

# **WORKING CAPITAL MANAGEMENT OF KUMARI BANK**

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***Masters of Business Studies (M.B.S)***

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**2013**

**RECOMMENDATION**

This is to certify that the Thesis

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Entitled:

**WORKING CAPITAL MANAGEMENT OF KUMARI BANK**

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

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## **VIVA-VOCE SHEET**

We have conducted the viva –voce of the thesis presented

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

**Master Degree of Business Studies (MBS)**

### **Viva-Voce Committee**

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Member (External Expert)

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## DECLARATION

I hereby declare that the work reported in this thesis entitled “WORKING CAPITAL MANAGEMENT OF KUMARI BANK submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies (MBS) under the supervision of Mr. Dinesh Man Malego of Patan Multiple Campus.

.....  
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Date: / / 2013

## **ACKNOWLEDGEMENT**

The general objective of conducting this research is to study the behavior pattern, preferences and investing trend of people in regards to securities and analyze the prospective benefits to the Nepalese investors as well as their rationality level while making investment. All efforts have been made to make this authentic and have tried to show this thesis easy and systematic as far as possible.

I wish to extend my deep sense of indebtedness to Mr. Dinesh Man Malego lecturer of my thesis supervisor, who provided me valuable guidelines, insightful comments, encouragement, and generous treatment to complete this thesis. This work never has come out in the present form without his valuable guidelines and suggestions. Similarly, I will never forget the help of the respondents who provide with valuable information needed for the study. I would, therefore, like to express my deep gratitude for their co-operation.

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Patan Multiple Campus

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## ABBREVIATIONS

KBL	:	Kumari Bank Limited
CA	:	Current Assets
CL	:	Current Liabilities
CR	:	Current Ratio
WC	:	Working Capital
FD	:	Fixed Deposit
SD	:	Saving Deposit
LTD	:	Long Term Debt
NPAT	:	Net Profit After Tax
C.V.	:	Coefficient of Variation
S.D.	:	Standard Deviation
R	:	Coefficient of Correlation
NP	:	Net Profit
P.E.	:	Probable Error
TA	:	Total Assets
FY	:	Fiscal Year
NRB	:	Nepal Rastra Bank

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the Study

Working capital management is an important aspect of organization. Every business organization needs various types of assets to carry out their operation. Some assets are required to meet long term requirement, which are fixed assets, and some are required to meet day to day expenses and to pay the current liabilities, which are termed as current assets. Working capital is related to the management of current assets. Among available option, proper management of working capital is the best possible options to improve their operational viability. Working capital is crucial aspect if financial management practices in banking industry.

Working capital management is concerned with managing the current assets, current liabilities and inter relationship that exist between them. The term current assets refers to those assets which in ordinary course of business can be, or, will be, turned in to cash within one year without undergoing a diminution in value and without disrupting the operation of the firm. The major current assets are cash, marketable securities, account receivable and inventory. Current liabilities are those liabilities which intended at their inception to be paid in ordinary course of business, within a year, out of the current assets or earnings of the concern. The basic current liabilities are account payable, bill payable, bank over-draft, and outstanding expenses.

The goal of working capital management is to manage the firm's current assets and current liabilities in such way that the satisfactory level of working capital is mentioned. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of the safety.

### 1.2 Profile of Kumari Bank Limited

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1,485,000,000 of which 70% is contributed from promoters and remaining from public.

Kumari Bank Ltd has been providing wide - range of modern banking services through 28 points of representations located in various urban and semi urban part of the country, 19 outside and 9 inside the valley. The bank is pioneer in providing some of the latest /lucrative banking services like E-Banking and SMS Banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and

arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, Utility Bill Payment Services, Inward & Outward Remittance services and others.

Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 30 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customers. The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission. The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of valued customers.

### **1.3 Statement of the Problem**

Under and over allocation of working capital is harmful to an enterprise to achieve its primary objectives. Therefore, maintaining optimal level of working capital is the crux as it is strongly related to the tradeoff between risk and return. However, it is difficult to point out the amount of working capital needed by a particular business organization. An organization, which is not willing to take more financial risks, can go for more short-term liquidity. The more of short-term liquidity means more of current liabilities which imply less short-term financing. So it is very essential to analyze and find out problems and its solutions to make efficient use of funds for minimizing the risk of loss to attain profit objective. Inadequate investment in working capital threatens the solvency of enterprise as well as affects its growth. On the other hand, excessive investment in working capital yields nothing. Therefore, working capital should be determined in such a way that total cost i.e. cost of liquidity and cost of non-liquidity is minimum.

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

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

Following are the major problems that have been identified for the purpose of this study.

- i) What are the major factors effecting the management of WC in KBL?
- ii) Have the firms been raising the required funds?
- iii) Is the funds properly and productively utilized?
- iv) What are the components of WC which affects the operating income of KBL?
- v) How the bank is utilizing their debt capital?

#### **1.4 Objective of the Study**

Research objectives are the guidelines to conducting the research at a right way. The major objective of the study is to evaluate the working capital position of KBL. The other objective of this study is to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of KBL from the long range view point. The specific objectives of the study are as follows:-

- To explore liquidity position in current assets and current liabilities.
- To point out the condition of current liabilities and assets.
- To analyze the need to control investment in working capital.
- To make suggestion about removing any obstacle in making decision regarding management of working capital.

#### **1.5 Significance of the Study**

Working capital is the size of investment in each type of current assets; each of the current assets should be managed efficiently and effectively. It is because decision regarding working capital affects not only the profit ability of the firm in the short term in the long run as well. The management of working capital should not be neglected by enterprises otherwise they will seriously erode their financial viability. As the commercial bank in Nepal are exacting greater influence in the economy of the country. Hence, effective and efficient management of their current assets is needed for better profitability of the firm.

The need of the study arises from the real nature of the banking business and also forms the impact that it has economy of the country because the business of banks is to accept deposits and advanced loans. The label of deposits and loans depends upon the working capital policy. This thesis study and research will be most importance for the bankers, economists and the public at large. It provides the literature to the researcher who wants to carry on further researcher who wants to carry on further

research in this field. Therefore, it has been felt very necessary to evaluate the position of working capital management and to focus on the importance of the capital management of KBL.

### **1.6 Focus of the Study**

Financial institutions assist in the economic development of the country. The concept of financial institution in Nepal was introduced when the first commercial bank, the Nepal Bank Limited, was established in 1994 B.S as a semi-government organization. In the fiscal year 2039/040, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. The establishment of joint venture banks gave a new horizon to the financial sector of the country. Commercial banks are the heart of the financial system, which plays significant role by collecting scattered surplus fund and delaying these funds in the productive sectors as an investment. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individuals, business firms and government establishments. Bank is a business organization where monetary transaction occurs. It creates funds from its client, saving and lends the same to needy person or business companies' in term of loans, advances and investment. So, proper financial decision making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions of a bank are concerned with current assets and current liabilities. The working capital management of a bank is different from that of other business enterprises. A bank plays a significant role to fulfill the requirement of working capital of any other type of business enterprises. It also needs efficient management. Investment in working capital of other business enterprises is a part of current assets of banks working capital and we can consider deposits and short term borrowing as a part of current liabilities. So this study is a reference regarding the working capital management.

### **1.7 Limitations of the Study**

None of the study can go beyond the boundary of some limitations and this study is also not an exception. The scope of the present study has been limited in terms of period of study as well as sources and nature of data. The major limitations of the study are as follows:-

1. The study is limited to KBL and based on secondary data.
2. The study is concentrated to working capital management and thus may not cover the other financial aspects.
3. The validity of the secondary data depends totally on the annual report of the concerned banks.
4. The study covers only five year periods, i.e. from the fiscal year 2007/08 to 2011/012.

This study focused on working capital management of KBL only. Thus the findings of the study may not be applicable for other bank so the study cannot judge other financial aspects of the bank. Only main financial tools and statistical tools are employed for analyzing the working capital management.

### **1.8 Organization of the Study**

The study has been divided into five chapters. The first chapter deals with introduction, background of the study, limitations of the study and organization of the study. Therefore, this chapter is for brief introduction of the topic and it highlights the fundamental objectives. The second chapter deals with the review of related literatures and available studies written and prepared by different experts and researcher in the field of working capital. Third chapter presents the research methodology used in the study. It deals with research design, sources of data, population and sample, nature data processing procedure, tools and techniques of analysis. The main part of this research is the fourth chapter that deals with the presentation analysis and interpretation of data. Different types of tools and technique have been used to analyze the available data in order to achieve the set objectives. The major findings are also included at end. Finally, the fifth chapter, summary, conclusion and recommendation present the analysis of data and also provide recommendation for the improvement of working capital management of KBL. Similarly, recommendation, viva-voce sheet, declaration, table of content, table of list and figure, abbreviation are presented at the front part of the study. After all, the bibliography and appendices are included at the end.

## **CHAPTER 2**

### **REVIEW OF LITERATURE**

This chapter is concerned with the review of relevant literatures available in the books, journals articles research reports, newspapers, magazines, policy documents which are published or unpublished. The study is based on previous studies regarding working capital management and experiences. The previous studies should not be ignored as it provides foundation to the present study. Various thesis works related to working capital of different organization are also reviewed for the purpose of justifying the study

#### **2.1 Conceptual Framework**

The management of the funds of business can be described as financial management. Financial management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities, which are concerned with current uses and sources of funds. Both of these types of funds play a vital role in business. Business firms need various types of assets in order to carry out its operation. Some assets are required to meet the needs of regular production and some other are required specially to meet day to day expenses and short term obligations. The assets such as cash, marketable, securities, account receivables and inventories which are known as current assets are required to maintain at a certain level depending upon the volume of production and sales. The cash and marketable securities are respectively considered as purely liquid and near liquid assets where as the account receivable and inventories are not. However they can be liquidated as and when necessary within a period of less than one year. The capital invested on these assets is known as working capital. In short, working capital is the sources of financing current assets and it includes short as well as long term financing. Firms need cash to pay for day to day activities. They have to pay wages, pay for raw materials, pay bills and so on. The money available to them for day to day activities is known as the firm's working capital. The main sources of working capital are the current assets as these are short term assets that the firm can use to generate cash. Working Capital is therefore, current assets less current liabilities.

Thus working capital is the same as net current assets, and is an important part of the top half of the firm's balance sheet. It is vital to a business to have sufficient working capital to meet its entire requirement. Many businesses have gone under not because of they were unprofitable but due to shortage of working capital. By the definition of various experts of working capital management we conclude that all institution whether private or public, financial institution, manufacturing or non-manufacturing needs adequate working capital to compete in competitive market. Over or under adequacy of working capital is dangerous for the firm's objective points of view. Over investment on working capital affects the firm's profitability just as idle investment. On the other hand under

investment of working capital affects the liquidity position of the firm and causes financial hindrance and failure of the company. Any mistake made in management of working capital can cause adverse effects in business and reduces the liquidity, turnover and profitability and increases the cost of financing of the organization. The objective of managing working capital is to aid in the value maximization of the firm by minimizing the cost of working capital. The level of working capital also differs by the types and nature of business. The cost of maintaining the working capital depends on the sources of finance used. The short-term sources generally cost less than the long term sources but they are riskier (Pradhan, 1992: 148).

## **2.2 Concept of Working Capital**

According to V.K Bhalla, “there are two possible interpretations for Working Capital

A. Balance Sheet Approach (BSA)

B. Operating Cycle Approach (OCA)

### **A. Balance Sheet Approach**

There are two interpretations of working capital under BSA, viz,

- i) Gross Working Capital Approach (GWC) and
- ii) Net Working Capital Approach (NWC)

In the broad sense, the term Working Capital refers to the Gross Working Capital and represents total amount of funds invested in Current Assets. Gross Working capital is the capital invested in total current assets of the enterprise. Although current assets vary from industry to industry, they constitute between 50 to 60 per cent of the total assets of manufacturing concerns (Subhash Chander and Rajan Kumar). Current assets are those assets which, in the ordinary course of business, can be converted into current assets within a short period of time, say, one year. The constituents of current assets are:-

- Cash in hand and bank balance,
- Bills receivables,
- Sundry debtors less provision for bad debts,
- Short term loans and advances,
- Inventories of stock, raw materials, work-in-progress, stores and spares, finished goods,
- Temporary investment of surplus funds
- Prepaid expenses and
- Accrued incomes (Gupta K. Shashi and Sharma R.K.)

In a narrow sense, the term working capital refers to net working capital. When accountants use the term working capital, they generally refer to net working capital, which is the difference between current assets and current liabilities. (Van Horne. C. James and Wachowicz John M.(Jr.)

Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsider that are expected to mature for payment within an accounting year and include the following:-

- Bills Payables
- Sundry Creditors
- Accrued or outstanding expenses
- Short-term loans, advances and deposits
- Dividend payable
- Bank overdraft, and
- Provision for taxation, if it does not amount to appropriation of profits. (Pandey I.M.)

The Net Working Capital may be positive or negative. A positive Net Working Capital will arise when Current Assets exceed Current Liabilities. Negative Net Working Capital occurs when Current Liabilities are in excess of Current Assets. (Srinivasan N.P.and Shakthivel Murugan. M). The current liabilities that amounted to 24 percent unrepresented by current assets, which in turn, drastically affected turnover levels of heavy engineering (Mukhapadhyay). The Gross Working Capital is financial or going concern concept while Net Working Capital is an accounting concept of Working Capital. These two concepts of Working Capital are not exclusive. The Net Working Capital may be suitable only for proprietary form of organizations such as sole-trader or partnership firms. The gross concept of Working Capital, on the other hand, is suitable to the company form of organization where there is diverse between ownership, management and control (Gupta K. Shashi and Shrama R.K).

### **B. Operating Cycle Approach**

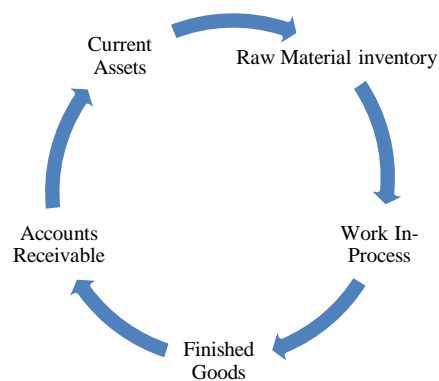
In terms of liquidity, there is a difference between current and fixed assets. To recover the initial investment in fixed assets, a firm requires many years. On the contrary, investments in current assets are turned over many times in a year. Investment in current assets such as inventories and debtors (accounts receivables) are realized during the firm's operating cycle, which is usually less than a year. (Moyer R.C. et.al). Operating cycle is the time duration required to convert sales after the conversion of resources into inventories and that into current assets. The operating cycle of a manufacturing company involves three phases.

1. Acquisition of resources such as raw materials, labor, power and fuel.
2. Manufacture of the product which includes conversion of raw materials into work-in-progress, work-in-progress into finished goods.

3. Sale may be either for cash or on credit. Credit sales create accounts receivable for collection.

These phases affect Cash flows, which are neither synchronized nor certain. They are not synchronized because Cash outflows usually occur before Cash inflows. Cash outflows are relatively certain whereas the Cash inflows are difficult to be forecast due to the time gap between sales and collections. This requires the firm to invest in Current Assets for uninterrupted operations. Liquidity has to be maintained to purchase raw materials and pay expenses, as there is hardly a matching between Cash inflows and outflows. Cash is also held to meet any future obligations. Stock of raw materials and work-in-progress are kept to ensure smooth production and to guard against non availability of raw materials and other components. The firm holds stock of finished goods to meet the demands of customers on continuous basis and sudden demand from some other customers. Debtors are created because goods are sold on credit for marketing and competitive reasons. Thus, a firm makes adequate investment in materials, and debtors, for smooth, uninterrupted production and sales.

**Figure 2.1**  
**Operating Cycle**



*Source: Ravi M. Kishore, "Financial Management"*

The length of the operating cycle of a manufacturing firm can be defined as the sum of inventory conversion period (ICP) and debtor's conversion period (DCP). (I.M.Pandey). The operating cycle ranges from 96 days to 158 days in Case of Lupin Laboratories Ltd. (Singh.P.K.).

### **Inventory Conversion Period (ICP)**

It is the total time needed for producing and selling the product which includes raw materials conversion period (RMCP), work-in-progress conversion period (WIPCP) and finished goods conversion period (FGCP). Raw Material Conversion Period refers to the period in which the raw materials are generally kept in stores before they are issued for manufacturing to production department. Work-in-Progress Conversion Period refers to the period for which the raw material remains in the manufacturing process before it is taken out as finished product. Finished Goods

Conversion Period refers to the period for which finished products remain in stores before being sold to a customer.

### **Debtors Conversion Period (DCP)**

It is the time required to collect the outstanding amount from customers

### **Gross Operating Cycle (GOC)**

The total of inventory conversion period and debtors conversion period is referred to as Gross Operating Cycle (GOC) and symbolically represented as:-

$$\text{GOC} = \text{RMCP} + \text{WICPP} = \text{FGCP} + \text{DCP}$$

$$\text{RMCP} = \frac{\text{Average Stock of Raw Materials}}{\text{Raw Materials consumption per day}}$$

$$\text{WICPP} = \frac{\text{Average Stock of Work-in-progress}}{\text{Total cost of production per day}}$$

$$\text{FGCP} = \frac{\text{Average Stock of Finished Goods}}{\text{Total Cost of Sales per day}}$$

$$\text{DCP} = \frac{\text{Average Accounts Receivable}}{\text{Net Credit Sales per day}}$$

However, a firm may acquire resources for production activities, on credit and temporarily postpone the payment of certain expenses, which can be invested in current assets. The Payable Deferred Period (PDP) is the length of time the firm is able to defer payments on various resource purchases. The difference between Gross Operating Cycle and the Payable Deferred Period is Net Operating Cycle. (Kishore M. Ravi.).

Thus,  $\text{NOC} = \text{GOC} - \text{PDP}$

Where,

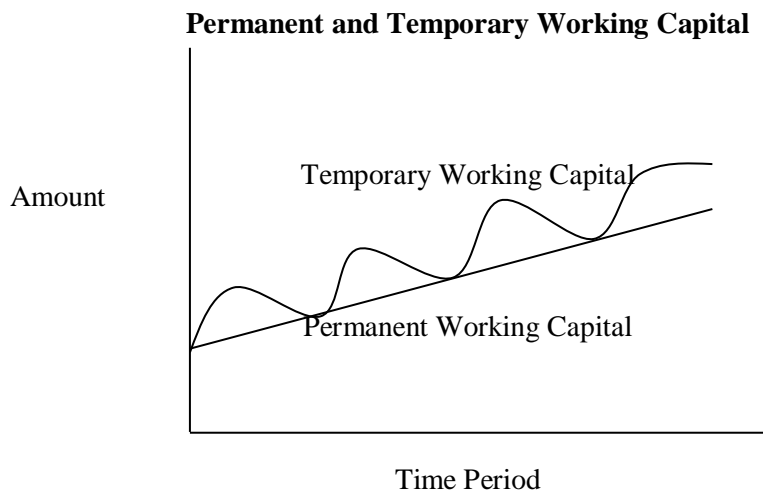
$$\text{PDP} = \frac{\text{Average Payments}}{\text{Net Credit Purchase per day}}$$

### **2.3 Classification of Working Capital**

Working capital can be classified into two types:-

1. Permanent or fixed working capital
2. Temporary or variable or fluctuating working capital

**Figure 2.2**



*Source: Pandey, I.M. "Financial Management" (2004)*

A firm's permanent working capital is the amount of current assets required to meet long term minimum needs. Temporary working capital on the other hand is the investment in current assets that varies with seasonal requirements. Figure below illustrates the firm's changing needs for working capital over time while highlighting both the permanent and temporary nature of those needs. Permanent working capital is similar to the firm's fixed assets in two important respects. First, the amount invested in both of these asset groups is long term. Therefore, suppliers of capital to the firm need to realize that the funding needs for permanent current assets is long term despite the seeming contradiction that the assets being financed are called "Current". Second, for a growing firm, the level of permanent working capital needed will increase over time in the same way that a firm's fixed assets will need to increase over time. However, permanent working capital is different from fixed assets in one very important respect- it is constantly changing. Permanent working capital does not consist of particular current assets staying permanently in place, but is a permanent level of investment in current assets, whose individual items are constantly turning over. Like permanent working capital, temporary working capital also consists of current assets in a constantly changing form. However, since the need for this portion of the firm's total current assets is seasonal, we may want to consider financing this level of current assets from a source which can itself be seasonal or temporary in nature (Van Horn, 1996: 205).

Thus the permanent working capital refers to that level of current assets which is required on a continuous basis over the entire year and the temporary working capital represents that portion of working capital which is required over permanent working capital.

#### **2.4 Objectives of Working Capital**

A bank undertakes many transactions daily. Sometimes, customers deposit large quantities and sometimes withdraw from their deposits in high quantities. Investment funds of banks are covered by

deposit collections of different types of account holder. A bank should have to pay the money to depositors when they want to withdraw. For daily operation of office and to meet the administrative expenses, a bank should have certain level of working capital. Working capital is required to run the business smoothly and efficiently in the context of the set objective. It is no doubt that no company can achieve its goal without proper use of working capital. Therefore it can compare as lifeblood to the organization. The main objectives of arranging capital are as follows:-

- To pay to depositors
- To maintain cash reserve ratio (CRR) & statutory liquidity Ratio (SLR)
- To satisfy the customers by granting loans promptly and increase the attraction of business etc.
- To meet the administrative expenses, perform the task as per objectives of business and run the business smoothly.
- To fulfill the present need of business as well as get ready for risk and economic fluctuation in future.

## **2.5 Need of Working Capital**

Working capital is maintained at bank by current saving & fixed deposit collection. Specially to grant loan and to pay cheque, creditor's and account holders on demand. Generally bank needs liquidity for maintaining following goals.

- Transaction Motive
- Security Motive
- Speculative Motive

## **2.6 Working Capital Policy**

Working capital policy refers to the firm's basic policies regarding target level of each category of current assets and how current assets will be financed (Western and Brigham , 1996 :333).

So first of all the firm has to determine how much funds should be invested in working capital as per the concept of gross working capital. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. Working capital policy is categorized in two parts.

They are:

- 1) Working capital investment Policies
- 2) Working capital financing policies

### **2.6.1 Working Capital investment policies**

Working capital investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. How much a firm will invest in current assets will depend on its operating cycle. There are three alternative working capital investment policies. These are: fat cat, lean and mean, and moderate.

#### **i .Fat Cat Policy**

This policy is also known as relaxed working capital investment policy. In this policy, the firm holds relating large amount of cash, marketable securities, inventories, receivables and other types of current assets. This policy creates larger inventory and cash conversion cycles. It also creates the larger receivable collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with lower risk.

#### **ii .Lean and mean policy**

This policy is also called as restricted working capital investment policy. Under this policy, the firm holds the minimum amount of cash, marketable securities, inventories, receivable and other current assets are reduced. Under this policy firm follows a light credit policy and bears the risk of losing sales.

#### **iii. Moderate Policy**

In this policy investment in current assets should not be as maximum as in relaxed policy and it should not be as minimize as in restricted policy. Both, excess investment in current assets and inadequate investment in current assets are not good. Therefore, there should be optimum investment in current assets. Both risk and return are moderate in this policy. The relationship between current assets and output level for these alternatives is illustrated in above figure. The greater the output, the greater the need for investment in current assets to support that output and sales. This relationship is based on the notion that it takes a great proportional investment in current assets when only a few units of output are produced then it does later on, when the firm can use its current assets more efficiently.

### **2.6.2 Working Capital Financing Policies**

Working capital finance is defined as the capital of a business that is in its day-to-day trading operations, calculated as current assets minus the current liabilities. For many companies, this is wholly comprised of trade debtors and trade creditors. There are number of short term and long term sources of working capital financing. Hence, it is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Factoring facilities are traditional sources of working capital. Factoring facility arrangements tend to be restrictive and entering into a whole-turnover

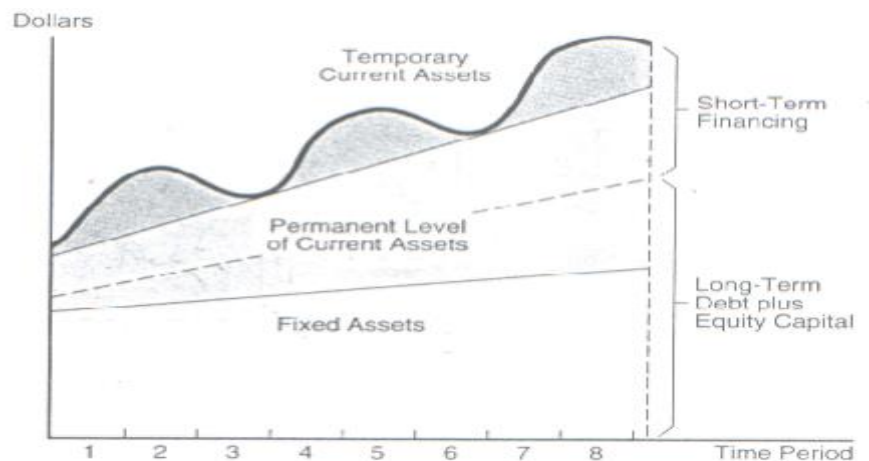
factoring facility can lead to aggressive chasing of outstanding invoices from clients and a loss of control of a company's credit function. Thus, working capital financing policy should early outline the sources of financing. There are three policies. These are –

1. Aggressive or Non Conservative Policy
2. Conservative Policy
3. Matching or hedging policy

**i) Aggressive or non conservative policy**

An aggressive working capital policy is one in which we try to squeeze by with a minimal investment in current assets coupled with an extensive use of short term credit. The goal is to put as much money to work as possible to decrease the time needed to produce products, turn over inventory or deliver services. Speeding up business cycle grows sales and revenues. The liquidity position will be low and the risk will be high. A business firm uses relatively large amount of short term debt. Short term debt is more risky because the firm should be able to repay the short term debt with in short time period. If it could not pay its debt with in short time period, there will be high probability of bankruptcy of that firm. It is presented in the following figure:

**Figure 2.3**  
**Aggressive Policy**



*Source: Weston J. Fred and Eugene F. Frighan*

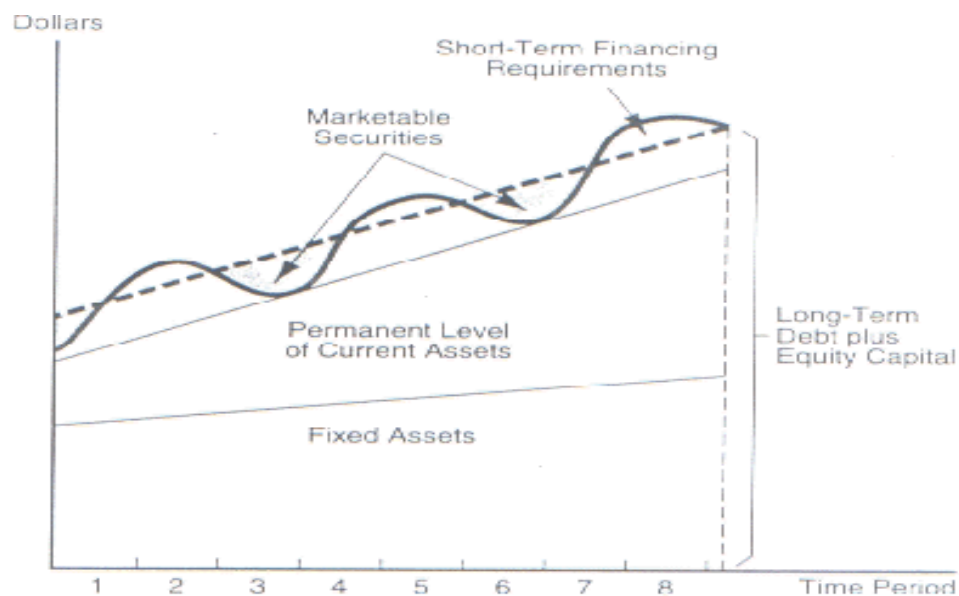
In the short period the interest rate is low. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal condition the firm borrows on a short term financing rather than long term financing. On the other side, if the firm finances its permanent current assets by short term financing, Then it runs the risk of renewing the borrowing again and

again. This continued financing exposes the firm to certain risk. Thus, this policy provides the higher risk, higher return and low liquidity position.

## ii) Conservative Policy

Companies in volatile or seasonal industries such as tourism, farming or construction might adopt conservative working capital policies to buffer against risk. If conservative working capital policy is employed, the plenty of cash in the bank, warehouse are full of inventory and payables are all up to date. Permanent current assets and a larger portion of temporary current assets are financed with long term debt and equity and only a small portion of temporary current assets is financed with short term debt. The cost of financing in this policy will be more, the liquidity will be relatively greater and risk will be minimized. It can be shown from the following figure.

**Figure 2.4**  
**Conservative Policy**



*Source: Weston J. Fred and Eugene F. Frighan*

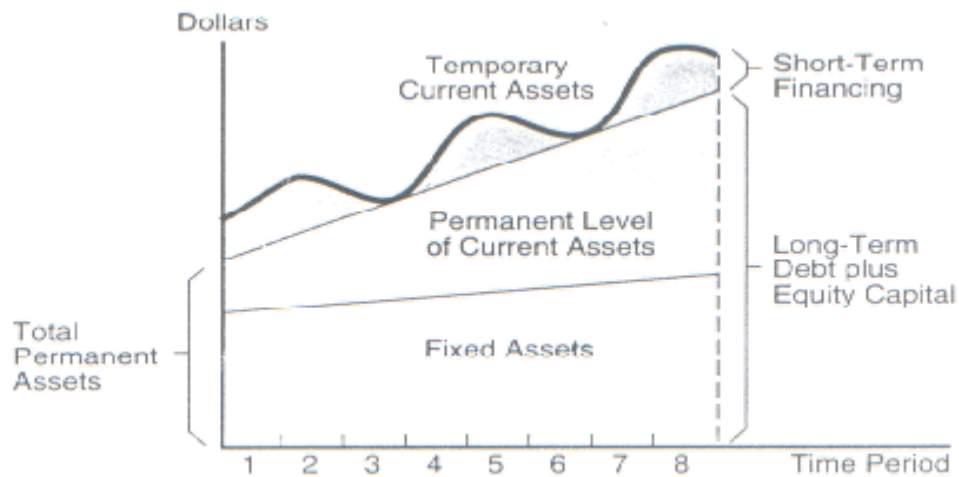
Note that when the firm has no temporary current assets (at the level of slope), the long term funds released can be invested in marketable securities to build up the liquidity position of the firm.

## iii) Matching or Hedging Policy

The matching or hedging policy states that permanent assets should be financed with long term capital and temporary assets should be financed with short-term credit. For instance, machine with a useful life of 5 years should be financed through a 5 year loan. Building can be financed by 25 year mortgage bond. Assets having useful life of 30 days may be financed with a 30 days borrowing. The

concept behind this is that financing is used for paying off the cost of the asset bought. If 15 year loan is used to purchase inventory having useful life of 15 days, then the financing will be too expensive as one will have to pay interest on the loan for 15 years and thus the funds will not be utilized for the full 15 years. Likewise, a long term asset will be very difficult to be financed by short-term loan as the loan will have to be renewed on a regular basis and it may also increase the cost of the asset. In this policy, permanent current assets are financed with long term debt, equity and temporary current assets are financed with short term debt. According to this policy, source of short term financing should be determined according the maturity of current assets. It lies in between the aggressive and conservative policies. It deals to neither high nor low level of current assets and current liabilities.

**Figure 2.5**  
**Matching Policy**



*Source: Weston J. Fred and Eugene F. Frighan*

Figure 2.5 shows the temporary working capital financed by short term financing and long term financing. Thus, no working capital is zero under this policy. The firm's fixed assets and permanent current assets are financed with long term funds and as the level of these assets increases, the long term financing level will also increase. The temporary of variable current assets are financed with short term funds and as their level increases the level of short term financing also increases.

## 2.7 Review of related Articles/ Journals

Journals, articles and bulletins are of great significance for thesis writing. So, various published and unpublished articles by different experts and journals and bulletins relating to working capital have been revised.

Shrestha, (1982).in his study “working capital management in public enterprises”, based on ten selected public enterprises. The sample public enterprises are national trading ltd, Raghupati Jute Mills, Birgunj Sugar Factory, JanakPur cigarette Factory, Dairy Development Corporation, Royal Drugs Ltd, Harisiddhi Brick and Tire Factory, National Construction Co. of Nepal, Nepal Cheeuri Ghee Industry Ltd., and Chandeswory Textile Ltd. In his study, especially he focused on the liquidity turn over and profitability position of those enterprises. In this analysis, he found that four public enterprises have maintained adequate liquidity position, two public enterprises have excessive and other remaining four public enterprises failed to maintain desirable liquidity position. He had also found that out of ten public enterprises only four were settling some percentage of profit and remaining six public enterprises were operating in loss. With the reference of his findings, he had brought certain policy issues such as lack suitable financing planning, negligence of working capital management; deviation between liquidity and turnover of assets and inability to shows the positive relationship between turnovers and returned on net working capital. At the end, he has made some suggestive measures to overcome form the above policy issues. These are identification of management information system, positive attitude towards risk and profit and determination of right combination of short term and long terms sources of funds to finance working capital needs..

Pradhan and Koirala (1982) had jointly conducted a study on "working capital management in Nepalese corporations". They had sampled five manufacturing and six nonmanufacturing public companies. They had focused on evaluation of working capital of selected manufacturing and non manufacturing corporations of Nepal. This study was concentrated in the size of investment in current assets, significance of current assets management; the major findings of the study were as follows: Inventory management was of great significance in manufacturing corporations and the management of cash and receivables was great significance in nonmanufacturing corporations. Investment on total assets had decline over a time period in both manufacturing and non-manufacturing corporations. However, the manufacturing corporations had consistently more investment in cash and receivables as compared to nonmanufacturing corporations. Management of working capital is more difficult in non-manufacturing corporations. Management of working capital was more difficult than that of fixed capital and the major motive for holding cash in Nepalese corporation was to provide a reserve for routine net outflows of cash to keep on the production process.

Acharya, (1985) has published an article relating to working capital management. He has defined the two major problems i.e. operational problem and organizational problem regarding the working capital management in Nepalese public enterprise. The operational problems ; he found were increase of current liabilities then current assets, not allowing the current ratio 2:1 and slow turnover of inventories .Similarly change in working capital in relation to fixed capital had very low impacts over the profitability, thin transmutation of working capital employed to sales , absent of apathetic

management information system , Break-even analysis, funds flow analysis and ratio analysis were either under or ineffective for performance evaluation .Finally monitoring of the proper functioning of working capital management has never been considered as managerial job. In the second part, he has listed the organizational 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 results. Similarly very few public enterprises have been able to present their capital requirement. Functioning of Finance department is not satisfactory and some public enterprises are even facing the underutilization of capacity.

Pradhan (1988) has published another article relating to working capital management. He has studied on "The demand of working capital by Nepalese Corporation". For the analysis, he has selected nine manufacturing public corporation with the twelve year data from 1973-1984. He has been adopted regression equation for the analysis. His study has summarized that the earlier studies concerning about the demand for cash and inventories by business firm did not report unanimous Findings. A lot of controversies exist with respect to the presence of economies of scale, Capacity utilization rates, role of capital cost, and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The regression results suggest strongly that the demand for working capital and its components is function of both sales and their capital cost. The estimated results show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function of cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivables and gross working capital is doubtful.

Mahat (2004) has published article relating to spontaneous resources working capital management. He had defined the three major sources of working capital i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing includes short-term bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. Whereas spontaneous sources of working capital include trade credit, provision and accrued expenses Mahat has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such an environment should be efficient enough to cope with the possible worst happenings future for working capital management. He has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble it is rather difficult to meet its working capital gap by way of debt financing, the company should have to bear interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital will be a better source for working capital in order to improve its performance.

## 2.8 Review of Previous Research Work

Prior to this thesis, various students have carried out several thesis works on the related topic. Some of them are relevant for these study propose, which are presented below.

**Ghimire (2008)** had conducted a research on a topic of “Financial Performance Of Commercial Banks: A comparative case study of NBBL, HBL and EBL”.

### **His major objectives:**

- To examine the various ratios of the banks
- To examine the overall performance of the selected banks

### **His major findings:**

- EBL and NBBL have increased their performance assuming benchmark to the HBL.
- EBL, HBL and NBBL had maintained current Ratio of 1.75, 1.35 and 1.42 respectively.

**Gupta (2009)** had conducted a research on a topic “Financial performance Analysis of Everest Bank ltd”.

### **His major objectives:**

- To examining the financial performance of bank such as liquidity, Profitability, activity and capital structure analysis.

### **His major findings:**

- Liquidity position is below the normal standard and also inconsistency in liquidity policy.
- The banks did not do a lot of exercise in more credit creation and reducing the interest rate for loan and advances for more competitiveness.
- The EPS of NB Bank and EBL had been increasing trend but the EPS of HBL had been rapidly decreasing over the period.

**Tuladhar (2010)** had undertaken a study entitled “A comparative study of working capital management of NABIL and standard chartered Bank Nepal Limited”.

### **His major objectives:**

- To study the current assets and current liabilities and their impact on liquidity and profitability.
- To analyze the liquidity, assets utilization, long -term solvency and profitability position of those two banks.

### **His major findings:**

- NABIL and SCBNL had maintained current Ratio of 1.55 and 1.31 respectively.
- The average The average quick ratio of NABIL and SCBNL were 0.64 and 0.75 respectively. Liquidity of SCBNL was always better than NABIL during the study period. SCBNL had more short term and less costly resources of fund than NABIL. NABIL had better investment efficiency on loans and advances.
- Both banks follow conservative working capital policy.
- Profitability position of SCBNL is better than NABIL.

**Shrestha (2011)** had undertaken a study entitled “Liquidity and credit management of commercial banks in Nepal”

**His major objectives:**

- To examine the liquidity position of the banks
- To examine the credit management of the selected banks

**His major findings:**

- The credit management of the banks was not satisfactory.
- The banks are unable to create more credit and reducing the interest rate for loan and advances for more competitiveness.

**Bista (2011)** had undertaken a study entitled “Liquidity and credit management of joint venture banks in Nepal”

**His major objectives:**

- To examine the liquidity strategy of joint venture banks.
- To examine the receivable management of the joint venture banks.

**His major findings:**

- The liquidity position of the Joint Venture Banks was satisfactory.
- The Joint Venture Banks are little more able to create more credit.

## **2.9 Research Gap**

Many research studies have been made by the researcher about the topic of Working Capital and Liquidity Management. Some studies are related to a case study of a single manufacturing company and some are comparative in nature. Keeping in view, the fact that there is no sufficient study of Working Capital and Liquidity Management particularly in Nepalese commercial bank.

Thus, “Working Capital and Liquidity Management”, a case study of Kumari Bank limited has been taken for the study of working capital and liquidity position and to suggest overcoming from such difficulties.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

Research methodology means the analysis of specific topic by using proper method. In other words research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collection analysis and interpretation of the facts and figures, “Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view.” Kothari C.P. (1994)

Therefore we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem. In this chapter efforts have been made to present and explain specific research design for the sake of attaining the research objective. It describes the methods and process applied in the entire subject of the study. It is the plan, structure and strategy of investigation conceived to answer the research questions. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of KBL, different circular regarding rules and regulations of KBL, NRB'S directives to the commercial banks, other published and unpublished material different official websites etc. It consists of research design, sources of data, population and sample data processing procedure and tools and technique of analysis of data.

#### **3.1 Research Design**

Selection of appropriate research design is necessary to meet the study objectives of any research “Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variances. The plan is the overall scheme or program of the research. Kerling, (1986).

Research design means a definite procedure and technique which guides the study and propounds ways for doing research. For the study of working capital management in KBL, research design followed is an exploratory research approach. In this study descriptive and analytical survey is done. The justifications for the choice of these methods are many & various. The descriptive method is preferred because it includes reliable data and information covering a long time and avoids numerous complex variables operating into formulation and adoption of credit and investment policies.

#### **3.2 Population and Sample**

There are 31 commercial banks (Including government owned, private and joint ventures) are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding

the study topic. Therefore sampling will be done selecting from population. Kumari Bank limited is select as a sample for the study and analysis.

The main reason for the selection of Kumari Bank ltd is that the KBL is operated by the Nepalese investors and the KBL has continuously increased the net profit and also gives the regular dividend to its shareholder.

### **3.3 Nature and Sources of Data**

The study is mainly based on the secondary data. The required data have been extracted from the annual reports of KBL, different circular regarding rules and regulations of the bank, reports of the pertains coordination council, other published and unpublished materials, newspapers, magazines, related documents and journals available in different libraries, other organization like Nepal stock exchange and Nepal Rastra Bank as well as from official websites of corresponding organizations.

### **3.4 Data Processing Procedure**

Data collected from various sources were in raw form. Method of analysis is applied as simple as possible. The obtained data are presented in various tables, diagrams and charts with supporting interpretation.

### **3.5 Tools and Techniques Of Analysis**

Under this study, financial as well as statistical tools have been used to Analyse the gathered data and information

#### **3.5.1 Financial Tools**

In this research study various financial tools are employed for the Analysis. There are various ratios but in the study some important ratios among them are used. Ratio Analysis is the most important tools of the financial Analysis, which help to ascertain the financial conditions of the organizations. “Ratio analysis is such a powerful tool of financial analysis that through the help of it economic and financial position of business unit can be fully x-rayed” (Kothari C.P.; 1994).

Ratios are calculated to obtain the better insight into real situation of working capital management of KBL. Various ratios are employed and grouped for the Analysis of composition of working capital, liquidity position, activity or turnover position, profitability position and capital structure or leverage position.

#### **a) Liquidity Position**

Liquidity position of a company is identified with the help of liquidity Ratio, which measures the company's ability to pay its current obligations. It is employed to determine the short-term solvency

position of the company. In other words, this ratio provides insight into the present cash solvency in the event of adverse financial condition. Generally ratio of one or more than one is acceptable but it depends on the nature of the company.

**i)Current Ratio**

This ratio measures the short-term solvency i.e. its ability to measure short term obligation. In other words, current ratio measures the ability to pay debts. Current ratio is calculated by dividing the current assets by current liabilities.

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

Current assets include cash and these assets which can be converted into cash within year, such as debtor, receivable, prepaid expenses, inventory etc. Current liabilities mean all obligations maturing within a year under the current liabilities include creditor provision for taxation, bank loan, miscellaneous current liabilities and provision.

**ii) Cash and Bank Balance to Current Assets Ratio**

The cash and bank balance is almost liquid form of the current assets. This ratio shows the percentage of readily available fund within the banks. It can be calculated by dividing cash and bank balance by current assets.

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

This ratio shows the percentage coverage of current assets of cash and bank balance. Lower the ratio means higher will be risk and profitability and vice-versa.

**iii) Cash And Bank Balance to Total Deposit Ratio (Excluding Fixed Deposit)**

This ratio is employed to measure whether bank and cash balance is sufficient to over its current calls margin including deposits. It is calculated by dividing cash and bank balance by saving margin and current deposits (excluding fixed deposit).

$$\text{Cash and bank balance to total deposit} = \frac{\text{Cash and Bank balance}}{\text{Total Deposit (Excluding Fixed Deposit)}} \times 100\%$$

#### **iv) Saving Deposit to Total Deposit Ratio**

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

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

#### **b) Activity or Turnover Position**

Activity Turnover position shows the efficiency on assets management as well as effectiveness of the investment of resources in the company. These ratios are intended to measure the effectiveness of the employment of the resource in a business concern. Through these ratios it is known whether the funds employment have been used effectively in the business activity or not. The following are the ratios employed to analyze the activeness of the concerned bank.

#### **i) Loan and Advance to Total Deposit Ratio**

This ratio assesses to what extent, the bank are able to utilize the depositors fund to earn profit by providing loans and advances. It is computed dividing the total amount of loans and advances by total deposited funds.

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

High ratio is the symptom of higher or proper utilization of funds and low ratio is a signal of balance remained unutilized or idle.

#### **ii) Loan and Advance to Fixed Deposit Ratio**

This ratio examines that how many times the funds is used in loan and advances against fixed deposits. For commercial banks, fixed deposits are long term interest bearing obligations, where as investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit as under.

$$\text{Loan and advance to Fixed Deposit Ratio} = \frac{\text{Loan and advances}}{\text{Fixed Deposit}} \times 100\%$$

A low Ratio indicates idle cash balance. It means total funds not properly utilized. This ratio examines to what extent the fixed deposits are utilized for income earning purpose.

### **iii) Loan and Advance to Saving Deposit Ratio**

This ratio assesses how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short term obligation and the major sources of investment. This ratio indicates how many times the short term interest bearing deposits are utilized for generating the income. It is calculated by dividing the amount of loan and advances by total deposit in saving Account.

$$\text{Loan and Advance to Saving Deposit Ratio} = \frac{\text{Loan and advance}}{\text{Total saving deposit}} \times 100\%$$

### **c) Profitability Position**

Profitability position indicates the degrees of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Though profitability ratios, the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used as follows.

#### **i) Interest Earned to Total Asset Ratio**

It is the ratio which is formed to find out the percentage of the interest earned to total assets. This is calculated by dividing the amount of interest earned by the total assets of the firms.

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

#### **ii) Net Profit to Total Assets Ratio**

This ratio is commonly known as return on assets (ROA). This ratio is very much crucial for measuring the profitability of fund invested in the bank's assets. It measures the return on assets. It is computed dividing the Net Profit after tax by total assets.

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

#### **iii) Net Profit to Total Deposit Ratio**

This ratio is used to measuring the internal rate of return from deposits. It is computed dividing the net profit by total deposits.

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

Higher ratio indicates the return from investment on loan and Advances are desirable and lower ratio indicates the funds are not properly mobilizing.

**iv) Cost of Services To Total Assets Ratio**

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

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

**d) Capital Structure or Leverage Position**

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

**i) Long Term Debt to Net worth Ratio**

Long term debit refers to the amount of fixed deposits and loans of the banks. The ratio measures proportion of outsiders and owner's fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the banks by owners claim.

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

**ii) Net Fixed Assets to Long Term Debt ratio**

Net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows:-

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

### **3.5.2 Statistical Tools**

Besides the financial tools various statistical tools are also used for analysis to support the objective of the research work. The tools are as follows.

#### **a) Trend Analysis**

Trend analysis of ratios indicates the direction of changes. The significance of a trend analysis of ratios lies in the fact that the analyst can know the direction of movement. Leverage refers to the ratio of debt to equity in the capital structure to the firm. Debt and equity are long term obligations and remaining parts in the liability side of the balance sheet are termed as short term obligations. Both types of obligations are required in forming the capital structure of the firm. The long term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsider's fund and owner's capital of the firm.

#### **b) Correlation Analysis**

“Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another”. (Levin & Rubin; 1991, p505) The correlation analysis is the technique used to measure the classiness of the relationship between the variables. It helps to determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The value of coefficient of correlation always lies between  $\pm 1$ . A value of + 1 indicates a perfect positive relationship between the variables and a value of -1 indicates a perfect negative relationship. A value of Zero indicates that there is no relationship between the variables. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the strength, or classiness of the relationship between two variables.

## **CHAPTER 4**

### **PRESENTATION AND ANALYSIS OF DATA**

This Chapter deals with the presentation, analysis and interpretation of statistics evidence to clarify the research works. Data of the Fiscal Year 2007/08 to 2011/12 have been presented and analyzed. It covers to analyze the ratio as well as trend and composition of working capital, which means current assets, current liabilities, liquidity, turnover, leverage and profitability of KBL. It also uses correlation analysis, with the help of these analysis, we can know the working capital as well as financial position of KBL.

#### **4.1 Working Capital**

Working capital is defined as the difference between current assets and current liabilities. Working capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. In general companies having more working capital are considered successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth and further activities.

##### **4.1.1 Components of Current Assets**

We require different types of current assets for our day to day operation. Current assets refer to those assets which can be converted into cash within a year. The composition of current assets or the main components of current assets at KBL are cash and bank balance, loan and Advances and Government securities. Miscellaneous current assets are income like interest receivable, money at call or short notice and other currents assets are included in miscellaneous current assets. The following table shows the amount of cash and bank balance, loan and Advances, Government securities and miscellaneous assets of KBL.

**Table 4.1**  
**Components of Current Assets**

(Rs. in millions)

FY	Cash and Bank Balance	Loan and advances	Governments Securities	Misc.CA	Total CA
2007/08	989.20	11,522.38	1,469.10	3,678.84	17,659.52
2008/09	1,806.30	14,795.26	1,080.10	641.34	18,323.00
2009/10	2,843.84	14,966.08	1,729.92	566.95	20,106.79
2010/11	1,620.04	14,926.23	2,866.10	6.52	20,079.89
2011/12	4,043.86	18,101.34	2,574.62	365.94	25,085.76

*(Source: Annual Report of KBL)*

Table 4.1 shows that the components of current assets of KBL consists cash and bank balance, loan and advances, governments securities and miscellaneous current assets. In fiscal year (FY) 2007/08, total current assets of the bank was amounted to Rs. 17,659.52 million which included Rs.989.20 million of cash and bank balance, Rs. 11,522.38 million of loan and advances, Rs. 1,469.10 million of Government securities and Rs. 3,678.84 million of miscellaneous current assets. In FY 2011/12 it has reached to Rs. 25,085.76 million, which included Rs 4043.87million of cash and bank balance, Rs. 18,101.34.4 million of loan and advances, Rs. 2,574.62 million of Government securities and Rs. 365.94 million of miscellaneous current assets respectively.

**Figure 4.1**  
**Components of Current Assets**

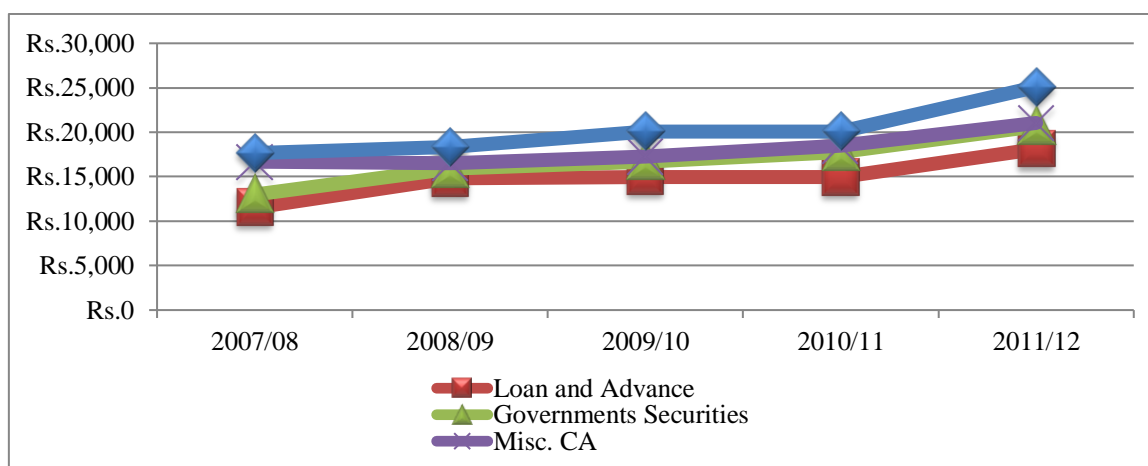


Figure 4.1, is the Current assets position of the KBL which is in increasing trend in all five year i.e. from FY 2007/08 to 2011/12.

#### 4.1.2 Component of Current Liabilities

Current liabilities is a short -term obligation which is payable within a year. The composition of current liabilities or the main components of current liabilities at KBL are Deposits, short-term loan,

Bills Payable and miscellaneous current liabilities. Tax provision, staff bonus, proposed dividend payable and other current liabilities are included in miscellaneous current liabilities. The following table shows the amount of deposit and other accounts, short term loans, bills payable and miscellaneous current liabilities of KBL.

**Table 4.2**  
**Components of Current Liabilities**

(Rs. in millions)

<b>FY</b>	<b>Deposits</b>	<b>Short term loans</b>	<b>Bills Payable</b>	<b>Miscellaneous</b>	<b>Total CL</b>
2007/08	8980.59	100	65.30	3,259.14	12,405.03
2008/09	11,183.34	293.42	70.09	641.39	12,188.24
2009/10	10,226.05	429.74	42.31	682.62	11,380.72
2010/11	10,313.62	660.93	8.12	522.78	11505.45
2011/12	12827.15	5.40	20.70	830.01	13,683.26

*(Source: Annual Report of KBL)*

Table 4.2 shows that current liabilities are in decreasing trend as opposite to current assets. In FY 2007/08 the total amount of current liabilities is Rs. 12,405.03 million. Deposits, Short term loans and bills payable are in increasing trend. Short term loan decreased in FY 2011/12 by huge amount Rs. 655.53 million. Similarly, bills payable decreased by Rs. 34.19 million as compared to FY 2009/10 and by Rs. 34.19 million in fiscal year 2010/11. Miscellaneous liabilities are in decreasing trend since FY 2008/09 to 2010/11 and after that increased by Rs. 307.23 million in FY 2011/12. At the end of FY 2011/12, the current liabilities of KBL reached to Rs 13,683.26 million, which included Rs. 12827.15 million of Deposit and other Accounts, Rs. 5.40 million of short term loans, Rs. 20.70 million of Bills payable and Rs. 830.01 million of miscellaneous current liabilities respectively .

**Figure 4.2**  
**Components of Currents Liabilities**

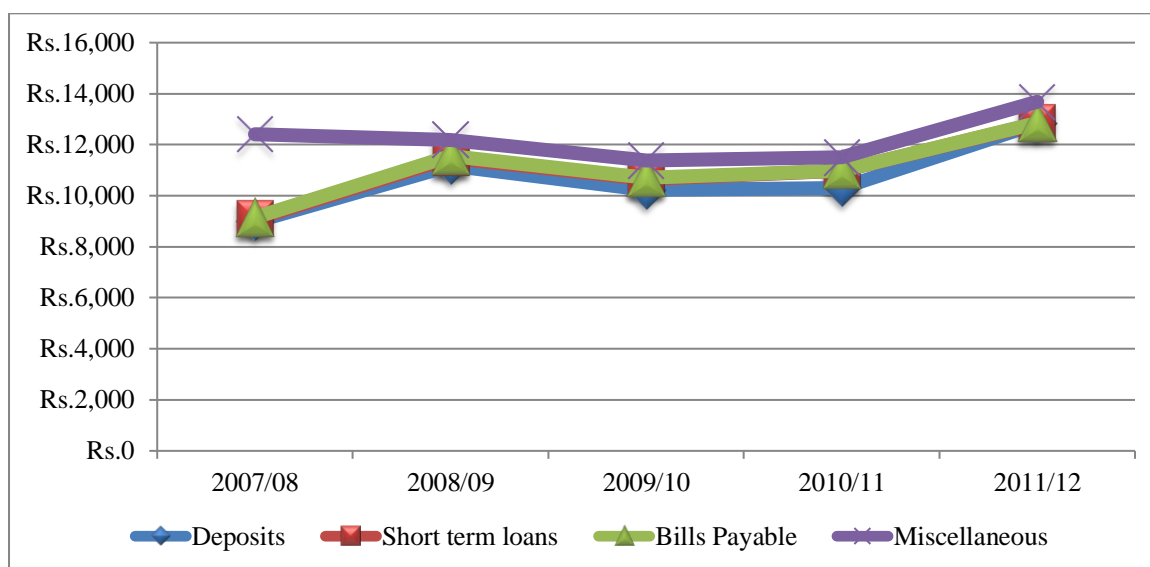


Figure 4.2 shows the position of current liabilities of KBL as per figures enumerated in table 4.2.

#### 4.1.3 Working Capital of KBL

Working capital is required to run the business smoothly and efficiently in the context of set objectives. There is no doubt that no organization can achieve its goal without proper use of working capital. It means money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in bank and determining which one is more beneficial to the bank and which is not. The following table shows the amount of working capital of KBL.

**Table 4.3**  
**Working Capital**

(Rs. in millions)

Fiscal year	Total CA	Total CL	WC=CA-CL
2007/08	17,659.52	12,405.03	5,254.49
2008/09	18,323.00	12,188.24	6,134.76
2009/10	20,106.79	11,380.72	8,726.07
2010/11	20,079.89	11,505.45	8,574.44
2011/12	25,085.76	13,683.26	11,402.50

*(Sources; Annual Report of KBL)*

Table 4.3 reveals that, the working capital of the bank from fiscal 2007/08 to 2011/12. The KBL has increased working capital from Rs 5,254.49 million to Rs 6,148.01 million from the fiscal year 2007/08 to 2011/12. In FY 2010/11, the bank's working capital has decreased from Rs 8,726.07

million to Rs 8,574.44 million. In FY 2011/12 the working capital of the bank has highly increased to 11,402.50 million.

**Figure 4.3**  
**Working capital**

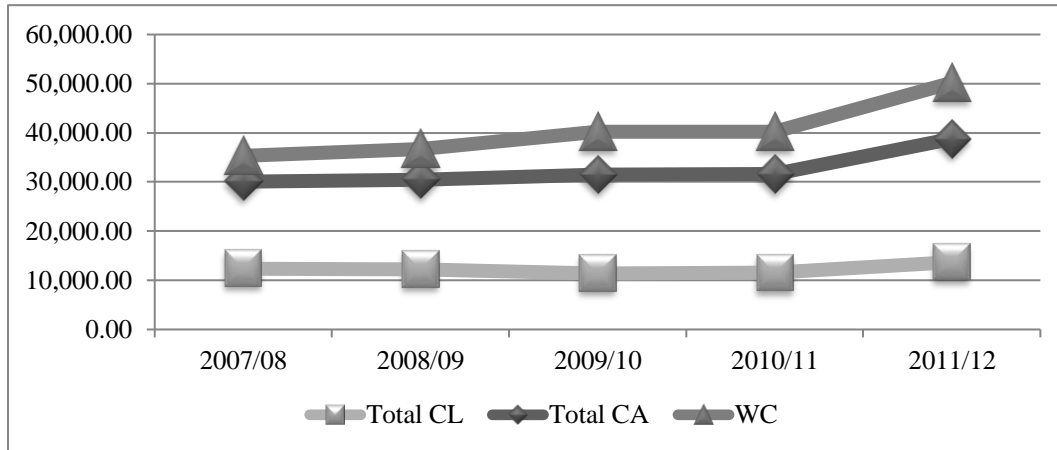


Table 4.3 shows the current assets, current liabilities and working capital condition of the KBL from fiscal year 2007/08 to 2011/12. Working capital condition of the bank is in satisfactory level. Working capital of the bank is positive during study period of five years. Working capital of the bank is in increasing trend. In fiscal year 2007/08 the working capital was Rs. 5,254.49. Similarly at the end of study period it reached to Rs. 11,402.50 million. The working capital shows the liquidity position of any organization i.e. higher the working capital higher the liquidity and vice versa.

## 4.2 Liquidity Ratio

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

### 4.2.1 Current Ratio

This ratio indicates the current short-term solvency position of bank. In other words, current ratio represents a margin of safety. Higher current ratio indicates better liquidity position. It is calculated as follows:

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

The following table shows the current ratio to compare the working capital management of Kumari Bank Limited.

**Table 4.4**  
**Current Ratios**

(Rs. in millions)

Fiscal year	Total CA	Total CL	Current Ratio
2007/08	17,659.52	12,405.03	1.42
2008/09	18,323.00	12,188.24	1.50
2009/10	20,106.79	11,380.72	1.77
2010/11	20,079.89	11505.45	1.75
2011/12	25,085.76	13,683.26	1.83
<b>Average</b>			<b>1.65</b>

(Source: Annual Report of KBL)

Table 4.4 shows the current assets, current liabilities and current ratio of KBL. The current ratio of the KBL is in increasing trend over the year. The highest current ratio is 1.83 in the fiscal year 2011/12 and lowest current ratio is 1.42 in the fiscal years 2007/08 and 2011/12. The average current ratio of KBL is 1.65.

**Figure 4.4**  
**Current Ratio**

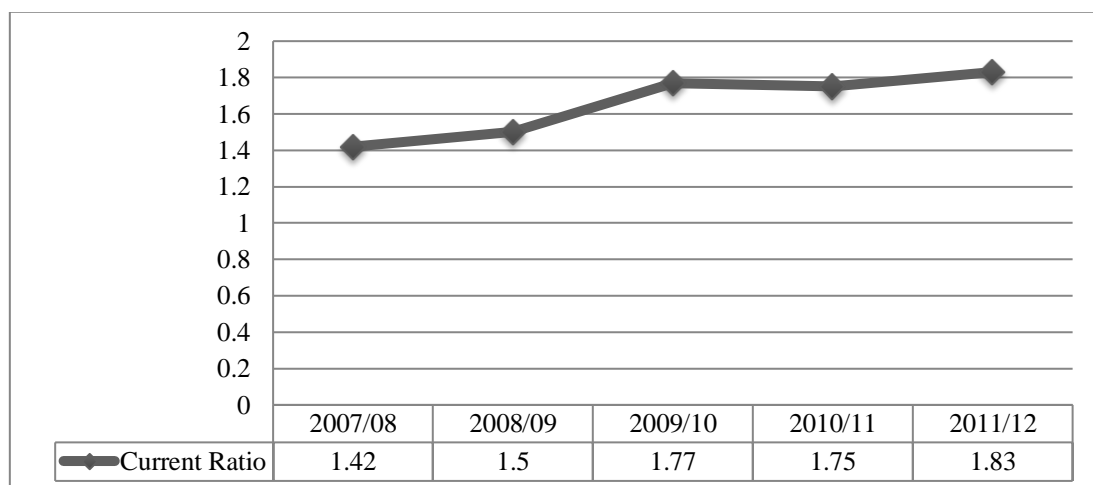


Figure 4.4 depicts that the trend line of KBL increases in all five fiscal years. The above analysis helps to find out the liquidity position of the bank. It indicates that the bank has sufficient liquidity. It

is true that the higher the ratio supposedly the greater the ability of a firm to pay its bill. But if a firm has more than the sufficient current assets it is an indication of unfavorable distribution of current assets.

#### 4.2.2 Cash and Bank Balance to Current Assets Ratio

The cash and Bank Balance is almost liquid form of the current assets, This Ratio Shows the percentage of readily available fund within the banks. It can be calculated by dividing cash and bank balance current assets, which is given below.

$$\text{Cash and Bank balance to Current Assets Ratio} = \frac{\text{Cash and Bank balance}}{\text{Current Assets}}$$

This Ratio shows that the percentage of current assets cover cash and bank Balance. The following table and figure shows the cash and bank balance to current assets ratio of the KBL over the study Period.

**Table 4.5**  
**Cash and Bank Balance to Current Assets Ratio of KBL**

(Rs in millions)

FY	Cash and Bank Balance	Total CA	Ratio (%)
2007/08	989.2	17,659.52	5.60
2008/09	1,806.30	18,323.00	9.86
2009/10	2,843.84	20,106.79	14.14
2010/11	1,620.04	20,079.89	8.07
2011/12	4,043.86	25,085.76	16.12
<b>Average</b>			<b>10.76</b>

*(Source: Annual Report of KBL)*

Table 4.5 shows that the amount of cash and bank balance was Rs. 989.2 million in Fiscal Year 2007/08. From FY 2007/08 to FY 2011/12 it is continuously increasing trend. In FY 2010/11 the ratio decreased to 8.07 from 14.14 percent and again increased in 2011/12 and the percentage stood to 16.12.

**Figure 4.5**

**Cash and bank Balance to current Assets Ratio**

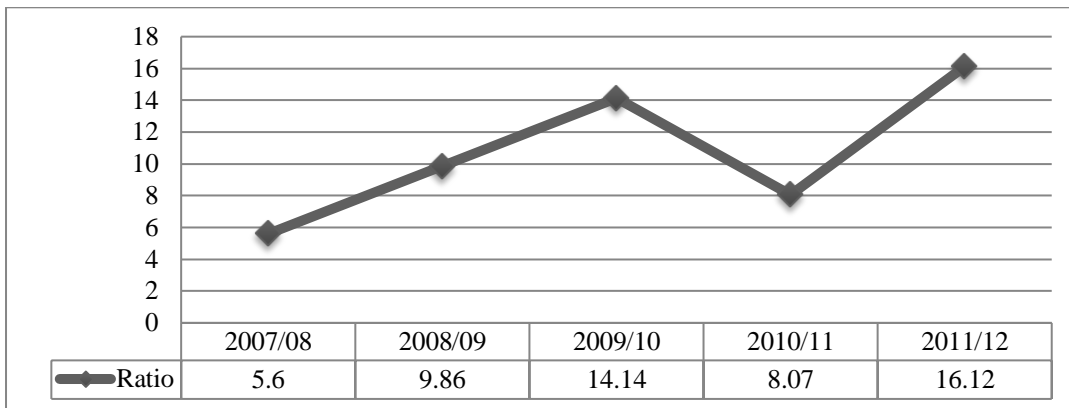


Figure 4.5 shows the cash and bank balance to current assets ratio of KBL has been increasing in fiscal year 2007/08 to 2009/10 and it decreased in FY 2010/11 staying at 8.07 percent. The graph of cash & bank balance ratio to current ratio has raised in study period i.e. in FY 2011/12. So above analysis contribute to conclude that cash and bank balance position with respect to current assets of KBL is in moderate condition, which indicates the sound or better liquidity position of KBL. The high amount of cash and bank balance is also not so good because it cannot give any earning and is considered to be idle amount.

#### **4.2.3 Cash and bank Balance to Total Deposit Ratio (Excluding Fixed Deposit)**

The ratio shows the ability of banks immediate funds to cover their (current, margin, call and saving) deposits. It can be calculated by dividing cash and balance by Deposits (excluding fixed deposits). The ratio can be expressed as:

$$\text{Cash and Bank balance to Total Deposit Ratio} = \frac{\text{Cash and Bank balance}}{\text{Total Deposit}}$$

Table 4.6 and figure 4.6 shows the cash and bank balance to total deposit ratio of the KBL over the study period.

**Table 4.6**  
**Cash and Bank Balance to Total Deposit Ratio of KBL**

(Rs in millions)

<b>Fiscal Year</b>	<b>Cash &amp; Bank</b>	<b>Total Deposit</b>	<b>Ratio (%)</b>
2007/08	989.2	8,980.59	11.01
2008/09	1,806.30	11,183.34	16.15
2009/10	2,843.84	10,226.05	27.81
2010/11	1,620.04	10,331.62	15.68
2011/12	4,043.86	12,827.15	31.53
<b>Average</b>			<b>20.44</b>

*(Source: Annual Report of KBL)*

Table 4.6 depicts that the cash and bank balance to deposit (except fixed deposit) of KBL has increased gradually in FY 2008/09 to FY2009/10. In FY 2010/11 the ration has decreased by 12.13 percentages in comparison to FY 2009/10. During the study period cash & bank balance to total deposit ratio is in higher position in comparison to whole period from FY 2007/08 to 2010/11. Similarly, there is no consistency in total deposit of the bank. The bank has average ratio of 20.44 percent.

**Figure 4.6**  
**Cash and Bank Balance to Total Deposit Ratio of KBL**

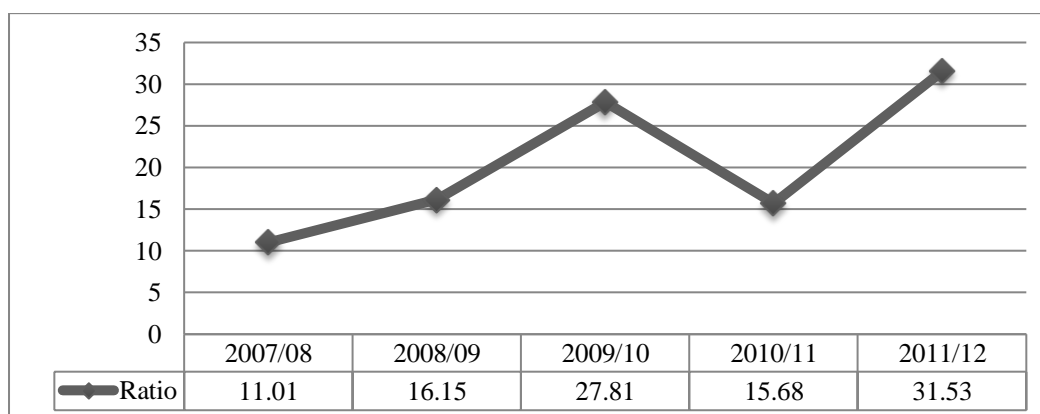


Figure 4.6 shows the cash and bank balance to deposit ratio has been increased in FY 2008/09 and 2009/10. It slightly decreasing to 12.13 percent in fiscal year 2010/11 and increased more by 15.85 during study period. The above analysis helps to find out the ability of banks immediate funds to cover its current margin, call and saving deposit of the bank, in other words liquidity position of the bank. But the large amount of idle cash and bank balance directly affect the profitability of the bank.

#### 4.2.4 Saving Deposit to Total Deposit Ratio

Saving deposit is interest bearing short-term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short in natures. It is find out by dividing the total amount of saving deposits by the amount of total deposit, which is given bellows:

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

The following table and figure shows the KBL's saving to total deposit ratio.

**Table 4.7**  
**Saving Deposit to Total Deposit Ratio**

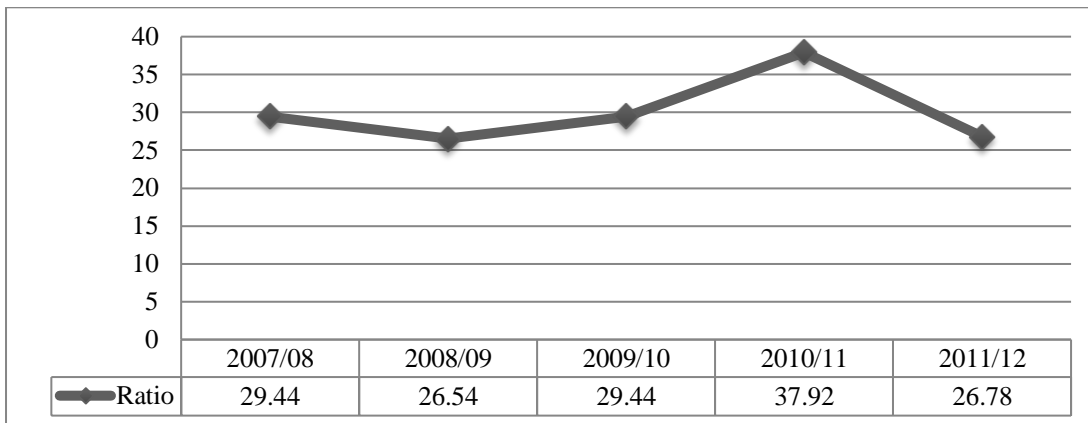
(Rs in millions)

Fiscal Year	Saving Deposit	Total Deposit	Ratio (%)
2007/08	5,132.14	17,432.25	29.44
2008/09	4,169.79	15,710.40	26.54
2009/10	5,132.14	17,432.25	29.44
2010/11	6,441.55	16,986.28	37.92
2011/12	5,887.12	21,985.20	26.78
Average			30.02

(Source: Annual Report of KBL)

Table 4.7 shows that the amount of saving deposit has been decreased during the study period by 54.43 as compared to FY 2010/11. However, the total deposit (including fixed deposit) of KBL is gradually increasing during the study period. The saving deposit to total deposit ratio of KBL is in fluctuating nature. In FY 2007/08 it was 29.44% and in FY 2008/09 it reached to 26.54% decreasing by 2.9%. Similarly, in FY 2009/10 and 2010/11 the ratio stands to 29.44 % and 37.92 %. During the study period the ratio was found to be less by 11.14% as compared to FY 2010/11. The average ratio stands at 30.02%.

**Figure 4.7**  
**Saving Deposit to Total Deposit Ratio**



As stated in figure, the saving deposit to total deposit ratio is smoothly increasing over the first 2 years of the study period i.e. from FY 2009/10 and 2010/11. In the fiscal year 2007/08 it has decreased and more decreased in the FY 2008/09. Although, saving deposit is short-term liability but it's nature is long-term then current margin and other deposits. So, the large position saving deposit in total deposit shows the liquidity of the bank. Banks also pays interest on saving deposit but current, margin and other deposits are nominal cash fund. It means higher the ratio higher the liquidity position of the bank and vice versa. In other hand, the higher saving deposits increased interest obligation to the bank. Therefore, the higher ratio of saving deposit to total deposit decreased the profitability of the bank. From the view point of profitability the power ratio is preferable than higher ratio. The ratio of KBL seems satisfactory level over the study period.

### 4.3 Activity or Turnover Ratio

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

#### 4.3.1 Loan and Advances to Total Deposit Ratio

This ratio assess to what extent, the bank are able to utilize the outsiders fund (deposited fund) for the profit generating purpose on the loan and advances. It is computed dividing the total amount of loan and advances by total deposited funds.

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

The following table and figure shows the effectiveness in utilization of total deposits of KBL.

**Table 4.8**  
**Loan and Advances to Total Deposit Ratio**

(Rs in millions)

Fiscal Year	Loan and Advance	Total Deposit	Ratio (Times)
2007/08	11,522.38	8,980.59	1.28
2008/09	14,795.26	11,183.34	1.32
2009/10	14,966.08	10,226.05	1.46
2010/11	14,926.23	10331.62	1.44
2011/12	18,101.34	12,827.15	1.41
Average			1.39

*(Source: Annual Report of KBL)*

Table 4.8 shows the position and ratio of loan and advances and total deposit of KBL from fiscal year 2007/08 to 2011/12. The loan and advances of the bank has been gradually increasing in first three years from FY 2007/08 to 2009/10. Similarly total deposit of the bank in FY 2011/12 seems to be higher in FY 2011/12 in comparison to rest fiscal years. The loan and Advance to total deposit ratio stood to be 1.41 times in fiscal year 2011/12 and the average ratio stood to 1.41 times.

**Figure 4.8**

**Loan and Advances to Total Deposit Ratio**

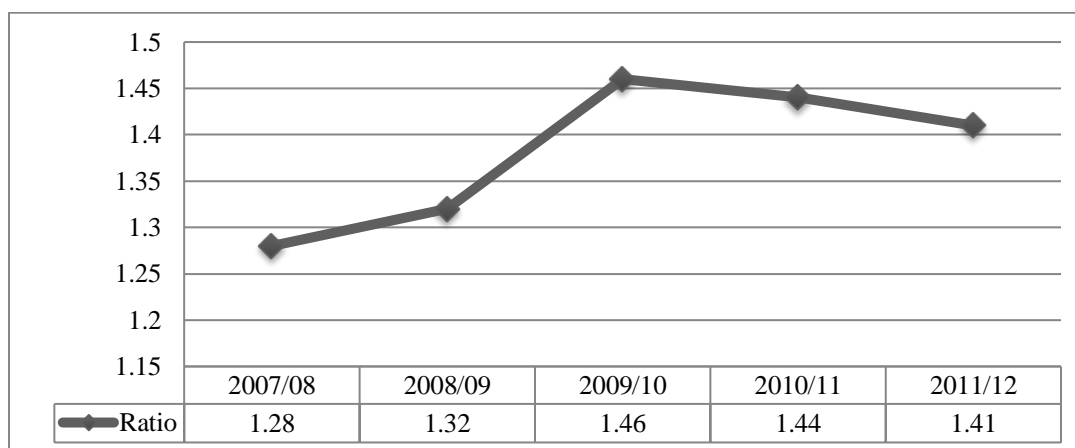


Figure 4.8 shows that the loan and advances to total deposit ratio was 1.28 in fiscal year 2006/07, which slightly increased up to fiscal year 2009/10 to 1.46 and thereafter slightly decreased and reached to 1.44 in fiscal year 2010/11. In FY 2011/12 the ratio stands at 1.41. From the above analysis, loan and advances to total deposit ratio shows the low capacity of the bank to mobilize its deposit at initial of the study period and gradually correcting at end of the study period. The bank has the responsibility of collecting a huge amount of deposit for the purpose of lending a great amount of it to needy people. It's collect money not for keeping it idle, but for using it in a creative work. If it cannot utilize its deposit more profitability, it is better to reduce the volume of deposits. So, the volume of deposits has some limit which is affected by loans. But there is no limit to the volume of

loans. However, the rate of interest as well as the volume of deposits highly affects the volume of loans. Once the deposit is more than sufficient, there is no need to pay higher rate of interest on it. On the contrary, if the volume of deposits is insufficient for meeting the need of borrowers the interest rate should be increased.

#### 4.3.2 Loan and Advances to Fixed Deposit Ratio

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. Fixed deposits are interest bearing long-term obligation where loans and advances are the major sources of investment to generate income for the commercial banks. A low ratio indicates the idle cash balance. It means total funds not properly utilized. This ratio computes as follows:

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

The following table and figure shows the effective loan and advances to fixed deposit ratio of KBL.

**Table 4.9**  
**Loan and Advances to Fixed Deposit Ratio**

(Rs in millions)			
Fiscal Year	Loan and Advance	Fixed Deposit	Ratio (Times)
2007/08	11,522.38	7206.20	1.60
2008/09	14,795.26	4,527.05	3.27
2009/10	14,966.08	7,206.202	2.08
2010/11	14,926.23	6,654.66	2.24
2011/12	18,101.34	9,158.054	1.98
Average			2.23

*(Source: Annual Report of KBL)*

Table 4.8 depicts that the loan and advances to fixed deposit ratio of KBL was increased in fiscal year 2008/09 than previous year 2007/08. In fiscal year 2009/10, it decreased and reached to 2.08. In the fiscal year 2020/12 it was increased and reached to 2.24. Again in FY 2011/12 the ratio has decreased and reached to 1.98 times its fixed deposit. It indicates that the loan and advances to fixed deposit ratio of KBL is fluctuating. For understanding it more clearly, the loan and advances and fixed deposit and its ratio of KBL can be presented in figure with the help of trend analysis method.

**Figure 4.9**

**Loan and Advances to Fixed Deposit Ratio of KBL**

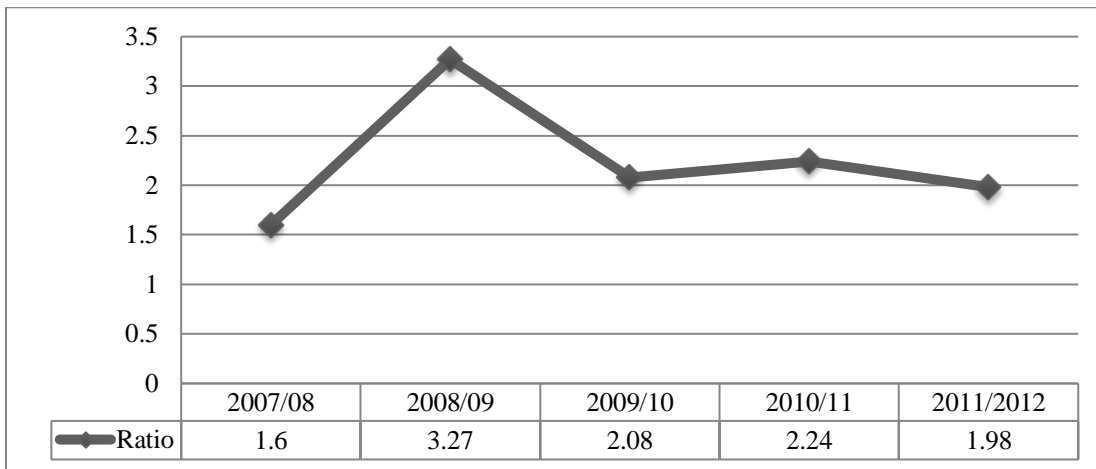


Figure 4.9 shows that the loan and advance to fixed deposit of KBL was increased in fiscal year 2008/09. In fiscal year 2009/10 and FY 2010/11 it was decreased. The above analysis shows that the utilization of fixed deposit in loan and advances has been efficient or not. The higher ratio implies the efficient mobilization of fixed deposit and vice versa. From the above trend analysis we can conclude that the KBL has been mobilizing its fixed deposit quite satisfactory but decrement in ratio of final year of study period indicates to reform the policy.

**4.3.3 Loan and Advance to Saving Deposit Ratio**

This ratio assesses, how many times the fund is used to loans and advances against saving deposits. Saving deposits are interest bearing short-term obligation whereas loan and advances are the major sources of investment to generate income for the commercial banks. This ratio indicates how many times the short-term interest bearing deposit is utilized for income generating purpose. The following formula is used to determine this ratio.

$$\text{Loan and Advance to Saving Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Saving Deposit}}$$

Table 4.10 and figure 4.10 shows the loan and advance to saving deposit ratio of KBL.

**Table 4.10**  
**Loan and Advance to Saving Deposit Ratio of KBL**

(Rs in millions)

Fiscal Year	Loan and Advance	Saving Deposit	Ratio (Times)
2007/08	11,522.38	5,132.14	2.25
2008/09	14,795.26	4,169.79	3.55
2009/10	14,966.08	5,132.14	2.92
2010/11	14,926.23	6,441.55	2.32
2011/12	18,101.34	5,887.12	3.07
Average			2.82

*(Source: Annual Report of KBL)*

Table 4.10, the saving deposit of the bank has been fluctuating from the fiscal year 2007/08 to 2011/12. Likewise the ratio of loan and advance to saving deposit is seems quit fluctuating. It was 2.25 at the end of 2007/08 and at the FY 2011/12 it reached to 3.07 which is in increasing status as compared to its previous year 2009/10 and 2010/11. The average ratio stands at 2.82.

**Figure 4.10**  
**Loan and Advances to Saving Deposit Ratio of KBL**

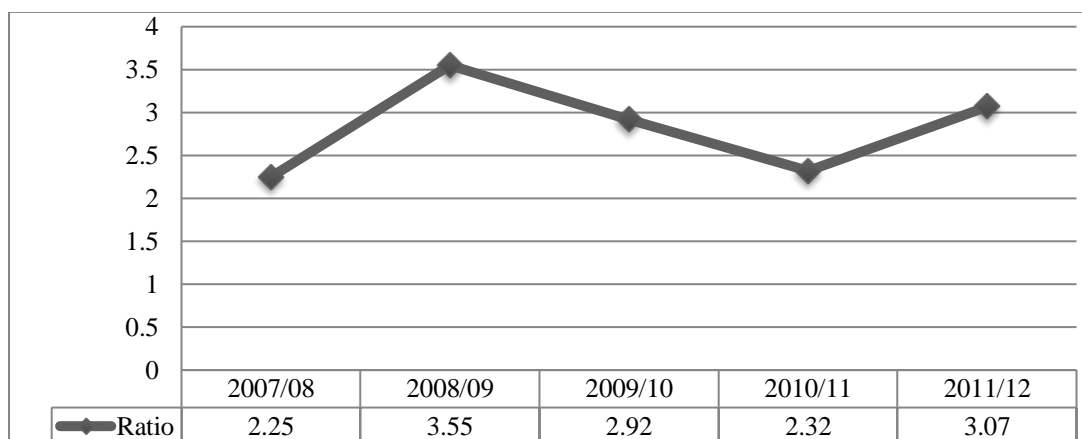


Figure 4.10 states that the loan and advance to saving deposit ratio was 2.25 in fiscal year 2007/08, which increases in fiscal year 2008/09 to 3.55 and then it has decreased gradually and reached to 2.92, and 2.32 in fiscal years 2009/10 and 2010/11. From the above analysis it can be concluded that the saving deposit of the bank has been effectively utilized in loan and advances.

#### 4.4 Profitability Ratios

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are

mostly used to compare the performance of the bank in different years. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. To find out the operating efficiency of the KBL. The following profitability ratios are calculated.

#### 4.4.1 Interest Earned to Total Assets Ratio

It is the ratio, which formed to find out the percentage of the interest earned to total assets. This is derived by dividing the amount of interest earned by the total assets of the firm.

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

The following table and figure shows the interest earned to total assets ratio of the KBL.

**Table 4.11**  
**Interest Earned to Total Assets Ratio**

(Rs in millions)

<b>Fiscal Year</b>	<b>Interest Earned</b>	<b>Total Assets</b>	<b>Ratio (Times)</b>
2007/08	1,871.07	18,229.54	10.26
2008/09	1,374.72	18,901.05	7.27
2009/10	1,871.07	20,772.69	9.01
2010/11	2,251.79	20,791.94	10.83
2011/12	2,441.58	25,618.39	9.53
Average			9.38

(Source: Annual Report of KBL)

KBL interest earned is fluctuating over all five years and total assets are in increasing trend. In the fiscal year 2007/08, the interest earned was Rs. 1,871.07 million but in the fiscal year 2011/12 it reached to Rs.2441.58 million. Likewise, at the end of fiscal year 2007/08 the total assets was Rs.18,229.54 million but at the end of fiscal year 2011/12 it reached to Rs. 25,618.39 million. Interest earned to total assets ratio of the bank was quit fluctuating. It stands at 10.26% in fiscal year 2007/08. It was slightly decreased in fiscal year 2008/09 by 3% and in the fiscal year 2009/10 it has increased to 9.01%. After the end of fiscal year 2010/11 the ratio is growing up and rising to 10.83%. And for 2011/12 the ratio stands to 9.53% which has decreased by 1.3% as compare to its previous year. The average ratio of KBL stands at 9.38% over the study period.

**Figure 4.11**  
**Interest Earned to Total Assets Ratio of KBL**

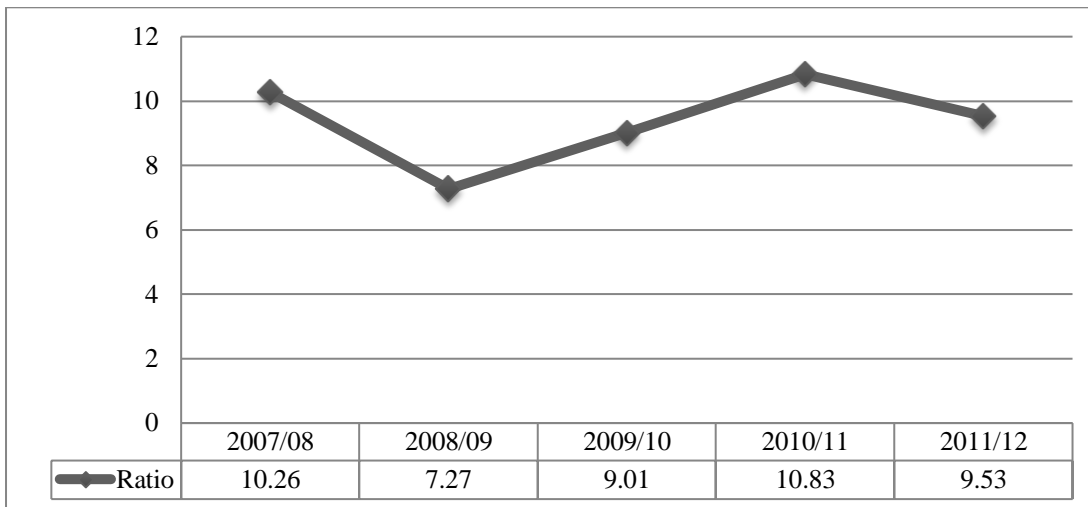


Figure 4.11 depicts that the interest earned to total assets ratio of KBL seems quite fluctuating over the study period. In fiscal year 2008/09 the trend line of the bank was in declining position. But at the end of fiscal year 2010/11 it seems to be in growing position and reached to 10.83 percent. During FY 2011/12 the line trend has decreased and reached to 9.53 percent.

From the above analysis we can conclude that the interest earned to total assets of the KBL was not so satisfactory in previous 3 fiscal years and improving in these last two years. It implies that the bank was not able to use its total assets of funds to earn interest in previous 3 years of the study period.

#### **4.4.2 Net Profit to Total Assets Ratio**

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets is computed by using the following formula.

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

Table 4.12 and figure 4.1 shows the net profit to total assets of KBL.

**Table 4.12**  
**Net Profit to Total Assets Ratio of KBL**

(Rs in millions)

<b>Fiscal Year</b>	<b>Net Profit</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2007/08	316.52	18,229.54	1.74
2008/09	258.38	18,901.05	1.37
2009/10	316.54	20,772.69	1.52
2010/11	251.24	20,791.94	1.21
2011/12	275.50	25,618.39	1.08
<b>Average</b>			<b>1.38</b>

*(Source: Annual Report of KBL)*

Table 4.12 shows the net profit of the bank was Rs.316.52 million in FY 2007/08, Rs. 258.38 million in FY 2008/09, Rs. 316.54 million in FY 2009/10, Rs. 251.24 million in FY 2010/11 and Rs. 275.50million in FY 2011/12. The total assets of the bank are in increasing trend. In the fiscal year 2007/08, the ratio was 1.74%. After that in following years, the ratio is in fluctuating nature and at the end of fiscal year 2011/12 it reached to 1.08%. The average ratio stands at 1.38% over the study period.

**Figure 4.12**  
**Net Profit to Total Assets Ratio**

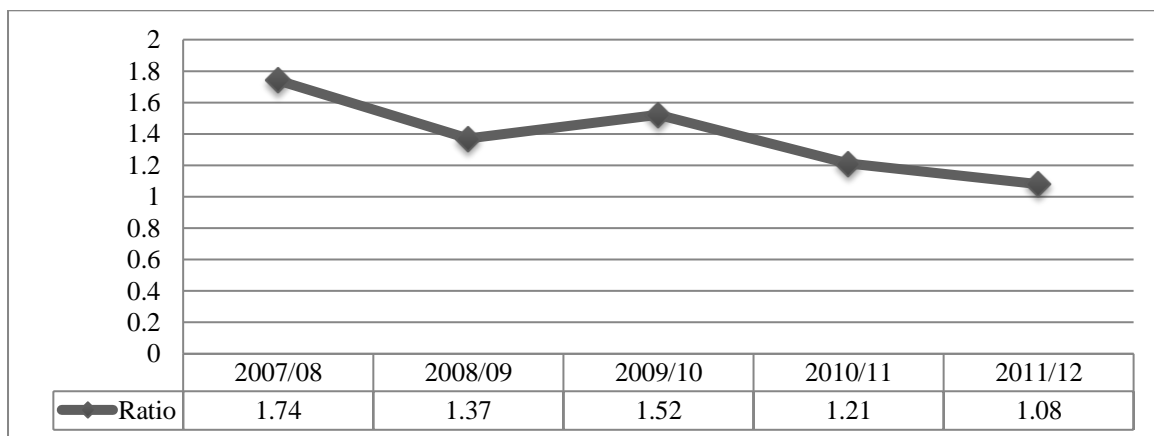


Figure 4.12 show that the net profit to total asset ratio is in fluctuating trend. This analysis helps to find out whether the bank efficiently used its working funds and total assets to earn higher rate of profit or not. The ratio of net profit to total assets of KBL implies that the bank could not able to used its available working funds effectively over the study period which signify towards the smooth growth of the bank.

#### 4.4.3 Net Profit to Total Deposit Ratio

This ratio measures percentage of the profit earned from the use the total deposit. It is calculated by dividing the amount of net profit by the amount of total deposit.

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

The following table and figures shows the net profit to total deposit ratio of KBL.

**Table 4.13**  
**Net Profit to Total Deposit Ratio**

(Rs. in millions)

<b>Fiscal Year</b>	<b>NPAT</b>	<b>Total Deposit</b>	<b>Ratio (%)</b>
2007/08	316.52	8,980.59	3.52
2008/09	258.38	11,183.34	2.31
2009/10	316.54	10,226.05	3.10
2010/11	251.24	10,331.62	2.43
2011/12	275.50	12,827.15	2.15
Average			2.70

(Source: Annual Report of KBL)

Table 4.13 shows that the total deposit and net profit of KBL both has been fluctuating over the study period. The deposit of the bank has ranged from Rs. 8,980.59 to Rs. 12,827.15. In the same way, net profit to total deposit ratio has been fluctuating in all the five fiscal year. At the end of fiscal year 2011/12, the ration stands at 2.15 which is the minimum amongst the five years period and the average of net profit to total deposit ratio is 2.70 over the study period.

**Figure 4.13**  
**Net Profit to Total Deposit Ratio**

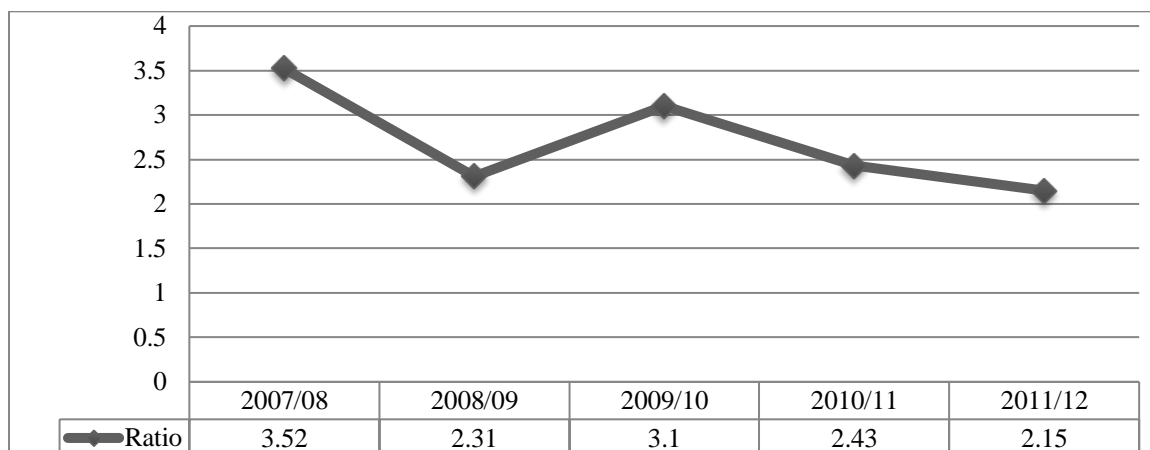


Figure 4.13 it the net profit to total deposit ratio is in fluctuating trend. It was 3.52 percent in FY 2007/08 and reached 2.15 percent at the end of study period and 2.70 percent was in average. Above analysis helps to find out whether the bank could able to mobilize of outsiders funds properly or not. The mobilization of outsider’s funds is very important to earn profit for commercial banks. Therefore, the bank mobilizes its deposit as efficiently as possible. As shown in above table we can easily conclude that the bank could not able to mobilize its deposit or outsiders funds efficiently. The bank should mobilize its deposits properly to increase profit.

#### **4.4.4 Net Profit to Shareholders Equity Ratio**

This ratio is calculated to evaluate the profitability of owner’s investment. In other words, it tells us the earning power on shareholders book investment and is frequently used in comparing two or more firms in an industry. This ratio is commonly known as return on equity (ROE). It is calculated by dividing the net profit by the net worth.

$$\text{Net Profit to Shareholder's Equity Ratio} = \frac{\text{Net Profit After Tax}}{\text{Net Worth}}$$

Table 4.14 and Figure 4.14 shows the return on net worth of KBL.

**Table 4.14**  
**Net Profit to Shareholders Equity Ratio**

(Rs. in millions)

<b>Fiscal Year</b>	<b>NPAT</b>	<b>Shareholders' Equity</b>	<b>Ratio (%)</b>
2007/08	316.52	1,624.95	19.47
2008/09	258.38	1,785.76	14.47
2009/10	316.54	1,785.76	17.73
2010/11	251.24	2,213.83	11.35
2011/12	275.50	2,377.08	11.59
<b>Average</b>			<b>14.92</b>

*(Sources: Annual Report of KBL)*

Table 4.14 the net worth of the bank was Rs.316.52 million in fiscal year 2007/08, Rs.258.38 million in FY 2008/09, Rs. 316.54 million in FY 2009/10, Rs.251.24 million in FY 2010/11 and Rs. 275.50 million in FY 2011/12. Both the net profit and net worth of the bank is in fluctuating trend. It was 19.47 percent on FY 2007/08 and decreased to 14.47 percent on FY 2008/09 accordingly it was 17.73 percent on 2009/10, 11.35 percent on FY 2010/11, and finally 11.59 percent on the end of fiscal year 2011/12. The average ratio stands at 14.92.

**Figure 4.14**  
**Net Profit to Shareholders Equity Ratio of KBL**

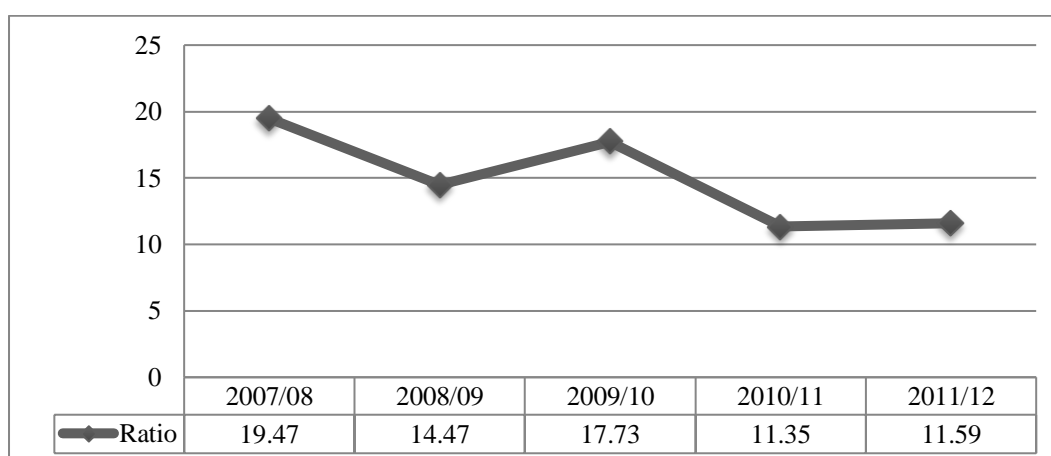


Figure 4.14 Shows that the ratio is in fluctuating trend. In FY 2010/11 the ratio was decreased and reached to 11.357 percent and slightly increased in fiscal year 2011/12 by 0.24 percent. This ratio is calculated to evaluate the effectiveness of the owner's investment, which indicated how well the firm has used the resource of the owners. It is an important ratio, which helps to maximize the shareholders welfare and is an important indicator of financial performance. From the above analysis we can conclude that the net profit to shareholders equity of the KBL has in satisfactory level.

#### 4.5 Capital Structure or Leverage Ratio

A firm should have a strong short-term liquidity as well as long-term financial position. This long-term financial position of the firm is judge by the leverage or capital structure ratios. The leverage ratios are calculated to measures the financial risk and the firm's ability of using debt for the benefit of the shareholders. The bank often uses these ratios to see how the assets are financed.

##### 4.5.1 Long-term Debt to Net worth Ratio

This ratio measures the proportion of outsiders and owners' fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the banks by owner's claim. It is the relationship between owner funds and borrowed funds. Long term debt includes long term borrowing from government agencies or financial institutions, differed payment, liabilities etc. It is calculated by using following formula.

$$\text{Long-term Debt to Net Worth Ratio} = \frac{\text{Long Term Debt}}{\text{Net Worth}}$$

The following table shows the long term debt to net worthy ratio of the KBL over the study period.

**Table 4.15**  
**Long-term Debt to Net worth Ratio of KBL**

(Rs in Millions)

Fiscal Year	LTD	Net worth	Ratios (%)
2007/08	4,199.56	1,624.95	258.44
2008/09	4,927.05	1,785.76	275.91
2009/10	7,606.20	1,785.76	425.94
2010/11	7,054.66	2,213.83	318.66
2011/12	9,558.05	2,377.08	402.09
Average			336.21

(Source: Annual Report of KBL)

Table 4.15 shows that the long term debt and net worth both are increasing gradually over the study period. At the end of fiscal year 2011/12 the long term debt was Rs.9558.05 million. Likewise, in the same year the net worth was Rs. 2,377.08 million. The long term debt to net worth ratio of KBL has thus ranged from 258.44 percent in fiscal year 2007/08 to 425.94 percent in fiscal year 2009/10.

**Figure 4.15**

**Long-term Debt to Net worth Ratio of KBL**

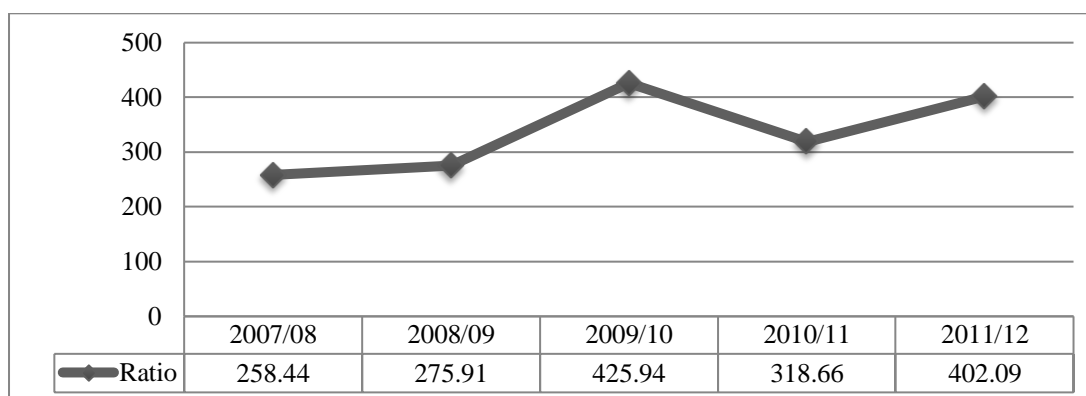


Figure 4.15, shows that the long-term debt to net worth ratio of KBL was in increasing trend over the study period fiscal year 2007/08 to 2009/10. In FY 2010/11 the ratio decreased and reached to 318.66 and increased in FY 2011/12 reached to 402.09 percentages. It was 336.21 percentages in average during the study period.

The above analysis helps to conclude that the long term debt to net worth ratio of KBL is in quite satisfactory condition. If the ratio is high, it indicates the risky and aggressive capital structure. This ratio also implies that the proportion of outsiders claim in total capitalization is higher in KBL.

#### **4.5.2 Net Fixed Assets to Long-term Debt Ratio**

Net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows:

$$\text{Net Fixed Assets to Long term Debt Ratio} = \frac{\text{Net Fixed Assets}}{\text{Long Term Debt}}$$

The following table and figure shows the Net fixed assets to long-term debt ratio of the KBL over the study period.

**Table 4.16**

**Net Fixed Assets to Long-term Debt Ratio**

**(Rs in Millions)**

Fiscal Year	Net fixed assets	LTD	Ratios (%)
2007/08	222	4,199.56	5.29
2008/09	247.83	4,927.05	5.03
2009/10	285.64	7,606.20	3.76

2010/11	306.28	7,054.66	4.34
2011/12	277.27	9,558.05	2.90
Average			4.26

(Source: Annual Report of KBL)

Table 4.16 reveals that the Net fixed assets of KBL have been gradually increased over the study period except in fiscal year 2011/12. Similarly, long-term debt of KBL is also in increasing trend. Net fixed assets to long term debt ratio of KBL have ranged from 5.29% to 2.90% in fiscal year 2007/08 and 2011/12 respectively. In average, the ratio of net fixed assets to long term debt of KBL is 4.26.

**Figure 4.16**

**Net Fixed Assets to Long Term Debt Ratio**

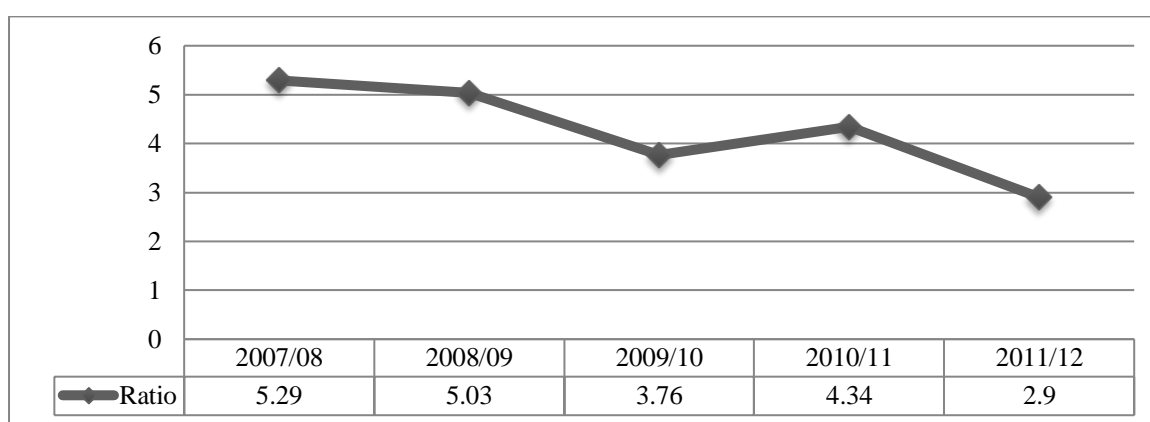


Figure 4.16 states that the net fixed assets to long term debt ratio was 5.29 in fiscal year 2007/08. Which was decreased and reached to 2.9 percent in fiscal year 2011/12 and it was 4.26 percent in average of study period. From the above analysis it can be concluded that the KBL net fixed assets covers very low portion of long term debt. In other words, large portion of long-term debt is used in current assets of the bank.

#### 4.6 Correlation Analysis

Correlation analysis is a statistical relation between two or more variables such that systematic changes in the value of one variable are accompanied by systematic changes in the other. In other words, correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures.

##### 4.6.1 Coefficient of Correlation between Investment on Government Securities and Total Deposit

The coefficient of correlation between investment on government securities and total deposit is to measure the degree of relationship between two variables. Although bank utilizes its deposits on loan

and advances but some part of idle deposit are invested on government securities. The purpose of computing correlation coefficient is to justify whether the excess deposits are significantly used in government securities or not or whether there is any relationship between these two variables.

**Table 4.17**

**Coefficient of Correlation between Investment on Government Securities and Total Deposit**

<b>Correlation (r)</b>	0.3512
<b>PE</b>	0.2644
<b>6PE</b>	1.5864

*(Source: Annual Report of KBL)*

Table 4.17 is the calculation of the coefficient of correlation between government securities and total deposits of KBL. Value 'r' is 0.3512. It shows that the positive relationship between these two variables. By considering the probable error, the value of r is not more than six times of PE(r). The value of r is not significant i.e. there is no significant relationship between government securities and total deposit of the bank.

**4.6.2 Coefficient of Correlation between Loan and Advance and Total Deposits**

The coefficient of correlation between loan and advances and total deposits is to measure the degree of relationship between major components of current assets i.e. loan and advances and major sources of fund on bank i.e. total deposit. In correlation analysis, deposit is independent variable and loan and advance is dependent variable. The purpose of computing coefficient of correlation is to justify whether the deposits are significantly used in loan and advances or not and whether there is any relationship between these two variables.

Table 4.18 and Figure 4.18 shows the coefficient of correlation between loans and advance and total deposits i.e. r, P.E. and 6 P.E.

**Table 4.18**

**Coefficient of Correlation between Loan and Advance and Total Deposit**

<b>Correlation (r)</b>	0.9471
<b>PE</b>	0.0311
<b>6PE</b>	0.1866

*(Source: Annual Report of KBL)*

Table 4.18 depicts that the coefficient of correlation between loan and advances and total deposit value 'r' of KBL is 0.9471. It shows positive relationship between two variables loan and advance and total deposit. Since the value of 'r' i.e. 0.9471 is more than six times of probable error i.e. 0.1866, so we can say that the value of r is significant, i.e. there is highly significant relationship between total deposits and loan and advance. From the above analysis, it can be concluded that the KBL has utilized its total deposits on loan and advances effectively.

#### 4.6.3 Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Cash and bank balance is most liquid component of current assets. Bank requires cash and bank balance to meet its short term obligation i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is calculated to measure the degree of relationship between cash and bank balance and current liabilities. In correlation analysis, cash and bank balance is dependent variable and current liabilities are independent variable. The following table should the coefficient of correlation between cash and bank balance and current liabilities i.e. 'r', 'PE(r)' and '6PEr' of KBL.

**Table 4.19**

**Coefficient of Correlation between Cash and Bank Balance and Current Liabilities**

<b>Correlation (r)</b>	0.5330
<b>P.E.</b>	0.0216
<b>6P.E.</b>	0.1295

*(Source: Annual Report of KBL)*

Table 4.19 is computed to find out coefficient of correlation between cash and bank balance to current liabilities of KBL is 0.533, which shows the positive relationship between two variables cash and bank balance and current liabilities. By considering the probable error, since the value of 'r' i.e. 0.533 is more than six times of P.E. i.e. 0.1295, so the value of 'r' is highly significant. From the above analysis, it can be concluded that there is significant relationship between cash and bank balance and current liabilities.

#### 4.6.4 Coefficient of Correlation between Loan and Advance and Net Profit

The basic function of commercial bank is to collect deposit and invest these funds on loan and advance to generate higher profit. Large amount of loan and advance generate higher profit. The coefficient of correlation between loan and advance and net profit is calculated to measure the degree of relationship between loan and advance and net profit. In correlation analysis, loan and advances is independent variable and net profit is dependent variable. The purpose of computing coefficient of correlation is to justify whether the loan and advances are significantly generating profit or not and whether there is any relationship between these two variables. The following table shows the coefficient of correlation between loan and advances and net profit, i.e. 'r', 'P.E.' and '6P.E.'

**Table 4.20**

**Coefficient of Correlation between Loan and Advance and Net Profit**

<b>Correlation (r)</b>	0.9075
<b>P.E.</b>	0.0532
<b>6P.E.</b>	0.3192

*(Source: Annual Report of KBL)*

Table 4.20 is the computation of coefficient of correlation between loan and advances and net profit of KBL which is 0.9075. It shows the highly positive relationship between these two variables loan and advances and net profit. Similarly, considering the value of probable error, the value of 'r' is 0.9075 is more than six times of P.E. i.e. 0.0532, so the value of 'r' is highly significant. Thus from the above analysis, it can be concluded that there is highly significant relationship between loan and advances and net profit.

#### **4.7 Trend Analysis and Projection of Next Five Years**

Trend analysis occupies an important place in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. Trend analysis helps in forecasting and planning future operation. It is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial result of the firms.

Trend analysis informs to various persons who are directly or indirectly related to joint venture banks. To shareholders of the banks, it informs about the expected future return, which helps them to decide whether to stick in the present investment or to search for the alternative investment opportunities. Depositors can save the degree of safety in the form of worthiness of financial credit of the banks in future. For the borrowers, it assures about the financial capability of the banks to furnish their loans and advances in future and also helps to continue the present trend.

Various methods are used for trend analysis, out of which least square method is one of the popular method is used in the study. In the present study, the tendency of total deposit, loan and advances, total investment and net profit are forecasted for next five years on the basis of the past performance and records. The projections are based on the following assumption.

1. The main assumption is that other things will remain unchanged.
2. The bank will run in this present position.
3. The economy will remain in the present stage.
4. The forecast will be true only when the limitation of least square method is carried out.
5. NRB will not change its guidelines to commercial banks.

#### 4.7.1 Trend Analysis of Total Deposits

Under this topic, an effort has been made to calculate the trend values of deposit of KBL for five years from 2007/08 to 2011/12 and forecast next five years till 2016/17. Let the dependent variable, deposit denoted by Y and the independent variable, Year be denoted by X. Then the regression equation of total deposit on year and the trend value of deposit are presented in the table below for 10 years from 2006/07 to 2016/17.

**Table 4.21**  
**Trend Value of Total Deposit of KBL**

(Rs. in Millions)

<b>Year</b>	<b>Actual Value</b>	<b>Trend Value</b>
2007/08	8,980.59	9,341.47
2008/09	11,183.34	10,025.61
2009/10	10,226.05	10,709.75
2010/11	10,331.62	11,393.89
2011/12	12,827.15	12,078.03
2012/13		12,762.17
2013/14		13,446.31
2014/15		14,130.45
2015/16		14,814.59
2016/17		15,498.73
<b>Regression line</b>		<b><math>Y = 10709.75 + 684.14X</math></b>

(Source: Annual Report of KBL)

Table 4.21 shows that total deposit of the bank increases with lapse of the time. The estimated total deposit in FY 2012/13 will be Rs. 12,762.17 million and in FY 2013/14 are expected to be Rs. 13,446.31. Thus, it can be said that, as in past, KBL will continue to use extensive amount of total deposit to finance the working capital. Also the regression line of total deposit on year delineates that total deposit increases by Rs. 684.14 million per year, if the variable remains rigid.

**Figure No. 4.17**  
**Trend Value of Total Deposit**

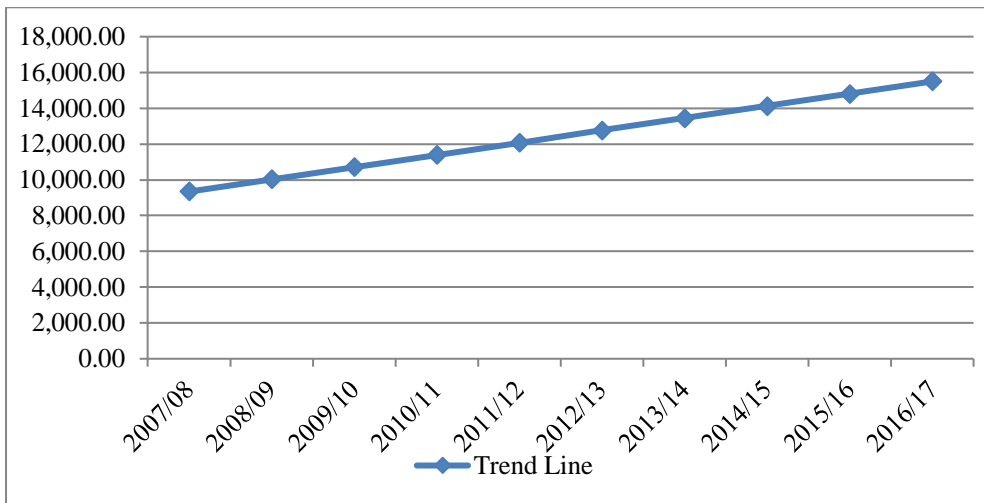


Table no. 4.17, shows that total deposit of both the banks KBL are in increasing trend. From the above trend analysis, it is quite obvious that KBL deposit collection position better in all ten years.

#### 4.7.2 Trend Analysis of Loan and Advance

Under this topic, an effort has been made to calculate the trend values of loan and advance of KBL for five years from 2007/08 to 2011/12 and forecast next five years till 2016/17. This following table shows the trend value of 10 years from 2006/07 to 2016/17.

**Table 4.22**  
**Trend Value of Loan and Advance of KBL**

(Rs. in Millions)

Year	Actual Value	Trend Value
2007/08	11,522.38	12,204.48
2008/09	14,795.26	13,533.37
2009/10	14,966.08	14,862.26
2010/11	14,926.23	16,191.15
2011/12	18,101.34	17,520.04
2012/13		18,848.93
2013/14		20,177.81
2014/15		21,506.70
2015/16		22,835.59
2016/17		24,164.48
<b>Regression analysis</b>	<b>Y= 14,862.258+1,328.889X</b>	

*(Source: Annual Report of KBL)*

Table 4.22, KBL bank expected loan and advance in 2012/13 and 2016/17 are expected to be Rs. 18,848.93 and Rs. 24,164.48 million. Coefficient of regression (b) of total loan and advance of KBL is Rs. 1,328.889 millions. This means that the annual increase in total loan and advance of KBL is Rs. 1,328.889 million.

**Figure No. 4.18**  
**Trend Value of Loan and Advance**

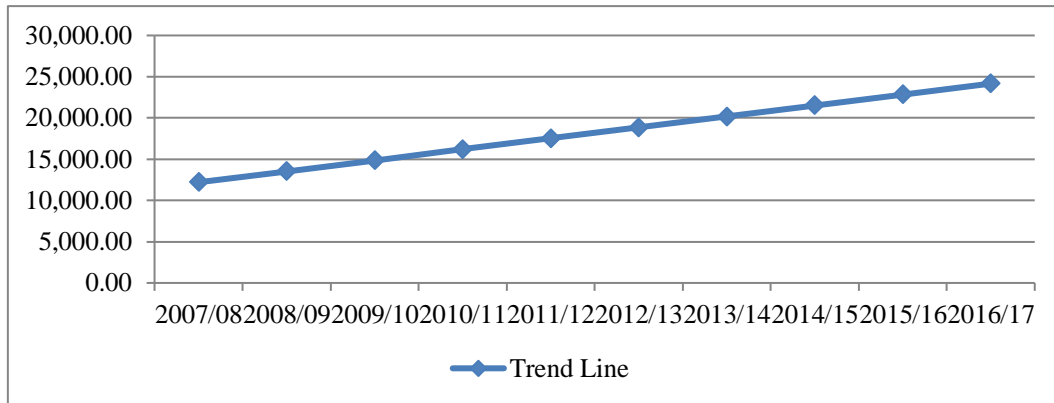


Table.4.22 depicts that loan and advance of both the banks KBL are in increasing trend. Other things remaining the same or constant loan and advance KBL in 2016/17 is predicted by Rs. 24,164.48 million. From the above trend analysis, it is quite obvious that KBL loan and advance position is better in all ten years.

#### 4.7.3 Trend Analysis of Net Profit after tax

Under this topic, an effort has been made to calculate the trend values of net profit after tax of KBL for five years from 2007/08 to 2011/12 and forecast next five years till 2016/17. The trend value of net profit after tax and regression line NPAT, dependent variable (Y) on the fiscal year, independent variable (X) are presented in following table for 10 years from 2007/08 to 2016/17.

**Table 4.23**  
**Trend Value of Net Profit after Tax**

(Rs. in Millions)

Year	Actual Value	Trend Value
2007/08	174.93	1,237.80
2008/09	258.38	1,257.20
2009/10	316.54	1,276.60
2010/11	251.24	1,296.00
2011/12	275.51	1,315.40
2012/13		1,334.81
2013/14		1,354.21
2014/15		1,373.61
2015/16		1,393.01

2016/17		1,412.41
<b>Regression line</b>		<b>Y=1276.6+19.402X</b>

(Source: Annual Report of KBL)

Table 4.23 measures the relationship of net profit with the time period. It shows that net profit has positive relationship with the time, and thus net profit increases in each year. As a result, the estimated net profit after tax in the fiscal year 2012/13 will be Rs. 1,334.81 million and in fiscal year 2013/14 will be Rs. 1,354.21 million. Similarly, the bank has expected highest profit of Rs. 1,412.41 million in forthcoming year.

Likewise, the regression line of net profit on fiscal year indicates that the net profit increases by Rs. 19.402 million per year, if other variable remains uniform. Thus it can be concluded that the pace of growth in net profit per year is satisfactory.

**Figure No. 4.19**  
**Trend Value of Net Profit**

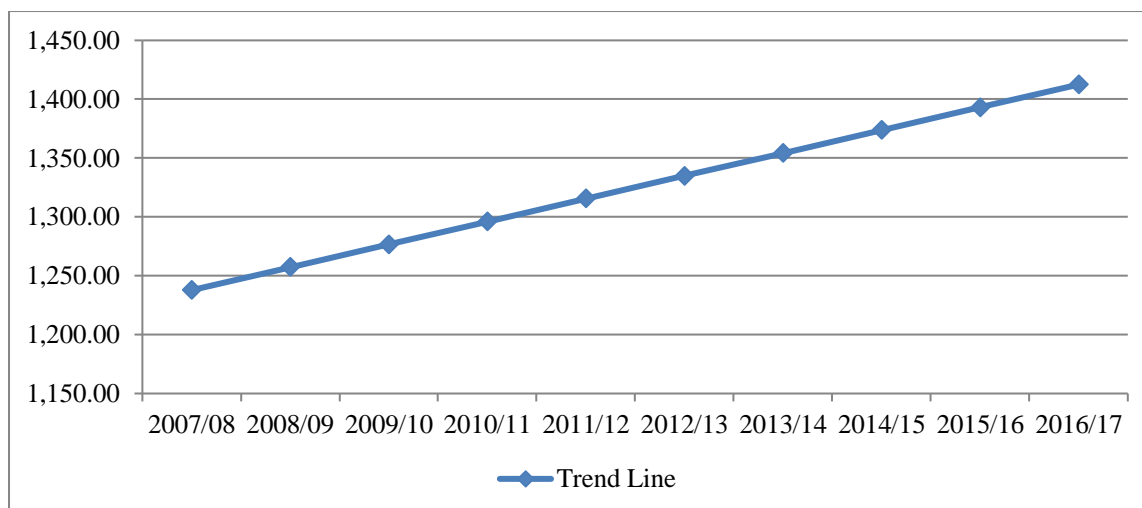


Table 4.19 shows that net profit is in increasing trend. Other things remaining the constant net profit of KBL in 2016/17 is predicted by Rs.1412.41 million. From the above trend analysis, it is quite obvious that KBL net profit position is better in all ten years.

#### 4.8 Major Findings of the Study

The followings are the major findings of the study:

- All the year of study period, the working capital of KBL is positive. The working capital depicts the liquidity position of the organization. It means higher the working capital higher the liquidity of the firm and vice versa. The working capital level of the bank is not constant. Total working capital of the bank was limited to Rs. 5,254.49 million, Rs. 6,134.76 million, Rs. 8,726.07million, Rs.8,574.44 million and Rs.11,402.50 million at the end of FY 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively.

- The current ratio of the bank is in increasing trend which stands 1.42 at FY 2007/08, 1.50 at FY 2008/09, 1.77 at FY 2009/10, 1.75 at 2010/11 and 1.83 at 2011/12 respectively. The average CR of the bank stands at 1.65 over the study period. As stated by the result, the bank has enough liquidity to remain solvent at the ratio of 1.42:1 which is minimum in FY 2007/08. In this case, the bank has enough idle money which cannot generate inflow to the bank.
- Cash and bank balance to current assets ratio of the bank is 5.6 percent in FY 2007/08. After that it started to increase and reached to 9.86 in the of FY 2008/09. Again at the end of FY 2009/10 it was increased and reached to 14.14. However, in FY 2010/11 the ratio decreased to 8.07 percent and again increased to 16.12 percent at the end of study period FY 2011/12. High ratio indicates the idle amount. Hence, it is not so good for the profit oriented organization.
- The cash and bank balance to total deposit ratio excluding fixed deposit of the bank stood 11.01 in FY 2007/08 and increased at the end of FY 2008/09 to 16.15. Further, it continues in FY 2009/10 and reached 27.81. It indicates that how much funds available with the bank to cover its current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. This ratio stands average 20.44 during the study period which is at satisfactory level.
- The saving deposit to total deposit ratio of the bank has been gradually increased in FY 2010/11 and reached up to 37.92 and decreasing at the end of FY 2011/12 to 26.78. It stands at 26.78% in fiscal year 2011/12. This ratio indicates the bank's liquidation position. Higher level of this ratio of the bank indicates to the idle fund too. Firm profitability point of view, the bank should minimize the ratio which is showing decreasing trend in recent fiscal year's. As depicted by the study KBL's position seems satisfactory level over the study period.
- The loan and advance to total deposit ratio of KBL is in increasing trend. The ratio stands 1.28 in FY 2007/08, 1.32 in FY 2008/09, 1.46 in FY 2009/10, 1.44 in FY 2010/11 and 1.411 in FY 2011/12. These ratios indicate the capacity of the bank to mobilization its deposit. As stated by the study the mobilization of deposit of the bank is not so satisfactory level over the study period.
- The loan and advance to fixed deposit ratio of was highest in fiscal year 2008/09 thereby standing at 3.27. During the fiscal year 2011/12 the ratio was 1.98. These ratios indicate the capacity of mobilizing its fixed deposit to loan and advance. From the study, it is fund that the bank has been mobilizing its fixed deposit quite satisfactory.
- The loan and advance to saving deposit ratio of the bank is in increasing trend in the whole study period. These ratios implies that the bank either able to mobilize its saving deposit or not. As per the study, the bank is in satisfactory position over the study period.
- Interest earned to total assets ratio indicates the profitability ratio. This ratio of the bank is quite fluctuating. It was 10.26 percent at FY 2007/08, which is fluctuating in further fiscal year to 7.27

percent, 9.01 percent, 10.83 percent, and 9.53 percent in FY 2008/09, 2009/10, 2010/11 and 2011/12 respectively. It stands at average 9.38percentage over the study period. From the study, it is concluded that the interest earned to total assets ratio of KBL is not so much satisfactory. It means, the bank could not be able to use its total assets properly to earn interest.

- Net profit to total assets ratio of KBL is in fluctuating trend. It was 1.74% in the beginning of the study period. But at the end of FY 2011/12 it reached to 1.08%. It stands at average 1.38% over the study period. The study shows that the bank could not able to utilized its total assets to generate profit.
- Net profit to total deposit ratio of the bank was also in fluctuating trend over the study period, which stands at 3.52% at the end of FY 2007/08. It stands at 2.15% at the end of FY 2011/12. It stands at average 2.70% over the study period. This ratio is used to find out whether the bank could able to mobilize outsider's funds properly or not. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank should mobilize its deposits as efficiently as possible. But for the analysis of KBL, we can easily found that the bank could not able to mobilize its total deposit efficiently.
- The average ratio for the net profit to shareholders equity is 14.92%. This ratio is calculated to evaluate the effectiveness of the owner's investment, which indicates how well the firm has used the resources of the owners. For the study, it can be conclude that the net profit to shareholders equity of the KBL is in satisfactory level.
- Long term debt to net worth ratio of KBL is in fluctuating trend over the study period. The ratio was 258.44%, 275.91%, 425.94%, 318.66% and 402.09% over the FY 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12. The average ratio stands at 336.21% over the study period. If the ratio is high, it indicates the risky and aggressive capital structure for the study; it can be easily shows that the proportion of outsiders claim in total capitalization is higher in KBL.
- Net fixed assets to long term debt ratio of KBL were at 4.26% as an average ratio. The ratios during the study period of five years had been in fluctuating trend. For the consideration of this ratio, it can be concluded that the KBL net fixed assets covers very low portion of long term debt. In other words, large portion of long term debt is used in current assets of the bank.
- The coefficient of correlation between investment on government securities and total deposit is 0.3512, which is not insignificant over the study period.
- The coefficient of correlation between loan and advance and total deposit stands at 0.9417, which is significant. It means there is positive relationship between loan and advances and total deposit of the bank i.e. perfectly correlated.
- The coefficient of correlation between cash and bank balance and current liabilities of KBL is 0.5330, which shows the positive relationship between the factors. By considering the probable error (P.E.) it can be concluded that the value of 'r' is highly significant.

- The coefficient of correlation between loan and advance and net profit is 0.9075. It means high degree of positive relationship between the loan and advance and net profit, which is highly significant.

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# CHAPTER 5

## SUMMARY, CONCLUSION AND RECOMMENDATION

### 5.1 Summary

The development process of a country involves the mobilization and deployment of resources. Financial institutions assist in the economic development of the country and are considered as the catalyst. Commercial banks are the major financial institutions that occupy quite an important place in the framework in the economy development sectors as well as in saving and investment sectors. Commercial banks are the suppliers of finance for trade and industry and play a vital role in the economic and financial life of the country. After the implementation of the open market policy, joint venture commercial banks are opened as private banks. The liberal trade and investment policies have facilitated joint venture banks to invest in Nepal. Joint venture bank has been helpful in transferring foreign investment and advanced technology from one country to another. The establishment of joint venture banks gave a new horizon to the financial sector of the country.

Commercial bank is income oriented, thus proper financial decision-making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions of a bank are concerned with current assets and current liabilities. Working capital management is concerned with current assets and current liabilities. Generally, working capital refers to the difference between current assets and current liabilities. Thus, working capital management has been regarded as one of the conditioning factor in the decision-making issues of commercial banks. The term working capital management closely relates with short-term financing; it is concerned with collection and allocation of resources. Working capital management relates to problems that arise in attempting to manage the current assets, the current liabilities and interrelationships that exist between them.

The main objectives of the study were to evaluate the working capital position as well as financial performance of Kumari Bank Ltd. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of Kumari Bank Limited from the long range view point. To fulfill the objectives of this study and other specific objective as described in chapter one, an appropriate research methodology has been developed which includes the ratio analysis as financial tools and trend analysis, correlation coefficient as statistical tools. The major ratio analysis consists of the liquidity ratio, activity or turnover ratio, profitability ratio and capital structure or leverage ratio. Under these main ratios and their trend position are studied in the chapter four. In order to test the relationship between the various components of working capital, coefficient of correlation 'r' is calculate and analyzed. The necessary data are derived from the balance sheet and profit and loss A/C

of the bank for the period of five years from fiscal years 2007/08 to 2011/12. Now in, this chapter an attempt has been made to present summary, conclusions and some suggestions and recommendations.

## **5.2 Conclusion**

On the basis of the research, the researcher came to the conclusion that the interest was the major sources of income. From the analysis of the financial position of the KBL from the year 2007/08 to 2011/12 the collection of deposits and loan investment are increasing satisfactorily and there is also increasing in operating profit.

The CR of the bank over the five year is 1.65 times on an average. It indicates that the margin for safety for customers has been maintained satisfactorily. The average of the cash and bank balance to current assets ratio is 10.76 percent which indicates that the cash and bank balance proportion with respect to the current assets is moderate. The average cash and bank balance to total deposit ratio stands at 20.44 percent. It is not so satisfactory level over the study period. The saving deposit to total deposit ratio of bank over the five year period is 30.03 percent. This ratio of KBL seems satisfactory level over the study period. Hence, in general the liquidity position of the bank is good enough to meet the short-term obligation.

Large amount of loans and advances are given out of total deposits. The KBL net fixed assets covers very low portion of long term debt. In other words large portion of long term debt is used in current assets of the bank. Long term debt to net worth ratio of the bank is in satisfactory condition. This ratio also implies that the proportion of outsiders claim in total capitalization is higher in KBL. The researcher found that the operating efficiency of the bank is in satisfactory condition. Interest earned in comparison to total assets is not fair enough. Net profit earned in comparison to the total assets and total deposit is relatively low.

## **5.3 Recommendations**

- KBL should promote fixed deposit to lessen the immediate requirement of cash and thus have sound working capital management.
- The bank needs to adopt the best capital structure that will best suit its interest and thus maximizes profitability and liquidity and minimizes cost.
- The bank needs to have highly positive relationship between loan and advances with total deposit and loan and advances with net profit.

- The bank should effectively mobilize its total assets, shareholders' equity and total deposit to maximize its profit and sustain in long run. Also, it needs to reduce its cost of services to maximize their profit.
- To minimize the risk, the bank should use equity capital as well in the same level of debt capital. In other word, the bank should follow moderate policy.
- To minimize the liquidity risk, the bank should follow the cash reserve ratio directed by NRB.
- Considering the cash and bank balance, the bank should increase the portion of cash and bank balance in total assets.
- Finally, expansion of more branches is necessary to collect more deposit. If the services are expanded in most part of the nation, it can collect deposits from different area and can invest those funds in productive sector for generating income. So, KBL should expand its branches more in rural as well as in urban area so that it can provide its services at different part of the county.

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**Appendix One**  
**KUMARI BANK LIMITED**

**Balance Sheet**

**As on Asadh End 2069 (16 July 2012)**

**(Revised according to study need)**

<b>Capital and Liabilities</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Shareholders' Equity	1,624.95	1,785.76	1,785.76	2,213.83	2,377.08
Long Term Debt	4,199.56	4,927.05	7,606.20	7,054.66	9,558.05
Total Deposits (Excluding FD)	8,980.59	11,183.34	10,226.05	10,331.62	12,827.15
Short Term Loans	100.00	293.42	429.74	660.93	5.40
Bills Payable	65.30	70.09	42.31	8.12	20.70
Misc. CL	3,259.14	641.39	682.62	522.78	830.01
<b>Total Liabilities</b>	<b>18,229.54</b>	<b>18,901.05</b>	<b>20,772.68</b>	<b>20,791.94</b>	<b>25,618.39</b>
<b>Assets</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Net fixed assets	222.00	247.83	285.64	306.28	277.27
Other Assets	348.02	330.22	380.26	405.77	255.36
Cash and Bank Balance	989.20	1,806.30	2,843.84	1,620.04	4,043.86
Loan and Advances	11,522.38	14,795.26	14,966.08	14,926.23	18,101.34
Government Securities	1,469.10	1,080.10	1,729.92	2,866.10	2,574.62
Misc. Current Assets	3,678.84	641.34	566.95	667.52	365.94
<b>Total Assets</b>	<b>18,229.54</b>	<b>18,901.05</b>	<b>20,772.69</b>	<b>20,791.94</b>	<b>25,618.39</b>

**Udaya Upadhyay**  
**Acting CEO**

**Noor Pratap J.B. Rana**  
**Chairman**

**Prof. Dr. Rajan B. Paudel**  
**Director**

**Nirmal K. Khatiwada**  
**Head-Finance, Planning & MIS**

**Dr. Shobha Kant Dhakal**  
**Director**

**Uttam P. Bhattarai**  
**Director**

**Rishi Agrawal**  
**Director**

**Rashindra B. Malla**  
**Director**

## Appendix Two

### Coefficient of Correlation between Investment on Government Securities and Total Deposit

(In Million)

Year	Inv. Sec. (x)	Deposits (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	1,469.10	8,980.59	2158254.81	80650996.75	13193384.77
2008/09	1,080.10	11,183.34	1166616.01	125067093.6	12079125.53
2009/10	1,729.92	10,226.05	2992623.206	104572098.6	17690248.42
2010/11	2,866.10	10,331.62	8214529.21	106742371.8	29611456.08
2011/12	2,574.62	12,827.15	6628668.144	164535777.1	33025036.93
	<b>9,719.84</b>	<b>53,548.75</b>	<b>21,160,691.38</b>	<b>581,568,337.9</b>	<b>105,599,251.7</b>

Calculated by excel spreadsheet

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}} = 0.3512$$

$$P.E. = \frac{0.6745 (1-r^2)}{\sqrt{n}} = 0.2644$$

$$6 P.E. = 1.5864$$

### Coefficient of Correlation between Loan and Advance and Total Deposits

(in Million)

Year	Loan and Advance (x)	Deposits (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	11,522.38	8,980.59	132,765,241	80,650,997	103,477,771
2008/09	14,795.26	11,183.34	218,899,718	125,067,094	165,460,423
2009/10	14,966.08	10,226.05	223,983,551	104,572,099	153,043,882
2010/11	14,926.23	10,331.62	222,792,342	106,742,372	154,212,136
2011/12	18,101.34	12,827.15	327,658,510	164,535,777	232,188,603
	<b>74,311.29</b>	<b>53,548.75</b>	<b>1,126,099,362</b>	<b>581,568,338</b>	<b>808,382,816</b>

Calculated by excel spreadsheet

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}} = 0.9471$$

$$P.E. = \frac{0.6745 (1-r^2)}{\sqrt{n}} = 0.0311$$

$$6 P.E. = 0.1866$$

**Coefficient of Correlation between Cash and Bank Balance and Current Liabilities**

(Rs. in Millions)

Year	Cash and Bank Balance (x)	Current Liabilities (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	989.20	12,405.03	978,516.64	153,884,769.30	12,271,055.68
2008/09	1,806.30	12,188.24	3,262,719.69	148,553,194.30	22,015,617.91
2009/10	2,843.84	11,380.72	8,087,425.95	129,520,787.72	32,364,946.76
2010/11	1,620.04	11,523.45	2,624,529.60	132,789,899.90	18,668,449.94
2011/12	4,043.86	13,683.26	16,352,803.70	187,231,604.23	55,333,187.78
	<b>11,303.24</b>	<b>61,180.70</b>	<b>31,305,995.58</b>	<b>751,980,255.45</b>	<b>140,653,258.07</b>

Calculated by excel spreadsheet

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}} = 0.533$$

$$P.E. = \frac{0.6745(1-r^2)}{\sqrt{n}} = 0.02159$$

$$6 P.E. = 0.12954$$

**Coefficient of Correlation between Loan and Advance and Net Profit**

(Rs. in Millions)

Year	Loan and Advance (x)	Net Profit (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	11,522.38	316.52	132,765,240.86	1,00,184.91	36,47,063.72
2008/09	14,795.26	258.38	218,899,718.47	66,759.71	3,822,784.48
2009/10	14,966.08	316.54	223,983,550.57	100,198.84	4,737,392.90
2010/11	14,926.23	251.24	222,792,342.01	63,120.03	3,750,021.25
2011/12	18,101.34	275.51	327,658,509.80	75,903.01	4,987,009.68
	<b>74,311.29</b>	<b>1,418.19</b>	<b>1,126,099,361.71</b>	<b>336,582.09</b>	<b>2,09,44,272.03</b>

Calculated by excel spreadsheet

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}} = 0.9075$$

$$P.E. = \frac{0.6745(1-r^2)}{\sqrt{n}} = 0.0532$$

$$6 P.E. = 0.3192$$

### Appendix Three

#### Trend Analysis of Total Deposit (in Millions)

Year (t)	Mid Value(m)	x = m-2009.5	Actual Value(y)	x <sup>2</sup>	xy	X=m-2009.5	Trend Value=10709.75+684.14x
2007/08	2007.5	(2)	8,980.59	4	(17,961.18)	(2)	9,341.47
2008/09	2008.5	(1)	11,183.34	1	(11,183.34)	(1)	10,025.61
2009/10	2009.5	0	10,226.05	0	0	0	10,709.75
2010/11	2010.5	1	10,331.62	1	10,331.62	1	11,393.89
2011/12	2011.5	2	12,827.15	4	25,654.3	2	12,078.03
2012/13	2012.5					3	12,762.17
2013/14	2013.5					4	13,446.31
2014/15	2014.5					5	14,130.45
2015/16	2015.5					6	14,814.59
2016/17	2016.5					7	15,498.73
		<b>0</b>	<b>53,548.75</b>	<b>10</b>	<b>6841.4</b>		

Calculated by excel spreadsheet:  
b = 684.14  
a = 10709.75

Trend Equation  
 $y = 10709.75 + 684.14 x$

#### Trend Analysis of Loan and Advance

(Rs. in Millions)

Year (t)	Mid-Value (m)	x = m-2009.5	Actual Value (y)	x <sup>2</sup>	xy	x= m-2009.5	Trend Value =14862.258 +1328.889x
2007/08	2007.5	-2	11,522.38	4.00	(23,044.76)	(2)	12,204.48
2008/09	2008.5	-1	14,795.26	1.00	(14,795.26)	(1)	13,533.37
2009/10	2009.5	0	14,966.08	-	-	-	14,862.26
2010/11	2010.5	1	14,926.23	1.00	14,926.23	1	16,191.15
2011/12	2011.5	2	18,101.34	4.00	36,202.68	2	17,520.04
2012/13	2012.5				-	3	18,848.93
2013/14	2013.5				-	4	20,177.81
2014/15	2014.5				-	5	21,506.70
2015/16	2015.5				-	6	22,835.59
2016/17	2016.5				-	7	24,164.48
					<b>13,288.89</b>		

Calculated by excel spreadsheet:  
b = 1,328.889  
a = 14,862.258

Trend Equation  
 $y = 14,862.258 + 1,328.889 x$

### Trend Analysis of net profit

(Rs. in Millions)

Year (t)	Mid-Value	x = m-2009.5	Actual Value (y)	x <sup>2</sup>	xy	x = m-2009.5	Trend Value =1276.6+19.402x
2007/08	2007.5	(2)	174.93	4	(349.86)	(2)	1,237.80
2008/09	2008.5	(1)	258.38	1	(258.38)	(1)	1,257.20
2009/10	2009.5	-	316.54	0	-	-	1,276.60
2010/11	2010.5	1	251.24	1	251.24	1	1,296.00
2011/12	2011.5	2	275.51	4	551.02	2	1,315.40
2012/13	2012.5				-	3	1,334.81
2013/14	2013.5				-	4	1,354.21
2014/15	2014.5				-	5	1,373.61
2015/16	2015.5				-	6	1,393.01
2016/17	2016.5					7	1,412.41
<b>Total</b>			<b>1276.6</b>		<b>194.02</b>		

Calculated by excel spreadsheet:

b = 194.02

a = 1276.6

Trend Equation

$y = 1276.6 + 19.402x$