtipur is my original piece of work done in the form of partial fulfillment of the requirement for the Master's Degree in Business studies under the supervision and guidance of Dr. Dilli Raj Sharma, Associate Professor, Central Department of Management.

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Punam Thapa

Roll No.: 220/065

Central Department of Management

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ABBREVIATIONS

CA	Current Assets
CCC	Cash Conversion Cycle
CL	Current Liabilities
CV	Coefficient of Variation
L/C	Letter of Credit
DSO	Days Sales Outstanding
FA	Fixed Assets
ICP	Inventory Conversion Period
MBS	Master of Business Studies
NEPSE	Nepal Stock Exchange
NTC	Nepal Telecom
NWC	Net Working Capital
PDP	Payable Deferred Period
PL	Profit and Loss
RCP	Receivable Conversion Period
SD	Standard Deviation
SEBON	Security Board of Nepal
TU	Tribhuvan University
UTL	United Telecom Limited
WC	Working Capital
WLL	Wireless Local Loop

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Simply, Working capital management means excess of current assets over current liabilities. It refers to the administration of all aspect of the current assets and current liabilities. To run day – to – day operations on the business, amount invested in the firm of raw material, cash, semi-finished goods, receivable etc put together is called working capital.

There are two concept of working capital, net concept and gross concept. Net concept of working capital is the excess of current assets over current liabilities. Gross concept is the total of current assets. It is particularly useful for new companies in deciding size of the investment in each type of current assets. Inadequate investment effects firms' profitability as idle investment yields nothing. So, with the increase or decrease in business activities, working capital needs also fluctuate from time to time. This aspect of working capital management is equally applicable to the small as well as large scale enterprises. The main difference of working capital between small and large firm is that working capital management may be the factor which decides success or failure of the small firm, where as in large firms, efficient working capital management significantly affects the firms risk return and share price.

Every company has variable working capital and permanent working capital. Certain portion of working capital always remains permanent working capital. Cash receivables and inventory level in the business would never decline to zero. The working capital other than permanent is called variable working capital. It keeps on changing in course of business operation.

An organization needs to determine the size of working capital as accurately as possible. Neither under-investment nor over investment in working capital is preferred. A firm therefore should pay proper attention to determinants of working capital, which differs from organization to organization. Some of the important determinants of working capital are nature and size of business, cost and time involved in manufacturing process, turnover of circulating capital growth and

expansion phase, change in business cycles, terms and conditions of sales and purchases, nature of dividend policy and so on. Coordination between production and distribution, developed transport and communication systems etc. could also play an important role in determining investment in working capital.

Working capital is therefore the size of investment in each type of current assess e.g. cash, receivables and inventory. Decision regarding working capital affects the profitability of the firm in the short run but it affects the very survival in the long run. Faster the turnover of cash into raw material, raw materials into semi-finished goods, semi-finished goods into finished goods, and finished goods into receivable and cash, greater would be the efficiency of the firm's (Pandey, 1992).

Working capital management study is focused on the theoretical and empirical study in relation to working capital management of Nepal Telecom by employing statistical and financial tools, this study will try to give valuable recommendations and measures for correcting deviations.

A Brief Profile of Nepal Telecom

Telecommunication is the system, which facilitate by conveying the information quickly over long distance with a cheap cost. It is also known as one of the quickest, cheapest as well as the most scientific means of communication in the modern world. In a developing country like Nepal, the role, importance and contribution of telecommunication for the economic development of country is unavoidable. Telecommunication sector play an important role for the development of any sectors. The effects of telecommunication on the rural areas and there contribution to rural development are extremely important.

The history of telecommunication development in Nepal is not so long. The first telecommunication services were started in Nepal during the regime of Chandra Samsher in 1972 B. S. It was the first time and good opportunity for Nepalese people to transmit their message from Kathmandu to Birgunj. This telephone line attributed as magneto connected Birgunj with Kathmandu under the name of "Shree Chandra Telephone". Another telephone line connecting in Kathmandu and Gour had been installed in the year 1980 B.S. In the year 1992 B.S., 25 automatic Telephone lines were distributed among the high-ranking personalities of Nepal for their own

individual uses. The first telecommunication office was established near Ranipokhari, Kathmandu (Annual Report of NT, 2012).

Further telecommunication lines were mainly available during the rule of Prime Minister Juddha Shamsher by connecting the telephone line to the different districts to the extent of 300 miles long. The telephone line being extended from Kathmandu to Siraha and Saptari. In the year 1998 B.S. additional installation of telephone line linking Dhankuta, Dhahran and Biratnagar were distributed.

A noticeable change happened toward telecommunication during the period of Juddha Shamsher. About 200 miles long telephone lines were also bought into use in western part of Nepal. The government of Nepal felt the need of telecommunication for effective administration and active participation of people to achieve national goal. So 200 C. B. telephone lines were setup and distributed in Nepal government offices having the exchange office at Singh Durbar. In the year 2002 B. S. before implementation of first five year plan, Nepal had 200 C.B. lines, 100 magnets line, 15 automatic lines, 10 military exchange lines and 600 miles of trunk lines connecting Kathmandu with other districts (Annual Report of NT, 2012).

Before the implementation of 1st five-year plan, Nepal had wireless relation between 28 centres only in various parts of the country. About 18 of their stations were equipped with modern equipment. The wireless services were made workable by means of petrol generators in different districts except Kathmandu and Biratnagar. As the material and machinery required for wireless services has been made available during the period of Second World War, a satisfactory service could not be achieved on account of problems faced while transporting the petrol in remote districts (Annual Report of NT, 2012).

Nepal Telecom Ltd. was established on 2032/03/11 B.S. under the Nepal Telecommunication act 1971 B.S. to provide reliable and affordable telecommunication service all over the country. Most rural area of Nepal are characterized by low population density, long distances between settlement areas and unfavorable geographical and climate conditions. Other difficulties are low education level, less job opportunities, low per capita income, income increasing tendency of population to regulate to urban centre, poor, unreliable or non existent power supply,

poor health care and medical services. The basic objectives of the need for providing telecommunication facilities in those rural areas is to trigger the development activities and to minimized above mentioned disadvantages, thereby by improving the quality of life. Nepal Telecom is planning rural serve rural areas by adopting the various technologies. VSAT shall be deployed in high mountain areas and in those remote areas where other terrestrial system are nor feasible or viable. Mid mountain areas and southern plain areas are shall be served by combination of wireless local loop (WLL), VHF Radio communication, small rural exchanges with copper Networks or other appropriate terrestrial systems (Annual Report of NT, 2012).

Although NT has far better performance than other State Owned Enterprises (SOEs) of Nepal, in the sense that it is such a public enterprise which is operating under the net profit position since its establishment, the coming days are not as easy as earlier because its days of monopoly are almost over now. Its profitability definitely, can be considered as major indication of financial performance. However, only net profit cannot ascertain that its assets are financed appropriately and sources and application of fund have been effectively mobilized, so the need of study on existing working capital position to observe and evaluate the sources and application of funds in NT is considered relevant. Thus this study will assess whether the size, liquidity, efficiency and profitability of working capital in NT is adequate or not and provide suggestions for sound working capital position and maximize profitability of NT in future days. Thus the research was focused on analysis of the working capital management of NT.

1.2 Statement of the Problem

Every organization has to manage their assets properly otherwise it is impossible to success in the competitive business environment. So, how to manage the working capital, which is a main problem for today's business organization. The efficient and effective management of working capital is must for smooth operation of the firm.

Working capital management decisions is the most sensitive for every firm. It is wilder activity in the working capital decision. It has various factors affecting the decisions; it should maintain optimal level of working capital. Determining the optimum level of working capital is the crux problems of every business organization, it constrained to maintain the trade- off between risk and return.

Working capital of the organization can not be managed in an easy way and it should not be neglected. Working capital management is the determinant of success or failure of the business organization both lower as well as higher working capital positions are dangerous from the business point of view. Excessive working capital means idles, which earns low profit for the firm, purity of working capital not only impairs but also results in production interruption and inefficiencies. Thus, the main problem is how to maintain the optimal level of working capital in manufacturing enterprises. Working capital management is linked with the continued existence of enterprise. Regardless of excellent products, effective marketing, efficient production and optimum fixed assets management. Management has lost the control of its firm because of liquidity.

Working capital is a crucial capital, which is compared as lifeblood of the human beings for the organization. In most enterprises, the management of working capital have been misunderstood as the management of money rather that it's efficient utilization. If a firm wants to maintain sound financial position, it should maintain optimal level of working capital. Determining the optimal level of working capital is the crux of the problem of every business organization. It is strongly related to the trade off between risk and return.

“In contrast, public utilities have very limited need for working capital and to invest abundantly in fixed assets. Their working capital requirement are nominal because they may have only cash sales and supply service; not products. Thus no fund was tied up in debtors and stocks (Pandey, 1999: 817). If so, why NT keeps so high liquidity position? Thus the problem towards which this study is directed is to assess the size; liquidity; efficiency and profitability of working capital in NT.

Talking the above problem under consideration, some research questions are raised as follows:

- Are the size, liquidity, efficiency and profitability of working capital in NT is adequate or not?
- Is restructuring of capital needed in the context of the internal financing?
- How the sources of funds are created and mobilized?
- Did the huge amount of cash and bank balance may cause to lose its profitability?

- Can NT make better utilization of excess cash amount by investing in marketable securities?
- Is severe efforts needed to collect the outstanding bills immediately?

1.3 Objectives of the Study

The objectives are to gain an insight into the management of working capital in NT. More specifically, the following general objectives can be outlined:

- To examine and critically analyze the working capital management of Nepal Telecom.
- To examine liquidity position and profitability position of Nepal Telecom.
- To assess the size and growth of working capital, and
- To recommend viable suggestions to cope up with working capital management shortcomings in Nepal Telecom.

1.4 Signification of the Study

Working Capital is regarded as the life blood for any organization because it is needed for sustaining the enterprise in day to day operation. If the business cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even push into bankruptcy. So 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. "Survey indicates that the largest portion of most financial managers' time is devoted to the day to day internal operation of the firm which falls under the heading of working capital management" (Pandey, 1999: 817).

Working capital is a firm's investment in short term assets working capital management involved a large portion of the firm's total assets as more than half topical firm's total investment in current assets. Working capital is the most crucial area in organization management because many instances have shown that regardless of excellent production and wide fixed assets management, management has lost the control of its firm because liquidity crises resulted in takeover by creditors, forced merger or bankruptcy. So to inquire into the efficient of current assets management and its association with their financial performance of manufacturing enterprises in Nepal, in the present context the study is timely relevant.

Besides, it will be helpful to the management of organization to determine appropriate working capital policy. And it is also useful to the controlling ministries for formulating appropriate economic policy for the organization. The study will helpful to carryout further research study in this field. Hence, these studies will diagnosis the relationship of working capital management to the efficiency of the organization as a whole. It will also be useful for the new management to improve the efficiency as well as the profitability with proper management of working capital and its components. The study has multidimensional significance which can be divided into four points.

i. Its significance to the shareholders: The study might be helpful to aware the shareholders regarding the working capital management. Every shareholder has aim to wealth maximization with profit maximization. This study has the analysis of profitability and liquidity. The results can motive the shareholders to invest in high profitability business organization.
ii. Its significance to the management: The success or failure of a business organization depends on its strategy, which depends upon working capital. Working capital is the lifeblood of any organization. Adequate and inadequate working capital may harm for company. After this study management can balance and co-ordinate the different functional areas with compare to each other.
iii. Its significance to the policymakers: Policy maker depend upon the financial data and analysis. This study also analysis the financial data and give recommendations. So, the study will be helpful to policy maker while formulating the policy regarding companies.
iv. Its significance to the outsiders: Among outsiders, mainly the customers, financing agencies, stock exchange creditors and stock traders are interested in the performance of manufacturing companies. After this study they can identify which is better.

1.5 Limitation of the Study

i. This study is mainly based on balance sheet and income statement maintained by the company and published in annual reports, where the various types of information were given in condensed form.
ii. The study covers the information of only past five years data from 2007/08 to 2011/12.
iii. This study will only concern with the Working Capital factors.
iv. This study and its results and its result will depend on the availability and reliability of the data.

1.6 Organization of the Study

This study is about the Working Capital Management of Nepal Telecom Ltd. This study was divided into main five chapters. They are as follows:

Chapter- I: Introduction

The first chapter is introductory chapter; it contained general background of the study, size of the study, statement of the problem, objectives of the study, significance of the study and limitation of study.

Chapter- II: Review of Literature

The second chapter dealt with the review of literature broadly divided into many parts, which included published books, article, reports, dissertation and journal related to the topic of the study.

Chapter- III: Research Methodology

The third chapter deals with the research methodology, which consists of research design, population and sampling, sources of data and information along with different analytical tools that have been applied in the study.

Chapter- IV: Data Presentation and Analysis

The fourth chapter presents the main aspects of the study. It dealt with systematic presentation and analysis of data where various financial and statistical tools and

technique were used to analyze and interpret data. It also included the main findings based upon analysis.

Chapter- V: Summary, Conclusion and Recommendations

Finally, in the fifth chapter whole study was summarized. Conclusion of the whole study and supply of some valuable recommendation for the improvement were done.

Bibliography and other appendixes used in statistical result were attached at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

This chapter deals with the conceptual framework of working capital management. It also provides insight into the finding of earlier studies through the review of books journals, publication and pervious studies. This process of studying different materials, which are concerned with the selected topics of the research is known as review of literature. P.V. young argues "Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research". This chapter covers the following aspects.

- Conceptual framework
- Review of previous studies

2.1 Conceptual Framework

The term “Working Capital Management” is concerned only with the management of current assets and current liabilities of the organization which is necessary for day to day operation. Every company has variable and permanent working capital. Hence, the success and failure of any organization depend on it. So far as the management of working capital in Nepalese organization, concerned a number of studies have been undertaken by different management experts and students of MBS/MBA.

Working capital is the amount of fund that id needed to finance the current assets of the firm. Since the current assets are normally converted into cash within one year. Working capital helps revolving within one year or less through different current assets. One the fund is converted into current assets, it is constantly converted into cash and cash outflow in exchange for other current assets (Weston, 1981:137). Working capital is a furnish investment in short term assets (Poudel, Gautam, Dhahal, Rana, 2062: 322). Working capital is a firm’s investment in short term assets, cash, short term securities, account receivables and inventories (Weston, 1984:266). Working capital involves deciding upon the account and composition of current assets and to finance these assets. The decision involves trade of between risk and profitability (Kuchhal, 1988:156).

The goal of working capital management is to manage the current assets and liabilities of the firm to keep at satisfactory level. It helps the organization to operate day to day transaction and operation without any interruption. If the firm cannot maintain the satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy.

2.1.1 Concept of Working Capital

Working capital is a controlling nerve of every business organization because no organization can run smoothly without the proper control upon it. Thus, it plays the crucial role in the success and failure of the organization. As the management of current assets and current liabilities of the business organization is necessary for day-to-day operations, it plays the key role in the success and failure of the organization in the short run as well as in the long run also.

Every organization needs various types of assets in order to carry out its function without any interruption. They are fixed and current assets. Some fixed assets have physical existences and are required to produce goods and services over long period. These types of fixed assets are called tangible fixed assets. It includes land, building, plant, machinery, furniture, and so on. But some other fixed assets do not generate goods and services directly. However, it reflects the right of the firm. It is called intangible fixed assets. It represents patents, copyrights, trademarks, and goodwill. Both types of fixed assets are written off over a period of time.

Current assets are those resources of the firm, which are either held in the form of cash or expect to be converted into cash within operating cycle of the business. It includes, cash, marketable securities, account receivables, stock of raw materials, work-in-progress, and finished goods. Among these, some assets are required to meet the need of regular production and some for day-to-day expenses and short-term obligations.

Current liabilities are those claims of outsiders, which are expecting to be matured with in an accounting year. It includes; creditors, bills payable and outstanding expenses.

There are two concepts of working capital: Gross Concept and Net Concept.

According to gross concept, working capital refers to the capital invested in current assets of a firm. It focuses only the optimum investment in the current assets and financing of current assets. (Khan and Jain: 1996:604).It includes cash, short-term securities, inventory and account receivable. The level of current assets should be adequate. The level of current assets must be fluctuating with the changing business activity. Thus his concept can help earning more profit through maximum utilization of current assets. This concept is called quantitative concept.

In the view SC Kuchhal: there are two concepts of thoughts on working capital. One school of thought says that working capital is meant for the current assets only. Another school of thought argued that working capital is the excess of current assets over current liabilities. In other words, it is that portion of current asserts financed with long term funds. It is the liquidity position of the firm and suggests extending which working needs to be financed by permanent source of funds. It is very successful for comparing the performance of different firms as a measuring of liquidity, but it is quite useful for internal control. This concept helps to compare the liquidity of the same firm under a particular time period.

The first school of thought under the sponsorship of mead, baker, malts and field, relates with gross working capital and the second school of thought under the leadership of Lincoln, Doris, Stevens and Sailors relates with net working capital. The gross working capital refers to the firms' investment in current assets which includes to the management of cash, inventories and account receivable of the firm while, net working capital refers to difference between current assets and current liabilities.

There are specially two concepts of working capital: Gross concept and net concept. The gross working capital simply called as working capital refers to the firm's investment on current assets. Current assets are those assets which can be converted in to cash with in an accounting year and includes cash, short term securities, debtors, bill receivable, stock, inventories and pre-paid expenses. The term net working capital refers to the differences between current assets and current liabilities. Current liabilities are those claims of outsiders which can expected to mature for payment with in an accounting year and includes creditors, bills payable, Bank overdraft and outstanding expenses or accrued income. Net working capital can be negative or positive. A negative net working capital occurs when current liabilities are in excess

of current assets (Pandey, 1992: 800).

The management of working capital plays a vital role run any public enterprises successfully. It focuses on the routine 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 type of current assets, suitable for investment so as to raise their operational efficiency.
- Thirdly they are required to ascertain the turnover of current assets, which determine profitability of the concerns.
- Lastly, they must find out the appropriate source of funds to finance current assets (Agrawal, 1996:8).

Weston and Brigham have given some theoretical insights into working capital management after their various research studies on it. The best conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management of working capital in any firm. At the beginning, they explain the importance of working capital, the use of short term versus long-term debt, relationship between current assets to fixed assets. The components of working capital they have dealt with current assets which are cash, marketable securities, receivable and inventory. For the efficient management of cash, they have explained the different cash management model. They have also explained the major sources and form of short-term financing. Such as trade credit, loan from commercial banks and commercial paper.

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

From the management point of view, gross working capital deals with the problem of managing individual current assets in the day-to-day operation. But having along run

view of working capital, we have to concentrate on the net value of current assets, i.e. the operation of current assets, which is constant in short run analysis and decision making but variable and manageable in long run operation. The net concepts of working capital helps the management to look for permanent source for it's financing since working capital under this approach does not increase with increase in short term borrowing.

According to N.P. Agrawal, "Working capital consists broadly at the portion of the assets of the business used in or related to current operation and represented at any one time of the operating cycle by such items as account receivables, inventories of raw materials, stores, work-in-progress and finished goods, bill receivables and cash. Assets of this type are relatively temporary nature, since the invested names are normally capable of being recovered or of being change in form with in a short period of time and the time element of ultimate recovery depend on the manufacturing cycle as well as sales and collection cycle".

According to KV Smith, "Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivable and inventories and of current liabilities". It means the working capital management is concerned with the problems that arise in attempting to manage the assets, current liabilities and the inter-relationship that exist between them".

Working capital management is the process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. Specially, working capital management requires financial manager to decide what quantities of cash, other liquid assets account receivables and inventory of the firm should hold at any point of time. In addition, financial managers must decide how the current assets are to be financed according to need of the firm.

2.1.2 Classification of Working Capital

Working capital can be classified into two parts: Permanent (Fixed) working capital and temporary (Fluctuating) working capital. These two types of working capital are necessary for continuous production and sales.

(i) Permanent (Fixed) 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 functions in the absence of this portion of working capital. Therefore, a manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted reduction and sales function. This portion of working capital is directly related to the firm's expansion of operation capacity. This minimum working capital of a firm has to provide out of long – term sources are such as,

- Issue of share
- Issue of debenture
- Retention in various forms (i.e., plugging back of profits, general reserves etc.)

(ii) Variable (Fluctuating) Working Capital

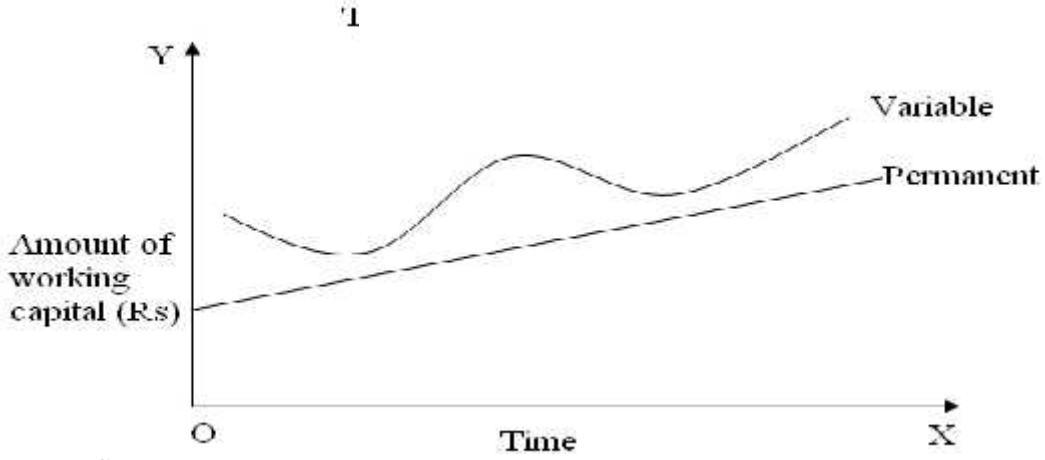
Variable working capital represents the portion of working capital, which is required over permanent working capital. Therefore, this portion of working capital depends upon the nature of firm's production, relation between labor and management. The firm's, which are seasonal in character in their business, need a large amount of capital for holding inventory during the peak period. But, as soon as the peak period is over, their working capital becomes idle. Therefore, firm's having seasonality in their business find it convenient to meet their working capital requirements by resorting to short – term sources, such as:

- Bank loan
- Public deposits
- Trade credit and other payables
- Provision for taxation
- Depreciation provision etc.

Fig No. 1 shows clearly about this portion of working capital. If a firm has sound management of this portion of working capital, it can easily win the other competitors in the cutthroat of the market.

Figure 2.1

Type of Working Capital



Source: I.M Pandey, 1995: Eight Edition

2.1.3 Need and Importance of Working Capital

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

(i) The Transaction Motive

According to transaction motive a firm holds cash and inventories to facilitate smooth production and sales operation in regular. Thus, the firms need the working capital to meet the transaction motive.

(ii) The Precautionary Motive

Precautionary motive is the need to hold cash and inventories to guard against the risk of unpredictable change in demand and supply forces and other factors such as strike, failure of important customer, unexpected show down in collection of account receivable, cancellation of some order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet any contingencies in future.

(iii) The Speculative Motive

Speculative motive refers to the desire of firm to take advantage of following opportunities:

- Opportunities of profit making investment.
- An opportunity of purchase raw materials at a reduced price on payment of immediate cash.
- To speculate on interest rate.
- To make purchase at favorable price etc.

Thus the firms need the working capital to meet the speculative motive. The objective of financial decision making is to maximize the shareholder's wealth. To achieve this, it is necessary to generate sufficient profits. The extent to which profit can be earned will naturally depend upon the magnitude of the sales among other things. A successful sales programmed is, in other words, necessary for earning profit by any business enterprise. However, a sale does not covert into cash instantly; there is invariably a time log between the sales of good and receipt of cash. There is therefore, a need for working capital in the form of current assets to deal with the problem arising out of the lack of immediate realization of cash against goods sold. Therefore, sufficient working capital is necessary to sustain sales activity. Technically, this is referred to as the operating or cash cycle. The operating cycle is the time duration required to convert sales, after the conversion of resources into inventories, into cash (Pandey, 1999:810).

Some of the more significant reasons why working capital management is important are as follows:

1. The size and volatility of working capital make it major managerial concern managers spend much of their time on the day to day activities that revolve around working capital management.
2. The relationship between sales growth and working capital is both close and direct. As sales increase, firm must increase inventory and accounts payable. Increase sales generate a higher level of account receivable. So working capital must be managed as firms increase or decrease their scale of operation and sales. At the same time, some of the current liabilities especially account payable; tend to increase and decrease spontaneously. This spontaneously short term financing (due to use of trade credit) must be kept in mind as we consider both the CA and then financing (by both current and long term sources).
3. WC has direct relationship with the inflows and outflows of cash. WCM ensures the right timing and right amount of cash inflows and outflows. This

makes the firm able to meet the obligation in right time and there will not be idle cash in hand. This is done by calculating inventory conversion period, receivables collection period and payable deferred period.

4. Size of CAs and CLs, in most of the manufacturing firms CA comprise of about 50% of the total assets. Similarly, CL supply 30% of total finance of the firm in general. WCM is very important because it helps to manage each of the CAs and CLs properly.

2.1.4 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding (i) target levels for each category of current assets and (ii) how current assets will be finished. So, of all, in working capital management, firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions of finance mangers is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds for working capital.

2.1.4.1 Current Assets Investments 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 three alternative current assets investment policies – Fat cat, Lean and Mean & 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, and inventory and cash conversion cycles. It also creates the longer receivable collection period due to the liberal credit policy. Thus this policy provides the lowest expected return on investment with lower risk.

(ii) Lean and Mean Policy

In lean and mean policy, a firm holds the minimum amount of cash, marketable securities, inventory and receivable to support a given level of sales. This policy trends to reduce the inventory and receivable conversion cycle. Under this policy,

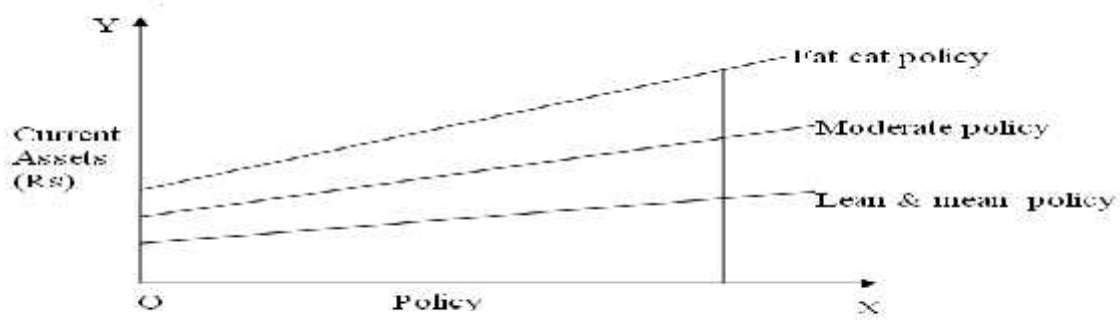
firm follows a light credit policy and bears the risk of losing sales.

(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.

Figure 2.2

Alternative Current Assets Investment Policy



Source: Brigham and Houston, 2001: 697

2.1.4.2 Current Assets Financing Policy

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

(i) Aggressive Policy

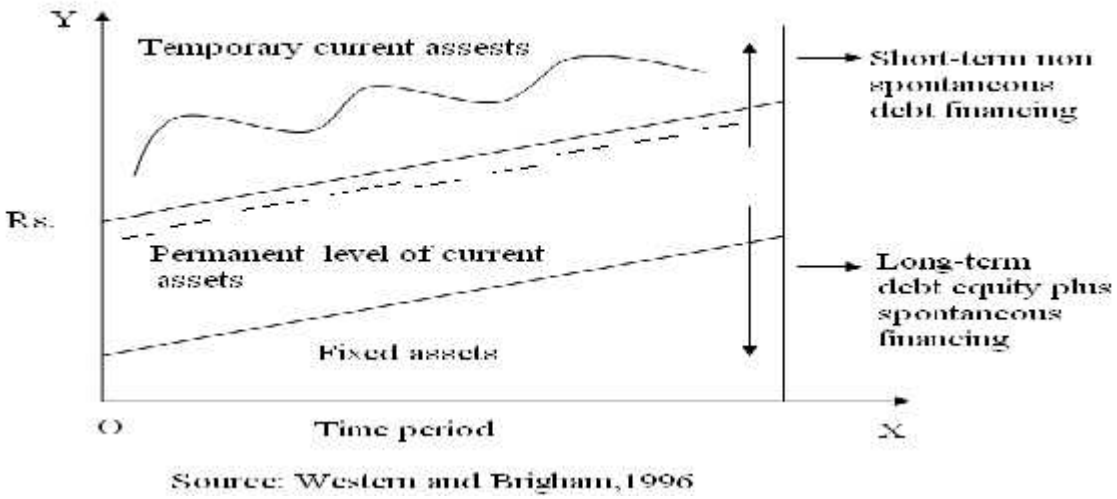
In an aggressive policy, the firm finances a part of its permanent current assets with short- term financing and rest with financing. In other words, the firm finances not only temporary current assets but also a part of the permanent current assets with short-term financing. Fig No. 3 shows that short-term financing finances 50 percent of the permanent current assets. In general, interest rate increases with time i.e. shorter the times lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of leading period.

Thus, under normal the firm borrows on a short term financing rather than long term financing. On the other side, if the firm finances its permanent current assets by short term financing, then it runs the risk of renewing the borrowing again and again. This continued financing exposes the firm to certain risk. It is because; in future interest expenses will fluctuate widely. And also it may be difficult for the firm to raise the funds during the stringent credit periods. In conclusion, there is higher risk, higher

return and low liquidity position under this policy.

Figure 2.3

Aggressive Financing Policy

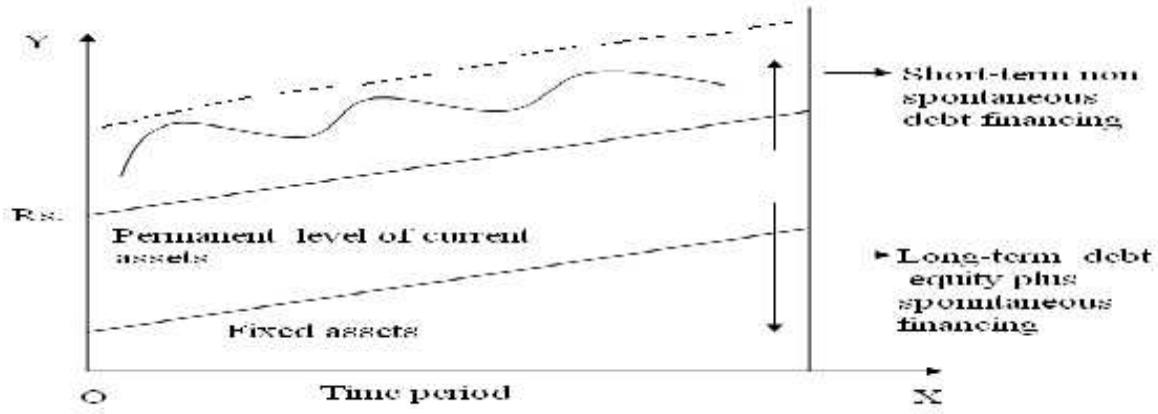


Source: Weston and Brigham, 2001: 748

(ii) Conservative Policy

In conservative policy, the firm uses to finance not only fixed and permanent current assets, but also part of the temporary current assets. This policy leads to high level of current assets, with long conversion cycle, low level of current liabilities and higher interest cost. The risk and return are lower than that of aggressive policy and risk adverse management follows this policy.

Figure 2.4
Conservative Financing Policy

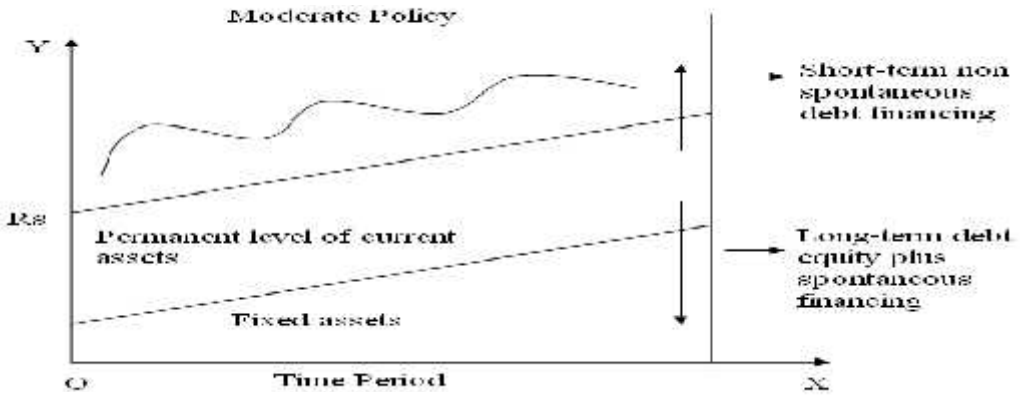


Source: Brigham and Houston,2001:748

(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 policies. It leads to neither high nor low level of current assets and current liabilities. Fig No. 5 shows temporary working capital is financed by short term financing and long term by long term financing. Thus, no working capital is financed by long term funds. Hence, net working capital is zero under this policy.

Figure 2.5
Moderate Policy



Source: Brigham and Houston,2001:748

2.1.5 Financing of Working Capital

Every manufacturing concern or industry requires additional assets whether they are in stable or growing conditions. The most important function of financial manager is to determine the level of working capital and to decide how it is to be financed. Financing of any assets is concerned with two major factors: cost and risk. Therefore, the financial manager must determine an appropriate financing mix, or decide how current liabilities should be used to finance current assets. However, a number of financing mixes are available to the financial manager. He can resort generally three kinds of financing.

(i) Long – term financing

(ii) Short – term financing

(iii) Spontaneous financing

(i) Long – Term Financing

Long – term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earnings and long – term debt from financial institution are the major source of long – term financing.

(ii) Short – Term Financing

Firm must arrange short –term credit in advance. The sources of short term financing of working capital are trade credit and bank borrowing.

- Trade credit: It refers to the credit that a customer gets from suppliers of goods in the normal course of business. The buying firms have not to pay cash immediately for the purchase is called trade credit. It is mostly and informal arrangement and is granted on an open account basis. Another form of trade credit is a bill payable. It depends upon the term of trade credit.
- Bank credit: Bank credit is the primary institutional sources for working capital financing. For the purpose of bank credit, amount of working capital requirement has to be estimate by borrows and banks are approached with the necessary supporting data. After available of this data, bank determines the maximum credit based on the margin requirement of the security. The types of loan provide by commercial banks are loan arrangement. Overdraft arrangement, commercial papers etc.

(iii) Spontaneous Financing

Spontaneous financing arises firm the normal operation of the firms. The two major sources of such financing are trade credit (i.e. creditor and bill payable) and accruals. Whether trade credit is free cost or not, actually depends upon the terms of trade credit.

Financial manager of the firm would like to finance its working capital with spontaneous source as much as possible. In practical aspect, the real choice of current assets financing is either short – term or long – term sources. Thus, the financial manager concentrates his power in short – term versus financing. Hence, the financing of working capital depends upon the working capital policy, which is perfectly dominated by management attitude towards the risk and return.

2.1.6 Cash Conversion Cycle

Cash conversion cycle, which nets out the three periods: inventory conversion period, receivable period, payable deferral period equals the length of time between inventory convert into cash, the firm's actual and expenditures to pay for productive resources (materials and labor) and the cash receipts from the sale of products (that is, the length of time between paying for labor and materials and collecting on receivables). Cash conversion cycle is the length of time between the firm's payment for its purchases and labor and its own collection of payment from the customers. A cash conversion cycle refers to the period between the payments to its creditors and receipts from its suppliers (Poudel and Dahal, 2062:329). The cash conversion cycle thus equals the average length of time a rupee is tied up in current assets.

Cash conversion cycle is calculated by deducting the average payable deferral period and average receivable period. So, it can be calculated through the following equation.

Cash Conversion Cycle (CCC) = Inventory Conversion Period (ICP) + Receivable Conversion Period (RCP) - Payables Deferral Period (PDF)

- **Inventory Conversion Period (ICP)**

Inventory conversion period refers to the average length of time required to convert raw materials into finished goods and then to sell those finished goods. The inventory may remain in the form of raw materials or semi-finished goods or finished goods during the inventory conversion period. The inventory conversion period can be calculated with the help of following equation:

$$\text{Inventory Conversion Period} = \frac{\text{Days in Year}}{\text{Cost of Goods Sold} / \text{Average Inventory}}$$

- **Receivable Conversion Period (RCP)**

Receivable conversion period refers to the average length of time required to convert the firm's receivables into cash. It is known as average collection period.

Receivable conversion period can be calculated from the following equation:

$$\text{Receivable Conversion Period} = \frac{\text{Days in Year}}{\text{Net Credit Sales} / \text{Average Receivable}}$$

- **Payable Deferral Period (PDF)**

It is defined as the average length of time between the purchase of raw material and labor and the payment of cash for them. It shows the average length of time required to make the cash payment of credit payment of credit purchase and outstanding wages. Generally, it is 30 days long. It can be calculated using the following equation.

$$\text{Payable Deferral Period} = \frac{\text{Payable} \times 360}{\text{Purchase}}$$

2.1.7 Determinants of Working Capital

The efficient working capital management is an important aspect of overall financial management. Thus, a firm plans its operations with adequate working capital requirement or it should have neither too excess nor too inadequate working capital. But there are no sets of rules or formula to determine the working capital requirements of the firm. It's because of a large number of factors that influence the working capital requirement of the firm. A number of factors affects different firm in different ways. Internal policies and environmental changes also affect the working capital. Generally, the following factors affect the working capital requirements of the firms:

- **Nature and Size of Business**

The working capital requirements of firm are basically related to size and nature of the business. If the size of the firm is bigger, then it requires more working capital. While small firm needs less working capital. Trading and financial firms require larger amount of working capital relatively to public utilities.

- **Manufacturing Cycle**

Working capital requirements of enterprises is also influenced by the manufacturing or production cycle. It refers to the time involved to make the finished goods from the raw materials. During the process of manufacturing cycle funds are tied – up. The longer manufacturing cycle, working capital requirement larger and vice – versa.

- **Production Policy**

Working capital requirement is also determined by its production policy. If a firm produces seasonal goods, then it production and sales volume fluctuates with different

seasons. This type of fluctuation production policy affects the working capital policy of the firm.

丿 Credit Policy

Credit policy also affects the working capital of a firm. Working capital requirement depends on term of sales. Different term may be followed to different customers according to their credit worthiness. If the firm follows the liberal credit policy, then it requires more working capital. Conversely, if a firm follows the stringent credit policy, it requires less working capital.

丿 Availability of Credit

Availability of credit facility is another factor that affects the working capital requirements. If the creditors benefit open-minded credit terms, then the firm will need less working capital. In other words, the firm can get credit facility easily on favorable conditions. Thus, it requires less working capital to run the firm otherwise more working capital is required to operate the firm smoothly.

丿 Growth and Expansion

Growth and expansion also affect the working capital requirement of a firm. However, it is difficult to exactly determine the relationship between the growth and expansion of the firm and working capital needs. But the other things being the same growing firm needs more working capital than these static ones.

丿 Price Level Change

Price level change also affects the working capital requirement of a firm generally, a firm requires maintaining the higher amount of working capital it the price level raises. Because the same level of current assets needs more funds due to the increasing price. In conclusion, the implications of changing price level on working capital position will differ from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firm.

丿 Operating Efficient

Operating efficient is also important factor, which influences the working capital requirement of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus, financial manager can contribute to strong working capital

position through operating efficiency. If a firm has strong operating efficient then it needs lesser amount of working capital and vice – versa.

- **Profit Margin**

The level of profit margin differs firm to firm. It depends upon the nature and quality of product, marketing management and monopoly power in the market. If the firm deals with the high quality product and has a sound marketing management and enjoyed the monopoly power in the market then it earns quite high profit. Profit is sources of working capital, because it contributes towards the working capital as a pool by generating more internal funds.

- **Level of Taxes**

The level of taxes also influences working capital requirement. The amount of taxes to be paid in advance is determined by the prevailing tax regulation. But the firm's profit is not constant, or can't be predetermined. Tax liability in a sense of short – term liquidity is payable in cash. Therefore, the provision foe tax amount is one of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capital.

Besides these factors the Working Capital also determines by the following factors:

- Technological Developments
- Transportation and communication facilities
- Companies' dividend policy etc.

2.2 Review of Related Studies

Some of the related studies on regarding working capital management are reviewed here under.

2.2.1 Review of Journals/Articles

Pradhan and Koirala (2003) had jointly published an article on *"Some Reflection on Working Capital Management in Nepalese Corporations."* The article basically aims to find out the difficulty, importance and problem of current assets management and also aims to find out the motive for holding cash and inventory. The study uses only primary data to find out the basic constraints and distributed 200 questionnaires. For the purpose of the study, they use both manufacturing public corporations as a sample companies. After analyzing the collected data the major finding of the study were as follows:

- To provide a reserve for routine net outflows of cash is the major motive for holding cash in Nepalese corporations.
- The major reason for holding inventories is to facilitate smooth operation of production and sales.
- 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 to take inefficient collection of trade credits as one of the major factors affecting receivables.
- This section is focused to review journals\articles and the different management expert relating to working capital management.

Shrestha (2004) had carried out his article on, *"Working Capital Management in public Enterprises: A Study on Financial Result and Constraints."* In this article he had considered ten-selection PEs to measure their working capital needs in those PEs. He had mainly focus on the liquidity, turnover and profitability position of that PEs. In the analysis, he had focused that four PEs had maintained adequate liquidity position: two PEs had excessive liquidity position and rest four enterprises had failed to maintain desirable liquidity position. About turnover: four had sum to achieve satisfactory turnover of net working capital. He also found that six PEs are operating at losses and four of them are being able to achieve some percentage of profit. After analyzing these constraints, he had bought certain policy issues. They are as follows:

- There is a lack of suitable financial planning for determining their working capital needs in PEs.
- The managers of PEs were being unable to give attention to working capital management.
- There exists no proper consistency between liquidity position and turnover of assets.
- PEs being unable to show positive relationship between turnover and return on net working capital.

Acharya (2007) has published an article on *"Problems and Impediment in The Management of Working Capital in Nepalese Enterprises"*. This article has presented that working capital management; especially in public sector, has been a relatively weak area. The study has described operational problems as well as organizational

problems faced by the Nepalese public enterprises regarding the working capital management. Some of these problems are:

The operational problems are as follows:

- Public enterprises has slow inventory turnover.
- Change in working capital has low impact on profitability.
- Current liabilities are increasing largely than current assets.
- They have not followed the conventional proportion of debt and equity as 1:1.
- Absent and apathetic information management system.
- The performance evolution tools and techniques like break even analysis, fund flow analysis, ratio analysis, are either undone or inefficient in most public enterprises.
- Monitoring the proper functioning of working capital management has never considered as managerial job.
- Secondly, the organizational problems are:
- Lack of regular evaluation of financial as well as regular internal and external audit system.
- Most of public enterprises being unable to present their capital requirements with proper justifications.
- Functioning of finance department was not satisfactory.

Zeng (2010) made an empirical study on the *"Working Capital Channel and Cross-Sector Co-movement."* The paper studied cross-sector co-movement, one of the defining characteristic of business cycle, in a monetary framework. The study argues that monetary factors might be important for understanding this phenomenon through a working capital channel. The study showed that in a strictly portfolio adjustment model where firm borrow to finance working capital, appositive money supply shock drives the nominal interest rate down, thereby stimulating firm's borrowing and causing employment to rise in different sectors. A positive aggressive technology shock can also drive the nominal interest rate down upon impact and reduce co-movement when the elasticity of labour supply is large.

Mahat (2011) has published article relating to *"Spontaneous Resources Working Capital Management"*. The article has defined the three major sources of working capital i.e. equity financing, debt financing and Spontaneous sources of financing, regarding the working capital management. Debt financing include short term, bank

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

The article has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such as environment should be enough to cope with the possible worst happening in future for working capital management. The study has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by the way of debt financing, the company should have to bear interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profit. Therefore, spontaneous sources of working capital will better to working capital in order to improve its performance.

Consequently in a changed economic scenario, ever company should realize that inability to manage working capital might land them in a vicious circle that can be hard to get out form. It is indeed essential for industries to tighten their belts and check their financial stability to face and stand in forth coming competitive day.

2.2.2 Review of Thesis

Pradhan (2004) carried out a study on management of working capital which related that most of the selected enterprises achieved a trade off between risk and return there by following neither an aggressive nor a conservative approach. Almost all the selected PEs had a positive net working capital and much of the growth in net working capital might however, be attributed to inflation as the forth in net working capital at deflated prices has been much lower. The liquidity measures showed a poor liquidity position in majority of NPEs. It has been noticed that the enterprise had either negative cash flows or earning before tax or they had excessive net current debts, which could not be paid with in a year. Of the current assets, which is an average, half of the total assets in PEs. The share of inventories is the largest followed by receivable and cash. There had been an improvement in utilization of current assets in the majority of PES. He also noticed that the adjustment speed of actual to desire balance had been observed as highest for cash followed by inventories. However the speed of adjustment was much slower in all this cases. The

results were, therefore surprising as the adjustment of even cash holding was not immediate. Further more, the inclusion of capacity utilization in the models did not seem to have contributed much to the demand functions of working capital and its various components. Thus, capacity utilization as a significant variable affecting these demand functions was doubtful. This book, provides on extensive and comprehensive survey on the overall liquidity position, working capital policy, working capital utilization and demand functions of the current assets.

Shrestha (2005) carried out a study on portfolio behaviour of commercial banks in Nepal found out that total deposits have been major sources of fund for all the banks. Capital and reserve funds do not seem to have changed much over the year. The user of fund analysis show that the resources of commercial banks are allocated in the liquid funds, investments on securities, loans and advances bills purchased and discounted. Among the portfolio, for Nepalese banks loan and advances share highest volume of the resources and the bills purchased and discounted the least over the year. The excess reserves of the commercial banks show unused resources. The cash resource exceeds much more than the required cash reserve.

Some of the journals and articles published by management experts in working capital management have been reviewed in this section.

Poudel (2007) carried out a study on which related on financial statement analysis : an approach to evaluate bank's performance described the necessity and importance of financial statement analysis to evaluate bank's performance. Analysis of bank financial statement is different from other companies due to special nature of assets and liabilities structure of the banking industry. The bank's balance sheet is composed of financial claims a liability in the form of deposits and as assets in the form of loans but fixed asset account for a small portion of the total assets. The described the major balance sheet characteristics of commercial banks. Which are as follows.

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

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

Shrestha (2007) carried out a study on which revealed on a working Capital management in public enterprises has considered ten selected PEs and studied working capital management in those PEs in his article. He has focused on the liquidity, turnover and profitability position of those enterprises. He found that four PEs had maintained adequate liquidity position, two had excessive and remaining four had failed to maintain describable liquidity position. On the turnover, four had a adequate turnover, one had high turnover and remaining five had not satisfactory turnover on net working capital. He had also found that out of ten PEs, Six PEs were operating at losses while only four were getting some percentage of profits. With reference to those findings he had brought certain policy issues such as lack of suitable financial management, deviation between liquidity and turnover of assets and inability to show positive relationship between turnover and return on net working capital.

Acharya (2008) carried out a study on which related on problems and implements in management of working capital in Nepalese enterprises described the two major problem i.e. operational problems and organizational problems regarding the working capital management in Nepalese PEs. The operational problems he found are listed in the current ratio 2:1 and slow turnover of inventory. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, thin transmutation of capital employed to sales, absent of apathetic management information system, break even analysis, fund flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally monitoring of the proper functioning of working capital management has never been considered a managerial job. In the second part, he has listed the organizational problems in the PEs. In the most of the PEs, there is lack of regular internal and external audit system as well as evaluation of financial results. Similarly, very few PEs have been able to their capital requirement, functioning of finance department is not satisfactory and some PEs are even facing the under utilization of capacity. To make an efficient use of fund for minimizing the risk of loss and to attain profit objective, he has made some suggestion.

Mahat (2009) carried out a study on which revealed the spontaneous sources of working capital management defined the three major sources of working capital i.e.

equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing include short-term banking financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. Whereas spontaneous sources of working capital include trade credit, provisions and accrued expenses. Working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of rescission, which can bring best and worst in corporate finance such an environment should be efficient enough to cope with the possible worst happenings in future for working capital management. He has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by way of debt financing, the company should have to be interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital will be a better source for working capital in order to improve its performance. Consequently, in a changed economic scenario, every company should realize that inability to mange working capital might lend them in a various circle that can be hard to get out from. It is indeed essential for industries to frighten their belts had checks their financial stability to face and stand in forth coming completive day.

Bansal (2009) carried out a research on a study on working capital management of commercial bank is to highlight and examine the management of working capital in standard chartered Bank Nepal Ltd. and Himalyan Bank Limited. During the study, she had used secondary data & used many financial tools analyzing the working capital management. The net working capital of both banks is positive. The liquidity position of both bank are increasing trend. It shows the satisfactory level of working capital. The major components of current assets of both bank are cash and bank balance, loan & advance and government securities. The trend value of interest earned to total assts ratio on banks are decreasing. In case of profitability position, both bank have constant level of growth in profitability during the study period.

Yogi (2011) carried out a study on a study on working capital management of Unilever Nepal Limited (ULN Ltd) to analyze the liquidity, composition of working

capital, assets utilization and profitability position, to analyze of the optimal level of working capital, to analyze the current assets and current liability policy, to analyze the financing pattern of working capital, liquidity position, and profitability position and to examine the relationship between liquidity and profitability position. This study was conducted through basically secondary data. The data had been collected from annual reports and audited financial statements of the company submitted to Nepal Stock Exchange Company. The data has been directly extracted from the balance sheet and income statement of the company. The primary information has been collected through interview with the officials of ULN Ltd. Various Ratio analysis is used to analyses the data and Karl Pearson's coefficient of correlation 'r' is used to examine the relationship between liquidity position. The liquidity position of the company is fluctuation year by year. The proportion of current assets is affected by the sales. In other words the sales affected the management of current assets. The components of current assets and current liabilities are fluctuating in nature. The insignificant relationship between liquidity and profit margin implies that there is not trade of between liquidity and profitability.

2.3 Research Gap

The above mentioned studies in the context of Nepalese manufacturing companies were done in the last few years in respect to WCM. Many changes have taken place in and outside Nepal after these studies. Nepal also has followed the policy of liberalization, privatization and globalization. Many more companies have also come up after these studies.

A very few studies have been performed on the financial performance of NT but no one has studied typically on its WCM. Different researcher have written their desertions on its WCM; however almost all of them are related to the manufacturing sector and do not addresses the real situation of service sector public enterprises like Nepal Telecom. It is thus clear that no full-fledged academic research study on WCM in NT has been carried out. The present study, therefore, bridge this ling felt gap in the field of research. This is only a beginning and it could be further developed through continued research in this field.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter consists of the methodology of studying working capital management of Nepal Telecom Limited. The proper analysis of this study can be meaningful only on the right choice of research tools. Hence, the focus has been made on research design, nature and sources of data, sample and population, data processing procedure and tools analysis.

3.1 Research Design

Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances (Kothari, 1984:43). A research design is the management of condition for collection analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Claire Seltiz and others, 1962: 50).

Research design is highlighted for ascertaining the basic objectives of the study. Research design includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study. This study is carried out by using both quantitative and qualitative analysis methods. Mostly the secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of Nepal Telecom are also used for qualitative analysis. Hence, research design or undertaking this study is based on descriptive and analytical method. Attempts have been made to explore working capital management of Nepal Telecom.

3.2 Nature and Sources of Data

Secondary data have been used to fulfill the objectives of this study. Some primary data are also collected through questionnaire in Nepal Telecom. The secondary sources of data include the published documents of NT, annual reports of NT, booklets, similar previous dissertations and other publications. Data requisition slip from NT in appendix and supplementary questionnaire is also given in the appendix.

3.3 Data Processing

The balance sheet, income statement and profit & loss a/c of the company for the five fiscal years period from 2007/08 to 2011/12 are collected for the convenience of the study. Then all the raw data are processed and presented in tabular form with the help of simple arithmetic rules. Entire raw data are converted into approximate and condensed in the form of consolidated balance sheet and income statement. Most of the data have been compiled in one form and processed and interpreted as per the need of the study. The secondary types of data are presented for the analytical purpose after the tabulation of the data. These types of data processing will help to present the clear situation of WC in NT.

3.4 Population and Sample

This research work was related with the analysis of working capital management of public enterprises in Nepal. So, the total present number of public enterprises in Nepal was the population of this study. However, due to various constraints of mine like time, resource, etc., selected only one representative public enterprise for my research work and the representative public enterprise was Nepal Telecom Company Ltd. This study covered five years period in NT from the fiscal year 2007/08 to 2011/12.

3.5 Tools for Analysis

The data collected from various sources were managed, analyzed and presented in proper tables and formats and were interpreted and explained wherever necessary. Financial and statistical tools were used to analyze the collected data.

3.5.1 Financial Tools

Financial tools are defined as the systematic use of ratio to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. Management may have different types of weakness that can be found from ratio analysis. So, the organizations use an analytical tool to know about its own situation and take suitable and corrective actions to relieve from arising problems.

"The most useful tools of financial analysis are ratio analysis. In order to bargain more effectively for outside funds, the management of a firm should be interested in all aspects of financial analysis that outside supplier of capital use it in evaluating the firm" (Van Horn, 2000: 205). With the help of financial ratio analysis, we can understand the financial condition and performance of the firm and they would obtain from analysis of the financial data alone. There are following selected financial ratios, which can be analyzed to determine the financial position of an organization.

a) Liquidity Ratio

Liquidity ratio is employed to measure the company's ability to meet short-term obligations. These ratios provide insight into the present cash solvency in the event of adverse financial condition. This ratio is used to measure the company's short-term obligations with short-term resources available at a given point of time.

i) Current Ratio

This ratio measures the short-term solvency, i.e. its ability to meet short-term obligation. As a measure of creditors versus current assets, it indicates each rupee of current assets available by dividing current assets by current liabilities.

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

ii) Quick Ratio

Quick Ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid assets. Other assets, which are considered to be relatively liquid and included in quick assets, are book debts and marketable securities. This quick ratio can be found out by dividing the total of quick assets by total current liabilities.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{current Liabilities}}$$

iii) Cash to Current Assets Ratio

This ratio is employed to measure whether total cash balance is sufficient to cover its current assets. It is calculated by dividing total cash balance by current assets.

$$\text{Cash Balance to Current Assets Ratio} = \frac{\text{Cash Balance}}{\text{Current Assets}}$$

b) Turnover Ratio

In a business concern, through these ratios, it is known whether the funds employed have been used effectively in the business activities or not. The following are the ratio employed to analyze the activeness of the concerned company.

i) Inventory Turnover Ratio

Inventory turnover ratio shows the efficiency of the business concern in an inventory management. It established the relationship between cost of goods sold during the given period and average amount of inventory and lower stock ratio suggests that management should manage its inventory properly. It is calculated as follows:

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

ii) Debtors / Receivables Turnover Ratio:

Although there is no measurement, higher turnover of current assets is always desirable as it indicates the maximum utilization of current assets during the year. Therefore, lower ratio indicates greater volume of working capital and vice versa.

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

iii) Cash Turnover Ratio

Cash turnover ratio shows the number of times the average cash balance is turned over during the year. It measures the speed with which cash moves through the organization operations. The ratio is computed by dividing sales by cash and bank balance.

$$\text{Cash Turnover Ratio} = \frac{\text{Sales}}{\text{Cash Balance}}$$

iv) Net Working Capital Turnover Ratio

The ratio shows the number of times the working capital turned over during the year. The higher ratio indicates the utilization of the working capital and vice versa. The ratios can be defined as,

$$\text{Net Working Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Net Working Capital}}$$

Where,

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

c) Profitability Position

Profitability measures the efficiency of the organization; profitability of the firm can be measured by its profitability ratio. So, it plays significant role in any organization. Generally, the profitability positions of the companies are analyzed with the help of following ratios.

i) Net Profit Margin Ratio

The ratio measures the relationship between net profit and sales of the company. It measures the overall profitability or company's ability to earn net profit. It is computed as net profit by sales.

$$\text{Net Profit Margin Ratio} = \frac{\text{Net profit}}{\text{Sales}}$$

ii) Operating Ratio

The overall ratio is an important ratio, which is calculated to ascertain the relationship between operating expenses and volume of sales. The ratio is computed as follows:

$$\text{Operating Ratio} = \frac{\text{Cost of Goods Sold} + \text{Operating Expenses}}{\text{Sales}} \times 100$$

Operating Expenses = Administrative Expenses + Selling & Distribution Expenses + Financial Expenses

iii) Return on Total Assets Ratio

Return on total assets ratio measures the profitability of the company by established relationship between net profit after taxes and total assets. It also helps to understand the utilization of assets of the company. The ratio is computed as follows:

$$\text{Return on Total Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100$$

iv) Return on Net Worth Ratio

The ratio indicates the return to the shareholders. It shows whether the firm has earned satisfactory return for its shareholders or not. Higher return on net worth ratio indicates higher return to the shareholders and vice-versa. The ratio is computed as follows:

$$\text{Return on Net Worth Ratio} = \frac{\text{Net Profit After tax}}{\text{Net Worth}} \times 100$$

v) Return on Working Capital / Return on Current Assets Ratio

The ratio measures the profitability position of the company with respect to current assets. Higher ratio indicates higher utilization of current assets to earn profit and

vice-versa. The ratio is computed by dividing net profit after tax by current assets or working capital.

$$\text{Return on Current Assets} = \frac{\text{Net Profit After Tax}}{\text{Current Assets}} \times 100$$

d) Working Capital Cash Flow Cycle

The continuous flow from cash to supplier, to inventory, to account receivable and back into cash is known as working capital cash flow cycle. It continuously repeats. The cycle demonstrates the conversion of raw materials and labor to cash. Hence this concept is also called cash conversion cycle model.

Cash conversion cycle model has been applied to more complex business and it is useful when analyzing the effectiveness of a firm's working capital management. There are following four factors of cash conversion cycle model.

i. Inventory Conversion Period (ICP)

The length of time required converting raw material into finished goods and then to sell these goods can be defined as inventory conversion period. This period indicates its product. Inventory turnover is calculated by dividing the cost of goods sold by average inventory. It can be said as time required for conversion inventory into cash. It can be calculated as follows:

$$\text{Inventory Conversion Period} = \frac{360\ \text{Day}}{\text{Inventory Turnover}}$$

$$\text{Inventory Turnover} = \frac{\text{Costofgood Sold}}{\text{Averageinv Entory}}$$

ii. Receivable Conversion Period (RCP)

Receivable conversion period indicates the number of day's debtor's turnover into cash. It analyses to determine collection of debtors and also efficiency of collection effects. It is one of the important financial tools for the measurement of cash conversion cycle. Generally, the longer the collection period, the more efficient is the management of credit receivable collection period is also known as average collection period or day's sales outstanding (DSO) RCP be calculated s follows:

$$\text{Receivable Conversion Period} = \frac{\text{Sales}}{\text{Receivalestu Mover}}$$

$$\text{Sales Receivable Turnover} = \frac{\text{Sales}}{\text{Devetors}}$$

iii. Payable Deferral Period (PDP)

Time required purchasing raw material and labor and the payment of cash for them is called payable deferral period. It indicates the speed of creditor payable conversion period is favorable for the creditor too much higher period also can hamper the credit worthiness of the company. The payable deferral period can be calculated using following formula:

$$\text{Payable Deferral Period} = \frac{\text{Account Payable}}{\text{Purchase Perday}}$$

iv. Cash Conversion Cycle (CCC)

Cash conversion cycle is an important financial tool and also a quick and convenient way to analyze the ongoing liquidity of the firm over time. It generally measures the length of time that funds tied up in working capital. Cash conversion cycle can be calculated by using following formula:

Cash Conversion Cycle (CCC) = Inventory Conversion Period (ICP) +Receivable Conversion Period – Payable Deferral Period (PDF)

As we know that inventory and receivables are cash inflow of business and PDP is cash outflow of business. So for the calculation of conversion cycle RCP and ICP should be added and PDP should be deducted.

3.5.2 Statistical Tools used

The research hold varies statistical tools, which are defined as follows:

i. Mean

The most popular and widely used measure of representing the entire data by one value is known as average or mean. The value is obtained by adding together all the items and by dividing this total by the number of items. It represents the entire data, which lies almost between the two extremes. Mean can be calculated as;

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

ii. Standard Deviation (S.D)

The standard deviation is an important and widely used measure of dispersion. The measurement of the scatters of the mass of figures in a series about in average is known as dispersion. The standard deviation (SD) is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. It is calculated as:

$$SD(\sigma) = \sqrt{\frac{\Sigma(X-\bar{X})}{n}}$$

iii. Coefficient of Variation

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviations known as coefficient of variation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the CV. It is used for comparing variability of two distributions; the CV is defined as,

$$CV = \frac{\sigma}{\bar{X}} \mid 100$$

Greater the CV, the more variable or conversely less consistent and homogenous than the consistent more uniform, more stable and homogenous. This nature of CV uses that actual size of working capital.

iii. Simple Correlation Coefficient

The relationship between two variables (one dependent and one independent) is called simple correlation. The most important method of measuring the correlation between the two variables is "Karl Pearson's coefficient of Correlation". This method of measuring correlation is also called "Pearsonian coefficient of Correlation". This is the mathematical method of measuring the degree of association between the two variables.

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

Where,

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

σx = Standard deviation of X

σy = Standard deviation of Y

v. Probable Error (PE)

Probable error of the correlation coefficient denoted by PE is measure of testing reliability of the calculated value of 'r'

$$P.E. = 0.6745\frac{1\,Zr^2}{\sqrt{n}}$$

a) If r<6PE, it is not significant. So there is no evidence of correlation.

b) If r>6PE, it is highly significant.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Working Capital of NTC

Different kinds of assets are needed to operate a business for the day-to-day business operation. The major currents assets of Nepal Telecom are cash and bank balance, loan and advances, sundry debtors and stores & Spares. Miscellaneous current assets are also one of the components of current assets. Interest accrued on investment and unexpired L/C & Advances are included in miscellaneous current assets.

The following table shows the amount of cash and bank balance, inter-branch balance, loan and advance, sundry debtors, stores & Spares and miscellaneous current assets of Nepal Telecom during the fiscal year 2007/08 to 2011/12.

Table 4.1

Current Assets Composition of Nepal Telecom

(Rs. '000')

Fiscal Year	Stores & Spare	Sundry Debtors	Loans & Advance	Cash & Bank Balance	Miscellaneous	Total Current Assets
2007/08	483,231	2,468,080	389,209	8,248,426	3,747,680	15,336,626
2008/09	400,784	3,030,277	394,753	10,116,463	4,481,870	18,424,147
2009/10	301,309	2,610,352	401,648	11,797,087	5,815,243	20,925,639
2010/11	309,857	2,825,943	505,656	9,584,469	7372,428	20,598,353
2011/12	329,315	3,099,496	601,027	12,028,795	6,467,889	22,526,522
Average	364899.2	2806829.6	458458.6	10355048	5577022	19562257.4

Source: Annual Report of Nepal Telecom.

The table 4.1 reveals that the compositions of current assets of Nepal Telecom. Cash & Bank balance increased rapidly over the study period. Similarly, Loan & Advance also increased. Sundry debtors were not in consistency. Store & spares decreased in the fiscal year 2009/10 and thereafter increased. Miscellaneous increased from the fiscal year 2007/08 and decreased in the fiscal Year 2011/12. The overall, total current assets increased progressively during the study period.

Table 4.2

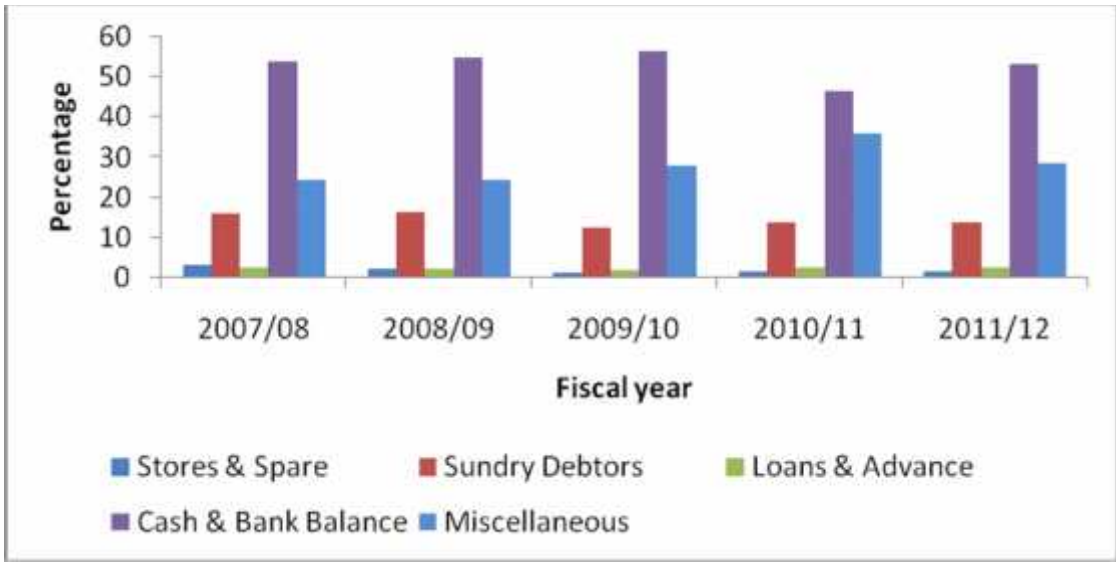
Percentage of Current Assets on Total Current Assets

Fiscal Year	Stores & Spare	Sundry Debtors	Loans & Advance	Cash & Bank Balance	Miscellaneous	Total
2007/08	3.15	16.10	2.54	53.76	24.45	100
2008/09	2.18	16.45	2.14	54.91	24.33	100
2009/10	1.44	12.47	1.92	56.38	27.79	100
2010/11	1.50	13.72	2.46	46.53	35.79	100
2011/12	1.46	13.76	2.67	53.40	28.71	100
Average	1.946	14.5	2.346	52.996	28.214	100

Source: Table 4.1

Figure 4.1

Percentage of Current Assets



The figure 4.1 shows the percentage of currents assets to total current assets of Nepal Telecom for the five fiscal years. In comparison to other current assets the percentage of cash & bank balance was high. Percentage of store & spare was less in comparison to other current assets during the five fiscal years of the study.

4.1.1 Current Assets to Total Assets Ratio

The position of working capital on total assets of the company can be analyzed by calculating the percentage of total assets. It shows the percentage of investment made gross working capital of the company. It is calculated by dividing the total assets by the current assets.

Table 4.3

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

(Rs in '000'**)**

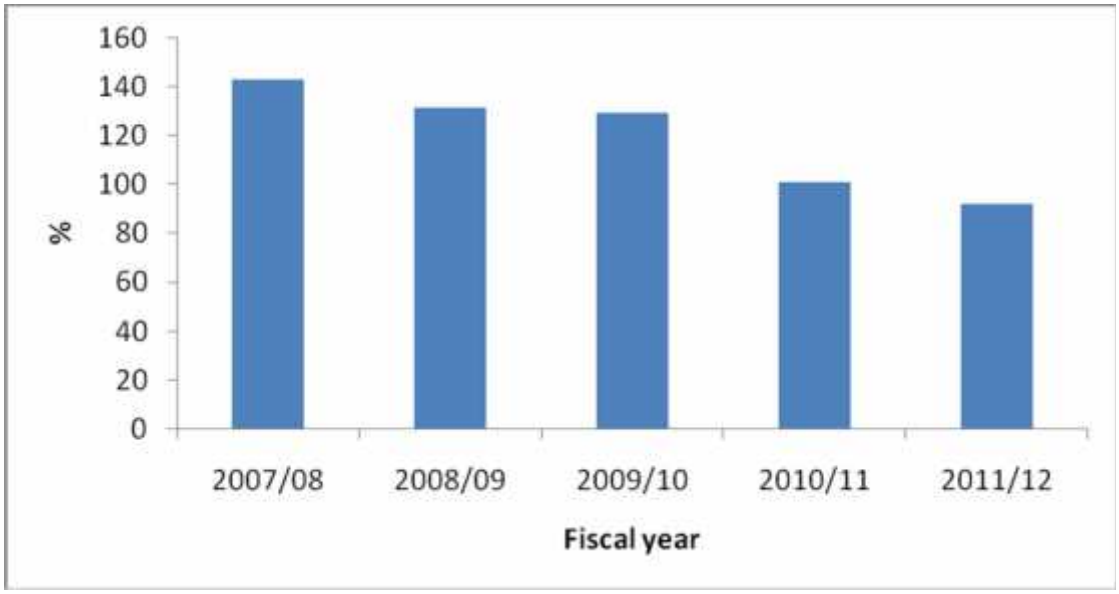
Fiscal year	Current Assets	Total Assets	%
2007/08	15,336,626	25,281,824	60.66
2008/09	18,424,147	29,892,993	61.63
2009/10	20,925,639	32,652,787	64.09
2010/11	20,598,353	35,572,772	57.90
2011/12	22,526,522	39,351,406	57.24
Mean	19,562,257.4	32,550,356.4	60.30
S.D.			2.51
C.V.			4.16%

Source: Appendix-1

The table 4.3 shows that the percentage of current assets to total assets are not consistent over the study period. The current assets and total assets were in increasing trend in every fiscal year. The current assets to total assets percentage increased upto the fiscal year 2009/10 thereafter it was in decreasing trend. The highest percentage was 60.66% in the fiscal year 2007/08 during which current assets were Rs. 15,336,626 thousand and total assets were Rs.25,281,824 thousand and the lowest percentage was 57.24% in the fiscal year 2011/12, during which current assets and total assets were Rs.97,811,287 thousand and Rs.162,751,782 thousand respectively. The standard deviation and coefficient of covariance was 2.51 and 4.16 % respectively.

Figure 4.2

Gross Working Capital (Current Assets) to Total Assets Ratio



The figure 4.2 shows that the trend of Current Assets to total assets percentage of Nepal Telecom which is not consistent over the study period.

4.1.2 Percentage of Net Working Capital on Total Assets

The major objective of this percentage is to examine the portion of net working capital on total assets. Investment in net working capital is essential to run the business smoothly. It is calculated by dividing NWC by TA.

Table 4.4

Percentage of Net Working Capital on Total Assets Ratio

(Rs in '000')

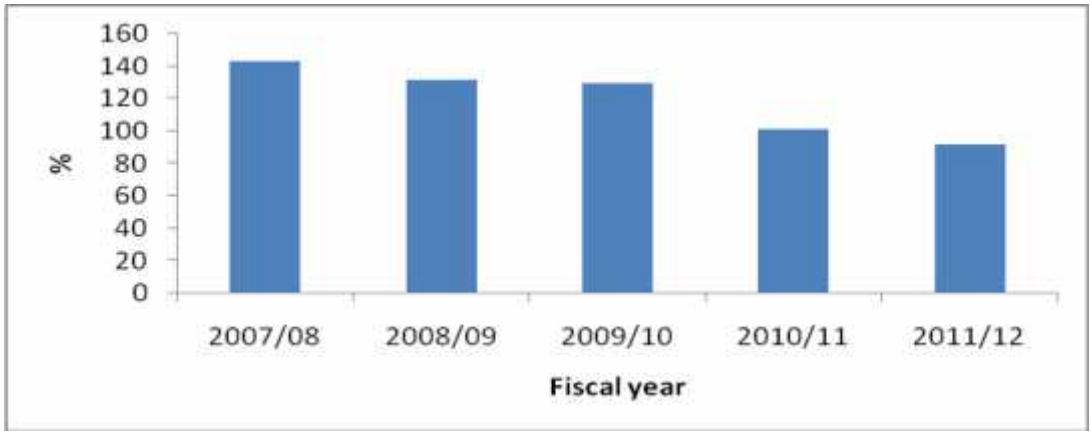
Fiscal year	Net Working Capital	Total Assets	%
2007/08	12,393,250	25,281,824	49.02
2008/09	14,748,735	29,892,993	49.34
2009/10	16,835,286	32,652,787	51.56
2010/11	16,739,869	35,572,772	47.06
2011/12	18,050,769	39,351,406	45.87
Mean	15,753,581.8	32,550,356.4	48.57
S.D.			1.96
C.V.			4.04%

Source: Appendix-2

The table 4.4 shows percentage of net working capital on total assets of Nepal Telecom. The net working capital and total assets are in increasing trend in every fiscal year. The percentage of net working capital on total assets increased up to the fiscal year 2009/10 and thereafter it was in decreasing trend. The highest ratio was 51.56% in the fiscal year 2009/10, during which net working capital was Rs.16,835,286 thousand and total assets were Rs.32,652,787 thousand. The lowest percentage was 45.87% in the fiscal year 2011/12, during which net working capital was Rs.18,050,769 thousand and total assets were Rs. 39,351,406 thousand. The standard deviation and coefficient of covariance were 1.96 and 4.04% respectively.

Figure 4.3

Percentage of Net Working Capital on Total Assets



The figure 4.3 shows percentage of net working capital on total assets of Nepal Telecom. The highest percentage was in the fiscal year 2009/10. Overall the percentage was not consistent during the study period.

4.1.3 Calculation of Percentage of Net Working Capital on FA Ratio

This ratio finds the financing policy of the company. It measures how much net working capital has been invested with respect to fixed assets. Net working capital is difference between CA and CL. This ratio can be calculated as NWC divided by FA as shown in the table.

Table 4.5

Percentage of Net Working Capital on Fixed Assets

(Rs in '000')

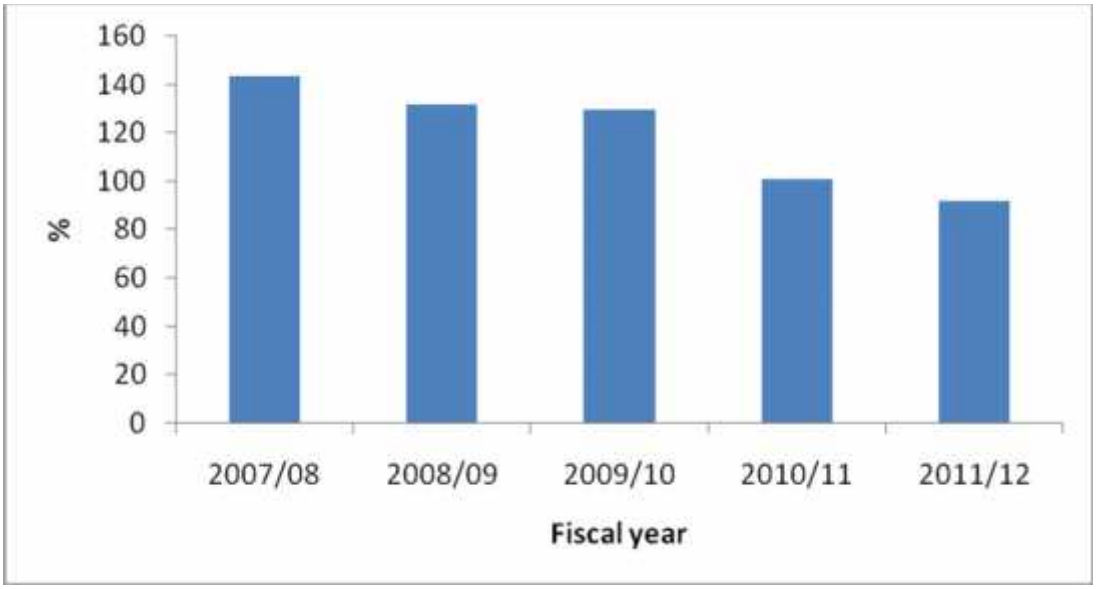
Fiscal year	Net Working Capital	Fixed Assets	%
2007/08	12,393,250	6,840,397	181.18
2008/09	14,748,735	7,607,614	193.87
2009/10	16,835,286	7,664,206	219.66
2010/11	16,739,869	9,040,917	185.16
2011/12	18,050,769	10,088,427	178.93
Mean	15,753,581.8	6,728,433.6	191.76
S.D.			6.64
C.V.			3.46%

Source: Appendix-3

The table 4.5 reveals that the net working capitals to fixed asset percentage were not stable over the study period. The net working capital and fixed assets are in increasing trend in every fiscal year. The net working capital to fixed assets percentage increased to the fiscal year 2009/10 and thereafter it was in decreasing trend. The highest ratio was 185.16% in the fiscal year 2009/10, during which net working capital and fixed assets were Rs.16,835,286 thousand and Rs.7,664,206 thousand respectively and the lowest percentage was 178.93% in fiscal year 2011/12, net working capital was Rs. 18,050,769 thousand and fixed assets was Rs. 10,088,427 thousand. The standard deviation 6.64 and coefficient of covariance 3.46%.

Figure 4.4

Percentage of Net Working Capital on Fixed Assets



The figure 4.4 shows that the net working capital to fixed assets percentage of Nepal Telecom. The highest percentage was 219.66% in the fiscal year 2009/10. Overall the percentage were not consistent during the study period.

4.1.4 Calculation of Percentage of Cash & Bank Balance on Current Assets

This ratio helps to know the position of cash and bank balance that has been used in the organization. It is calculated as cash and bank balance divided by current assets shown as table below.

Table 4.6

Percentage of Cash & Bank Balance on Current Assets

(Rs in '000')

Fiscal year	Cash & Bank Bal.	Current Assets	%
2007/08	8,248,426	15,336,626	53.78
2008/09	10,116,463	18,424,147	54.91
2009/10	11,797,087	20,925,639	56.38
2010/11	9,584,469	20,598,353	46.53
2011/12	12,028,795	22,526,522	53.40
Mean	10,355,048	19,562,257.4	53.00
S.D.			3.40
C.V.			6.42%

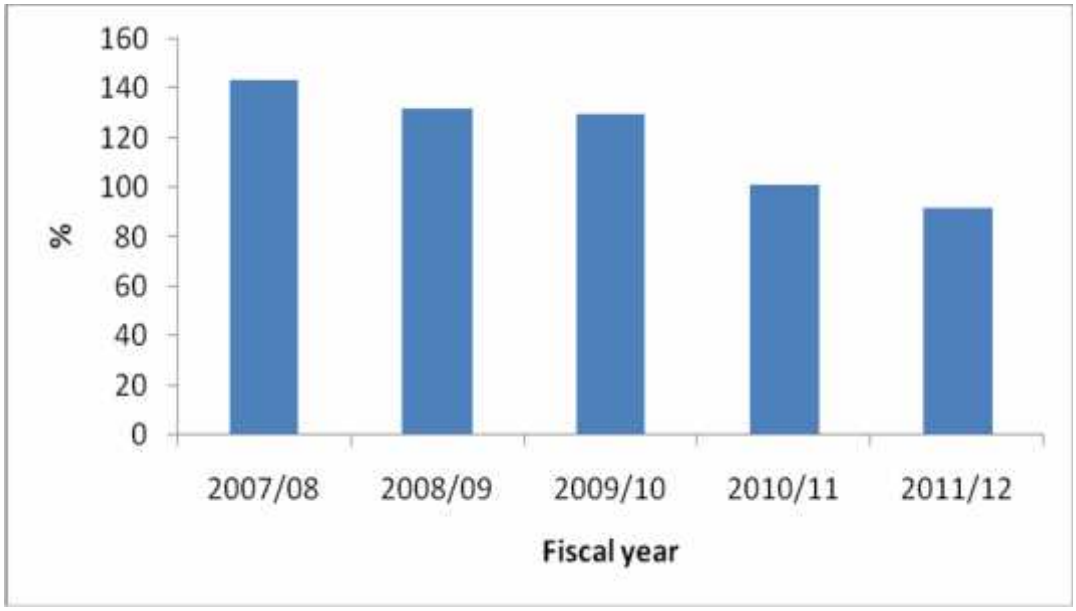
Source: Appendix-4

The table 4.6 shows that the cash & bank balance percentage were not stable over the study period. The cash & bank balance increased every fiscal year except the fiscal

year 2010/11. Similarly, current assets also increased every fiscal year of the study period. The highest ratio was 56.38% in the fiscal year 2009/10, during which cash & bank balance was Rs.11,797,087 thousand and current assets was Rs. 20,925,639 thousand and the lowest percentage of was 46.53% in fiscal year 2010/11, during which cash & bank balance was Rs.9,584,469 thousand and current assets was Rs.20,598,353 thousand. The standard deviation and coefficient of variance was 3.40 and 6.42% respectively.

Figure 4.5

Percentage of Cash & Bank Balance on CA



The figure 4.5 presents that the Cash & Bank Balance on Current Assets percentage of Nepal Telecom. Cash & Bank Balance and current assets were rapidly increased over the study period but cash & bank balance to current assets ratio was not consistent.

4.1.5 Calculation of Percentage of Debtor on Current Assets

Debtor is one of the major components of working capital. It indicates the debtor portion that is occupied in current assets. It is calculated as debtor divided by current assets shown in table below.

Table 4.7

Percentage of Debtors on Current Assets

(Rs in '000')

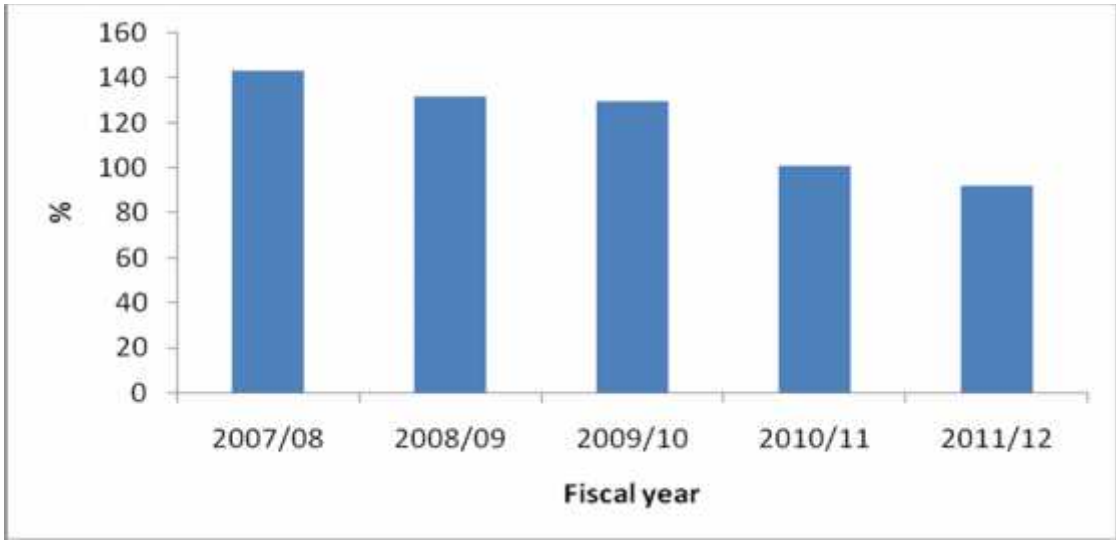
Fiscal year	Debtors	Current Assets	%
2007/08	2,468,080	15,336,626	16.09
2008/09	3,030,277	18,424,147	16.45
2009/10	2,610,352	20,925,639	12.47
2010/11	2,825,943	20,598,353	13.72
2011/12	3,099,496	22,526,522	13.76
Mean	2,806,829.6	19,562,257.4	14.50
S.D.			1.52
C.V.			10.48%

Source: Appendix-5

The table 4.7 shows that the calculation of debtor to current assets percentage. The debtors increased every fiscal year except the fiscal year 2009/10and 2010/11. But the current assets increased every fiscal year of the study period. The highest debtors to current assets percentage was 16.45% in the fiscal year 2008/09, during which debtor was Rs. 3,030,277 thousand and current assets was Rs.18,424,147 thousand and the lowest percentage of was 12.47% in fiscal year 2009/10, during which debtors was Rs. 20,925,639 thousand and current assets was Rs.2,610,352 thousand. The standard deviation was 1.52 and coefficient of variance was 10.48%

Figure 4.6

Percentage of Debtors on Current Assets



The figure 4.6 shows that the debtors to current assets percentage of Nepal Telecom. The lowest percentage was in the fiscal year 2009/10. Overall the ratios are not consistent during the study period.

4.1.6 Calculation of Percentage of Inventory on CA Ratio

Inventory is one of major components of CA. This ratio will help to find proportion of inventory with respect to current assets. It can be calculated as inventory divided by current assets which can be shown as.

Table 4.8

Percentage of Inventory on Current Assets

(Rs in '000')

Fiscal year	Closing Inventory	Current Assets	%
2007/08	483,231	15,336,626	3.15
2008/09	400,784	18,424,147	2.18
2009/10	301,309	20,925,639	1.44
2010/11	309,857	20,598,353	1.50
2011/12	329,315	22,526,522	1.46
Mean	364,899.2	19,562,257.4	1.95
S.D.			0.66
C.V.			33.85%

Source: Appendix-6

The table 4.8 shows that the calculation of inventory on current assets percentage. The inventory of Nepal Telecom was not stable during the study period. But the current assets increased every fiscal year of the study period. The highest inventory on current assets percentage was 3.15 % in the fiscal year 2007/08, during which inventory was Rs. 483,231 thousand and current assets was Rs.15,336,626 thousand and the lowest percentage of was 1.44 % in fiscal year 2009/10, during which inventory was Rs. 301,309 thousand and current assets was Rs. 20,925,639 thousand. The standard deviation was 0.66 and coefficient of variance 33.85 %.

Figure 4.7

Percentage of Inventory on Current Assets Ratio

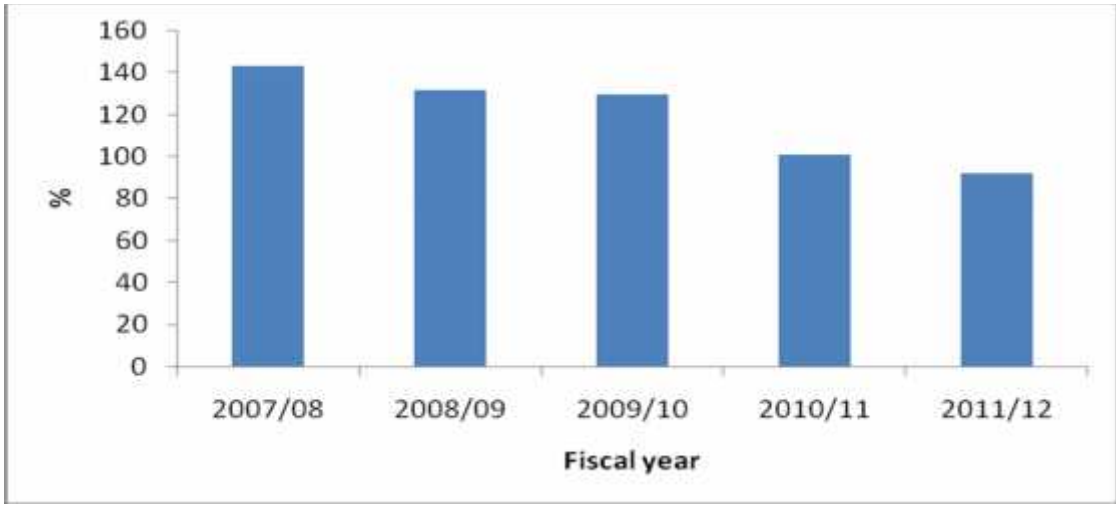


Figure 4.7 shows that the inventory to current assets Ratio of Nepal Telecom. The highest ratio was in the fiscal year 2007/08. Overall the ratios are decreasing trend during the study period.

4.2 Analysis of Liquidity Position

Liquidity of any business organization is directly related with working capital or current assets and current liabilities of the organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Nepal Telecom is a different organization, which is engaged in mobilization of funds. So without sound liquidity position, Nepal Telecom is not able to operate its function. To measure the Nepal Telecom's solvency position or ability to meet its short-term obligation, various liquidity ratios are calculated and to know the trend of liquidity, trend analysis of major ratio have been considered.

4.2.1 Calculation of Current Ratio

This ratio indicates the current short-term solvency position of Nepal Telecom. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety, i.e. a 'cushion' of protection for creditors and the highest the current ratio, greater the margin of safety, large the amount of current assets in relation to current liabilities, more the organizations ability to meet its current obligations. It is calculated as current assets by current liabilities.

The following table shows the current ratio to compare the working capital management of Nepal Telecom.

Table 4.9

Current Ratio

(Rs in '000')

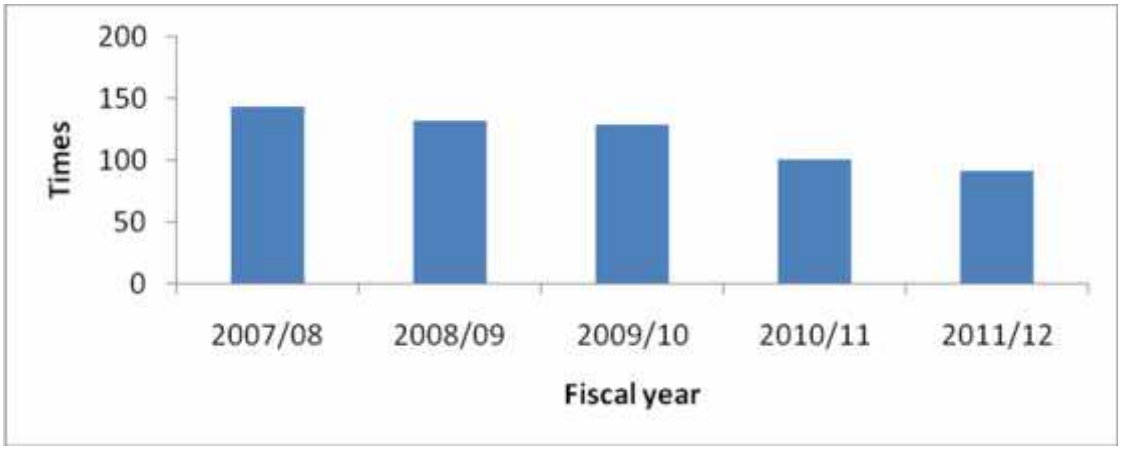
Fiscal year	Current Assets	Current liabilities	Times
2007/08	15,336,626	2,943,376	5.21
2008/09	18,424,147	3,675,412	5.01
2009/10	20,925,639	4,090,353	5.11
2010/11	20,598,353	3,858,484	5.34
2011/12	22,526,522	4,475,753	5.03
Mean	19,562,257.4	3,808,675.6	5.14
S.D.			0.12
C.V.			2.33%

Source: Appendix-7

The table 4.9, shows that the current assets of Nepal Telecom increased every fiscal year of study period. Similarly, current liabilities also increased every fiscal year except in the fiscal year 2010/11. Current ratios are not consistent during the study period. The highest current ratio was 5.34 times in the fiscal year 2010/11, during which current assets was Rs.20,598,353 thousand and current liabilities was Rs.3,858,484 thousand and the lowest current ratio was 5.01 times in fiscal year 2008/09, the standard current ratio is 2:1, but the Nepal Telecom current ratio is greater than the standard ratio. The standard deviation was 0.12 and coefficient of variance was 2.33%.

Figure 4.8

Current Ratio



The figure 4.8 represents that the current ratio of Nepal Telecom. Current assets ratio of Nepal Telecom was not consistent during the study period.

4.2.2 Calculation of Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is a most liquid asset. Quick asset is equals to total current assets without Stores & Spares. This quick ratio is calculated as dividing the total of quick assets by total current liabilities.

For this study, except the stores & spares of total current assets are quick assets. The following table shows the quick ratio of Nepal Telecom.

Table 4.10

Quick Ratio

(Rs in '000')

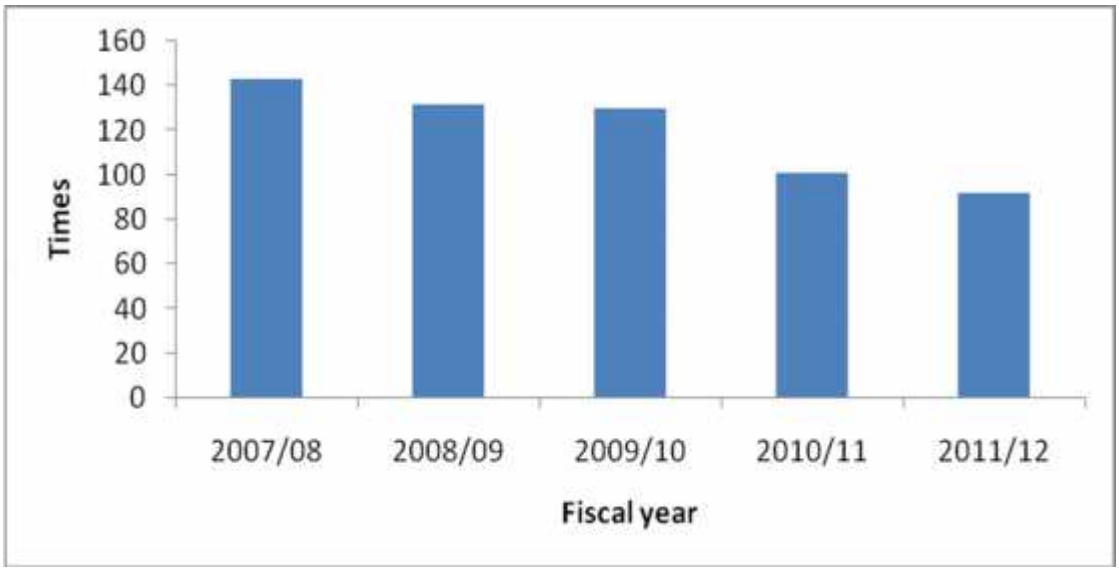
Fiscal year	Quick Assets	Current liabilities	Times
2007/08	14,853,395	2,943,376	5.05
2008/09	18,023,363	3,675,412	4.90
2009/10	20,624,330	4,090,353	5.04
2010/11	20,288,496	3,858,484	5.26
2011/12	22,197,207	4,475,753	4.96
Mean	19,197,358.2	3,808,675.6	5.042
S.D.			0.12
C.V.			2.38%

Source: Appendix-8

The table 4.10 depicts that the quick ratios are not consistent over the study period. The quick assets of Nepal Telecom increased every fiscal year of study period. Similarly, current liabilities also increased every fiscal year except the fiscal year 2010/11. The highest quick ratio was 5.26 times in the fiscal year 2010/11, during which quick assets was Rs.20,288,496 thousand and current liabilities was Rs.3,858,484 thousand and the lowest current ratio of Nepal Telecom was 4.90 times in fiscal year 2008/09, during which quick assets was Rs.18,023,363 thousand and current liabilities was Rs.3,675,412 thousand. The standard quick ratio is 1:1, but the Nepal Telecom ratio is higher then the standard ratio. The standard deviation was 0.12 and coefficient of variance was 2.38%.

Figure 4.9

Quick Ratio



The figure 4.9 represents that the quick assets and current liabilities with quick ratio of Nepal Telecom. Quick assets and current liabilities rapidly increased over the study period but quick ratio was not stable.

4.3 Analysis of Turnover Position

Activity ratios are used to evaluate the efficiency with which the organization manages and utilizes its assets. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover, help in measuring the organizations ability to utilize their available resources.

4.3.1 Calculation of Inventory Turnover Ratio

This ratio indicates how effectively the organization manages inventory and the efficiency of the firm in selling its product. Inventory turnover ratio is defined as the cost of goods sold or sales dividing by inventories.

Inventory turnover ratio shows how rapidly the inventory is turning into receivable through sales. Generally, a high inventory turnover is the indicative of good inventory management. A low inventory turnover implies excessive inventory level then warranted by production and sales activities or a slow moving or obsolete inventory.

Table 4.11

Inventory Turnover Ratio

(Rs in '000')

Fiscal year	Net sales	Closing inventory	Times
2007/08	6,159,520	483,231	12.75
2008/09	7,208,087	400,784	17.98
2009/10	6,070,423	301,309	20.15
2010/11	8,584,144	309,857	27.70
2011/12	10,413,655	329,315	31.62
Mean	7,687,165.8	364,899.2	22.04
S.D.			6.78
C.V.			30.76%

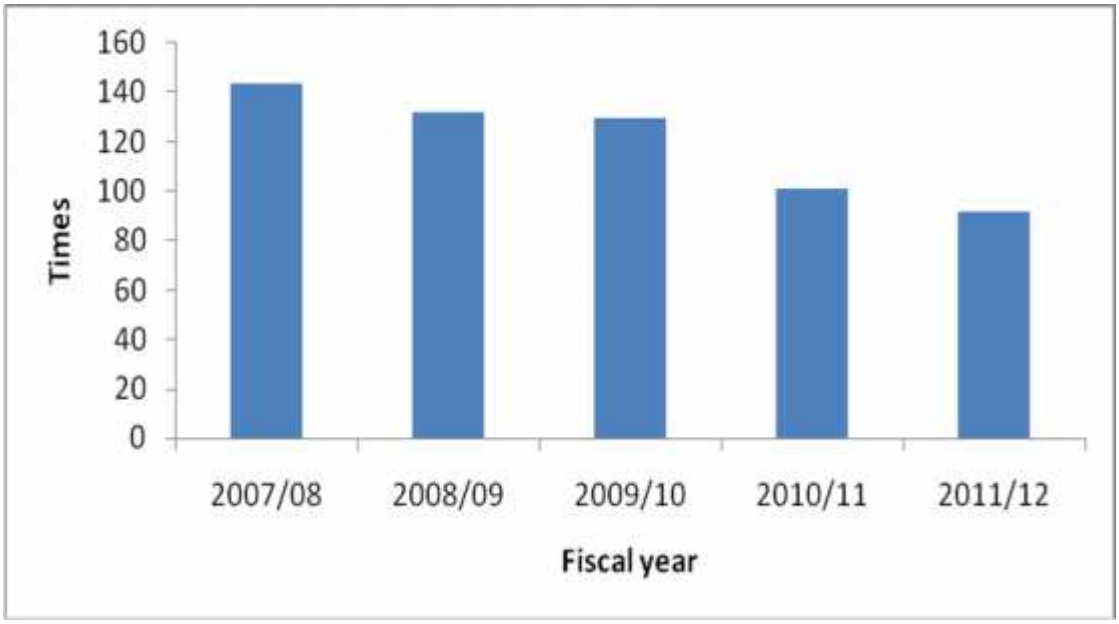
Source: Appendix-9

The table 4.11 shows that the inventory turnover ratios of Nepal Telecom are always in increasing trend over the study period. The net sales increased every fiscal year but in the fiscal year 2009/10 net sales decreased. Closing inventory increased only on the fiscal year 2011/12, thereafter continuously decreased over the study period. The highest inventory turnover ratio was 31.62 times in the fiscal year 2011/12, during

which net sales was Rs.10,413,655 thousand and closing inventories was Rs.329,315 thousand and the lowest inventory turnover ratio was 12.75 times in fiscal year 2007/08, during which net sales was Rs.6,159,520 thousand and closing inventories was Rs.483,231 thousand. The standard deviation was 6.78 and coefficient of variance was 30.76%.

Figure 4.10

Inventory Turnover Ratio



The figure 4.10 represents that net sales and inventory with inventory turnover ratio. Net sales are increased except the fiscal year 2009/10 but inventory are increased only fiscal year 2007/08 thereafter decreased in the study period. Inventory ratio is rapidly increased over the study period.

4.3.2 Calculation of Debtors/ Receivables Turnover Ratio

Debtors/Receivables turnover ratio indicates the speed with which receivable are being converted into sales. This turnover ratio is calculated as net sales by debtors.
The table below shows the net sales to debtors / receivables ratio. This ratio analyzes the capacity of Nepal Telecom management in utilization of fund in current assets.

Table 4.12

Debtors (Receivable) Turnover Ratio

(Rs in '000')

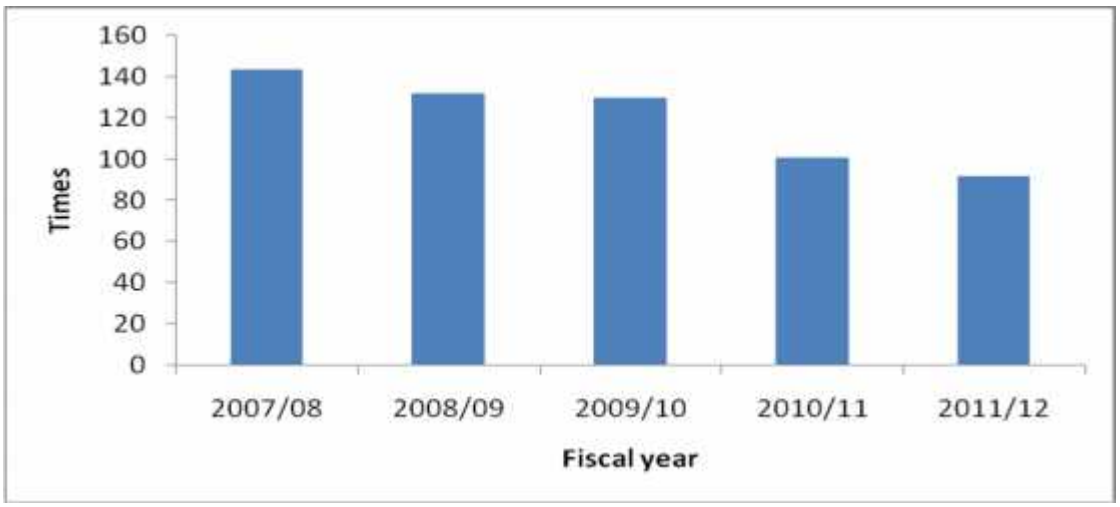
Fiscal year	Net sales	Debtors	Times
2007/08	6,159,520	2,468,080	2.50
2008/09	7,208,087	3,030,277	2.38
2009/10	6,070,423	2,610,352	2.34
2010/11	8,584,144	2,825,943	3.03
2011/12	10,413,655	3,099,496	3.35
Mean	7,687,165.8	2,806,829.6	2.72
S.D.			0.40
C.V.			14.71%

Source: Appendix-10

The table 4.12 shows that the debtors (receivable) turnover ratio was in increasing trend over the study period. The net sales of Nepal Telecom increased every fiscal year but fiscal year 2009/10 net sales decreased. Debtors of Nepal Telecom are not stable over the study period. The highest debtors turnover ratio was 3.35 times in the fiscal year 2011/12, which net sales was Rs.10,413,655 thousand and debtors was Rs.3,099,496 thousand and the lowest debtors turnover ratio was 2.34 times in fiscal year 2009/10, during which net sales was Rs.6,070,423 thousand and debtors was Rs.2,610,352 thousand. The standard deviation was 0.40 and coefficient of variance was 14.71%.

Figure 4.11

Debtors (Receivable) Turnover Ratio



The figure 4.11 shows that net sales and debtors with debtor turnover ratio of Nepal Telecom. Net sales increased except the fiscal year 2009/10 but debtors are not consistent over the study period.

4.3.3 Calculation of Current Assets Turnover Ratio

The amount of working capital is affected by sales policy. If the credit sales are increased more working capital will be required to meet the daily requirement.

The current assets turnover ratio indicates the adequacy of sales in relation to the investment in current assets. Generally a high current assets turnover ratio indicates efficient utilization of current assets. The current assets turnover ratio is calculated by dividing net sales by current assets.

The current assets turnover position of the Nepal Telecom during the period of the study is tabulated as below:

Table 4.13

Current Assets Turnover Ratio

(Rs in '000'**)**

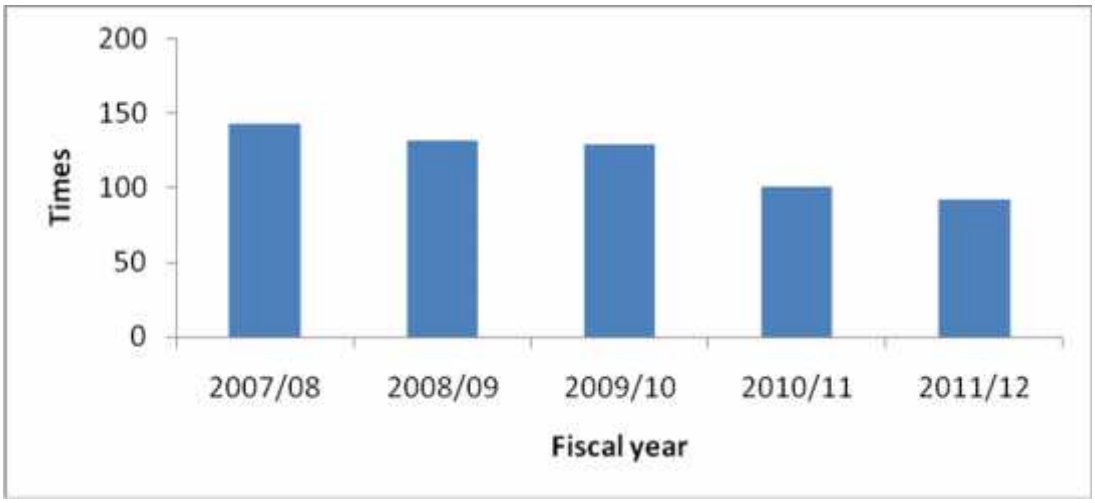
Fiscal year	Net sales	Current Assets	Times
2007/08	6,159,520	15,336,626	0.40
2008/09	7,208,087	18,424,147	0.39
2009/10	6,070,423	20,925,639	0.29
2010/11	8,584,144	20,598,353	0.42
2011/12	10,413,655	22,526,522	0.46
Mean	7,687,165.8	19,562,257.4	0.39
S.D.			0.056
C.V.			14.45%

Source: Appendix-11

The table 4.13 shows that current assets turnover ratio increase and thereafter decrease to the fiscal year 2009/10 and increase from fiscal year 2010/11 to fiscal year 2011/12. The highest current assets turnover ratio of Nepal Telecom is 0.46 times in the fiscal year 2011/12, during which net sales was Rs.10,413,655 thousand and current assets was Rs.22,526,522 thousand and the lowest current assets turnover ratio of Nepal Telecom was 0.29 times in fiscal year 2009/10, which net sales was Rs.6,070,423 thousand and current assets was Rs.20,925,639 thousand. The standard deviation was 0.056 and coefficient of variance was 14.45%.

Figure 4.12

Current Assets Turnover Ratio



The figure 4.12 represents that net sales and current assets with current assets turnover ratio of Nepal Telecom. Net sales are increased except the fiscal year 2009/10 but current assets are rapidly increased in the study period. Current assets turnover ratio is rapidly decreased till fiscal year 2009/10 than after increases up to 0.46 times in the fiscal 2011/12 over the study period.

4.3.4 Calculation of Cash Turnover Ratio

Cash turnover ratio indicates the efficiency of management in application of cash. It is one of the main parts of current assets which have greatest value to meet the current obligations occurred in the business. Without adequate cash, business is not possible, but the excess unnecessary holding cost. So the company should try to maintain the adequate amount of cash fund, keeping in mind the risk-return trade off. The cash turnover ratio is calculated as net sales by cash & bank balances.

Table 4.14

Cash Turnover Ratio

(Rs in '000'**)**

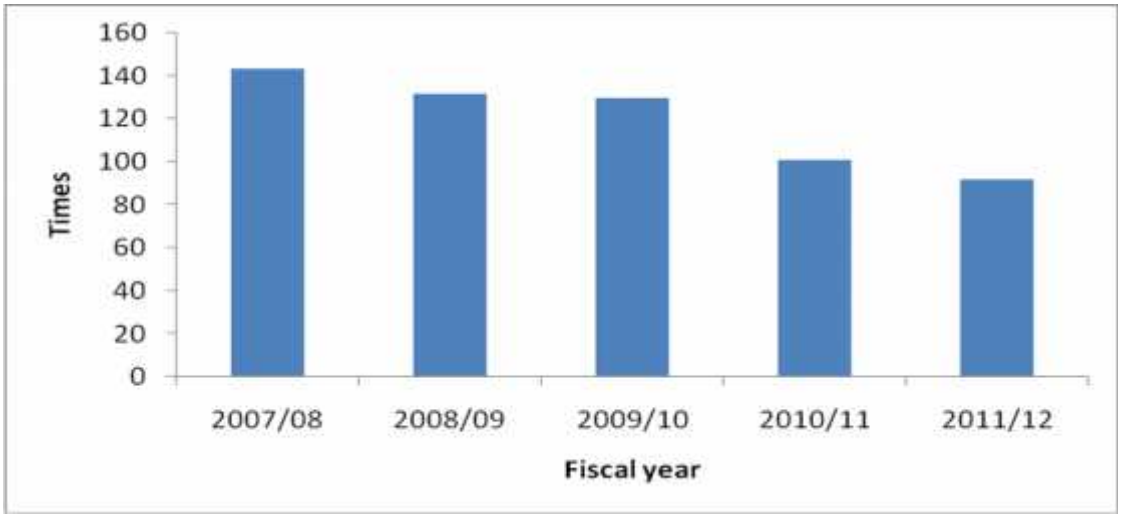
Fiscal year	Net sales	Cash & Bank Bal.	Ratio (Times)
2007/08	6,159,520	8,248,426	0.75
2008/09	7,208,087	10,116,463	0.71
2009/10	6,070,423	11,797,087	0.51
2010/11	8,584,144	9,584,469	0.89
2011/12	10,413,655	12,028,795	0.87
Mean	7,687,165.8	10,355,048	0.746
S.D.			0.14
C.V.			18.29%

Source: Appendix-12

The table 4.14 shows that the cash turnover ratios of Nepal Telecom are not consistent over the study period. The net sales of Nepal Telecom increased every fiscal year except the fiscal year 2009/10. Since accumulated cash and bank balance of Nepal Telecom was considered in the study it is seemed greater than sales in every fiscal year. Cash and bank balance is increased every fiscal year except the fiscal year 2010/11. The highest cash turnover ratio was 0.89 times in the fiscal year 2010/11, which net sales was Rs.8,584,144 thousand and cash & bank balance was Rs 9,584,469 thousand and the lowest cash turnover ratio was 0.51 times in fiscal year 2009/10, which net sales was Rs.6,070,423 thousand and cash & bank balance was Rs.11,797,087 thousand. The standard deviation was 0.14 and coefficient of variance was 18.29%.

Figure 4.13

Cash Turnover Ratio



The figure 4.13 shows that net sales and cash & bank balance with cash turnover ratio of Nepal Telecom. Net sales are increased except the fiscal year 2009/10 but cash & bank balance are rapidly increased over the study period. Cash turnover ratio of the Nepal Telecom decreased from the fiscal year 2007/08 to the fiscal year 2009/10 and after increased from fiscal year 2010/11.

4.3.5 Net Working Capital Turnover Ratio

Net working capital is the difference between current assets and current liabilities. This ratio explains the net working capital has been utilized to general sales in an organization. The size of working capital depends up on production cycle and business cycle.

This indicates the velocity of the utilization of working management. This ratio measures the efficiency with which the working capital is being used by Nepal Telecom. It is calculate as net sales by net working capital.

Table 4.15

Net Working Capital Turnover Ratio

(Rs in '000'**)**

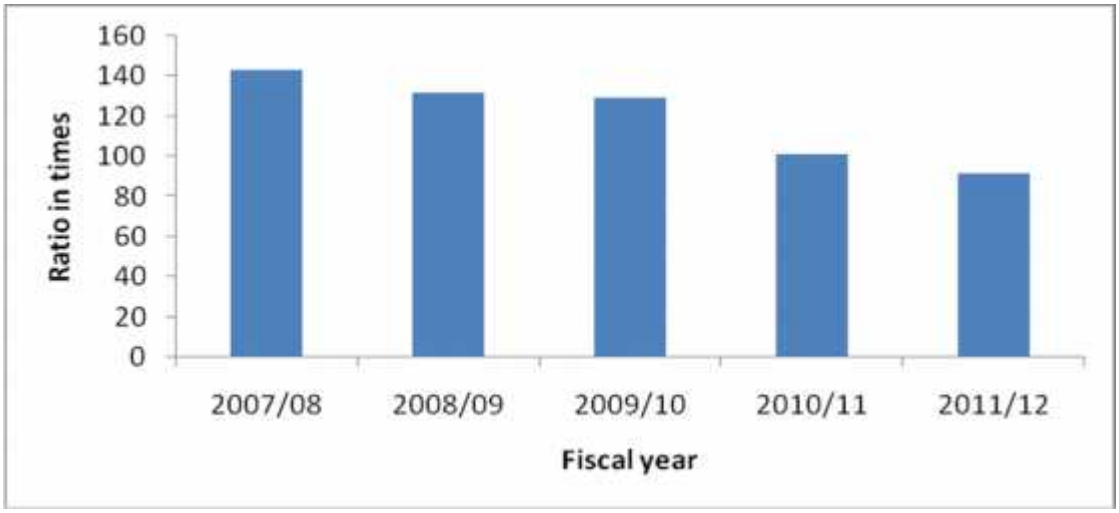
Fiscal year	Net sales	Net working Capital	Times
2007/08	6,159,520	12,393,250	0.50
2008/09	7,208,087	14,748,735	0.49
2009/10	6,070,423	16,835,286	0.36
2010/11	8,584,144	16,739,869	0.51
2011/12	10,413,655	18,050,769	0.58
Mean	7,687,165.8	15,753,581.8	0.488
S.D.			0.071
C.V.			14.63%

Source: Appendix-13

The table 4.15 shows that the net working capital turnovers are not stable over the study period. Net sales increased every fiscal year over the study period. Similarly, net working capitals of Nepal Telecom are increasing trend. The highest net working capital turnover ratio was 0.58 times in the fiscal year 2011/12, during which net sales was Rs.10,413,655 thousand and net working capital was Rs.18,050,769 thousand and the lowest net working capital turnover ratio was 0.36 times in fiscal year 2009/10, which net sales was Rs.6,070,423 thousand and net working capital was Rs. 16,835,286 thousand. The standard deviation was 0.071 and coefficient of variance was 14.63%.

Figure 4.14

Net Working Capital Turnover Ratio



The figure 4.14 represents that net sales and net working capital with net working capital turnover ratio of Nepal Telecom. Net sales are increased except the fiscal year 2009/10 but net working capitals are rapidly increased over the study period. Net working capital turnover ratio is increased just the fiscal year 2007/08 thereafter decreased over the study period till fiscal year 2009/10 and after the fiscal year 2009/10 net working capital turnover ratio increases till fiscal year 2011/12.

4.4 Profitability Position

Generally, profit is the difference between total revenue and total expenses over a period of time. Profitability measures efficiency and the search for it provides an incentive to achieve efficiency. Profitability ratios are those ratios which indicate degree of success in achieving desired profit level. Profit is an important factor that determines the firms' expansion and diversification. A required level of profit is necessary for the firms' growth and survives in the competitive environment. Various ratios can be developed upon the profit under different circumstances. These different ratios are called profitability ratios, which are required to support the purpose of the study.

4.4.1 Calculation of Percentage of Net Profit Margin

Net profit margin is the relation between net profit after taxes and net sales. It indicates management efficiency in controlling the manufacturing and administrative cost of the products. The net profit margin reflects how much amount of net profit has been earned in the sales of one rupee. A high result is favorable and otherwise vice-versa. High result insures adequate return to the owner. Net profit margin is as net profit after taxes by net sales multiply hundred.

Table 4.16

Percentage of Net Profit Margin

(Rs in '000'**)**

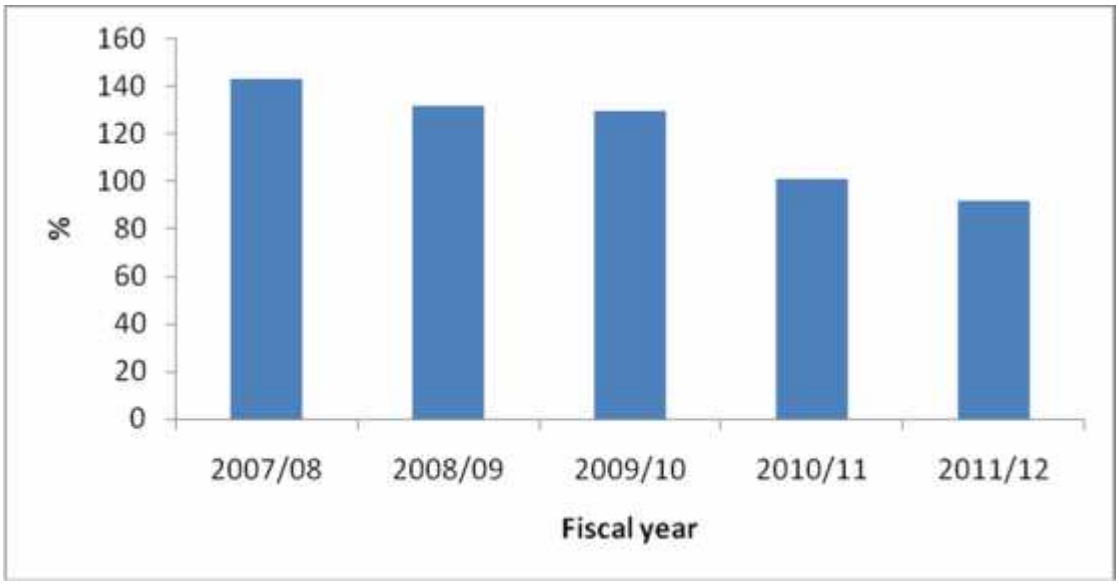
Fiscal year	Net profit after taxes	Net sales	%
2007/08	2,467,930	6,159,520	40.07
2008/09	3,087,782	7,208,087	42.84
2009/10	2,247,301	6,070,423	37.02
2010/11	3,542,461	8,584,144	41.27
2011/12	4,936,647	10,413,655	47.41
Mean	3,256,424.2	7,687,165.8	41.72
S.D.			3.42
C.V.			8.21%

Source: Appendix-14

The table 4.16 depicts that net profit margin ratios are not consistent over the study period. Net profit after taxes of Nepal Telecom continuously increased except the fiscal year 2009/10. Similarly, net sales increased every fiscal year except the fiscal year 2009/10. The highest net profit margin ratio was 47.41% in the fiscal year 2011/12 which net profit after taxes was Rs.4,936,647 thousand and net sales was Rs.10,413,655 thousand and the lowest net profit margin ratio of Nepal Telecom was 37.02% in fiscal year 2009/10, during which net profit after taxes was Rs.2,247,301 thousand and net sales was Rs.6,070,423 thousand. The standard deviation was 3.42 and coefficient of variance was 8.21%.

Figure 4.15

Net Profit Margin



The figure 4.15 represents that net profit margin of Nepal Telecom. Net profit and net sales increased except the fiscal year 2009/10.

4.4.2 Calculation of Percentage of Operating Ratio

The operating ratio is computed by dividing all operating expenses by net sales. The operating ratio is an important ratio that explains the change in the net profit margin ratio. A higher operating ratio is unfavorable since it will leave a small amount of operating income to meet interest as dividend. Operating ratio is calculated as operating expense by net sales multiply by hundred.

Table 4.17

Percentage of Operating Expenses

(Rs in '000'**)**

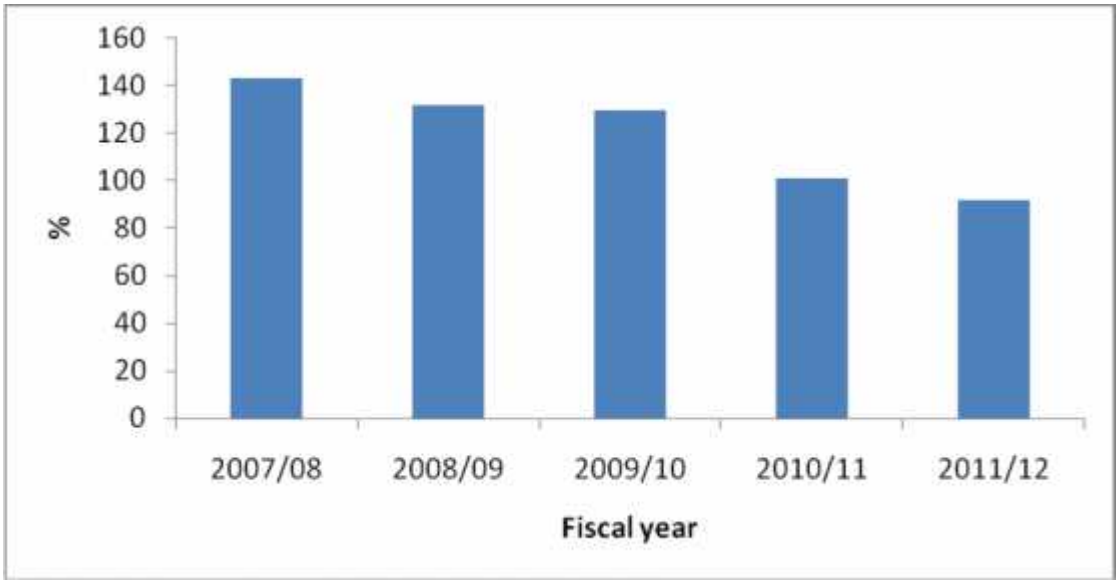
Fiscal year	Operating expenses	Net sales	%
2007/08	3,235,929	6,159,520	52.54
2008/09	3,576,165	7,208,087	49.61
2009/10	3,308,767	6,070,423	54.51
2010/11	4,272,768	8,584,144	49.78
2011/12	4,215,188	10,413,655	40.48
Mean	3,721,763.4	7,687,165.8	49.38
S.D.			4.82
C.V.			9.75%

Source: Appendix-15

The table 4.17 shows that operating percentage was not consistent over the study period. Operating expenses of Nepal Telecom are not stable over the study period. Similarly, Net sales increased every fiscal year except the fiscal year 2009/10. The highest operating ratio was 54.51% in the fiscal year 2009/10, which operating expenses was Rs.3,308,767 thousand and net sales was Rs.6,070,423 thousand and the lowest operating ratio was 40.48 % in fiscal year 2011/12, during which operating expenses was Rs.4,215,188 thousand and net sales was Rs.10,413,655 thousand. The standard deviation was 4.82 and coefficient of variance was 9.75%.

Figure 4.16

Operating Expenses Percentage



The figure 4.16 presents that operating expenses and net sales with operating ratio of Nepal Telecom. Operating expenses and net sales increased till the fiscal year

2008/09 and then decreased. Operating ratio of Nepal Telecom was not stable over the study period.

4.4.3 Calculation of Percentage of Return on Total Assets

This ratio is useful in measuring the profitability of all financial resource invested in the firm's assets. The return on assets or profit to assets ratio is calculated by dividing the amount of net profit after taxes by the amount of total assets employed. The return on total assets is calculated as net profit after taxes by total assets multiply by hundred.

Table 4.18

Percentage of Return on Total Assets

(Rs in '000')

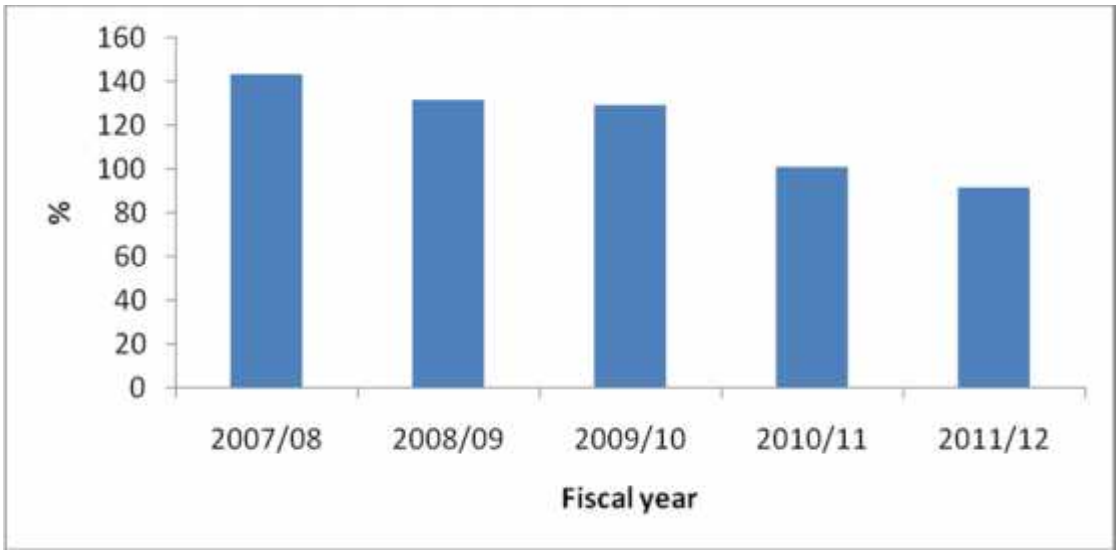
Fiscal year	Net profit after taxes	Total Assets	%
2007/08	2,467,930	25,281,824	9.76
2008/09	3,087,782	29,892,993	10.34
2009/10	2,247,301	32,652,787	6.88
2010/11	3,542,461	35,572,772	9.96
2011/12	4,936,647	39,351,406	12.55
Mean	3,256,424.2	32,550,356.4	9.89
S.D.			1.81
C.V.			18.35%

Source: Appendix-16

The table 4.18 represents that return on total assets ratio are not consistent over the study period. Net profit after taxes continuously increased except fiscal year 2009/10. Similarly, total assets continuously increased every fiscal year of the study period. The highest return on total assets of Nepal Telecom was 12.55 % in the fiscal year 2011/12, which net profit after taxes was Rs 4,936,647 thousand and total assets was Rs.39,351,406 thousand and the lowest return on total assets was 6.88% in fiscal year 2009/10, during which net profit after taxes was Rs.2,247,301 thousand and total assets was Rs.3,265,2787 thousand. The standard deviation was 1.81 and coefficient of variance was 18.35%.

Figure 4.17

Percentage of Return on Total Assets



The figure 4.17 shows that net profit vs. total assets and return on total assets of Nepal Telecom. Net profits increased except the fiscal year 2009/10 but total assets rapidly increased over the study period.

4.4.4 Calculation of Percentage of Return on Net Worth

The return on net worth ratio is measure of profitability of the firm in respect of the utilization of net worth. It is calculated by dividing net profit after taxes by net worth. The net worth includes total equity capital and total reserve & surplus. It reflects whether the corporation has earned a satisfactory return for its equity-holders or not. So, higher ratio is favorable of the stockholders. The return on net worth is calculated as net profit after taxes by net worth multiply by hundred.

Table 4.19

Percentage of Return on Net Worth

(Rs in '000')

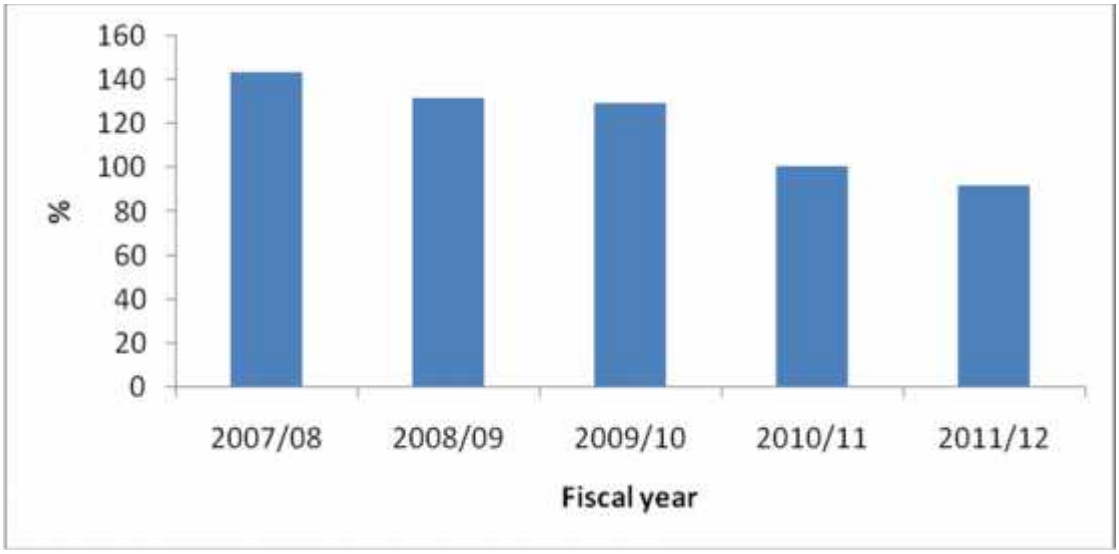
Fiscal year	Net profit after taxes	Net worth	%
2007/08	2,467,930	16,927,414	14.58
2008/09	3,087,782	19,521,866	15.82
2009/10	2,247,301	20,757,100	10.83
2010/11	3,542,461	20,825,855	17.01
2011/12	4,936,647	23,686,027	20.84
Mean	3,256,424.2	20,343,652.4	15.81
S.D.			3.257
C.V.			20.596%

Source: Appendix-17

The table 4.19 shows that return on net worth are not stable during the study period. Net profit after taxes continuously increased except the fiscal year 2009/10. But net worth of Nepal Telecom is rapidly increased every fiscal year. The highest return on net worth was 20.84% in the fiscal year 2011/12, during which net profit after taxes was Rs.4,936,647 thousand and net worth was Rs. 23,686,027 thousand and the lowest return on net worth was 10.83% in fiscal year 2009/10, during which net profit after taxes was Rs. 2,247,301 thousand and net worth was Rs. 20,757,100 thousand, this is because of political instability, competitor's new business scheme etc. The standard deviation was 3.257 and coefficient of variance 20.596%.

Figure 4.18

Return on Net Worth



The figure 4.18 represents that the return on net worth of Nepal Telecom. Net profits are increased except the fiscal year 2009/10 but net worth is speedily increased over the study period.

4.4.5 Calculation of Percentage of Return on Working Capital

Return on net working capital measures the profitability and also indicates the efficiency of working capital of Nepal Telecom. It indicates how Nepal Telecom has used its available resources. The return on net worth is calculated as net profit after taxes by working capital multiply by hundred.

Table 4.20

Percentage of Return on Working Capital

(Rs in '000')

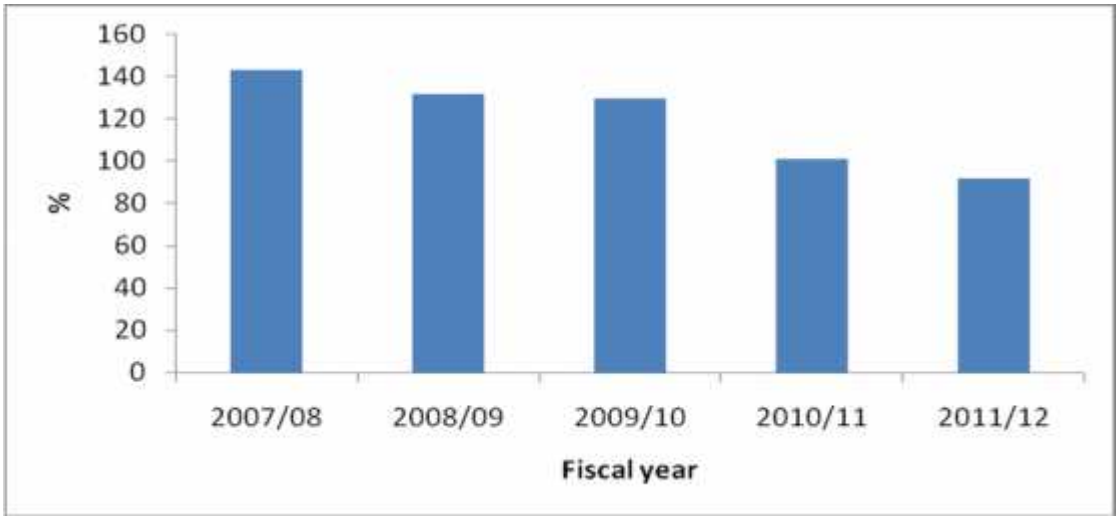
Fiscal year	Net profit after taxes	Working capital	%
2007/08	2,467,930	12,393,250	19.91
2008/09	3,087,782	14,748,735	20.94
2009/10	2,247,301	16,835,286	13.35
2010/11	3,542,461	16,739,869	21.16
2011/12	4,936,647	18,050,769	27.35
Mean	3,256,424.2	15,753,581.8	20.54
S.D.			4.45
C.V.			21.76%

Source: Appendix-18

The table 4.20 shows that return on working capital is not consistent over the study period. Net profit after taxes is continuously increased except the fiscal year 2009/10 but working capital rapidly increased every fiscal year. The highest return on working capital was 27.35% in the fiscal year 2011/12, which net profit after taxes was Rs. 4,936,647 thousand and working capital was Rs. 18,050,769 thousand and the lowest return on working capital was 13.35% in fiscal year 2009/10, during which net profit after taxes was Rs.2,247,301 thousand and working capital was Rs.16,835,286 thousand. The standard deviation was 4.45 and coefficient of variance was 21.76%.

Figure 4.19

Percentage of Return on Working Capital



The figure 4.19 represents that the return on working capital. Net working capital is in increasing trend during the study period. Return on working capital is in increasing trend except the fiscal year 2009/10.

4.5 Analysis of Different Ratios

i. Analysis of Liquidity Ratio

Liquidity ratio measures the short term solvency position of the organization. It plays a vital role in the organization. Liquidity position shows the ability of the organization to pay its current obligation i.e. it determines the short-term solvency position of any organization.

Table 4.21

Liquidity Ratio

Fiscal year	Current Ratio (times)	Quick Ratio (times)	Cash & Bank Bal. to Current Assets (%)
2007/08	5.21	5.05	53.78
2008/09	5.01	4.9	54.91
2009/10	5.12	5.04	56.38
2010/11	5.34	5.26	46.63
2011/12	5.03	4.96	53.40
Average	5.142	5.042	53.02

ii. Analysis of Turnover Ratio

Table 4.22

Turnover Ratio

Fiscal year	Inventory Turnover	Debtors Turnover	Current Assets turnover	Cash Turnover Ratio
2007/08	12.75	2.50	0.40	0.75
2008/09	17.98	2.38	0.39	0.71
2009/10	20.15	2.33	0.29	0.51
2010/11	27.70	3.04	0.42	0.89
2011/12	31.62	3.36	0.46	0.87
Average	22.04	2.722	0.392	0.746

iii. Analysis of Profitability Ratio

Table 4.23

Profitability Ratio

Fiscal year	Net Profit Margin	Operating Ratio	Return on Total Assets	Return on Net Worth	Return on Working Capital Ratio
2007/08	40.07	52.54	9.76	14.58	0.50
2008/09	42.84	49.61	10.34	15.82	0.49
2009/10	37.02	54.51	6.88	10.83	0.36
2010/11	41.27	49.78	9.96	17.01	0.51
2011/12	47.41	40.48	12.55	20.84	0.58
Average	41.722	49.384	9.898	15.816	0.488

4.6 Analysis of Working Capital Cash Flow Cycle

Working capital management originated with the old Yankee peddler, who would borrow to buy inventory, sell the inventory to pay the bank loan, and then repeat the cycle. Cash conversion cycle model has been applied to more complex business and it is useful when analyzing the effectiveness of a firm's working capital management. There are following four factors of cash conversion cycle model.

i. Inventory Conversion Period (ICP)
ii. Receivable Conversion Period (RCP)
iii. Payable Deferred Period (PDP)
iv. Cash Conversion Cycle (CCC)

4.6.1 Inventory Conversion Period (ICP)

The inventory conversion period is the average length of time required to convert material into finished goods and then to sell those goods. The inventory turnover shows how rapidly the inventory is turning into receivable through sales. The short period indicates fast conversion of inventory to sale and the long period indicates slow conversion period. Inventory conversion period is calculated by dividing days in year by inventory turnover ratio.

Table 4.24

Inventory Conversion Period (ICP)

Fiscal year	Days in year	Inventory turnover	ICP (days)
2007/08	365	12.73	28.67
2008/09	365	17.98	20.30
2009/10	365	20.15	18.11
2010/11	365	27.70	13.18
2011/12	365	31.62	11.54
Mean			18.36
S.D.			6
C.V.			32.68%

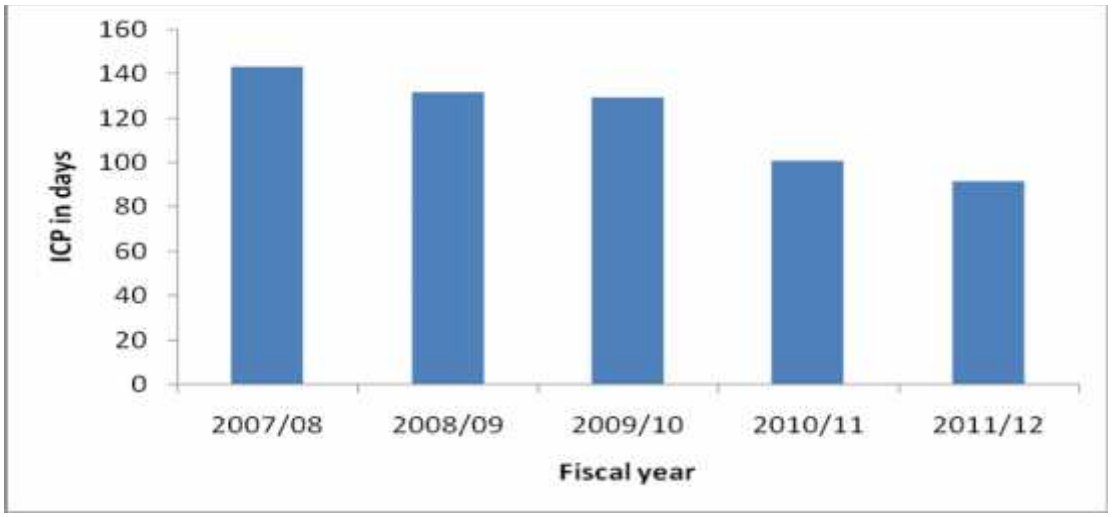
Source: Appendix-19

The table 4.25 shows that the inventory conversion period of the five fiscal year of Nepal Telecom. The inventory turnover increased in every fiscal year of the study period. The inventory conversion period was in decreasing trend over the study period. The highest inventory conversion period was 28.67 days in the fiscal year 2007/08 and the lowest receivable conversion period was 11.54 days in the fiscal year

2011/12. The decreasing trend of ICP shows that the inventories rapidly convert into sales. The standard deviation was 6 days and coefficient of variance was 32.68%.

Figure 4.20

Inventory Conversion Period (ICP)



The figure 4.20 presents the inventory conversion period of Nepal Telecom. It shows that the ICP was in decreasing trend.

4.6.2 Receivable Conversion Period (RCP)

The receivable conversion period is the average length of time required to convert the firm's receivable into cash. High periods indicate slow collection of receivable and low collection period indicates fast conversion of receivable. RCP can determine the credit policy of the company. Long collection period refers liberal credit policy and the short period refers the strict credit policy. It is also called day's sale outstanding (DSO) and it is calculated by dividing days in year by receivable turnover ratio.

Table 4.25

Receivable Conversion Period (RCP)

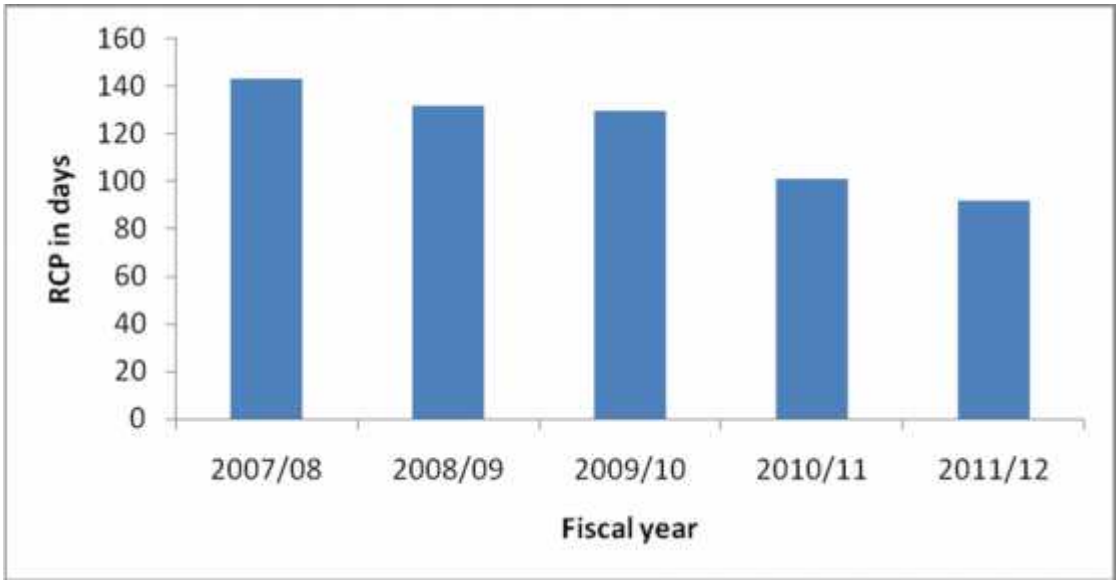
Fiscal year	Days in year	Receivable Turnover	RCP (days)
2007/08	365	2.50	146.00
2008/09	365	2.38	153.36
2009/10	365	2.33	156.65
2010/11	365	3.04	120.07
2011/12	365	3.36	108.63
Mean			136.942
S.D.			19
C.V.			13.87%

Source: Appendix-20

The table 4.25 shows that the receivable conversion period of the five fiscal year of Nepal Telecom. The receivable turnover decreased in every fiscal year of the study period. The receivable conversion period was not consistent over the study period. The highest receivable conversion period was 156.65 days in the fiscal year 2009/10 and the lowest receivable conversion period was 108.63 days in the fiscal year 2011/12. The decreasing trend of RCP indicates that Nepal Telecom is able to collect its debts in short period. The standard deviation was 19 days and coefficient of variance was 13.87%.

Figure 4.21

Receivable Conversion Period (RCP)



The figure 4.21 presents that the receivable conversion period was not consistent during the study period. The lowest conversion period was in the fiscal year 2011/12.

4.6.3 Payable Deferred Period (PDP)

Payable deferred period measures the period of payment terms to the trade creditor of the company. The long period indicated that the company has got long credit from its creditor and the short period indicates short credit period. It can be calculated as days in a year divided by creditor payable shown as table below.

Table 4.26

Payable Deferred Period (PDP)

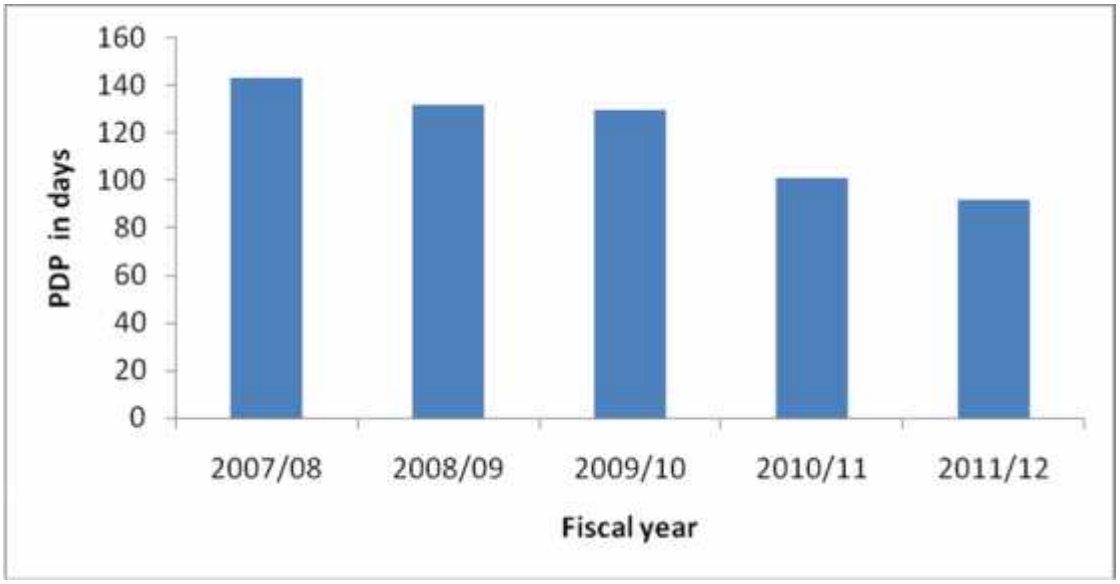
Fiscal year	Days in year	Creditor Payable	PDP (days)
2007/08	365	11.66	31.30
2008/09	365	5.76	63.37
2009/10	365	8.09	45.12
2010/11	365	11.34	32.19
2011/12	365	12.91	28.27
Mean		9.952	40.05
S.D.			13
C.V.			32.46%

Source: Appendix-21

The table 4.26 shows that the payable deferred period of the five fiscal year of Nepal Telecom. The creditor payable was not consistent during the study period. The payable deferred period was not stable over the study period. The highest payable deferred period was 63.37 days in the fiscal year 2008/09 and the lowest payable deferred period was 28.27 days in the fiscal year 2011/12. The decreasing trend of PDP shows that Nepal Telecom reduced its payment period from 31.30 to 28.27 days over the study period. The standard deviation and coefficient of variance with respect to payable deferred period are 13 days and 32.46 % respectively.

Figure 4.22

Payable Deferred Period (PDP)



The figure 4.22 percents that the payable deferred period of Nepal Telecom. It was not consistent during the study period. Lowest payable deferred period was in the fiscal year 2011/12.

4.6.4 Calculation of Cash Conversion Cycle (CCC)

It refers the cash inflow and outflow of the company. ICP and RCP are cash inflow and PDF is cash outflow. The CCC is calculated as summation of ICP and RCP and deduct of PDP. The long CCC indicates slow production and slow collection of debtor and taking short credit period and vice versa. The calculation of CCC is shown in the following table.

Table 4.27

Cash Conversion Cycle (CCC)

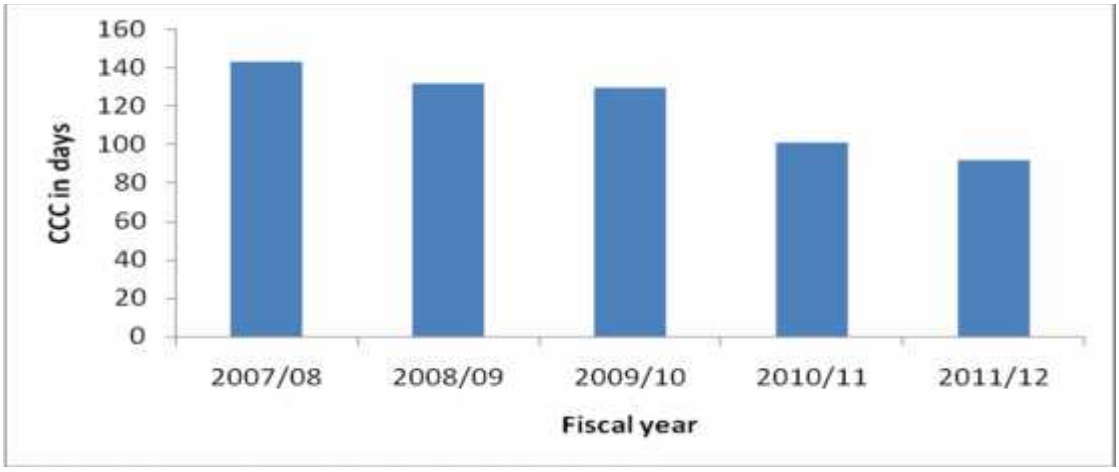
Fiscal Year	CCC (days)
2007/08	143.37
2008/09	131.83
2009/10	129.64
2010/11	101.06
2011/12	91.90
Mean	119.56
S.D.	20
C.V.	16.73%

Source: Appendix-22, 23

The table 4.27 shows that the cash conversion cycle of Nepal Telecom for the five fiscal year of the study period. The cash conversion cycle of the Nepal Telecom was in decreasing trend over the study period. The highest cash conversion cycle was 143.37 days in the fiscal year 2007/08 and the lowest CCC was 91.90 days in the fiscal year 2011/12. The decreasing trend of CCC of Nepal Telecom shows that there was high speed of sales, high speed of collection and takes short period of credit. The standard deviation and coefficient of variance with respect to CCC are 20 days and 16.73 % respectively.

Figure 4.23

Cash Conversion Cycle (CCC)



The figure 4.23 presents the cash conversion cycle for the five fiscal year of Nepal Telecom. It was in decreasing trend during the study period.

4.7 Statistical Tools

The financial performance of an organization is directly related to their ability to manage working capital management efficiently and effectively. Use of financial tools were made to analyze application of the working capital management. Use of statistical tools also help lot to assess the relationship between various components involved in working capital.

Correlation was used to assess the relationship between various variables.

i. Correlation between Current Assets and Current Liabilities

Table 4.28

Correlation between Current Assets and Current Liabilities

Correlation of coefficient (r)	Relationship	r^2	P.E. Ratio	6 PE	Significant
0.9846	Positive	0.9694	0.0104	0.0624	Significant

Source: Appendix-24

The correlation between current assets and current liabilities of five fiscal years of 2007/08 to 2011/12 of Nepal Telecom is 0.9846 is positive. The value of r is greater than 0 (i.e. 0.9846>0). The table depicts that the coefficient of correlation value is more than 6 P.E. Hence, the relationship between current assets and current liabilities is significant.

ii. Correlation between Sales and Net Profit

Table 4.29

Correlation between Sales and Net Profit

Correlation of coefficient (r)	Relationship	r^2	P.E. Ratio	6 PE	Significant
0.9899	Positive	0.9799	0.0069	0.0412	Significant

Source: Appendix-25

The correlation between sales and net profit of five fiscal year of 2007/08 to 2011/12 of Nepal Telecom is 0.9899 is positive. The value of r is greater than 0 (i.e. 0.9899>0). The table depicts that the coefficient of correlation value is more than 6 P.E. Hence, the relationship between sales and net profit is significant.

iii. Correlation between Total Assets and Current Assets

Table 4.30

Correlation between Total Assets and Current Assets

Correlation of coefficient (r)	Relationship	r^2	P.E. Ratio	6 PE	Significant/ Insignificant
0.9571	Positive	0.9160	0.0287	0.1722	Significant

Source: Appendix-26

The correlation total assets and current assets of five fiscal year of 2007/08 to 2011/12 of Nepal Telecom is 0.9571 is positive. The value of r is greater than 0 (i.e. 0.9571>0). The table depicts that the coefficient of correlation value is more than 6 P.E. Hence, the relationship between total assets and current assets is significant.

iv. Correlation between Sales and Debtors

Table 4.31

Correlation between Sales and Debtors

Correlation of coefficient (r)	Relationship	r^2	P.E. Ratio	6 PE	Significant/ Insignificant
0.7692	Positive	0.5917	0.1396	0.8376	Insignificant

Source: Appendix-27

The correlation sales and debtors of five fiscal years of 2007/08 to 2011/12 of Nepal Telecom is 0.7692 is positive. The value of r is greater than 0 (i.e. 0.7692>0). The table depicts that the coefficient of correlation value is less than 6 P.E. Hence, the relationship between total assets and current assets is insignificant.

v. Correlation between Sales and Inventory

Table 4.32

Correlation between Sales and Inventory

Correlation of coefficient (r)	Relationship	r^2	P.E. Ratio	6 PE	Significant
0.2161	Positive	0.0467	0.3259	1.9556	Insignificant

Source: Appendix-28

The correlation sales and inventory of five fiscal years of 2007/08 to 2011/12 of Nepal Telecom is 0.2161 is positive. The value of r is greater than 0 (i.e. 0.2161>0). The table depicts that the coefficient of correlation value is less than 6 P.E. Hence, the relationship between sales and inventory is insignificant.

4.8 Major Findings

i. Structure of Working Capital

The observation of percentage of cash and bank to current assets shows that the major portion of current assets was in the form of cash and bank in Nepal Telecom. The average percentage of cash and bank to current assets is 53.00%. Since this percentage is too high, it can be stated that the company maintained excess cash and bank balance. Inventory is another element of working capital which is only stores and spare parts. It comprises a nominal portion of current assets since the average inventory turnover ratio is 22.04 times. This indicates that there is no considerable amount tied up in inventory in Nepal Telecom. Another important element is Account Receivables which represents sundry debtors plus interest accrued on investment. The percentage of receivables fluctuated over the study period.

ii. Efficiency of Working Capital Management

The efficiency of management of working capital is measured through the turnover ratios since the volume of sales in any business organization not only affects the size of working capital but also clearly reflects the efficiency with which assets are managed. The receivables turnover ratios were moderately fluctuated during the five fiscal years and recorded lowest of 2.34 times on the fiscal year 2009/10 highest of 3.35 times in the fiscal year 2011/12. Likewise, the cash turnover ratio has are moderately fluctuating and vary the lowest 0.51times to 0.89 times during the study period since the rate of increase in the sales volume is lower than that of cash& bank balance. In the three years, cash & bank balance are exceeding net sales by a significant amount. Hence the result is dissatisfactory. The average net working capital turnover is 0.488 times. Since the ratio has decreased from 0.58 times to 0.36 times during the study period, we can say that the company is not utilizing its net working capital effectively. The amount of working capital is exceeding net sales every year. Hence from the analysis, it is revealed that Nepal Telecom has kept excess amount of working capital in comparison to sales which can be considered as the sign of efficient working capital management.

iii. Liquidity Position

Overall, the liquidity position of the firm has been found satisfactory. The current ratio varies from 5.01 times to 5.34 times with a throughout the study period which are however satisfactory compared to the conventional ideal ratio 2:1. Average ratio is

5.14 times and overall, it coincides with the conventionally accepted ratio 2:1. The average quick ratio is 5.042 times which were significantly higher than the standard quick ratio 1:1. Hence it can be said that the company is holding more than enough cash balance or liquid assets to meet their current payment which indicates mismanagement of liquid assets since and optimum liquidity is the necessity of a firm. There is inverse relation between profitability and liquidity since there is negative correlation between liquidity and profitability.

vi. Profitability of Working Capital

Return on total assets is positive and not stable but it has highest 12.55 time to 6.88 times over the five year study period. Average return on total assets is 9.90%. The volume of net profit after tax has increased every year but the return on total assets has fluctuating each year, which signifies that the profitability is not sufficient with compared to the increment in investment in total assets. It clarifies the less effectiveness of utilization of total assets. Another ratio to measure profitability is return on net working capital. From the study, it is found that the return on working capital is continues increased except 2009/10, over the five years. The ratio varies from 13.35 to 27.35 %.From the study; it is found that Nepal Telecom has been utilizing its working effectively since the return on working capital is in increasing trend. Both NPAT and investment are increasing every year and the earning power of capital employed is increasing as well.

4.9 Major Findings of Statistical Analysis

- The correlation between current assets and current liabilities of five fiscal years of 2007/08 to 2011/12 of Nepal Telecom is 0.9846 is positive. There is significant relationship between current assets and current liabilities. There is low degree of positive correlation.
- The correlation between sales and net profit of five fiscal year of 2007/08 to 2011/12 of Nepal Telecom is 0.9899 is positive. There is significant relationship between sales and net profit. It shows significantly low degree of positive correlation.
- The correlation total assets and current assets of five fiscal year of 2007/08 to 2011/12 of Nepal Telecom is 0.9571 is positive. It shows that the relationship

between total assets and current assets is significant. It shows the relatively moderate level of positive correlation.

- The correlation sales and debtors of five fiscal years of 2007/08 to 2011/12 of Nepal Telecom is 0.7692 is positive. Correlation between sales and debtors is positive and the correlation coefficient shows the insignificant relationship because the 6 P.E is greater than the correlation value.
- The correlation sales and inventory of five fiscal years of 2007/08 to 2011/12 of Nepal Telecom is 0.2161 is positive. The correlation coefficient shows the insignificant relationship because the correlation value is less than 6 P.E. There is low degree of correlation in sale and inventory.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

As stated earlier, working capital management refers to the management of cash, receivables, inventory, and other factors of working capital. The main concern of this study was a very sensitive area of financial management i.e. working capital management of Nepal Telecom. Likewise, as stated in the introduction section of this study, the specific objectives of this study are:

- To examine and critically analyze the working capital management of Nepal Telecom.
- To examine liquidity position and profitability position of Nepal Telecom.
- To assess the size and growth of working capital, and
- To recommend viable suggestions to cope up with working capital management shortcomings in Nepal Telecom.

For the purpose of the study, the necessary data on working capital and other related variables were collected form secondary sources. The balance sheet and income statement for the fiscal years 2007/08 to 2011/12 were taken from annual report of Nepal Telecom. Various important financial and statistical tools and techniques were applied to analyze the available data. After the tabulation of available data in a systematic manner, various important financial and statistical tools and techniques were applied in order to accomplish the objective of the study.

The size and structure of working capital is analyzed by comparing current assets and its components with different related variables. Activity and profitability ratios were calculated to evaluate the efficient of working capital. Liquidity position was assessed by calculating different liquidity ratios like current ratio, quick ratio etc. the growth trend of working capital and its related variables were studied in trend analysis. An analysis of sources and used of fund was carried out in order to get better insight into the acquisition and application of fund. More than 50% of total assets were held in the form of current assets. The large portion of current assets was being unproductive by lying in absolute liquid from i.e. cash and bank since half of the current assets was in the form of cash and bank. More than one fifth of current assets were in the form of

account receivables. Most of the components of working capital were found to be in increasing trend. The company collected fund mainly from its operation. A large portion of fund was kept in liquid form and some of them were used to purchase fixed assets and to pay long term loan.

Hence, an effort has been made in this chapter to present major findings of the study. Thereafter, in the same pattern, recommendations have been stated. Likewise, conclusions have been drawn at the end of the chapter.

5.2 Conclusion

Conclusively, it can be stated that the overall financial management of Nepal Telecom is quite satisfactory during the study period since it has sound liquidity position and positive growing profitability. Most of the variables or working capital is in increasing trend and the company is operating with good profit. After a long analysis process, it is concluded that the overall financial management of Nepal Telecom was quite satisfactory during the five years study period. There was sufficient amount of current assets to meet the current obligations of the company which obviously is a sign of good liquidity position. The company had invested its considerable amount in current assets by increasing the investment on every fiscal year. Relatively large amount of current assets was held to support given level of sales. The firm had sufficient amount of working capital. Beside this, the researcher has also indicated some critical aspects of working capital management and has supplemented precise suggestions and recommendation too. The company had more resources available to increase the sales volume as per the demand of the market. The largest portion of current assets was being unproductive by lying in absolute liquid from which is the indication of inefficiency of management in using its assets in productive payment of current liabilities. A significant amount of receivables was tied up which resulted unnecessary amount held up of working capital. Likewise, a significant amount of current assets was covered by miscellaneous current assets. All the variables of working capital as well as volume of sales were in increasing trend and the company was operating with attractive profit. Being a public utility service provider, Nepal Telecom larger volume of working capital, which indicates, excess liquidity position? The company is facing serious problem on outstanding debt collection. So far cash management and receivable management is concerned, the recommendations

suggested above could, to a greater extent, uplift Nepal Telecom cash and receivables management situations.

5.3 Recommendations

Following viable suggestions have been recommended to improve the working capital management efficiency in Nepal Telecom:

1. **Maintain Optimum Current Assets Variables and Current Liabilities Every Year**

Study showed that besides cash and bank, other variable of current assets and current liabilities also fluctuate moderately. Optimization of this variable is therefore recommended which would maintain a sound liquidity. Nepal Telecom, being a service-oriented organization, does not need so higher liquidity position. Thus it is recommended to stabilize its current ratio near 2:1. It is better for Nepal Telecom to invest such excess amount of current assets in fixed assets to increase its capacity rather than tying up large amount in current assets.

2. **Determine Optimum Level of Cash Balance to Hold Every Year Applying Cash Management Techniques**

The study also revealed that the large portion of current assets is being unproductive by lying in absolute liquid form in Nepal Telecom. This indicates the inefficiency of management of cash. The major portion of current assets is held by cash. Therefore, it is recommended to determine the optimum level of cash and bank balance to hold each year. It should invest its excess cash and cash equivalents in short term investments which would earn a return till the funds can be utilized in the firm.

3. **Forecast Current Assets and Current Liabilities Variables with reference to change in Sales and Profit**

One of the shortcomings of Nepal Telecom is that the variables of current assets and current liabilities held under different headings are rather a haphazard guesswork, without any consideration on its impact on sales and profit of the organization. For instance, the current assets turnover ratio is in decline trend since the growth of net sales every year is very low in comparison to current assets which imply very low utilization of current assets. Hence, the suggestion is to plan current assets and current liabilities variables with respect to change in sales and profit.

4. Collected Debts in Time

The study revealed the fact that Nepal Telecom fails to collect debt in time. Among the total receivables of Nepal Telecom, the largest portion is held by sundry debtors which is nothing other than due amount on sale of service. Therefore, the recommendation is to collect debts in time to enhance liquidity position,

5. Use Extensively Financial and Statistical Tools as per required

Extensive knowledge and use of financial tools can enhance the situation of the organization. Likewise, use of statistical tools for forecasting purpose may be used wherever applicable.

1. **The Financial Experts should assess the Financial Performance Timely in Order to Evaluate the Financial Strengths and Weaknesses**

In order to maximize the sales and minimize the operating cost, long/mid planning and control system of account should be prepared and it can utilize its full installed capacity of fixed assets which also helps to improve the turnover position. It is recommended to carry out periodic research work on marked possibility, consumer's capacity, and service reliability.

2. **Maintain Optimum Level of Working Capital**

From the analysis, it is revealed that Nepal Telecom has kept excess amount of working capital in comparison to sales since the amount of working capital is exceeding net sales every year. This cannot be considered as the sign of efficient working capital management. Hence it is recommended to Nepal Telecom to maintain optimum level of working capital.

3. **Manage Optimum Liquidity in the Firm**

The study revealed that the Nepal Telecom holding more enough liquid assets to meet their current payment which indicates mismanagement of liquid assets since an optimum liquidity is the necessity of a firm. There is inverse relation between profitability and liquidity since there is negative correlation between liquidity and profitability. Hence, it is recommended Nepal Telecom to maintain optimum liquid assets.

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