

CHAPTER ONE

INTRODUCTION

1.1 General Background of the Study

Economic development of a country depends upon the considerable degree of national income level of that particular country. National income is sum total of the contribution made by various, sectors of the economy including agriculture, manufacturing, tourisms, hotel and restaurant construction, and communication etc.

"The level of overall development of a country is social cultural, political or whatever is characterized by the level of economic growth lies in the development of a well managed banking system. As such banks can be considered as the banking of a country's overall development. In short, banks are extremely necessary of the healthy and promote progress of a country, its citizens and societies, its has by creating and mobilizing the capital and rendering various financial services, banks are contributing to the establishment and development of so many small and large scale industries and domestic as well as international trade and commerce. Banks provide an effective payment and credit system, which facilitates the channeling of funds from the surplus, spending units (savers) to the deficit spending units (investors) in the economy¹.

By accepting deposits, the banks promote the habit of thrift and saving among the people. These saving of the people later result in capital formation; which is the basis of economic progress in the country. Moreover, banks also encourage industries innovations and business expansions through the funds provided by them to the entrepreneurs. Banks exercise considerable influence on the level of economic activity through their ability to create money in the economy. Banks perform on indispensable task of intermediating between the deficit spending individuals or institutions and the surplus spending individuals or institutions in order to raise funds and then loaning those funds to deficit

¹ Garhwal. S. "Commercial Banking and Economic Development" Pointer Publishing SSM Highway, Jaipur, India, 1993, p. 15

spending individuals and institutions. In addition, another contribution banks make is their willingness to accept risky venture such as loans form borrowers, while issuing low risk securities to their deposits. The various utility functions performed by banks are of great economic significance for the economy, which can influence the course and direction of economic activity within the course of and direction of economic activity within the community and arranges for their productivity use by providing short as well as long-term loan in different forms necessary for the trade and commerce, they discharge various functions on behalf of their customers and in turn are paid for their services.”²

From the above statement, it can say that the banks are the most important financial institutions that help in the commercial economic developed of a country. Finance is the life-blood of commerce and this lifeblood is providing by bank. These banks help the production and the exchange of goods and services. They are like reservoirs. They mobilize the saving of the people and direct it towards productive purpose. They play an important role in the economy by channeling the funds form surplus sending units. They promote the habit of thrift and saving among people by accepting deposit from the public. The operation of banks records the economic pulse of the economy. They are not only helping the production, exchange. They are not only help the production, exchange of goods and services but also in the economic uplift of the people moreover, Large scale production and distribution can only be achieved by a proper banking system in a country. Hence the banks have a profound impact on the economic and commercial development of the country.

The history of institutions banking in Nepal, began with the introduction of Nepal Bank Ltd. under Nepal Bank act, 1973 A.D., although, some form of banking was known to be practiced in the ancient period., As days passed by, their were dynamic changes visible in the commercial banking system until the establishment of Nepal Rastra bank in 1966. The Govt. owned banks were setup for the genuine purpose of expending the financial development and pursing, the financial intermediation process to fulfill the development requirement of the nation. However, the defective way of management and their limited regarding toe the consideration, of capability, quality, service, delivery, productivity and

² Commercial Bank act, 2031 B.S.

efficiency, led these institutions to become unsound and inefficient, in delivering the services.

In Nepal these factors led to the GOVT to encourage joint venture in banking sectors three major reforms were carried out in 1980. The reforms include allowing the foreign banks to operate as joint venture, lifting of control on internal rate introduction of the auctioning of GOVT securities. The GOVT's policy of allowing foreign joint venture banks to operate in Nepal is basically targeted to encourage local traditional run commercial banks to enhance their banking capacity through competition, through competition, efficiency, modernization via, computerization and promote customer services.

The joint venture concept has become more acceptable and popular than other concepts these days. Hence, banks operating in the form of joint venture are known as joint venture banks (JVBs). In common parlance, joint venture banks in Nepal refer to foreign joint venture bank in which foreign parent bank perhaps certain percentage of share (Not exceeding to 50%) applies their international management and network.

In fact, the Nepal Arab bank Limited became the first foreign joint venture commercial bank to began its operation in 1984. These move to allow the operation of these joint venture banks provided to be made in the right direction in removing the handles of the Govt. owned commercial bank and encourage competition.

Joint venture banks are registered in Nepal under the commercial bank act, 2021 B.S. and operated under the commercial bank act, 2031 B.S They have joint venture between Nepalese investor and their parent foreign banks, they domestic portion of investment has been shared by financial-and non-financial institutions as well as private investor.

The sustainable commercial development of a country demands a proper banking system. A bank can be called a sound bank only if it fulfills the shareholder expectations. The shareholder's expectation expects a fair return on their investment. Thus the commercial banks need to be managed properly, in order to satisfy the investor's goals, which is to obtain a fair return on their investment in accordance with the amount of risk taken by them.

Thus in today's dynamic and competitive environment it has become increasingly important for banks to evaluate and analyze their working capital management and compares them with their rivals, so that they could retain their customers and enjoy shareholder's confidence in them.

In response to the economic liberalization policy of the GOVT establishment of private and joint venture bank is continued. The tendency of concentrates these banks only in urban areas like Kathmandu. Biratnagar, Pokhara etc. has raised certain questions. This state of affairs cannot contribute much to the socio-economic development of the country. Where 90% of the populations live in the rural areas and 82.2% of populations depend up on agriculture according to the census 2001.

These joint venture banks are reluctant to extend their operation in rural areas. Despite, the circular of Nepal Rastra Bank, the central bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas. But these banks are inclined to pay fines rather than directing their resources to such less profitable sector. This problem reaming to be solved. So that even the small investor in the rural areas will benefits from the services of such banks moreover, even the existing branches of the commercial banks in the rural areas do not seem to have been able to mobilize the local resources effectively.

At present, there are various joint venture banks in Nepal and researcher has attempted to take only four banks for purpose of the research study. The present study is directed towards working capital management of commercial banks in Nepal.

1.2 Focus of the Study

This study focuses on how the Nepalese commercial joint venture banks utilized the available working capital funds very well. Besides, this study also focuses on the relationship between current assets and current liabilities and relationship of other variables, which affect the working capital management. This study also only focuses the working capital management and its significance during past five years up to 2007 A.D.

Working capital is the Life-blood of every business activities. It is a controlling nerve center of business the success and failure of any business organization is heavily dependent upon the sort of efficiency in its working capital management. It is the process

of planning and controlling the level and mix of current assets of the firm as well as financing these assets. Specially, working capital management requires financial managers to decide what quantity of cash, other liquid assets, account receivables, and inventories. The firm will hold at any point of time.

"Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and, interrelationship between them."³

The basic total of working capital management is to manage the current assets and current liabilities of a firm in such a way that the satisfactory several of working capital is maintained i.e. these are neither inadequate nor excessive. Lon adequate of working capital may lead the firm to insolvency and excessive working capital implies idle fund, which earns no profit for the businesses.

Any business firm, working capital management essentially mainly four reason. First business firm determine the adequate of investment in current assets, otherwise it would seriously erode their liquidity base. Secondly, they must be selected the type of current assets suitable for investment so as to raise their operational efficiency. Thirdly, that are required to ascertain the turnover, the current assets that greatly determine the profitability of the private enterprises and lastly, that must find out the appropriate source of funds to finance current assets.

The risk can be measured by working capital. Working capital increases in two conditions, by increasing on current assets or decreasing current liabilities. So it is assumed that the greater the amount of net working capital. Less risky the firm is. By increasing the working capital, the firm will be more liquidity position. The chances of insolvent will be low in that case. In same ways if the working capital decreases. The risk increase and side-by-side these will be more chance of insolvent.

That is why, taking into consideration the all above facts the researcher has taken this subject for detailed study The study is directed toward the working capital management of selected different Nepalese commercial joint venture banks, to analysis the working capital, to find out major bleeps and suggestive recommendation to solve the working capital management that selected company's objective can be achieved Thus is it an exploratory fact finding research study.

³ Smith, K.U. "Management of Working capital" West publishing company New York, 1994, p. 5

1.3 Statement of the problems

The management of working capital is in itself is a decision area within the framework of the overall financial management. it can be regarded as a Life-blood of an enterprises ordinarily, the their working capital stand for that pad of capital, which is required for the financing of working needs of the enterprises, it represents that part of funds, which circulation firm one to another firm in the ordinary conduct of business.

In most Nepalese enterprises, the management of working capital has been misunderstood as the management of money and mangers are found over conscious about the holding of money rather than its efficient utilization. At the same time they never thought of the sources of working capital and usually depend on HMG for it. Though most of the enterprises in Nepal have well recognized the importance of proper working capital management they are still facing the problems of working capital management.

In this study, basically focus our attention to analysis of working capital management of different selected joint venture banks. Joint venture commercial banks are the most financial institutions that help in the commercial economic development of a country. Commercial profit by providing quality services to the customer but there are so many problems in the commercial joint venture bank in Nepal. Besides, it they own name and fame, there are not appropriate training and orientation class in different level of employees. There is another main problem of Nepalese commercial joint venture banks are not effective management of working capital, policy, planning, and organization, staffing co-ordination, controlling and reporting resources.

The commercial joint venture banks have been gaining in exchange of us currency due to constant devaluation of our currency, which cannot remain long time. Another problem of the bank is that they have adequate volume of deposit in relation to loan, advance and overdraft. This may cause to pay higher volume of interest in relation to interest received. Interest earning is the major sources of income the enough liquidity position, poor handling of resources and hence ignoring small savers is another problems of the bank.

In Nepal, the profitability rate, operating expenses, dividend distribution, among the shareholders etc. have been found inconsistent and difference. There most be same reasons behind difference in the working performance Due to inefficient working capital

management, organization establishment at the same period with equal capital, operating in the same condition have different earning capacity.

In short, one of the major problems of that these selected commercial joint venture banks are facing ill management of working capital. A general observation of their past performance and from the latest available computed comparative balance sheet and profit and loss a/c out show the working capital policy is not effective it is clearer that working capital management of the selected commercial joint venture banks by the help of the following table.

The relationship between current assets and current liabilities for the study period from 2002/03 to 2006/07 of different selected four joint venture banks are presented below on a table.

Table no.- 1.1
Relationship between current assets and current liabilities

Name of the Banks					
	2002/03	2003/04	2004/05	2005/06	2006/07
NABIL	1.06	0.76	0.81	0.92	0.94
EBL	1.04	1.04	1.05	1.06	1.05
NBBL	1.01	1.03	1.03	1.01	1.01
SCBL	1.06	1.06	1.07	1.06	1.06

Source: Comparative balance sheet and P/L statement of the respective joint venture banks during the period for 2002 to 2007 as given in websites, www.nepalstock.com.

From the above table, it is clear that the relationship between current assets and current liabilities position of the entire selected joint venture banks. According to conventional rules, the relationship between current assets and current liabilities should at least in the position 2:1. In other words, a current asset twice of current liabilities is considered to be satisfactory. But the relationship between current assets and current liabilities of all the selected joint venture banks are below than 2:1.

Therefore, the problem of the selected joint venture bank is than the solvency position of the firm is not good. The cash may not be able to pay current liabilities. There selected joint venture banks are suffering form lack of sufficient current asset to discharge short-

term obligation when they become dues. It is also hitting the day-to-day operation of these joint venture banks by effect of negative working capital.

On the other hand, assuming there is no bank overdraft (prepaid expenses and inventory) current assets equal to liquid assets. Except bank of Kathmandu, SBI bank and Standard Chartered Bank Ltd, the relationship between liquid asset and current liabilities of remaining banks are not satisfactory level because the relationship between liquid asset and current liabilities are extremely low than conventional rule of 1: 1. It indicates insufficient amount of cash to meet payment for creditors and workers. So that creditor and workers are not getting their dues timely.

Liquid asset is that a large part of current assets of the firm is tied up in slow moving and slow paying debts. The firm would find it difficult to pay its current liabilities Thus; the selected joint venture banks should keep proper balance between current asset to current liabilities and quick assets to current liabilities.

Therefore, each and every joint venture banks need to analyze its working capital to know whether it is operating efficiently or not. At present the selected JVBS have been suffering poor working capital management as into live year taken for the study period due to the above many more problems, this study is going to analysis on working capital management of selected different joint venture banks for suggestive recommendation to cure the working capital management.

The present study, therefore, attempts to diagnose and analyze the working capital management of each selected joint venture banks under study. The study also point out the areas where necessary and adequate actions could be taken to improve the present situation. The main trust of the study has been to make a detailed cause and effect study of working capital management of the selected joint venture banks.

The study has been made different dimensions for analysis for clear picture of JVBS, first the comparative relevant ratios of working capital management of financial statements of various JVBS Under study in the same bank which show each JVBS and its position relative to other JVBS within the same JVBS. Second the study is based on comparative compound growth rate of each JVBS. Third, the time series analysis of working capital management of each JVBS under study, which indicates the trend of improvement or deterioration of its working capital condition overtime.

1.4 Objective of the Study

The main objective of the study is to identify the existing problems and is to insight into the comparative working capital analysis of selected different joint venture banks And analysis of some aspects of their working capital management and to make important suggestions and recommendations for their improvement towards achieving greater working capital efficiency of the selected joint venture banks.

Working capital management is the significant and improvement factor of the overall management. Various factors of working capital influence the working capital position. Thus the objective of the study is to depict the actual working capital of each company under study for this the analysis of working capital is utmost.

The working capital management plays vital role in the progress and advancement of the company as well as it can be reasonable and major factor in success and failure of the company. If a firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent. More specially, the objectives of the study are point out as follows:

1. To analyze the current assets and current liabilities of the selected banks under study during the five-year period of 2002/03 to 2006/07.
2. To evaluate and analyze the net profit on current assets, debt to equity and EPS of the selected joint venture banks.
3. To evaluate and analyze the working capital with the help of trend analysts.
4. Find the basic reasons of the working capital management good or bad.
5. To provide reformative suggestion for further improvement of sample four commercial joint venture banks.

1.5 Needs and Significance of the Study

The need for working capital to run day-to-day business activities operations cannot be overemphasized. It will hardly find business firms, which do not require any amount of working capital. The firms aim at maximizing the shareholders. In its endeavor to maximize the shareholders wealth, the firm should earn efficient return form it

operations. Earning a steady amount of profit requires successful activities. The firm has to invest enough sales activities. Current assets are needed because sales do not convert in to cash instantaneously (Pandey I.M., 1992, p., 801).

Answer will be sought of the following questions.

1. What is the need to invest funds in current assets?
2. How much funds should be invested in each type of current assets?
3. What should be the proportion of long-term and shod-term funds to finance current assets?
4. What appropriate sources of fund should be used to finance current assets?

Working capital management is critically important because working capital is used to make adjustment in operations to account for changing economic condition. If demand begins to rise or fall, the immediate Reponses is in the working capital account and the appropriateness of the Reponses can spell success or failure for the firm (W/B 1980, p. 191).

The significance of the study lies in the fact comparative basis and enable in drawing inference regarding the working capital management of the selected is significantly to the management of the joint venture bank, shareholder, policy makers and above all future management studies.

The study throws light on the degree of efficiency of the working capital management. Hence the inference drawn from this study will be important to the working capital management of the capital management of the selected bank under the study in making their working capital decision.

The shareholders are the real owner of the joint venture banks. They are interested in the fair return on their investment through proper utilization of the fund; hence the present study will be of immediate help of the shareholder in adjusting, whether their funds are properly in adjusting whether they are getting a fair of return on their investment.

The study will also be of immense help to the policy makers i.e. Officials of the GOVT, concerned industry, internal Revenue office, formulating policy, rules and regulations regarding the operations of the commercial banks.

Last but not the least; the study will be help full to future management students in the course of preparation and reviewing of their research work.

1.6 Limitation of the Study

A research is a vast perceived investigating subject matter for solving perceived research problems. Each and every study has its own liabilities.

No can be free form constraints such as economic resources, time etc. the present study of working capital has the following assumptions and limitations.

1. The study is mainly based on the secondary data which is derived from NSE website www.nepalstock.com.
2. The study is limited to working capital management of joint venture banks.
3. The study is confined to four selected joint venture banks.
4. The Study covers only five year's period i.e. 2002/03 to 2006/07.
5. Due to time constraint, not all the related areas are possible to cover in depth.
6. Since the data available in annual reports are not in organized form, they have been organized according to the need of the study.
7. Mainly statistical tools and financial tools are exploded for the need of the analysis of the working capital management of Nepalese joint venture banks.

1.7 Organization of the Study

The study has been organized into five chapters, each devoted to some aspects of the study of working capital management of Nepalese joint venture banks in Nepal. The title of each of these chapters is as follows. The title of each of these chapters is as follows.

Chapter: I

This chapter contains, the introductory part of the study has as already mentioned, and the chapter describes an introduction of research study which the major issues of the study, significance of the study and limitation of the study.

Chapter: II

This chapter devote to theoretical analysts and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

Chapter: III

The chapter describes the research methodology. This chapter deals with research design, population and sample, sources of data, data collection and data analysis tools.

Chapter: IV

This chapter deals with the presentation and major finding of the study on working capital management.

Chapter: V

This chapter states summary of the study, conclusion made by researcher, and recommendation drawn by researcher.

Bibliography and appendices have also been included in the last part of the study.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Conceptual Review

The goal of the firm is the maximization of the wealth invested by the owner of the firm. Under most condition, this objective can be obtained by persuading of policy of maximizing the profits. Thus the main objectives of the firm are the maximizing the profit. New business firms require various types of assets in order to carry out its day-to-day operation. A new business firm requires various types of asset in order to carry out its day-to-day operation. Some assets are required to meet the needs of regular production and some assets are required to meet day-to-day expansion and short-term obligations those firm, which generally raise short-term and long-term fund at balance. They' will get success as well as other ordinary firm a new firm generally uses current assets as cash, marketable securities, account receivables and inventories which are necessary for the new types of business more than a running business. The cash and marketable securities are considered ads purely liquid assets and account receivable and inventories are not taken as purely liquid assets.

Working capital management is an important domain of financial management, which affects the decision making of enterprises inadequate level of working capital can result in serious financial difficulties working capital management plays vital role in maximizing shareholders wealth, such as it could be better to understand, the theory of working capital management: in brief, as it provides conceptual and analytical in making this decision, skillfully.

Thus working capital is firm investments in short term asset such as cash, short term securities account receivable, and inventories. The working capital is an important and time consuming aspect of managerial finance Working capital management which encompassed on aspect of the administration of both current assets and current liabilities,

have needed to adjusted to changes in the firms levels of sales activity caused by seasons And factor, in other side working capital management provided as aspects of to contribute to maximizing the value of the firm Current assets holding, for example, should be expanded to the point where marginal returns on increase in such assets are just equal to the cost of capital required to finance the increase current liability should be used in place of long-term debt where their use lower s the cost of capital.”⁴

Working capital is needed for day-to-day operation, of the business, so it can be considered as the life-blood for any business. The management of working capital has a definitive effect on the profitability and the contributed existence of the business great importance has been attached to management of fixed assets but working capital management has not been given the much importance as it deserves inadequate planning of working capital requirements can more speedily effectively bring as otherwise be paid to the management working capital. Efficiently and the optimum utilization of even the fixed assets to which a great importance is given depends upon the availability of adequate working capital Now a day the efficiency management of working capital has acquired a greater in view of the tight credit policy followed by the reserve bank of India is as a result of the acceptance of recommendation made by the Tandon and Chore committees.”⁵

Thus working capital deals with the nature of the current assets and current liabilities. The conversion process of current asset that include cash, inventories, and current receivables etc., must be possible to get readily available cash within one year to meet current obligations. In a manager the current liabilities comprising trade creditors, account payable, short-term bank loan, outstanding expenses etc. must be paid within one year as they become due.

Thus the main purpose of this chapter is to discuss the theory of working capital management and related past literature working capital management is an importance decision making of financial management of every business concern. Hence the success and failure of any enterprises depends on proper working capital management.

4 Weston, J.F. and Brigham, E.F. “Managerial Finance”, Holt Sounders International, 1982 Ed., P. 266.
5 Jain S.P. and Narang K.L., “Financial Management Accountancy,” Ed. 1991, p. 171.

2.1.1 Working capital theories

2.1.1.1 Nature of working capital /conceptual thoughts.

"Working capital management is concerned with the problems that arise in attempting to manage the current asset, current liabilities and the Interrelationship that exist between them."⁶

A business firm needs not only fixed capital but also the working capital for day-to-day operation of concern. It finance in some of assets of short-term nature like investment on security, inventories, account receivable, cash and marketable securities etc. When al I these short tem assets are put together it is called working capital. It is, therefore, said that working capital is related with short-term financing.

Conceptually the term "Working capital" deals with the nature of current assets and current liabilities, which must be ready in cash within a year current asset, are cash, inventories account receivables and current liabilities arc trade creditors, account payables, short term bank loan and outstanding expenses etc.

Another aspect of nature of working capital is that lever of net working capital which is long-term function of sales turnover."⁷

Working capital may be regarded as the life-blood of business. No area of business is so intimately related to its other areas as the area of working capital management, working capital policies affect marketing, personnel production and other functions too. Almost every an activity to business that happens in the business is related its working capital decision. In fact, the reason for working capital is not being able to optimize it is that there are various financial areas influencing it and these are primarily taking care of their own need.

Professor W. Brigham has given some theoretical insights in working capital management after their various research studies on it. The; explain in the beginning the importance of working capital, concept of working capital management, financing of working capital management, the use of short term versus long-term debt, relationship of current asset fixed assets.

⁶ Smith K.V., "Management of Working Capital," West Publishing Company, New York, Ed. 1974, p. 5.

⁷ Upadhyaya K.M., "Financial management," Kalyani Publisher, New Delhi, 1985, p. 47.

The goal of working capital management is to manage the firm assets and current liabilities in such a way that a satisfactory maintained. So if the firm cannot maintain a satisfactory level of capital, it is likely to become insolvent. The current assets should be large enough to cove its current liabilities, in order to ensure a reasonable margin of safety."⁸

2.1.1.2 Management of working capital

The term working capital management is closely related with short-term finance and it is concerned with collection and allocation of the resources. Working capital management is related to the problems arises in attempting to manage the current assets and current liabilities and the relationship that exist between them."⁹

Working capital management concerned with the management of current assets and current liabilities. Working capital management is an important aspect of financial management. Assets of the essentially short-term nature are known as current assets. It is short-term investment. Current assets are expected to be converted into cash with in a year. The major current assets are cash, marketable securities, sundry debtors, bill receivables, and inventory.

Current liabilities are the part converting with working capital management. Those liabilities, which are expected to pay within one year, are known as current liabilities. The example of current liabilities is bank overdraft, sundry debtors, and bills payable and outstanding expenses or accrued due. The objective of working capital management is to manage the current assets and current liabilities of a firm if a firm cannot maintain satisfactory levels of working capital; it is likely to become insolvent. For a good management working capital current assets should be more than current liabilities."¹⁰

Mostly there are two schools of thoughts regarding the working capital is mean for the current assets only. It is concerned nothing the liabilities side. According to second school of thought, working capital is the excess of current assets over current liabilities. The former concept, which can be termed as gross concept, is important to newly established companies where liabilities have not been acquired immediately but the later

⁸ Jain P.K. and Khan M.Y., "Financial Management and Problems," Tata McGraw Hill publishing, New Delhi, 1982, p. 603

⁹ Michael Firth, "Management of Working Capital," London the McMiller Press Ltd., 1976, p. 17.

¹⁰ Dangol R.M., "Financial Management," Taleju Prakashan, Bhotahity, Kathmandu, Ed. 1m 2050, p. 217.

one, which can be termed as net concept is important for both newly established company and operating concerned where some amount of current liabilities been maintained for payment of different creditors, income taxes, bill payable, secured and unsecured loans etc.”¹¹

2.1.1.3 Concept of working capital

Our study focuses the concept of working capital, but to know the concept of working capital, firstly we have to know the concept of capital only. Capital is the amount of money in terms of cash or kind invested in a business. "Capital is the main and important sources of funds. Capital in the form of commodities has to perform the function of commodities. The article of which capital is composed is produced specially for the market and must be sold transferred into money, hence go through the process."¹²

In commerce, "Capital was first used as an interest bearing some of money.”¹³

That is why capital may be factors of production in the firm of building, equipments machinery, raw materials, and semi finished goods for further process and so on. Capital required for the business can be classified following two headings.

- a. Fixed capital
- b. Working capital

The term fixed capital consists of heterogeneous components, which wear out in unequal period of time and must be replaced. This applies particularly to machines.”¹⁴

Long-term funds are required to create production facilities through purchase of fixed asset such as plant, machinery, land and buildings, furniture etc. Investment in these assets represents that part of firms, capital is permanent, or fixed assets are called as fixed capital.”¹⁵

Our study only focuses the working capital management. Thus working capital can be classified into two concepts, they are as: -

- a. Grows concepts of working capital
- b. Net concepts of working capital

¹¹Marx, Carl, Capital Volume – II, Progress Publisher Moscow, 1986, p. 38.

¹² Op. Cit., p. 42.

¹³ Encyclopedias of Social Science, Volume 3 and 5, McMillan company, New York, 1963, p. 189.

¹⁴ Marx, Carl, Op. Cit. p. 175.

¹⁵ Sharma, R.K. and Gupta, S.K. "Management Accounting," Kalyani Publisher New Delhi, 1992, P. 537.

a. Gross concepts of working capital

The gross concepts of working capital refer to total current assets. Current assets are those assets, which can be converted into cash within short period of normally accounting cycles. Current assets include cash, marketable securities, sundry debtors bill receivables, inventory etc The supporters of gross concepts of working capital are in favor of the given statements:-

In a simple term, gross concepts of working capital means investment in current asset. In other words, gross concepts of working capital are the total amount of available for financing of current assets. Thus the gross concept of working capital is the capital invested in total current assets of the enterprises.”¹⁶

From the view of L.M. Pandey, grow working capital refers to the firm's investment in current assets. Current assets are the asset which can be converted into cash within an accounting year and includes cash debtors, stock short term securities and bill receivables.”¹⁷

Gross working capital is the administration on of the firm's current assets and the financing needed to support current assets.”¹⁸

Gross working capital is the firms' investment in current asset (Like cash, securities and receivables).”¹⁹

According to R.S. Pradhan and K.D. Koirala express their views about gross concepts of working capital as "If all expenses needed to run day-to-day operation of gross concepts of business, such as amount to be invested in the form of cash, finished goods, receivables etc, are put together, it is called working capital. This working capital and total current asset are synonymous together it is called working capital. It and current assets are synonymous."

According to Adam smith, “The goods of the merchant yield hi to no revenue profit till the money yields him a little, it is again exchange going from him in once shape and returning him, in other shape and returning him in another and it’s only by means of such

16 Sharma, R.K. and S.K Gupta, Op Cit p.604

17 I. bid.

18 Van Horne, J.C. and Wachowicz J.M., J.R. of "Fundamentals of Financial Management", New Delhi Prakashan 10 edition, 2002, p. 104.

19 I. bid.

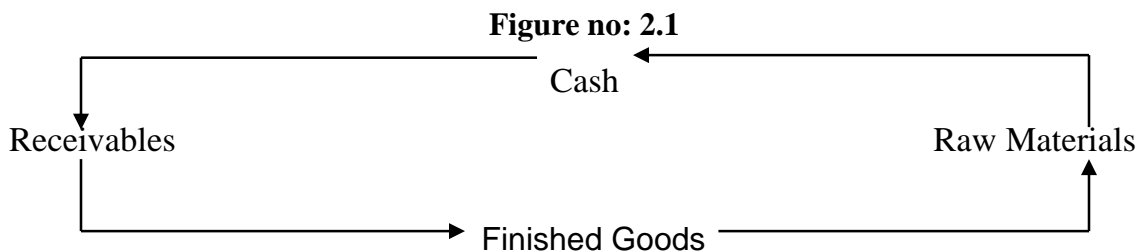
circulations or successive exchange that can yield vary profit, such capital. Therefore, may properly be called circulating capital.”

Inventories may consist of raw materials working in progress or finished goods awaiting sales and shipment. Firm invest in inventory includes no only storage cost and the risk of spoilage or obsolescence but also the opportunity cost of capital, that is the rate of return offered by other equivalent risk investment opportunity.”²⁰

Current liabilities are obligation to outsiders repayable in a short period, usually within the accounting period or the operation cycle of the firm. It can be said to be the counterpart of the current assets. Conventionally they are paid out of the current assets, in same cases however, existing current liabilities can be liquidated through the creation of additional current liabilities.

In the words of C.W. Gestenberg: - Circulating capital means current assets of the company that are changed in the ordinary course of business firm one from to another, as for example, cash to inventory to receivable, receivable to cash.”

Working capital cycle:



From the above definition it is clear that working capital management is concerned with the problems that arise in attempting to manage the current asset and interrelationship that exists between them.

Current assets include:

- a. Cash in hand and bank balance:
- b. Bills receivables
- c. Sundry debtors
- d. Shod term loan and advance

20 R.A. Brely and Myers, “Principles of Corporate Finance,” Tata McGraw Hill publishing Co. Ltd. New Delhi, 1994, p. 63.

- e. Inventories or stock
 - i. Raw materials
 - ii. Work in progress
 - iii. Stores and spares
 - iv. Finished stock
- f. Prepaid expenses
- g. Accrued income
- h. Marketable securities etc.

b. Net concept of working capital

Net working capital is commonly defined as the difference between current assets and current liabilities or in the other words; net working capital is the current assets minus current liabilities.”²¹

Generally the term net working capital can be defined in two ways.

- i. “The most common definition of net working capital is the difference between current assets minus current liabilities.”²²
- ii. “Alternative definition of net working capital is the portion of a firm’s current asset which finance with long-term funds.”²³

“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.”²⁴

Working capital sometimes called net working capital is represented by the excess of current assets over current liabilities and identifies the relatively liquid position of total enterprises capital, which constitutes the margin of buffer for maturing obligation within the ordinary operating cycle of the Business.”²⁵

From the view point of Van Horne working capital is the total component of receivable, liquidity, inventory, and current liabilities. He has grouped them according to the way

21 James C. Van Horne & Wachhowica, J.M. Jr. Op. Cit. p.204

22 Gitman, L.G. "Principles of Managerial Finance" Heper Raw Pvt. Ltd. New York, 1996, p. 150

23 Pandey I.M., "Financial Management "Vikash Publishing House India, 1979, p. 797

24 Pandey, I.M. Op. Cit., p. 282

25 Encyclopedia, "Banking and Financing," Maann Garia, 8th Editron, Banker Publishing House Co. Boston, 1083, p. 133.

they affect valuation and also described the different methods for effective management of cash and marketable securities and valuation 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"²⁶

We have already discussed about the gross concepts of working capital. So here we discuss only about current liabilities. Current liabilities are those liabilities which are intended to be paid in liabilities which are intended to be paid in ordinary course of business with a short period of normally once accounting year.

Current liabilities include:

- I. Bills payables
- II. Sundry creditors or account payable
- III. Out standing expenses
- IV. Short term loans
- V. Dividend payable
- VI. Bank Overdraft
- VII. Provision for taxation (if it does not amount of appropriate of profit) etc.

On the basis of Net or time concept of working capital can be divided into two parts.

They are as follows:

- I. Permanent or fixed working capital
- II. Variable or temporary or fluctuating working capital

2.1.1.4 Importance of working capital

Business sector is very competitive these days. Marketing sector of business is also very complex. In this condition, working capital is also very complex. In this condition, working capital play vital role of sustainable developed of business sector. It is life-blood of the business organization. Just as calculation of blood is essential in the human body for maintain life likewise. Working capital is very essential to maintain the smooth running of a business. No business can run successful without an adequate amount of

²⁶ Van Horne, J.C. and Mchowiwzh J.M. Jr. Op.Cit. P.204

working capital. It is an important aspect of financial management. It is important due to.”²⁷

1. Adequacy of working capital creates a feeling of securities and Confidence.
2. Adequacy of working capital is a must for maintain solvency and continuing production.
3. Creation of sound goodwill.
4. Easy loan from bank.
5. Easy availability of cash discount.
6. General rise management moral.
7. Quick and steady return to the investor
8. Facility of off-season purchasing.
9. Regular supplies off-season purchasing.
10. Utilization of opportunities.

From the view of P.K Kuimany about the important of working capital, “working capital” may be regarded as the life-brood of a business. Its effective provision can do much to ensure the success of business while its inefficient management can lead not only loss of profit but also ultimate do fall of what otherwise might be considered as a promising concern. It has been rightly made of the long-term planning of capital project. Out the cost includes due to inadequate planning in the use of working capital is immeasurable.”²⁸

2.1.1.5 Need of working capital Working

Working capital is used for day-to-day business operation of a business firm. Thus, it is required to run the business firm regularly. Every business firm keeps their objectives either maximum their wealth or shareholder return on higher profit. To maximize their target goals, they have to invest their capital in different profiles to minimize risk and maximize return. So that working capital is required to study. Thus, Working capital is fluctuation and it is needed to run the day today business. The need of working capital

²⁷ Sharma Basu, “Financial Management” Taleju Prakashan Bhotahity , Kathmandu,2001,p.211
²⁸ P.K. Kulmany , “Financial Management” Himlayans Publishing House, Mumbai,1993,p.385

arises due to the run the day-to-day business. The need for working capital arises due to the time gap between production and realization of cash from sales. Working Capital is needed for the following purposes.”²⁹

1. For the purpose of raw material, component and spares.
2. To pay wages and salary.
3. To maintain day-to-day expenses and overhead cost such as fuels, power, and office expenses
4. To met the cost as Packing. Advertising etc. costs.
5. To provide credit facilities to the customers.
6. To maintain the inventory of raw material, working in progress, stores. Spares and finished goods etc.

2.1.1.6 Principles of working capital

The following are the general principle of working capital management-policy.”³⁰

1. Principle of risk variation.
2. Principle of cost of capital.
3. Principle of equity position
4. Principe of maturity position

The first principle refers to the risk associated with the amount of working capital employed. The second principle is concerned with the Problems of determining the idea level of working capital. The third principle is concerned with the risk directly related to the type capital used for financing working capital requirements and debt equity ratio, and the fourth principle is concerned with maturity dates relatively more importance for risk is insolvency.

2.1 .1.7 Operating cycle

There is a difference between current assets and fixed assets. In terms of their liquidity a firm requires many years to cover the initial investment in fixed assets such as plant and machinery or land and building. On the contrary investment in current assets is turned

²⁹ Sharma R. K., Gupta S.K. Op.Cit.p.545

³⁰ Ibid, p. 551.

over many times a year. Investment in current assets such as inventories and book debts is realized during the firms operating cycle, which is usually less than a year.”³¹

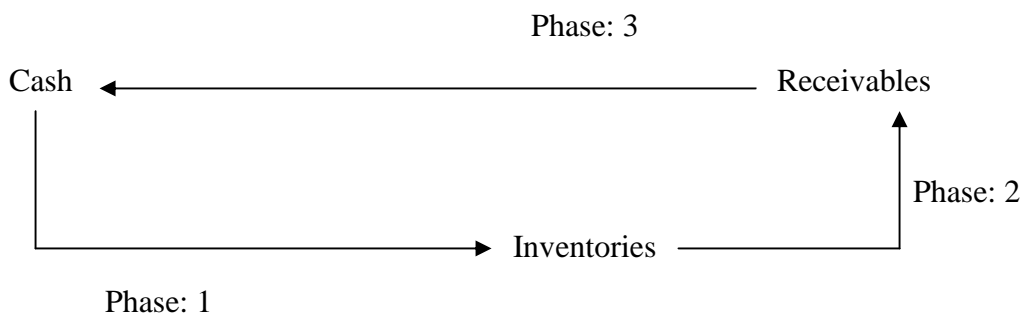
Operating cycle of the firm is required a period of time to convert sales after the conversion of resources into inventory into cash. The operating cycle of a manufacturing company involves three phases.

- I. Acquisition of resources such as raw material, labor, power and fuel etc.
- II. Manufacturing of the product, which includes conversion of raw materials into work in progress into finished goods.
- III. Sales of the product either for cash or on credit sales creates book for collection.”³²

Thus, operating cycle is the heart of working capital. The continuing flow form of cash to supplier to inventory to account receivable and back into cash is called operating cycle, which can be presented by the help of following diagram.

Operating cycle:

Figure no: 2.2



The length of operating cycle of manufacturing firm is the sum of inventory conversion period (ICP) and book debts conversion (BDCP). The inventory conversion period is the total time needed for production and sell of the product, it generally includes:

- I. Raw material conversion period (RMCP)
- II. Work in progress period (WCPC)
- III. Finished goods conversion period (FYCP)

³¹ Maryer, Rc. et al, “Contemporary Financial Management”, West Publishing Company, 1984, p.562.

³² Pandey, I.M., Op. Cit., p. 731.

The book debts conversion period is the times required to collect outstanding amount from customers. Thus the total of ICP and BDCP is called gross operating cycle (GOC). The difference between gross operating cycle and payable deferred period (PDP) is called net operating cycle (NOC). While depreciation is excluded from the expenses of computing operating cycle is called conversion (CCC). Cash conversion cycle is net time interval between cash collection for sale of the product and cash payment for resources and acquired by the firm. The cash conversion period can be calculated by using

$$CCC = ICP + RCP - PDP$$

Where,

ICP, RCP and PDP can be calculated by using following formula

$$ICP = \frac{360}{ITR}$$

RCP = Receivable / sales per day

ITR = Inventory turnover ratio

PDP = Payable / Daily purchase

Payable deferred period is the average length of times between the purchase of raw materials, labour and payment of cash for them.

Sum of above, we can say that CCC should be small to mobilize optimum working capital. Besides it ICP should be less because it measures the conversion of inventory into sales. RCP should be less because it measures the conversion of credit sales into cash and at last, PDP should be higher peak it measures average time of higher because it measures average time of payment. If payments days are larger then the amount of funds are mobilized within business firm for a long period.

2.1.1.8 Financing of working capital

Current assets can be financed by raising the funds from current liabilities or long-term debt. What proportion of current asset shall be financed by current liabilities and what proportion should be by long-term debt is determined by working capital financing policy. The firm can adopt different financing policies. These types of financing policies are distinguished as long-term financing, short term financing and spontaneous financing.

The important sources of long term financing are shares, debentures preferences shares, retained earnings and debt from financial institutions. Short-term financing refers to those sources of short-term credit that the firm must arrange in advance. These sources include short-term bank loans Commercial papers, factoring receivables and public deposit

Spontaneous financing refers to the automatic sources of short-term funds. The major source of such financing is trade credit i.e. creditors, bills payables and outstanding expenses. Spontaneous sources of finances are the cost free. So, a firm would like to finance its current assets with spontaneous sources as much as possible. Every firm is expected to utilize spontaneous to the fullest extent. Thus, the real choice of financing current assets is in between short term and long-term sources. We shall, therefore, concentrate our attention on the short term versus long term financing.”³³

There are three basic approaches for determining an appropriate working capital financing mix that are as follows:

- a. Matching or hedging approach
- b. Conservative approach
- c. Aggressive approach

A. Matching or hedging approach:

For risk reducing investment strategy the term 'Hedging' is often used. According to this approach the emphasis is given on matching the period of assets to be financed with the period of sources of funds to be used. In simple words, the firm finances its short-term needs with short term funds and long-term needs with long-term funds.”³⁴

Hedging approach is a method of financing where each asset would be off set with a financing instrument of the same appropriate maturity.”³⁵

According to hedging approach, we should finance variables or short-term working capital from current liabilities or short-term funds and long-term funds should be used to finance fixed proportion of current assets.

Hedging approach classifies the financing requirement of a business firm into three

³³ Pandey I.M. "Financial Management" Vikash Publishing House Pvt. Ltd., 1979 New Delhi, p. 818.

³⁴ Dangol , R.M, Op. Cit.p.224

³⁵ J.C. Van Horne And J.M. Wachowicz, "Fundamental of Financial Management", India, 1996,p.209

categories as: -

- I. Variable working capital:** The requirement of funds for seasonally needed, which should be financed with funds from short-term sources
- II. Permanent working capital-** The requirement of funds regularly needed current assets or permanent working capital that should be financed with funds from long-term sources
- III.** The requirement of fund for fixed asset or long-term assets, which should be financed with long-term sources.

B. Conservative approach:-

A firm may adopt a conservative approach in financing their current assets and fixed assets. The financing policy of the firm is said to be conservative when it depends more on long-term fund for financing needs. Under a conservative plan the firm finances its permanent assets and a part of temporary current assets with long-term financing. Thus, in these periods, when the firm has no temporary current assets. It stores liquidity by investing surplus fund into marketable securities. The conservative plan relies heavily on long-term financing and therefore is less risk.”³⁶

According to R.M. Dangol, under the conservative approach, the total fund requirements are financed by long-term fund. The short-term funds are used only in the situation of emergency. The risk is minimized under this approach. The liquidity positions of the firm will be relatively greater than in hedging approach. The cost of financing under conservative approach, the cost of financing increase because conservative approach uses long term sources for current assets.”³⁷

C. Aggressive approach

The aggressive approach is in between of hedging approach and conservative approach. Hedging approach mix is riskier than conservative approach. But low profit, low risk is the policy of conservative approach. Aggressive approaches suggest that the financing

³⁶ Pandey, I.M. “Financial Management,” Vikash Publishing House Pvt. Ltd., 1979 New Delhi, p. 823.
³⁷ Dangol, R.M. “Financial Management,” Taleju Prakashan, Bhotahity, Kathmandu, 2050, p. 226.

mix should be in between of two approaches. A major part of the total current assets should be financed by short-term sources and a part of the long-term investment also should be financed by short-term sources.”³⁸

According to Van Horne, The greater portion of the permanent assets need financed with short-term sources or, debt, the more aggressive the financing is said to be an aggressive approach.”³⁹

Under an aggressive approach the firms finance their part of permanent current assets with short-term financing. Some extremely, aggressive firms may even finance a part of their fixed assets with short-term financing.

In aggressive policy, the liquidity position will be low and risk will be high. Therefore, when the used more short-term financing' it is assumed to follow aggressive Policy.

It is clear that a trade off between comparison of three approaches of the following table

Table no – 2.2

Approach	Cost	Working capital	Degree of risk	Profitability
Hedging	Intermediate	Nil	High	High
Conservative	High	High	Low	Low
Aggressive	Low	Intermediate	Intermediate	Intermediate

According to Lawrence J. Gift man, three basic assumptions must be made for profitability risk trade off. Those are as follows

- I. The kind of firm that we are dealing should be Manufacturing Company
- II. Firm can earn more can fixed assets than on current assets. The fixed assets investing is more profitability than current assets investing
- III. Short-term funds are cheaper than long-term funds.

These three approaches are important factors for determining an appropriate working capital financing mix. In hedging approach high profit and higher risk, in conservative approach low profit and low risk and the aggressive approach is low the between of hedging and conservative approach These approaches suggest that the financing mix should be in between of two approach.

³⁸ Ibid

³⁹ J.C. Vanhorne and J.M. Marchowicz, Op. Cit., p. 212.

Business, firm can adopt anyone policy of current assets financing according to their maturity, size, structure, and position of the business, firm however it requires

2.1 .1 .9 Transition affecting working capital

Following are the main points involved in working capital.

- I. An increase in current assets causes an increase in working capital
- II. A decrease in current assets causes a decrease in working capital.
- III. An increase in current liabilities causes a decrease in working capital
- IV. A decrease in current liabilities causes an increase in working capital

.1.10 Transaction not affecting working capital

Following are the main points that involved in transaction not affecting working capital

- I. Similar increase in both current asset and current liabilities
- II. A decrease in current assets and decrease in current liabilities by the same amount do not affect the working capital.”⁴⁰

2.1.2 Cash Management

There are various sources of working capital management that can be needed for business firm. Generally there are three sources of working capital, as cash management, receivable management and inventory management.

Cash is the most important current assets for the operation of the business. Cash is the basic input needed to keep the business running on a continuous basis. It is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep sufficient cash neither more or less. It should be managed well cash in the money, which the firm cash disburse immediately without any restriction.”⁴¹

Cash refers to all the moneys items that are immediately available to help for paying a firm's bills on the balance sheet. A firm will normally list cash assets in two categories-

⁴⁰ Khan M.Y. and Jain P.K., “Financial Management,” Tata McGraw Hill Publishing Company Limited, New Delhi, 1971. p. 210.

⁴¹ Pandey, I.M. “ Financial Management” Vikash Publishing House, India, 1979, p.836

cash and marketable securities. Cash assets are coin and currencies held by the firm to cash register and peltry cash where marketable securities include the firm short-term investment on treasury bills, commercial paper, negotiable time certificates and deposit etc. done from excessive cash.

Cash is required to meet a firm's transactions and precautionary needs. A firm needs cash to make payment for question of resources and services for the normal condition of the business. It keeps additional funds to meet any emergency situation. Some firm may also maintain cash for taking advantage of speculative change in price of input and output. Management of cash invoices three thing should be considered –

- I. Managing cash flows into and out of the firms.
- II. Managing cash flows within the firms and
- III. Financing deficit or investing surplus of cash is a key. Thus; controlling cash balance at a point of time is so crucial. It is an important function in practices because it is difficult to predict cash flows. It is hardly for synchronizing between inflows and outflows. The main goal of the cash management should be to maintain adequate cash position to keep the firms sufficient liquid and use excessive cash in same profitability way.

The management of cash is also important because it is difficult to predict cash flows will exceed cash inflows because payment for taxes, dividends, seasonal inventory etc. Built up. At other times, cash inflows will more than cash payments because there may large cash leads and debtors may be realized in large sums promptly.

Cash management is on the main area of working capital management being the most liquid assets. So it should be never under estimated. It should be managed well. The cash management involves formulation of programmed for cash receipt and cash payment for meeting day-to-day transaction and unforeseen contingencies, a firm has to held cash.”⁴² In order to solve the problems of cash inflows and outflows, every firm will flow the following steps

i. Cash planning-

Cash inflows and outflow should be planned to project cash surplus or deficit for each

⁴² Pandey, I.M. “ Financial Management” Vikash Publishing House, India, 1979, p.237

period of the planning periods, whether the weekly, monthly prepares it half and yearly.

ii. Managing the cash flows:

Every business firm should be properly managed there cash outflows and inflows according to their nature and position of the firm. The cash inflows should be accelerated as for as possible; the outflow of cash should be decelerated.

iii. Optimum level of cash:

In the business organization there may be over flows or under cash flows. Thus it should be decided at the appropriate level. The cost to excess cash and drawback of cash deficiency should be matched to determine the optimum level of cash balance.

iv. Inventory surplus cash:

The ideal cash balance or surpluses cash balance should be properly invested to other profitable areas to change and earn desired profit. The firm should be decided about the division of cash balance, bank deposit, and marketable securities and inter corporate lending.”⁴³

2.1.2.1 Motives for holdings cash-:

The firm needs to hold cash may be attributed to the following three motives for holdings cash as.”⁴⁴

- a. Transaction motive
- b. Precautionary motive
- c. Speculative motive

a. Transaction motive:

For conduct current operation smoothly a firm most hold cash. The purpose of holding cash by a firm is to make capable for payment of day-to-day transaction of an enterprise.

⁴³ Pandey, I.M. “Financial Management” Vikash Publishing House, India, 1979, p.840

⁴⁴ Dangol, R.M. “Financial Management,” Taleju Prakashan, Bhotahity, Kathmandu, 2050, p. 237.

The example of day to-day transaction is purchase of raw materials, wages salaries, interest taxes etc.

b. Precautionary motive.

The Precautionary motive is the need to hold cash to meet any contingencies in future. A firm may have to pay cash for unexpected demand. It should have some cash balance for meeting such unexpected demand. The unexpected demand may be result of flood, strike, and inefficiency in collection of debtors, cancellation of orders and so on. Some cash balance must be hold by a firm for such a contingency needs. Thus it is kept to solve the emergency problems of near future.

c. Speculative motive:

The Speculative motive of cash balance keeps for the more of future investment in profitable channels of business. A firm should take advantage of profitable opportunities. These opportunities are unexpected. The holdings of cash are also for taking such as advantages. The example of such opportunities are purchasing raw material at a reduced price on payment of immediate, cash falls in price of share and securities, purchasing at a favorable price. The firm will hold cash, when it is unexpected that interest rate will rise and securities price will fall.

2.1.2.2 Cash forecasting and budgeting

Cash budget is the most important tool of cash management. It is an integral part of cash planning. The cash budget is a plan of future cash receipt and payment. The statement showing the estimated and payment. The statement showing the estimated cash income (Cash inflow) and cash expenditure (Cash outflow) over a projected time period is known as cash budget.

Normally the sources of cash inflows (receipt) of a business are as follows:

- I. Beg inning cash
- II. Cash sale
- III. Cash collection fro debtors

- IV. Cash from fixed assets
- V. Interest and dividend received
- VI. Bank loan
- VII. Issues of shares and debentures
- VIII. Loan from financial institutions

Generally the cash outflows (Payment) of a business are as follows:-

- I. Cash purchase
- II. Payment of credit purchase
- III. Wages and salary payment
- IV. Payment of manufacturing, administration and selling expenses
- V. Repayment of borrowed capital
- VI. Payment for purchase
- VII. Payment of other expenses

Closing balance of cash be computed by using this formula-

Closing balance of cash = opening balance of cash receipt – cash payment

2.1.2.3 Determining the optimum cash balance

The main responsibilities of the financial manager to maintain a sound liquidity position of the firm. So that, dues may be settled in time.

Many firms hold marketable securities because they serve as substitute for cash balance, and they are used as a temporary investment. Some firm hold portfolios of marketable securities in view of large cash balance. They sell of time securities to increase the cash account and cash outflows exceed inflows. Therefore the investment in marketable securities should be properly managed excess cash should homely be invested in marketable securities, that be promptly converted into cash.

The cash budget helps in determining periodical cash position. It reflects clear picture of cash collection, disbursements, and the ending cash position. It examines whether cash inflows synchronies, with cash outflows and indicates in advance the time period. When it will have cash surplus or deficiency. Although, it is an important part of cash surplus

management. It does not help appropriate the available funds into cash in and marketable securities.

Several models have been developed and are being used by business firm to determine cash balance used to transfer funds from cash to marketable securities to cash when the balance, slides down below the minimum need. One if the techniques of mixing the cash balance and marketable securities is the Baumol model. This is based on the inventory model. Another technique is the Miller- Orr model, which is based on the high low cash balance.

The following four models are commonly used-

1. Baumol model (EOQ Model)
2. Miller-Orr model (Stochastic Model)
3. Beranke model (With profitability distribution of cash flows)
4. Profitability approach (also know as simulation techniques)

These all models of cash balance unmarketable securities can be estimated and maintained. The Baumol model is restrictedly applicable to simple cases of certainly. The Miller -Orr is more realistic and is valid in most of case. The Beranke mode is fairly good in Limited cases and the profitability (Model) approach is good enough to reflect cash needs with profitability distribution. Since the Baumol model is fairly simple and founded on well-known EOQ principle. The Miller-Orr model is more is more practical and flexible our discussion will limit to here two models is only

1. Baumol's Model⁴⁵

It is the economics model, determine the optimal cash balance level by applying EOQ concept. In views of minimizing the opportunity cost of holding cash and the maximizing the return on the available funds. The balance should be maintained at a minimum level. The funds not require for immediate can be invested in the marketable securities The minimum size is the amount of cash that is enough to start with at the beginning of a period to meet the cash need of those period's transformations. The security amount or the optimal to be borrowed.

⁴⁵ Weston J.F. & Brigham E.F., "Managerial finance," Illios Dryden Press, 1985, p. 877.

Where the balance reaches to zero level. Holding of cash maturity cost some opportunity and in order to hand some transaction cost, optimum cost level at the point where the total cost is minimized.

Baumol's model is one of the methods that can be used for this purpose. Baumol identifies the cash maintenance as analogous to inventory maintenance and demonstrates that the model of economic order quantity that is applicable in cash management. It is perfectly applicable in cash management too, the optimal cash level can be determined by using the following formula.

$$C^* = \sqrt{\frac{2FT}{K}}$$

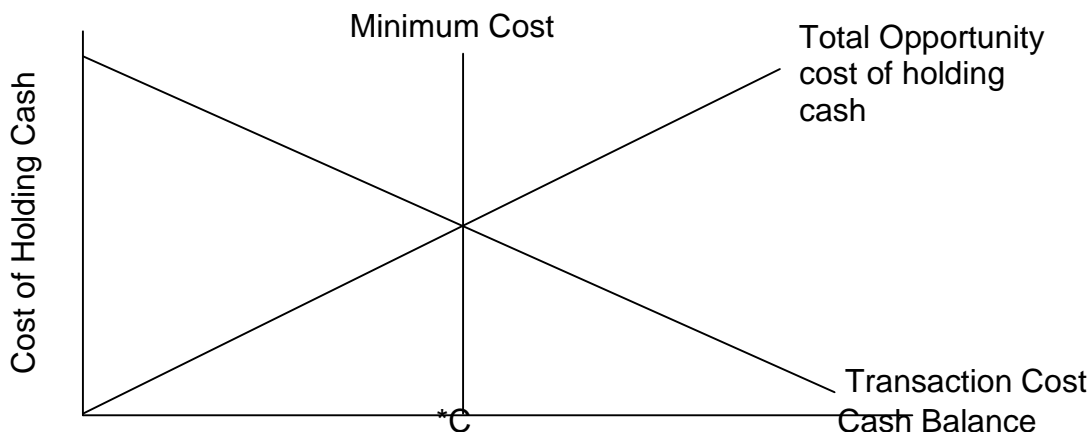
Where, C^* = optimal level of cash to be maintained by sell of marketable securities or by borrowing

F = Fixed cost of making a security trade or of obtaining loan i.e. transaction cost.

K = opportunity cost of holding cash

The figure shows the below the relationship between the average size of cash balance and various costs associated with the cash maintenance.

Figure no.2. 3



$$\begin{aligned} \text{Total cost} &= \text{holdings cost} + \text{Transaction cost} \\ &= C(K) + T(F) \end{aligned}$$

2. Miller-Orr model⁴⁶

The size of cash read depends on the pattern and degree of irregularity of inflows and outflows. The Baumol model does not consider the possible irregularity and uncertainty of receipts and payments. Therefore, we need a model that estimate and maintain the optimal balance of cash to cover transaction needs and marketable securities in an optimal complication, since the balance of cash fluctuates every day as receipts and payments of the firms. In order to maintain cash balance of optimal level of within optimal range, sometimes need to make a transfer from marketable securities to cash and other times from cash to marketable securities. Merton Miller and Denies- Orr have developed a model, known as Miller -Orr model that takes into a accounts the realistic patterns of cash flows and prescribes when how much to transfer from cash to investment account and vice versa..

Miller –Orr model is applied in such case when the uncertainty of cash a payment may be large. According to this model cash balance is maintained balance of range i.e. upper limit and lower limit. When the cash balance reaches the upper limit then firm purchases marketable secure to reduce the cash balance and firms sell the marketable securities when the cash balance dropped down to lower limit to increase the cash balance, As long as the cash balance stays between these limits, no transaction takes place. The spread between upper and rower limit can be computed by applying following formula-

$$Z = \sqrt{\frac{3bd^2}{4I}}$$

Where, Z = spread between upper and lower limit

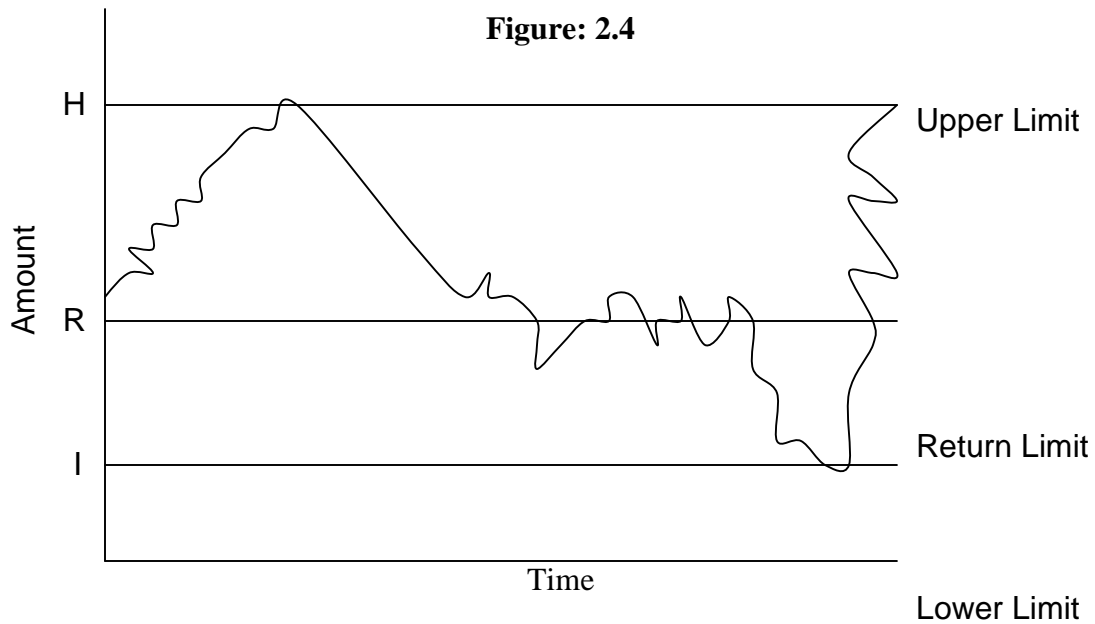
b = Fixed cost associated with a security transaction

d²= variance of daily

I = Interest rate

The Miller –Orr model is illustrated in figure-

46 J.Fred Weston and Thomas. E. Coplana, “ Managerial Finance” New York, 1990,p.786



R point (R) is computed as follows

$$R = Z + \text{Lower limit}$$

And upper limit = $3(z)$

2.1.2.4 Lock box system

A technique of speeding up the mailing, processing, and collection times which is quite popular in the USA and European countries is a lock box system. A lock box system can significantly reduce all types of floats. A firm with set up a lock box arrangement in a city (or cities) corresponding to the geometric distribution of its customer. Customer is directed to mail payment to the lock box (a post office box) administered by a local bank, which collects checks from the box. Sometimes, it takes place several times in a day and deposits the checks to the firms' account. The bank begins the clearing process and notifies the firm that a check has been received, reducing processing float. The bank charges the receiving firm for the services rendered.”⁴⁷

The main advantage of a lock box system is that checks are deposited at banks sooner and become collected balance sooner. That if the company processed them and the time actually are deposited by the company and the time they actually are deposited at the bank is eliminated. The principle disadvantage of a lock box arrangement is the cost. The

⁴⁷ J. Fred Weston and Thomas E. Coplana, “Managerial Finance” The Dryden Press London, Sydney, Tokyo Ninth Ed.1979, P.771

bank provides a numbers of Services additional to the usual clearing the checks and requires compensation for them, usually performing increase deposits. Because the cost is almost directly proportional to the number of checks deposited, lock box arrangement usually is not profitable, if the average Remittance is mail.”⁴⁸

2.1.2.5 Cash transfer mechanism⁴⁹

A transfer mechanism is a system for moving funds between accounts and different banks. The main three-transfer mechanisms are as follows –

1. Depository transfer checks (DTs)
2. Electronic depository transfer checks (EDTC)
3. Wire transfer

1. Depository Transfer Checks (DTs)

A DTC is a check restricted for deposited at a particular bank except for the deposit only restriction. A DTC is an ordinary check. DTCs provide a means for moving funds from local depository bank into concentration banks. A DTCs is payable only to the bank of depository for credit to the firms specific account. In a mail based initiation procedure, the local officer or a company's field nut prepares the DTCs and mails with the deposits hip to a regional concentration bank. This is often a lock box bank. This bank will subsequently transfer the fund to the central bank. Along with other check received at the lock box.. DTCs may also be initiated by central company management response to be deposited reports from local officers and lock box banks or on a pre-arranged schedule.

2. Electronic transfer depository checks (EDTCs):

EDTCs is a paperless electronic image transfer via the automated clearing house (ACH) network developed by the Federal Reserve system. The EDTCs avoid the use of the mails and has a uniform one-business day clearing time. Centrals company management generally initiates EDTCs.

⁴⁸ James C. Van Horne, Op. Cit. p. 347

⁴⁹ J. Fred Weston And Thomas E. Copland Op. Cit. p.773

3. Wire transfer:

With a wire transfer, funds are immediately transferred from one bank to another bank, even in a different city. It is the fastest way to move cash between banks eliminating transit float. The bank wire method is a private wire service used and Supported by about 300 banks in the United States. They use the bank wire system for transferring funds, exchanging credit information and making securities transactions. The Federal Reserve wire system to be used by commercial banks that are members of the Federal Reserve System.⁵⁰

An efficient cash managements system trust consider the timing and amount of cash transfer which will minimize costs while conforming to bank balance and company Policy.

2.1.2.6 Controlling disbursements:

The effective control of disbursement can also help to business firms. It helps to conserving cash and reducing the financial requirements. Disbursements arise due to trade credit, which is a source of funds. The firm should make the payment using the credit terms to the fullest extent there is no advantage in planning sooner than agreed. By delaying payments as much as possible, the make maximum use of trade credit as a source of funds and these sources are interest free. To illustrate the point, suppose that a company purchased raw material of RS. 73 Crore in 1995 and followed the policy of paying within credit terms offered by supplier. If the company paid one day earlier, creditor's balance would decline by one day's purchase trade credit would decrease by Rs. 20 lakhs (Rs.73-:365). And financing requirement from other sources will increase by this amount. If the interest rate is 18%, the company's interest cost will increase by Rs. 360000 on an annual basis."⁵¹

50 J.C. Van Horne And J.M. Watchowicz, Op. Cit.,p.475

51 Pandey, I.M , " Financial Management" Vikash Publishing House, India, 1979,p.858

2.1.3 Management of Receivables

In general aspects, amount due from customer is known as receivables. It arises when goods or services of a firm are sold on credit bases. Receivables are current assets representing amounts owned to the firm as a result of the sales of goods or services in the ordinary course of business. Receivables are an important component of working capital management. In the conduct of a business, it plays an important role. For maximizing sales, for increasing profit and to meet the competition, receivables are very important. Receivables are also known by various other names, like "Account receivables, trade receivables, customer receivables, sundry debtors, trade debtors, trade acceptance, book debts, bill receivables etc". The advance to salesman, goods transferred to branches, goods sent on consignment and advance against suppliers are not included on receivables."⁵²

Credit sales are made either by securing legal documents or on an open account. Under the former method, bills of exchange are taken from debtors. Such amounts are classified under 'notes receivables' or 'bill receivables' for the collection of debts. The court of law such as instruments meets the legal requirement. Under the latter method, a formal note is not needed to recognize the debt. Such credit sales are called "Sales on open account". The documents that show such debts are purchase order from customer, invoices and billing statements. The open account reduces the paper work for credit sales."⁵³

Receivables management is an important aspect of working capital management. Managing receivables means making decisions relating to the investment of funds in these assets as part of the internal short-run operation process. Receivables are the outcomes of credit sales, which is inevitable in today's business world. The main objective of credit sales is to achieve growth in sales, to increase profit and to meet competition. But there exists a risk and to maximize the value of the firm by achieving a trade-off between liquidity and profitability. So a firm should manage its credit in such a way that sales are expanded to the extent to which risk remains within an acceptable limit. An efficient and effective credit management helps to expand sales and can prove to be an

⁵² Dangol, R.M. "Financial Management," Taleju Prakashan, Bhotahity, Kathmandu, 2050, p.277

⁵³ Dangol, R.M. "Financial Management," Taleju Prakashan, Bhotahity, Kathmandu, 2050, p.277

effective tool of marketing it helps to be an effective tool of marketing. It helps to remain old customers and win customer. All we administered credit means profitable credits account

Weston and Brigham said to this connection, “Since the typical manufacturing firm also about twenty percent of its assets invested in receivable, the management of those assets is obviously important. The level of investment, in receivable is depended on the firm’s credit policy, which considered of four variables.

The credit policy, which is the length of time, makes clear buyers have before they must pay for their purchases.

Creditors standards, when refers to the minimum financial strength of acceptance credit customer.

The collection policy, which reflects the firms toughness of laxity in following up on slow paying accounts.

- i. Discount given for early payments.”⁵⁴

“Increase in receivables result from the several causes increase in sales, size of cash discount, length of credit terms, volume of delinquent accounts etc.”⁵⁵

2.1.3.1 Goals of receivables

The basic goal of receivables management is to maximize the profit or the value of the firm by achieving a trade off between liquidity and profitability through the appropriate changes in policy variables. Following are the three variables of maintaining receivables management these are given below.”⁵⁶

- i. To expand sales
- ii. To maximize Profit and
- iii. To meet competition

i. To expand sales:

Cash sales are good for a business firm. But it is not possible always to do cash sale only for maximizing sales. Receivable are also very important. A firm can sale more goods if

⁵⁴ Weston J.F. And Brigham, E.F. “Managerial Finance” illionis Dryden Press 1975, p.995

⁵⁵ Murkhrjee, A.K. “ Management Of Working Capital In Pes”, Vohar Publishing , Alhabad,1988,p.40

⁵⁶ Dangol, R.M. “ Financial Management”, Teleju Prakashan, Bhotahity, Kathmandu, 2050,p.278

it permits credit sales. For encouraged to customer firms should offer credit terms. The sales will decline if firm's does not sell on credit.

ii. To maximize Profit:

The direct effect of credit sales is maximizing the sales. But indirectly it also affect on profit. Normally the additional sale will result the higher profit. It is better for a firm to consider cash sales only. If the profit does not increases by increasing credit by increasing credit sale.

iii. To meet competition:

There is a competition in every field. If other firm is selling its products on credit, the own firm should also sale its products on credit basis if they really want to exist in the market and same strategy should be accepted by smaller firm in the market.

Trade credit i.e. the investment in receivables is the most prominent force of the modern business. It is considered as an essential marketing tool acting as a bride for the movement of goods. As marketing tools they are intended to promote sales and their profit. However, extension of credit involves risk and cost. Management should the benefit as well as cost to should determine of it. The goal of receivable management is to promote sales and profit units that point where the return on investment of further fund is less than the cost of funds rose to finance that additional credit i.e. cost of capital.

The general liquating management is to use cash funds as economically as possible in expanding receivable without injuring sales and the change for increasing short run profit. Financial executive try to keep the receivable investment low that is consistent with the two folds purchase of maintaining adequate cash funds for current operation and expanding credit sale to stake advantages of profit opportunities. Policies which stress short credit term, strict credit standard and highly bad debts losses and the looking up of funds in receivable but profit margin and the rate of return on the total investment of the firm may be lower than that receivable with high level of sales receivable and profit. On the other hand, extremely lenient credit policy may increase in sales and profit. Therefore, the objectives of receivable management are achieving

A balance, which results in the combination of sales and profit, sales that maximize the overall return on the investment of the firm, the total amount of account receivable of a firm depends on the level of sales and collection period. For example, suppose a firm makes sales of Rs. 1000 per day and the average collection period is 15 days then the amount of account receivable is equal to sales per day multiply average collection period. Both of the sales and collection period of a firm are influenced by the credit policy of the firm whether or not to extend credit to a customer can be determined from the help of credit policies of a firm. How much credit to extent also can be determined from a credit policy.

The credit policy includes the following three variables are as follows:

1. Credit standard
2. Credit terms loan
3. Collection Policies

1. Credit standard:

The credit standard of a firm represents the criteria for determining which customer will be granted credit and by how much. There will be not bad debts and minimum cost for credit department. If a firm sates mostly on cash basis or make credit sales to only the financing strong customer but by doing this, the firm may be losing sales. If the profit sacrificed on sales is more than the avoided cost, if it is better to increase credit sales. But if the profit is less than avoided cost, in that case it is better to minimize the credit sales. Thus the optimal credit standard determination involves a trade off between differential return and differential cost. The differential return and differential cost are also termed as marginal and marginal profit.

The cost is involving on investment of receivable. The cost increased by increasing the amount of receivable and decreased by decreasing the amount of receivable. The amount receivable increases or decreases by relaxation or tightening the credit standard lead to decrease the account receivable. So, we can say that relaxation of credit standard requires higher carrying cost and tightening of credit standard requires lower carrying cost.

The changes in sales and changes in collections are the two factors that affect the level of account receivable and credit standard. If firms relax its credit standard then sales will be

increased and increasing sales will result from the higher average of account receivable. If the firm tightens their credit standard, then sales will be decreased and decreasing sales will result from lower averages account receivable. The relaxed credit standard extend the credit to less credit worthy customers, which will take a longer period to pay their bills. As a result of it would require the higher amount of receivable. But the tightened credit standard requires the lower amount of receivable because the credit will be limited to more credit worthy customer who will pay more quickly. The bad debt expenses are also affected by changing the credit standard. The bad debts expenses increases as credit standard are relaxed. It is decreased by tightening the credit standard. In short, we can say that relaxation, and tightening credit standard affect on profit. The effects on profit are as follows:

Table:2. 3
Effect of relaxation and tightening credit standard on profit

Items	Relaxation of standard		Tightened of standard	
	Direction of Change	Effects of Profit	Direction of Change	Effects of Profit
Sales Volume	Increase	Positive	Decrease	Negative
Average Collection Period	Increase	Negative	Decrease	Positive
Bad Debts	Increase	Negative	Decrease	Positive

The difference between the cost of carrying receivable before and after the introduction of the relaxed credit standard is known as the cost of managerial account receivable. It can be computed as follows: -

$$\text{Average account receivable} = \frac{\text{Annual Credit Sales}}{\text{Turnover of Receivables}}$$

$$\text{Turnover of receivable} = \frac{\text{Annual Credit Sales}}{\text{Average Collection Period}}$$

$$\text{Average investment in receivable} = \frac{\text{Total Sales}}{\text{Turnover of Receivables}}$$

2. Credit Terms:-

The credit terms specify the period for which credit is extended and the discount, for which credit is extended and the discount, if any that is given for early payment. It covers three things.

Credit period

Cash discount

Credit period

The credit terms are written in form of 2/19, net 30

It means that 2% discount is given if the customer pays the due amount within 10 days.

The customer has to pay full payment by the 30 days period of invoice; if it doesn't take cash discount then the credit terms also affect the profitability as well as the cost. The following changes on profit can be expected by the change in cash discount.

Table: 2.4
Effect of cash discount of profit

Items	Increase on Cash Discount		Decrease on Cash Discount	
	Direction of Change	Effects of Profit	Direction of Change	Effects of Profit
Sales Volume	Increase	Positive	Decrease	Negative
ACP	Decrease	Positive	Increase	Negative
Bad Debts	Decrease	Positive	Increase	Negative
Profit per unit	Decrease	Negative	Increase	Positive

3. Collection policies:-

It refers the procedures followed by the firms when customer delays the payment. The procedure represents:

- a. Letter of remain the customer
- b. Telephone calls
- c. Personal visit by the firm's collection personnel.
- d. Legal notice to customer and
- e. Deputing outside collection agency

All these action should be tried one by one for the collection of delay payment.

The bad debt expenses and average collection period reduces by increasing. But one thing here should be over aggressive in its collection effort. Doing this may reduce these sales of the firm. So the collection policies neither should be strict nor should be lenient. It should be trade off between them.”⁵⁷

⁵⁷ Dangol , R.M. “Financial Management”, Taleju Prakasha, Bhotahity, Kathmandu,2050,p.281

2.1.4 Management of inventory

Inventory management involves planning of the optimum level of material and cost control of material cost supported by an appropriate organization structure. This is staffed by trained person and directed by the top-level management. It involves both financial dimension as well as physical dimension and these dimensions are interrelated and cannot be looked in isolation.

The inventory management is assumed to be required to maintain an adequate supply to correct material at the lowest total cost. The responsibility of determining the material requirement implied by the marketing forecasting and liaising with the purchasing department for their acquisition, receiving and storing the material safely and good condition for its subsequent issue.”⁵⁸

Inventory management is one of the aspects of production Management. Production management is developed and handle by production engineer. Procurement is handling its specialist. Therefore, later inventory management becomes a separate and significant management of the development of inventories. Under the Inventory management, there is not only essential production approach but also need marketing management but actually inventory management is purely subject or production management.”⁵⁹

Every enterprise is needed inventory for smoothly running of its activities. Its services include as a line between production and distribution process. There is generally a time lag between the organization of a need and its fulfillment. The greater the time lags the higher the requirement of inventory. The unforeseen fluctuation in demand and supply of goods also necessitate the need for inventory. It also provides a cushion for future price fluctuations. About 90% part of working capital is invested in inventories. It is necessary for every management to give proper attentions to inventory management. A proper

⁵⁸ Muhlemann A., Oaklad, J.& Lockyer, “ Production Operation Management” 16th Ed. University Brandford represented in India by Macmillan India Ltd., 1996,p.364

⁵⁹ Dangol, R.M. “Financial Management”, Taleju Prakasha, Bhotahity, Kathmandu,2050,p.826

planning of purchasing, handling storing and accounting should form a part of inventories management. An efficient system of inventory management will determine.”⁶⁰

- i. What to purchase
- ii. How much to purchase
- iii. Form where to purchase
- iv. Where to store etc.

2.1.4.1 Importance of inventory management

The important of inventory management is highlighted the following aspects of management materials records, purchasing, intelligence, marketing research.

Management, information system, right information system, creative purchasing, materials, intelligent etc. are often used in the control of scientific inventory management, but a major handicap is purchasing most neglected aspect in many organizations. The four decades of industrialization in the country has made the buyer should bear heavy responsibilities. Purchase researches help in visualization the underlying possibilities within the economy and hence come out with a future vision, forecast, and future problems and suggest suitable solution in a scientific manner.”⁶¹

2.1.4.2 Inventory cost

The goal of inventory management is to provide the inventories for sustaining operation at a lowest possible cost. The first step of inventory management is to identify all the costs involved purchasing and maintaining inventories typical costs associated with the inventories are described below: -

- a. Carrying / Holding cost
- b. Ordering cost
- c. Stock – out cost

⁶⁰ Sharma R.K. And Gupta S.K. Op. Cit., p. (22 – 23)

⁶¹ Gopal Krishana, P. “Purchasing and Material Management,” New Delhi, Tata McGraw Hill Publishing Company Ltd., 1931, p.28.

a. Carrying or holding cost:

Total carrying costs generally increase in direct proportion to the average amount of inventory carried. The cost associated with having inventories. Inventory carried in turn depended upon the frequency with which orders are placed. Carrying or holding costs includes storage cost. Insurance cost of trying fund, depreciation cost and so on. These costs generally increase in proportion to the average amount of inventory held.

b. Ordering cost:-

It is assumed that carrying cost is entirely variables increase in direct proportion to the average size of inventory. Ordering costs usually are fixed. Regardless of average size of inventory. For example, the cost of placing and increasing in an order generally interface memos, using fax transmission, or long distance telephone calls and taking delivery essentially are fixed regardless of average size of an inventory.”⁶²

c. Stock out cost

Stock out is associated with demand. The deflection in stock returns, in loss of sales or back order cost. When sales are lost due to stock out, the firm losses both the profit margin on unmade sales and the firm's goodwill. If the customer uses another business else where, future profit margin may another business elsewhere. Future profit margin may also be lost and back order cost is needed to maintain regular customers and to use again after inventories have been replenished. Back order cost includes loss of goodwill, money paid to re- order goods and notification to customer, which goods arrived.

2.1 .4.3 Inventory management techniques

Adequate inventories facilitate smooth production activities and help to provide off shelf delivery to customer. On the other hand, excessive inventory is idle resources of the firm and can prove costly because it tripe of l unnecessary working capital. This could have been better used. It has been utilized for some other purpose. According to Alton, N. Smith, inventory is on which a company pays interest rather than collect interest. It is

⁶² Weston J.F. & Bisley S. And Brigham E.F. “ Managerial Finance” illions Dryden Press , 1975.p.429

money always in danger of deviation; uncontrolled of inventory is danger for business firm so it is major drawback of inventory management. So that there may be no stock out problem and lot of inventory should be minimum. There should be arrived at an optimum balance between too much inventory and too little inventory. The following inventory management techniques may be helpful in this regard.”⁶³

- a. Economic order quantity (EOQ)
- b. Reorder level
- c. Safety stock
- d. Maximum level
- e. Minimum level
- f. Danger level
- g. Perpetual inventory system
- h. Stock control through ABC analysis
- i. Inventory reports

a. Economic order quantity (EOQ): -

This technique attempts to establish the more economic balance between the acquisition cost and carrying cost by determining quantities to be ordered. The most economic quantity is ascertained at this point.

According to Broom, the order size associated with such minimized annual, cost is called economic order quantity. Hence economic order quantities are the no. of unit to be ordered at a time to minimize the cost of order and carrying for the year.

We can compute EOQ with the help of forecasting usage, ordering and carrying cost. In EOQ calculation, we must use marginal cost

$$EOQ = Q^* \sqrt{\frac{2AO}{C}}$$

Where, EOQ = Q* = Economic order quantity

A = Total annuals requirement

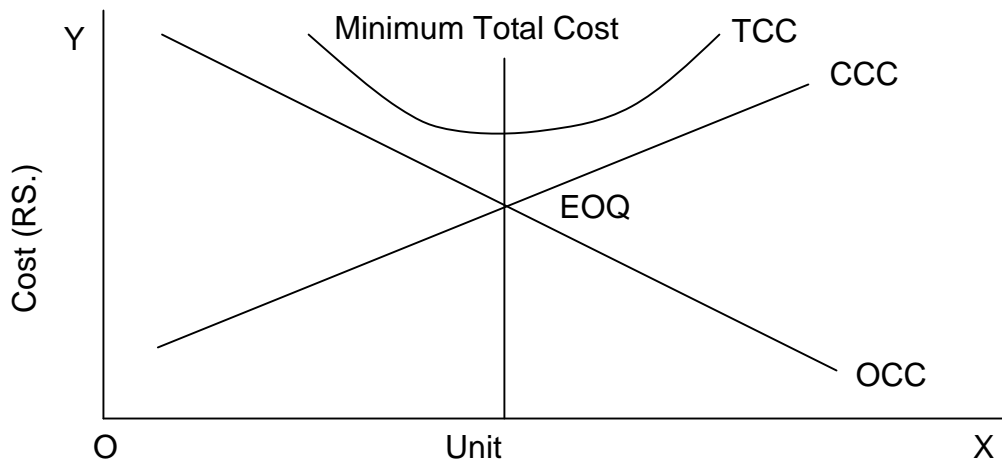
O = Ordering cost per order

C = Carrying cost per unit

⁶³ Jain S.P. And K.L. Narang, Op. Cit., p. 71

The EOQ occurs at that point where the ordering cost curve and carrying cost curve intersect. The EOQ can be found graphically or diagrammatically in following way.

Figure No. 2.5



Where,

TCC = Total cost curve

CCC = Carrying cost curve

OCC = Ordering cost curve

In the above diagram, the equilibrium point between ordering cost curve and carrying cost curve is known as economic order quantity. The ordering cost function varies inversely with other quantity. If the order quantity increases, the order cost for the period decrease so it is sloping to right side.

The total cost will be minimum at the point where carrying cost and ordering cost curve will be equilibrium. More or less than this point will lead maximize the total cost.

b. Reorder Point:

The reorder point is the level of inventory at which the firm places order quantity. If the places the order when the inventory reaches the reorder point and goods will arrive before

the firm run out of goods to sell. When the order should be placed? It is determined by reorder point. It is also known as "order point" or "ordering level" or "reordering level."

c. Safety stock:

The business would be in a situation having run out of stock owing to sudden spurt in usage of materials beyond the during lead time days. In materials beyond the during lead time days in processing orders. Thus almost all business has to provide for minimum inventory interned to act as customer against reasonable expected maximum usage that is known as safety stock. This helps better to meet some unanticipated increase: in usage. The degree of safety stock depends on

1. Uncertainty in demand
2. Degree of insurance of any items
3. Uncertainty lead-time
- 4 Size of the batch

d. Danger level

This is the level of which normal issues of the materials are stopped issued are made only under specific instructions. The firms will make specially arrangement to get the materials, which reach at their danger level so that-the production may not stop due to shortage of materials.

$$\text{Danger level} = \text{Average consumption} \times \text{reorder level}$$

e. Inventory reports:

The objective of inventory report is to help the management in exercising effective inventory control and- take appropriate decision. Its communication is usually in the written form of facts relating to Inventory management. But it is difficult to be suitable for all organization. According to the individual requirement the design of inventory reports which will be suitable for all organization. The design of the report should be according to the individual requirement of the organization.

2.2 Review of Related Study

2.2.1 Review of Journals / Articles

This part is mainly focused on the review of journals / articles published by different management who are experts on working capital management among them Professor Dr. Khagendra Acharya, He has described two major problems, operational problems and organizational. Problems regarding the working capital management in Nepalese public enterprises. The operational problems his found are listed in the first part, which are

- Increase of current liabilities than current assets, not allowing the current ratio: 1 and Slow turnover of inventory.
- Similarly, Change in working capital in relation to fixed Assets
- Thin transpiration of capital employed to sales absent of apathetic management information system, Break-even analysis, funds flow analysis and ratio analyses are either undone or ineffective for performance evaluation.

He states that most of the enterprise's management has been misunderstanding as the managed the money rather than its efficient utilization. Thus, existing problems in the finance are mostly directed toward the management of working capital rather than in any area.

Finally, monitoring of the proper functioning of working capital management has never been considered a management job.

In the second part, he has listed the organization problems, in the public enterprises. In most of the public enterprises, there is lack of regular internal and external audit system as well as evaluation of financial result. Similarly very few public enterprises have been able to present their capital requirement, functioning of finance development is not satisfactory level and some public enterprises has been facing the under utilization of capacity. To make an efficient use of funds for minimizing the risk of loss to attain profit objective.

He has suggested that manufacturing concern finance staff must be acquainted with the modern scientific tools for the presentation and analysis of the data. Public enterprises

should avoid the system of crises decision, which has prevailed frequently in their operation, avoid finite hedge of the assets and lastly the has suggested optimizing its level of investment at a point time neither over or under investment in working capital is desired by the management of an enterprises because both of these situation will erode the efficiency of the concern.”⁶⁴

This study is descriptive in nature. He has not research tools. This study has cleared Nepalese public enterprises. But not national the name of public enterprises. Each selected enterprises does not represents the industry in which its falls.

Pradhan Surendra, in his views at examining the aspects of management of working capital is selected manufacturing public enterprises of Nepal. The objectives undertaken in his study are:

1. To assets the short-term financial liquidity positions of the manufacturing concern.
2. To conduct risk return analysis of liquidity of working capital position
3. To assets the structure and utilization of working capital
4. To estimate the transaction demand function of working capital and its various components

His study has mentioned the following findings,

1. It is found that most of the selected enterprise has been activating or trade off between risk and return and thereby following neither an aggressive or conservative approaches.
2. The economic of scale have been highest for inventories flowed by cash and grow working capital, receivable and net working capital.
3. It has showed a poor liquidity position of most enterprises. This poor liquidity position has been noticed as the enterprises have either negative cash flows or

⁶⁴ Professor (Dr.) K. Acharya, “ Problem and Impediment In the management of working capital in Nepalese public enterprises,” ISDOC Vol. 10, No.3 Jan – Mar.

- negative EBIT or they have excessive net current debts, which can be paid with in the year.
4. The regression result also shows that the level of working capital and its component enterprises desires to hold not depends fully on sales but on holding cost also.
 5. The Nepalese manufacturing public enterprises have an average; half of their total assets in the firm of current assets of all the different components of current assets, on the average are large followed by receivable and cash in most of the selected enterprises.

His study is concerned with interrelationship that exists between managing current assets and current liabilities. This study manages to focus on working capital focus concepts. This has employed ratio analysis, discriminate analysis and economic models for its analysis.

Above-mentioned studies do not cover all the enterprises as well as private industry in the many factoring sectors. The manufacturing concerns selected for the study differs in working and its nature is not similar to all the public and private enterprises. That is why it is necessary to study working capital management. Consequently, keeping in view of fact that there is not attempted to study of working capital management particularly in private sectors. Which is the ground base of industrialization and our country is looking forward to list up by economic development. In reality it will be only success when a study will find out and give special emprise for creating a more favorable environment to attract private sectors investment in industry. By this true reasons arced has been faced to study the over all financial position and components of private sectors and study of working capital management.

Dr. Manohar K. Shrestha has conducted an empirical observation of twelve –selected PEs. In these articles he has described the conceptual ingredients which are concerning with working capital management, such as conceptual setting sources of working capital management, such as conceptual setting sources of working capital and types of working capital. From this analysis, he found that the liquidity poison of the selected PEs demonstrated wide deviation. Based on the sales volume four out of seven PEs that

normally inventory turnover. There was also high normal test ratio. Other three that not been satisfactory mentioned and some of them inventory has exceeded sales

The collection period relating to the selected PEs exhibited marked deference varying 32 days to 755 days. The profitability position was analyzed through return on net working capital. The return on net working capital was positive for four PEs negative for two PEs. And the rest two had not any return since they were in establishment phase.

“During the analysis, he observed some problems like the lack of farsighted liquidity adjustment strategy in most of the PEs no, guiding criteria to ascertain the satisfactory maintenance of acid test ratio and working capital needs, large booking of capital in inventories and low capacity utilization. All these were due to inefficient management of working capital in that PEs.”⁶⁵

Another articles relating to working capital study is given by Dr. Khagendra Acharya. Which is based on the finding and conclusion of his D. Phil Thesis. In the study, he has focused his study on the working capital management of Nepal Tea Development Corporation (NTDC) four years from 1975/76 to 1982/83. A.D. He has also made the comparison of the finding with the other five-selected PEs. In the Study, he fund that the net working capital of NTDC has negative due to increase in current liabilities. Inventory had the largest period and it was accumulating in the corporation. It has inventories twenty-four months' sales. The size of aggregate receivables of NTDC had also been increasing and its study period. Cash balance held by the corporation was insufficient to meet the routing work of the corporation. At the same time the liquidity position of the NTDC was very poor since current assets were less than the current liabilities. While comparing to other selected PEs. He found that the turnover of inventory, receivable and current asses in NTDC were below the average thereby relating with higher investment in each of them irrespective of the sales achieve. The break even analysis relievable that the NTDC had been selling mostly below the breakeven and had incurred variable cost sometimes even higher than sales price. The suggestion he was made on his articles is proper planning of production and sales, new credit policy.”⁶⁶

65 Dr. Manohar Krishana Shrestha, “Working Capital Management in Selected Public Enterprises”, A Pad Mgmt. Journal, 1992.

66 Dr. Manohar Krishana Shrestha, “Working Capital Management in Selected Public Enterprises”, A Study on financial result and constraints ISDSO Vol. 8, No.1-4, July 82 - June 83.

In this regard of Manohar K Shrestha's articles, he has considered ten selected PEs and studies of the working capital management. He has focused on the liquidity turnover and profitability position of those enterprises. In this analysis, he found that 4 PEs had maintained adequate liquidity position and among them two is excessive and the remaining four has failed to maintain desirable liquidity Position. The turnover side' two PEs had negative working capital turnover and remaining four had adequate turnover. He had also found that out of the PEs four public enterprises were operating at losses, which only four were getting some percentage of profit with reference to those findings. He had brought certain, policy issues such as lack of suitable financial planning, negligence of working capital management, deviation between liquidity and turnover of assets and inability to show positive relationship between turnovers and return on net working capital. To end had made some suggestive measure overcome from above issues i.e. identification of needed of funds, regular check of account, development of management information with positive attitude towards risk and profit. And determination of right combination of short-term and long term sources of funds to finance working capital needs.

2.2.2 Review of Books

In this section an attempt has been made to various some books on financial management, which deals with the management of working capital. We receive some theoretical concepts on working capital from Van Horne. He has categorized the various component of working capital. Liquidity, receivables, inventory and current liabilities grouping then according to the way that 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.”⁶⁷

The well known professors, Weston and Brigham have given some theoretical insights into working capital management after their various research studies on it. The broad

⁶⁷ James C. Van Horne , “ Financial Management Policy” Prentice Hall Of India Pvt. Ltd. New Delhi , 11th ed

conceptual a finding of their studies provides sound knowledge and guidance for the further study on the field of management of working capital in any enterprises and naturally to this study as well. They explain in the beginning. The importance of working capital concepts of working capital, financial of working capital, the use of short-term versus long-term debt, relationship current assets to fixed assets. In this chapter they deal with on cash, marketable securities, receivable and inventory for the efficient management of cash. They have explained the major sources and the firm of short terms financing, such as trade credit, loan from commercial bank and commercial papers.”⁶⁸

Indian professor I.M., Pandey has described some conceptual ingredients, which are bases on his various research. We can learn various lessons, from it and also helpful for this study, indeed. He has described various aspects of working capital management into 5 chapters. The first chapter deals with the concept of working capital, need for working capital, and determinates of working capital, dimension of working capital management, optimum of working capital management, optimum level of current assets and working capital trends in India. In the second chapter he has described the management of cash and marketable securities, where he has dealt with facets of cash management, motives for holdings cash, Cash planning, managing the cash follows. Determining the optimum cash balance, Investment in marketable securities. In the third chapter, he has described the management of receivables in which he has dealt with the goals of credit management, optimum credit policy. Aspects of credit policy, credit procedure individual account. In the fourth chapter, on investment management, He has described of needed to hold inventories, objectives of inventory management, inventory management techniques, selective inventories control techniques and financial working capital. He has described the commercial recommendation on the fifth chapter.”⁶⁹

Further, the inventory in Manufacturing Corporation and cash and receivable in non-manufacturing is problematic to management.

With reference to the above problems and finding their recommended the need to control investment in working capital. As a whole for Manufacturing Corporation has been trying to control investment in receivable the focus of attentions should be diverted to control of

⁶⁸ J. Fred Weston And Thomas. E. Coplana, “ Managerial Finance” The Dryden Press Hinsdalle illionis, Holt Sayndress Japan , Tokyo 7th Ed. 1982

⁶⁹ J. Fred Weston and Thomas. E. Coplana, “ Managerial Finance” The Dryden Press London, Sydney, Tokyo 9th Ed. 1979, p.771.

investment in cash and inventory. But Manufacturing Corporation should pay sufficient to control the investment in inventory.

2.2.3. Review Thesis:

In the proceeding topic discussion have been made on the introduction on the study and conceptual setting of the study. An attempt has been made to review the literature on working capital management. Many studies have been made by the students of MBA and some other management groups relating to working capital management in Different PEs and private sector in Nepal. This section, hence it will review some of that dissertation.

Dr. Khagendra Acharya had studied the working capital management in different manufacturing public enterprises and some of the major outcomes of his study are:

1. Nepal Tea Development Corporation (NTDC) is expected to improve its prevalent system of inventory management regarding the planning and purchasing of spares parts, manures, fuels etc.
2. Receivable is growing rapidly than the corresponding growth on sales volume.
3. The credit policy, which is not clear in clear in itself has not been followed by the corporation while collecting the over due accounts.
4. The break-even analysis of NTDC reveals that due to insufficient working capital, the corporation has been selling its product at a far below rate than its break-even.
5. There should be close liaison between the production units of different states and central materials management department.
6. Inventory constitutes the most important and largest element of working capital NTDC. The overall adequacy of inventory in NTDC discloses that the growth of working capital and inventory in the corporation is negatively correlated.”⁷⁰

Mr. Shailesh Man Shrestha on his study of working capital of Dairy Development Corporation (DDC) of Nepal considered the financial statement of DDC for 5- years (1985-1989). In his study he found that, there was high level of investment in each type of current assets. In which inventory held the higher portion followed by cash and receivable respectively. DDC had very low level of working capital turnover and high

⁷⁰ Dr. K. Acharya, “The Management of Working Capital in the Private Enterprises of Nepal with Special Reference to Tea Industry,” University Of Allahabad, 1985.

liquidity position. The current assets, inventory and receivable were not affected by sales volumes, but there was proper relation between current assets and share of inventory on it.”⁷¹

In the study of working capital management of Bansbari leather and shoe factory by Mr. Sindhu Lal Shrestha considered their financial statements of the factory for four years (1986/87-1989/90) and the provision data for 1990/91, And focused of his study on working capital management with respect to cash, credit and inventory management and relationship between sales and different variables of working capital on the study. He found that the major components of BLSF’s current assets were inventories, sundry debtors, cash and bank balance among which inventories had held the largest proportion followed by sundry debtors. On the other hand, there was no. Consistency in cash balance, the level of receivable was also high which caused unnecessary tie up of funds. The average collection period was not satisfactory, but it has good cash turn over position. In the study he suggested that the factory have to operate with setting certain sales target and utilize full production capacity to make regular inspection to find out excess gain.”⁷²

So from his study of Working capital management, it shows that the one of the chief problems in Nepalese corporation behind unhealthy and unsound situation caused by improper management of working capital. Since the success and failure of any enterprises is heavily, dependent upon the efficient management of working capital. In many study reports and journals are shown that the proper management of working capital is rarely found in Nepalese Industries. There are dazzling instance of inefficient cash management, defective inventory policy and account receivable of the industries are taken of appropriate working capital policy to determine liquidity needs and sources of financing them.

In dealing with management of working capital, the problems common to all manufacturing industries, convey the message not only to those industries who are inexperience in cash management but at time it also helps to existence of defective inventory policy and test account receivable management. Many of enterprises do not

71 Shailesh Man Shrestha, “A study on Working Capital of Dairy Development Corporation Nepal,” MBA Thesis, T.U., 1992.

72 Sindhu, Lal Shrestha, “ A study Of Working Capital Management in Bansbari Leather Shoe Factory,” An MBA Thesis , T.U., 1995.

maintain yearly cash budget properly. Due to the operational in efficiency in respect of cash management failure to control cash. It brought both shortage and excess of cash in different time.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is another important aspect of the thesis writing. Research methodology is a systematic and scientific method or techniques that are used in handling a problem by the researcher. In other words, research methodology provides the various tools and techniques as regard to the problem and also provides the various instructions as regard to the methods and process associated with over all study. Research methodology is very helpful in identifying the research problems. In fact, research is an art of scientific investigation.

“During each research v/work, to accomplish the objectives effectively specified methods and process should be followed which is called research methodology. According to F.N Kerliner, "Research methodology is vital and absolutely indispensable part of social scientific and educational research. Without research methodology, modern social science and educational research would still be in the Age.” Process tools and techniques: applied in the entire process of a scientific research. Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in views.”⁷³

Sekaram (1992) defined research as “an organized systematic data based critical scientific inquiry or invention into a specific problem undertaken to it.”⁷⁴

According to Clifford woody "Research compromise defining redefining problems, formulating, hypothesis or suggested solutions, collecting, organizing and evaluating data, making deduction and reaching conclusion and at last carefully testing the conclusions to determined whether they fit the formulating hypothesis.”⁷⁵

73 C.R. Kothari, “ Quantitative Techniques,” Vikash Publishing House Pvt. Ltd. , New Delhi, 1994, p.19.

74 Howard Wolff And Prem Raj Pant, “ Social Science And Thesis Writing” , Second Ed. 2000, Published By P.R. Panta, Kha 1-167, Kathmandu, p.204.

75 C.R. Kothari, “ Quantitative Techniques”, Vikash Publishing House Pvt. Ltd. , New Delhi, 1994, p.1.

From above definition, it can be said that research is the scientific and systematic process; it includes all types of investigation requiring solution to the problems. The scientific and systematic process of research involves activities of identifying problems, collecting facts and information tabulating and recording the data, setting hypothesis analyzing the facts and reaching certain conclusion with a view of findings answer of the problems.

In Nepal, there are different kinds of companies are establishes to earn profit in our society. Some companies have been working efficiently. Since establishment companies have been closed due to poor management performance. In this context, this study attempts to analyze the "Working capital management" in Nepalese joint venture banks, in order to fulfill this objective; every study needs an appropriate research methodology to discover the better result of the investigation. In other words an appropriate methodology has to be followed to achieve ultimate goals.

3.2 Research Design

The study also required the appropriate research design to achieve desire objectives of the investigation. Research design is a systematic plan and conceptual structure within which the study is to be conducted. Research design is a clear map of the all types of investigation. It is a plan of researches, which includes what, why, when how aspect of research like research methodology, various writers and authors have also defined research design. Their views are as follows-

Kerlinger (1986) describes a research design in the following manner "Research designs the plan, structure and strategy of investigation conceived so as to control variance. The plan is the overall scheme or programmed of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, and the paradigm of the operation of the variables. We build structure scheme for accomplish operational research purpose. Strategy has been used, here is also

more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problems encountered in the research will be tackled.”⁷⁶

According to C.R. Kothari, “Research design stands for advance planning of the methods to be adopted for collecting the relevant data and techniques to be used in their analysis keeping in views of objectives of the research and the availability of staff, time and money.”⁷⁷

From the above definition it can be said that research design is the plan, structure and strategy of investigation conceived so as to obtain lots of research questions and control variance. The frame of the study is the arrangement of condition for collections and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

The research design generally asks the following: question i.e. what approach should be taken? What method will be used in the study? What strategy will be most preferable? Therefore are the main task of the researcher is to select the most suitable research design for the study. There so many types of research design like historical research, development research, case study research, casual comparative research, action research, true experimental research and quasi-excremental research etc. but out of them, research designs, this study also follows the historical research design, because research must be based on past performance past, knowledge and data can not be avoided.

In this way, finally research design is the conceptual structure and frame of the study that is adopted by a research in analyzing the problems.

In this context, this present study adopts that research design, which is analytical as well as exploratory in nature. Similarly the present study also follows the both descriptive and inferential analysis of working capital management various historical secondary data analysis of Nepalese joint venture banks with a view of achieve better result from the analysis. This study seeks to analyze working capital management of Nepalese selected different joint venture banks, the research design of the study is therefore, analytical and statistical type, attempts has been made to describe and explore the composition of working capital of the selected joint venture banks for the period of five years ranging

⁷⁶ Howard Wolff And Prem Raj Pant, “ Social Science And Thesis Writing” , Second Ed. 2000, Published By P.R. Panta, Kha 1-167, Kathmandu, p.50.

⁷⁷ C.R. Kothari, “ Quantitative Techniques,” Vikash Publishing House Pvt. Ltd., New Delhi, 1993, p.40.

from 2002/2003 to 2006/07. In conclusion it can be said that research is more quantitative rather than qualitative.

3.3 Population and sample

This study is directly concerned in the population and treated in the population and sampling data. Population data which are not originally corrected but rather obtained from the NSE website, we address being www.nepalstock.com. In Nepal up to this data, 115 companies are listed in Nepal stock exchange limited whose shares are traded in stock market. Out of 115 listed companies the selected 4 samples have been taken for the study for Nepalese non. -Manufacturing companies or joint venture banks. The financial statement of the total no. of commercial banks in Nepal from the date of their establishment till today constitutes the population for the present study.

The published balance sheet and profit and loss account of different companies have been used to examine the working capital management in Nepalese joint venture banks. The financial statement i.e. published balance sheet and profit and loss account of different selected banks from their establishment up to 2007. It have been assumed as population of the study.

Finally, samples have been taken from, which is actually started from the population with a view to show the total population for the study, which actually starts from the years 2003. Since the census study of these joint venture banks is neither feasible nor desirable, sample have been choose from them, which companies the five year financial statement (i.e.2002/03 to 2006/2007) of the Nepalese joint venture banks

3.4 Selection of companies for the study

At present, there various 45 listed companies operating in Nepal both manufacturing and non-manufacture ring companies. In order to select the companies for the purpose of this study, first of all, it is necessary to a list of different companies. After listing different companies. The selected companies are appeared for the study for the purpose of this - study'. These are as follows:

1. Nepal Arab Bank (NABIL) Limited Kantipath Kathmandu

2. Everest Bank limited Naya Banewshwor Kathamndu
3. Nepal Bangladesh Bank limited Kathmandu
4. Standard chartered Bank Limited Kathmandu

3.5 Research questions

Under this circumstance the present study attempts to contribute a bit to fill the study backdrop, seek to explore the efficiency and weakness of joint venture banks. The study attempts will also be made to explore the answer under the following issues.

1. How far Nepalese JVBs are being able to utilize its different assets?
2. How efficiently of JVBs are managing their liquidity assets, capital structure etc.?
3. To what extent these banks have been able to raise their profitability?
4. How far have JVBs been able to convert the mobilized resources into investment?
5. How the Nepalese JVB is's managing financing its working capital needs and is that appropriate?
6. Is there proper Investment in each types of working capital in the Nepalese JVBs?
7. Is the position of current assets and current liabilities appropriate?
8. Based on the above questions, which bank has faced more financial risk?

3.6 Sources of data

Every study needs adequate information form different sources. Information system is the mechanisms for providing decision-making information and data to the researcher. Thus the main task of the research is to collect information and data from different sources. To achieve the desired objectives of the research it is necessary to identify the sources of data.

Generally, there are two types of data collection methods. The firs are primary data collection and second one is secondary data collection method data. According to C. R. Kothari, "The primary data collection are those which are collected a fresh and for the first time and happen to be original in character". In other words primary data collection is that collection where the researcher directly goes to the field and collect necessary

information for the study by observation, interview with concerned person etc. likewise “Secondary data are those which have already been "collected by someone else and which have already been passed through the statistical tools process.”⁷⁸

But here this study is based on secondary data. From the secondary data, sources appropriate data has been extracted for the analysis and interpretation purpose as per as relevant books, magazines, journals and articles. And newspapers are the other additional required from where financial statement of the companies, which have been derived from NSE website (www.nepalstock.com) Nepal stock limited. The published balance sheet and profit and loss account of the selected concerned companies are as the major sources of secondary data.

3.7 Data Collection Techniques

In course of preparation of the research work, after the identification of sources of data, the required data for the study have been gathered through the procedure.

First of all the financial statements. (B/S and P/L A/c) of all the enlisted companies. Nepal stock exchange was downloaded to a computer disk. Secondly, all the down loaded financial statement was transcribed into computer print out. Thirdly, the required financial statement of four companies was randomly taken from each of stratified industries for analysts.

After the collection data, the required data have been processed and Increase in condensed forms. Thereafter, they have been tabulated and presented by using descriptive and inferential tools as per the requirement of the study.

3.8 Data Analysis Tools:

The data obtained from different sources have been processed and recast in condensed forms. Thereafter they have been tabulate and presented as per the requirement of the study.

In order to achieve the purpose of the study two types of analysis have been made descriptive and inferential analysis. In the descriptive analysis, techniques of time series

78 C.R. Kothari, “ Quantitative Techniques,” Vikash Publishing House Pvt. Ltd. , New Delhi, 1993, p.117.

analysis have been taken into the account among joint venture banks. Companies of the selected financial ratio and their trend percentage have been used. To make the analysis conclusive, the study has also used such statistical tools as mean values, standard deviation, coefficient of correlation, probable error, student-t-test and f-test.

In this way, there are various analytical tools and techniques have been used in this research study. Their tools and techniques used as follows:

3.8.1 Ratio analysis

Ratio analysis is the expression of the relationship between two items either from balance sheet or from incomes statement of or from both statements. Ratio is useful techniques to interpret the financial statement. So that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

"Ratio is the numerical or an individual relationship between two figures. It is expressing one no. In terms of another i.e. one figure: divided by another figure. In order to calculate the ratio, reference has been taken from Jain S.P. and Narang K.L. 1984, p.416.

A ratio is a yardstick that provides a measure of relationship between two accounting figures. It is defined as the indicated quotient of two mathematical expressions and as the relationship between or more things" (I.M. Pandey, 1988, p.501).0

"A ratio may be defines as a fixed relationship in degree and no. Between two no. In finance, ratios are used to point out relationship that is not obvious form of raw data." (John j. Hamton, 1986, p.122).

Composition of working capital

The composition of working capital has been studied by analyzing the following ratios-:

1. Current assets to current liabilities (CA to CL)-: This ratio represents the relationship between the current assets and current liabilities. The ratio is obtained by dividing by the total of current assets by total of current liabilities.

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

The ratio indicates higher the ratio is the better for liquidity position. And lower the ratio shows the solvency position of the firm is not good.

2. Current Assets to Fixed Assets (CA/FA): This ratio indicates the relationship between the current assets and fixed assets. The ratio is obtained by dividing the current assets by fixed assets.

$$CA/FA = \frac{\text{Current Assets}}{\text{Fixed Assets}}$$

If the ratio is large, then it is shown sound working capital position.

3. Current Assets to Total Assets (CA/TA)-: The ratio of current assets to total assets indicates what percentages of company's total assets has been invested in the form of current assets of firm, which is calculated as:

$$CA/TA = \frac{\text{Current Assets}}{\text{Total Assets}}$$

As the ratio increases risk and profitability of the company would decrease likewise. The low ratios indicate the small amount of working capital.

4. Cash And Bank Balance to Current Assets (CB/CA)-: The immediate solvency of the cash is measured with this ratio. As cash and bank balance is the most liquid form of current assets. It shows the relationship between cash and bank balance and the total current assets. The ratio represents the portion of cash and bank balance in current assets. It is calculated as:

$$CBCA = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

The ratio should not be large, because higher ratio indicates the poor cash management.

5. Receivable to current assets (RCA):- This ratio indicates the share of receivable on current assets. This is calculated by dividing the receivable by current assets.

$$RCA = \frac{\text{Receivable}}{\text{Current Assets}}$$

The percentage of ratio indicates the greater working capital and vice versa. If the percentage is greater then the company is unable to collect receivable promptly.

6. Receivable to total assets (RTA):- this ratio is representing the percentage of total assets invested in the form of receivable, which is calculated as –

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

Increase in the ratio indicates the liberal credit policy followed by the company.

3.8.2 Average

The most popular and widely used measure of representing the entire data by the one value is known as average. Its value is obtained by adding together all times and the summation of times is divided by the number of sample periods. If the past items of the sample periods are X_t , number of periods are n , then Mean is defined as follows

$$\bar{X} = \frac{(X_1 + X_2 + X_3 + X_4 + \dots + X_n)}{n}$$

Higher the value of mean the profitability position is regarded as sound. The calculation of average is necessary due to following reasons.

To get a single value this is represented of the characteristic of the entire mass of data. They set a side the necessary details of the data and put forward a concise picture of the complex phenomena under investigations.

Since average reduce the mass of data to single picture, they are very helpful for the purpose of making comparative study.

3.8.3 Trend Percentage Method (index no)-

In working capital analysis the direction of the change over a period of three years is very crucial. For trend analysis, the use of index number is generally advocated. The procedure followed is to assign the number of 100 to items to base year and calculate % change in each item of other years with relation to the base year. This procedure may be called as trend percentage method.

There are various phenomena, which change with the passage of time. An index number is statistical device assigned to measure the relative change in the level of phenomena (Variable or Group of Variable) with respect to time, geographical location or other main characteristic. SO index number is a device for measuring change in the magnitude of the phenomena from time to time or event from place to place. The careful study of relative change that has been taken place in the past, which help to forecast the future trend and tendencies.

Index Number or Trend percentage method is used to in the study to evaluate trends of relative items of working capital. Trend percentage of each study year can be calculated the following formula-

$$\text{Trend \%} = \frac{(\text{Current Year's Price})}{\text{Fixed Base Last Year's Price}} \times 100$$

3.8.4 Correlation Analysis

The correlation coefficient analysis referred to the tool that is used in measuring the closeness of the relationship between two or more than two variables. The term correlation (CO- Variance) indicates the relationship between two such variables in which change in the value of variables, the value of the other variables also changes .If two or more quantities vary in sympathy than that movement in the one trend to be accomplished by corresponding movement, other and they are said to correlated.

“The correlation is defined as the relationship between (among) the dependent variables (or factor) and one or more than one independent variables or factors. In other words, Correlation is the relationship between (or among two or more variable (s) i.e. only one variables depended or more variables (s) independent.”⁷⁹

The Karl Pearson’s coefficient of correlation is denoted by symbol (r). It measures the relationship between two variables. In the present context, the coefficient of correlation is calculated in order to examine the relationship between two variables of four commercial joint venture banks. The Karl Pearson’s coefficient of correlation (r) is calculated by using following formula.

$$R = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

Interpretation of correlation Coefficient (r) –

1. The coefficient of correlation as obtained by the above formula always lies between + 1 to –1.
2. When r is +1, then there is positively perfect correlation between the two variables.
3. When r is –1, then there is negatively perfect correlation between the variables.
4. When the value of r is between 0.7 to 0.999, then there high degree of correlation between variables.
5. When r is between 0.5 to 0.999, then there is moderate degree of correlation between the variables.
6. When r is less than 0.5, then there is low degree of correlation between the variable.
7. When r is 0 (zero), then there is no correlation between the variable or the variables are correlated.

⁷⁹ Shrestha Sunity and Druba Prasad, “Statistical Method in Method in Management,” Taleju Prakashan, Kathmandu, 2nd Ed., 2057, p.315.

Probable Error (P.E) of correlation Coefficient

The probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient; 'r' the probable error (P.E.) is defined by:

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}} \dots\dots\dots (a)$$

Where,

R = Correlation coefficient

N = No. of pairs of observation

Again,

$$\frac{1 - r^2}{\sqrt{N}} = \text{S.E.} = \text{Standard Error of correlation coefficient}$$

$$\text{P.E.} = 0.6745 \times \text{S.E.}$$

Conclusion or interpretation

1. If $r < \text{P.E.}$, The value of 'r' is not significant no mater, how the high r value is i.e. there is no evidence of correlation between the variables.
2. If $r > 6 \text{ P.E.}$, then value of 'r' is significant i.e. correlation is significant.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter entitled “presentation, analysis and interpretation of data” is the crucial chapter as it utilizes the processed data tools and techniques of working capital analysis, as described in research methodology to achieve the objectives of this study. Objectives of this study are to find out the solutions of the problems identified. Joint venture banks are facing working capital management problems of current assets, fixed assets, long term and short term solvency, profitability and value of the firm. This study aim to determining the effect of working capital variable on the profitability and value of the firm and they're by, generalizing the result.

For this purpose the collected and organized data should be analyzed through different tools and techniques and interpreted. The data constitute the financial information extracted from the financial statement i.e. income financial statement and balance sheet period. The fiscal years of 5 years period from 2002/03to 2006/07 are the sample year for this study. These data are presented in the tabular form, diagram or the graphical form the analysis through different statistical and financial tools. As per the tools used in this study, this chapter has been divided into sub chapters such as ratio analysis, trend analysis, correlation analysis and hypothesis testing.

Analysis and interpretation of data involves an attempt to determine the significance and meaning of financial data so that a judgment on past activities can be made and a forecast may be de of the prospect for future earning ability to pay interest debt maturity both current as well as long term and profitability of sound.

The analysis and interpretation of data requires a comprehensive and intelligent as well as the determining of relationship with other data to facilitate comparison.

Interpretation and analysis are closely connected because interpretation is impossible without analysis and lack of interpretation analysis is useless. Therefore, interpretation

requires analysis. Analysis involves the compilation of data ranking data as per its relative significance, making, and data homogeneous and examines that the data using different device.

On the other hand, interpretation of data according to the analysis is necessary because more examination of the components does not lead to definite conclusion and statement has to be dissected in to this constituent in order to measure the relative magnitude of various entities.

In this study presentation' interpretation and analysis of data has been conducted on the basis of research question and objectives of the study.

Therefore, in this chapter, data collected from various secondary sources, are presented and analyzed. For this purpose, two types of have been carried out; descriptive analysis and inferential analysis. This chapter has, therefore, been divided into two sections.

Descriptive analysis

This section attempts to analyze and compare some variables as relevant ratios of working capital, during the period 2002/03 to 2006/07. The above analysis and interpretation have been presented with the help of table and figures where necessary.

4.1.1 NABIL BANK LTD.

NABIL Bank Ltd is the first joint venture commercial bank incorporated in 1984 A.D. (2041 B.S.). Initially Dubai Bank Ltd. invested 50% of equity shares of NABIL. The shares owned by Dubai bank Ltd were transferred to Emirates bank international Ltd. Dubai, later; National bank Ltd Bangladesh is managing the bank in accordance with the technical services arrangement signed between both banks on June 1995. Twelve branches of the banks are in Operation around the countries. Authorized capital, issued capital, and paid up capital of NABIL are Rs. 500,000,000, Rs. 491,654,400, and Rs. 491,654,400 respectively with par value of Rs. 100 per share and no. of shareholders being 5076.

Composition of Working Capital

The help of the following ratios analyze the composition of working capital.

4.1.1.1 Current assets to total assets

Current assets depend upon the nature of the business. It is important for day-to-day operation of every business concern. Higher percentage of current assets in total assets denotes greater liquidity position of the firm as well as risk of being insolvent and vice-versa.

The following table represents the percentage of current assets to total assets of NABIL bank during the study period (CA to TA)

Table No. – 4.1
Proportion of CA and TA

(Rs. In Million)

1	2	3	4 $\{(2 \div 3) * 100\}$
Year	Current assets	Total assets	Ratio (%)
2002/2003	13868.30	16562.61	83.73
2003/04	14244.04	16745.61	85.06
2004/05	16289.51	17064.08	95.46
2005/06	21466.22	22329.97	96.13
2006/07	26454.45	27253.39	95.46
Total			457.39
Average	13875.266	16865.764	91.478
S.D.			10.34
C.V.			12.47

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

The ratio represents the proportion of current assets to total assets in joint venture banks for the selected 5 years period. The above table shows that current assets to total assets happen to be 97.01%, which is the highest in the fiscal year 06/07.

Similarly, the average percentage of current assets to total assets (overall) is 91.478%. It is said to be satisfactory level. Where the ratio of fiscal year 2002/03 and 2003/04 are below than average ratio and remaining other years are greater than average ratio.

The higher ratio of total current assets to total assets show greater liquidity and lower risk and lower ratio of total current assets to total assets shows the higher risk and poor liquidity.

Form the above table there is higher ratio of current assets to total assets in the year 06/07 and 2005/06, thus the firm has greater liquidity and lower of risk. But all of above years the risky year is 2002/03.

4.1.1.2 Current assets to fixed assets

This ratio indicates the relationship between the current assets and fixed assets. If the ratio is large, it indicates the sound working capital. The following table represents the proportion of current assets and fixed assets of joint venture banks during the study period.

Table No. – 4.2
Proportion of current assets and fixed assets

(Rs. In Million)			
Year	Current assets	Fixed assets	Ratio (in times)
2002/2003	13868.30	251.91	55.05
2003/04	14244.04	338.13	42.13
2004/05	16289.51	361.34	45.93
2005/06	21466.22	319.09	67.27
2006/07	26454.45	286.90	92.20
Total	69376.33	1281.96	60.51
Average	13875.266	256.392	55.33
S.D.			8.98
C.V.			16.24

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

The ratio represents the proportion of current assets invested to fixed assets to joint venture banks during the selected 5 years period. Fixed assets are those assets, which cannot be converted into cash within a year.

The above table shows that proportion of current assets to fixed assets of joint venture banks during the different 5 years period is increasing year after year. The highest ratio is 92.2 times in the year 2006/07, while the lowest ratio is 42.13 times in the year 2003/04. Similarly, the average percentage of current assets to fixed assets (overall) is 60.51 times which is said to be not satisfactory level. Where the ratio of fiscal year 06/07, 05/06, are greater than the average ratio and other remaining year are less/below than average ratio.

Except the fiscal year 2003/04, other all of above years' current assets to fixed assets ratio indicates the sound working capital.

4.1.1.3 Cash and bank balance to current assets

Cash is the most liquid component of the working capital. It plays vital role to achieve effective management of working capital in all business enterprises. The ratio should not be large because higher ratio indicates the poor cash management. The main purpose of holding cash is to meet daily business requirement. The following table represents the proportion of cash and bank balance to current assets of joint venture banks during the study period.

Table No. – 4.3
Proportion of cash and bank balance to current assets

(Rs. In Million)

Year	Cash and Bank Balance	Current assets	Ratio (%)
2002/2003	1144.77	13868.30	8.25
2003/04	970.49	14244.04	6.81
2004/05	536.06	16289.51	7.90
2005/06	556.18	21466.22	8.25
2006/07	1383.82	26454.05	6.81
Total	4591.32	92322.12	26.19
Average	918.26	18464.42	5.238
S.D.			0.83
C.V.			11.41

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

From the above table it can be seen that the cash and bank balance with respect to total current assets. In the fiscal year 2005/06, it is 2.6%, which is the lowest and the highest ratio is 8.25% in the fiscal year 2002/03. This is the fluctuating trend during the study period.

The average percentage of cash and bank balance to current assets (overall) is 5.23%, which is satisfactory level.

4.1.1.4 Cash and bank balance to total assets

This ratio indicates the relationship between cash and bank balance to total assets. The following table represents the proportion of cash and bank balance to total assets of joint venture banks during the study period.

Table No. – 4.4
Proportion of cash and bank balance to total assets

(Rs. In Million)

Year	Cash and Bank Balance	Total assets	Ratio (%)
2002/2003	1144.77	16562.61	6.91
2003/04	970.49	16745.61	5.80
2004/05	536.06	17064.08	3.15
2005/06	556.18	22329.97	2.5
2006/07	1383.82	27253.39	5.07
Total	4591.32	99955.66	23.43
Average	918.26	19991.13	4.67
S.D.			1.10
C.V.			18.20

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

The above table shows the investment in cash out of its total assets in joint venture banks during the study period. It can be seen that the proportion trend is fluctuating during the study period. The proportion ratio of cash and bank balance to total assets in the fiscal year, 2002/03, 2003/04, 2004/05, 05/06, 06/07 are 6.91%, 5.80%, 3.15%, 2.50%, 5.07% respectively. The highest proportion ratio is 6.91 % in the year 2002/03, while the lowest percentage is 2.50% in the fiscal year 2005/06.

Similarly, the average percentage of cash and bank balance to total assets 4.67%. It is said to be not satisfactory.

4.1.1.6 Return on current assets

The assets can be converted into cash within an accounting year or within the operation cycle of the business as termed as current assets. So, it includes cash and near cash terms. It has direct relationships with day-to-day operation of a firm current asset are the most effective assets to earn the profit of the firm. It measure

profit with respect to its total current assets. It gives the utilization of current assets effectively. So it plays vital role in profit earning. The following of joint venture bank during the study period.

Table No. – 4.5
Proportion of NPAT to current assets

(Rs. In Million)

Year	Net Profit after tax (NPAT)	Current assets	Ratio (%)
2002/2003	329.12	14788.91	2.23
2003/04	291.37	13161.68	2.21
2004/05	271.63	13313.40	2.04
2005/06	416.25	13868.30	3.00
2006/07	455.32	14244.04	3.20
Total	1763.69	69376.33	12.68
Average	352.738	13875.266	2.54
S.D.			0.52
C.V.			20.67

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

The above table shows the percentage return on gross working capital employed. In the fiscal year 2002/03, the return on working capital is found to be 2.23%, where it has slightly decreased to 2.21% in the fiscal year 2003/04. Then percentage return on working capital is decreased to 2.04% in the fiscal year 2003/04. But it has increased to 3% in the very next year.

4.1.1.7 Return on total assets

This ratio shows in terms the relationship between net profit after tax and the total assets of the company return on total assets measure the profitability of all financial resources invested in the firm's assets it also evaluates total resources invested in assets employed of joint venture banks during the study period.

Table No. – 4.6
Relationship between net profit after tax and the total assets

(Rs. In Million)

1	2	3	4 $\{(2\div 3)*100\}$
Year	Net profit after tax (NPAT)	Total assets	Ratio (%)
2002/2003	329.12	15024.2	2.19
2003/04	291.37	18367.15	1.59
2004/05	271.63	17629.25	1.54
2005/06	416.25	16562.61	2.51
2006/07	455.32	16745.61	2.72
Total	1763.69	84328.82	10.55
Average	352.74	16865.76	2.11
S.D.			0.53
C.V.			25.28

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

The above table shows the return on total assets is 2.19% in the fiscal year 2002/03. In the fiscal year 2003/004 and 2004/05 it is decreased to 1.59% and 1.54% respectively. Likewise, in the fiscal Year 2005/06 and 2006/07, the percentage return on total assets has increased to 2.51 and 2.72 percent previous years. For the whole period of the study, the bank has the highest return on total assets to 2.72% in the fiscal year 2006/07. While, the lowest return on total assets is 1.54% in the fiscal year 2004/2005. Similarly, the overall average return on total assets is 2.11%. At least it is said to be satisfactory return on investor and employed and vice-versa. In this way it is clear that the return on total assets is better return in the fiscal year 2002/03, 2005/06, and 2006/2007 because it is greater than average return.

4.1.1.8 Net working capital to current assets

The relationship between net working capital and current assets can be analyzed through after taking 5 years data from 2003 to 2007. It shows how volume of net working capital required to how volume of current assets. The relationship between net working capital of current asst and 50% and less than 50% of ideal cash remained and business net working capital for the operating of business firm. The relationship between net working capital' to current assets can be shown into following table.

Table No. – 4.7
Relationship between net working capital and current assets

(Rs. In Million)

1	2	3	4	5{(4÷2)*100}
Year	Current assets (TCA)	Current liabilities (TCL)	Net working capital (TCA-TCL)	Ratio
2002/03	14788.91	13977.3	811.62	5.49
2003/04	13161.68	17226.2	-4064.53	-30.88
2004/05	13313.40	16384.7	-3071.33	-23.07
2005/06	13868.30	15135.4	-1267.12	-9.14
2006/07	14244.04	15153.1	-909.09	-6.38
Total	69376.33	77876.78	-8500.45	-63.98
Average	13875.266	15575.36	-1700.09	-12.80
S.D.				14.33
C.V.				-111.99

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

The above table shows the highest net working capital is Rs. 811.62 million and the lowest net working capital is Rs. 4064.53 negative in the fiscal year 2002/03 and 2003/04 respectively. Similarly, the highest and lowest current assets are Rs. 14788.91 and Rs. 13161.68 million respectively. The average net working capital and current assets is Rs. -8500.45 and Rs. 13875.27 million.

During the study period, the net working capital to current assets relation of JVBs is 5.49%, (30.88%), (23.07%), (9.14%), and (6.38%) in the respective years of 2002/03 to 2006/07. The overall assets average is negative percentage to 12.80%. It is clear that the relation of net working capital to current assets is not appropriate for the joint venture bank.

4.1.1.9 Current assets to current liabilities

Liquidity is a company's ability to pay its maturing short – term obligations. Liquidity ratio measures the financial strength of the business to meet the current liabilities.

Higher the current assets to current liabilities ratio better is the liquidity position. For many types of business 2:1 is concerned to be an adequate ratio. If the current ratio of the firm is less than 2:1, the solvency position of the firm is not good. The cash may not be available to pay current liabilities. If the current ratio is more than 2:1, the company may have an excessive investment in current assets that do not produce a return.

Table No. – 4.8
Proportion of current assets to current liabilities

(Rs. In Million)

1	2	3	4 $\{(2\div 3)*100\}$
Year	Current assets	Current liabilities	Ratio (%)
2002/2003	14788.91	13977.3	105.81
2003/04	13161.68	17226.2	76.40
2004/05	13313.40	16384.7	81.25
2005/06	13868.30	15135.4	91.63
2006/07	14244.04	15153.1	94.00
Total	69376.33	77876.78	449.10
Average	13875.27	15575.36	89.82
S.D.			11.51
C.V.			12.81

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

During the study period, current assets to current liabilities of the JVB is 105.81%, 76.40%, 81.25%, 91.63%, and 94% respectively in the respective years 2002/2003, to 2006/07. It decreased for the first year and kept on increasing in short term financing liquidity.

However, the current assets to current liabilities proportion is below than generally accepted standard form 2.1 in the respective years. The company is suffering form lack of sufficient current assets to discharge short-term obligation when they become due. It is also hitting the day-to-day operation of the company by effect of negative working capital.

Similarly, the average proportion of current assets to current liabilities overall is 89.82% which is satisfactory level. The highest and lowest proportion of current assets to current liabilities is 105.81% and 76.40% in the fiscal year 2002/03 and 2003/04 respectively.

4.1 .1 .10 Quick assets to current liabilities

Liquid or quick assets are those assets that are readily converted into the cash certain within a year. A quick asset includes cash, bills receivables, debtors and short-term investment. Inventories and prepaid expenses are not included in quick

assets because these items may not be change into cash within an accounting year. Higher the ratio better is the liquid position. As a conventional generally standard form 1:1 is considered to be satisfactory. Assuming that there is no inventory and prepaid expenses, quick assets are quick to current asset.

Table No. – 4.9
Ratio of quick assets and current Liabilities

(Rs. In Million)

1	2	3	4 {(2÷3)*100}
Year	Quick assets	Current liabilities	Ratio (%)
2002/2003	14788.91	13977.29	105.81
2003/04	13161.68	17226.21	76.40
2004/05	13313.40	16384.73	81.25
2005/06	13868.30	15135.42	91.63
2006/07	14244.04	15153.13	94.00
Total	69376.33	77876.78	449.10
Average	13875.27	15575.36	89.82
S.D.			11.51
C.V.			12.81

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

The above table shows the quick ratios are 105.81, 76.40, 81.25, 91.63, and 94 percent respectively years 2002/03 to 2006/07. Quick assets to current liabilities ratio equals to current assets to current liabilities ratio because there is no any stock involved in current assets. Therefore quick assets have the same tendency as current assets have. Quick ratio decreased for the first year and it continuously increased for the remaining four years of study period. In the fiscal year 2002/03, it seems to be satisfactory because it is touched the conventional standard form 1:1. But in the fiscal year 2003/04, 2004/05, 2005/06, and 2006/07, the proportion of quick assets to current liabilities represents highly inability to discharge immediate payments of short – term obligations, which is extremely below of standard 1:1.

It, therefore, reveals the matured short – term creditors are not receiving their dues timely and there is difficulty to make payments to workers and personal too, during the study period 2003 to 2007 only.

4.1.1.11 Cash to current liabilities

Being both cash and current liabilities, the components of net working capital. The relationship between temporary is considered to be essential to be analyzed. The co pay working capital is greater influenced by cash and current liabilities? When the cash is increased, the amount of working capital is also increased. On the other hand, when the current liabilities is increased. So the relationship of working capital with cash is positive but with current liabilities is negative relationship. Hence, in this section to excess the company's ability to meet its short-term obligation with its cash. It is shown in the following table.

Table No. – 4.10
Position of cash and current liabilities

(Rs. In Million)

1	2	3	4 {(2÷3)*100}
Year	Cash	Current liabilities	Ratio (%)
2002/2003	1088.75	13977.29	7.79
2003/04	812.9	17226.21	4.72
2004/05	1051.82	16384.73	6.42
2005/06	1144.77	15135.42	7.56
2006/07	970.49	15153.13	6.40
Total	5068.73	77876.78	32.90
Average	1013.75	15575.36	6.58
S.D.			1.22
C.V.			18.54

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

During the study period, the cash to current liabilities ratio of JVBs ranged from 4.72 to 7.79 in the fiscal year 2003/2004 and 2002/2003 respectively. The above table shows that the cash was not able to meet current obligation in the year 2003 to 2007 accepts the year 2002/03, 2004/05, and 2006/07. The company was not able to pay on percentage current liabilities by cash. It means among the study period the company's cash management is Policy is very poor.

4.1.1.12 Debt to equity ratio

Leverage ratio measures the financial soundness of the company. This ratio judges long-term financial position of the company. The relationship between borrowed fund and owner's equity is known as debt equity ratio. A high ratio shows the large share of financing by the creditor as compare to that of owners. This mean creditors would suffer more in times of distress that the owners. That is why credit prefers low debt to equity ratio

Table No. – 4.11
Relationship between borrowed fund and owner's equity
(Rs. In Million)

1	2	3	4 (2÷3)
Year	Total Debt	Shareholders' equity	Ratio (%)
2002/2003	14040.13	984.07	14.27
2003/04	17304.31	1062.83	16.28
2004/05	16482.83	1146.42	14.38
2005/06	15248.43	1314.18	11.60
2006/07	15263.91	1481.68	10.30
Total	78339.61	5989.18	66.83
Average	15667.92	1197.84	13.37
S.D.			2.39
C.V.			17.87

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

The debt to equity ratio of the computing during 5 years period is 14.27, 16.28, 14.38, 11.60, and 10.30 percent respectively. From the table 4.12, In comparison, fiscal year 2006/07 was good in respect of debt to equity ratio due to fewer figures i.e. 10030 times.

The overall average is 13.37 times, which is considered as not very satisfactory in respect to debt to equity ratio as a whole.

4.1.1.13 Net worth to total assets

The proportion of net worth to total assets helps us to know how the firm has stable power to exist in the market.

Table No. – 4.12
Proportion of net worth to total assets

(Rs. In Million)

1	2	3	4 {(2÷3)*100}
Year	Net Worth	Total assets	Ratio (%)
2002/2003	984.07	15024.2	6.55
2003/04	1062.83	18367.15	5.79
2004/05	1146.42	17629.25	6.50
2005/06	1314.18	16562.61	7.93
2006/07	1481.68	16745.61	8.85
Total	5989.18	84328.82	35.62
Average	1197.84	16865.76	7.12
S.D.			1.24
C.V.			17.38

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

Higher the ratio, better the condition of the company will be. Net worth to total assets ratio of the NABIL bank during 5 year period are 6.55, 5.79, 6.50, 7.93, and 8.85 percent in respective years in 2003 to 2007. Since, 8.85% belongs is the greatest ratio, the NABIL bank succeeded in getting good margins of borrows funds or raising further capital. In respect of Net worth to total assets ratio, 2003/04 seemed to be good because of low ratio i.e. 5.79%.

The overall average is 7.12%, which is considered as a satisfactory in respect to net worth to assets ratio.

4.1.1.14 Return of owner's equity

The return on owner's equity or net worth is most important ratio to judge the firm has earned a satisfactory return for its equity holder or not. The basic purpose of this ratio is to measure the productivity of shareholder's fund/equity. Since, the shareholders are interested in maximizing their wealth, which can be done by earning adequate return on shareholder's fund/equity. This ratio seeks to explore the capacity of management to make use it its shareholder's fund in income generating purpose. Higher ratio leads the shareholders' to realize that their funds are being effectively utilized in profit making purpose.

The return on equity of this company has been computed by using the following formulae.

$$\text{Return on owners' equity} = \frac{\text{Net Profit after Tax}}{\text{Owner's Equity / Net Worth}}$$

Where, Shareholder's equity = paid up capital + general reserve + exchange fluctuations reserve + other reserves

Table No. – 4.13
Proportion of NPAT to Net worth

(Rs. In Million)			
1	2	3	4 $\{(2 \div 3) * 100\}$
Year	Net profit after tax (NPAT)	Net Worth (Shareholders' equity)	Ratio (%)
2002/2003	329.12	984.07	33.44
2003/04	291.37	1062.83	27.41
2004/05	271.63	1146.42	23.69
2005/06	416.25	1314.18	31.67
2006/07	455.32	1481.68	30.73
Total	1763.69	5989.18	146.96
Average	352.74	1197.84	29.39
S.D.			3.87
C.V.			13.16

Source: Comparative B/S and P/L statement of NABIL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

From the above table, it is clear that the shareholders equity ratio during the study period shows a fluctuating trend. Higher the ratio, the more efficient the management and utilization of shareholder's funds are. Returns on owner's equity ratio are 33.44%, 27.41%, 23.69%, 31.67% and 30.73% in respective years 2002/03 to 2006/07. The maximum and minimum is in year 2002/2003 and 2004/2005.

Since, average return (overall) is 29.39%, it is said to be satisfactory return. The uncertain trend shows the lack of adequate plan over the utilization of owner's equity.

4.1.1.15 Earning per share (EPS) ratio

The performance and achievement of the NABIL bank can be identified with the earning power of the bank. Higher earnings imply the strength in general case. However, the

earning associated with different assets and liabilities are not adequate to satisfy all aspect of bank. So, profitability of the bank is also reflected by the change in its earning per share over the years. Therefore, the EPS is another ratio that shows how the bank will get return from a unit share. This ratio measured the returns available to the equity shareholder's funds that influence considerably the market value per share. EPS is major basis of decision-makings to the Pearson's associated with stock exchange.

Table No. – 4.14
Earning per share Ratio

(Rs. and no. of shares in Million)

1	2	3	4 (2÷3)
Year	Net profit after tax (NPAT)	Number of shares	Ratio (%)
2002/2003	329.12	3.9280	83.79
2003/04	291.37	4.9165	59.26
2004/05	271.63	4.9165	55.25
2005/06	416.25	4.9165	84.66
2006/07	455.32	4.9165	92.61
Total	1763.69		375.58
Average	352.74		75.12
S.D.			16.72
C.V.			22.26

Source: Comparative B/S and P/L statement of NABIL during the study periods for 202/03 to 20006/07 as given in website www.nepalstock.com.

The above table shows EPS ratio of NABIL bank and along with the average of Ratio EPS during the study period.

Higher the EPS better the profitability position of the company and lower the EPS worse the profitability condition of the company. During the 5 years period, the company's EPS are 83.79, 59.26, 55.25, 84.66, and 92.61 respectively. Similarly, the overall average EPS is Rs. 75.12 million per share as a whole, which is considered to be satisfactory.

4.1.2 EVEREST BANK LIMITED

Everest bank Ltd a joint venture with Punjab Bank is the second Nepal indo-tie-up in the banking sector of the country with a view of encouraging baking service, which is a pre condition for the economic development, industrialization, and growth of the country.

Everest bank Ltd is in operation from October 1994. It enters into joint venture with Punjab National bank of India in January 1994 only. Punjab National Bank holds 20% of equity in to bank. Authorized capital and paid up capital is 750,000,000 00 and 455,000,000 with no. of shareholders 24222.

4.1.2.1 Current assets to total assets and fixed assets

Current assets depend upon the nature of the business. It is important for day-to-day operation of every business concern. Higher percentage of current assets in total assets denotes greater liquidity position of the firm as well as risk of being insolvent and vice-versa. This ratio indicates the relationship between the current assets and fixed assets. If the ratio is large, it indicates the sound working capital.

Table No – 4.15
Proportion of CA to TA and FA

(Rs. in Million)					
1	2	3	4	5 (2÷3)	6 (2÷4)
Year	Current assets	Total assets	Fixed assets	Ratio of CA to TA (%)	Ratio of CA to FA (in times)
2002/2003	3334.59	3411.7	49.05	97.74	67.98
2003/04	5049.85	5202.58	50.37	97.06	100.26
2004/05	6359.66	6607.18	93.39	96.25	68.10
2005/06	7836.89	8052.2	109.59	97.33	71.51
2006/07	9399.95	9608.56	118.37	97.83	79.41
Total	31980.94	32882.22	420.77	486.21	387.26
Average	6396.19	6576.44	84.15	97.24	77.45
S.D.				0.63	13.57
C.V.				0.65	17.52

Source: Comparative B/S and P/L statement of EBL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

During the study period, the proportion of CA to TA is fluctuating trend. To highest and lowest proportion is 97.83% and 96.25% with the overall average is 97.24% and which is good position of the Everest bank.

4.1.2.2 Cash balance to CA and TA

Cash is the most liquid component of the working capital. It plays vital role to achieve effective management of working capital in all business enterprises. The ratio should not be large because higher ratio indicates the poor cash management. The main purpose of holding cash is to meet daily business requirement.

Table No. – 4.16
Proportion of cash balance to CA and TA

(Rs. in Million)

1	2	3	4	5	6
Year	Cash balance	Current assets	Total assets	Ratio of CB to CA (%)	Ratio of CB to TA (%)
2002/2003	278.6	3334.59	3411.7	8.35	8.17
2003/04	834.99	5049.85	5202.58	16.53	16.05
2004/05	592.76	6359.66	6607.18	9.32	8.97
2005/06	1139.57	7836.89	8052.2	14.54	14.15
2006/07	631.81	9399.95	9608.56	6.72	6.58
Total	3477.73	31980.94	32882.22	55.47	53.91
Average	711.48	6396.19	6576.44	11.09	10.78
S.D.				4.22	4.09
C.V.				38.04	37.93

Source: Comparative B/S and P/L statement of EBL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

Cash balance to current asset of The Everest bank Ltd. is in fluctuating trend during the study period for 2003 to 2007 respectively. In the fiscal year 2003/2004 and 2005/06 the cash management of Everest bank is poor due to greater proportion of cash balance to current asset as a comparison during the whole study Period.

On the other hand, the proportion of cash balance to total assets is also on fluctuating trend. The maximum and minimum cash balance to total assets is 16.05 and 6.58 percent with overall ratio is 10.78%.

4.1.2.3 Receivable to current assets (CA) and total assets (TA)

Now a day's credit sale plays vital role in development and expansion of market credit policies should be given to customer to increase the sales. Hence the company should keep some position for credit sales.

The company has to arrange some working capital for operate day to day business. The nature and period of credit facilities should be determined in advance. So that the company does not have to suffer from working capital efficiency. The arrangement of these all as known as receivable management. The receivable management must be in optimum level. Higher degree of receivables results unnecessary help up of working capital and in the other hand lower degree of receivable might cause negative result in sales level the receivable should be in perfect.

The following table represents the proportion of receivable to current assets and total assets in joint venture during the study period.

Table No. – 4.17
Ratio of Receivable to CA and TA

(Rs. in Million)

1	2	3	4	$5\{(2\div 3)*100\}$	$6\{(2\div 4)*100\}$
Year	Receivable	CA	TA	Ratio of R to CA	Ratio of R to TA
2002/2003	76.16	3334.59	3411.7	2.28	2.23
2003/04	94.28	5049.85	5202.58	1.87	1.81
2004/05	105.29	6359.66	6607.18	1.66	1.59
2005/06	122.74	7836.89	8052.2	1.57	1.52
2006/07	145.26	9399.95	9608.56	1.55	1.51
Total	543.73	31980.94	32882.22	8.92	8.67
Average	108.75	6396.19	6576.44	1.78	1.73
S.D.				0.31	0.30
C.V.				17.23	17.47

Source: Comparative B/S and P/L statement of EBL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

Under the five-year study period receivable to current assets is decreasing trend every year. First two year 2002/03 and 2003/04, the proportion of receivable to current assets position is not good due to greater proportion than the overall position i.e. 1.78% which is satisfactory level.

First two Year 2002/03 and 2004/05, the position of receivable to total assets is in good position than last three years, the position of receivable to total assets is decreasing trend.

4.1.2.4 Return on current assets and total assets

The assets can be converted into cash within an accounting year or within the operation cycle of the business as termed as current assets. So, it includes cash and near cash terms. This ratio shows in terms the relationship between net profit after tax and the total assets of the company return on total assets measure the profitability of all financial resources invested in the firm's assets it also evaluates total resources invested in assets employed of joint venture banks during the study period.

Table No.-4.18
Ratio of Return on CA and TA

(Rs. in Million)

1	2	3	4	5	6
Year	Net profit after tax (NPAT)	Current assets	Total assets	NPAT to CA (%)	NPAT to TA (%)
2002/2003	41.27	3334.59	3411.7	1.24	1.21
2003/04	69.7	5049.85	5202.58	1.38	1.34
2004/05	85.33	6359.66	6607.18	1.34	1.29
2005/06	94.17	7836.89	8052.2	1.20	1.17
2006/07	143.57	9399.95	9608.56	1.53	1.49
Total	434.04	31980.94	32882.22	6.69	6.50
Average	86.81	6396.19	6576.44	1.34	1.30
S.D.				0.13	0.13
C.V.				9.63	9.76

Source: Comparative B/S and P/L statement of EBL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

In the first three years, the trend of return on current assets is in increasing trend. In the final 2 year, the trend of return on current assets is in decreasing trend. Up to the year 2004/2005, return on current asset is good condition higher return than the satisfactory return i.e. 1.34.

On the other hand proportion of return on total assets is increasing trend in the first beginning in the final year under the study period 2003 to 2007. The average return on total assets is 1.30%. It is said to be satisfactory level of the Everest bank.

4.1.2.5 Net working capital to current assets

The relationship between net working capital and current assets can be analyzed through after taking 5 years data from 2003 to 2007. It shows how volume of net working capital required to how volume of current assets.

Table No. – 4.19
Position of Networking Capital to CA

(Rs. in Million)

1	2	3	4	5{(2÷4)*100}
Year	Current assets (TCA)	Current liabilities (TCL)	Net working capital (TCA-TCL)	Ratio
2002/2003	3334.59	3204.27	130.32	3.91
2003/04	5049.85	4874.79	175.06	3.47
2004/05	6359.66	6063.87	295.79	4.65
2005/06	7836.89	7420.73	416.16	5.31
2006/07	9399.95	8928.24	471.71	5.02
Total	31980.94	30491.90	1489.04	22.35
Average	6396.19	6098.38	297.81	4.47
S.D.				0.77
C.V.				17.19

Source: Comparative B/S and P/L statement of EBL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

In the beginning first year 2002/03, the net working capital is negative position. Then after working capital to current asset position is increasing trend i.e. 3.90, 3.46, 4.65 and 5.31 with the overall proportion is 2.48, which is good condition of the Everest bank.

4.1.2.6 Current assets to current liabilities

Liquidity is a company's ability to pay its maturing short – term obligations. Liquidity ratio measures the financial strength of the business to meet the current liabilities.

Higher the current assets to current liabilities ratio better is the liquidity position. For many types of business 2:1 is concerned to be an adequate ratio. If the current ratio of the firm is less than 2:1, the solvency position of the firm is not good. The cash may not be available to pay current liabilities. If the current ratio is more than 2:1, the company may have an excessive investment in current assets that do not

produce a return.

Table No. – 4.20
Ratio of CA to CL

(Rs. in Million)

1	2	3	4 (2÷3)
Year	Current assets	Current liabilities	Current Ratio
2002/2003	3334.59	3204.27	1.04
2003/04	5049.85	4874.79	1.04
2004/05	6359.66	6063.87	1.05
2005/06	7836.89	7420.73	1.06
2006/07	9399.95	8928.24	1.05
Total	31980.94	30491.90	5.23
Average	6396.19	6098.38	1.05
S.D.			0.01
C.V.			0.80

Source: Comparative B/S and P/L statement of EBL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

During the whole study period, tire relation of current asset to current liabilities does not touch according to conventional standard rules 2:1 than the posting of current is not good. The cash may be not cover current liabilities. They become due. It is hitting the day-to-day operation of the company by effect of negative working capital.

4.1.2.7 Cash to current liabilities

Being both cash and current liabilities, the components of net working capital. The relationship between temporary is considered to be essential to be analyzed. The co pay working capital is greater influenced by cash and current liabilities? When the cash is increased, the amount of working capital is also increased. On the other hand, when the current liabilities is increased. So the relationship of working capital with cash is positive but with current liabilities is negative relationship. Hence, in this section to excess the company's ability to meet its short-term obligation with its cash. It is shown in the following table.

Table No. – 4.21
Ratio of cash to CA

(Rs. in Million)

1	2	3	4{(2÷3)*100}
Year	Cash balance	Current liabilities	Ratio of cash balance to CA
2002/2003	278.6	3204.27	8.69
2003/04	834.99	4874.79	17.13
2004/05	592.76	6063.87	9.78
2005/06	1139.57	7420.73	15.36
2006/07	631.81	8928.24	7.08
Total	3477.73	30491.9	58.03
Average	695.546	6098.38	11.61
S.D.			4.38
C.V.			37.78

Source: Comparative B/S and P/L statement of EBL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

From the above table it can be seen that the cash balance to current liabilities is fluctuating trend under the study period. In the year 2002/03, 2004/05, and 2006/07 the cash balance to current liabilities is not satisfactory position due to lower ratio than the average ratio. Others whole year of the study, the position of cash to current liabilities is satisfactory level due to greater proportion than that the average position

4.1.2.8 Debt to equity ratio

Leverage ratio measures the financials soundness of the company. This ratio judges long-term financial position of the company. The relationship between borrowed fund and owner's equity is known as debt equity ratio. A high ratio shows the large share of financing by the creditor as compare to that of owners. This mean creditors would suffer more in times of distress that the owners. That is why credit prefers low debt to equity ratio

Table No. – 4.22
Ratio of Debt to equity

(Rs. in Million)

1	2	3	4 (2÷3)
Year	Total Debt (Total Liabilities)	Shareholders' equity (Net Worth)	Ratio (Times)
2002/2003	3208.86	202.85	15.82
2003/04	4883.18	319.4	15.29
2004/05	6216.27	390.91	15.90
2005/06	7579.37	472.83	16.03
2006/07	9068.24	540.33	16.78
Total	30955.92	1926.32	79.82
Average	6191.184	385.264	15.96
S.D.			0.54
C.V.			3.37

Source: Comparative B/S and P/L statement of EBL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

It is clear that the total debt to equity is increasing trend in every whole study years in the first three years; total debt to equity position is good due to below ratio than the overall ratio. But in the final 2 years, it is not preferable due to higher ratio.

Return on owner's equity

The return on owner's equity or net worth is most important ratio to judge the firm has earned a satisfactory return for its equity holder or not. The basic purpose of this ratio is to measure the productivity of shareholder's fund/equity. Since, the shareholders are interested in maximizing their wealth, which can be done by earning adequate return on shareholder's fund/equity. This ratio seeks to explore the capacity of management to make use it its shareholder's fund in income generating purpose. Higher ratio leads the shareholders' to realize that their funds are being effectively utilized in profit making purpose.

The return on equity of this company has been computed by using the following formulae.

$$\text{Return on owners' equity} = \frac{\text{Net Profit after Tax}}{\text{Owner's Equity / Net Worth}}$$

Where, Shareholder's equity = paid up capital + general reserve + exchange fluctuations reserve + other reserves

Table No. – 4.23
Proportion of owner's equity

(Rs. in Million)

1	2	3	4{(2÷3)*100}
Year	Net Profit After Tax (NPAT)	Owners' Equity (Net Worth)	Proportion (%)
2002/2003	41.27	202.85	20.35
2003/04	69.7	319.4	21.82
2004/05	85.33	390.91	21.83
2005/06	94.17	472.83	19.92
2006/07	143.57	540.33	26.57
Total	434.04	1926.32	110.48
Average	86.808	385.264	22.10
S.D.			2.65
C.V.			11.97

Source: Comparative B/S and P/L statement of EBL during the study periods for 202/03 to 2006/07 as given in website www.nepalstock.com.

The average return on equity under the study period is 22.10%, which is satisfactory level. In the year 2005/06, the proportion of return on equity shows the more efficient management of Everest Bank and utilization of shareholder funds. The proportion range of return on equity proportion return on equity is 19.92% to 26.57% during the study year 2003 to 2007.

4.1.2.10 Earning Per Share (EPS)

The performance and achievement of the NABIL bank can be identified with the earning power of the bank. Higher earnings imply the strength in general case. However, the earning associated with different assets and liabilities are not adequate to satisfy all aspect of bank. So, profitability of the bank is also reflected by the change in its earning per share over the years. Therefore, the EPS is another ratio that shows how the bank will get return from a unit share. This ratio measured the returns available to the equity shareholder's funds that influence considerably the market value per share. EPS is major basis of decision-makings to the Pearson's associated with stock exchange.

Table No. – 4.24
Earning Per Share Ratio

(Rs. in Million)

1	2	3	4{(2÷3)*100}
Year	Net Profit after tax (NPAT)	No. of shares	Ratio (%)
2002/2003	41.27	1.1842	34.85
2003/04	69.7	2.2086	31.56
2004/05	85.33	2.5932	32.91
2005/06	94.17	3.1500	29.90
2006/07	143.57	3.1500	45.58
Total	434.04		174.79
Average	86.808		34.96
S.D.			6.21
C.V.			17.76

Source: Comparative B/S and P/L statement of EBL during the study periods for 2002/03 to 2006/07 as given in website www.nepalstock.com.

During the study period, in the year 2002/03 and 2006/07 the financial position of the Everest bank is satisfactory owing to highest EPS i.e. 34.85 and 45.58 in comparison. The worst financial position is in the year 2005/06 having 29.90 per share. The average (Overall proportion EPS is 34.96, which is satisfactory level, is the Everest bank.)

4.1.3 NEPAL BANGLADESH BANK LIMITED

NBBL is fourth joint venture commercial bank in Nepal with joint venture of international finance investment and commerce bank (IFFIC) Ltd., Bangladesh. It was established in Jestha under the commercial bank act. 2031 B S

NBBL bank's main objectives are to be facilities the reliable, prompt, and high standard banking services adopting the latest version banking technologies in companies with the need and demand of the market. For the achievement of the above objectives NBBL introduced many more facilities and full fledged commercial banking service, to client which is as accepting deposits' loan and advances, locker facilities, tale-baking facilities and insurance of bank guarantee etc. Authorized and issued capital is 1000000000.00 and 500000000.00 with 24598 shareholders.

4.1.3.1 Current assets to total assets and fixed assets

Current assets depend upon the nature of the business. It is important for day-to-day operation of every business concern. Higher percentage of current assets in total assets denotes greater liquidity position of the firm as well as risk of being insolvent and vice-versa. This ratio indicates the relationship between the current assets and fixed assets. If the ratio is large, it indicates the sound working capital.

Table No. – 4.25
Proportion of CA to TA and FA

(Rs. in Million)

1	2	3	4	5 (2÷3)	6 (2÷4)
Year	Current assets	Total assets	Fixed assets	Ratio of CA to TA (%)	Ratio of CA to FA (%)
2002/2003	7034.51	7347.23	58.5	95.74	120.25
2003/04	9636.94	9962.69	91.7	96.73	105.09
2004/05	10727.83	11102.24	91.51	96.63	117.23
2005/06	11345.52	11932.6	80.73	95.08	140.54
2006/07	13758.05	14257.97	191.17	96.49	71.97
Total	52502.85	54602.73	513.61	480.68	555.08
Average	10500.57	10920.55	102.72	96.14	111.02
S.D.				0.71	25.27
C.V.				0.73	22.77

Source: comparative B/S and P/L statement of NBBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

The position of the current assets to total assets of the NBBL is in constant trend in year-by-year 2003 to 2006 during the whole study period. In the year 2005/06, the ratio of CA to TA is 95.08%, which is the lowest proportion among under the study year. Current assets to total assets position have NBBL shows greater liquidity and lower risk in the five years' study period.

4.1.3.2 Cash balance to current assets and total assets

Cash is the most liquid component of the working capital. It plays vital role to achieve effective management of working capital in all business enterprises. The ratio should not

be large because higher ratio indicates the poor cash management. The main purpose of holding cash is to meet daily business requirement.

Table No. – 4.26
Proportion of cash balance to CA and TA

(Rs. in Million)

1	2	3	4	5	6
Year	Cash balance	Current assets	Total assets	Ratio of CB to CA (%)	Ratio of CB to TA (%)
2002/2003	645.75	7034.51	7347.23	9.18	8.79
2003/04	1025.82	9636.94	9962.69	10.64	10.30
2004/05	1759.31	10727.83	11102.24	16.40	15.85
2005/06	899.51	11345.52	11932.6	7.93	7.54
2006/07	1436.48	13758.05	14257.97	10.44	10.07
Total	5766.87	52502.85	54602.73	54.59	52.55
Average	1153.37	10500.57	10920.55	10.92	10.51
S.D.				3.25	3.18
C.V.				29.79	30.28

Source: comparative B/S and P/L statement of NBBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

The highest and lowest position of Cash balance to current assets is 16.40% and 7.93% in the years 2004/05 and 2002/03 respectively. In the year 2004/05, the proportion of cash balance to current assets indicates the poor cash management out of above years due to the greater ratio than the average of NBBL.

Under the study year' the position of cash balance to total assets is fluctuating trend. First three year, it is increasing level then after it is suddenly, decreasing. The average of the whole study period is 10.51%, which is satisfactory level of NBBL. But in the year 2004/2005 the position of cash balance to total assets is not satisfactory level owing to higher ratio than the satisfactory level.

4.1.3.3 Receivable to current assets and total assets

Now a day's credit sale plays vital role in development and expansion of market credit policies should be given to customer to increase the sales. Hence the company should keep some position for credit sales.

The company has to arrange some working capital for operate day to day business. The nature and period of credit facilities should be determined in advance. So that the company does not have to suffer from working capital efficiency. The arrangement of these all as known as receivable management. The receivable management must be in optimum level. Higher degree of receivables results unnecessary help up of working capital and in the other hand lower degree of receivable might cause negative result in sales level the receivable should be in perfect.

The following table represents the proportion of receivable to current assets and total assets in joint venture during the study period.

Ratio of Receivable to CA and TA
Table No.-4.27

(Rs. in Million)

1	2	3	4	$5\{(2\div 3)*100\}$	$6\{(2\div 4)*100\}$
Year	Receivable	CA	TA	Ratio of R to CA	Ratio of R to TA
2002/2003	73.81	7034.51	7347.23	1.05	1.00
2003/04	75.09	9636.94	9962.69	0.78	0.75
2004/05	121.13	10727.83	11102.24	1.13	1.09
2005/06	642.03	11345.52	11932.6	5.66	5.38
2006/07	713.38	13758.05	14257.97	5.19	5.00
Total	1625.44	52502.85	54602.73	13.80	13.23
Average	325.09	10500.57	10920.55	2.76	2.65
S.D.				2.44	2.33
C.V.				88.36	88.06

Source: comparative B/S and P/L statement of NBBL during the study periods for 2002/03to 2006/07 as given ion website www.nepalstock.com.

In the year 2005/06 and 2006/07, it can be seen the NBBL is unable to collect receivable promptly because the higher proportion of receivable to current assets in comparison under the study period. The average position of whole study period of receivable to current asset is 2.76%. it is said to be satisfactory position

4.1.3.4 Return on current assets and total assets

The assets can be converted into cash within an accounting year or within the operation cycle of the business as termed as current assets. So, it includes cash and near cash terms. This ratio shows in terms the relationship between net profit after tax and the total assets of the company. Return on total assets measure the profitability of all financial resources invested in the firm's assets. It also evaluates total resources invested in assets employed of joint venture banks during the study period.

Table No. – 4.28
Ratio of Return on CA and TA

(Rs. in Million)

1	2	3	4	5	6
Year	Net profit after tax (NPAT)	Current assets	Total assets	NPAT to CA (%)	NPAT to TA (%)
2002/2003	139.53	7034.51	7347.23	1.984	1.899
2003/04	198.75	9636.94	9962.69	2.062	1.995
2004/05	65.78	10727.83	11102.24	0.613	0.592
2005/06	71.51	11345.52	11932.6	0.630	0.599
2006/07	2.65	13758.05	14257.97	0.019	0.019
Total	478.22	52502.85	54602.73	5.309	5.104
Average	95.64	10500.57	10920.55	1.062	0.878
S.D.				0.91	17.21
C.V.				1.984	1.899

Source: comparative B/S and P/L statement of NBBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

The return on current assets under the study period 2003 to 2007 is increasing trend. In the year 2003/04 and 2005/06, return on working capital is satisfactory return due to higher proportion among the whole study period.

In the first three years, 2003 to 2007 the return on working capital is not satisfactory because the proportion is below then the average return on NBBL.

Likewise, the position of return on total assets under the study period is increasing trend and average return on total assets is 4.24%. It is said to be good position. First three year, the return on working capital is not satisfactory owing to below ratio than average ratio

4.1.3.5 Net working capital to current assets

The relationship between net working capital and current assets can be analyzed through after taking 5 years data from 2003 to 2007. It shows how volume of net working capital required to how volume of current assets.

Table No.-4.29
Position of Net Working Capital to CA

1	2	3	4	(Rs. in Million) 5{(4÷2)*100}
Year	Current assets (TCA)	Current liabilities (TCL)	Net working capital (TCA-TCL)	Ratio
2002/2003	7034.51	6945.64	88.87	1.26
2003/04	9636.94	9358.28	278.66	2.89
2004/05	10727.83	10441.04	286.79	2.67
2005/06	11345.52	11233.7	111.82	0.99
2006/07	13758.05	13586.4	171.65	1.25
Total	52502.85	51565.06	937.79	9.06
Average	10500.57	10313.01	187.56	1.81
S.D.				0.90
C.V.				49.43

Source: comparative B/S and P/L statement of NBBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

From the table, the highest net working capital is Rs 286 79 million in the year 2004/05 and lowest net working capital is Rs 88.87 million. The range of proportion is 0.99 to 2.89% during the study period, 2003 to 2007. For the year 2005/06, net working capital to current assets is not appropriate for the NBBL.

4.1.3.6 Current assets to current liabilities

Liquidity is a company's ability to pay its maturing short – term obligations. Liquidity ratio measures the financial strength of the business to meet the current liabilities.

Higher the current assets to current liabilities ratio better is the liquidity position.

For many types of business 2:1 is concerned to be an adequate ratio. If the current ratio of the firm is less than 2:1, the solvency position of the firm is not good. The

cash may not be available to pay current liabilities. If the current ratio is more than 2:1, the company may have an excessive investment in current assets that do not produce a return.

Table No. – 4.30
Ratio of CA and TA

(Rs. in Million)

1	2	3	4 (2÷3)
Year	Current assets	Current liabilities	Current Ratio
2002/2003	7034.51	6945.64	1.01
2003/04	9636.94	9358.28	1.03
2004/05	10727.83	10441.04	1.03
2005/06	11345.52	11233.7	1.01
2006/07	13758.05	13586.4	1.01
Total	52502.85	51565.06	5.09
Average	10500.57	10313.01	1.02
S.D.			0.01
C.V.			0.92

Source: comparative B/S and P/L statement of NBBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

In the study period, the current asset to current liabilities is below than generally accepted standard form 2:1. The NBBL has suffering from lack of sufficient current assets to discharge short-term obligation when they become due. During the study period the proportion of CA to CL are 1.01, 1.03, 1.03, 1.01, and 1.01

4.1.3.7 Cash balance to current liabilities

Being both cash and current liabilities, the components of net working capital. The relationship between temporary is considered to be essential to be analyzed. The working capital is greater influenced by cash and current liabilities? When the cash is increased, the amount of working capital is also increased. On the other hand, when the current liabilities is increased. So the relationship of working capital with cash is positive but with current liabilities is negative relationship.

Hence, in this section to excess the company's ability to meet its short-term obligation with its cash. It is shown in the following table.

Table No. – 4.31
Ratio of cash to CL

(Rs. in Million)			
1	2	3	4{(2÷3)*100}
Year	Cash balance	Current liabilities	Ratio of cash balance to CA
2002/2003	645.75	6945.64	9.30
2003/04	1025.82	9358.28	10.96
2004/05	1759.31	10441.04	16.85
2005/06	899.51	11233.7	8.01
2006/07	1436.48	13586.4	10.57
Total	5766.87	51565.06	55.69
Average	1153.374	10313.01	11.14
S.D.			3.40
C.V.			30.50

Source: comparative B/S and P/L statement of NBBL during the study periods for 2002/03 to 2006/07 as given ion website www.nepalstock.com.

As shown by the table, cash balance to current liabilities, figure, were fluctuating trend over the study period. The highest and lowest proportion is 16.85 and 8.01 percent in the year 2004/05 and 2005/06. The position of cash in these two fiscal years is good because it is able to pay their current obligation. But the decreasing tendency of cash to current liabilities is not a good sign for its future growth.

4.1.3.8 Debt to equity Position

Leverage ratio measures the financials soundness of the company. This ratio judges long-term financial position of the company. The relationship between borrowed fund and owner's equity is known as debt equity ratio. A high ratio shows the large share of financing by the creditor as compare to that of owners. This mean creditors would suffer more in times of distress that the owners. That is why credit prefers low debt to equity ratio

Table No. – 4.34
Ratio of Debt to Equity

(Rs. in million)

1	2	3	4{(2÷3)*100}
Year	Total Debt	Shareholders' Equity	Ratio (in times)
2002/2003	6950.62	396.59	17.53
2003/04	9367.57	595.12	15.74
2004/05	10475.74	626.49	16.72
2005/06	11248.69	683.92	16.45
2006/07	13601.39	656.57	20.72
Total	51644.01	2958.69	87.15
Average	10328.8	591.738	17.43
S.D.			1.94
C.V.			11.16

Source: comparative B/S and P/L statement of NBBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

As depicted by the table 4.55, the proportion is in fluctuating trend. It is the highest 20.72 in 2006/07 and the lowest 15.74 in 2003/04. NBBL has large proportion of outsiders' liabilities in comparison of owners' equity. However, the nature of banking business is different from other business with respect to debt equity mix because banking business heavily relies on the debt. Such position increases the financial risk of the bank on the one hand and it helps to magnify the shareholders' returns on the other hand.

4.1.3.9 Return on owner's equity

The return on owner's equity or net worth is most important ratio to judge the firm has earned a satisfactory return for its equity holder or not. The basic purpose of this ratio is to measure the productivity of shareholder's fund/equity. Since, the shareholders are interested in maximizing their wealth, which can be done by earning adequate return on shareholder's fund/equity. This ratio seeks to explore the capacity of management to make use of its shareholder's fund in income generating purpose. Higher ratio leads the shareholders' to realize that their funds are being effectively utilized in profit making purpose.

The return on equity of this company has been computed by using the following formulae.

$$\text{Return on owners' equity} = \frac{\text{Net Profit after Tax}}{\text{Owner's Equity / Net Worth}}$$

Where, Shareholder's equity = paid up capital + general reserve + exchange fluctuations reserve + other reserves

Table No.-4.35
Proportion of Owners equity

(Rs. in Million)

1	2	3	4{(2÷3)*100}
Year	NPAT	Owners' Equity	Proportion (%)
2002/2003	139.53	396.59	35.18
2003/04	198.75	595.12	33.40
2004/05	65.78	626.49	10.50
2005/06	71.51	683.92	10.46
2006/07	2.65	656.57	0.40
Total	478.22	2958.69	89.94
Average	95.64	591.738	17.99
S.D.			15.45
C.V.			85.90

Source: comparative B/S and P/L statement of NBBL during the study periods for 25002/03 to 2006/07 as given on website www.nepalstock.com.

According to table 4 56, the return on owner's equity is increasing trend in first two year. Then after is suddenly decreasing. In the fiscal year 2004/05, the return on owner's equity very low in this year, which is 10.45%, it showed 35.18% return to owner's equity, which is maximum return during the five fiscal year. In an average, the company has provided 24 57 return to shareholder as a return on their investment. Generally, this ratio indicates how well the firm has used the resources of the owner.

4.1.3.10 Earning per share (EPS)

The performance and achievement of the NABIL bank can be identified with the earning power of the bank. Higher earnings imply the strength in general case. However, the earning associated with different assets and liabilities are not adequate to satisfy all

aspect of bank. So, profitability of the bank is also reflected by the change in its earning per share over the years. Therefore, the EPS is another ratio that shows how the bank will get return from a unit share. This ratio measured the returns available to the equity shareholder's funds that influence considerably the market value per share. EPS is major basis of decision-makings to the Pearson's associated with stock exchange.

Table no.--4.36
Earning Per Share Ratio

(Rs. in Million)

1	2	3	4{(2÷3)*100}
Year	Net Profit after tax (NPAT)	No. of shares	Ratio (%)
2002/2003	139.53	1.1777	118.48
2003/04	198.75	2.3816	83.45
2004/05	65.78	3.5725	18.41
2005/06	71.51	3.5992	19.87
2006/07	2.65	3.5992	0.74
Total	478.22		240.95
Average	95.64		48.19
S.D.			50.31
C.V.			104.40

Source: comparative B/S and P/L statement of NBBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

The table 4.57 shows in comparison five study period, 8.21 EPS is the lowest financial position in the year 2002/03, and the worst condition is 0% EPS in eth year 2002/03 which is very low ratio. The overall average is 5.95% EPS that is said to be satisfactory position of the NBBL for the five year study period.

4.1.4 STANDARD CHARTERED BANK LTD.

Standard Chartered bank Ltd (SCBL) has established is 1985 as a second JVB under the company act, 1964. SCBNL PCL is the foreign joint venture partner with 50% equity investment. And SCBL PCL and Nepali promoters but after its share in Asia Pacific region it the SCBL, England by and the main objective of the bank is to collect deposit and to provide loans to agriculture, commerce and industries and to provide modern

banking service to the people. Authorized, issued and paid up capital are Rs. 3395488000, and 3395488000 respectively with 5037 no of shareholders, bank was listed in NEPSE in 21/03/2045 B.S.

Current assets to total assets and fixed asset

Current assets depend upon the nature of the business. It is important for day-to-day operation of every business concern. Higher percentage of current assets in total assets denotes greater liquidity position of the firm as well as risk of being insolvent and vice-versa. This ratio indicates the relationship between the current assets and fixed assets. If the ratio is large, it indicates the sound working capital.

Table No. – 4.37
Proportion of CA to TA and FA

(Rs. in Million)

1	2	3	4	5 (2÷3)*100	6 (2÷4)
Year	Current assets	Total assets	Fixed assets	Ratio of CA to TA (%)	Ratio of CA to FA (Times)
2002/2003	16650.32	16832.23	170.72	98.92	97.53
2003/04	19224.18	19357.18	121.81	99.31	157.82
2004/05	18330.82	18443.07	101.06	99.39	181.39
2005/06	20797.60	21000.5	191.71	99.03	108.48
2006/07	23494.63	23642.06	136.24	99.38	172.45
Total	98497.55	99275.04	721.54	496.03	717.67
Average	19699.51	19855.01	144.31	99.21	143.53
S.D.				0.22	38.14
C.V.				0.22	26.57

Source: Comparative B/S and P/L statement of SCBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

The above table recorded the proportion of CA to TA is in consistent trend under the study period. Increasing and highest consistent trend of CA to TA shows greater liquidity and lower risk. Average CA to TA is 99.21%, which is satisfactory position of SCBL.

Similarly, the relation of CA to FA is fluctuating trend under the study year 2003 to 2007. In the year 2002/03 and 2005/06, the relationship between CA to FA is not

favorable position because the proportion is below than overall position and last three years, CA to FA ratio indicates the favorable sound working capital.

4.1.4.2 Cash Balance to current assets and total assets

Cash is the most liquid component of the working capital. It plays vital role to achieve effective management of working capital in all business enterprises. The ratio should not be large because higher ratio indicates the poor cash management. The main purpose of holding cash is to meet daily business requirement.

Table No. – 4.38
Proportion of cash balance to CA and TA

(Rs. in Million)					
1	2	3	4	5	6
Year	Cash balance	Current assets	Total assets	Ratio of CB to CA (%)	Ratio of CB to TA (%)
2002/2003	1020.46	16650.32	16832.23	6.13	6.06
2003/04	961.05	19224.18	19357.18	5.00	4.96
2004/05	825.26	18330.82	18443.07	4.50	4.47
2005/06	1512.3	20797.60	21000.5	7.27	7.20
2006/07	2023.16	23494.63	23642.06	8.61	8.56
Total	6342.23	98497.55	99275.04	31.51	31.26
Average	1268.45	19699.51	19855.01	6.30	6.25
S.D.				1.68	1.66
C.V.				26.60	26.61

Source: Comparative B/S and P/L statement of SCBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

As shown by the table 4.59, the cash balance position with respect to total current assets is in fluctuating trend. For the first 3 years, it continuously decreased and at 4th year, it is jumped to 7.27%. It can also be concluded that SCBL has followed on aggressive policy for maintaining cash balance. Maintaining excess cash balance cannot be favorable from the viewpoint of profitability.

On the other hand, the proportion of CA to TA also is decreasing trend in the study period. The average position is 6.25%, which is good position for maintaining cash to total assets. In the year 2006/07 is not favorable condition.

4.1.4.3 Return on current assets and total assets

The assets can be converted into cash within an accounting year or within the operation cycle of the business as termed as current assets. So, it includes cash and near cash terms. This ratio shows in terms the relationship between net profit after tax and the total assets of the company. Return on total assets measure the profitability of all financial resources invested in the firm's assets. It also evaluates total resources invested in assets employed of joint venture banks during the study period.

Table No.-4.39
Ratio of Return on CA and TA

(Rs. in Million)

1	2	3	4	5	6
Year	Net profit after tax (NPAT)	Current assets	Total assets	NPAT to CA (%)	NPAT to TA (%)
2002/2003	392.59	16650.32	16832.23	2.36	2.33
2003/04	430.83	19224.18	19357.18	2.24	2.23
2004/05	479.21	18330.82	18443.07	2.61	2.60
2005/06	506.95	20797.60	21000.5	2.44	2.41
2006/07	537.8	23494.63	23642.06	2.29	2.27
Total	2347.38	98497.55	99275.04	11.94	11.85
Average	469.48	19699.51	19855.01	2.39	2.37
S.D.				0.15	0.15
C.V.				6.14	6.17

Source: Comparative B/S and P/L statement of SCBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

According to table no 4.60, the highest and lowest return on current assets ratio 2.61 and 2.24 for 2005/06 and 2003/04 respectively. These ratios of SCBL are much satisfactory because the trend of ratio is consistent. The table indicates that the management is utilizing its assets in its full capacity day to day for the consistent return on current assets. Similarly the trend of return on total assets is fluctuating for the whole study period. The financial position of SCBL is seems to be normal during the study period but not good in viewpoint of return on total assets as compared to the standard.

4.1.4.4 Receivable to current assets and total assets

Now a day's credit sale plays vital role in development and expansion of market credit policies should be given to customer to increase the sales. Hence the company should keep some position for credit sales.

The company has to arrange some working capital for operate day-to-day business. The nature and period of credit facilities should be determined in advance. So that the company does not have to suffer from working capital efficiency. The arrangement of these all as known as receivable management. The receivable management must be in optimum level. Higher degree of receivables results unnecessary help up of working capital and in the other hand lower degree of receivable might cause negative result in sales level the receivable should be in perfect.

The following table represents the proportion of receivable to current assets and total assets in joint venture during the study period.

Table No. – 4.40
Ratio of Receivable to CA and TA

(Rs. in Million)					
1	2	3	4	$5\{(2\div 3)*100\}$	$6\{(2\div 4)*100\}$
Year	Receivable	CA	TA	Ratio of R to CA	Ratio of R to TA
2002/2003	154.69	16650.32	16832.23	0.93	0.92
2003/04	139.03	19224.18	19357.18	0.72	0.72
2004/05	105.21	18330.82	18443.07	0.57	0.57
2005/06	121.64	20797.60	21000.5	0.58	0.58
2006/07	146.57	23494.63	23642.06	0.62	0.62
Total	667.14	98497.55	99275.04	3.43	3.41
Average	133.43	19699.51	19855.01	0.69	0.68
S.D.				0.15	0.15
C.V.				21.48	21.31

Source: Comparative B/S and P/L statement of SCBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

Table no 4.61 indicates that the receivable to current assets range 0.57 to 0.93% during the study period. In the year 2002/03, it can be seen that ACBL is unable to collect receivable promptly because in this year greater position of receivable to current assets among the study period.

Likewise, receivable to total assets position are 0.92, 0.2, 0.57, 0.58, and 0.62 percent in the year 2003 to 2007 respectively with average ratio is 0.68%, it is said to be satisfactory level of SCBL. The maximum proportion of receivable to total assets shows the liberal credit policy followed by the SCBL in the fiscal year 2002/03. In the year 2004/05, 2005/06, the receivable management of SCBL is favorable condition.

4.1.4.5 Net working capital to current assets

The relationship between net working capital and current assets can be analyzed through after taking 5 years data from 2003 to 2007. It shows how volume of net working capital required to how volume of current assets.

Table No. – 4.41
Position of net working capital to CA

(Rs. in Million)				
1	2	3	4	5{(4÷2)*100}
Year	Current assets (TCA)	Current liabilities (TCL)	Net working capital (TCA-TCL)	Ratio
2002/2003	16650.32	15781.19	869.13	5.22
2003/04	19224.18	18196.01	1028.17	5.35
2004/05	18330.82	17150.05	1180.77	6.44
2005/06	20797.60	19569.38	1228.22	5.91
2006/07	23494.63	22086.21	1408.42	5.99
Total	98497.55	92782.84	5714.71	28.91
Average	19699.51	18556.57	1142.94	5.78
S.D.				0.50
C.V.				8.64

Source: Comparative B/S and P/L statement of SCBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

The above calculation the maximum and minimum net working capital is Rs. 1228.22 millions and 869.13 million in the fiscal year 2005/2006 and 2002/03 respectively. The table shows the working capital management of SCBL is appropriate position because it can't be able to pay short - term obligation in timely. The overall position of SCBL is 5.78%, which is satisfactory level.

4.1.4.6 Current asset to current liabilities

Liquidity is a company's ability to pay its maturing short – term obligations. Liquidity ratio measures the financial strength of the business to meet the current liabilities.

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

Table No. – 4.42
Ratio of CA and CL

(Rs. in Million)

1	2	3	4 (2÷3)
Year	Current assets	Current liabilities	Current Ratio
2002/2003	16650.32	15781.19	1.06
2003/04	19224.18	18196.01	1.06
2004/05	18330.82	17150.05	1.07
2005/06	20797.60	19569.38	1.06
2006/07	23494.63	22086.21	1.06
Total	98497.55	92782.84	5.31
Average	19699.51	18556.57	1.06
S.D.			0.01
C.V.			0.53

Source: Comparative B/S and P/L statement of SCBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

The current ratios containing five years from 2003 to 2007 of SCBL are presented in table 4.63. The usual standard of current ratio is 2:1. This is more satisfactory. The SCBL has been facing difficulty in the payment of current liabilities day-to-day operation because the relationship between CA to CL is below than standard form 2:1 in the whole study years. It also can be seen the liquidity position of the SCBL is not favorably years 2003-2007.

4.1.4.7 Cash to current liabilities

Being both cash and current liabilities, the components of net working capital. The relationship between temporary is considered to be essential to be analyzed. The co pay working capital is greater influenced by cash and current liabilities? When the cash is increased, the amount of working capital is also increased. On the other hand, when the current liabilities is increased. So the relationship of working capital with cash is positive but with current liabilities is negative relationship. Hence, in this section to excess the company's ability to meet its short-term obligation with its cash. It is shown in the following table.

Table No. – 4.43
Ratio of cash to CL

(Rs. in Million)

1	2	3	4{(2÷3)*100}
Year	Cash balance	Current liabilities	Ratio of cash balance to CA
2002/2003	1020.46	15781.19	6.47
2003/04	961.05	18196.01	5.28
2004/05	825.26	17150.05	4.81
2005/06	1512.3	19569.38	7.73
2006/07	2023.16	22086.21	9.16
Total	6342.23	92782.84	33.45
Average	1079.7675	18556.57	6.69
S.D.			1.78
C.V.			26.68

Source: Comparative B/S and P/L statement of SCBL during the study periods for 2002/03 to 2006/07 as given ion website www.nepalstock.com.

During the five years study period, cash balance to current liabilities is 6.47, 5.28, 4.81, 7.73 and 9.16 percent in the respective years 2002/03 to 2006/07. The above table shows the cash management policy of the SCBL is very good. The SCBL is able to meet the current obligation in the whole study period 2003 to 2007 in timely.

4.1.4.8 Debt to equity ratio

Leverage ratio measures the financial soundness of the company. This ratio judges long-term financial position of the company. The relationship between borrowed fund and owner's equity is known as debt equity ratio. A high ratio shows the large share of financing by the creditor as compare to that of owners. This mean creditors would suffer more in times of distress that the owners. That is why credit prefers low debt to equity ratio

Table No. – 4.44
Ratio of Debt to Equity

(Rs. in Million)			
1	2	3	4(2÷3)
Year	Total Debt	Shareholders' Equity	Ratio (in times)
2002/2003	15817.4	1014.85	15.59
2003/04	18245.18	1112.02	16.41
2004/05	17207.63	1235.49	13.93
2005/06	19631.59	1368.91	14.34
2006/07	22146.33	1495.74	14.81
Total	93048.13	6227.01	75.07
Average	18609.63	1245.402	15.01
S.D.			0.99
C.V.			6.61

Source: Comparative B/S and P/L statement of SCBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

Total debt to shareholder's equity from 2003 to 2007 are calculated and presented in above table. The given figures of total debts to equity ratio of the SCBL shows the condition is not good because total debt is more than shareholders equity which indicate the higher amount of total debt than equity. So, every creditor does not want to finance in this SCBL. The financial soundness is unfavorable of SCBL during the study period.

4.1.4.9 Return on owner's equity

The return on owner's equity or net worth is most important ratio to judge the firm has earned a satisfactory return for its equity holder or not. The basic purpose of this ratio is to measure the productivity of shareholder's fund/equity. Since, the shareholders are

interested in maximizing their wealth, which can be done by earning adequate return on shareholder's fund/equity. This ratio seeks to explore the capacity of management to make use of its shareholder's fund in income generating purpose. Higher ratio leads the shareholders' to realize that their funds are being effectively utilized in profit making purpose.

The return on equity of this company has been computed by using the following formulae.

$$\text{Return on owners' equity} = \frac{\text{Net Profit after Tax}}{\text{Owner's Equity / Net Worth}}$$

Where, Shareholder's equity = paid up capital + general reserve + exchange fluctuations reserve + other reserves

Table No. – 4.45
Proportion of Owners equity

(Rs. in Million)			
1	2	3	4{(2÷3)*100}
Year	NPAT	Owners' Equity (Net Worth)	Proportion (%)
2002/2003	392.59	1014.85	38.68
2003/04	430.83	1112.02	38.74
2004/05	479.21	1235.49	38.79
2005/06	506.95	1368.91	37.03
2006/07	537.8	1495.74	35.96
Total	2347.38	6227.01	189.20
Average	469.48	1245.40	37.84
S.D.			1.29
C.V.			3.40

Source: Comparative B/S and P/L statement of SCBL during the study periods for 2002/03 to 2006/07 as given on website www.nepalstock.com.

The above mentioned table represents the percentage of return on the owner equity of SCBL for the five year period are 38.68, 38.74, 38.79, 37.03, and 35.96 percent from the year 2003 to 2007. By seeing this ratio of SCBL during the study period for 5 years. The trend of ratio is in increasing nature but not negative. Return on owner equity ratio, said that financial management of this bank is effective day by day.

.4.10 Earning per share (EPS)

The performance and achievement of the NABIL bank can be identified with the earning power of the bank. Higher earnings imply the strength in general case. However, the earning associated with different assets and liabilities are not adequate to satisfy all aspect of bank. So, profitability of the bank is also reflected by the change in its earning per share over the years. Therefore, the EPS is another ratio that shows how the bank will get return from a unit share. This ratio measured the returns available to the equity shareholder's funds that influence considerably the market value per share. EPS is major basis of decision-makings to the Pearson's associated with stock exchange.

Table No.-4.46
Equity per Share Ratio

(Rs. in Million)

1	2	3	4{(2÷3)*100}
Year	Net profit after tax (NPAT)	No. of shares	Ratio (%)
2002/2003	392.59	3.3955	115.62
2003/04	430.83	3.3955	126.88
2004/05	479.21	3.3955	141.13
2005/06	506.95	3.3955	149.30
2006/07	537.8	3.7464	143.55
Total	2347.38		676.49
Average	469.476		135.30
S.D.			13.75
C.V.			10.16

Source: Comparative B/S and P/L statement of SCBL during the study periods for 202/03 to 2006/07 as given ion website www.nepalstock.com.

As shown by the table, EPS figures are increasing trend over the study period. It was the highest and lowest EPS is 149.30 and 115.62 in 2005/06 and 2002/03. The increasing trend of EPS is good sign for its future growth. However EPS suggest that SCBL is providing more return to its each share than its competitors.

4.2 Trend Analysis

Trend analysis of joint venture banks facts in very significance from the view of forecasting its discloses. The changes in the financial and operating data between specific period and makes possible for the analysis to form opinion as they are reflected by the accounting data. Trend analysis enables whether the working capital of the company is improving to deteriorating in the coming year. To analyze the trend of data shows in the financial statements it is necessary to have statement for at least five years or more years and it involves the calculation of percentage relationship that each statement items relating to base years is taken as 100% and percentage relationship are calculated for other remaining years on the base of base years. Trend percentage discloses change in financial operating data between specific period and on this basis forecast for future can be made. For this purpose base year should be made formal year. So, the trend analysis of the significance item of the company's financial year with tabulation and presentation of them by charts and graphs research is going analyze some of the following significant items contained in the financial statement with the help of trend analysis of four joint venture banks.

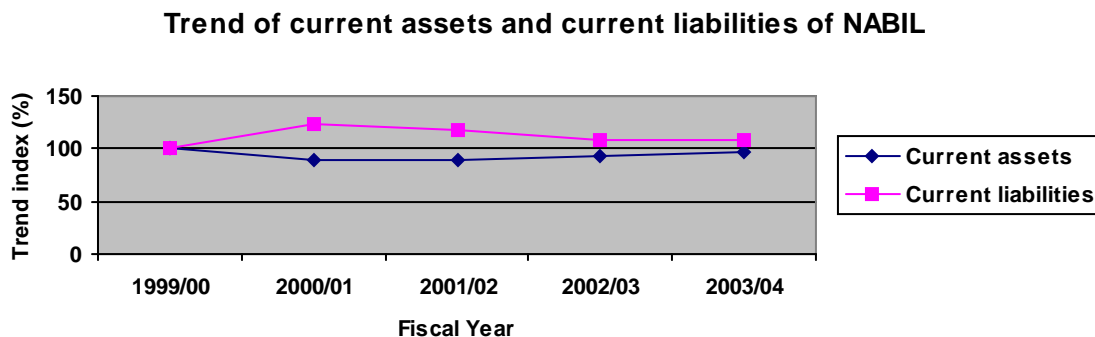
- 1 Trend of current assets and current liabilities.
- 2 Trend of current assets and cash balance.
- 3 Trend of current assets and receivables.
- 4 Trend of cash and current liabilities.
- 5 Return on current assets.
- 6 Trend of net profit and current assets.

For this purpose of trend analysis, the first year of the study period (FY 2002/03) is selected subsequent year change in relative percentage of the first year (2002/03) base. A statement of trend percentage of some relevant working capital items of 4 joint venture banks limited for the study period is presented in appendix table respectively.

4.2.1 NABIL BANK LTD.

4.2.1.1 Trend of current assets and current liabilities of NABIL.

Graph No. – 1



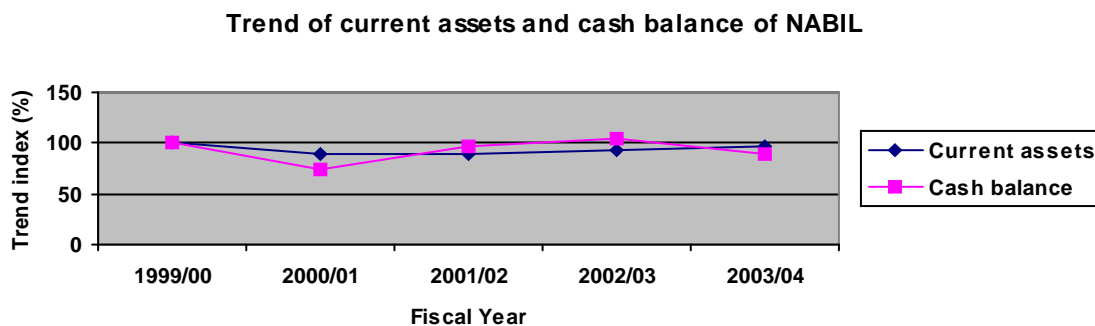
Source: Appendix – A

The graph no. 1 shows the trend of CA and CL. Both trend lines are going into extreme opposite way. The trend of current assets slightly decreases in the year 2003/04 and increases continuously to touch base year's index. The trend lines of Current liabilities point the slowly upward up to 2003/04 and deeply downward up to 2005/2006 as compared to base year 2002/03.

As the result the trend of CA is lower than the CL, which indicates current asset is net sufficient. Thus, the trend of graph show the NABIL is running with poor solvency positron during the study period.

4.1.1.2 Trend of CA and Cash balance of NABIL

Graph No. – 2

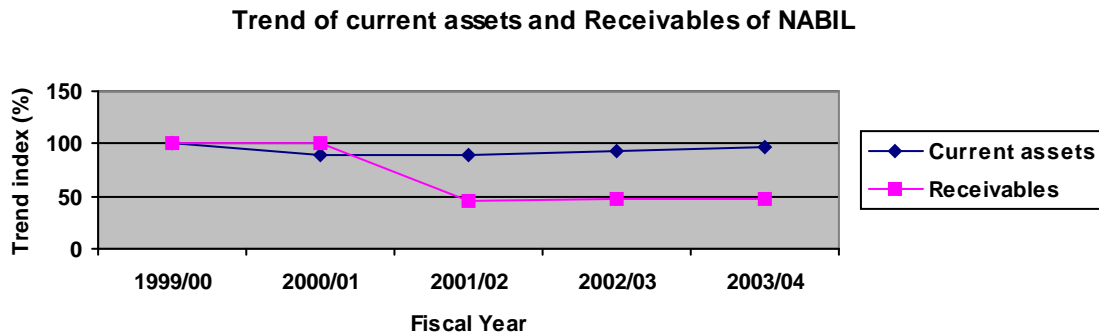


Source: Appendix – A

The relationship between current assets and cash balance of NABIL is shown in Graph no. 2. Both the trend lines of CA and Cash balance are fluctuating around base year's index. The trend line of CA is downward. The trend of current assets in the FY 2005/06 favorable plan because it is increasing slope but rest of the years is normal as compared to the base year.

4.2.1 .3 Trend of current assets to receivable of NABIL

Graph No- 3

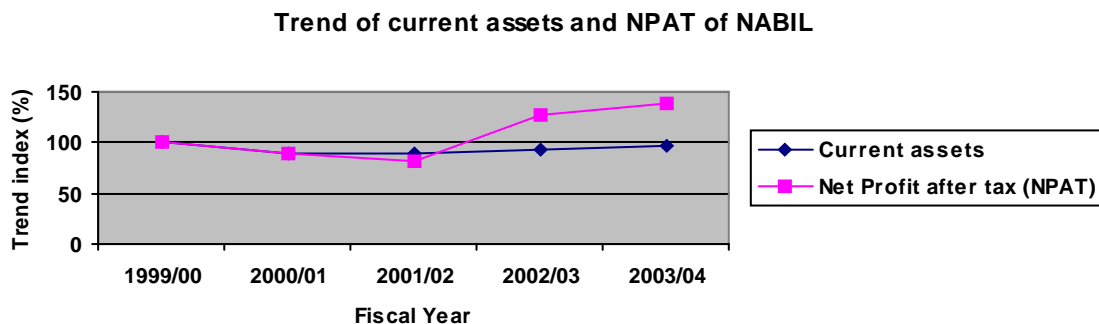


Source: Appendix – A

The above graph no. 3 presents the relationship between current assets and receivable of NABIL. The trend of receivable is always decreasing which shows the receivable management is good position of NABIL due to the downward slopping. But this receivable seems not to contributing current assets much.

4.2.1.4 Trend of Current assets and NPAT of NABIL

Graph No. – 4



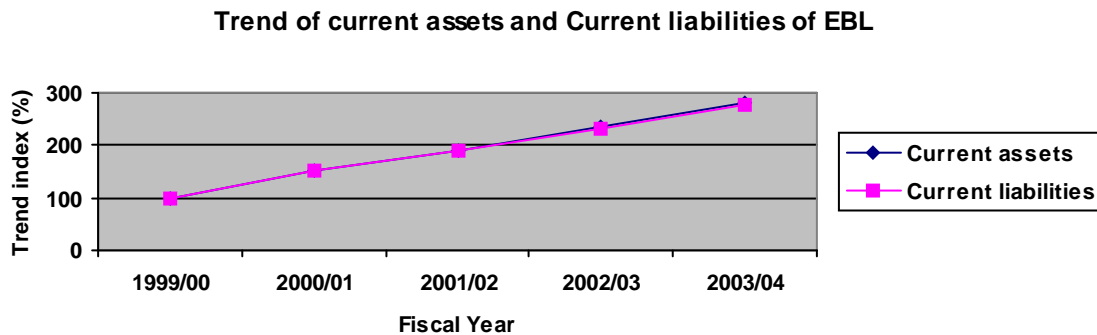
Source: Appendix – A

Graph no. 4 shows the trend line of current asset and net profit. The trend of current assets has gone down slightly and then increasing year by year. The trend of net profit has decreased for the first two years and always increasing for the rest of the years during study period. This indicates that NABIL has been able to bring its operations on track to earn profit in increasing way.

4.2.2 EVEREST BANK LTD.

4.2.2.1 Trend of current assets and current liabilities of EBL.

Graph No. – 5

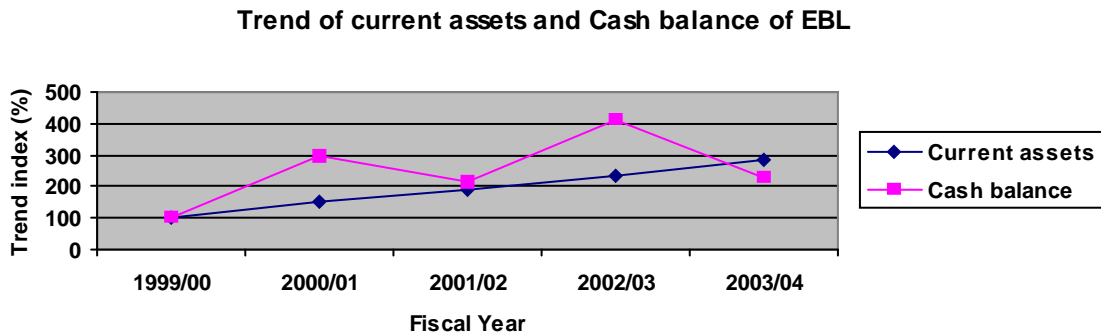


Source: Appendix – A

The above graph no.5 shows that the relationship between current assets and current liabilities. The trend lines of CA to CL of Everest bank Ltd. From 2003to 2007 are all exactly upward during the study period. From the above table trend line of graph no 5 it is concluded that the EBL is worthiness. Both the current assets and current liabilities trend lines are increasing trend of EBL and EBL is favorable in the view point of CA and CL trend line.

4.2.2.2 Trend of current assets and cash balance of EBL

Graph No. – 6

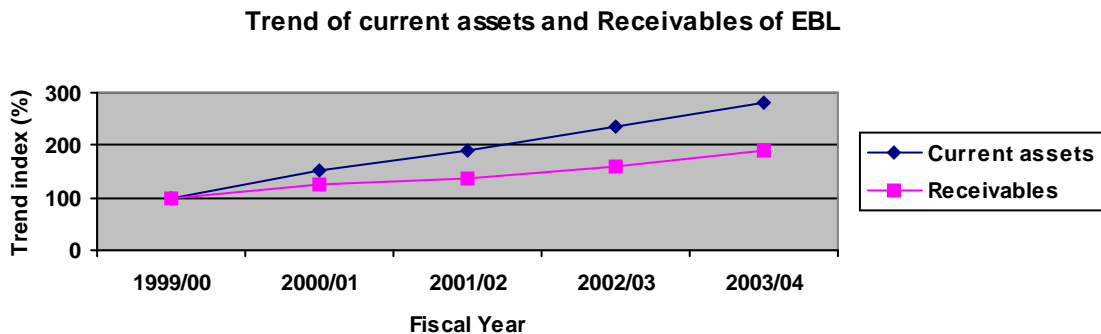


Source: Appendix – A

It reveals that the trend line of current assets and cash balance of EBL is presented in figure no. 6. The highly increasing slope of current asset shows the favorable position of EBL; where as the trend of cash balance is fluctuating trend. The cash balance of EBL is good position of FY 2005/06 but the rest of year cash balance is satisfactory though it is fluctuating. It has been able to maintain sufficient cash so as to discharge short term obligations efficiently.

4.2.2.3 Trend of current asset and receivable of EBL

Graph No. – 7



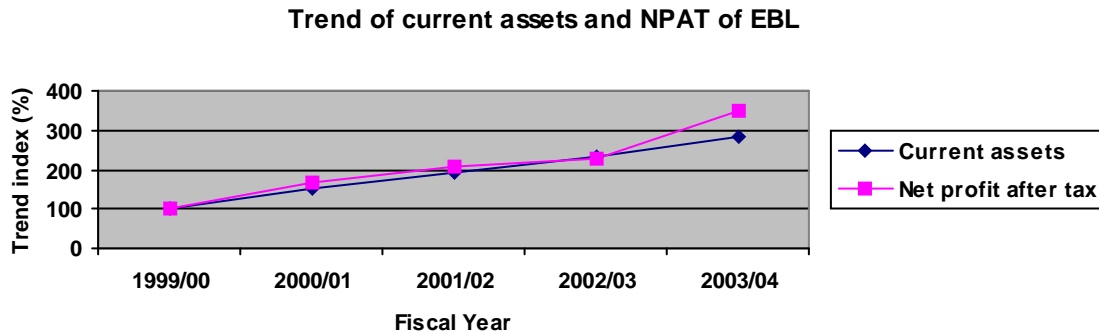
Source: Appendix – A

Graph no.7 shows the relationship between current assets to receivable of EBL. The trend line shows the current assets slope is increasing year by year as compared to base year

continuously. Consequently, the trend of s receivable slopping is also increasing year by year but not in the same proportion as current assets. Increment of receivables is not a good sign for any company.

4.2.2.4 Trend line of current asset and net profit after tax of EBL

Graph No – 8



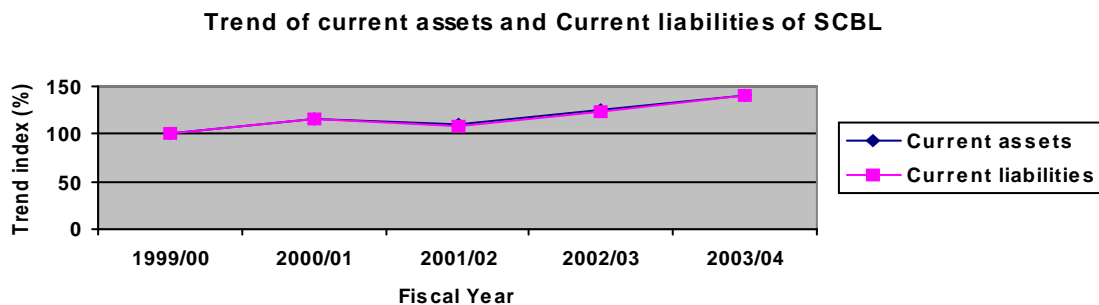
Source: Appendix – A

The above graph no. 8 shows the trend line of current and net profit after tax. Both the trend line of current assets and net profit are highly upward sloping during the 5-year study period. The net profit of EBL is very high in the FY 2005/2006 is positive or appropriate position of Everest Bank Ltd. during the study period.

4.2.3 STANDARD CHARTERED BANK LTD.

4.2.3.1 Trend of current assets and current liabilities of SCBL

Graph No. – 9



Source: Appendix – A

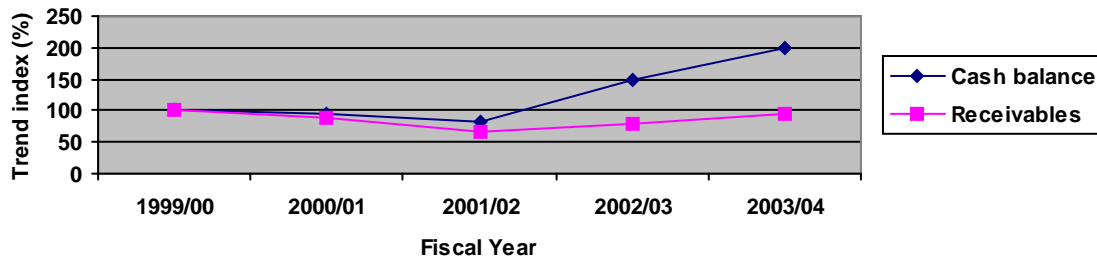
Graph no. 9 depicts trend of current assets and current liabilities of SCBL. The trend line of CA and CL both are increasing trend continuously as compared to base year. The trend line of CA and CL I favorable during the study period due to increasing trend. But the increasing trend line of current liabilities is not favorable for the SCBL as compared to current assets.

The SCBL is running with poor solvency position during the study period as compared to conventional standard rule.

4.2.3.2 Trend Line of cash balance and receivable to SCBL

Graph no. 10

Trend of Cash balance and receivables of SCBL



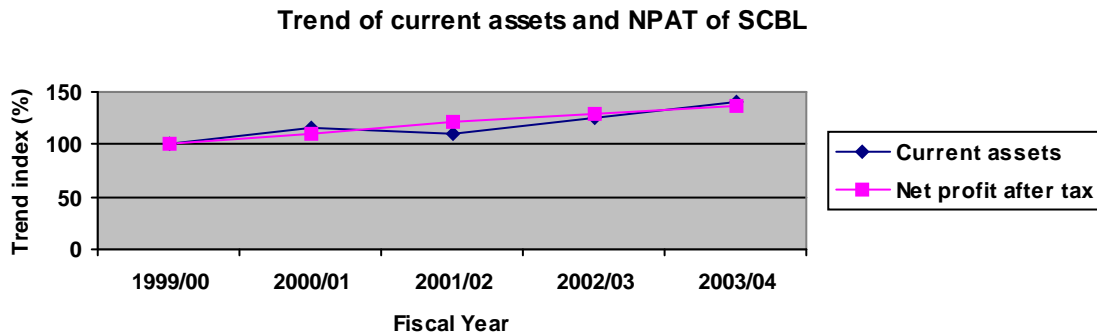
Source: Appendix – A

The above graph no. 10 presents the trend of cash balance and receivable. According to graph, the trend line of cash balance and receivable are fluctuating trend. The trend line of cash balance shows the cash balance of SCBL is favorable position up to FY 2004/05 to 2005/06. The slope of cash balance is upward show the poor management of cash balance. The increasing trend of receivable shows unfavorable position and vice-versa.

As a result the cash balance and receivable of SCBL are not satisfactory.

4.2.3.3 Trend line of current assets and net profit after tax of SCBL

Graph No-11



Source: Appendix – A

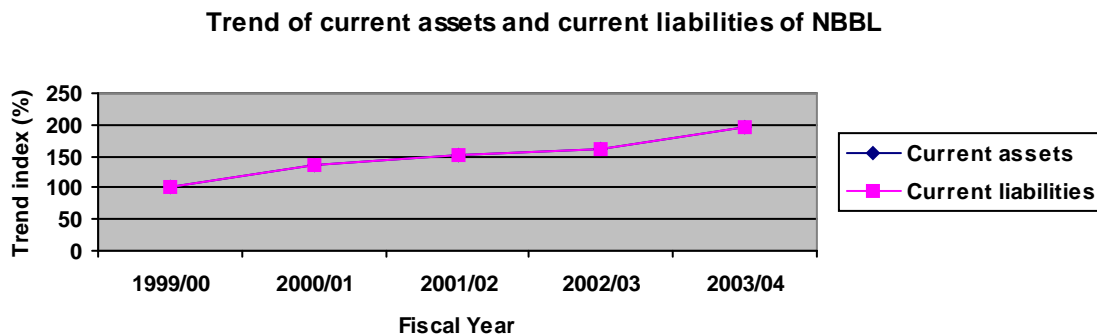
The trend line of current assets and net profit is presented in graph no. 11. The trend of current asset is slowly upward sloping. It indicates the position of current asset position is good of SCBL during study period. The trend of net profit is also upward sloping. It also indicates preferable position of net profit. The trend line of current assets is more than the trend line of net profit.

As a result, the SCBL is running good result to earn net profit.

4.2.5 NEPAL BANGLADESH BANK LTD.

4.2.5.1. Trend of current asset and current liabilities of Bangladesh Bank Ltd.

Graph No. – 12



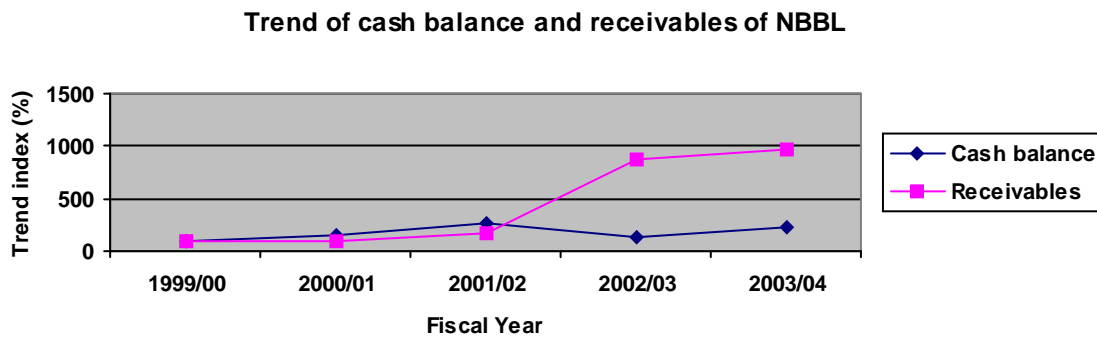
Source: Appendix – A

Graph no. 15 shows the trend line of current assets and current liabilities of NBB Ltd. During the study period 2003 to 2007, both the trend lines increasing trend for the all years increasing rate of trend line of current is greater than the trend line of current liabilities.

As a result, it can be concluded that the position of current assets and current liabilities is favorably due to increasing slope of same position from the viewpoint of current assets and current liabilities trend line.

4.2.5.2 Trend of cash balance and receivable of NBB Ltd.

Graph No. – 13



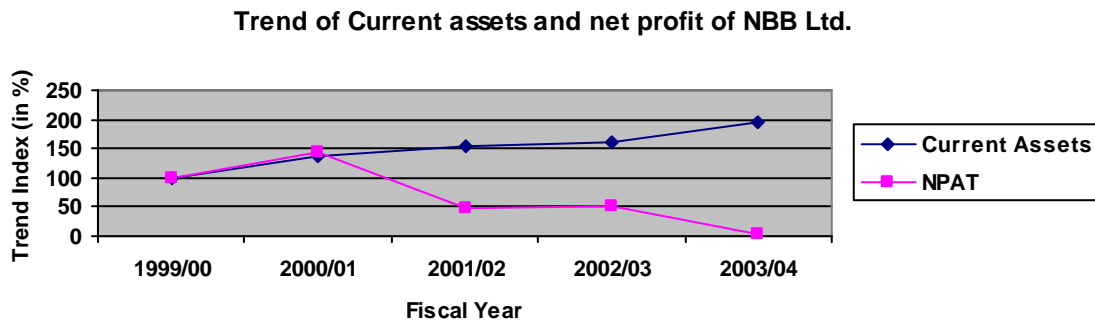
Source: Appendix – A

Trend line of cash balance and receivable of NBB Ltd. for 5 years study period is presented in graph no. 16. The trend line cash balance is in upward slopping up in FY 2003/04 and 2004/05, but then after it is downward slopping as compared to base year. Then trend of upward slopping show the cash management of NBB Ltd. is not good and vice-versa.

The trend line receivable is slowly increasing up to FY 2003/04. Then it is highly increasing slope to FY 2004/05 as compared to base year. As a result, the cash and receivable management both are not satisfactory.

4.2.5.3 Trend of current assets and net profit of NBB Ltd.

Graph No. - 14



Source: Appendix – A

The above graph no 17 shows the trend of current assets and not profit of NBBL Ltd. during the 5 years' period of 2003 to 2007. The trend of current assets is highly upward slopping year by year. It indicates the satisfactory position from the viewpoint of trend of current assets. The trend line of net profit is upward slopping up to year 2003/04, which indicates the net profit of NBB Ltd. is favorable but the trend of net profit is lower than base year in the last 2 year 2003/04 and 2005/06 (i.e. 47.14%<100%) and (51.25%<100%). It denotes the trend of net profit is unfavorable position during the study period of NBB Ltd.

4.3 Inferential Analysis

Inferential analysis is based on the sampling and statistic. For the Inferential analysis, null (H_0) and alternatives (H_1) hypothesis were formulated and tested with the help of student's t-test. If the calculated t value were less than the table values at 5% significant for n-2 degree of freedom a, the null (H_0) hypothesis would be accepted and alternative hypothesis would be accepted and alternative hypothesis would be rejected or vice-versa. Inferential analysis helps to estimate a good estimator of population parameter. Attempts are therefore made to estimate the population parameters to predict the future outcome i.e. to established relationship correlation between current assets and current liabilities, current assets and cash receivables net working capital, total fixed assets, return on current and total assets, cash and current liabilities, quick assets, return on equity, return on equity, NPAT and shareholder etc. in case of joint venture commercial banks. Under

the study .F or the purpose al of the four companies for the sampled study correlating coefficient and probable error have been computed between different items. in addition student t-values have been calculated to test the statistical significance correlation of all the correlate are probable error calculates again, in addition analysis of a variation using ANOVA techniques we find out established hypothesis statement used to show the relationship between variables. Analysis variation F-values have been calculated to test the statistical significance in concerned four banks at 5% level.

The following tables from (4.86 to 4.90) show the analysis of working capital management with the help of different ratio and their correlation coefficient probable error and t-values and testing hypothesis.

The following table from (4.94 to 4.99) shows the variation analysis as well as concerned banks also analysis of working capital management with the help of working capital management with the help different items of concern banks calculation and F values and testing hypothesis.

4.3.1 Bank wise correlation analysis

4.3.1.1 Karl Pearson’s correlation coefficient and probable error of current assets and current liabilities of four joint venture banks are presented in the following table.

Table No. – 4.47

Correlation coefficient and probable error between current assets and current liabilities.

Banks	Correlation (r)	Probable Error (P.E.)	6 x P.E.	Significance
NABIL	-0.964	0.0211	0.1266	It is not significant
Everest	0.9999	0.000047	0.000282	It is significant
NBBL	0.9993	0.000414	0.002484	It is significant
SCBL	0.9994	0.000364	0.002184	It is significant

Source: Computed from previous table (table no. 4.1 to 4.85)

From the above table, it can be seen that the computed correlation coefficient between current assets and current liabilities of four samples banks have positive relationship order to measure the degree of change on dependent variable. Current liabilities due to change in independent various current assets value of coefficient is

calculated. We can also find out that there is highest degree of correlation in standard charter bank, NBBL i.e. 0.999 and 0.9998 respectively among the concerned four banks. It denotes there is positive perfect correlation between current assets and current liabilities in 2 banks out of four banks. On the contrary, least degree of correlation (0.964) in NABIL which was positive value of correlation.

Similarly, from the viewpoint of probable error, the value of correlation 'r' is greater than the value of 6 P.E. (i.e. $0.994 > 0.018$, $0.9999 > 0.000282$, $0.9993 > 0.002484$, $0.9994 > 0.002184$) in respective banks, Everest, NBBL, and SCBL respectively. Since, 'r' is much greater than 6 P.E. there is evidence of correlation. In other words, the correlation between current assets and current liabilities is highly significance. But in bank NABIL the value of correlation 'r' is lower than the calculated value of probable error 6 P.E. Thus, there is no evidence of correlation between two variables (i.e. CA and CL). In other words, the relationship between CA and CL is not considered for significance.

4.3.1.2 Karl Pearson's correlation coefficient and probable error of cash and current assets of concerned four banks.

Table No. – 4.48
Correlation coefficient and probable error between cash balance and current assets

Banks	Correlation (r)	Probable Error (P.E.)	6 x P.E.	Significance
NABIL	0.503	0.2255	1.353	It is not significant
Everest	0.513	0.222	1.332	It is not significant
NBBL	0.623	0.184	1.104	It is not significant
SCBL	0.901	0.057	0.342	It is significant

Source: Computed from previous table (table no. 4.1 to 4.85)

In the above table we can find that the correlation coefficient between cash balances and current assets and probable error (P.E.) of four sample banks have been presented. We can say that there is the highest degree of correlation in SCBL bank (i.e. 0.901) among the concerned four banks. It denotes, there is higher degree of correlation between cash

and current assets of NABIL bank order to measure the degree of change dependent variable current assets due to change value of coefficient is calculated.

Likewise the value of 'r' is greater than the, value of bank SCBL. Since 'r' is much greater than 6 P.E. there is evidence of correlation. In other words, the Karl Pearson's coefficient between cash balance and current assets are of relevant banks are significant. Contrary, the value of 'r' is lower than the calculated value of probable error in EBL, NBBL NABIL, and Everest during the study period. Thus there is no evidence of correlation between current and cash balance. In other words, the relationship between cash balance and current assets is not considered for significance.

4.3.1.3 Karl Pearson's correlation coefficient and probable error of receivable and current assets of concerned four joint venture banks.

Table No. – 4.49
Karl Pearson's correlation coefficient and probable error of receivable and current assets

Banks	Correlation (r)	Probable Error (P.E.)	6 x P.E.	Significance
NABIL	0.145	0.2953	1.7718	It is not significant
Everest	0.995	0.0027	0.0162	It is significant
NBBL	0.810	0.1039	0.6234	It is significant
SCBL	0.039	0.3012	1.8072	It is not significant

Source: Computed from previous table (table no. 4.1 to 4.85)

In table no. 4.88, it is shown that the coefficient of correlation between receivable and current assets and probable error (P.E.) of four joint venture banks during the study period. We can find that the highest degree of correlation between receivable and current assets in EBL (i.e. 0.995) among the concerned study four banks. This correlation indicates that there is high degree of (positively perfect) correlation between the receivable value of coefficient is calculated. In the contrary, the lowest degree of correlation 0.039 in SCBL among the all banks which weakly positive value of correlation.

As a result, the value of 'r' is greater than the value of 6 P.E. (i.e. $0.995 > 0.0162$, $0.810 > 0.6234$) in respective banks EBL and NBBL respectively. Since 'r' is much

greater than 6 P.E., there is evidence of correlation. Thus Karl Pearson's correlation coefficient between two variables receivable and current assets is significant. On the contrary, the correlation value 'r' is lower than the calculated value of probable error in NABIL, EVEREST, during the study period. Since, there is no evidence of correlation between receivable and current assets. In other words, the relationship between receivable and current assets is not considered for significance.

4.3.1.4 Karl Pearson's correlation coefficient and probable error of net profit and current assets of concerned four joint venture banks.

Table No. – 4.50

Correlation coefficient and probable error between net profit and current assets.

Banks	Correlation (r)	Probable Error (P.E.)	6 x P.E.	Significance
NABIL	0.492	0.2287	1.3722	It is not significant
Everest	0.969	0.0185	0.111	It is significant
NBBL	-0.772	0.1218	0.7308	It is not significant
SCBL	0.892	0.0617	0.3702	It is significant

Source: Computed from previous table (table no. 4.1 to 4.85)

The correlation coefficient between net profit and current liabilities and probable error (P.E.) of four joint venture banks are shown in table no. 4.89 during the study period. We can find that the highest degree of correlation between net profit after tax and current assets is 0.969 in EBL among the concerned four joint venture banks in respective banks. The correlation indicates that there is positively perfect high degree correlation between the NPAT and current assets in order to measure the degree of change on dependent variable current assets owing to independent variables bet profit after tax of coefficient is calculated. In the contrary the lowest degree of correlation is negative 0.772 in NBBL among the all study banks, which is negative value is correlation. However, it can be noted that from the above table that out of 6 banks 5 banks have positive correlation between NPAT and current assets.

As a result, the value of correlation 'r' is greater than the calculated value of 6 P.E. (i.e. 0.969, 0.892) in respective banks EBL, and SCBL respectively, since 'r' is much greater than 6 P.E. There is evidence of correlation. In other words, correlation coefficient between two variables NPAT and current assets is significance. On the contrary, the

above table shows, the negative correlation between the NPAT and current assets (working capital) of NBBL is the lowest degree of correlation among all the sample 'r' is not greater than 6 P.E. the relationship is not considered to significant.

4.4 Major findings of the study

4.4.1 Major findings under descriptive analysis

The major findings of the study derived from descriptive analysis are as follows.

1. SCBL had the highest mean current assets to total assets and NABIL had the lowest mean current assets to total assets during the study period form 2003 to 2007.
2. SCBL had the highest mean current asset to fixed assets and NABIL had the lowest mean current assets to fixed asset during the study period.
3. EBL had the highest mean cash balance to total assets and NABIL had the lowest mean current assets to total assets during the period under the study.
4. NBBL had the highest mean cash balance to total assets and NABIL had the lowest mean cash balance to total assets during the study period.
5. NBBL had the highest mean receivable to total assets and SCBL had the lowest mean receivable to current assets during the study period.
6. NBBL had the highest mean receivable to current assets and SCBL had the lowest mean receivable to current assets during the study period.
7. NABIL had the highest mean return on current assets and NBBL had the lowest mean return on current assets during the study period.
8. SCBL had the highest mean return on total assets and NBBL had the lowest mean return on total assets during study period under the study.
9. SCBL had the highest mean net working capital to current assets and NABIL had the lowest mean negative net working capital to current assets during the study period.
10. NABIL had the highest mean current assets to current liabilities and NBBL had the lowest mean current assets to current liabilities during the study period.

11. NBBL had the highest mean debt to equity and NABIL had the lowest mean debt to equity under the study period.
12. SCBL had the highest mean return on owner's equity and NBBL had the lowest mean return on owner's equity during the period under the study.
13. SCBL had the highest mean EPS and EBL had the lowest mean EPS during the study period.

4.4.2 Major findings under inferential analysis

1. The positive correlation coefficient between current assets and current liabilities of concerned bank. EBL had the highest degree positively perfect correlation between current assets and current liabilities and NABIL had the lowest degree of negative correlation under the study period.
2. SCBL had the highest degree positively correlation between cash balance and current assets and NBBL the lowest degree of correlations.
3. EBL had the highest degree positively perfect correlation between receivable and current assets and SCBL had the lowest degree of correlation.
4. EBL had the highest degree positively perfect correlation between net profit and current assets and NBBL had the lowest degree negative correlation.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Working capital is one of the major factors of the company. It is life – blood to operate the business day-to-day smoothly. The study aims at examining the impact of current assets and current liabilities, current assets and cash balance, total debt to equity, return, EPS, receivable etc. by using the secondary data. The study mainly aims to assessment and analysis working capital management of four joint venture commercial banks in Nepal.

The study is based on secondary data of four joint venture commercial banks listed in Nepal Stock Exchange (NEPSE) Ltd. covering the five years study periods from 2002/03 to 2006/07.

The research works divided in five chapters consisting, a brief introduction about this study and company has been already presented in chapter I, in chapter II, various related books, journals, and other publications as well as unpublished master level dissertation have been recovered. Research methodology has been described in chapter in III. While all the available data have been presented and analyzed and major findings in chapter IV. In this chapter, the effort has been made first to present summary and conclusion drawn from the analysis. While last step proceeds with recommendation to concerned companies.

The objectives of this thesis were

- 1 To analyze the current assets and current liabilities of the selected books under study period during the study of five years period of 2002/03 to 2006/07.
- 2 To analysis and evaluate the net profit to current assets, debt to equity and EPS.
- 3 To analyze and evaluate the working capital with the help of trend analysis.

- 4 To find the basic reason of the working capital management good or bad.
- 5 To provide reformative suggestion for the further improvement of sample four joint venture commercial banks.

The study has used both accounting and statistical tool for the analysis. In accounting tools different items as related working capital were computed to represent different ratio. In statistical tools arithmetic mean, standard deviation, coefficient of correlation, probable error, trend analysis, analysis of the sample banks were obtained from Nepal stock exchange Ltd through internet website www.nepalstock.com this study is observed from 2002/03 to 2006/07

The study is based on the descriptive and inferential analysis. Descriptive analysis involved relationship, analysis, and compare to among items of related working capital. Inferential analysis involved the coefficient of correlation is between different ratios, probable error, with the help of Karl Pearson's correlation coefficient, financial tools also used.

5.2 Conclusion

After drawing above findings we can draw the following conclusion. This study is basically related to various aspect of working capital. I took data of four commercial banks and analyze data as our requirement and find something the researcher wants to draw the conclusion the basis of the forward objective.

The major conclusions derived from descriptive analysis are as follows.

1. The mean value of current assets to total assets of SCBL had the highest and its coefficient of variation (CV) is the lowest. That means it is less risky to invest in these banks than the other banks. The mean value of current assts to total assets of NABIL is the lowest and its coefficient of variation is the highest. That means it is high risk to invest in this bank than the other banks.
2. The mean value of CA to FA of SCBL had the highest among four banks for study period and the CV is the lowest of NABIL. That means it is less risky then other banks. The mean value of CA to FA of NABIL is lowest and CV is the highest of SCBL. Thai means they are both risky.

3. The mean value of cash balance to current assets of EBL had the highest and the CV is the highest of EBL. That means they are higher risky than other banks. The mean value of CB to CA of NABIL is the lowest and the CV is the lowest of NABIL. That means they are both less risky.
4. The mean value of CB to TA of SCBL had the highest and the CV is the highest of EBL. That means they are both higher risky and the mean value of CB to TA to SCBL had the lowest and the CV is the lowest of NABIL that means they are both likes risky than other banks.
5. The mean value of receivable to current assets of EBI had the highest and the CV is the highest of NBBL. That means they are both risky than other banks. And the mean value of receivable to CA of SCBL had the lowest and the CV is the lowest of EBL. That means they are both less risky.
6. The mean value of receivables to total assets of NABIL had the highest and CV is the highest of NBBL. They are both less risky. And this mean value of receivable to TA of SCBL had the lowest and the CV is lowest of EBL. That means they are both less risky than other banks.
7. The mean value of return on current assets of NABIL had the highest and the CV is the lowest of NBBL. That means they are both less risky than other banks. And the mean value of return on CA of NABIL had the lowest and the CV is the highest of NABIL. That means they are both higher risky.
8. The mean value of return on total assets of SCBL had the highest and the CV is the lowest of NBBL. That mean they are both less risky and the mean value of return on TA of NABIL had the lowest and the CV is the highest of NABIL. That means both bank are higher risky than other banks.
9. The mean value of net working capital to current assets of SCBL had the highest and the CV is the lowest of NABIL. That means they are both less risky then other banks. And the mean value of negative NWC to CA of NBBL had the lowest and the CV is the highs of NBBL. That means both are more risky than other banks.

10. The mean value of current assets and current liabilities of NABIL had the highest and the CV is the lowest of SCBL. That means both banks are less risky. And the mean value of CA to CL of NABIL had the lowest and the CV is the highest of NBBL. That means they are both more risky.
11. The mean value of debt to equity of NBBL had the highest and the CV is the highest of NABIL. That means they are both risky than other banks. The mean value of debt to equity of NABIL and the CV is the lowest of EBL. That means they are both banks less risky under the study period.
12. The mean value of return on equity of SCBL had the highest and its coefficient of variation (CV) is the lowest that means it is less risky to invest in this bank than other banks. The mean value of return on equity of NBBL had the highest and the CV is the highest of NBBL. That means they are both higher risky than other banks.
13. The mean value of EPS of SCBL had the highest and the coefficient of variations (CV) is lowest SCBL. That means they are both less risky than other banks. The mean value of EPS of EBL had the lowest and NBBL had coefficient of variation (CV) is the highest. It is more risky than other banks under the study period from 2003 to 2007.

5.3 Recommendation

Samples four banks under consideration are foreign joint venture commercial banks. All banks have been passing through a very tough phase. For the viewpoint of ratio to an investor or depositor or shareholder or any stakeholders, the proper identification of the extent of bank ability of these banks are successful to some extent to meet their operational as well as the working capital goals. But there may still following major recommendation have been noticed of the study.

1. This study is based on secondary data. So, conducting research based on primary data with effort of more time period may be another avenue for others researcher.

2. This study has included only four commercial joint venture banks and their five-year data, so covering all joint venture may be other avenue.
3. The study took a few variables in studying working capital management, covering more than the financial variable may be other avenues.
4. All the banks should be made regular check to identify both excess and short current assets. This avoids risk in management of working capital. Many financial tools and techniques (i.e. ratio analysis, trend analysis and hypothesis test) help to banks to identify the deviation.
5. The banks should have proper cash planning to estimate the cash receipt and payment. This helps to minimize re problems if excess or defect cash balance. As a result there will neither be excess nor the shortage of cash balance in the banks and the liquidity and profitability position of the banks can be also be improved.
6. Receivable with reference to current assets is fluctuating trend, which implies no liberal credit policy of bank. To avoid the problems of higher level of investment in receivable the banks should have maximum cash sales. For this the customer should provided discounts on cash purchase and it also has tight-credit policy. The customer should be acquainted with period of credit. To accelerate the collection the customers should be provided the discount.
7. The trend of net working capital of some banks is negative or declining. Thus, the banks also to make attempts to increase these values.
8. The investments portfolio of these banks is risk free, low earning, consisting almost ht government securities. To improve the profitability of their investment portfolio, they have to search other safety investment opportunities apart from the government securities.
9. All banks are highly levered because the use of debt in their capital structure is maximum volume. That results higher financial risks. They have to make the attempt to curtail the financial risk increasing their shareholder's equity.
10. Return on assets of these banks is lower. The reason may be that they have deposits at higher costs compare to revenues they are generating on funds deployed. Thus, they should try to improve the ROA by lowering the cost of funds, at the same

times they should try to enhance their operating incomes and to reduce the operating as well as the non-operating expenses.

11. Lower returns are accompanied with the higher risk. Thus, it should lessen that level of risk by keeping the return at constant return.
12. The trend of net profit, earning per share is declining or fluctuating. Thus, the banks have to make attempts to increase these volumes.
13. Finally, the banks should apply the comprehensive concept of working capital management considering the basic fundamentals of financial tools and techniques in all the Nepalese commercial joint venture banks.

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