STUDY OF WORKING CAPITAL MANAGEMENT OF STANDARD CHARTERED BANK (NEPAL) LIMITED AND HIMALAYAN BANK LIMITED

By

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RECOMMENDATION

This is to certify that the thesis:

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

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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 of the requirements for

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

Viva-Voce Committee

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DECLARATION

I hereby declare that the work done in thesis entitled "STUDY OF WORKING CAPITAL MANAGEMENT OF STANDARD CHARTERED BANK (NEPAL) LIMITED AND HIMALAYAN BANK LIMITED" has been submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my own created work reported in the form of partial fulfillment of the requirement of Master's of Business studies (M.B.S.) course under the guidance of respected supervisor Asso. Prof. Ruchila Pandey of Shanker Dev Campus.

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Namrata Khadaka

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ABBREVIATION

ADB	Agricultural Development Bank
AGM	Annual General Meeting
BOK	Bank of Kathmandu Limited
BPS	Book-value Per Share
BS	Bikram Sambat (Abbreviation of Bikram Era)
CEO	Chief Executives Officer
CV	Coefficient of Variation
DPS	Dividend per Share
EBL	Everest Bank Limited
EPS	Earning Per Share
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
G/N	Government of Nepal
IMF	International Monetary Fund
MBL	Machhapuchre Bank Limited
MPS	Market Price of Share
NABIL	Nabil Bank Limited
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NIB	Nepal Investment Bank Limited
NICB	Nepal Industrial & Commercial Bank Limited
NPV	Net Present Value
NRB	Nepal Rastra Bank
PE	Price Earnings
RBB	Rastra Banijya Bank
SBI	Nepal State Bank of India Limited
SCBNL	Standard Chartered Bank Nepal Limited
SEBO/N	Security Board of Nepal

CHAPTER - I
INTRODUCTION

1.1 Background of the Study:

Financial institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resources. Development of trade, commerce and industry are the prime requisite for the attainment of the economic political and social goals. To fulfill the purpose of planning, financial functions more often dominate the other functions. “There is always lack of finance in underdeveloped economy because natural resources are either underutilized or unutilized in productive sectors or even other purposes i.e.; social welfare and so on. Likewise, underdeveloped countries are not deficient in land, water, mineral, forest or power resources, though they may be untapped; constituting only potential resources” *(Dewett; 1995:454).*

So in these countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized. Hoarding could be one of the reasons for this. So, banks and other financial institutions play a vital role to encourage thrift and discourage hoardings by mobilizing the resources and removing the habit of hoarding. They pursue rapid economic growth, developing the banking habit among the people, collecting the small-scattered resources in one bulk and utilizing them in further productive purposes and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow funds against future income, which may improve the economic well being of the borrower.

Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern, which is

mainly confined to finance for the development of the trade, commerce and industry. Trade, commerce and industry are the prime factors of the economic development. Bank is a financial institution, which primarily deals in borrowing and lending. Banking is a vital part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprises.

Commercial banks are the heart of the financial system. They hold the deposits of individuals, government establishment and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government establishments. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a nation is very important to the functioning of its economy.

Working Capital plays vital role in the success or failure of any business. Working Capital is lifeblood and controlling nerve-center of any organization. The excess working capital as well as short capital is harmful for business. So, management of working capital is not simple one, with the minor mistakes on decision-making about the adequacy of the working capital, in a concern may put company into liquidation. The financial institutions have to maintain an adequate reserve and supply of funds in the short-term demands by the customer for the fund. Otherwise it causes a serious problem in its operation.

The aspect of working capital concerned with short term financing decision has received much attention in the literature of finance. Because of the earlier emphasis of financial management was more on long term financial decision, which led to the

growth and development of many useful theories concerning these decisions as compared to short term financing decision. However in recent years, it has been realized that the area of working capital intricately interwoven with the success or failure of the company. Today one may come across with such situation where shortage of funds for working capital as well as the uncontrolled over expansion of working capital has caused many businesses to fail and in less serve caused, has situated their growth. This aspect of financial management is equally applicable to the small as large-scale business. The only difference is that in small firm, working capital management may be the factor that decides success or failure where as in longer firms, efficient working capital management can significantly affect the firms risk return and share price.

1.2 Brief Profile of Sample Bank

A. Standard Chartered Bank Nepal Limited:

The bank was originally established as a joint venture of Grindlays Bank PLC and Nepal Bank Limited in 2043 B.S. with the shareholding ratio of ANZ Grindlays Bank Limited 50 percent, Nepal Bank Limited 33.34 percent and general public 16.66 percent along with the change of ownership to Standard Chartered, the banking are of SCBNL saw the rise of a new dawn changing the general image of the bank. With this acquisition, Standard Chartered Bank now owns 50 percent share of Nepal Grindlays Bank Limited (NGBL) previously owned by ANZ Grindlays.

With the mission statement “To be the leading international bank in our principal markets”, the bank operates through 11 offices, spread throughout Nepal and focuses mainly one corporate, consumer and commercial banking, providing services for international firms as well. The bank contributed to a large extent in the development of the country by the way of loans to industrial projects, the priority and deprived sectors.

Standard Chartered Bank Nepal Limited, offers a full range of banking products and services in wholesale and consumer banking, catering to a wide range of customers from individuals, to mid-market local corporate to multinationals and large public sector companies as well as embassies, aid agencies, airlines, hotels and government corporations.

The bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products and highest level of service delivery. It is the first bank in Nepal that has implemented the Anti-Money Laundering Policy and applied the 'Know Your Customer' procedure on all the customer accounts.

To improve the skills and knowledge of the staff the bank continues to provide development programs in-house training programs, including on-the-job training and job rotation. With the current slow down in the economy due to domestic and international factors and recently introduced changes in the NRB directives; the bank has taken the following strategies to achieve the targets:

- To have the largest deposit base among the private sector banks.
- Follow the Standard banking practices and Dominate cards acquiring market.
- Expand delivery channels to stimulate additional fee revenue.
- Increase consumer bank contribution-ATM, consumer loans mortgages, and personal loans etc.
- To become bigger, more profitable and complete with biggest competitors.
- To provide best customer services.

Equity Capital of SCBNL

Authorized capital	Rs 1,000,000,000
Issued Capital	Rs 93,19,66400
Paid Up Capital	Rs 93,19,66400

B. Himalayan Bank Limited

Himalayan Bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation concerned from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the bank also offers industrial and merchant banking services.

Himalayan Bank has always been committed to providing a quality service to its valued customers with a personal touch. All customers are treated with utmost courtesy as valued clients. The bank wherever possible offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for further adaptation to new technology. The bank already offers unique services such as SMS banking and Internet banking to customers and will be introducing more services like these in the near future.

Equity Capital of HBL

Authorized capital	Rs 2,000,000,000
Issued Capital	Rs 1,21,6215000
Paid Up Capital	Rs 1,21,6215000

1.3 Statement of the Problems

Working capital is a crucial capital, which is compared as lifeblood of the human beings for any organization. In most enterprises the management of working capital has been misunderstood as the management of money rather that it’s efficient utilization. The management of working capital is synonymous to the management to

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

Joint venture banks like Standard Chartered Bank Nepal Limited and Himalayan Bank limited are playing an important role in the economic development of the country. Wrong decision on working capital management of these two commercial banks not only affects the liquidity and profitability of the bank but also economic condition of the country.

Working capital management on bank is also difficult as that of manufacturing and non manufacturing business organization. Commercial banks are great monetary institutions which are playing important role to the general welfare of the economy. The responsibilities of commercial banks are more than any other financial institutions. They must be ready to pay on demand a good share of their liabilities without warning or notice. Bank collects funds form different types of deposits for providing loan and advances to different sector. To get higher return, banks must try to increase funds from deposits as well as their investment. The first motive of banking business is to borrow public saving and lend to needy people. But commercial banks always face the problem for utilizing more deposits as investment fully and productively. The gap between collection of deposits and disbursement of loans increase the cash balance on bank which require paying its large amount of

liabilities on its depositors' demand without notice. But large amount of idle cash balance also decrease profitability of banks.

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

- What are the relationship between different types of current assets and current liabilities of the SCBNL and HBL?
- What are the major components of current assets of the SCBNL and HBL?
- Are SCBNL and HBL following appropriate working capital policy?
- How to build the image of Bank through working capital management?
- Is the composition of working capital of SCBNL and HBL appropriate?
- What lending pattern of loan and advances and other investment will be profitable?
- What components of working capital that affect the operating income of SCBNL and HBL?
- What are the sources of financing of current assets of the SCBNL and HBL?

1.4 Objectives of the Study

The main objective of this study is to examine the management of working capital of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. The specific objectives of this study are as follows:

I. To analyze the composition of working capital, current assets utilization and profitability of SCBNL and HBL.
II. To study the position of current assets and current liabilities of SCBNL and HBL
III. To analyze the relationship and correlation between current liabilities, cash and bank balance, deposit and profitability.

IV. To make suggestion and recommendation for working capital management for selected banks and overall banking sector.

1.5 Significance of the study:

Nepalese commercial banks are operating in the competitive environment. In this situation, banks have to adopt suitable strategies for their existence. They should balance and co-ordinate the different functional areas of business concern. The success or failure of any organization depends on its strategy, which is affected by working capital management. Working capital management is the crux of problem to prepare proper strategy on its favors.

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

- Its significance to the shareholders: the study might be helpful to aware the shareholders regarding the working capital management, i.e., liquidity and profitability of their banks. The comparison will help them to identify the productivity of their funds in each of these two banks.
- Its significance to the management: the study might be helpful to go deep into the matters as to why the working capital management of their banks are better (or worse) than their competitors".
- Its significance to the outsiders: among outsiders, mainly the customers, financing agencies, stock exchanges and stock traders are interested in the performance of banks and the customers (both depositors and debtors) can identify to which bank they should go. The financial agencies can understand where there is more secured whereas the stock exchange, stock brokers and stock traders can find out the relative worth of the stocks of each bank.

- Its significance to the policy makers: policy makers here refer to the government and Nepal Rastra Bank. The study will be helpful to them while formulating the policy regarding commercial banks.

Therefore, considering all these facts, the study of working capital management of SCBNL and HBL is considerably important.

1.6 Limitations of the Study

The scope of the present study has been limited in terms of period of study as well as sources and nature of data. The study covers five years data only. The limitations of this study are as follows:

- The study is mainly based on secondary data. It is done mostly on the basis of the published annual report, financial documents, like balance sheet, profit and loss account and other related journals, magazines and books etc.
- The study follows with specific tools such as ratio analysis, mean, CV, correlation and trend analysis.
- The lack of sufficient time and resources is another limitation of the study. The study is fully based on the student's financial resources and is to be completed within limited time. The report has taken only five years data for study.
- The study is limited from the point of view of submission on partial fulfillment of the requirement for the master degree in business study.

1.7 Organization of the study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. This study has been divided into five chapters. They are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, objectives of the study and need or significance of the study limitation of the study.

Chapter-II: Review of literature

The second chapter deals with the review of literatures relating to the working capital management. It includes two parts. The first part deals with the conceptual framework of the study while the second part is related with review of studies.

Chapter-III: Research Methodology

The third chapter deals with research design, nature and sources of data, population and sample, data gathering procedure and analysis of data.

Chapter-IV: Presentation and Analysis of data

The fourth chapter deals with the presentation and analysis of relevant data and information using various statistical and financial tools presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

The last chapter is concerned with summary, conclusions and recommendations of the study.

CHAPTER - II
REVIEW OF LITERATURE

This chapter deals with the review of literature concerned with Working Capital Management. The chapter has been divided into two parts. The first part of the

chapter deals with the conceptual framework of the study and the second part are related with review of previous studies. i.e. books, articles, dissertations etc.

2.1 Conceptual Review

2.1.1 Nepalese Financial System and Financial Service

Nepal Bank Limited (NBL) established in 1937 is the first commercial bank in Nepal. Following the establishment of Nepal Rastra Bank (NRB), the central bank of the country in 1956, is a major step towards the evolution and generalization of Nepalese financial system. The institutional network and volume of operations of the financial system has been expanded and diversified with a number of commercial banks which were five in 1990 and are 26 at the present. Similarly a number of other financial institutions came into operation rapidly.

The banking system comprises one central bank and 26 commercial banks the non-bank financial institutions comprise development banks, rural development banks, finance companies ,financial cooperatives, non-governmental financial organizations, contractual saving institutions like Employees Provident Fund, Citizen Investment Trust and Insurance Companies, postal saving offices and Nepal Stock Exchange. In addition, there are other quasi-financial institutions such as the Deposit Insurance and Credit Guarantee Corporation, Rural Housing Finance Company etc.

After the openness and liberalization in the financial system, the establishment of banks and financial institutions tremendously increased. The establishment process, in fact took an aggressive move. This type of development can be observed also in insurance services. The institutional network and volume of operations of insurance companies has expanded and diversified enough with the number of companies going up from four in 1990 to 20 at present.

Service sector is a major contributor on Gross Domestic Product (more than 50 percent in and average) and financial service is a major component of this sector. Financial services sector consists basically banking service and insurance service. Such services in Nepal are very important because they provide many opportunities for efficient allocation of resources, utilization, promotion of economic activities, and fair competition and increase in the foreign direct investment. Liberalization of trade in financial services has many positive advantages like economic growth, introduction of advanced financial practices and market efficiency *(Nepal Rastra Bank Samachar; 2061:74).*

The concept of financial institutions in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL), was established in Kartik 30, 1994 B.S as a semi-government organization. In Baisakh 14, 2013 B.S., the first central bank named as Nepal Rastra Bank was established with an objective of supervising, protecting and directing the functions of commercial banking activities. Consequently, another commercial bank fully owned by government, named as Rastriya Banijya Bank was established in 2022 B.S under the Banijya Bank act 2021 B.S. In the fiscal year 2039/40, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. Its objective was to create healthy competitive banking system and to provide cheap banking facilities to the people. The establishment of joint venture banks gave a new horizon to the financial sector of the country. Nepal Arab Bank Limited (NABIL) is the first joint venture commercial bank incorporated in 2041 B.S. In 2043 B.S, the second JVBS, Nepal Indosuez Bank Ltd (Currently Nepal Investment Bank Limited) was established. In the same year, Nepal Grindlays Bank Ltd. (Currently Standard Chartered Bank Nepal Limited) in the form of JVB was also established. But more JVBS came into existence after the initiation of government's policy of economic liberalization and privatization in 2049 B.S. They are Himalayan Bank Ltd. (2049), Nepal SBI Bank Ltd. (2050), Nepal Bangladesh Bank Ltd. (2051), Everest Bank Ltd.

(2051) and Bank of Kathmandu (2052) came into existence in chronological order. Under favorable environment, various other banks were established thereafter. In the current scenario, there are 26 commercial banks, 58 development banks and 5 rural development banks in Nepal.

In a global prospective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups and services for sharing comparative advantages. A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a special operation (industrial or commercial investment, production or trade). These JVBS came into existence to accelerate the pace of economic development and financial system of the nation.

Proper financial decision making is extremely important in banking transaction for its efficiency and profitability. Most of the financial decisions of a bank are concerned with current assets and current liabilities. The working capital management of a bank is different from other types of business enterprises. A bank plays a significant role to fulfill the requirement of working capital of other type of business enterprise. It also needs to efficiently manage its own working capital. Investment in working capital of other business enterprises is a part of current assets of bank's working capital and we can consider deposits and short term borrowings as a part of current liabilities.

2.1.2 Concept of Working Capital Management

Financial management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities, or in other words, long term investment and sources of funds, and secondly, current uses and sources of funds. Both of these types of funds play a vital role in business finance.

Working capital refers to the resources of the firm that are used to conduct operations to do day to day work that makes the business successful. Without cash, bills cannot be paid, without receivables; the firm cannot allow timing difference between delivering goods or services and collecting the money to pay for them. Without inventories the firm cannot engage in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets, the management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of the firm those items that can be converted into cash within the year. Hence, working capital management is the management for the short term. It is a process of short term decision making regarding the current assets and current liabilities affecting the long term operation of an enterprise. It is a process of planning and controlling the level of mix of current assets of the firm as well as financing these assets. It concludes decision regarding cash and marketable securities, receivables, inventories and current liabilities with an objective of maximizing the overall value of a firm. There are two concepts of working capital *(Pandey; 1992:807-808).*

A. Gross Working Capital: It is simply called as working capital and refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash, marketable securities, inventory, accounts receivable and debtors.

B. Net Working Capital: This is of critical importance to a firm. Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors (account payable) bills payable and outstanding expenses

Another way of defining working capital is that portion of firm's current assets financed with long term fund. Both liquid assets and liabilities are important in working capital management.

Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets.

2.1.3 Types of working capital

There are two types of working capital: Permanent working capital and variable working capital. These working capitals are necessary for any organization for continuous production and sales without any interruption.

i. Permanent (Fixed) Working Capital

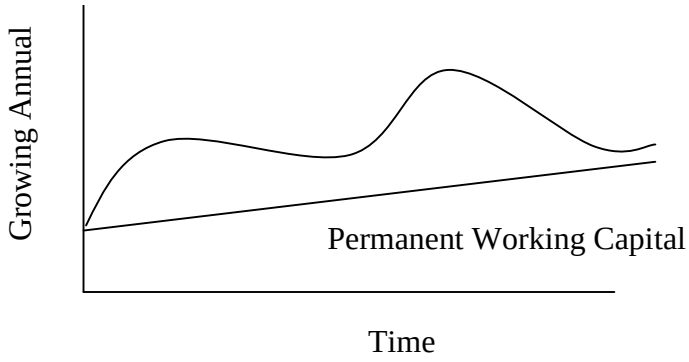
Permanent working capital refers to that level of current assets, which is required on continuous basis over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital. Therefore, a manufacturing concern holds certain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

ii. Variable Working Capital

Variable working capital represents that portion of working capital which is required over permanent working capital. If the nature of production and sales of a firm is directly related to seasonal variations, it should stock extra raw materials, work in progress and inventory of finished goods. Therefore, this portion of working capital depends upon the nature of firm's production relation between labor and management.

Figure 2.1 6

VARIABLE WORKING CAPITAL



Sources: I. M. Pandey (1992:808)

The above figure shows clearly about this portion of working capital. If a firm has sound management on this portion of working capital, it can easily win over other competitors in today's competitive and aggressive market.

2.1.4 Working Capital Cycle

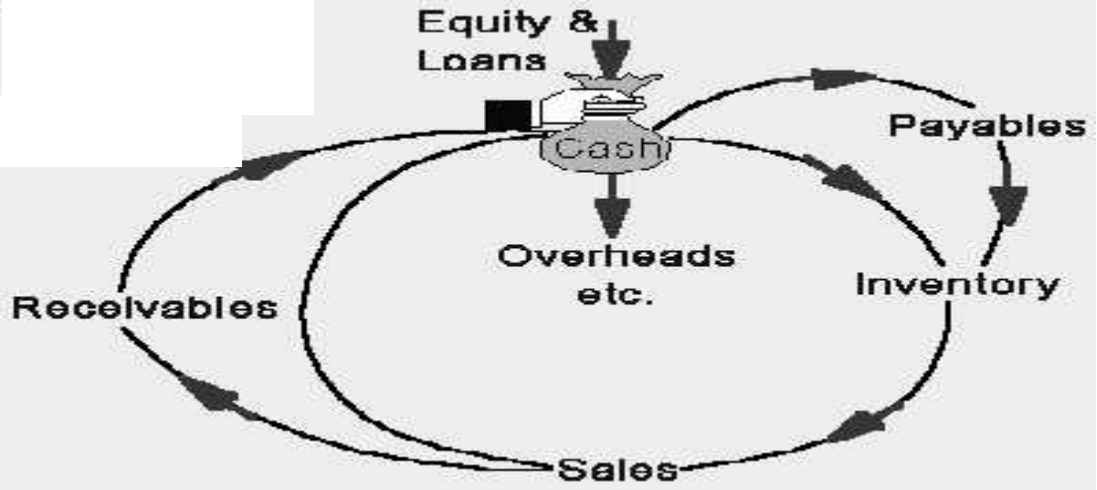
Cash flows in a cycle into, around and out of a business. It is the business's life blood and every manager's primary task is to help keep it flowing and to use the cash flow to generate profits. If a business is operating profitably, then it should, in theory, generate cash surpluses. If it doesn't generate surpluses, the business will eventually run out of cash and expire.

The faster a business expands the more cash it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within business. Good management of working capital will generate cash will help improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits.

There are two elements in the business cycle that absorb cash - Inventory (stocks and work-in-progress) and Receivables (debtors owing you money). The main sources of cash are Payables (your creditors) and Equity and Loans.

Figure 2.2

WORKING CAPITAL CYCLE



Each component of working capital (namely inventory, receivables and payables) has two dimensions TIME and MONEY. When it comes to managing working capital - TIME IS MONEY. If you can get money to move faster around the cycle (e.g. collect monies due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales), the business will generate more cash or it will need to borrow less money to fund working capital. As a consequence, you could reduce the cost of bank interest or you'll have additional free money available to support additional sales growth or investment. Similarly, if you can negotiate improved terms with suppliers e.g. get longer credit or an increased credit limit; you effectively create free finance to help fund future sales *(www.planware.org)*.

If we.....	Then.....
Collect receivables (debtors) faster	We release cash from the cycle

Collect receivables (debtors) slower	Our receivables soak up cash
Get better credit (in terms of duration or amount) from suppliers	We increase your cash resources
Shift inventory (stocks) faster	We free up cash
Move inventory (stocks) slower	We consume more cash

It can be tempting to pay cash, if available, for fixed assets e.g. computers, plant, vehicles etc. If we do pay cash, remember that this is now longer available for working capital. Therefore, if cash is tight, consider other ways of financing capital investment - loans, equity, leasing etc. Similarly, if we pay dividends or increase drawings, these are cash outflows and, like water flowing down a plug hole, they remove liquidity from the business *(http//www.planware.org).*

2.1.5 Key Working Capital Ratios

The following, easily calculated, ratios are important measures of working capital utilization.

Ratio	Formulae	Result	Interpretation
Stock Turnover (in days)	Average Stock * 365/ Cost of Goods Sold	= x days	On average, we turn over the value of our entire stock every x days. We may need to break this down into product groups for effective stock management. Obsolete stock, slow moving lines will extend overall stock turnover days. Faster production, fewer product lines, just in time ordering will reduce average days.

Receivables Ratio (in days)	Debtors * 365/ Sales	= x days	It takes us on average x days to collect monies due to us. If our official credit terms are 45 day and it takes us 65 days... why? One or more large or slow debts can drag out the average days. Effective debtor management will minimize the days.
Payables Ratio (in days)	Creditors * 365/ Cost of Sales (or Purchases)	= x days	On average, we pay our suppliers every x days. If we negotiate better credit terms this will increase. If we pay earlier, say, to get a discount this will decline. If we simply defer paying our suppliers (without agreement) this will also increase - but our reputation, the quality of service and any flexibility provided by our suppliers may suffer.
Current Ratio	Total Current Assets/ Total Current Liabilities	= x times	Current Assets are assets that we can readily turn in to cash or will do so within 12 months in the course of business. Current Liabilities are amount we are due to pay within the coming 12 months. For example, 1.5 times means that we should be able to lay our hands on $1.50 for every $1.00 we owe. Less than 1 time e.g. 0.75 means that we could have liquidity problems and be under pressure to generate sufficient cash to meet oncoming demands.
Quick Ratio	(Total Current Assets - Inventory)/ Total Current Liabilities	= x times	Similar to the Current Ratio but takes account of the fact that it may take time to convert inventory into cash.

Working Capital Ratio	(Inventory + Receivables - Payables)/ Sales	As% Sales	A high percentage means that working capital needs are high relative to our sales.
Source: (www.planware.org)			

Other working capital measures include the following:

- Bad debts expressed as a percentage of sales.
- Cost of bank loans, lines of credit, invoice discounting etc.
- Debtor concentration - degree of dependency on a limited number of customers.

Once ratios have been established for our business, it is important to track them over time and to compare them with ratios for other comparable businesses or industry sectors *(http//www.planware.org).*

Sources of Additional Working Capital

Sources of additional working capital include the following:

- Existing cash reserves
- Profits (when we secure it as cash!)
- Payables (credit from suppliers)
- New equity or loans from shareholders
- Bank overdrafts or lines of credit
- Long-term loans

If we have insufficient working capital and try to increase sales, we can easily over-stretch the financial resources of the business. This is called overtrading. Early warning signs include:

- Pressure on existing cash

- Exceptional cash generating activities e.g. offering high discounts for early cash payment
- Bank overdraft exceeds authorized limit
- Seeking greater overdrafts or lines of credit
- Part-paying suppliers or other creditors
- Paying bills in cash to secure additional supplies

Frequent short-term emergency requests to the bank (to help pay wages, pending receipt of a cheque) *(www.planware.org).*

2.1.6 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. So first of all, in working capital management, a 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 is financing current assets. Any firm has working capital policies regarding to the level of each category of current assets and their financing are discussed in the ensuing part of this section.

1. Current Assets Investment Policy

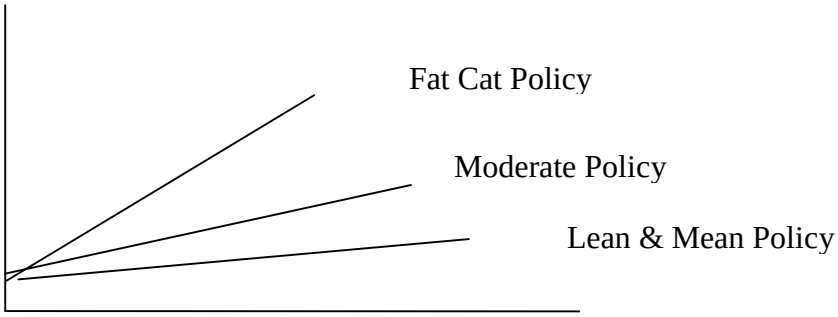
Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policies, namely, Fat Cat, Lean and Mean and Moderate.

i. Fat Cat Policy

This is also known as relaxed current assets investment policy. It is the policy under which relatively large amounts of cash and marketable securities and inventories are

carried, and sales are stimulated by a liberal credit policy which results in a high level of receivables. This also creates the longer receivable collection period. Thus this policy provides the lowest expected return in investment with lower risk *(Weston & Brigham;1996: 344)*

Figure 2.3:
Alternative Current Assets Policies



Sources: Weston & Brigham; 1996: 344

ii. Lean and Mean Policy

This is also known as restricted current assets investment policy. This is the policy under which holdings of cash and marketable securities, inventories and receivables are minimized *(Weston & Brigham; 1996:344)*. This policy tends to reduce the policy conversion and receivable conversion cycle. Under this policy firm follows a tight credit policy and bears the risk of losing sales.

iii. Moderate Policy

It is the policy that is between the relaxed and restrictive policies. In Moderate policy, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and returns are moderate in this policy.

2. Current Assets Financing Policy

It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and

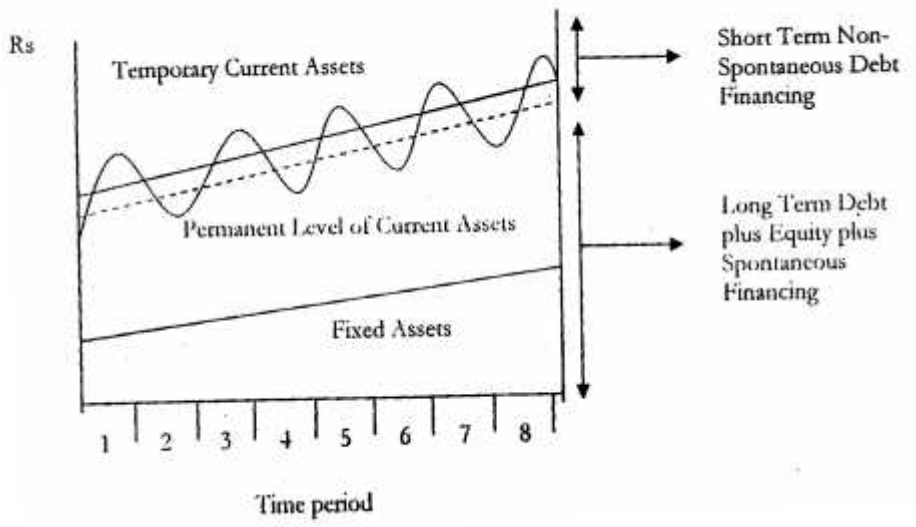
risk affect the financing of any assets. Thus, current assets financing policy should clearly outline the sources of financing of currents. There are three variants, namely, aggressive, conservative and matching policies of current assets financing.

i. Aggressive Policy

In aggressive Policy, all the fixed assets of a firm are financed with long-term capital, but some of the firm's permanent current assets are financed with short-term, non spontaneous sources of fund. *(Weston & Brigham; 1996:348.)* In other words, the firm finances not only temporary current assets but also a part of permanent current assets with short- term financing. Figure 2.4 shows that 50% of the permanent current assets are financed through short term financing. In general, interest rate increases with time, i.e., the shorter the time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal circumstances, the firm borrows on a short term financing rather than that from 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 future interest expenses will fluctuate widely, and it may also be difficult for the firm to raise the funds during the stringent credit policy. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

Figure 2.4

AGGRESSIVE FINANCING POLICY



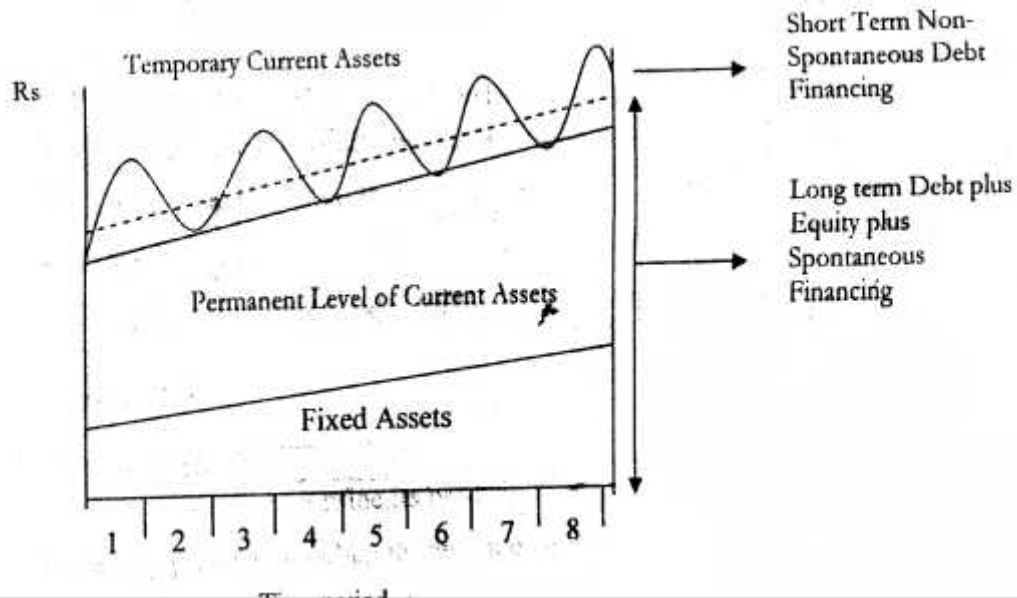
Source: *Weston & Brigham; 1996:347*

ii. Conservative Policy

In conservative policy, the firm uses long term financing to finance not only fixed assets and permanent current assets, but also part of temporary current assets i.e., with short term financing *(Weston & Brigham; 1996:348)*. It means that the firm depends upon the long term sources for financing needs. This policy leads to high level of current assets, with long conversion cycle, low level of current liabilities higher interest cost.

Figure: 2.5

CONSERVATIVE FINANCING POLICY



Sources: Weston & Brigham; 1996:348

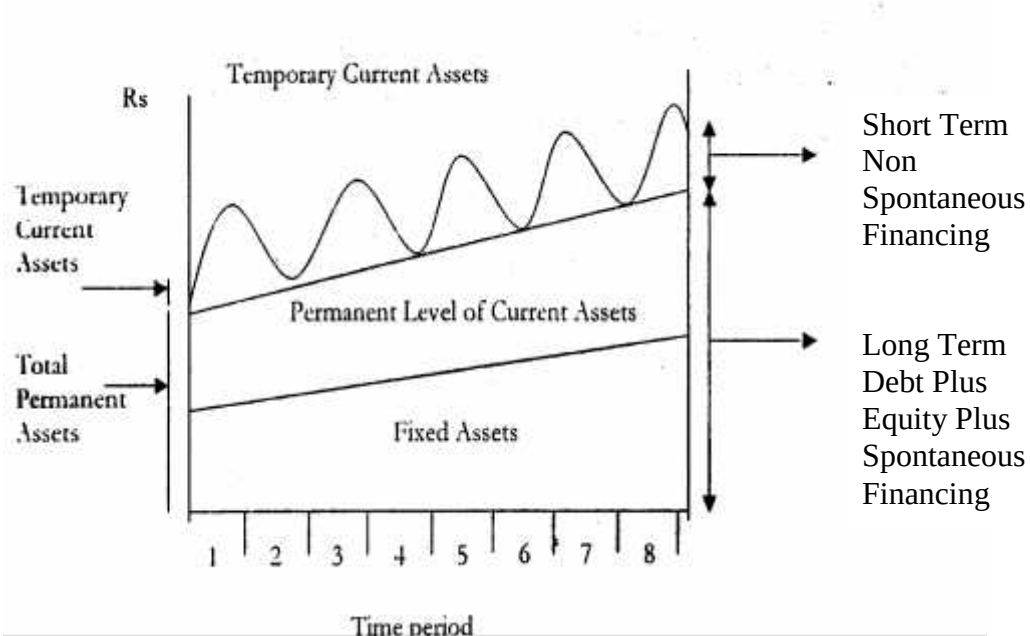
The risk and return are lower than that of aggressive one. The risk adverse management follows this policy.

iii. Maturity Matching Policy:

It is self-liquidity approach. In this policy, the firm finances the permanent current assets with long term financing and temporary with short term financing. It means that the firm matches the maturity of financing source with an assets useful life. It lies in between the aggressive and conservative policies. It leads to neither high nor low level of current assets and current liabilities. It lies in between a low profitability. Figure. 2.6 shows the temporary working capital is financed by short term financing and long term financing. Thus, no working capital is financed by long term funds. Hence, net working capital is zero under this policy.

Figure 2.6

MATURITY MATCHING FINANCING POLICY



Sources: Weston & Brigham; 1996:347

2.1.7 Determinants of Working Capital

All the firms, whether public or private, manufacturing or non-manufacturing, must have adequate working capital to survive in competitive market. It should have neither too excess nor too inadequate working capital. But, there are no sets of rules or formulae to determine the working capital requirement of the firm. It is because of a large number of factors that influence the working capital requirement of the firm. A number of factors affect different firm in different ways. Internal policies and changes in environment also affect the working capital. Generally, the following factors affect the working capital requirement of the firm *(Pandey; 1999:816).*

1. Nature and Size of Business

It depends upon the nature and size of the business. If the size of the firm is bigger, then it requires more working capital. While a small firm needs less working capital. Trading and financial firm require larger amount of working capital relatively to public utilities, while manufacturing concern lies between these two extremes.

2. Growth and Expansion

This also affects the working capital requirement of a firm. A growing firm needs more working capital than those static ones. However, it is difficult to precisely

determine the relationship between the growth and expansion of the firm and working capital needs.

3. Credit Policy

Working capital requirement depends on terms of sales. Different terms 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 firm follows the stringent credit policy, it requires less working capital.

4. Production Policy

If a firm produces seasonal goods, then it sells its products in a certain month of the year. In this situation, it can either confine its production only that period when goods are sold or follow a steady production policy through the year and produce goods at level to meet the peak demand. The former policy does not need more working capital than the latter does.

5. Availability of Credit

Availability of credit facility is another factor that affects the working capital requirement. If the creditors avail a liberal credit terms then the firm will need less working capital and vice-versa. In other words, if the firm can get credit facility easily on favorable conditions, it requires less working capital to run the firm smoothly otherwise more working capital is required to operate the firm smoothly.

6. Manufacturing Cycle

Working capital requirement of an enterprise 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, the larger will be working capital requirement and vice-versa.

7. Profit Margin

The level of profit margin differs from 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, has a sound marketing management and has enjoyed monopoly power in the market then it earns quite high profit and vice-versa. Profit is sources of working capital pool by generating more internal funds.

8. Price Level Change

Generally, a firm is required to maintain the higher amount of working capital if the price level rises, 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 vary from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

9. Operating Efficiency

It is also the important factor, which influence the working capital requirement of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus, financing manager can contribute to strong working capital position through operating efficiency. If a firm has strong operating efficiency then it needs less amount of working capital otherwise it requires large amount of working capital *(Pandey; 1999:817-819).*

10. 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 regulations. 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 for tax amount is one of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capital and vice versa.

2.1.8 Need for Working Capital

Working capital is the effective lifeblood and controlling nerve center of every business organization because without the proper control upon it, no business organization can run smoothly. Thus, it plays a crucial role in the success and failure of the organization. The need for working capital to run the day to day business activities cannot be overemphasized. We will hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. We know that firms aim at maximizing the wealth of shareholders. In its endeavor to do so, a firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales 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 *(Pandey; 1999:809).*

i. Transaction motive

Transaction motive require a firm to hold cash and inventories to facilities smooth production and sales operations in regular. Thus, the firm needs working capital to meet the transaction motive.

ii. Precautionary motive

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

iii. Speculative motive

It refers to the desire of a firm to take advantages of the opportunities like opportunities of profit making investment, an opportunity of purchasing raw material at a reduced price on payment of immediate cash, to speculate on interest rate, and to make purchase at favorable price etc. Thus, the firm needs the working capital to meet the speculative motive *(Van Horne & Wachowicz; 1999:220).*

2.1.9 Financing of Working Capital

Every manufacturing concern or industry requires additional assets whether they are in stable or growing conditions. When the growing firm wants to generate sustained normally require fixed capital as well as working capital. Additional portion of working capital is approximately dominated by the same rate as sales. But this portion of capital requirement depends upon the nature of the firm. So the most important function of finance 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 area available to the financial manager. He can present generally three kinds of financing.

1. Long Term Financing

Long term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earning and long term debts from financial institution are the major sources of long term financing. Even it includes retained earnings and long term loan from Nepal Industrial Development Corporation and long term other commercial banks.

2. 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.

i. Trade Credit

It refers to the credit that a customer gets from supplies of goods in the normal course of business. The buying firms does not have to pay cash immediately for the purchase is called trade credit. It is mostly an informal arrangement and granted on an open account basis. Another form of trade credit is bills payable. It depends upon the term of trade credit.

ii. 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 estimated by the borrowers and banks are approached with the necessary supporting data. Bank determines the maximum credit based on the margin requirements of the security. The following types of loan are provided by commercial banks.

a. Loan Arrangement

Under this arrangement the entire amount of loan is given credit by the bank to the borrowers account, and the loan is repaid in installments, interest is payables on actual balance outstanding.

b. Overdraft Arrangement

Under this arrangement the borrowers is allowed to overdraw on his current account with the bank up to stipulate limit. Within this limit, any numbers of drawings are permitted. Repayment should be made in short period.

c. Commercial Papers

It is used only by well-established high quality companies. The evidence of debts is an unsecured short term promissory note sold in the money market. It is sold either through dealers or directly to inventories. Besides the above form of credit, bank provide loan against the warehouse receipt, inventory receivable. In our context, most popular sources of short term financing are short term loan from public deposit, which is also a major source of working capital financing in our country.

3. Spontaneous Financing

Spontaneous financing arises from the normal operation of the firms. The two major sources of such financing are trade credit (i.e., credit and bills payable) and accruals. Whether trade credit is free of 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 sources as much as possible. In practical aspect, the real choice of current assets financing is either short term or long term sources. Thus, the financial manger concentrates his power in short term versus long term financing. Hence, the financing of working capital depends upon the working capital policy, which is perfectly dominated by the management attitude towards the risk return *(Pandey; 1999: 827).*

2.1.10 Significance of Working Capital Management

The management of working capital is important for several reasons. For one thing, the current assets of a typical manufacturing firm account for over half of its total assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm realizing a substandard return on investment. However, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations.

For small companies, current liabilities are the principal source of external financing. These firms do not have access to the longer term capital markets, other than to acquire a mortgage on a building. The fast-growing but larger company also makes use of current liability financing. For these reasons, the financial manager and staff devote a considerable portion of their time to working capital matters. The management of cash, marketable securities, accounts receivable, accounts payable, accruals, and other means of short term financing is the direct responsibility of the financial manager; only the management of inventories is not. Moreover, these management responsibilities require continuous, day-to-day supervision. Unlike dividend and capital structure decisions, we cannot study the issue, reach a decision, and set the matter aside for many months to come. Thus, working capital management is important, if for no other reason than the proportion of the financial manager's time that must be devoted to it. More fundamental, however, is the effect that working capital decisions have on the company's risk, return, and share price *(Van Horne & Wachowicz; 1999:204)*.

Profitability and Risk

Underlying sound working capital management lie two fundamental decision issues for the firm. They are the determination of ;

- The optimal level of investment in current assets

- The appropriate mix of short-term and long-term financing used to support this investment in current assets

In turn, these decisions are influenced by the trade-off that must be made between profitability and risk. Lowering the level of investment in current assets, while still being able to support sales, would lead to an increase in the firm's return on total assets. To the extent that the explicit costs of short-term financing are less than those of intermediate and long-term financing, the greater the proportion of short-term debt to total debt, the higher is the profitability of the firm. Although short-term interest rates sometimes exceed long-term rates, generally they are less. Even when short-term rates are higher, the situation is likely to be only temporary. Over an extended period of time, we would expect to pay more in interest cost with long-term debt than we would with short-term borrowings, which are continually rolled over (refinanced) at maturity. Moreover, the use of short-term debt as opposed to longer term debt is likely to result in higher profits because debt will be paid off during periods when it is not needed.

These profitability assumptions suggest maintaining a low level of current assets and high proportion of current liabilities to total liabilities. This strategy will result in a low, or conceivably negative, level of net working capital. Offsetting the profitability of this strategy, however, is the increased risk to the firm. Here, risk means jeopardy to the firm for not maintaining sufficient current assets to:

- Meet its cash obligations as they occur
- Support the proper level of sales (e.g., running out of inventory) *(Van Horne & Wachowicz; 1999:204-205).*

2.2 Review of Major Empirical Studies

There are various studies concerned with Working Capital Management have been documented in internal arena. The books written by different author entitled to review as under:

Van Horne has categorized the various components of working capital, i.e., liquidity, receivable and inventory and current liabilities and grouping them according to the way they affect valuation. He has also described the different methods for efficient management of cash and marketable securities and various models for balancing cash and marketable securities. For the management of receivable, different credit and collection policies have been described and various principles of inventory have been examined for inventory management and control. He has written different types of books, articles and other facts relating to financial terminology. He is dealing about working capital management in broad version. He has explained all short-term assets. Working capital management usually described as involving the administration of these assets namely cash, marketable securities, receivables, inventories and the administration of current liabilities *(Van Horne; 1994: 421).*

The distinguished Indian professor I.M Pandey has described some conceptual ingredients, which are based on his various research studies. He has described various aspects of working capital management. He has divided working capital management into five chapters. The first chapter deals with the concept of working capital, need for working capital, determinants of working capital, issues in working capital management, estimating working capital needs, and financing current assets. In the second chapter, he has described the management of receivable, in which he has dealt with goals of credit management, optimum credit policy, aspects of credit policy, and credit producers for individual accounts. In the third chapter on inventory management, he has described the need to hold inventories, objectives of inventory management, inventory management techniques, selective inventory control technique and financial manager's role in inventory management. In the fourth

chapter, he has described the management of cash and marketable securities, where he has dealt with facets of cash management, motives for holding cash, cash planning, managing the cash flows, determining the optimum cash balance, investment in marketable securities. Lastly, in the fifth chapter, he has described the financing of working capital with various methods such as trade credit, bank finance and commercial paper *(Pandey; 1999:805-956).*

L.D. Mahat has published article relating to spontaneous resources working capital management. He 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. whereas spontaneous sources of working capital include trade credit, provision and accrued expenses.

Mahat has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such an environment should be efficient enough to cope with the possible worst happenings in future 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 bear 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 better to working capital in order to improve its performance.

Consequently, in a changed economic scenario, every company should realize that inability to manage working capital might land them in a vicious circle that can be hard to get out from. It is indeed essential for industries to tighten their belts and checks their financial stability to face and stand in forthcoming competitive day *(Mahat, 2004).*

2.3 Review of Major Nepalese Literature

The book entitled, "Working capital management in Public enterprises", published by Prof. Manohar Krishna Shrestha. He has studied working capital management of ten selected public enterprises. Specially, he has focused on the liquidity turnover and profitability position of those enterprises. In this analysis, he found that four public enterprises have maintained adequate liquidity position, two public enterprises have excessive and remaining others public enterprises had failed to maintain desirable liquidity position. On the turn over side, two public enterprises had negative working capital turnover, four had adequate turnover, and one had higher turnover on net working capital. He had also found that out of ten public enterprises six were operating in loss while only four were setting some percentage of profit. With the reference of his findings, he has brought certain policy issues. This is as lack of suitable financial planning, negligence of working capital management, deviation between liquidity and turnover of assets inability to show the positive relationship between turnover and return on net working capital. At the end, he has made some suggestive measures to overcome from the above policy issues. These are identification of management information system, positive attitude towards risk and profit and determination of right combinations of short term and long term sources of funds to finance working capital needs *(Shrestha; 1982).*

R.S. Pradhan has published another article relating to working capital management. He studied on "the demand for working capital by Nepalese Corporation". He

analyzed the selected nine manufacturing public corporation with the 12 years data from 1973-1984. Regression equation has been adopted for the analysis. His study has summarized that the earlier studies concerning about the demand for cash and inventories by business firm did not report unanimous findings. A lot of controversies exist respect to the presence of economics of scale, roles of capital cost, capacity utilization rates and the speed with which actual cash and inventories and adjusted to describe cash and inventories respectively. To pooled regression, result shows the presence of economics of scale with respect to the demand for working capital and its various components. The regression result suggests strongly that the demand for working capital and its components is function of both sales and their capital cost. The estimated results show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivables and gross working capital is doubtful *(Pradhan; 1988).*

Surendra Pradhan, in his book Financial Management, has shed light on financing of working capital as: There are two ways of financing working capital requirement i.e. internal and external sources. Internal sources include use of retained earnings, depreciation fund and share capital. External sources include trade credit, advance from customers, short term deposit, cash credit, short term government loan etc.

Generally, a source or a combination of various sources of financing to be used depends on the type of current assets (permanent and variable) to be maintained. The long term sources such as stock issues, debts and bonds are appropriate to use for the permanent type of current assets only if the spontaneous types of short term sources are not enough or not available to cover the required sized of permanent current assets. Types of financing may be distinguished into three groups:

- Long Term Financing:
- Short Term Financing:

- Spontaneous Financing:

A company can follow three approaches on the mix of short term and long term source of financing, namely conservative, aggressive and matching approach. If more short term funds are used in financing current and fixed asset, it can be considered as aggressive approach. Conservative approach refers to more use of long term financing, which is less risky than aggressive approach. Matching approach is to finance variable current assets by short term source and permanent current assets by long term source. In working capital management, an important aspect is matching the type of financing with the type of assets. However, the degree of managerial aggressiveness often guides in choosing a certain combination of short and long term financing for working capital *(Pradhan; 2000:141).*

2.4 Review of Thesis

Shrestha (2001) has carried out his research on "A study on working capital management of Dairy Development Corporation (2001)". The main objective of the study is to analyze the current assets and current liabilities and their impact and relationship to each other. The major findings of his study are as follows:-

- The major components of current assets in DDC are inventory, cash and bank balance, sundry debtors and miscellaneous current assets in which inventory hold the major portion respectively in each year.
- The company's investment in the form of working capital has been increasing. The average investment in current assets is lower with respect to net fixed assets during the study period and DDC has no clear vision about the investment in current assets to fixed assets portion.
- The average receivable turnover and ACP is in fluctuating trend during the study period.
- There is ineffective liquidity position and unsatisfactory profitability ratio in DDC.

- The overall return position of DDC is negative i.e. not in favorable condition. It is because of inefficient utilization of CA, TA and shareholders' wealth.

Khaniya, (2003), in her thesis entitled *"Investment Portfolio Analysis of Joint Venture Banks"* has been done in 2003. The study based on five joint venture banks and they are: NABIL, SCBNL, HBL, NBBL and EBL. The general study of the present study is to identify the current situation of investment portfolio of joint venture banks in Nepal.

The major findings of her study are below:

- SCBNL and HBL have better position. NBBL and NABIL have a low position in the industry. But Everest Bank has a very low position in the industry because of having lowest mean return on shareholders' fund resulting from the negative returns in the fiscal years 1995/96 and 1996/97.
- SCBNL has the highest mean return and EBL has the lowest return. Expect EBL, all other four banks i.e.; NABIL, SCBNL, HBL and NBBL have good performance.
- Among other joint venture banks, SCBNL has the highest return and EBL has mean return than industry average. SCBNL and EBL mobilizes the funds in investment title is higher than the standard ratio.
- NABIL, SCBNL & HBL are investing low amount of deposits on loans and advances which is lower than industry average and NBBL & EBL have invested a high amount of deposits to loans and advances title which is higher than industry average.
- SCBNL has the highest EPS and EBL has the lowest EPS. Similarly, HBL also has above mean EPS than industry average and that of NBBL is lower than industry average.

- Himalayan Bank has the lowest beta coefficient among the five joint venture banks which means that the systematic risk of Himalayan bank is the lowest among the JVBs. The portfolio return of NBBL is 94%. This return is the average capital gain yield and dividend yield.
- The coefficient of correlation between loans and advances in private sector and portfolio return of joint venture banks come out to rxy = -0.6. Therefore, it indicates that there is negative correlation between loans and advances in private sector and portfolio return of five JVBs in Nepal

Lamsal (2004) has conducted research study on “A comparative study of working capital management of NABIL and Standard Chartered Bank Nepal Limited". Based on his findings, the Standard Chartered should seriously adjust its policy of investment on loan and advances with collected funds and increase their proportion of loan and advances in total current assets. Fixed deposits and saving deposits turnover position are also not satisfactory on both banks. Therefore, NABIL as well as SCBNL should give proper attention on collection of over dated loan and advances and utilization of idle fund as well as loan and advances. Interest earned to total assets ratio is higher on NABIL but net profit ratios are less than SCBNL. It is due to higher cost on NABIL. By adopting the matching working capital management policy instead of adopting conservative working capital policy NABIL as well as SCBNL could improve in its profitability in the short run as well as long run.

The major findings of his study were:

- The major components of current assets in NABIL and SCBNL are cash and bank balance, loan and advance and government securities.
- The liquidity position of SCBNL is better than NABIL.
- The turnover position of NABIL has better than SCBNL. The NABIL has better utilization of deposits in income generating activity than SCBNL.

- Long term debt to net worth ratio of NABIL is always higher than SCBNL on that study period.
- Net profit to total assets ratio and net profit to total deposit ratios are always higher on SCBNL than NABIL. Cost of services to total assets ratio of NABIL is always higher than the same of SCBNL on the study period. The average value of interest earned to total assets ratio of NABIL is higher than SCBNL.

Many research studies have been conducted by the different students, experts and researchers about working capital management. There have been found numerous research studies on financial companies and public enterprises regarding working capital. Some studies are related to a case study of a single company and some others are comparative in nature. But the comparative study of working capital management between two financial companies can be hardly found. From the review of related studies no one study have been found (working capital management) as a comparative study in the context of Standard Chartered Bank Nepal Limited (SCBNL) and Himalayan Bank Limited (HBL). The financial and statistical tools used by most of the researchers were ratio analysis, test of hypothesis and regression analysis. This research includes different tools like ratio analysis, correlation analysis and trend analysis as specific tools. Thus the research study made on "A comparative study of working capital management of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited" will be an effort to analyze on detail about working capital management of the two banks as a comparative study in present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people as well.

Shrestha, (2005) in his thesis "Financial performance analysis of Nepal Bangladesh bank ltd" In this study, various financial research and statistical tools have been used

to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The research findings of the study are summarized that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances. The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank. Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank

Gurung (2006) explored in his research *"lending policy and recovery management of Standard Chartered Bank Nepal ltd and Nabil bank ltd"* has found out that the deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of

commercial banks, it is around 60%. Thus this ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at he future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of Nabil, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of Nabil is negative.

Sedai, (2007) in his dissertation "An Analysis on Lending Policy and Strength of Nepal Investment Bank Ltd" highlighted that aggregate performance of NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable. The contribution made by bank in industrial as well as agriculture sector of the economy is highly appreciable and its bust up towards national prosperity. The ratio of loan and advances to total asset, loan and advance to shareholder‘s equity indicate a good performance of NIBL in its lending activities.

The main findings and recommendations are forwarded according to finding and conclusion. It is recommended that extend their credit and branch in rural area, continue to maintain or further increase the performance, decrease the NPL and make proper loss loan provision, required proper market analysis, diversify the investment sector etc. finally however, performance of NIBL seems to be good till the date. There are still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate

on financial strength, pe5rsonal integrity and credibility of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the disbursed loan and advances. To create opportunity of business new and attractive lending scheme would be launched to the customer.

Looking at the asset management ratio the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loss loan provision ratio incate that bank is good enough to judgment in their value customer. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/3 and has continued till 2004/5 and the bank has the potentiality to become a leading bank in Nepal.

Limbu (2008). In his dissertation, "Credit Management of NABIL Bank Limited" according to objective following findings are highlighted

The main findings and conclusions are according to calculated ratio. The study highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition.

. In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good

condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earning per share and The Price earning ratio of NABIL is in increasing trend. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances. Trend analysis tools are done for future forecasting. Trend analysis for total, loan & an advance, Total asset and Net profit is done to see future prospect.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Trend analyses for loan & an advance is done to see future loan & advances. Trend analyses for Total asset is calculate to see future total asset.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better a nd steady in every year. Its all analysis indicates better future of concern bank.

CHAPTER - III
RESEARCH METHODOLOGY

This chapter is concerned with the research methodology employed in the study. Research Methodology describes the methods and process applied in the entire aspect of the study. Thus, this chapter deals with the research design, nature of data, data gathering procedure, population and samples, and analysis of data.

3.1 Research Design

This study aims to portray accurately upon the working capital (or current assets and current liabilities) and its impact on overall financial position of two banks under consideration, namely, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. The research methodology followed for this study is basically descriptive cum analytical research design.

3.2 Population and Sample

There are 26 joint venture commercial banks listed in NEPSE stock exchange up to the end of the fiscal year 2009/10 and all these commercial banks are population of study. Among them SCBNL and HBL have been selected as samples for the study.

3.3 Nature and Sources of Data

The data used in this study are fully secondary in nature. Published annual reports of the concerned banks are taken as basic source of data. The data relating to financial performance are directly obtained from the concerned banks. Similarly, related books, magazines, journals, articles, reports, bulletins, data from Nepal Stock Exchange and Nepal Rastra Bank, Central Bureau of statistics, related website from internet etc. as well as other supplementary data and various economic surveys are also used.

3.4 Analysis of Data

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. For data analysis, different items from the balance sheet and other statements are tabulated. Their ratios, percentages, mean, standard deviations, and coefficients of variations are then calculated and presented in the tables. To study the relationship between two or more variables, correlation coefficients are also calculated. In order to know about the sources and applications of the fund, funds flow statement is prepared. Likewise, trend analysis is also used to know the trend of various ratios. Following are the brief introductions of the financial and statistical tools used in this study.

3.5 Financial Tools

Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statements. It helps the related parties to spot out the financial strength and weakness of the firm. The financial tools used in this study are as follows:

i. Liquidity Ratio

This ratio measures the liquidity position and short term solvency of the firm indicating the company's ability to meet short term obligation. The current ratio and quick ratio measure the liquidity position of the company. Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. One of the main objectives of working capital management is to maintain good liquidity position.

The liquidity ratios calculated in this study are as follows:

a. Current Ratio

Current Ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicates the current short term solvency position of the bank. The current ratios are the ratios of total

current assets to current liabilities. Higher current ratio indicates better liquidity position.

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

b. Quick Ratio

Quick ratio is used to measure the ability of concerned firms to pay current obligation (Short term) without depending on other liquid assets of current ratio. It provides relationship between quick assets with current liabilities. This quick ratio can be found out by dividing the total quick assets by total liabilities.

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

c. Fixed Deposit to Total Deposit Ratio

Fixed deposit is a long term and high interest charge bearing deposit. Although a high cost liability, increasing fixed deposits is subject to an additional advantage if utilized properly. Sufficient fixed deposits enable banks to grant long term loan to their clients at higher interest rate. This ratio is calculated in order to find out the proportion of total deposit that has higher interest charge bearing, which is expressed as follows:

$$\text{Fixed Deposit to Total Deposits Ratio} = \frac{\text{Fixed Deposits}}{\text{Total Deposits}}$$

d. Savings Deposit to Total Deposit Ratio

Saving deposit is an interest bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short term in nature. It calculated by dividing the total amount of savings deposits by the amount of total deposits which can be expressed as follows:

$$\text{Savings Deposit to Total Deposit Ratio} = \frac{\text{Savings Deposits}}{\text{Total Deposits}}$$

ii. Activity or Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio indicates how quickly certain assets are converted into cash.

a. Loans & Advances to Total Deposit Ratio

The ratio assesses to what extent the bankers are able to utilize the depositors' fund to earn profit by providing loans and advances. It is computed by dividing the total amount of loan and advances to total deposit fund.

$$\text{Loans \& Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

b. Loan & Advances to Fixed Deposit Ratio

The ratio measures how much amount is used in loans and advances in comparison to fixed deposits. Fixed deposits are interest bearing long term obligations where as loan and advances are the major sources of investment in generating income for commercial banks. It is calculated as follows:

$$\text{Loans and Advances to Fixed Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

c. Loan & Advances to Savings Deposit Ratio

This ratio is also employed for the purpose of measuring utilization of savings deposits in generating revenue by giving loan and advances to the client. This ratio indicates how much short term interest bearing deposits are utilized for income generating purpose. The formula for this ratio is as follows:

$$\text{Loans and Advances to Savings Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Savings Deposit}}$$

iii. Profitability Ratio

The profitability ratio measures the operating profitability and reflects the overall efficiency and effectiveness of management *(Pradhan; 2000:53).*

The profitability ratios calculated in this study are:

a. Interest Earned to Total Assets Ratio

This ratio is used to determine total interest earned from investments over the total assets of a firm. It can be computed as follows:

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

b. Net Profit to Total Assets Ratio

Profit to total asset ratio is useful in measuring the profitability of all financial resources invested compared to total assets of a firm. This ratio is calculated by dividing the amount of net profit by the amount of total assets employed. Hence,

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

c. Net Profit to Total Deposit Ratio

This ratio measures the percentage of profit earned from the utilization of the total deposits. Deposits are mobilized for investment, loan and advances to the public in generating revenue. Higher ratio indicates the return from investment on loans and lower ratio indicates that the funds are not properly mobilized.

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposits}}$$

3.6 Statistical Tools

The relationship between different variables related to the study topics were also drawn out using statistical tools. The statistical tools employed in this study are:

i. Arithmetic Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. It is calculated by:

$$\bar{X} = \frac{\sum X}{N}$$

$\bar{X}$ = Arithmetic Average,

$\sum X$ = Sum of values of all terms, and,

N = Number of terms

iii. Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter σ (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is represented as:

$$\sigma = \sqrt{\frac{\sum d^2}{n-1}}$$

Where,

σ = Standard deviation,

$\sum d^2$ = Sum of squares of the deviations measured from the arithmetic average, and,

n = Number of items

iv. Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation, the greater the risk relative to the average Mathematically,

$$CV = \frac{\sigma}{\bar{x}},$$

Where,

CV = Coefficient of variation,

σ = Standard deviation, and,

$\bar{x}$ = Arithmetic Average

v. Coefficient of Correlation

Correlation is a statistical tool which is used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between to sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When r, the coefficient o correlation is +1, there is perfect relationship between two variables and vice-versa. When r is 0, there is no relationship between two variables. The formula for the calculation of coefficient of correlation between X and Y is given below:

$$r = \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

CHAPTER - IV
PRESENTATION AND DATA ANALYSIS

This chapter implies the presentation and analysis of data. This chapter deals with the presentation, analysis and major finding of relevant data SCBNL and HBL in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the data analysis and interpretation. With the help of this analysis, efforts have been made to highlight the working capital of bank as well as other cases or problems of SCBNL and HBL. For analysis, different types of analytical methods and tools such as financial analysis and statistical analysis are used.

4.1 Composition of Working Capital

To proper conduction of the business, different kinds of assets are needed. Different types of current assets are required for day-to-day business operation. The main components of current assets at SCBNL and HBL are cash and bank balance, loan and advances and investment on government securities.

Table 4.1 and 4.2 show the amount of cash and bank balance, loan and advances, and government securities of SCBNL and HBL respectively for the study period.

Table 4.1

Current Asset Components of SCBNL

(Rs. in Million)

Fiscal Year	Cash & Bank Balance	Loan & Advances	Government Securities	Total Current Assets
2061/62	1111.12	8,143.21	7,203.07	18,717.09
2062/63	1276.24	8,935.42	8,644.86	20,833.79
2063/64	2021.02	10,502.64	7,108.66	21,393.47
2064/65	2050.24	13,718.6	8,137.61	26,103.99
2065/66	3137.16	13679.76	9998.75	31444
Total	9595.78	54979.63	41092.95	118492.34

Source: Annual Report of Concern Banks

Figure 4.1

Current Assets Components of SCBNL

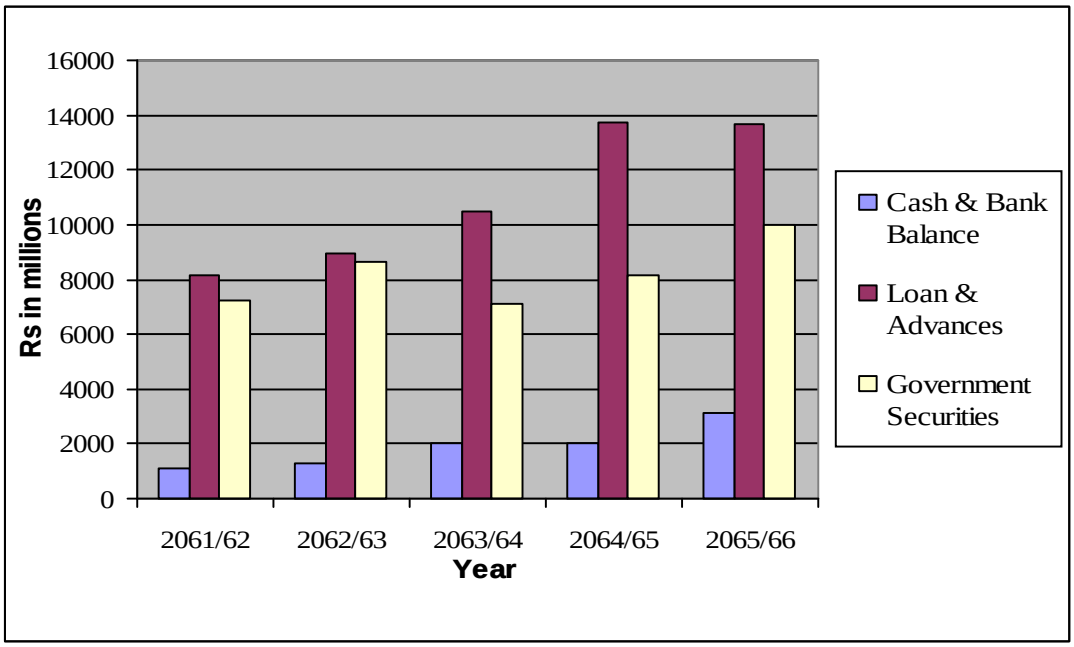


Table 4.2

Current Asset Components of HBL

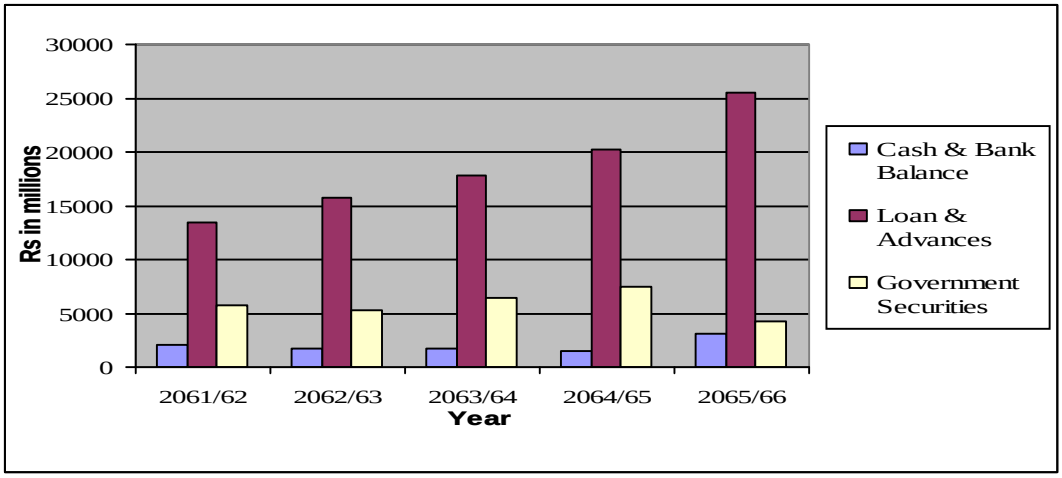
(Rs. in Million)

Fiscal Year	Cash & Bank Balance	Loan & Advances	Government Securities	Total Current Assets
2061/62	2014.47	13451.17	5759.83	20689.04
2062/63	1717.35	15761.98	5339.23	23133.57
2063/64	1757.34	17793.72	6454.86	24812.27
2064/65	1448.14	20179.61	7471.66	29449.34
2065/66	3048.53	25519.52	4212.30	29813
Total	9985.83	92706	29237.88	127897.22

Source: Annual Report of Concern Banks

Figure 4.2

Current Assets Components of HBL



The cash and bank balance of SCBNL is continuously increasing trend over the study period. Every year cash and bank balance increases. Loan and advances of SCBNL increasing beside fiscal year 2065/66. investment in government security is fluctuating trend. The highest amount is Rs 9998.75 million in 2065/66 and lowest amount Rs 7108.66 million in 2064/65. The total current asset of SCBNL is increasing every year over the study period.

The cash and bank balance of HBL is fluctuating trend over the study period. The highest amount is Rs 3048.53 million in 2065/66 and lowest amount is Rs 1448.14 million in 2064/65. Loan and advances of HBL is increasing every year. Investment in government security is fluctuating trend. The lowest amount is Rs 4212.30 million in 2065/66 and higset amount Rs 6454.86 million in 2063/64. The total current asset of HBL is increasing every year over the study period.

From the above tables, total amount of current asset components of HBL is seen higher than that of SCBNL. Cash and bank balance of HBL is little higher than SCBNL over the study period. Similarly loan and advance of HBL is higher than SCBNL over the study period. Investment government security of SCBNL is higher than HBL. it indicate that SCBNL invest more in risk free asset. Total current asset of HBL is higher than SCBNL.

4.1.1 Net Working Capital

Net Working Capital is the difference between current assets and current liabilities. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets. All the organization should have just adequate working capital to serve in competitive market. Excessive or inadequate working capital is dangerous from the firm's point of view. Excessive investment working capital affects a firm's profitability just as idle investment yields nothing. In the same way inadequate or negative working capital may be harmful to the organization. So, net working capital can be more useful for the analysis of trade-off between profitability and risk. It enables a firm to determine how much amount is left for operational requirement.

Table 4.3

Net Working Capital of SCBNL

(Rs. in Million)

Fiscal Year	Current Assets	Current Liabilities	Net Working Capital	% Change in NWC
2061/62	18,717.09	18464.73	252.36	-
2062/63	20624	23873	-3,249.00	-13.87
2063/64	21,393.47	27038.81	-5,645.34	0.74
2064/65	26,103.99	21834.04	4,269.95	-1.76
2065/66	31444	17419	14,025.00	2.28

Source: Annual Report of Concern Banks

Table 4.4

Net Working Capital of HBL

(Rs. in Million)

Fiscal Year	Current Assets	Current Liabilities	Net Working Capital	% Change in NWC
2061/62	20689.04	18472.35	2,216.69	-
2062/63	23133.57	21223.45	1,910.12	-0.14
2063/64	24812.27	21812.27	3,000.00	0.57
2064/65	29449.34	24696.45	4,752.89	0.58
2065/66	29813	27968	1,845.00	-0.61

Source: Annual Report of Concern Banks

Table 4.3 shows that the net working capital of SCBNL is highly fluctuating over the period. The highest amount of net working capital is 14025 million in 2065/66 and lowest net working capital is in 2063/64. it is negative it indicate current liability is more than current asset. It is highest in the last year and negative in 2062/63 and 2063/64. the percentage change is negative in first study year and second year increase by 0.75 percent and again second last year decrease by 1.76 percent. The last year net working capital increases by 2.28 percent. There is fluctuating trend of net working capital of SCBNL during the study period.

In case of HBL, Table 4.4 shows that the net working capital of HBL is fluctuating trend over the period. The highest amount of net working capital is 4752.89 million in 2064/65 and lowest net working capital is Rs 1845 million in 2065/66. It is highest in the second last year and lowest in last year. The percentage change is negative in first study year and second year increase by 0.57 percent. The second last year also increase by 0.58 percent. The last year net working capital of HBL is decreases by 0.61 percent. There is fluctuating trend of net working capital of HBL during the study period.

4.2 Financial Analysis

Financial analysis is a powerful financial tool to measure the financial performance of banks comparatively. As mentioned in research methodology, liquidity, turnover and profitability ratios are calculated. As a mathematical tool, the method of least square is used to analyze performance.

4.2.1 Liquidity Ratios

Liquidity of any business organization is directly related with the working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Bank is different organization which is engaged in mobilization of funds. Therefore, without sound liquidity position, bank is not able to operate its function.

To measure the bank'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 liquidity ratios have been calculated.

4.2.1.1 Current Ratio

This ratio indicates the current short term solvency position of bank. 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 banks ability to meet its current obligations.

The current ratio can be calculated as shown below:

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

The following table shows the current ratio to compare the working capital management of SCBNL and HBL.

Table 4.5

Current Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2061/62	18,717.09	18464.73	1.01	20689.04	18472.35	1.12
2062/63	20624	23873	0.86	23133.57	21223.45	1.09
2063/64	21,393.47	27038.81	0.79	24812.27	21812.27	1.14
2064/65	26,103.99	21834.04	1.20	29449.34	24696.45	1.19
2065/66	31444	17419	1.81	29813	27968	1.07
Mean			1.134			1.122
S.d			0.409			0.047
C.V			0.361			0.0414

Source: Annual Report of Concern Banks

Table 4.5 depicts that the current assets and current liabilities of SCBNL is fluctuating trend. The highest ratio is 1.81 in 2065/66 and lowest ratio is 0.79 in

2063/064. Similarly current ratio of HBL is also fluctuating condition. The highest ratio is 1.19 in 2064/65 and lowest ratio is 1.07 in 2065/66 respectively. The average mean ration of SCB is 1.134 and BL is 1.122. SCBNL has little high ratio than HBL. It indicate SCBNL has better position in current and short term solvency.. The yearly ratios of HBL are always higher than that of SCBNL. Therefore, the average ratio of HBL is higher than the average ratio of SCBNL.

The standard deviation of SCBNL is 0.409 and HBL has 0.047. Hence S.d of SCBNL is higher than HBL. This indicate SCBNL ha highly fluctuating condition of its current ratio. Similarly C.V also SCBNL has higher than HBL. It indicates SCBNL has high variation in current ratio than HBL. The current ratio of SCBNL and HBL are shown in following figure.

Figure 4.3

Current Ratio

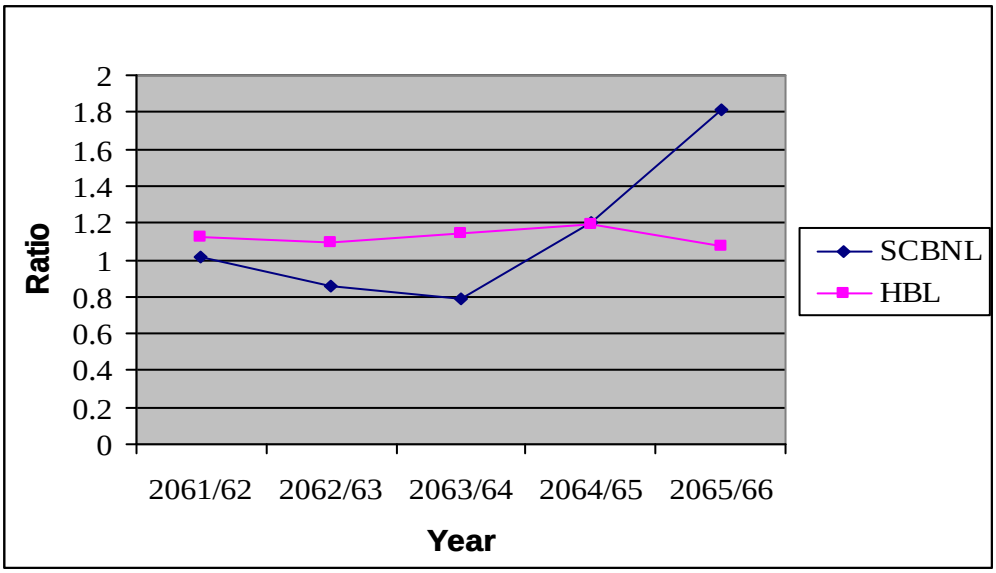


Figure 4.3 depict that the current ratio of SCBNL and HBL. It is clear from the above graph that current ratios of SCBNL more aggressive than HBL.

The above analysis helps to conclude that both banks are unable to maintain the standard current ratio of 2:1. Therefore, they have poor liquidity position according

to norms however they have sufficient current assets to discharge the current liabilities. Comparatively, the liquidity position of SCBNL is little better than that of HBL due to high average ratio. In other words, SCBNL has more ability to meets its current obligations than HBL at last period.

4.2.1.2 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. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. For Quick Ratio, cash and bank balance and government securities are included in quick assets. This ratio can be found out by dividing the total of quick assets by total current liabilities. The formula is given below:

Table 4.6

Quick Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Quick Assets	Current Liabilities	Ratio	Quick Assets	Current Liabilities	Ratio
2061/62	8,314.19	18464.73	0.45	7774.3	18472.35	0.42
2062/63	9,921.10	23873	0.42	7056.58	21223.45	0.33
2063/64	9,129.68	27038.81	0.34	8212.2	21812.27	0.38
2064/65	10,187.85	21834.04	0.47	8919.8	24696.45	0.36
2065/66	13,135.91	17419	0.75	7260.83	27968	0.26
Mean			0.49			0.35
S.d.			0.156			0.06
C.V.			0.320			0.171

Source: Annual Report of Concern Banks

Table 4.6 shows that quick ratios of SCBNL are fluctuating during the study period. The highest ratio is 0.75 in the fiscal year 2065/66 and lowest ratio is 0.34 in the year

2063/64. The average mean quick ratio of SCBNL is 0.49. The standard deviation of SCBNL is 0.156 and C.V. is 0.320.

Similarly, the quick ratios of HBL are also fluctuating over the study period. The highest ratio is 0.42 in fiscal year 2061/62 and lowest ratio is 0.26 in the year 2065/66. The average mean quick ratio of HBL is 0.35. The standard deviation of HBL is 0.06 and C.V. is 0.171.

The standard deviation of SCBNL is 0.156 whereas it is 0.06 in HBL. It indicates SCBNL has little high volatility. Similarly, coefficient of variation of SCBNL is 0.320 and 0.171 in HBL. Thus, coefficient of variation of SCBNL is higher than that of HBL which shows that there is more variation in quick ratio of SCBNL.

Figure No 4.4

Quick Ratio

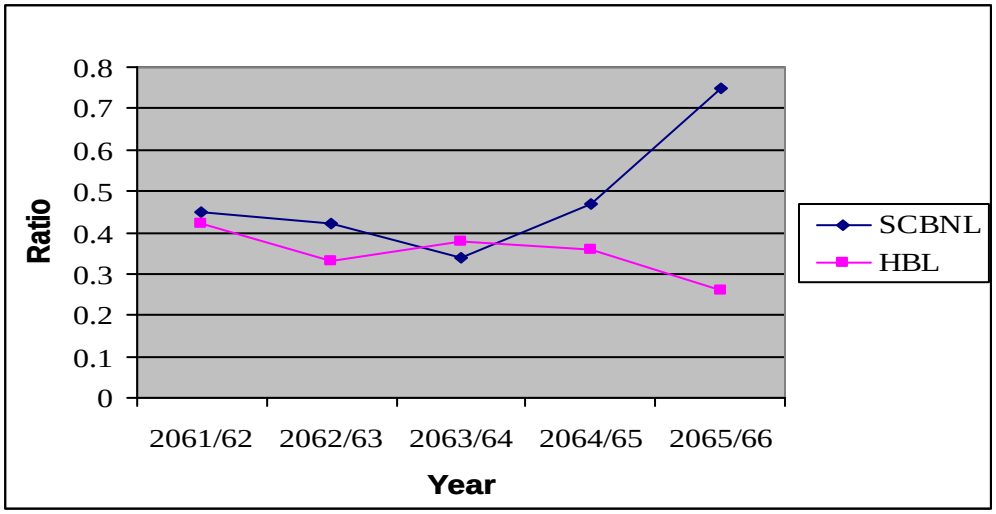


Figure 4.4 shows that the quick ratio of SCBNL and HBL. The graph shows that the quick ratios of SCBNL are fluctuating but higher than HBL. It concludes that the quick ratios of SCBNL are better than HBL. It shows the better liquidity position of SCBNL in comparison to HBL.

4.2.1.3 Cash and Bank Balance to Total Deposits Ratio

This ratio measures the bank's ability of withdrawal of fund immediately by their depositors. A higher ratio represents a greater ability to cover their deposits and vice-versa. The large ratio shows the idle cash and bank balance in banks while small ratio shows the utilization of deposit from banking perspective.

$$\text{Cash and Bank Balance to Total Deposits Ratio} \; X \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

The following table shows the cash and bank balance to deposit ratio of SCBNL and HBL:

Table 4.7

Cash and Bank Balance to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Cash and Bank Balance	Deposit	Ratio	Cash and Bank Balance	Deposit	Ratio
2061/62	1111.12	19,363.47	5.74	2014.47	24814.01	8.12
2062/63	1276.24	23061.03	5.53	1717.35	26490.85	6.48
2063/64	2021.02	24647.02	8.20	1757.34	30048.42	5.85
2064/65	2050.24	29744	6.89	1448.14	31842.79	4.55
2065/66	3137.16	35871.72	8.75	3048.53	34681.35	8.79
Mean			7.02			6.76
S.d.			1.437			1.714
C.V.			0.205			0.254

Source: Annual Report of Concern Banks

Table 4.7 shows that the ratios of SCBNL are fluctuating over the study period. The higest ratios is 8.75 in year 2065/66 and lowest ratio is 5.53 in year 2062/63. The

average mean ratio of SCBNL is 7.02. the ratio of 2065/66 and 2063/204 are higher than average ratio and else are lower than average ratio. The C.V and S.d of SCBNL is 0.205 and 1.437.

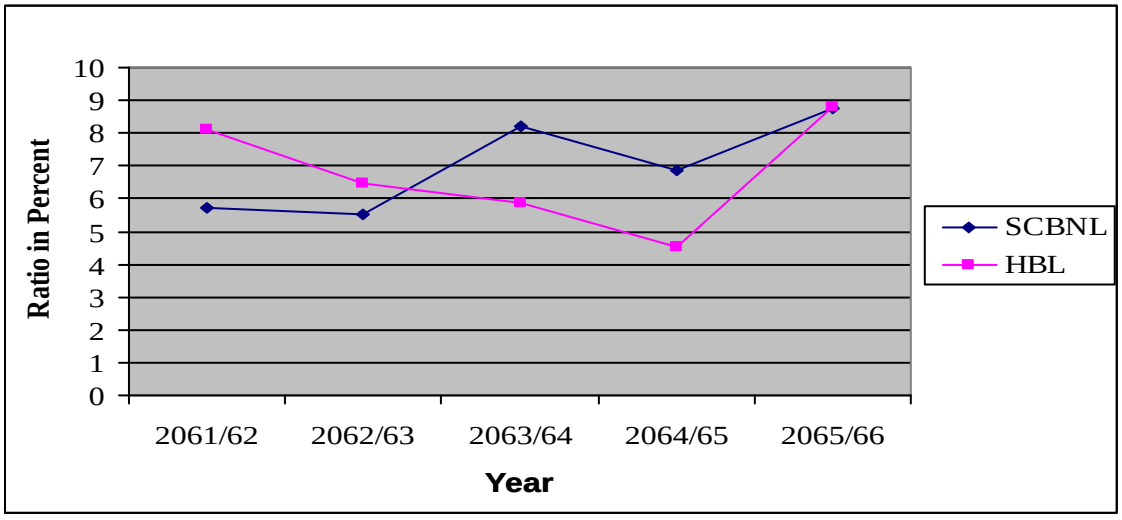
In case of HBL, the ratios are decreasing beside last year 2065/66. It is decreasing in the second, third and fourth and is increasing in the fifth. The highest ratio is 8.79 in year 2065/66 and lowest ratio is 4.55 in year 2064/65. The average ratio of HBL is 6.76. The ratios are higher than the average only in the first and last year and rest of the three years of the study period has lower than average value. The C.V and S.d of HBL is 0.254 and 1.714.

From the above analysis, it can be concluded that from the average ratio shows that liquidity position of SCBNL is better than HBL because it has higher average ratio than that of HBL. The C.V. and Sd of SCBNL is lower than HBL, it indicates SCBNL is less risk and less inconsistency than HBL. According to C.V. cash and bank balance position with respect to total deposit of SCBNL is better than HBL.

The cash and bank balance to total deposit ratio of SCBNL and HBL are presented in following figure.

Figure No 4.5

Cash and Bank Balance to Total Deposit Ratio



The figure shows that trend of SCBNL fluctuating but increasing trend. HBL has decreasing trend beside last year.

4.2.1.4 Cash and Bank Balance to Current Deposits Ratio

This ratio measures the most liquid asst among the current deposit. It measures bank's ability of withdrawal of fund immediately by their depositors. A higher ratio represents a greater ability to cover their deposits and vice-versa.

Cash and Bank Balance to Current Deposits Ratio $\frac{\text{Cash \& bank balance}}{\text{Current Deposit}}$

The following table shows the cash and bank balance to deposit ratio of SCBNL and HBL:

Table No 4.8

Cash and Bank Balance to Current Deposits Ratio

Fiscal Year	SCBNL			HBL		
	Cash and Bank Balance	Current Deposit	Ratio	Cash and Bank Balance	Current Deposit	Ratio
2061/62	1111.12	4356.34	0.26	2014.47	5045.16	0.40
2062/63	1276.24	4681.94	0.27	1717.35	5028.15	0.34
2063/64	2021.02	4794.53	0.42	1757.34	5589.55	0.31
2064/65	2050.24	6174.56	0.33	1448.14	4784.22	0.30
2065/66	3137.16	6202.86	0.51	3048.53	3218.22	0.95
Mean			0.36			0.46
S.d.			0.106			0.277
C.V.			0.294			0.602

Source: Annual Report of Concern Banks

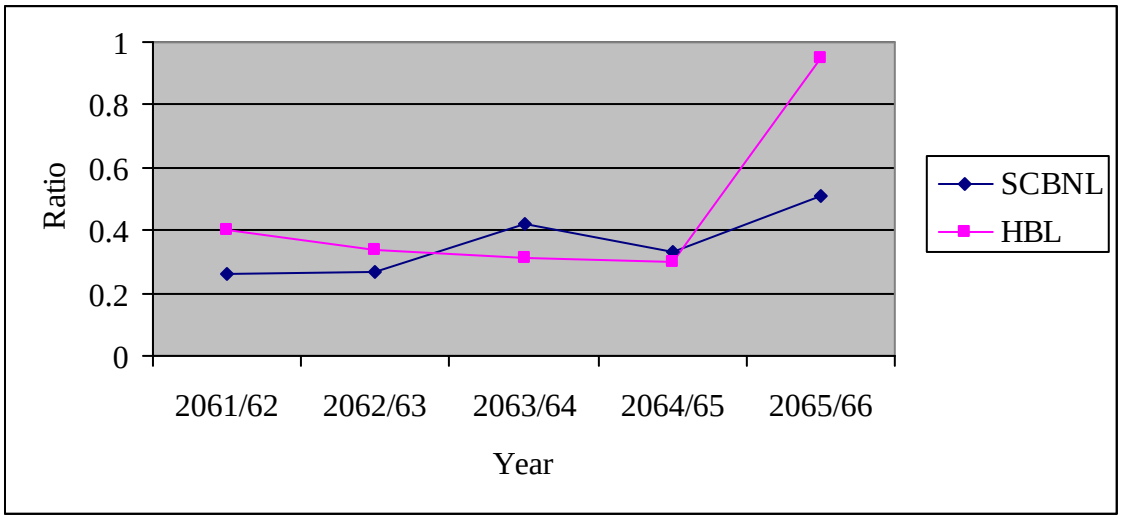
Table 4.8 shows that the Cash and Bank Balance to Current Deposits ratios of SCBNL are fluctuating over the study period. The highest ratio is 0.51 in year 2065/66 and lowest ratio is 0.26 in year 2062/63. The average mean ratio of SCBNL is 0.36. The ratio of 2063/64 and 2065/66 are higher than average ratio and else are lower than average ratio. The C.V and S.d of SCBNL is 0.294 and 0.106.

Similarly, Bank Balance to Current Deposits ratios of HBL are continuously decreasing beside last year 2065/66. It is decreasing in the second, third and fourth and is increasing in the fifth. The highest ratio is 0.95 in year 2065/66 and lowest ratio is 0.30 in year 2064/65. The average ratio of HBL is 0.46. The ratios are higher than the average only in the last 2065/66 years of the study period. The C.V and S.d of HBL is 0.602 and 0.277.

From the above analysis, it can be concluded that from the average ratio shows that Cash and Bank Balance to Current Deposits ratios of SCBNL is higher than HBL because it has higher average ratio than that of HBL. The C.V. and Sd of SCBNL is lower than HBL, it indicates SCBNL is less variability than HBL. The cash and bank balance to total deposit ratio of SCBNL and HBL are presented in following figure.

Figure No 4.6

Cash and Bank Balance to Current Deposits Ratio



4.2.1.5 Fixed Deposit to Total Deposit Ratio

Fixed deposit is a long term and high interest charge bearing deposit. This ratio is calculated in order to find out the proportion of total deposit that has higher interest charge bearing.

This ratio is calculated as follows:

$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Fixed Deposits}}{\text{Total Deposits}}$$

Table 4.9

Fixed Deposit to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Fixed Deposit	Total Deposits	Ratio	Fixed Deposit	Total Deposits	Ratio
2061/62	1416.38	19,363.47	0.07	6107.43	24814.01	0.25
2062/63	2136.31	23061.03	0.09	6350.20	26490.85	0.24
2063/64	3196.49	24647.02	0.13	8201.13	30048.42	0.27
2064/65	3301.01	29744	0.11	6423.87	31842.79	0.20
2065/66	7101.69	35871.72	0.20	6377.13	34681.35	0.18
Mean			0.12			0.23
			0.05			0.037
			0.417			0.161

Source: Annual Report of Concern Banks

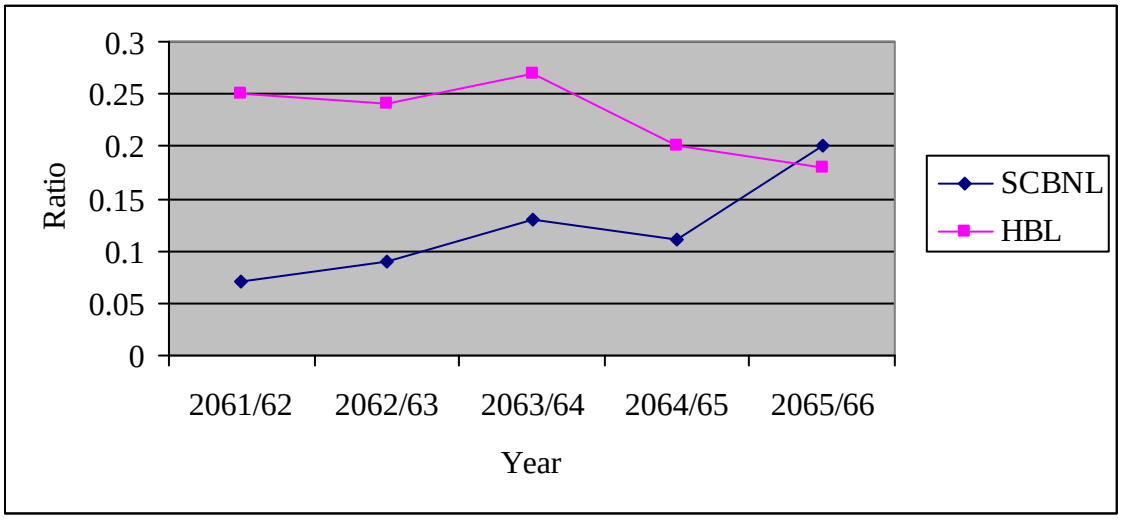
Table 4.9 shows that the fixed deposit to total deposit ratios of SCBNL are in increasing trend beside 2064/65. It is highest ratio 0.21 in the year 2065/66 and lowest ratio 0.07 in the year 2061/62. The average fixed deposit to total deposit ratios of SCBNL is 0.12. The ratios of the 2063/64 and year 2065/66 are higher than the average ratio. However, the rest of the three years are lower than that of the average ratio.

In HBL, the yearly fixed deposit to total deposit ratios are decreasing condition beside 2063/64. the highest ratio is 0.27 in 2064/65 and lowest ration is 0.18 in year 2065/66.. The average ratio of HBL is 0.23. The above analysis helps to conclude that the fixed deposit to total deposit ratios of HBL are better than the SCBNL which indicates the better liquidity position in HBL than SCBNL

The standard deviation of SCBNL is 0.05 whereas it is 0.037 in HBL. The coefficient of variation of SCBNL is 0.417. Similarly, the coefficient of variation of HBL is 0.161. It shows that there is more variation in the composition in the fixed assets to total deposit ratio in SCBNL compared to HBL.

Figure 4.7

Fixed Deposit to Total Deposit Ratio



Above figure show the Fixed Deposit to Total Deposit Ratio of SCBNL and HBL. The figure depict trend of HBL is higher but decreasing condition and SCBNL has increasing trend

4.2.1.6 Saving Deposit to Total Deposit Ratio

Saving deposit is an interest bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit.

This ratio is calculated as below:

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposits}}{\text{Total Deposits}}$$

The following table summarizes the saving deposits to total deposit ratio of SCBNL and HBL:

Table 4.10

Saving Deposits to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Saving Deposit	Total Deposits	Ratio	Saving Deposit	Total Deposits	Ratio
2061/62	13,030.93	19,363.47	0.67	11,759.60	24814.01	0.47
2062/63	14597.67	23061.03	0.63	14582.86	26490.85	0.55
2063/64	15244.38	24647.02	0.62	15784.77	30048.42	0.53
2064/65	17856.13	29744	0.60	17972.44	31842.79	0.56
2065/66	19187.64	35871.72	0.53	20061.05	34681.35	0.58
Mean			0.61			0.54
			0.515			0.421
			0.844			0.779

Source: Annual Report of Concern Banks

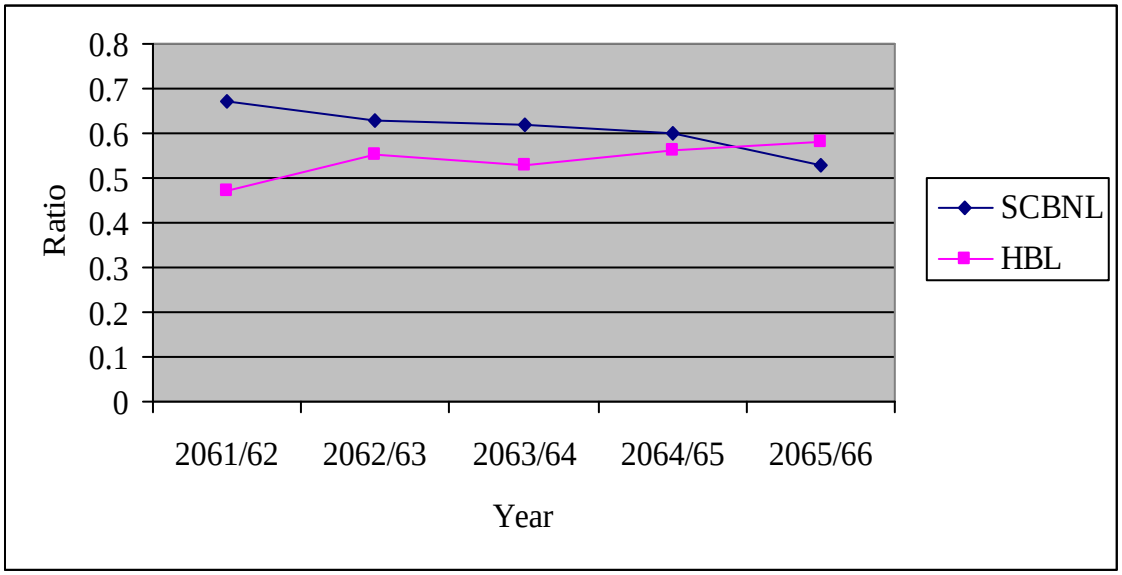
Table 4.12 shows that the saving deposits to total deposit ratios of SCBNL are decreasing during the study period. The highest ratio is 0.67 in the year 2061/62 and lowest ratio is 0.53 in the year 2065/66. The average ratio of SCBNL is 0.61. The yearly ratios of the first, second and the third year are higher than the average ratio. However, The C.V and S.d of SCBNL is 0.844 and 0.515

Similarly, saving deposits to total deposit ratios of HBL are fluctuating condition during the study period. The highest ratio is 0.58 in the year 20665/66 and lowest ratio is 0.47 in the year 2061/62. The average saving deposits to total deposit ratios of HBL is 0.54. The yearly ratios of the first and third year are lower than the average ratio. The C.V and S.d of HBL is 0.779 and 0.421

The average ratio of SCBNL 0.61 is higher than that of HBL 0.54. The standard deviation and coefficient of variation of SCBNL is higher than HBL it indicate SCBNL higher inconsistency than HBL.

Figure 4.8

Saving Deposits to Total Deposit Ratio



Above figure show the saving Deposit to Total Deposit Ratio of SCBNL and HBL. The figure depict trend of SCBNL is higher but decreased in last year and HBL has lower but increasing trend over the study period

4.2.1.6 Loan and Advances to Total Deposit Ratio

The ratio assesses to what extent the bankers are able to utilize the depositors' fund to earn profit by providing loans and advances. So it shows the effectiveness in utilization of total deposits of SCBNL and HBL. This ratio is calculated as below:

$$\text{Loans \& Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

The following table shows the effectiveness in utilization of total deposits of SCBNL and HBL:

Table 4.11

Loan and Advances to Total Deposits Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Loan & Advances	Total Deposits	Ratio	Loan & Advances	Total Deposits	Ratio
2061/62	8,143.21	19,363.47	0.42	13451.2	24814.01	0.54
2062/63	8,935.42	23061.03	0.39	15762	26490.85	0.59
2063/64	10,502.64	24647.02	0.43	17793.7	30048.42	0.59
2064/65	13,718.60	29744	0.46	20179.6	31842.79	0.63
2065/66	13679.76	35871.72	0.38	25519.5	34681.35	0.74
Mean			0.416			0.62
S.d.			0.032			0.075
C.V.			0.77			0.121

Source: Annual Report of Concern Banks

Table 4.11 depict that the loan and advances to total deposit ratios of SCBNL are fluctuating during the study period. The highest ratio is 0.46 is in the year 2064/65 and lowest ratio is 0.38 in the year 2065/66. The average ratio of SCBNL is 0.416. The yearly ratios of the first, third and fourth year are higher than the average ratio.

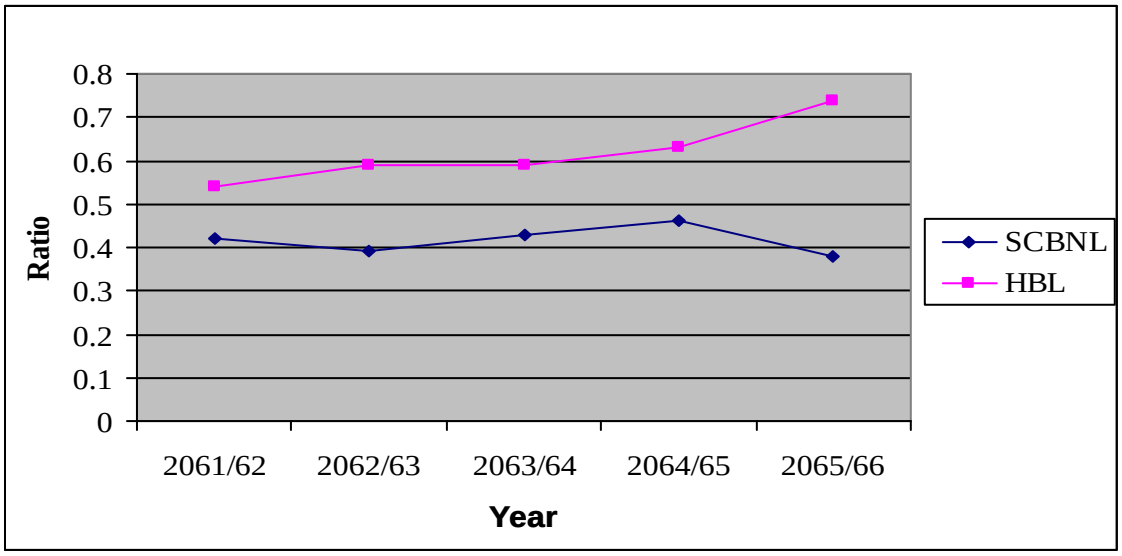
However, the yearly ratio of the second and last year are lower than the average ratio. The C.V and S.d of SCBNL is 0.77 and 0.032.

Similarly, the loan and advances to total deposit ratios of HBL are continuously increasing condition during the study period. The highest ratio is 0.74 in the year 2065/66 and lowest ratio is 0.54 in the year 2061/62. The average ratio of HBL is 0.62. The yearly ratio of the second last and last year are higher than the average ratio. The C.V and S.d of HBL is 0121 and 0.075.

The average ratio of HBL is higher than that of SCBNL. The coefficient of variation of SCBNL is higher than HBL. This shows that there is high variation in loan and advance to total deposit ratio maintained by SCBNL. In other words, HBL has low risk.

Figure 4.9

Loan and Advances to Total Deposits Ratio



Above figure show the saving loan and advance to Total Deposit Ratio of SCBNL and HBL. The figure depict trend of SCBNL is lower but decreased in last year and HBL has higher and increasing trend over the study period.

4.4.2.2 Loan and Advances to Fixed Deposit Ratio

The ratio measures how much amount is used in loans and advances in comparison to fixed deposits. This ratio is calculated as below:

$$\text{Loans and Advances to Fixed Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

The following table shows the ratio of loan and advances to fixed deposits of SCBNL and HBL:

Table 4.12

Loan and Advances to Fixed Deposit Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Loan & Advances	Fixed Deposits	Ratio	Loan & Advances	Fixed Deposits	Ratio
2061/62	8,143.21	1416.38	5.75	13451.2	6107.43	2.20
2062/63	8,935.42	2136.31	4.18	15762	6350.20	2.48
2063/64	10,502.64	3196.49	3.29	17793.7	8201.13	2.17
2064/65	13,718.60	3301.01	4.16	20179.6	6423.87	3.14
2065/66	13679.76	7101.69	1.93	25519.5	6377.13	4.00
Mean			3.86			2.80
S.d.			1.398			0.777
C.V.			0.362			0.277

Source: Annual Report of Concern Banks

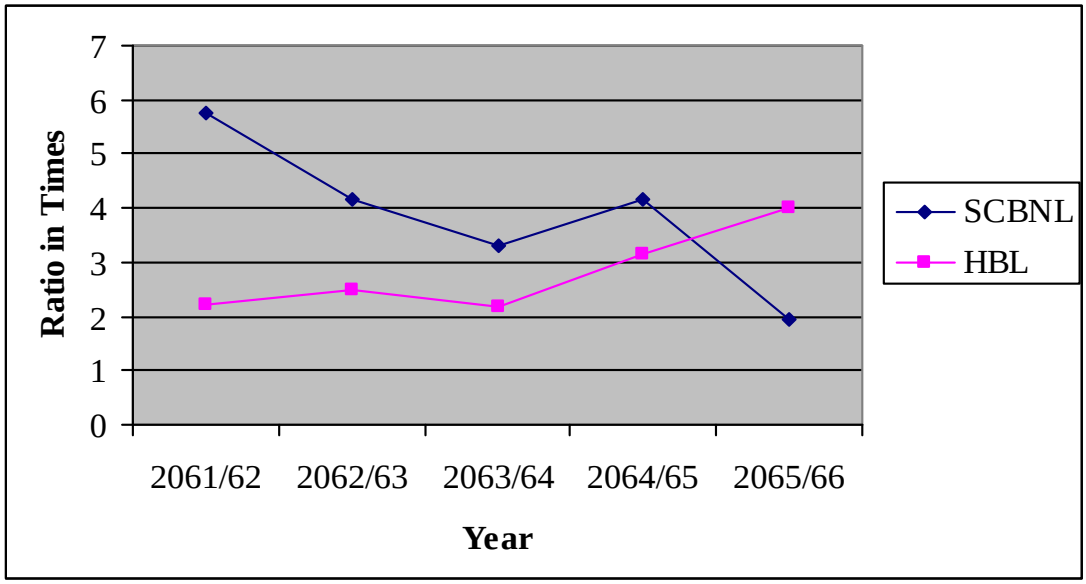
Table 4.12 shows that the loan and advance to fixed deposit ratios of SCBNL are fluctuating during the study period. It is decreasing in to third year and increased in forth year again decreased in last year of the study period. It is highest ratio 5.75 in the year 2061/62 and lowest ratio 1.93 in the year 2065/66. The average ratio of SCBNL is 3.86. The yearly ratios of SCBNL are lower than the average ratio in the third year and last year. The S.d. and C.V. of SCBNL is 1.398 and 0.362.

In case of HBL, the yearly loan and advance to fixed deposit ratios are also fluctuating all the times during the study period. The highest ratio is 4 times in the year 2065/66 and lowest ratio is 2.17 in the year 2063/64. The average ratio of HBL is 2.80. The yearly ratios of HBL are lower than the average in the first, second and third. However, the yearly ratios of HBL are higher than the average ratio is in the fourth and the fifth year. S.d and C.V. of HBL is 0.777 and 0.277.

The average ratio of SCBNL is higher than that of HBL it indicate that SCBNL uses more fixed deposit as loan and advance than HBL. The standard deviation of SCBNL is also higher than HBL. The coefficient of variation of SCBNL is higher than HBL which indicate more variation of SCBNL.

Figure 4.10

Loan and Advances to Fixed Deposit Ratio



Above figure show the loan and advance to Total Deposit Ratio of SCBNL and HBL. The figure depict trend of SCBNL is higher but decreasing trend and HBL has lower but increasing trend over the study period.

4.4.2.3 Loan and Advances to Saving Deposits Ratio

This ratio is also employed for the purpose of measuring utilization of savings deposits in generating revenue by giving loan and advances to the client. This ratio is calculated as below:

$$\text{Loans and Advances to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposits}}$$

The following table shows the ratio of loan and advances to saving deposits of SCBNL and HBL.

Table 4.13

Loan and Advances to Saving Deposit Ratio

(Rs.in Million)

Fiscal Year	SCBNL			HBL		
	Loan & Advances	Saving Deposits	Ratio	Loan & Advances	Saving Deposits	Ratio
2061/62	8,143.21	13,030.93	0.62	13451.2	11,759.60	1.14
2062/63	8,935.42	14597.67	0.61	15762	14582.86	1.08
2063/64	10,502.64	15244.38	0.69	17793.7	15784.77	1.13
2064/65	13,718.60	17856.13	0.77	20179.6	17972.44	1.12
2065/66	13679.76	19187.64	0.71	25519.5	20061.05	1.27
Mean			0.68			1.148
S.d.			0.066			0.072
C.V.			0.097			0.063

Source: Annual Report of Concern Banks

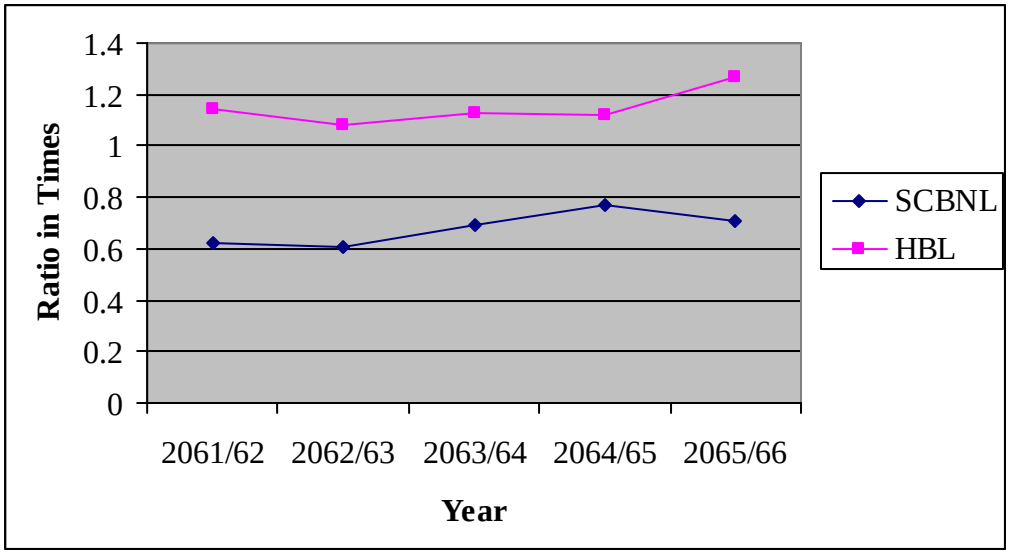
Table 4.13 shows that the loan and advances to saving deposit ratios of SCBNL are fluctuating over the study period. The highest ratio is 0.77 times in the year 2064/65 and lowest ratio is 0.61 in the year 2062/63. The average ratio of SCBNL is 0.68. The yearly ratios of SCBNL are lower than the average ration in the first and second year of the study period.

Similarly, In case of HBL the loan and advances to saving deposit ratios of HBL are also fluctuating during the study period. It is decreasing in the second, third and the fourth year and increasing in the fifth last year. The highest ratio is 1.27 in the year 2025/66 and lowest ratio is 1.08 in the year 2062/63. The average ratio of HBL is 1.148. The yearly ratios of HBL are higher than the average ratio in the fifth year. However, the yearly ratios of HBL are lower than the average ratio in the first, second, third and fourth year.

The average ratio of HBL 1.148 is higher than that of SCBNL 0.68 it means more saving deposit is uses as loan and advance by HBL. The standard deviation of SCBNL is 0.066 whereas it is 0.072 in HBL. Similarly, the coefficient of variation of SCBNL is 0.097 and it is 0.063 in HBL. It indicates lower variability.

Figure 4.11

Loan and Advances to Saving Deposit Ratio



Above figure depict that the loan and advances to saving deposits ratio of HBL is better than that of SCBNL. It implies that HBL is utilizing saving deposit more effectively than SCBNL but the risk is more in SCBNL than HBL.

4.4.3 Profitability Ratios

Profitability ratio is the measurement of efficiency. It provides the degree of success in achieving desired profit. Here, profitability is measured in terms of various ratios as follows:

4.4.3.1 Interest Earned to Total Assets Ratio

This ratio is used to determine total interest earned from investments over the total assets of a firm.

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

The following table shows the interest earned to total assets ratio of SCBNL and HBL:

Table 4.14

Interest Earned to Total Assets Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Interest Earned	Total Assets	Ratio %	Interest Earned	Total Assets	Ratio %
2061/62	1,058.68	21781.68	4.86	1446.47	28871.34	5.01
2062/63	1189.60.	25767.35	4.62	1626.47	30579.81	5.32
2063/64	1411.98	28596.69	4.94	1775.58	34314.87	5.17
2064/65	1591.20	33335.79	4.77	1963.65	36857.62	5.33
2065/66	1887.22	40587.47	4.65	2342.20	40046.69	5.85
Mean			4.77			5.34
S.d.			0.136			0.316
C.V.			0.028			0.059

Source: Annual Report of Concern Banks

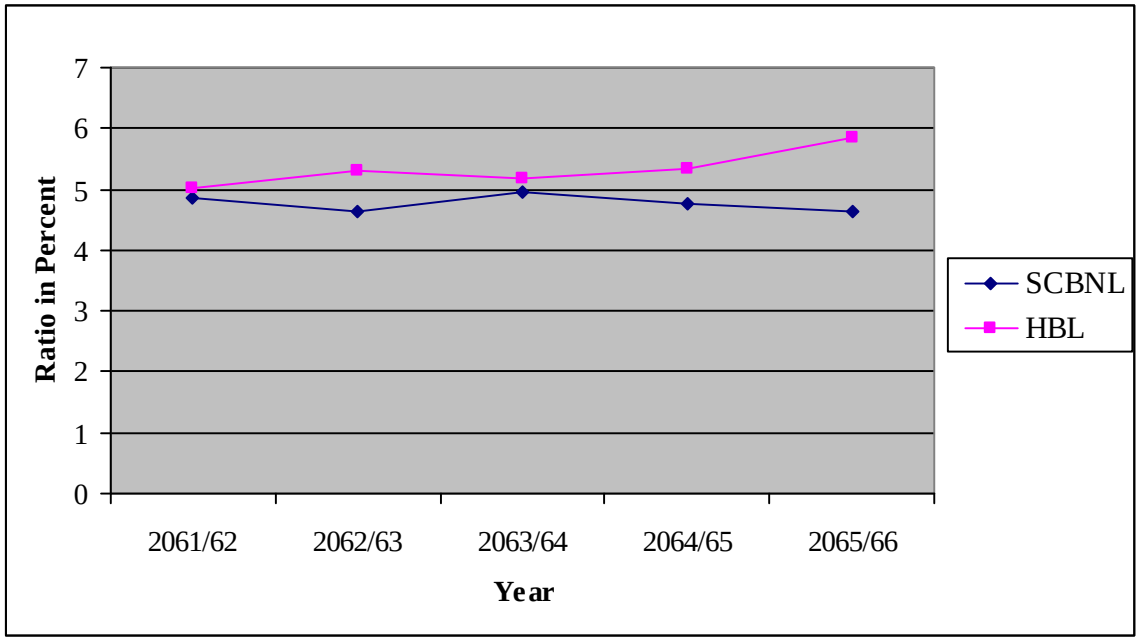
Table 4.14 shows that interest earned to total assets ratios of SCBNL are fluctuating during the study period. The highest is 4.94 percent in the year 2062/64 and lowest ratio is 4.62 percent in the year 2062/63. The average mean ratio of SCBNL is 4.77. The yearly ratios of SCBNL are higher than the average ratio in the first and the forth year. However, the yearly ratios are lower than the average ratio in the second and the last year of the study period. Where as ratio of fourth year is exactly as average ratio.

In case of HBL, the interest earned to total assets ratios of HBL are increasing trend beside third year 2063/64 during the study period. The highest ratio is 5.85 in the year 2065/66 and lowest ratio is 5.01 in the year 2061/62. The average ratio of HBL is 5.34 percent. The yearly ratios of HBL are higher than the average ratio in the last year. However, the yearly ratios are lower than the average ratio in first, second, third and fourth year of the study period.

The average ratio of HBL is higher than that of SCBNL. It means HBL utilizes more assets in interest earning sector. The standard deviation of SCBNL is 0.136 whereas it is 0.316 in HBL. The coefficient of variation of SCBNL is 0.028 and it is 0.059 in HBL. Thus, C.V. of HBL is higher than SCBNL. This shows that there is less variation in interest earned to total assets ratio maintained by SCBNL compared to HBL. In other words, SCBNL has lower risk in it.

Figure 4.12

Interest Earned to Total Assets Ratio



Above figure depict that the interest earn to total asset ratio of HBL is higher than that of SCBNL. It implies that HBL is utilizing assets in interest earning sector than SCBNL, but the risk is more in HBL.

4.4.3.2 Net Profit to Total Assets Ratio

This ratio is useful in measuring the profitability of all financial resources invested compared to total assets of a firm. This ratio can be calculated as follows:

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

The following table shows the net profit to total assets ratio of SCBNL and HBL:

Table 4.15

Net Profit to Total Assets Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Net Profit	Total Assets	Ratio %	Net Profit	Total Assets	Ratio %
2061/62	536.25	21781.68	2.46	308.28	28871.34	1.07
2062/63	658.76	25767.35	2.56	457.46	30579.81	1.50
2063/64	691.67	28596.69	2.42	491.82	34314.87	1.43
2064/65	818.92	33335.79	2.46	635.87	36857.62	1.73
2065/66	1025.11	40587.47	2.53	752.84	40046.69	1.88
Mean			2.48			1.52
S.d.			0.057			0.31
C.V.			0.023			0.204

Source: Annual Report of Concern Banks

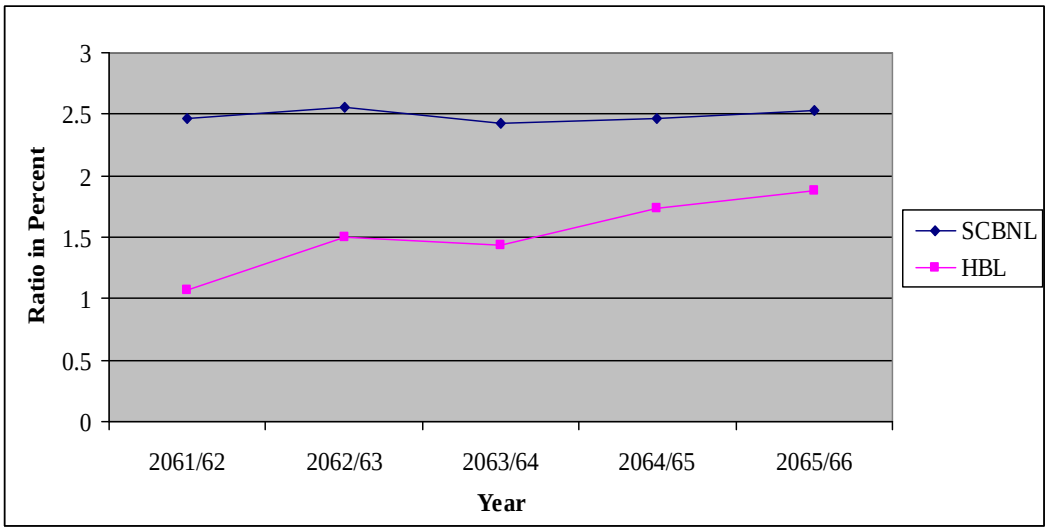
Table 4.15 shows that net profit to total assets ratios of SCBNL are fluctuating during the study period. The highest ratio is 2.56 in the year 202062/63 and lowest ratio is 2.42 in 2063/64 year during the study period. The average ratio of SCBNL is 2.48. The yearly ratios of SCBNL are higher than the average ratio in second and the last year. However, the yearly ratios are lower than the average ratio in first, third and fourth year of the study period.

In same way HBL, the net profits to total assets ratios of HBL are increasing condition beside third year 2063/64 during the study period. The average ratio of HBL is 1.52. The highest ration of HBL is 1.88 in 2065/66 and lowest ration is 1.07 in 2061/62 year. The yearly ratios of HBL are higher than the average ratio in second last and the last year. However, the yearly ratios are lower than the average ratio in first, second and third year of the study period.

The average ratio of SCBNL is higher than that of HBL. It means net profit SCBNL earn more utilizing total assets. The standard deviation of SCBNL is 0.056 whereas it is 0.31 in HBL. The coefficient of variation of SCBNL is 0.023 and it is 0.204 in HBL. Thus, S.d and C.V. of HBL is higher than SCBNL. This shows that there is less variation in net profit to total assets ratio maintained by SCBNL compared to HBL. In other words, SCBNL has lower risk.

Figure 4.13

Net Profit to Total Assets Ratio



Above figure 4.13 depict that the net profit to total asset ratio of SCBNL is higher than that of HBL. It implies that SCBNL earning more profit utilizing assets than HBL.

4.4.3.3 Net Profit to Total Deposit Ratio

This ratio measures the percentage of profit earned from the utilization of the total deposits. Higher ratio indicates the return from investment on loans and lower ratio indicates that the funds are not properly mobilized. This ratio can be calculated as follows:

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposits}}$$

The following table shows the net profit to total deposits ratio of SCBNL and HBL

Table 4.16

Net Profit to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Net Profit	Total Deposits	Ratio %	Net Profit	Total Deposits	Ratio %
2061/62	536.25	19,363.47	2.77	308.28	24814.01	1.24
2062/63	658.76	23061.03	2.86	457.46	26490.85	1.73
2063/64	691.67	24647.02	2.81	491.82	30048.42	1.64
2064/65	818.92	29744	2.75	635.87	31842.79	2.00
2065/66	1025.11	35871.72	2.86	752.84	34681.35	2.17
Mean			2.81			1.76
S.d.			0.0505			0.357
C.V.			0.018			0.204

Source: Annual Report of Concern Banks

Table 4.16 shows that net profit to total deposit ratios of SCBNL are fluctuating during the study period. The average ratio of SCBNL is 2.81 %. The highest percent of ratio is 2.86 in 202062/63 and 2065/66 and lowest ratio is 2.75 in 2064/65 year. The yearly ratios of SCBNL are higher than the average ratio in second and the last year. However, the yearly ratios are lower than the average ratio in first, third and fourth year of the study period.

In the same way net profit to total deposit ratios of HBL also fluctuating during the study period. The highest ratio of HBL is 2.17 % in the year 2065/66 and lowest ratio

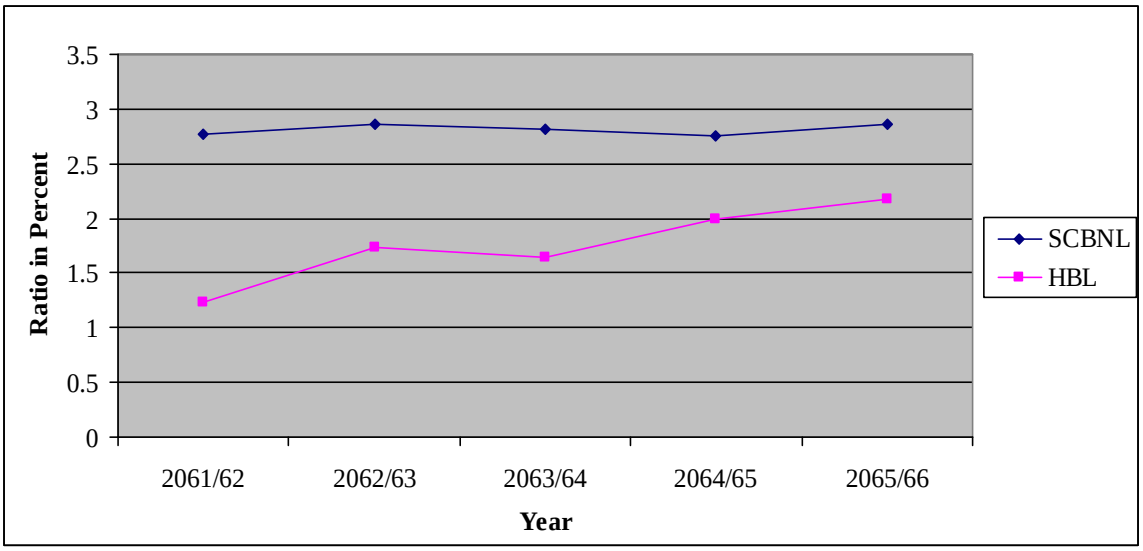
in 1.24 in 2061/62 year. The average ratio of HBL is 1.76%. The yearly ratios of HBL are higher than the average ratio in second last and the last year. However, the yearly ratios are lower than the average ratio in first, second and third year of the study period.

The average ratio of SCBNL is higher than that of HBL. The coefficients of variation are 0.018 in SCBNL and 0.204 in HBL. Thus, C.V. of HBL is higher than that of SCBNL. This shows that there is more variation in net profit to total deposit ratio maintained by HBL compared to SCBNL. In other words, HBL has high risk in it.

The above analysis helps to conclude that the net profit to total deposit ratio of SCBNL is better than HBL. Mobilization of external funds is important to earn profit for a commercial bank. Thus SCBNL has better performance on mobilization of total deposits during that period.

Figure 4.14

Net Profit to Total Deposit Ratio



Above figure 4.14 depict that the net profit to total depositt ratio of SCBNL is higher than that of HBL. It implies that SCBNL earning more profit utilizing deposit than HBL.

4.3 Statistical Analysis

For the third objective of the study stoical tools is analyzed. Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is convenient statistical tools are used in this thesis study.

4.3.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan and advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan and advances and net profit SCBNL and HBL using Karl Persons coefficient of correlation, value of coefficient of determination (R^2) probable error.

A) Correlation Coefficient between Deposit and Loan and Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan and advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan and advances are dependent variable (Y). The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan and advances in proper way or not.

Table No. 4.17

Correlation between Deposit and Loan and Advances

Name of Banks	Evaluation Criterions

	r	r^2	P.Er.	6 P.Er.	Remarks
SCBNL	0.931	0.867	0.0402	0.2412	Significant
HBL	0.973	0.947	0.0161	0.0964	Significant

Source: Through SPSS Data Editor

From the above table, it is found that coefficient of correlation between deposits and loan and advances of SCBNL and HBL is 0.931 and 0.973. It is shows that both have the positive relationship between these two variables. It refers that deposit and loan and advances of HBL move together very closely but not proportionately. Moreover, the coefficient of determination of SCBNL is 0.867. It means 86.7 percent of variation in loan and advances has been explained by deposit. Similarly, value of coefficient of determination of HBL is 0.947. It refers that 94.7 percent variance in loan and advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. In other words, there is significant relationship between deposits and loan and advances.

B. Relationship between Investment on Government Securities and Total Deposit

The coefficient of correlation between investment on government security and total deposits is to measure the degree of relationship between two variables. Although bank utilizes its deposits on loan and advances, some part of idle deposits are invested on government securities. In correlation analysis, deposit is independent variable Y and a government security is dependent variable X. The purpose of computing coefficient of correlation in this case is to justify whether or not the excess deposits are significantly used in government securities and whether there is any relationship between these two variables.

Table 4.18

Correlation between Investment on Government Securities and Total Deposit

Name of Banks	Evaluation Criterions				
	r	r^2	P.Er.	6 P.Er.	Remarks
SCBNL	0.798	0.637	0.1095	0.6573	Significant
HBL	-0.123	0.0151	0.2971	1.782	Insignificant

Source: Through SPSS Data Editor

The table above points out that the coefficient correlation between government securities and total deposits of SCBNL and HBL is 0.798 and -0.123. It is shows that SCBNL has the positive relationship between these two variables. Moreover, the coefficient of determination of SCBNL is 0.637. It means 63.7 percent of variation in government securities has been explained by total deposit. The correlation coefficient of SCBNL is significant because the correlation coefficient is greater than the relative value of 6 P.Er. In case of HBL, it is observed that coefficient of correlation between total deposits and government securities are negative. The value of coefficient of determination of HBL is 0.0151. It refers that only 1.51 percent variance government a security has been explained by total deposit. The correlation coefficient of HBL is insignificant because the correlation coefficient is lower than the relative value of 6 P.Er. In other words, there is insignificant relationship between government securities and total deposits of HBL.

C. Relationship between Cash and Bank Balance and Current Liabilities

Cash and bank balance are most liquid components of current assets. They are required to meet the unexpected short term obligation or current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree or relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are performed.

Table 4.21 shows the coefficient of correlation between cash and bank balance and current liabilities, and calculated and tabulated values of t of SCBNL and HBL during the study period.

Table 4.19

Correlation between Cash and Bank Balance and Current Liabilities

Name of Banks	Evaluation Criterions				
	r	r^2	P.Er.	6 P.Er.	Remarks
SCBNL	-0.272	0.0740	0.2793	1.676	Insignificant
HBL	0.555	0.308	0.2087	1.252	Insignificant

Source: Through SPSS Data Editor

The above table points out that the coefficient correlation between cash and bank balance and current liabilities in SCBNL is -0.272. Which show negative relationship between these two variables. The coefficient of determination of SCBNL is 0.0740. It means only 7.40 percent of variation in current liabilities has been explained by cash and bank balance. The correlation coefficient of SCBNL is insignificant because the correlation coefficient is lower than the relative value of 6 P.Er.

In case of HBL, the coefficient correlation between cash and bank balance and current liabilities in HBL is 0.555. It can be seen that coefficient of correlation between cash and bank balance and current liabilities moderate. The coefficient of determination of HBL is 0.308. It means only 30.8 percent of variation in current liabilities has been explained by cash and bank balance rest is explained by other factor. The correlation coefficient of HBL is insignificant because the correlation coefficient is lower than the relative value of 6 P.Er.

D) Coefficient of Correlation of Total Deposit between SCBNL and HBL

Coefficient of correlation of total deposit between SCBNL and HBL and shows their linear relationship.

Table No. 4.20

Correlation between Total Deposit of SCBNL and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.967	0.935	0.0196	0.1175	Significant

Source: Through SPSS Data Editor

This Table shows how the total deposit of both banks SCBNL and HBL is correlated. Here correlation between total deposit of SCBNL and HBL is 0.967. Above correlation coefficient shows that there is highly positive correlation between this two banks. But this correlation coefficient is also significant because the correlation coefficient is high than 6 P.Er. As the 0.935 of coefficient of determination, this shows the 93.5 percent of the degree of relationship. The degree of relationship between these two banks is also high.

E) Coefficient of Correlation of Asset between SCBNL and HBL

The coefficient of correlation of total asset between selected commercial banks is shown as follow:

Table No. 4.21

Correlation between Asset of SCBNL and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.983	0.9663	0.0102	0.06101	Insignificant

Source: Through SPSS Data Editor

The above table reveals that there is positive correlation between SCBNL and HBL in case of total asset. It implies that the total asset of SCBNL and HBL move in the same direction. Here R^2 >6 P.Er. Therefore, correlation coefficient is significant. This can be said that both SCBNL and HBL increase its total asset as same direction. The coefficient of determination is 0.9663, which shows the only 96.63 percent of the degree of relationship. Rest is employ by other factor.

F) Coefficient of Correlation of Loan and Advances between SCBNL and HBL

The coefficient of correlation of loan and advances between SCBNL and HBL has been given below.

Table No. 4.22

Correlation between Loan and Advances of SCBNL and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.951	0.9044	0.0288	0.173	Significant

Source: Through SPSS Data Editor

Above Table show that there is high degree positive correlation between the loan and advances of SCBNL and HBL. The correlation coefficient between two banks is 0.951. It means loan and advances of these two banks moves in the same direction in high proportion. This correlation coefficient is significant in order to show the relationship between loan and advances of these two banks because correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.9044 which shows the 90.44 percent of the degree of relationship.

G) Coefficient of Correlation of Net Profit between SCBNL and HBL

The coefficient of net profit between the selected commercial banks shows the relationship between the banks.

Table No. 4.23

Correlation between Net Profit of SCBNL and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.984	0.968	0.00958	0.0574	Significant

Source: Through SPSS Data Editor

Above statistics shows that there is high degree positive correlation between profits of SCBNL and HBL which is indicated by correlation coefficient of 0.984. This relationship is significant because its correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.968 which shows the 96.8 percent of the degree of relationship.

4.6 Major Findings

The major findings of this study derived from the analysis of data are summarized below:

Financial Analysis

1. The major components of current assets in SCBNL and HBL are cash and bank balance, loan and advance and government securities. In the study period, the total cash and bank balance, loan and advances, government securities and total current assets of SCBNL are Rs 9595.78, 54979, 41092.95 and 118492.34 9985.83, 92706, 29237.88 and 127879.22 million respectively. Similarly the total cash and bank balance, loan and advances, government securities and total current assets are Rs 9985.83, 92706, 29237.88 and 127879.22 million of HBL. Total cash and bank balance, loan and advance and current asset of HBL is higher than SCBNL. But investment of Govt. securities is more of SCBNL which indicate less riskier then HBL

2. The net working capital of SCBNL is highly fluctuating over the period. The highest amount of net working capital is 14025 million and lowest net working capital is -5645.35 million. Negative amount indicate current liability is more than current asset. The percentage change is negative in first study year and second year increase by 0.75 percent and again second last year decrease by 1.76 percent and last increases by 2.28 percent. Similarly, net working capital of HBL is also fluctuating trend over the period. The highest amount of net working capital is 4752.89 million and lowest net working capital is Rs 1845 million. The percentage change is -0.14 negative in first study year and second year increase by 0.57 percent. The second last year also increase by 0.58 percent and last decreases by 0.61 percent.
3. The current assets and current liabilities of SCBNL and HBL are fluctuating trend. The highest ratio is 1.81 and lowest ratio is 0.79 of SCBNL. Similarly the highest ratio is 1.19 in and lowest ratio is 1.07 of HBL. The average mean ration of SCBNL is 1.134 and HBL is 1.122. SCBNL has little high ratio than HBL. It indicates SCBNL has better position in current and short term solvency, but SCBNL has high variation in current ratio than HBL.
4. The quick ratios of SCBNL and HBL are fluctuating during the study period. The average mean quick ratio of SCBNL is 0.49. The standard deviation of SCBNL is 0.156 and C.V. is 0.320. Similarly, the average mean quick ratio of HBL is 0.35. The standard deviation of HBL is 0.06 and C.V. is 0.171. It concludes that the quick ratios of SCBNL are better than HBL.
5. The cash and bank balance to total deposit ratios of SCBNL are fluctuating over the study period. The average ratio of SCBNL is 7.02. The C.V is 0.205. In case of HBL, the ratios are decreasing beside last year. The average ratio of HBL is 6.76. . The C.V of HBL is 0.254. The higher average ratio shows that liquidity position of SCBNL is better than HBL. The C.V. of SCBNL is lower so low variability than HBL.

6. The Cash and Bank Balance to Current Deposits ratios of SCBNL are fluctuating over the study period but HBL are continuously decreasing beside last year. The average mean ratio of SCBNL is 0.36. The C.V and S.d of SCBNL is 0.294 and 0.106. The average ratio of HBL is 0.46. The C.V and S.d of HBL is 0.602 and 0.277. Ratios of SCBNL are higher than HBL because it has higher average ratio. The lower C.V. indicates SCBNL is less variability than HBL.
7. The fixed deposit to total deposit ratios of SCBNL are in increasing trend beside 2064/65. The average fixed deposit to total deposit ratios of SCBNL is 0.12. In HBL, fixed deposit to total deposit ratios are decreasing condition beside 2063/64. The average ratio of HBL is 0.23. The fixed deposit to total deposit ratios of HBL are better than the SCBNL. The higher C. V shows that there is more variation in SCBNL compared to HBL.
8. The saving deposits to total deposit ratios of SCBNL are decreasing during the study period. The average ratio of SCBNL is 0.61. The C.V is 0.844. Similarly, saving deposits to total deposit ratios of HBL are fluctuating over the study period. The average ratio of HBL is 0.54. The C.V is 0.779. The average ratio of is higher than HBL. The coefficient of variation of SCBNL is higher than HBL it indicate higher inconsistency.
9. The loan and advances to total deposit ratios of SCBNL are fluctuating and HBL are continuously increasing condition during the study period. The average ratio of SCBNL is 0.416 and HBL is 0.62. The average ratio of HBL is higher than that of SCBNL. The higher coefficient of variation of shows high variation in loan and advance to total deposit ratio maintained by SCBNL.
10. The average loan and advance to fixed deposit ratios of SCBNL is higher than that of HBL it indicate that SCBNL uses more fixed deposit as loan and advance than HBL. The average ratio of SCBNL is 3.86 and HBL is 2.80. The C.V. of SCBNL is 0.362 and HBL is 0. 0.277. The coefficient of variation of SCBNL is higher than HBL which indicate more variation of SCBNL

11. The average loan and advances to saving deposit ratios ratio of HBL 1.148 is higher than that of SCBNL 0.68, it means more saving deposit is uses as loan and advance by HBL. The coefficient of variation of SCBNL is 0.097 and it is 0.063 in HBL. It indicates lower variability of HBL.
12. The average ratio of HBL is higher than that of SCBNL. The average mean ratio of SCBNL is 4.77 and HBL is 5.34. It means HBL utilizes more assets in interest earning sector. The standard deviation of SCBNL is 0.136 whereas it is 0.316 in HBL. The coefficient of variation of SCBNL is 0.028 and it is 0.059 in HBL. Thus, the higher C.V. of HBL is high variation in interest earned to total assets HBL.
13. The average net profit to total assets ratios of SCBNL is higher than that of HBL. It means net profit SCBNL earn more utilizing total assets. The average ratio of SCBNL is 2.48 and HBL is 1.52. The coefficient of variation of SCBNL is 0.023 and it is 0.204 in HBL. C.V. of HBL is higher than SCBNL. This shows that there is less variation in net profit to total assets ratio maintained by SCBNL compared to HBL.
14. The net profit to total deposit ratios of SCBNL and HBL are fluctuating during the study period. The average ratio of SCBNL is 2.81 % and HBL is 1.76%. The average ratio of SCBNL is higher than that of HBL. The coefficient of variation of SCBNL is 0.018 and HBL is 0.204. Thus, higher C.V. shows that there is more variation in net profit to total deposit ratio maintained by HBL.

Statistical Analysis

15. The coefficient of correlation between deposits and loan and advances of SCBNL and HBL is positive i. e. 0.931 and 0.973. The coefficient of determination of SCBNL is 0.867. It means 86.7 percent of variation in loan and advances has been explained by deposit. Similarly, value of coefficient of determination of HBL is 0.947. It refers that 94.7 percent variance in loan and advances are affected by total deposit. The correlation coefficient of both banks is significant.

16. The coefficient correlation between government securities and total deposits of SCBNL and HBL is 0.798 and -0.123. It is shows that SCBNL has the positive relationship between these two variables. The correlation coefficient of SCBNL is significant. The coefficient of correlation between total deposits and government securities are negative. The correlation coefficient of HBL is insignificant because the correlation coefficient is lower than the relative value of 6 P.Er.
17. Coefficient of correlation between cash and bank balance and current liabilities of SCBNL and HBL shows that there is no significant relationship between these two variables in both banks. The value of r is -0.272 on SCBNL and 0.555 on HBL. The coefficient of determination of SCBNL is 0.0740. It means only 7.40 percent of variation in current liabilities has been explained by cash and bank balance. The coefficient of determination of HBL is 0.308. It means only 30.8 percent of variation in current liabilities has been explained by cash and bank balance rest is explained by other factor.
18. The correlation between total deposit of SCBNL and HBL is 0.967. This indicates there is highly positive correlation between this two banks. The correlation is significant because the correlation coefficient is high than 6 P.Er. As the 0.935 of coefficient of determination.
19. The correlation between SCBNL and HBL is positive in case of total asset. It implies that the total asset of SCBNL and HBL move in the same direction. Here R^2 >6 P.Er. Therefore, correlation coefficient is significant. This can be said that both SCBNL and HBL increase its total asset as same direction. The coefficient of determination is 0.9663, which shows the only 96.63 percent of the degree of relationship.
20. The correlation between the loan and advances of SCBNL and HBL is high degree positive. The correlation coefficient between two banks is 0.951. It means loan and advances of these two banks moves in the same direction in high proportion. The relation is significant because correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.9044

21. The correlation between profits of SCBNL and HBL there is high degree positive which is indicated by correlation coefficient of 0.984. This relationship is significant because its correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.968 which shows the 96.8 percent of the degree of relationship.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The researcher identified the research problem and set objectives to solve the research problems about working capital management of selected commercial banks as described in the introduction chapter. This study concentrates on the comparative analysis of working capital position of aforementioned banks SCBNL and HBL. The main objective of the study are study the position of current assets and current liabilities, analyze the composition of working capital, assets utilization and profitability of concern bank. To fulfill the objective, various statistical and financial tools have been done for analysis of data, which includes ratio analysis as financial tool and trend analysis, correlation coefficient and test of hypothesis as statistical tools. The major ratio analysis consists of the composition of working capital, liquidity position, turnover position and profitability position. Under these, main ratios and their trend position are studied in the chapter four.

To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely. This section also includes concept of banking, commercial banks, joint venture banks, investment and investment policy.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decision. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. This study is mainly conducted on the basis of secondary data collected from annual reports, official report, economic journal, financial statement etc. and authorize web

site of Nepal stock exchange, Nepal Rastra Bank etc. The five years financial statement has been examined for the purpose of the study.

In the Presentation and analysis of data, comparative analytical and their interpretation has been done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists current assets, current liabilities, working capital, liquidity ratio, assets utilization and profitability. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, trend analysis have been applied to fulfill the objective of this study. The major findings of the study are also included in the final section of the presentation and analysis chapter.

Economic development is not possible without the proper development of banking sector in a country, as banks are the real facilitator for mobilizing the resources. Banks are the institutions, which collect the scattered small savings from the public and invest them into productive sector that ultimately contributes to economic development of a country. Besides providing the services for economic development, they are established to earn profit. In the context of current competitive scenario, banks need to face challenges from all around. One of the major challenges for Nepalese commercial banks is to properly manage the working capital management of commercial bank. Considering the importance of that fact in commercial banks, this research aimed at studying working capital management of SCBNL and HBL banks. For this purpose, descriptive cum analytical research design was adopted. Out of total population of 27 commercial banks (till 2010), 2 banks were taken as sample using judgmental sampling method. SCBNL and HBL have been taken for comparative study because of their similarities in terms of business size, date of establishment, capital size etc.

Establishment of commercial banks, especially joint venture banks, has continued in response to the economic liberalization policies of the government. As a result, in Nepal there are twenty commercial banks at present competing with each other in their business. These joint venture banks have concentrated themselves on financing foreign trade, commerce and industry.

The basic task of financial institutions is to mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects to offer attractive and secured returns to different sectors of the economy according to the planned priorities of the country. On the other hand, this process of financial institutions gives rise to the money and other financial assets which therefore have a central place in the development process of the economy. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus (savers) units to the deficit units (investors) in the economy.

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In most years, banks are the leading buyers of bonds and notes issued by the government to finance public facilities, ranging from hospitals and football stadium to airport and highways. Moreover, bank reserves the principal channel for

government economic policy to stabilize the economy. In addition, banks are the most important sources of short-term working capital needed for the businesses. They have increasingly become active in recent years in making long-term business loans for new plant and equipments. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the bankers, to whom they turn most frequently for advice and counsel when they need financial information and financial planning. These all are part of capital and working capital management.

5.2 Conclusions

From the analysis of various data it can be said that working capital management is one of the most important parts of every financial institution. Total cash and bank balance, loan and advance and current asset of HBL is higher than SCBNL. But investment of Govt. securities is more of SCBNL which indicate less risky then HBL. The net working capital of SCBNL is highly fluctuating over the period. Net working capital of HBL is also fluctuating trend over the period. Both banks have increasing and decreasing condition of its working capital. The current assets and current liabilities of SCBNL and HBL are fluctuating trend. The average mean ration of SCBNL is 1.134 and HBL is 1.122. SCBNL has little high ratio than HBL. The quick ratios of SCBNL and HBL are fluctuating during the study period. The average mean quick ratio of SCBNL is 0.49. It concludes that the quick ratios of SCBNL are better than HBL.

The cash and bank balance to total deposit ratios of SCBNL are fluctuating. The average ratio of SCBNL is 7.02 and HBL is 6.76. The higher average ratio shows that liquidity position of SCBNL is better than HBL. The Cash and Bank Balance to Current Deposits ratios of SCBNL is higher than HBL. It indicates proportion of cash and bank is high of SCBNL in current deposit. The lower C.V. indicates

SCBNL is less variability than HBL. The average fixed deposit to total deposit ratios of SCBNL is 0.12 and HBL is 0.23. The fixed deposit to total deposit ratios of HBL are better than the SCBNL. The average saving deposits to total deposit ratios ratio of SCBNL is 0.61 and HBL is 0.54. The average ratio of is higher than HBL. The coefficient of variation of SCBNL is higher than HBL it indicate higher inconsistency. The loan and advances to total deposit ratios of SCBNL are fluctuating and HBL are continuously increasing condition during the study period. The average ratio of SCBNL is 0.416 and HBL is 0.62. The average ratio of HBL is higher than that of SCBNL. The average loan and advance to fixed deposit ratios of SCBNL is higher than that of HBL it indicate that SCBNL uses more fixed deposit as loan and advance than HBL. The average loan and advances to saving deposit ratios ratio of HBL 1.148 is higher than that of SCBNL 0.68, it means more saving deposit is uses as loan and advance by HBL. The average ratio of HBL is higher than that of SCBNL. It means HBL utilizes more assets in interest earning sector. the higher C.V. of HBL is high variation in interest earned to total assets HBL.

The average net profit to total assets ratios of SCBNL is higher than that of HBL. It means net profit SCBNL earn more utilizing total assets. The average ratio of SCBNL is 2.48 and HBL is 1.52. This shows that there is less variation in net profit to total assets ratio maintained by SCBNL compared to HBL. The net profit to total deposit ratios of SCBNL and HBL are fluctuating during the study period. The average ratio of SCBNL is higher than that of HBL.

The coefficient of correlation between deposits and loan and advances of SCBNL and HBL is positive. The coefficient of determination of SCBNL is 0.867 and HBL is 0.947. The correlation coefficient of both banks is significant. The coefficient correlation between government securities and total deposits of SCBNL positive but HBL has negative relationship between these two variables. The correlation coefficient of SCBNL is significant. The correlation coefficient of HBL is

insignificant. The relation between cash and bank balance and current liabilities of SCBNL has negative and HBL has positive. Both banks have insignificant relationship between these two variables. The correlation coefficient between Loan and advance and net profit of SCBNL and HBL are positive. The relationship between Loan and advance to net profit of both bank is significant. The correlation between total deposit of SCBNL and HBL is highly positive is 0.967. The correlation is significant. The correlation between SCBNL and HBL is positive in case of total asset. It implies the total asset of SCBNL and HBL move same direction. Correlation coefficient is significant. The correlation between the loan and advances of SCBNL and HBL is high degree positive. The relation is significant. The correlation between net profits of SCBNL and HBL is high degree positive i.e. 0.984. This relationship is significant.

5.3 Recommendations

On the basis of the findings of the present study, following recommendations are made:

- Generally, banks have to maintain appropriate liquid assets. The current ratio of the two banks, SCBNL and HBL is considerable. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to SCBNL and HBL.
- Positive working capital represents the sound financial management of the banks. Similarly, negative working capital represents the poor financial management of the banks. In case of SCBNL, we found excess negative working capital during the study period. It is negative in the first and last year in SCBNL and positive in the rest of the years. However negative working capital can be found first and

second last year in HBL and positive in rest of the years. Therefore, to eradicate this situation SCBNL and HBL, suitable working capital should be formulated and implemented. There should be keeping optimum size of investment in current assets and current liabilities.

- Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that both banks have made some amount of fund in Government securities. HBL is lower than SCBNL. Both banks are recommended to invest more funds in Government securities instead of keeping them idle.
- Net profit to total assets ratio and net profit to total deposits ratio are higher on SCBNL than HBL. However, interest earned to total assets ratio and the cost of services are higher on HBL than SCBNL. Therefore, HBL should try to reduce its cost by reducing high cost deposits and operating in proper and efficient way so that it can have least operating cost which further maximizes its profitability and shareholder return.
- Improper working capital leads to decrease the profitability of the company and leads to ruin the company in the long run. So, SCBNL and HBL are recommended to give emphasis to proper working capital policy to uplift the financial performance of the companies in the competitive age of today. Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan and advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.
- Last political instability directly affected the economic sector such as hotel and tourism, manufacturing and trading sector. Bank loan and advances is decreasing in this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit

- Keeping all these in consideration, the HBL has little less performance than that of HBL. Therefore, in the future ahead, the HBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector, both bank SCBNL and HBL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers.

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