

CHAPTER-I

INTRODUCTION

1.1 General Background

In the context of Nepalese economy, Commercial banks are the heart of the financial system. Banks hold the deposits of individuals, government establishment and business units and banks make funds available through their lending and investing activities to borrowers, individuals, business firms etc. In doing so, banks assist both the flow of goods and services from the producers to customers. These facts show that the commercial banking system of a nation is very important to the functioning of its economy.

Bank is a financial institution, which primarily deals in borrowing and lending. And Banking is a vital part of national economy, which is also related to financial institution. It can be considered as the catalyst to the economic growth of a country. Development of trade, commerce and industry are the prime requisite for the attainment of the economic political and social goals. For the rapid development of the economy, there should be proper mobilization of resources. Thus, banks and other financial institutions play a vital and crucial role to encourage thrift and discourage hoardings by mobilizing the resources and removing the habit of hoarding. As well as it refers to a business concern this is mainly confined to finance for the development of the trade, commerce and industry.

Working capital is lifeblood and controlling nerve-center of any business. The excess and inadequate working capital is harmful for business. Thus, as the

management of current assets and current liabilities of the business is necessary for day to day operations, it plays the key role in the success and failure of the organization not only in the short-run and in the long run also. Working capital management is not only concerned with current assets and current liabilities but it is also concerned with “all kinds of problems that arise in attempting to manage the current assets, current liabilities and interrelationship that exist between them”. Therefore, management of working capital is not simple one, with the minor mistakes on decision making about the adequacy of the working capital, in a concern may put company into liquidation.

Recently, commercial banks are operated under the Commercial Bank Act 2031, Nepal Rastra Act 2058, Company Act 2053 and Contract Act 2056. Nepal Arab Bank Ltd. (currently known as NABIL) is the first bank established in joint investment in Nepal in 2041 B.S. Nepal Industrial Development Corporation (NIDC) and Agricultural Development Bank (ADB) were only two development banks established before the enactment of Nepal Development Act in 2052 B.S. To perform limited banking activities have been recorded, 31 commercial banks, 84 Development banks, 79 Finance companies, 20 Micro-credit development banks, 34 Co-operatives, 47 NGOs authorized by Nepal Rastra Bank.

The study focuses on managing working capital of the bank in terms of current assets and current liabilities and its contribution in the liquidity of the bank. Working capital is a controlling nerve of centre of every business organization because no business can run smoothly without the proper control upon it.

1.2 Overview of Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard Chartered is a leading international bank, listed on the London, Hong Kong and Mumbai stock exchanges. It has operated for over 150 years in some of the world's most dynamic markets and earns more than 90 percent of its income and profits in Asia, Africa and the Middle East. This geographic focus and commitment to developing deep relationships with clients and customers has driven the Bank's growth in recent years.

With 1,700 offices in 70 markets, Standard Chartered offers exciting and challenging international career opportunities for more than 80,000 staff. It is committed to building a sustainable business over the long term and is trusted worldwide for upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity. The Bank's heritage and values are expressed in its brand promise, 'Here for good'.

With 18 points of representation, 23 ATMs across the country and with more than 400 staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in wholesale and customer banking, catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines, hotels, SME's as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

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

Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank and is the mainstay of the Bank's Values. Standard Chartered throughout its long history has played an active role in supporting those communities in which its customers and staff live. It concentrates on projects that assist children, particularly in the areas of health and education. Environmental projects are also occasionally considered. It supports non-governmental organizations involving charitable community activities. The Group launched two major initiatives in 2003 under its 'Believing in Life' campaign-'Living with HIV/AIDS' and 'Seeing is Believing'.(Annual report of SCBNL; 2009-2010:1)

1.3 Statement of the Problem

This study is related to find out overall view of working capital of the sampled bank. Efficient and effective working capital management can strengthen

bank's position. The problem of the study is to obtain results about interrelation ship between current assets and current liabilities of Standard Chartered Bank Nepal Limited.

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

Working capital management on bank is also difficult as that of manufacturing and non-manufacturing business organization. Commercial banks are great monetary institutions which are playing important role to the general welfare of the economy. The responsibilities of commercial banks are more than any other financial institutions. Bank collects funds from different types of deposits for providing loan and advances to different sector. To get higher return, banks must try to increase funds from deposits as well as their investment. Commercial banks always face the problem for utilizing more deposits as investment fully and productively. The gap between collection of deposits and disbursement of loans increase the cash balance on bank which require paying its large amount of liabilities on its depositor's demand without notice.

A study on the working capital management of the commercial banks would be highly beneficial for pointing out their strength and weakness. Ineffective working capital management is a major problem of banks in Nepal. Similarly, if bank do not have soundness working capital, they have been facing more completion with other banks. Therefore, this study's main problem is that finds out results, conclusions about working capital management of Standard Chartered Bank Nepal Ltd. to better improvement.

Without proper working capital management of any business cannot run in right way. They cannot achieve their objectives. Thus, the following research questions are the major problems that have been identified for the purpose of this study.

- i) What are the major components of current assets?
- ii) Is the composition of working capital appropriate?
- iii) What are the sources of financing of current assets?
- iv) How to measure the size and utilization of working capital?
- v) Has the bank developed and applied short term and long term objectives?
- vi) Does Standard Chartered Bank Nepal Ltd. have specific goals to develop to nation?

1.4 Objectives of the Study

The main objective of this study is to highlight the working capital management and its effectiveness in Nepalese Commercial banks especially in Standard Chartered Bank Nepal Ltd. Working capital management plays vital

role in success or failure of banks. The specific objectives of this study are as follows.

- i) To evaluate working capital of Standard Chartered Bank Nepal Ltd. (SCBNL) and analyze bank's data by using statistical and financial tools.
- ii) To study the position of current assets and current liabilities.
- iii) To analyze the financial position of SCBNL.
- iv) To analyze the size, structure, composition and utilization of working capital of sample bank.

1.5 Significance of the Study

Nepalese commercial banks are operating in the competitive environment. So, the success of commercial bank highly depends on the efficient management of working capital. The success or failure of any organization depends on its strategy which is affected by working capital management. It is relation between current assets and current liabilities. The study has multidimensional significance.

This study is more helpful to aware the shareholders regarding the working capital management i.e. liquidity, profitability and productivity of these bank. The study is also helpful to go deep into the matters as to why the working capital management of their banks is better or worse than their competitors. Among outsiders, mainly the customers, financing agencies, stock exchanges and stock traders are interested in the performance of banks and customers can identify to which bank they should go. This study will be helpful to them while formulating the policy regarding commercial banks.

1.6 Limitations of the Study

Every study is restricted with certain limitations and present study report is not an exceptional. So, it has also common limitations. The following are the major limitations of the present study.

- i) This study is mainly based on secondary data.
- ii) There are in total 31 commercial banks in the financial market. Among them for this study, the sample bank is Standard Chartered Bank Nepal Limited.
- iii) The study follows limited tools such as ratio analysis, mean, standard deviation, coefficient of variation.
- iv) The report has taken only last five years data.
- v) The study is only concentrated in working capital management and its financial performance of SCBNL.

1.7 Organization of the Study

The study report is designed in five chapters, which are as follows.

Chapter-I: Introduction

This chapter describes the basis concept and focus of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, objectives of the study and significance of the study etc.

Chapter-II: Review of Literature

This second chapter assures readers that they are familiar with important research that has been carried out in similar area. This chapter helps to develop and emerge knowledge about concerned study.

Chapter-III: Research Methodology

This chapter refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data and tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of Data

This chapter analyses the related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher is concluded about the performance of the concerned organization for better improvement.

CHAPTER-II

REVIEW OF LITERATURE

The main objective of this chapter is to review the available literature on capital management in the context of Nepalese commercial banks. The chapter is broadly divided into two parts.

- Conceptual Review
- Review of related Studies

2.1 Conceptual Review

This thesis mainly focuses on the working capital management of Nepal's joint venture commercial banks (i.e. Standard Bank Nepal Limited). In simple language, working capital is a firm's investment in short-term assets. It represents that portion of total assets, which circulates from one to another firm in the ordinary conduct of business. But working capital management is concerned with the problem that arises in the management of the current assets and current liabilities. Similarly, the success or failure of any firms depends upon the efficiency of working capital management. Thus, it is lifeblood of any Nepalese organization. Hence, it is rational to state these articles and reports, those may make a clear concept to understand the said topic.

“Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivables and inventories and the administration of current liabilities. It means the working capital management is concerned with the problem that arise in

attempting to manage the current assets, the current liabilities and the inter-relationship that exist between them”.(Van Horne and James C.;1981:373)

Working capital management policy influences the determination of the appropriate level of current assets and their efficient use as well as the choice of the method of financing them, keeping in a view of liquidity, working capital management is not only concerned with current assets and current liabilities but it is also concerned with “all kinds of problems that arises in attempting to manage the current assets, current liabilities and interrelation ship that exists between them”. (Pradhan; 1986:23)

“Working capital management involves decision regarding the account and composition of current assets and to finance these assets. These decisions involve trade-off between risk and profitability”. (Kuchhal; 1988:156)

“Working capital management involves the administration, within policy guidelines of current assets and current liabilities”. (Weston, et al.; 1996:332)

“An effective management of working capital is the primary means of achieving the firm’s goal of adequate liquidity”. (Hampton; 1998:180)

“In practice, the term working capital refers not only to both current assets, but working capital will use this term more broadly to refers to both current assets and current liabilities”.(Jain; 1996:589)

“Working capital is defined as all the short term assets used in daily operation, these consists primarily of cash, marketable securities, account receivable and inventory”.(Hampton; 1998:177)

In this way, working capital management is a continuous process requiring crucial and critical decision. Its main goal is how to manage between current assets and current liabilities of the firm to keep at satisfactory level. The investing and financing decision on WCM is planning, utility and controlling its current assets in terms of the requirement of the banks and it is basically concerned with profitability and liquidity position of the organization.

2.1.1 Concept of Working Capital

Working capital refers to the resources of the firm that are used to conduct operations to do day to day work that makes the business successful. Without current assets such as cash, inventories, receivables etc, the firm cannot run. So, working capital is one of the most important parts in determining whether a firm will be successful and powerful. Generally, there are two concepts of working capital like as Gross working capital and Net working capital.

i) Gross Working Capital

This concept is also known as quantitative concept because of no related with the current liabilities. According to gross concept, working capital refers to the capital invested in current assets of a firm. It focuses only optimum investment in the current assets and financing of current assets. It includes cash, short term securities, inventory and account receivables. “The gross working capital is represented by current assets appearing on the asset side of balance sheet.”(Sharma; 1967:409) “Gross working capital deals with the problems of

managing individual assets in the day to day operation.” (Kuchhal; 1998:129) symbolically, gross working capital is as below.

Gross Working Capital= Total Current Assets

This GWC concept focuses the attention on general two assets of working capital (current assets) management, which are as follows.

- a) Optimum investment in current assets
- b) Financing mix of current assets

ii) Net Working Capital

NWC concept is also known as qualitative concept of working capital. It shows the liquidity position. The net working capital refers to the difference between current assets and current liabilities. “Net working capital can be positive or negative, a negative net working capital occurs when current liabilities are in excess of current assets.”(Pandey; 1992:800) symbolically, NWC is as follows.

$NWC = \text{Total Current Assets} - \text{Total Current Liabilities}$

The NWC concept helps to determine optimum mixture of short term capital and long term capital of business organization which is used to analyze the profitability, liquidity and risk-return position of organization.

2.1.2 Types of Working Capital

There are two types of working capital finding in commercial bank; permanent working capital and variable working capital, which is very necessary for continuous production and sales.

i) Permanent (Fixed) Working Capital

It refers to that level of current assets, which is required on continuous basis over the entire year. It is known as fixed working capital. It comprises of minimum cash balance, minimum level of inventory etc. the nature of PWC is similar to the capital invested in the fixed assets. Requirement of permanent working capital may increase due to inflation or growth in sales. This incremental requirement of permanent working capital can be financed by using internal sources. And minimum working capital of a firm has to provide out of long term sources such as

) Issue of share

) Issue of debenture

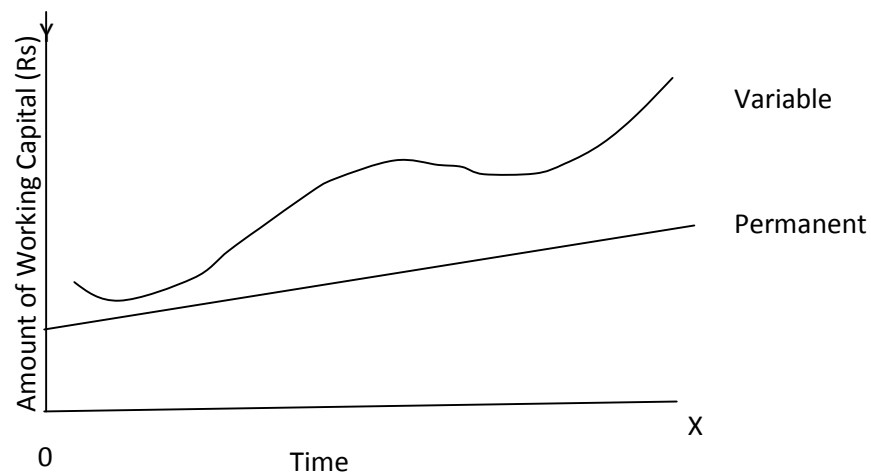
) Retention in various firms i.e. general reserves etc.

ii) Variable (Temporary) Working Capital

It represents that portion of working capital that requires over permanent working capital also known as temporary or seasonal working capital. It is required during peak season only. This portion of working capital can withdraw from the business after end of such season. Therefore, it is desirable to finance the temporary working capital from short term external sources like trade credit, commercial paper, arrangement of others short term loan from the bank.

Above two types of working capital can be shown clearly in figure as below.

Graph 2.1
Types of Working Capital



Source:- I.M. Pandey, 1995: Eighth Edition: 802

2.1.3 Factors Affecting Working Capital

An analysis of relevant factors should be made in order to determine total investment in working capital. These factors are affected in working capital. The influence factors of working capital are pointed out as follows.

- Nature and size of business
- Manufacturing cycle
- Business fluctuation
- Production policy
- Credit policy and availability of credit
- Growth and expansion activities
- Price level change, etc.

2.1.4 Sources of Working Capital

The required of the working capital depends upon the organization objectives, time situation and time period. And the bank has to use combination of one or more sources of capital in management of working capital. According to nature of working capital, following different sources may be available.

i) Sources of fixed working capital

Long term sources are used to meet the requirement for fixed working capital. The main sources are described as follows:

- i) Issues of shares: The banks can issue ordinary and preference share for the collection of fixed working capital. Issues of preference share are better than to issues ordinary share to collect working capital.
- ii) Issues of debenture: When the working capital requirement is permanent and non-seasonal, the corporation or banks can issue debenture, being a fixed burden on corporate earnings.
- iii) Public deposit: The reputed banks or enterprises accept deposit from public for several years. On these deposits certain pre-determined interest should be paid in certain time.
- iv) Plunging back of profit: These important sources of permanent working capital are generated from the business operation in profit.
- v) Special financial institution: The reliable sources of permanent (Fixed) working capital are commercial banks, financial institution and other organized institution. They provide short term or mid-term loan facilities.

ii) Sources of variable working capital

The short term sources are used to meet the requirement of working capital. Some special variable working capital sources are as follows.

- i) Private loans: Taking loans from personal or private sources fulfills the working capital need of the organization.
- ii) Commercial banks: Commercial banks collect small scattered saving from various people and firms, which are invested in industries and business.
- iii) Plunging back of profit: It can be the sources of seasonal working capital in addition to permanent working capital. It is very popular and quick sources of working capital financing.
- iv) Public deposit: It can also be the sources of variable working capital by collecting small scattered saving for operating business.
- v) Financial Institutions: They are established with certain objectives, such as NIDB, ADB, RDB etc
- vi) Trade credit: It is the most popular sources of working capital.

2.1.5 Need for Working Capital

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

earned naturally depends upon the magnitude of sales among the other things. For constant operation of business, every firm needs to hold the working capital components, cash, receivables, inventory etc; therefore, every firm needs working capital to meet the following motives. (Pandey; 1995:809)

a) Transaction Motive

It requires a firm to hold cash and inventories to facilitate smooth production and sales operations in regular. Thus, the firm needs working capital to meet the transaction motive.

b) Precautionary Motive

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

c) Speculative Motive

It refers to the desire of firm to take advantage of following opportunities:

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

Thus, the firm needs the working capital to meet the speculative motive. (Van Horne and Wachowicz; 1999:220)

2.1.6 Financing of Working Capital

Every organization requires additional asset to grow business activities and without finance, organization cannot run. So, the most important function of finance manager is to determine the level of working capital and to decide how it is to be financed. Generally, there are three types of financing of working capital.

a) Long term Financing

This financing's sources are ordinary share, debenture, preference share, retained earnings and long term debts. It has high liquidity and low profitability.

b) Short term Financing

Its sources are trade credit, bank credit, loan arrangement, overdraft arrangement, commercial papers.

c) Spontaneous Financing

Its two major sources are trade credit (i.e. credit and bills payable) and accruals. Usually, financial manager would like to finance its working capital with spontaneous financing as much as possible due to free trade credit of cost. But in practical, financing of working capital depends upon the working capital policy.

2.1.7 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. Similarly, it refers to decision relating to the target level investment and the financing mix of current assets working capital policy concern with two basic issues among firms balance sheet item. These two policies are regarding, "a) what is the approximate level of current assets; both in the total and by specific accounts and b) how should the required level of current assets should be financed?" (Weston, Basley and Brigham; 1996:334)

Every organization adopts different financing policy according to the financial manager's attitude toward the risk-return trade-off. One of the most important decisions of financial manager how much current liabilities should be used to finance current assets. So, working capital policy is related to the level of each category of current assets and financing of current liabilities on it.

i) Current Assets Investment Policy

It refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policy which are as follows.

a) Fat cat Policy

It is also known as relaxed working capital policy. This policy creates longer inventory, longer receivables collection and cash conversion cycle. It is the policy under which relatively large amounts of cash and marketable securities and inventories are carried and sales are stimulated by a liberal credit policy which results in a high level of receivables.

b) Lean and Mean Policy

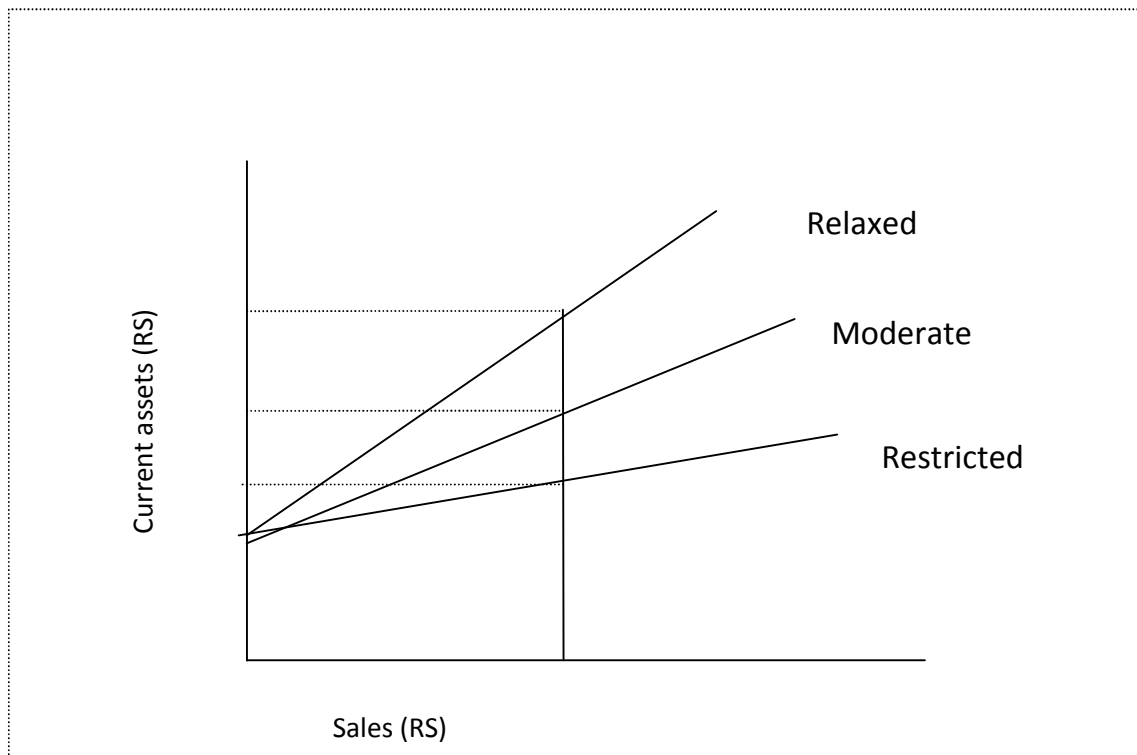
It is also known as restricted current assets investment policy. This is the policy under which holdings of cash and marketable securities, inventories and receivables are minimized. (Weston and Brigham; 1996:334)

c) Moderate Policy

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

Above current assets investment policy can be shown clearly in figure as follows.

Graph 2.2
Current Assets Investment Policy



Sources:- Weston, Basley and Brigham, Essential of managerial finance; 1996:345

ii) Current Assets Financing Policy

“Deciding how should current liabilities be used to finance current assets is one of the most important decisions concerning working capital management.”(Pradhan; 1986:45) Long term as well as short term funds involves cost and cost of financing is a deciding factor in the use of different types of funds. This policy deals with the optimum financing mix of short term and long term liabilities. There are three variants namely aggressive, conservative and matching policies of current assets financing.

a) Aggressive Policy

In this policy, the firm finances not only temporary current assets but also a part of the permanent current assets with short term financing sources and rest with long term financing sources. It is also known as namely Tight policy of current assets financing. Under this policy have higher the risk, higher the return and low liquidity position.

b) Conservative Policy

Conservative approach “refers to a financing mix which is less risky leading to low profitability and high liquidity, the approach would be to finance all funds required from long term funds.”(Pradhan; 1986:67) In conservative policy, the firm uses long term financing to finance not only fixed assets and permanent current assets, but also part of temporary current assets i.e. with short term financing. This policy leads to high level of current assets, with long conversion cycle, low level of current liabilities higher interest cost. In conclusion, the risk and return are lower than that of aggressive one.

c) Maturity Matching Policy

It is self-liquidity approach as well as Hedging firm finances the permanent current assets with long term financing and temporary with short term financing. It lies between the aggressive and conservative policies. “It lies in between a low-liquidity, high profitability case and a high-liquidity low profitability case.” (Pradhan; 1986:71)

In conclusion, conservative policy refers to that policy under which a firm keeps high level of investment in working capital variables. As well as aggressive policy just follows the reverse policy that of former policy. But moderate policy follows the medium way between aggressive and conservative working capital policy.

2.1.8 Goals of Working Capital Policies

Working capital policies are the basic guidelines or strategies to achieve target financial performance in relation to working capital. Followings are the firm’s goals of working capital. (Hampton; 1998:178)

i) Adequate Liquidity: Its important goal is to achieve adequate liquidity for the conduct of day to day operation.

ii) Minimization of Risk: Relatively current liabilities are the sources of financing which may involve low costs. The matching of assets and liabilities among current is a task of minimizing the risk.

iii) Contribute to Maximum Firm's Value: The investment of excess cash, minimization of inventories and speedy collection of receivables and elimination of unnecessary and costly short term financing all contribute to maximizing the value of the firm.

2.1.9 Working Capital Cycle

Working capital cycle is the business lifeblood, every manager's primary task is to help keep it flowing and to use the cash flow to generate profits. If a business is operating profitably, then it should, in theory, generate cash surpluses. If it does not generate surpluses, the business will eventually run out of cash and expire.

The period of time, working capital cycle indicates between the points at which, cash begins to be expended on the production of a product and the collection from customers. The faster a business expends the more cash, it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within business. Good management of working capital will generate cash will help to improve profits and reduce risks. There are two element in the business cycle that absorb cash inventory (stocks and work-in-progress) and receivables (debtors owing money). The main sources of cash are payables (our creditors) and equity loans

Each component of working capital (namely inventory, receivables and payables) has two dimensions 'TIME' and 'MONEY' when it comes to managing working capital 'TIME IS MONEY.' If you get money to move faster around the cycle (e.g. collect money due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to

sales) the business will generate more cash or it will need to borrow less money to fund working capital. Consequently, you could reduce the cost of bank interest or you have additional free money available to support additional sales growth or investment. Similarly, if you can negotiate improved terms with suppliers e.g. get longer credit or an increased credit limit; you effectively create free finance to help fund future sales. (www.planware.org)

2.1.10 Issues of Working Capital Management

The management spends time and resources on working capital management. But some organizations are successful to earn more profit through balance working capital policy. Generally, working capital management faces the following issues.

- Size, structure and utilization of working capital to maintain size of each type of current assets
- Sources of financing short or long term and debt or equity financing
- Cost of financing; cost of short term Vs long term financing
- Risk associated with types of financing tradeoff between cost and risk
- Maintain of current ratio, minimizing the risk of cash flow problem

2.1.11 Significance of Working Capital Management

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

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

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

-) The optimum level of investment in current assts
-) The appropriate mix of short term and long term financing used to support this investment in current assets.

In turn, these decisions are influenced by the tradeoff that must be made between profitability and risk. Lowering the level of investment in current assets, while still being able to support sales, would lead to an increase in the firm's return on total assets. (Van Horne and Wachowiz; 1999:204)

2.2 Review of Related Studies

There are various studies concerned with working capital management to review for this research study which helps to create clear concept about WCM and its situation in commercial banks. These are as follows.

2.2.1 Review of Books/Articles

This section is also very important for literature review of working capital. For the study of this section, much latest information can be derived about related field. This part is mainly focused on the review of journals and research studies published by different management experts about working capital management.

Books:

Weston and Brigham (1984) have given some theoretical insights into working capital management after their various research studies on it. The bond conceptual findings of their study provide sound knowledge and guidance for the further study in the field of management of working capital in any enterprise and naturally to this study as well. They explain in the beginning concept of working capital, working capital policy, requirement for external working capital financing. In the next chapter, they have dealt with the various components of working capital and their effective management techniques. The components of working capital they have dealt with are cash, marketable securities, receivable and inventory. For the efficient management of cash, they have explained the different cash management models. They have also explained the major sources and forms of short term financing, such as trade credit, loan from commercial banks and commercial paper.

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

Pandey (1999) has described some conceptual ingredients which are based on his various research studies. He has described various aspects of working capital management. He has divided working capital management into five chapters. The first chapter deals with the concept of working capital, need for working capital, determinants of working capital, and issues in working capital management, estimation working capital needs and financing current assets. In the second chapter, he has described the management of receivables, in which he has dealt with goals of credit management, optimum credit policy, aspects of credit policy and credit procedures for individual accounts. In the third chapter on inventory management, he has described the need to hold inventories, objectives of inventory management, inventory management techniques, selective inventory control technique and financial manager's role in inventory management. In the fourth chapter, he has described the management of cash and marketable securities, where he has dealt with facts of cash management, motives for holding cash, cash planning, managing the cash flows, determining the optimum cash balance, investment in marketable securities. Lastly, in the

fifth chapter, he has described of financing of working capital with various methods such as trade credit, bank finance and commercial paper.

Articles:

Nunn (1981) examined why firms have different level of working capital. The paper dealt with the strategic determinant of working capital (cash, short term securities, account receivable and inventory) on a product line basis. The factors analysis is to test 1666 variables against the working capital policies of over 1700 business or product lines from 1971 to 1978. His final multiple regression models contained 19 variables pertaining to productions, sales, accounting, competitive position and industry factors.

Working Capital Model = Sales+ Production +Accounting+ Competitive
Position + Industry factors

This model was used to explain why working capital levels differ between firms both within and across industries.

Shrestha (1982) in his study “Working Capital Management in public Enterprises and study the financial results and constraints” has considered ten-selected public enterprises and studied the working capital management of those public enterprises. The study states the managers often lack basic knowledge of working capital and its overall impact on the operative efficiency and financial viability of public enterprises. This study has focused on liquidity, turnover and profitability position of sampled enterprise. Based on those factors, the study has brought certain policy issues of Nepalese public enterprise. Such as lack of suitable financial planning, negligence toward working capital management, deviation liquidity and turnover of assets and

inability to show positive relationship between turnover and return on net working capital. This study has suggested the measures to overcome such policy issues like identifications of needed funds, regular checks and development of management information system, positive attitude towards risk and profit and determination of right combination of short term and long term sources of finance working capital requirements.

Weinurb and Visscher (1998) have carried out a study on industry practice relating to aggressive, conservative working capital policies. This study looked at ten diverse industry groups over an extend time period to examine the relative relationship between aggressive and conservative working capital practices. Results of strongly show that the industries had significantly different current assets management policies. Additionally, the relative industry ranking of the aggressive/conservative liability management was also significantly different. Interestingly, it is used when there is a high and significant negative correlation between industry current assets and liability policies. Relatively, aggressive working capital management seems balanced by conservative working capital financial management.

Zeng (2002) made an empirical study on the working capital channel and cross-sector co-movement. The paper studied cross-sector co-movement, one of the defining characteristic of business cycle, in a monetary framework. The study argues that monetary factors might be important for understanding this phenomenon through a working capital channel. The study showed that in a strictly portfolio adjustment model where firm borrow to finance working capital, appositive money supply shock drives the nominal interest rate down, thereby stimulating firm's borrowing and causing employment to rise in different sectors. A positive aggressive technology shock can also drive the

nominal interest rate down upon impact and reduce co-movement when the elasticity of labour supply is large.

Acharya (1985), in his article “Problems and Implement in the Management of Working Capital in Nepalese Enterprises” has defined the two major problem i.e. operational problems and organizational problems, regarding the working capital management in Nepalese public enterprises. The operational problems; he found are increase of current liabilities than 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 than transmutation of working capital employed to sales, absent of apathetic management information system. Break-even analysis, funds flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally, monitoring of the proper functioning of working capital management has never been considered 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 under utilization of capacity.

Pradhan (1988), in his article “The Demand for Working Capital by Nepalese Corporation” has analyzed the selected nine manufacturing public corporation with the 12 years data from 1973-1984. Regression equation has been adopted for the analysis. His study has summarized that the earlier studies concerning about the demand for cash and inventories by business firm did not report unanimous findings. A lot of controversies exist respect to the presence of

economics of scale, roles of capital cost, capacity utilization rates and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The pooled regression result shows the presence of economics of scale with respect to the demand for working capital and its various components. The regression result suggests strongly that the demand for working capital and its components is a function of both sales and their capital cost. The estimated results show that the inclusion of capacity utilization variable in the model seems to have contributed to the demand function for 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) in his article, “Spontaneous Sources Working Capital Management” has defined the three major sources of working capital i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing 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 in future for working capital management. He has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by way of debt financing, the company should have to

bear interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital will better to working capital in order to improve its performance. Consequently, in a changed economic scenario, every company should realize that inability to manage working capital might land them in a vicious circle that can be hard to get out from. It is indeed essential for industries to tighten their belts and checks their financial stability to face and stand in forthcoming competitive day.

2.2.2 Review of Previous Thesis

There are various thesis concerned with working capital management. Some previous thesis is entitled to review as under.

Kunwar (2000) has carried out a research on “Working Capital Management of pharmaceutical Industry of Nepal with Reference to Royal Drugs Limited.” The study has used statistical as well as financial tools to analyze the statement of 2049/50 to 2054/55. The main objective of this study is to analyze empirical testing affecting working capital of Royal Drugs Limited as well as to know whether adequacy of working capital depends upon the nature of financing current assets or not. The major findings of this study are:

-) It has used more long term sources of financing than short term sources and followed conservative working capital policy.
-) The major components of current assets in Royal Drugs Limited are cash and bank balance, receivables, inventory. Among these current assets inventory holds largest portion of current assets.
-) Company cannot efficiency utilize current assets and there is also inefficient management of receivable policy.

) Liquidity position is satisfactory whereas return position is not satisfactory due to negative return.

This study has suggested that the company should determine appropriate financing sources. Company should reduce inventory and receivable level for adjusting with sales and production level. To balance them company should improve marketing and credit policy.

Aryal (2002) has done a research on “A study on Working Capital Management of Nepal Telecommunication Corporation.” The specific objectives of this study are to know how far NTC is able to utilize its current assets properly. This study has calculated various financial ratios by taking five years secondary data of NTC.

From the analytical study, the study has found that

-) There is high liquidity in NTC.
-) Cash and bank balance holds large amount of current assets.
-) It has followed conservative financing policy.
-) Turnover ratios of company are not satisfied, profitability position is not satisfied but liquidity condition of NTC is favourable.

On the basis of above findings, this study has suggested that the company should optimize its liquidity position, concentrate in the collection period. Again this study has given advice to apply cash management for the optimal cash balance and excess cash can be invested in marketable securities.

Ghimire (2003) has done a research on “Working Capital Management of selected Manufacturing Company- Listed in Nepal Stock Exchange.” The study covers five years historical data from 1997 to 2001 of seven manufacturing companies. This study has focused on the issue of working capital management in relation to selected manufacturing companies. The main objectives of this study are to study working capital practices of listed Nepalese manufacturing companies, to analysis the variable affecting WCM and to determine the issue and gaps in WCM of these companies.

For finding the solution to above problem, the study has the following major findings.

-) Out of seven, five companies have followed a moderate working capital policy.
-) The overall average inventory, receivable, payable and cash conversion period are high.
-) Correlation coefficients between various components of working capital with sales are moderate.
-) Overall profitability of these selected manufacturing companies is positive, on the other hand, he has found some issues and gaps i.e. inefficient current assets management, missing working capital policy, high level cost, excessive borrowing weak liquidity position, high conversion cycle and management inefficiencies.

At last, the study has suggested that manufacturing companies should make a quarterly working capital plan with effective working capital management. Further they should improve liquidity position, adopt appropriate financing

policy, prepare effective sales plan, develop efficiency of personal and staff and develop appropriate information system.

Lamsal (2004) has conducted research study on “A comparative study of working capital management of NABIL and Standard Chartered Bank Nepal Limited.” The main objectives are as follows.

-) 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 both banks.
-) To analyze the comparative study of working capital management between NABIL and SCBNL.

Based on his findings, the Standard Chartered Bank Nepal Limited should seriously adjust its policy of investment on loan and advances with collected funds and increase their proportion of loan and advances in total current assets. Fixed deposits and saving deposits turnover position are also not satisfactory on both banks. Therefore, NABIL as well as SCBNL should give proper attention on collection of over-dated loan and advances and utilization of idle fund as well as loan and advances. Interest earned to total assets ratio is higher on NABIL but net profit ratios are less than SCBNL. It is due to higher cost on NABIL. By adopting the matching working capital management policy instead of adopting conservative working capital policy NABIL as well as SCBNL could improve in its profitability in the short-run as well as long-run. The major components of current assets in NABIL and SCBNL are cash and bank balance, loan and advance and government securities.

-) The liquidity position of SCBNL is better than NABIL.
-) The turnover position of NABIL has better than SCBNL. The NABIL has better utilization of deposits in income generating activity than SCBNL.
-) Long term debt to net worth ratio of NABIL is always higher than SCBNL on that study period.
-) Net profit to total assets ratio and net profit to total deposit ratios are always higher on SCBNL than NABIL. Cost of services to total assets ratio of NABIL is always higher than the same of SCBNL on the study period. The average value of interest earned to total assets ratio of NABIL is higher than SCBNL.

Yadav (2006) has conducted the research on “Working Capital Management of Listed in Nepal Stock Exchange.” The study has used financial as well as statistical tools to analysis the financial data of 2000-2005. The study has also used primary and secondary sources of data. The main objective of this study is to apprise the working capital management of listed hotels and to find out the relationship between the different variables of working capital. The major findings of this study are as below:

-) Yak and Yeti, oriental and Soaltee crowne plaza are suffering from excess of current assets over the current liabilities.
-) Yak and Yeti has followed conservative financing policy whereas soaltee and oriented have followed aggressive financing policy.
-) The relationship between current assets and current liabilities, current assets and net sales and net working capital are found negative and receivables and net sales are positive of all selected hotels.
-) From the primary information, it has also found that oriental and yak and yeti are not implying any credit standard policy and credit payable policy.

) The liquidity and profitability position of all selected hotels is satisfactory.

This study has suggested that in the view of oriental and yak and yeti. Good financing planning is important to make better working capital management system. These three hotels should manage receivable and inventory conversion period by applying suitable credit policy. Lastly, this study mention about operating cost, which must be reduced in proper way so that the hotels can maximize their profitability and shareholder's return.

Shrestha (2007) has done a research on "A study on Working Capital Management of Nepal Lube Oil Limited." The major objectives of this study are as follows.

) To examine the working capital position of NLOL.

) To examine the structure of working capital.

) To assess the financial liquidity position of the NLOL.

The major findings of this study are as follows. The company had lesser participation of fixed assets in total assets. Cash holds of the company was relatively a small proportion total assets and inventory held largest portion indicating unsounded inventory management. The company has insufficient in collecting receivable. Major recommendations of this study are;

) NLOL management determines certain rate of return on its investment and setup sales target.

) The company should always concern about the current assets and current liabilities and regarding check should make.

This study has also given the advice that the company should give attention to manpower planning should avoid both under and over-staffing.

Dhungana (2009) has conducted research on “Working Capital Management of Unilever Nepal Limited.” The main objectives are:

-) To assess the liquidity and profitability position of ULNL.
-) To determine the structure and utilization of working capital of ULNL.
-) To provide appropriate recommendation.

The major findings of this study are;

-) Current structure levels of ULNL are not stable.
-) Current assets turnover ratio has found increasing trend.
-) The company has not been able to convert current assets quickly in cash in order to meet current liabilities. The current ratio and quick ratio revealed and unsatisfactory liquidity position of ULNL and thereafter to increase the financial position for working capital.
-) ULNL is following moderate working capital financing mix policy.

2.3 Research Gap

Many research studies have been conducted by the different students, experts and researchers about working capital management. Similarly, there have been found numerous research studies on financial companies and public enterprises regarding working capital. Some studies are related to a case study and some others are comparative in nature. But A case study of working capital management in single commercial bank cannot be found at present easily.

Therefore, to fulfill this gap, this research is selected. To complete this research work, many books, journals, articles and various published dissertations are followed as guideline to make the research easier and smooth. This research includes different tools like ratio analysis, correlation analysis and trend analysis as specific tools. Thus, the research study is made on “A case study of Standard Chartered Bank Nepal Limited on working capital Management” to find out results on detail about working capital management. This study can be beneficial to all the concerned parties and people as well.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter is concerned with the research methodology which is the way to systematically solve the research problem. In other words, Research Methodology refers to the systematic and meticulous study and investigation on the particular subject matter. It describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. The fundamental purpose of this study is to provide an overview on the working capital management and analysis of the Standard Chartered Bank Nepal Limited. This chapter consists of a brief explanation of research design, nature and sources of data, data collection technique and data analysis tools used for analyzing data.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. It is also a plan, structure and strategy of investigation conceived so as to obtain answers to research questions. This study aims to examine accurately upon the working capital (or current assets and current liabilities) and its impact on overall financial position of Standard Chartered Bank Nepal Limited. Hence, research design of this study is based on descriptive and analytical method.

3.2 Population and Sample

The entire number of commercial bank functioning is the population of this study. There are recently 31 commercial banks operations in the country. For the analysis of working capital management and analysis only one bank i.e. Standard Chartered Bank Nepal Limited is taken purposively as the sample.

3.3 Sources of Data

The data used in this study are based on primary and secondary in nature. Published annual reports of the concerned banks are taken as basic source of data. For the purpose of study, booklets magazines, newspapers have been referred. Similarly, published balance sheets, profit and loss a/c and other related statements of account as well as annual report of concerned bank have also been collected for the last five years for this research topic.

3.4 Data Collection Technique

It indicated how to collect data or sources of data. Necessary and required data were collected from the head office of Standard Chartered Bank Nepal Limited located at New Baneshwor, Kathmandu where concerned personnel of the respected department were in contact. For the preparation of this report, both the primary and secondary data were used. For primary data interview, field visit and personal observation have been considered for gathering the information. And for secondary data, annual report of SCBNL and necessary data have been collected by its head office as well as articles, journals etc have been collected mainly Centre Library of Tribhuvan University. The concerned personnel provided all the consolidated data records as per the requirement of the report. The collected data were classified and tabulated to the need of the study.

3.5 Data Analysis Tools

Relevant statistical tools and financial tools are used to find out the best appropriate outcomes such as ratio analysis, standard deviation, coefficient of variance, coefficient of correlation, t-statistics etc. For presentation purpose, different types of tables, charts, figures and graphs are used as per necessary.

3.5.1 Financial Tools

Financial analysis is the process of identifying the financial strengths and weakness of the organization. And financial ratios have been systematically used to analyze and interpret the financial statements of the organization. The financial tools used in this study are as follows:

3.5.1.1 Liquidity Ratios

This ratio measures the liquidity position and short term solvency of the firm indicating the company's ability to meet short term obligation. The current ratio and quick ratio measure the liquidity position of the company. The liquidity ratios calculated in this study are as follows.

Current Ratio: It is the relationship between current assets and current liabilities. Higher current ratio indicates better liquidity position.

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

Quick Ratio: It provides the relationship between quick assets with current liabilities. Higher quick ratio indicates favourable situation of organization.

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

Quick Assets = Current Assets – Stock - Prepaid

Cash Reserve Ratio: This ratio measures the percentage of most liquid fund with the bank to take immediate payment to the depositor.

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total deposit}}$$

3.5.1.2 Capital Structure Ratios

This ratio shows the long term solvency or liquidity position of a firm. It is also known as leverage ratio or solvency ratio. The capital structure ratios calculated in this study are as follows.

Debt to Total Capital Ratio: It shows the quantitative relationship between debt and capital employed of a company.

$$\text{Debt to Total Capital Ratio} = \frac{\text{Total Debts}}{\text{Total Capital}}$$

Total Debts = Long term Debt + Current Liabilities

Capital Employed = Shareholder's equity + Long term Debt

Total Capital = Capital Employed + Current Liabilities

Loan and Advances to Current Assets Ratio: It measures the extent to which the banks are successful in utilizing the outsider's funds for the profit generating purpose.

$$\text{Loan and Advances to current Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

3.5.1.3 Turnover Ratios

This ratio is used to evaluate the efficiency with which the firm manages and utilizes its assets. It describes the relationship between the firm's level of operations and assets needed to sustain the activity. These turnover ratios are calculated as below.

Loan and Advances to Total Deposit Ratio: It assesses to what extent the bankers are able to utilize the depositor's fund to earn profit by providing loans and advances.

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

Loan and Advances to Fixed Deposit Ratio: It measures how much amount is used in loans and advances in comparison to fixed deposits.

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

Loan and Advances to Savings Deposit Ratio: It is also used for the purpose of measuring utilization of savings deposit in generating revenue by giving loan and advances to the client.

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

3.5.1.4 Profitability Ratios

This ratio measures the operating profitability and reflects the overall efficiency and effectiveness of management. It indicates the degree of success in achieving desired profit. These profitability ratios are calculated as below.

Net Profit to Total Assets Ratio: It is useful in measuring the profitability of all financial resources invested compared to total assets of a firm.

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

Net Profit to Total Deposit Ratio: It measures the percentage of profit earned from the utilization of the total deposits. Higher ratio indicates the return from investment on loans and vice-versa.

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

Return on Loan and Advances: It shows that return on loan and advances. Higher ratio of net income to loan and advances is better.

$$\text{Return on Loan and Advances} = \frac{\text{Net profit}}{\text{Loan and Advances}}$$

Return on Capital Employed: It shows how well the firm has used the economic resources received from all the investors to earn profit.

$$\text{Return on Capital Employed} = \frac{\text{Net Profit}}{\text{Capital Employed}}$$

3.5.2 Statistical Tools

Statistical analysis is also the one process of identifying strength and weakness position of organization. Statistical tools such as mean, standard deviation, coefficient of correlation, trend analysis etc are used to find out results in this study as follows.

- a) **Arithmetic Mean:** It is a single value within the range of the data that is used to represent all the values in the series.

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

Where,

$$\bar{x} = \text{Arithmetic Mean}$$

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

n = Number of terms

- b) **Standard Deviation:** It is a function of the difference between each individual score and the overall mean score. It measures the dispersion or variability around the mean. Standard deviation is superior to the mean deviation.

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

Where,

σ = Standard Deviation

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

n = Number of items

- c) **Coefficient of Variation:** It is a relative measure of dispersion and is defined as the ratio of the standard deviation divided by the mean. The larger the coefficient of variation is the greater the risk relative to the average.

$$CV = \frac{\dagger}{\bar{x}} \times 100$$

Where,

CV = Coefficient of Variations

† = Standard Deviation

\bar{x} = Mean

d) Coefficient of Correlation: It measures the degree of relationship between two sets of figures. Its result is always between +1 and -1.

$$\text{Coefficient of correlation} = \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

e) Probable Error (P.E.): The probable error is an old measure of ascertaining the reliability of the value of Pearsonian Coefficient of Correlation. It is used to test whether the calculated value of sample correlation coefficient is significant or not. Probable error of the coefficient of correlation can also be calculated from S.E. of the coefficient of correlation by the following formula.

$$P.E. (r) = 0.6745 \times S.E. (r)$$

$$= 0.6745 \times \frac{1 Z r^2}{\sqrt{n}}$$

Where,

P.E. = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observations

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter implies the presentation and analysis of data by using of various financial and statistical tools. As well as it is related to quantitative analysis of various ratios. Some quality-oriented analysis has also been done in order to make the result realistic and complete to the possible extent. The major ratios for this chapter are liquidity ratios, capital structure ratios, profitability ratios and turnover ratios. And the major statistical tools are standard deviation, coefficient of correlation, coefficient of variation, trend analysis etc. which helps to obtain financial strength or financial weakness position of company by applying various tools and techniques.

4.1 Composition of Working Capital

Every bank has to maintain the appropriate level of working capital to run the business smoothly. For day to day business operation, different types of current assets are required. Which is also played vital role for success or failure of any business. The main components of current assets at SCBNL are cash and bank balance, money at call and short notice, short term investment, loans and advances and other current assets. In this study, cash and bank balances are concerned Balance with Nepal Rastra Bank and Balance Banks/Financial Institutions. Similarly, the investment of SCBNL is assumed as short term investment for this study period. These other current assets include sundry debtors, prepayments, cash in transit, accrued interest on loan etc. this study is analyzed the level of working capital as year-wise.

Table 4.1
Components of Current Assets of SCBNL

(Rs in Million)

Fiscal Year	Cash & Bank Balances	Money at call and Short Notice	Short term Investment	Loans and Advances	Other Current Assets	Total Current Assets
2062/63	1,276.24	1,977.27	12,847.54	8,935.42	627.82	25,664.29
2063/64	2,021.02	1,761.15	13,553.23	10,502.64	608.83	28,446.87
2064/65	2,050.24	2,197.54	13,902.82	13,718.60	1,308.12	33,177.32
2065/66	3,137.16	2,055.55	20,236.12	13,679.76	784.29	39,892.88
2066/67	1,929.31	1,669.46	19,847.51	15,956.96	660.03	40,063.27
Averag	2,082.79	1,932.19	16,077.44	12,558.68	797.82	33,448.93

Sources: Appendix 1

Above table 4.1 shows that SCBNL has the highest level of current assets of Rs 40,063.27 million in the year 2066/67 and the lowest level of current assets of Rs 25,664.29 million in the year 2062/63. On average it holds the level of current assets of Rs33, 448.93 million.

The components of current assets of SCBNL has included cash and bank balances, money at call and short notice, short term investment, loans and advances and other current assets. In the fiscal year 2062/63, the bank has the lowest level of cash and bank balances, short term investment and loans and advances but it has highest level of these components in 2065/66, 2065/66 and 2066/67 respectively. Similarly, in 2064/65, SCBNL has highest level of

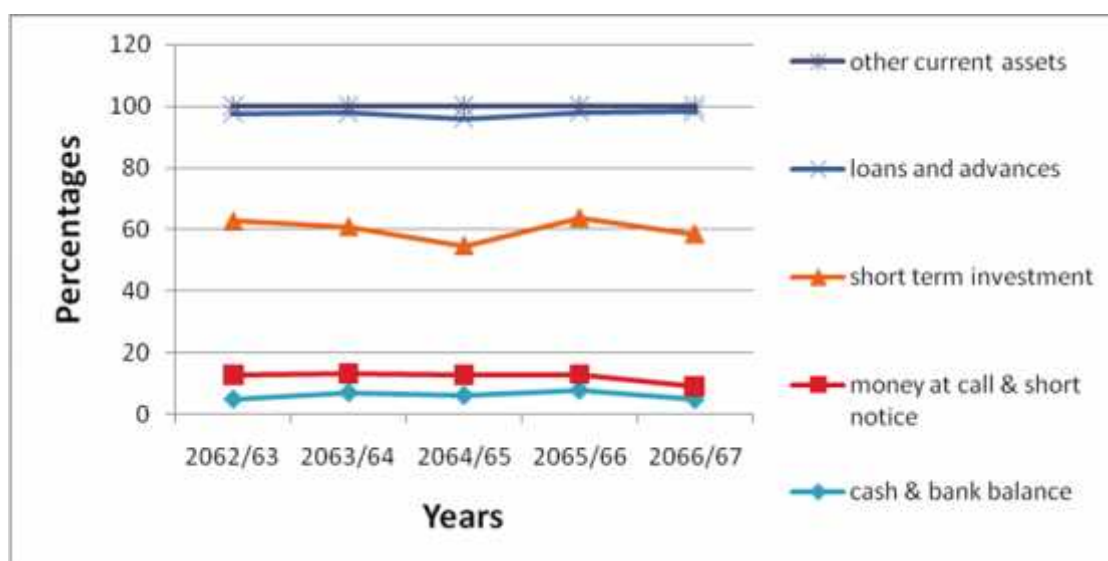
money at call and short notice and other current assets and lowest level of these components in 2066/67 and 2063/64 respectively.

Table 4.2
Components of Current Assets of SCBNL
(in Percentage)

Fiscal Year	Cash & Bank Balances	Money at call and Short	Short term Investment	Loans and Advance	Other Current Assets	Total Current Assets
2062/63	4.97	7.70	50.06	34.82	2.45	100
2063/64	7.10	6.19	47.64	36.92	2.14	100
2064/65	6.18	6.62	41.90	41.35	3.94	100
2065/66	7.86	5.15	50.73	34.29	1.97	100
2066/67	4.82	4.17	49.53	39.83	1.65	100
Average	6.23	5.78	48.07	37.55	2.39	100

Sources: Appendix 1

Graph 4.1
Components of Current Assets of SCBNL

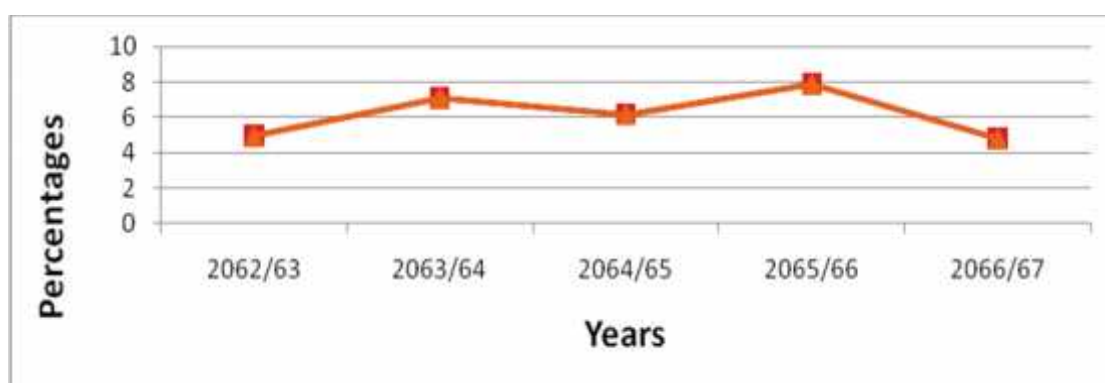


Above table 4.2 and graph 4.1 shows that SCBNL has the highest level of Money at call and Short Notice of 7.70% in the fiscal year 2062/63 and lowest level of it of 4.17% in 2066/67. Similarly in 2065/66, the bank obtains highest level of Cash and Bank Balances and Short term Investment of 7.86% and 50.73% respectively. But these components have lowest level of 4.82% and 41.90% in fiscal year 2066/67 and 2064/65 respectively. SCBNL has highest level of Loans and Advances and other Current Assets in fiscal year 2064/65 and lowest level of it in fiscal year 2065/66 and 2066/67 respectively.

4.1.1 Trend of Cash and Bank Balance

Cash and Bank Balance is one of the major components of current assets of the organization. Cash and bank balance percentage of SCBNL is slightly fluctuated over the study period. It has the highest with 7.86% in the fourth year 2065/66 and the lowest with 4.82% in the fifth year 2066/67 of the study period. The average level of cash and bank balance percentage of SCBNL is 6.23%. The trend value of cash and bank balances percentage indicates the utilization of cash. Thus, the trend value of SCBNL is effectively utilized its cash balance to invest in income generation sector because of its slightly fluctuation rate percentages. Above result is clarified by the following graph 4.2.

Graph 4.2
Trend Lines of Cash and Bank Balances of SCBNL

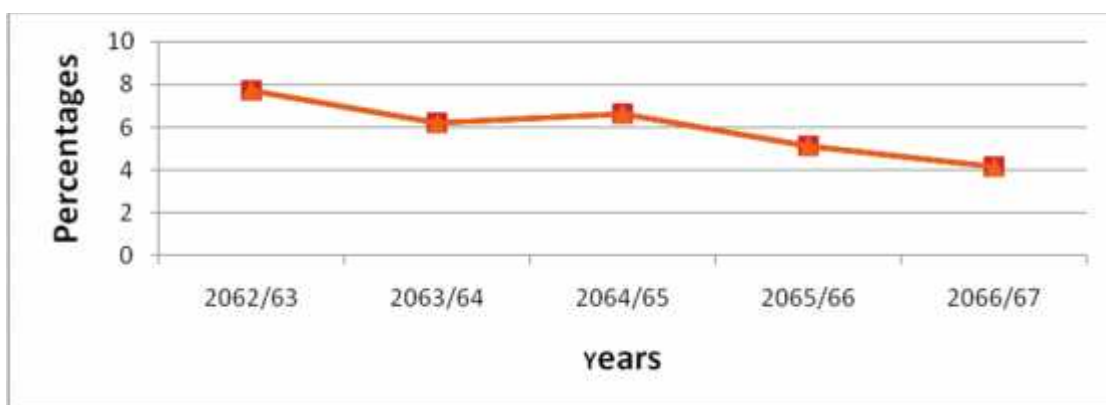


4.1.2 Trend of Money at call and Short Notice

It is another major component of current assets of the bank. Money at call and short notice percentages of SCBNL are slightly decreasing in the study period. It is the highest of 7.70% in the first year 2062/63 and the lowest of 4.17% in the current year 2066/67. Similarly, the average money at call and short notice percentage of SCBNL is 5.78%. The trend line of money at call and short notice percentages is decreasing form of SCBNL, which is shown as below graph 4.3.

Graph 4.3

Trend Lines of Money at call and Short Notice of SCBNL



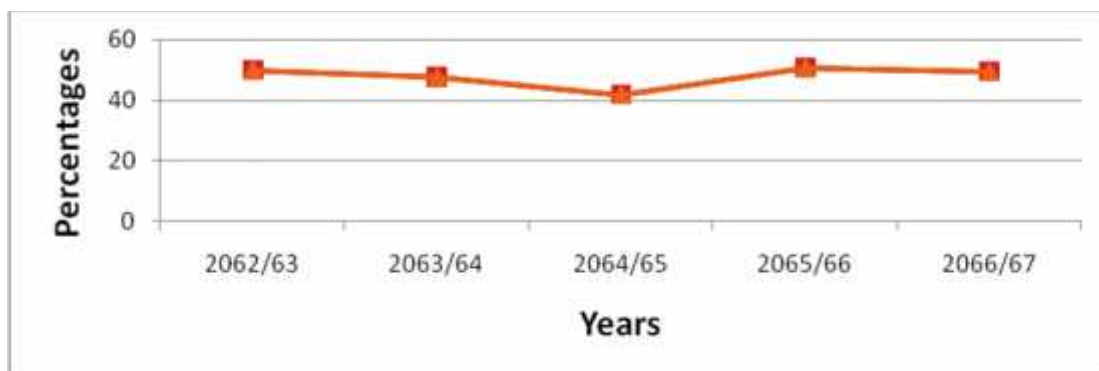
4.1.3 Trend of Short term Investment

Short term Investment is also major component of current assets. Its percentages are fluctuated over the study period from 2062/63 to 2066/67. The level of it is the highest of 50.73% in the fourth year 2065/66 and the lowest of 41.90% in the third year 2064/65. Similarly, the average short term investment percentage of SCBNL is 48.07%. The trend value of short term investment shows that SCBNL has prioritized to invest productive sectors, secured sectors. Because, the average percentage of short term investment of SCBNL is higher

i.e. 48.07% than components of current assets. The trend line of short term investment of SCBNL is shown as below graph 4.4.

Graph 4.4

Trend Lines of Short term Investment of SCBNL

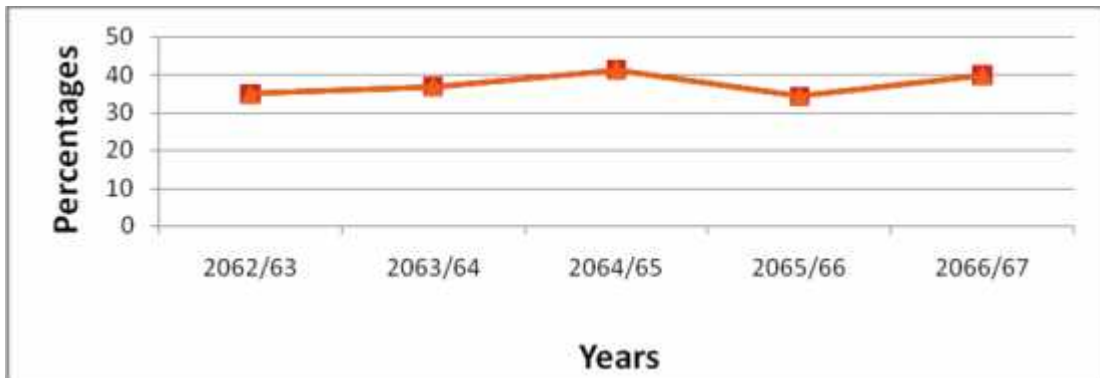


4.1.4 Trend of Loans and Advances

It is another component of current assets of SCBNL. Loans and advances percentages are fluctuated as 34.82%, 36.92%, 41.35%, 34.29% and 39.83% respectively from the fiscal year 2062/63 to fiscal year 2066/67. Among percentages of loans and advances, 41.35% is the highest percentage of SCBNL in the third year 2064/65 and 34.29% is the lowest percentage in the fourth year 2065/66. As well as the average percentage of loans and advances of SCBNL is 37.55%. The trend value of loans and advances helps to conclude results about better utilization of loans and advances or not. Its trends are fluctuation form. So, it means that utilization of loans and advances of SCBNL is also fluctuating for the income generating purpose, which is shown as following graph 4.5.

Graph 4.5

Trend Lines of Loans and Advances of SCBNL

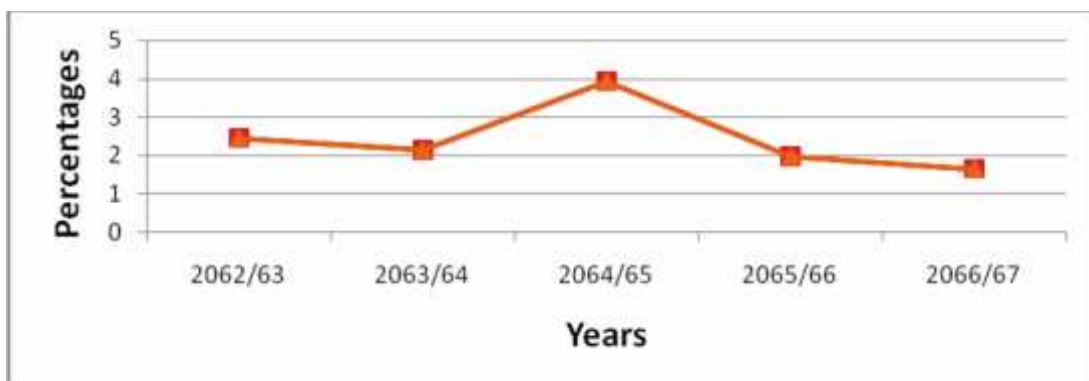


4.1.5 Trend of Other Current Assets

Another component of current assets is other current assets. Its percentages of SCBNL are slightly fluctuated as 2.45%, 2.14%, 3.94%, 1.97% and 1.65% respectively during the study period. The level of it is the highest of 3.94% in the fiscal year 2064/65 and the lowest of 1.65% in the fiscal year 2066/67. Here, average level of other current assets percentage of SCBNL is 2.39%. The trend lines of other current assets of SCBNL can be presented in the following graph 4.6.

Graph 4.6

Trend Lines of Other Current Assets of SCBNL



4.2 Net Working Capital

Generally, working capital can be classified into two concepts; one is 'Gross Concept' and another is 'Net Concept.' The gross concept fails to consider current liabilities. So, the need for net concept arises. Net working capital refers to the difference between current assets and current liabilities. It is that portion of firm's current assets which is financed with long term fund. This concept is also known as qualitative concept of working capital. It is calculated as following formula.

Net Working Capital= Current Assets – Current Liabilities

Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets. All the organization should have just adequate working capital to serve in competitive market. Excessive or inadequate working capital is dangerous and harmful to the organization. It affects firm's liquidity and profitability position. Therefore, net working capital can be more useful for the analysis trade-off between profitability and risk. It enables a firm to determine how much amount is left for operational requirement.

Table 4.3
Net Working Capital of SCBNL

(Rs in Million)

Fiscal Year	Current Assets	Current Liabilities	Net Working Capital	% Change in NWC
2062/63	25,664.29	21,825.38	3,838.91	-
2063/64	28,446.87	23,223.60	5,223.27	36.06
2064/65	33,177.32	27,480.39	5,696.93	9.07
2065/66	39,892.88	29,850.78	10,042.10	76.27
2066/67	40,063.27	27,600.63	12,462.64	24.10
Average	33,448.93	25,996.16	7,452.77	29.10

Sources: Appendix 1

Notes: % change in NWC = $\frac{Y_1 - Y_0}{Y_0} \times 100$

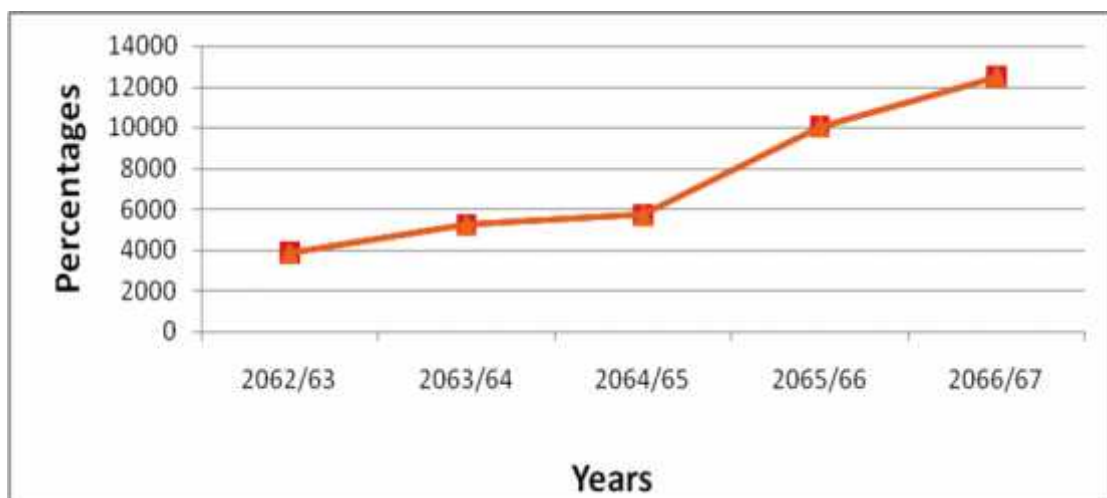
Where,

Y_0 = Base Year

Y_1 = Current Year

Graph 4.7

Trend Lines of Net Working Capital of SCBNL



Above table 4.3 and graph 4.7 shows that the level of net working capital of SCBNL is increasing after the first year. During the study period of five years from 2062/63 to 2066/67, the highest amount of net working capital is Rs12,462.64 million in fifth year and the lowest amount of this is Rs 3838.91million in first year. Similarly, the average amount of net working capital of SCBNL is Rs 7452.77 million. In this study period, the average level of current assets and current liabilities are Rs33,448.93 million and Rs 25,996.16 million respectively. As well as the highest, lowest and average level of % change in net working capital are 76.27%, 9.07% and 29.10% respectively. This bank (SCBNL) has positive net working capital of the study period which implies that there is sufficient amount required for operational requirement.

4.3 Financial Analysis

Financial Analysis is a powerful tool to measure the financial performance of the organization. And financial ratios have been systematically used to analyze and interpret the financial statements of the organization. As mentioned in research methodology, liquidity, capital structure, turnover and profitability ratios are calculated. The financial tools can be presented and analyzed in this study as follows.

4.3.1 Liquidity Ratios

Liquidity is directly related with the working capital of any business organization. In other words, one of the main objectives of working capital management is keeping satisfactory liquidity position. Thus, without sound liquidity position, the bank cannot operate its function smoothly. Liquidity ratios measure the short term solvency position of the bank, the following

measures of liquidity ratios are calculated and a brief trend analysis of liquidity has been done as below.

4.3.1.1 Current Ratio

Current ratio shows the relationship between current assets and current liabilities. It indicates the current short term solvency position of bank. Current ratio needs to maintain 2:1 for standard current ratio. Higher current ratio indicates better liquidity position. It is calculated by dividing current assets by current liabilities.

The following table and graph shows the current ratio to find out results about liquidity position of SCBNL as below.

Table 4.4
Current Ratio

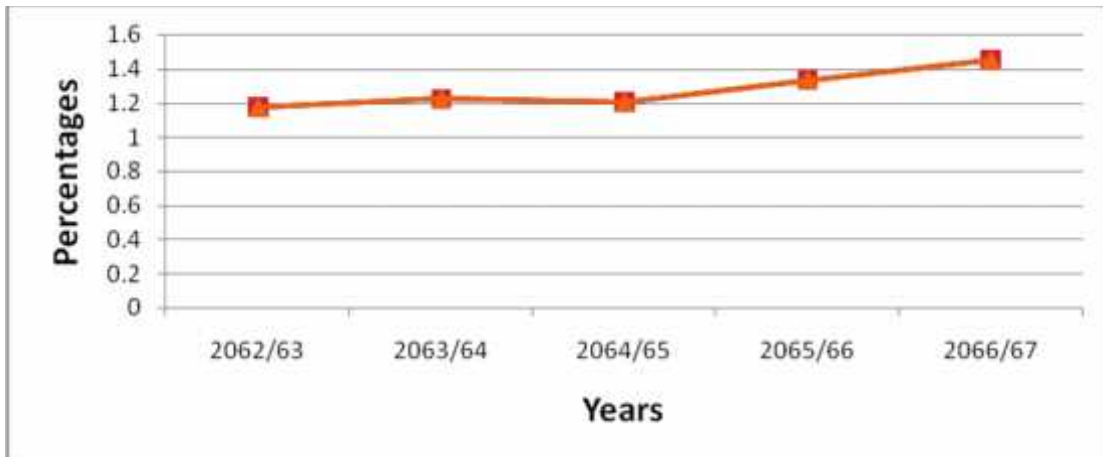
(in times)

Fiscal Year	SCBNL		
	Current Assets	Current Liabilities	Current Ratio
2062/63	25,664.29	21,825.38	1.176
2063/64	28,446.87	23,223.60	1.225
2064/65	33,177.32	27,480.39	1.207
2065/66	39,892.88	29,850.78	1.336
2066/67	40,063.27	27,600.63	1.452
Average	1.279		
Standard deviation	0.102		
C.V.	0.080		

Sources: Appendices 1 and 3

Graph 4.8

Current Ratio



Above table and graph, it has been found that current ratios of SCBNL are slightly fluctuated as the highest (1.452 times) and the lowest (1.176 times) in the year 2066/67 and 2062/63 respectively. The average current ratio of SCBNL is 1.279 times. Similarly, the standard deviation and coefficient of variation of SCBNL are 0.102 and 0.080 respectively. Hence, it shows there is more variation in current ratio maintained by SCBNL. But SCBNL is unable to maintain the standard current ratio 2:1. It shows poor liquidity position. However, due to the nearest standard current ratio, liquidity position of SCBNL may be good.

4.3.1.2 Quick Ratio

A relation between quick assets and current liability is termed as Quick Ratio. Quick assets include all the current assets other than stock and prepaid. This ratio measures the ability of firm to pay current liabilities immediately. An ideal quick ratio is 1:1.

The following table and graph shows the quick ratio of SCBNL.

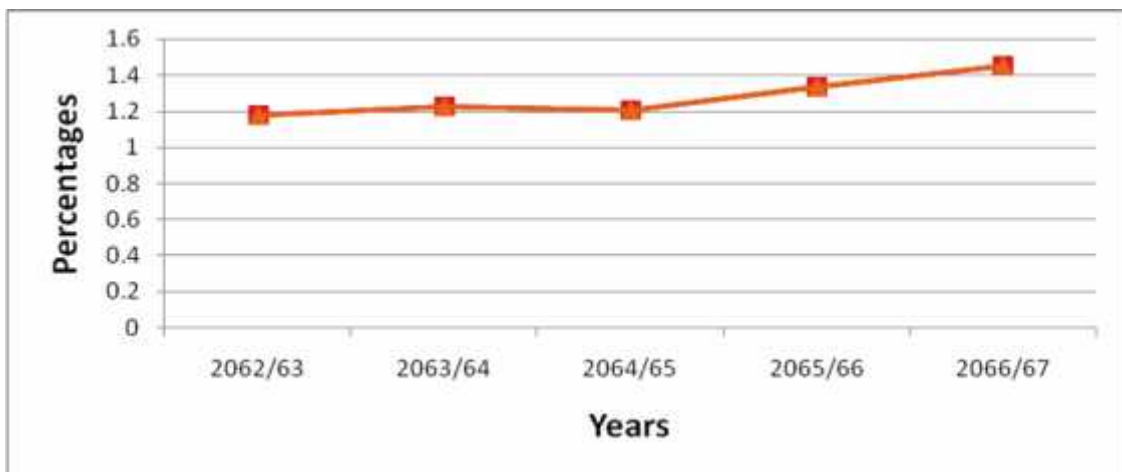
Table 4.5
Quick Ratio

(in times)

Fiscal Year	SCBNL		
	Quick Assets	Current Liabilities	Quick Ratio
2062/63	25,652.45	21,825.38	1.175
2063/64	28,434.74	23,223.60	1.224
2064/65	33,112.69	27,480.39	1.205
2065/66	39,848.78	29,850.78	1.335
2066/67	40,041.42	27,600.63	1.451
Average	1.278		
Standard deviation	0.102		
C.V.	0.080		

Sources: Appendices 1 and 4

Graph 4.9
Quick Ratio



Both table and graph represents the quick ratio of SCBNL. It is about increasing trends as 1.175 times, 1.224 times, 1.205times, 1.335times and 1.451times respectively during the study period. Thus, it has the highest in the current year 2066/67 and the lowest in the first year 2062/63. The average quick ratio of SCBNL is 1.278 times. In other side, standard deviation and

coefficient of variation are 0.102 and 0.080 respectively for the study period. It indicates more variation in quick ratio of SCBNL. In above analysis, SCBNL is unable to maintain ideal quick ratio 1:1. But quick ratios are found near to 1:1. It implies that SCBNL has better liquidity position.

4.3.1.3 Cash Reserve Ratio

This ratio shows the relationship between cash and bank balance and total deposit. It measures the ability of the bank to meet the unanticipated cash and all types of deposits. Here, cash and bank balances are the most liquid current assets. Higher cash reserve ratio is favourable for banks but very high ratio is not desirable because of interest payment on deposits.

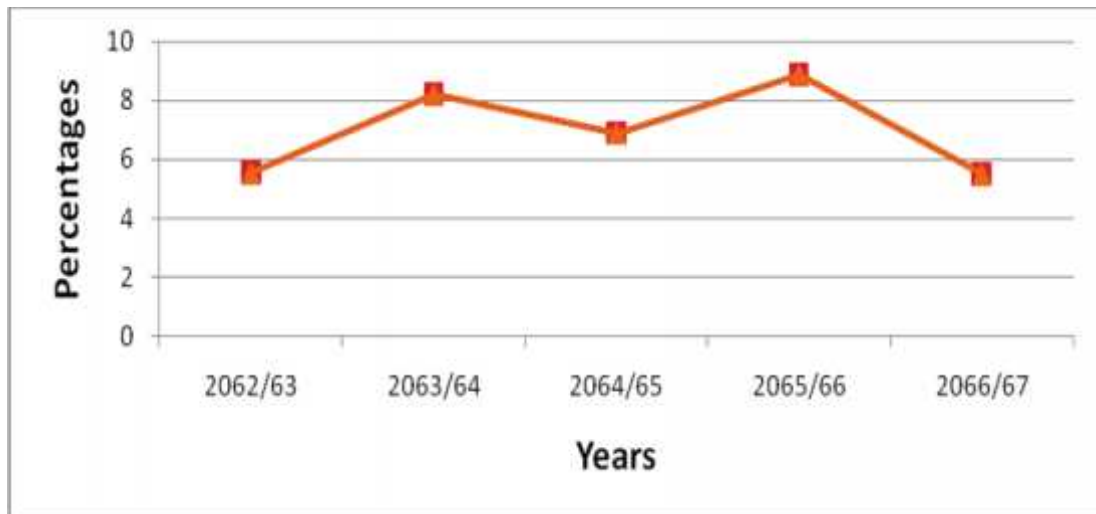
Cash reserve ratios of SCBNL are presented as below table and graph.

Table 4.6
Cash Reserve Ratio
(in percentage)

Fiscal Year	SCBNL		
	Cash and Bank Balances	Total Deposits	Cash Reserve Ratio
2062/63	1,276.24	23,061.03	5.534
2063/64	2,021.02	24,647.02	8.200
2064/65	2,050.24	29,744.00	6.893
2065/66	3,137.16	35,350.82	8.874
2066/67	1,929.31	35,182.72	5.484
Average	6.997		
Standard	1.372		
C.V.	0.196		

Sources: Appendices 1 and 5

Graph 4.10
Cash Reserve Ratio



The above table and graph describes the relationship between cash and bank balances and total deposits of SCBNL during the study period. The cash reserve ratios are highly fluctuated. It has the highest cash reserve ratio as 8.874% in the year 2065/66 and the lowest as 5.484% in the current year 2066/67. Similarly, the average ratio of SCBNL is 6.997%. On the other hand, standard deviation and coefficient of variation are 1.372 and 0.196 respectively. From above analysis, it can be concluded that SCBNL has maintained adequate liquidity position regarding cash reserve ratio because of high ratio.

4.3.2 Capital Structure Ratios

The second classification of the financial ratio is the capital structure ratio. It is also termed as solvency ratio or leverage ratio. It is calculated to judge the long term financial position of a firm. These ratios measure the enterprise's ability to pay the interest regularly and to repay the principal on maturity. The following ratios are included in capital structure ratios.

4.3.2.1 Debt to Total Capital Ratio

It shows the relationship between the total debts and total capital. Capital employed includes the shareholder's equity as well as long term debts. A low ratio represents a lower risk to creditors as well as shareholders.

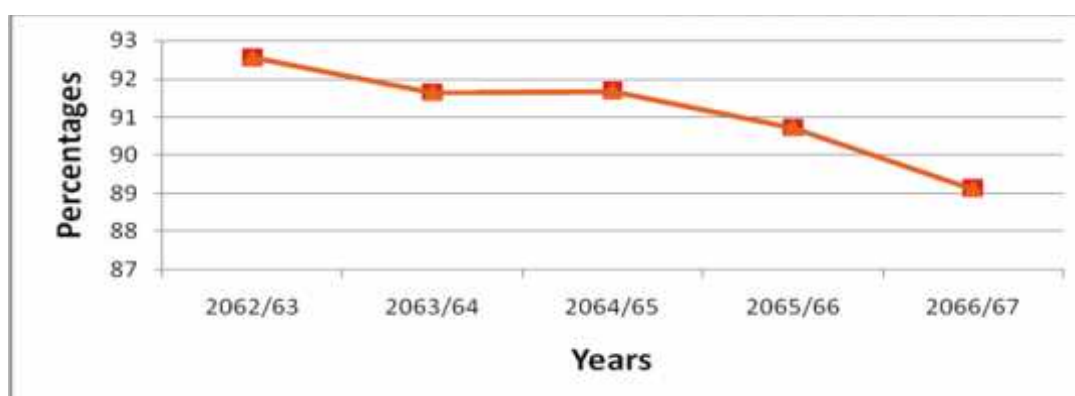
The following table and graph shows the debt to capital employed ratio of SCBNL. It is percentage basis.

Table 4.7
Debt to Total Capital Ratio
(in percentage)

Fiscal Year	SCBNL		
	Total Debts	Total capital	Debt to Total Capital Ratio
2062/63	21,825.38	23,579.52	92.561
2063/64	23,223.60	25,339.95	91.648
2064/65	27,480.39	29,972.93	91.684
2065/66	29,850.78	32,903.25	90.723
2066/67	27,600.63	30,970.34	89.120
Average	91.147		
Standard deviation	1.169		
C.V.	0.013		

Sources: Appendices 1 and 6

Graph 4.11
Debt to Total Capital Ratio



From the above table 4.7 and graph 4.11, it is analyzed that the debt to total capital ratios of SCBNL are 92.561%, 91.648%, 91.684%, 90.723% and 89.120% respectively from the year 2062/63 to 2066/67. This ratio is decreasing trends. It has the highest as 92.561% and the lowest as 89.120%. Similarly, the average ratio of SCBNL is 91.147%. It is not good for the bank. Because, high ratio represents a greater risk to creditors and shareholders. In this study, the standard deviation and coefficient of variation of SCBNL are 1.169 and 0.013 respectively. It can be concluded that SCBNL has not satisfactory debt position.

4.3.2.2 Loans and Advances to Current Assets Ratio

This ratio measures the extent to which the banks are successful in utilizing the outsider's funds for the profit generating purpose. In this ratio, loans and advances are included as government guarantee, personal guarantee, government securities, export documents etc. All commercial banks mobilize their collected funds as loans and advances to the customers. The banks must maintain its loans and advances in appropriate level to find out portion of current assets.

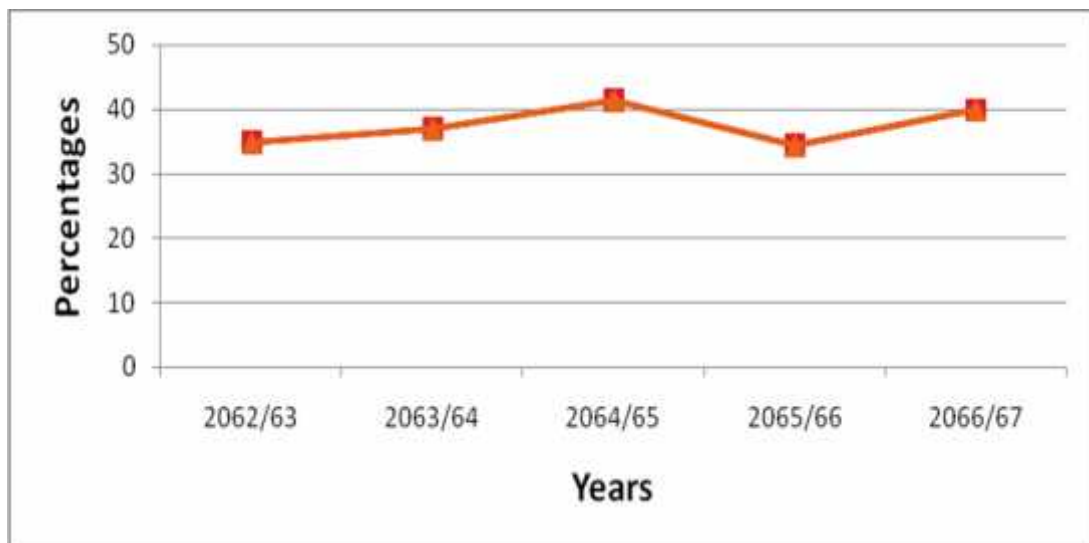
Loans and advances to current assets ratios of SCBNL are presented below in the table 4.8 and graph 4.12 respectively.

Table 4.8
Loans and Advances to Current Assets Ratio
(in percentages)

Fiscal Year	SCBNL		
	Loans and advances	Current Assets	Loans & Advances to Current Assets Ratio
2062/63	8,935.42	25,664.29	34.817
2063/64	10,502.64	28,446.87	36.920
2064/65	13,718.60	33,177.32	41.349
2065/66	13,679.76	39,892.88	34.291
2066/67	15,956.96	40,063.27	39.829
Average	37.441		
Standard	2.759		
C.V.	0.074		

Sources: Appendices 1 and 7

Graph 4.12
Loans and Advances to Current Assets Ratio



The above table and graph have found that the loans and advances to current assets ratios of SCBNL are fluctuated during the study period. It has the highest this ratio is 41.349% and the lowest is 34.291% in the year 2064/65 and 2065/66 respectively. The average ratio of SCBNL is 37.441%, which represents utilization of resources. In the other hand, standard deviation and coefficient of variation of SCBNL are 2.759 and 0.074 respectively. Above analysis shows satisfactory financial position of SCBNL.

4.3.3 Turnover Ratios

These ratios measure the degree of effectiveness in use of resources or funds by a firm. It describes the relationship between the firm's level of operations and assets needed to sustain the activity. These turnover ratios are calculated as below.

4.3.3.1 Loans and Advances to Total Deposit Ratio

This ratio assesses to what extent the bankers are able to utilize the depositors fund to earn profit by providing loans and advances. It shows the relationship between loans and advances and total deposit. Higher the ratio indicates the effectiveness in utilization of total deposits.

The following table and graph show the effectiveness in utilization of total deposits of SCBNL as below.

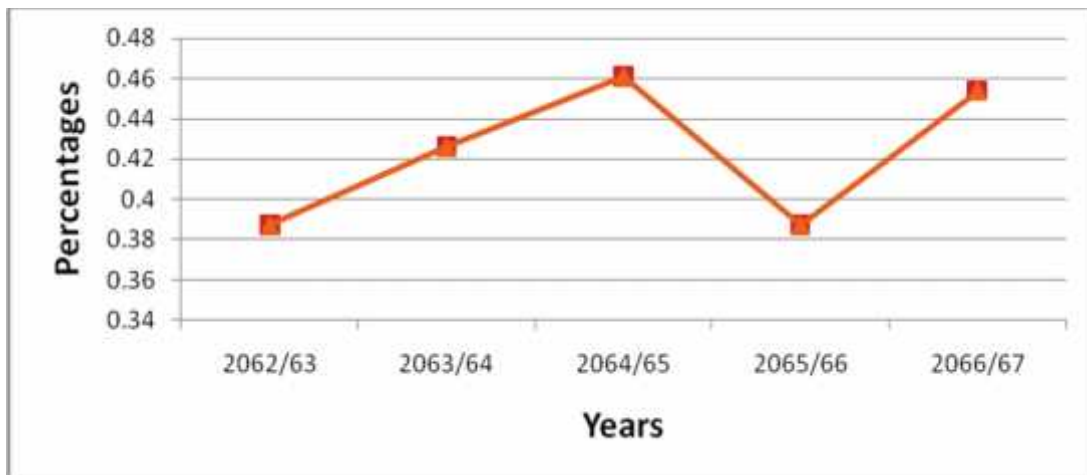
Table 4.9
Loans and Advances to Total Deposit Ratio

(in times)

Fiscal Year	SCBNL		
	Loans and Advances	Total Deposits	Loans and Advances to Total Deposit Ratio
2062/63	8,935.42	23,061.03	0.387
2063/64	10,502.64	24,647.02	0.426
2064/65	13,718.60	29,744.00	0.461
2065/66	13,679.76	35,350.82	0.387
2066/67	15,956.96	35,182.72	0.454
Average	0.423		
Standard deviation	0.032		
C.V.	0.075		

Sources: Appendices 1 and 8

Graph 4.13
Loans and Advances to Total Deposit Ratio



From the above table and graph, it establishes the relation between loans and advances and total deposits of SCBNL during the five years study period.

These ratios are about fluctuating trends. It has the highest loans and advances to total deposit ratio as 0.461 times in the year 2064/65 and the lowest as 0.387 times same in two fiscal years 2062/63 and 2065/66. The average ratio of SCBNL is 0.423 times. Similarly, the standard deviation and coefficient of variation are 0.032 and 0.075 respectively. This shows that there is less variation in this ratio and SCBNL has low risk due to lower standard deviation and coefficient of variation. The above analysis helps to conclude that it has efficiently utilization of total deposits to generate adequate profit.

4.3.3.2 Loans and Advances to Fixed Deposit Ratio

This ratio measures how much amount is used in loans and advances in comparison to fixed deposits. The higher ratio implies maximum utilization of resources. It is computed by dividing the loan and advances by fixed deposit.

Below table and graph are presented to obtain loans and advances to fixed deposit ratio of SCBNL.

Table 4.10
Loans and Advances to Fixed Deposit Ratio

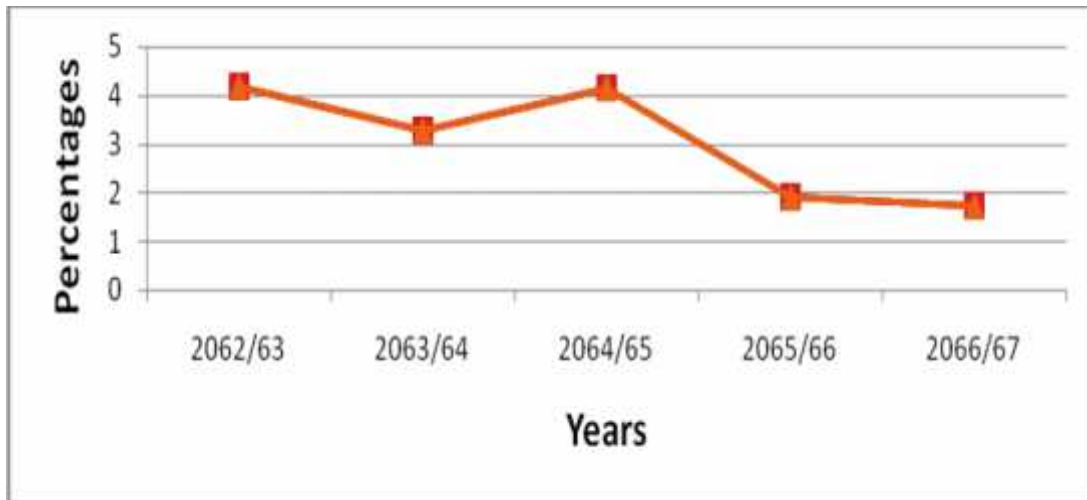
(in times)

Fiscal Year	SCBNL		
	Loans and Advances	Fixed Deposit	Loans and Advances to Fixed Deposit Ratio
2062/63	8,935.42	2,136.31	4.183
2063/64	10,502.64	3,196.49	3.286
2064/65	13,718.60	3,301.02	4.156
2065/66	13,679.76	7,101.70	1.926
2066/67	15,956.96	9,175.07	1.739
Average	3.058		
Standard deviation	1.053		
C.V.	0.344		

Sources: Appendices 1 and 9

Graph 4.14

Loans and Advances to Fixed Deposit Ratio



Both table and graph of above calculations indicates that loans and advances to fixed deposit ratios of SCBNL are fluctuating during the study period. It has the highest ratio as 4.183 times in the first year 2062/63 and the lowest as 1.739 times in the current year 2066/67. Similarly, the average ratio of SCBNL is 3.058 times. In other side, the standard deviation and coefficient of variation are 1.053 and 0.344 respectively. The above analysis helps to conclude that SCBNL is utilizing its fixed deposits to provide loans and advances more efficiently. Similarly, higher C.V. in SCBNL shows more variability in these ratios. But it has also risk.

4.3.3.3 Loans and Advances to Saving Deposit Ratio

This ratio is used for the purpose of measuring utilization of savings deposit in generating revenue by giving loan and advances to the client. It is computed by dividing the loans and advances by saving deposit. The higher ratio implies the better utilization of resources.

The following table and graph are presented to analyze loans and advances to saving deposit ratio of SCBNL.

Table 4.11
Loans and Advances to Saving Deposit Ratio

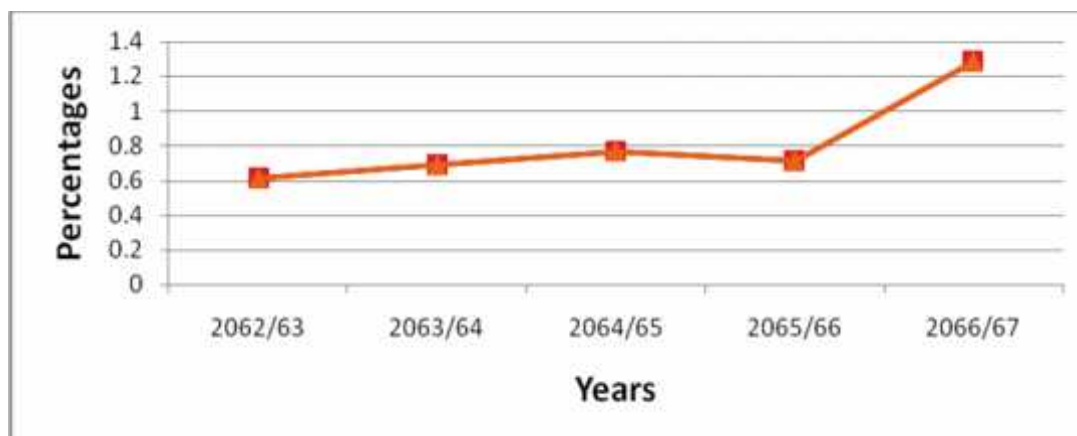
(in times)

Fiscal Year	SCBNL		
	Loans and Advances	Saving Deposits	Loans and Advances to Saving Deposit Ratio
2062/63	8,935.42	14,597.67	0.612
2063/64	10,502.64	15,244.38	0.689
2064/65	13,718.60	17,856.13	0.768
2065/66	13,679.76	19,146.00	0.714
2066/67	15,956.96	12,430.01	1.284
Average	0.813		
Standard deviation	0.241		
C.V.	0.296		

Sources: Appendices 1 and 10

Graph 4.15

Loans and Advances to Saving Deposit Ratio



The above table and graph represents the relationship between loans and advances and saving deposit. This loans and advances to saving deposit ratios of SCBNL are fluctuated such as 0.612 times, 0.689 times, 0.768 times, 0.714 times and 1.284 times respectively during the study period. It has the highest ratio in the fifth year 2066/67 and the lowest in the first year 2062/63. Similarly, the average loans and advances to saving deposit ratio is 0.813 times. As well as the standard deviation and coefficient of variation of SCBNL are 0.241 and 0.296 respectively. From the above analysis, it can be concluded that SCBNL is utilizing the saving deposits in generating revenue. Because, these ratios of SCBNL is increasing trends. But this bank has more risk to giving loans and advances for the customers.

4.3.4 Profitability Ratios

The profitability ratio is related to profit. Maximization of profit is the main objective of each and every business concern. Profit is the engine that drives the business enterprises. This ratio shows the overall efficiency of the business. The following ratios are included in profitability ratio.

4.3.4.1 Net Profit to Total Assets Ratio

This ratio establishes the relationship between net profit and total assets. It is also called 'Profit to assets ratio.' These ratio measures the profitability of all financial resources invested to total assets of a firm. It is shown in percentage.

Net profit to total assets ratios of SCBNL are shown as following table and graph.

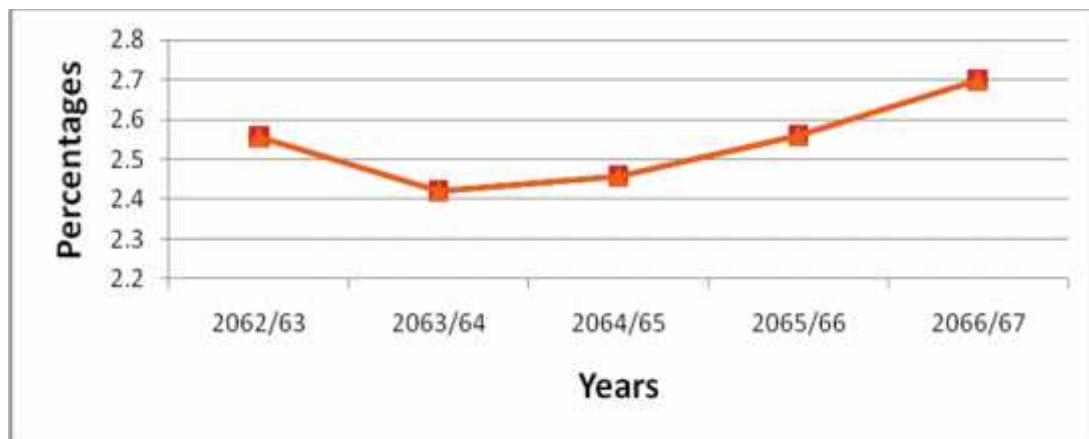
Table 4.12
Net Profit to Total Assets Ratio

(in percentages)

Fiscal Year	SCBNL		
	Net Profit	Total Assets	Net Profit to Total Assets Ratio
2062/63	658.76	25,776.33	2.556
2063/64	691.67	28,596.69	2.419
2064/65	818.92	33,335.79	2.457
2065/66	1,025.11	40,066.56	2.559
2066/67	1,085.87	40,216.32	2.700
Average	2.538		
Standard deviation	0.098		
C.V.	0.038		

Sources: Appendices 1, 2 and 11

Graph 4.16
Net Profit to Total Assets Ratio



Above table and graph show that net profit to total assets ratios of SCBNL are slightly fluctuating during the study period. It is the highest (2.700%) in the year 2066/67 and the lowest (2.419%) in the second year 2063/64. Similarly,

the average ratio of SCBNL is 2.538%. The standard deviation and coefficient of variation of SCBNL are 0.098 and 0.038 respectively. It represents that the net profit to total assets ratio of SCBNL is not satisfactory profitability position as well as it has no utilized the total assets to generate profit due to lower ratio. But because of lower standard deviation and coefficient of variation, the risk of SCBNL is also lower.

4.3.4.2 Net Profit to Total Deposit Ratio

This ratio measures the percentage of profit earned from the utilization of the total deposits. It is calculated by dividing net profit by total deposit. Higher ratio indicates the return from investment on loans and vice-versa.

Net profit to total deposit ratios of SCBNL are presented below in the table and graph respectively.

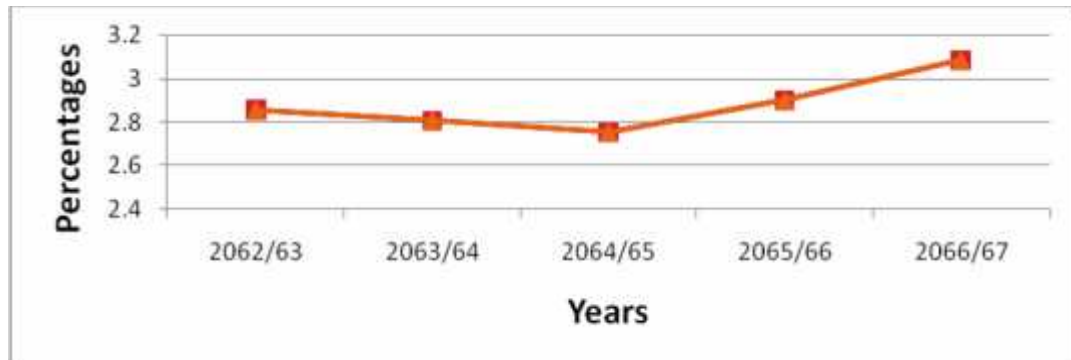
Table 4.13
Net Profit to Total Deposit Ratio
(in percentages)

Fiscal Year	SCBNL		
	Net Profit	Total Deposits	Net Profit to Total Deposit Ratio
2062/63	658.76	23,061.03	2.857
2063/64	691.67	24,647.02	2.806
2064/65	818.92	29,744.00	2.753
2065/66	1,025.11	35,350.82	2.900
2066/67	1,085.87	35,182.72	3.086
Average	2.880		
Standard deviation	0.114		
C.V.	0.040		

Sources: Appendices 1, 2 and 12

Graph 4.17

Net Profit to Total Deposit Ratio



From above table and graph, it is found that the net profit to total deposit ratios of SCBNL are fluctuating such as 2.857%, 2.806%, 2.753%, 2.900% and 3.086% during the study period. It has the highest as 3.086% in the current year 2066/67 and the lowest as 2.753% in the third year 2064/65. The average ratio of SCBNL is 2.880%. Similarly, standard deviation is 0.114 as well as coefficient of variation is 0.040, which measures the risk about the mobilization of the total deposits. Thus, the point of view of measuring risk implies that this ratio of SCBNL is satisfactory. Because, it is maintained by SCBNL by utilizing the deposits to generate profit.

4.3.4.3 Return on Loans and Advances Ratio

This ratio measures the earning capacity of commercial banks mobilized on loan and advances. Higher ratio of net income to loans and advances are better or favourable to the organization.

The following table and graph shows the return on loans and advances of SCBNL.

Table 4.14

Return on Loans and Advances Ratio

(in percentages)

Fiscal Year	SCBNL		
	Net Profit	Loans and Advances	Return on Loans and Advances Ratio
2062/63	658.76	8,935.42	7.372
2063/64	691.67	10,502.64	6.586
2064/65	818.92	13,718.60	5.969
2065/66	1,025.11	13,679.76	7.494
2066/67	1,085.87	15,956.96	6.805
Average	6.845		
Standard deviation	0.554		
C.V.	0.081		

Sources: Appendices 1, 2 and 13

Graph 4.18

Return on Loans and Advances Ratio

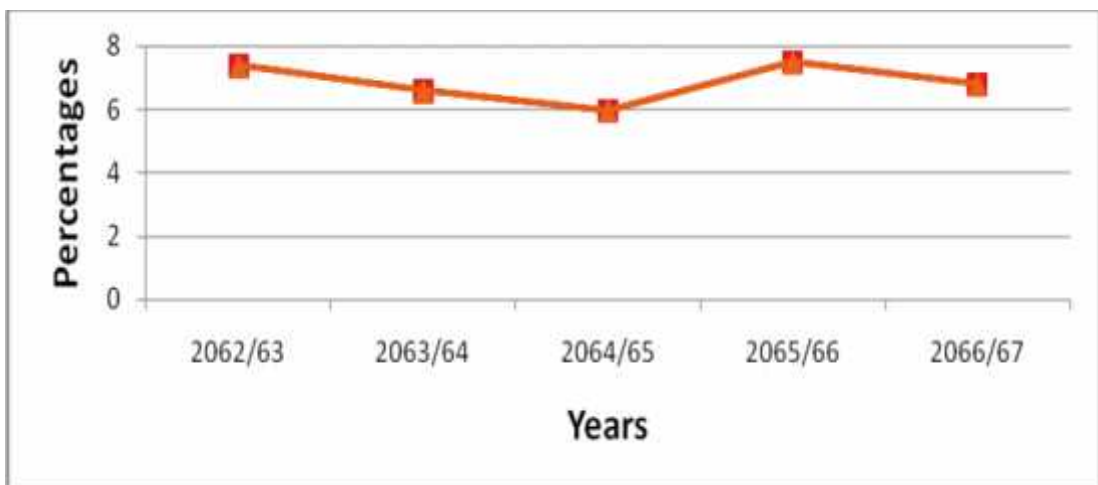


Table 4.14 and graph 4.18 represents that return on loans and advances ratios of SCBNL are fluctuating trends during the study period. Firstly, these ratios is decreasing 6.586% and 5.969% then increasing 7.494% after that again decreasing 6.805%, It is the highest in the fourth year 2065/66 and the lowest in the third year 2064/65. Similarly, the average ratio of SCBNL is 6.845%. The standard deviation and coefficient of variation of SCBNL are 0.554 and 0.081 respectively. From the above analysis, it can be concluded that the earning capacity of SCBNL is satisfactory due to higher ratio. Similarly, risk factor of return on loans and advances ratio is lower. It means the better mobilization on loan and advances.

4.3.4.4 Return on Capital Employed Ratio

A relation between net profit and capital employed is known as Return on Capital Employed Ratio. It shows whether the amount of capital employed has been properly used or not. This ratio also implies the efficiency of the firm on the utilization of total capital. A higher ratio is preferable for the firm.

Return on capital employed ratios of SCBNL are shown as following table and graph.

Table 4.15

Return on Capital Employed Ratio

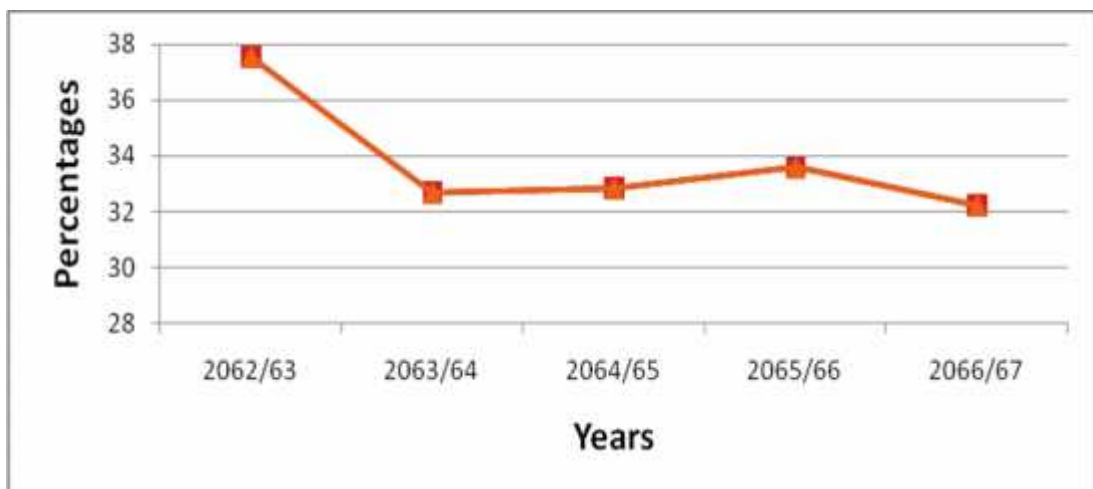
(in percentages)

Fiscal Year	SCBNL		
	Net Profit	Capital Employed	Return on Capital Employed Ratio
2062/63	658.76	1,754.17	37.555
2063/64	691.67	2,116.35	32.682
2064/65	818.92	2,492.54	32.855
2065/66	1,025.11	3,052.47	33.583
2066/67	1,085.87	3,369.71	32.224
Average	33.780		
Standard deviation	1.938		
C.V.	0.057		

Sources: Appendices 1, 2 and 14

Graph 4.19

Return on Capital Employed Ratio



The above table and graph shows the fluctuated return on capital employed ratios of SCBNL during the study period. It has the highest as 37.555% in the first year 2062/63 and the lowest as 32.224% in the fifth year 2066/67. The average ratio, standard deviation and coefficient of variation of SCBNL are 33.780%, 1.938 and 0.057 respectively. The purpose of SCBNL is wealth maximization i.e. to earn high profit by maximizing return on its capital. Therefore, due to higher ratio, this ratio is highly satisfactory. It means that the capital efficiently to generate adequate level of return is very high.

4.4 Analysis of Coefficient of Correlation

Correlation analysis is the statistical tool, which deals to determine the degree of relationship between two or more variables. But it does not necessarily imply causation. In this analysis, only one variable is treated as dependent and one or more variables treated as independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated, the effects of one variable may have the effects of other correlated variable. Under this analysis, this research study is tried to find out the relationship between the following variables.

- a) Coefficient of correlation between current assets and current liabilities.
- b) Coefficient of correlation between cash and bank balances and current liabilities.
- c) Coefficient of correlation between loans and advances and net profit.

The above statistical tool is used to analyze the relationship between these the relevant variables. As well as it helps to make sound policies regarding fund utilization, profit maximization and working capital management for SCBNL.

For the purpose of decision making, interpretation of correlation coefficient is based on following terms.

- i) It lies always between +1 and -1.
- ii) When $r=1$, there is perfect positive correlation.
- iii) When $r=-1$, there is perfect negative correlation.
- iv) When $r=0$, there is no correlation.
- v) When r is less than 0.5, there is low degree of correlation.
- vi) When r lies between 0.5 to 0.669, there is a moderate degree of correlation.
- vii) When r lies between 0.7 to 0.999 (-0.7 to -0.999) there is a high degree of positive or negative correlation.

Similarly, to measure the reliability of the value of correlation coefficient, the probable error (P.E.) is applicable. It is used to test whether the calculated value of sample correlation coefficient is significant or not.

The interpretations of probable error of correlation coefficient are as follows.

- i) If $r < P.E.$, then the value of r is not significant. (i.e. insignificant)
- ii) If $r > 6P.E.$, then r is definitely significant.
- iii) In other situations, nothing can be calculated with certainty.

4.4.1 Coefficient of Correlation between Current Assets and Current Liabilities

This coefficient of correlation measures the degree between current assets and current liabilities. Its result finds that relation between current assets and current liabilities are significant or not as well as reliable or not.

The following table 4.16 shows the coefficient of correlation between current assets and current liabilities of SCBNL. Where current assets is independent variables (X) and current liabilities is dependent variables (Y).

Table 4.16

Correlation coefficient between Current Assets and Current Liabilities

Findings	SCBNL
Coefficient of Correlation (r)	0.931
P.E.	0.040
6P.E.	0.242

Sources: Appendix 15

From the above table, it is found that coefficient of correlation between current assets and current liabilities of SCBNL is 0.931 i.e. there is high degree of positive correlation between two variables. It means that this correlation of SCBNL is perfect correlation. Similarly, probable error (P.E.) is 0.040 and 6P.E. is 0.242 which shows that 'r' is greater than 6P.E. It reveals that the relationship between current assets and current liabilities is significant. In conclusion, SCBNL's this correlation coefficient is significantly correlated.

4.4.2 Coefficient of Correlation between Cash and Bank Balances and Current Liabilities

Cash and bank balances are the most liquidity components of current assets. Where are required to meet the current liabilities. This coefficient of correlation describes the relationship between cash and bank balances and current liabilities and shows the significant correlation or not. To find out the correlation, various calculations are performed.

The following table represents the coefficient of correlation between cash and bank balances and current liabilities of SCBNL during the study period. In the following case, cash and bank balances is independent variables (X) and current liabilities is dependent variables (Y).

Table 4.17
Correlation Coefficient between Cash & Bank Balances and Current Liabilities

Findings	SCBNL
Coefficient of Correlation (r)	0.816
P.E.	0.101
6P.E.	0.604

Sources: Appendix 16

The above table represents that the coefficient of correlation between cash and bank balances and current liabilities of SCBNL is 0.816. It implies high degree of positive correlation between two variables. Which shows these correlation of SCBNL is perfectly correlated. In the other hand, probable error (P.E.) of correlation coefficient is 0.101 and 6P.E. is 0.604. It indicates that coefficient of correlation (r) is greater than 6P.E. which means the relationship between cash and bank balances and current liabilities is significant. From the above analysis, it can be concluded that holding of cash and bank balance of SCBNL is correlated with current liabilities.

4.4.3 Coefficient of Correlation between Loans and Advances and Net Profit

Generally, commercial bank collects deposit and invests these funds on loans and advances to generate higher profit. Thus, large amount of loans and

advances generate higher profit. This correlation coefficient measures the degree of relationship between loans and advances and net profit. The purpose of computing coefficient of correlation is to justify whether or not the loans and advances significantly generate profit.

The below table 4.18 shows the coefficient of correlation between loans and advances and net profit of SCBNL during the study period. In correlation analysis, loans and advances is independent variables (X) and net profit is dependent variables (Y).

Table 4.18

Correlation Coefficient between Loans and Advances and Net Profit

Findings	SCBNL
Coefficient of Correlation (r)	0.915
P.E.	0.049
6P.E.	0.295

Sources: Appendix 17

Above table helps to find out the results about coefficient of correlation between loans and advances and net profit of SCBNL i.e. there is highly positive relationship between these two variables due to 0.915 correlation value. It means that this correlation coefficient of SCBNL is perfect correlation. As well as probable error (P.E.) of correlation coefficient is 0.049 and 6P.E. is 0.295. It implies that coefficient of correlation (r) is greater than 6P.E. which represents the relationship between loans and advances and net profit is significant. From above analysis, it can be concluded that loans and advances and net profit have positive correlated.

4.5 Major Findings of the Study

Basically in this research study, financial and statistical tools are used to interpret the results about working capital management of sample bank as SCBNL by applying the current five years data from 2062/63 to 2066/67. Which helps to analyze how much better or lower working capital position of SCBNL? The major findings of the study are summarized as the following points.

- a) The trend of components of current assets are fluctuating except money at call and short notice. It indicates that utilization of resources are also fluctuating of SCBNL.
- b) SCBNL has the highest and the lowest level of current assets of Rs 40,063.27 million and Rs 25,664.29 million in the fiscal years 2066/67 and 2062/63 respectively. In this analysis, total current assets are increasing trends and its average is also satisfactory for SCBNL as Rs 33,448.93 million.
- c) The level of net working capital of SCBNL is increasing from the first year 2062/63 to the last year 2066/67. The average amount of net working capital of SCBNL is Rs7,452.77 million. On the other hand, percentages change in net working capital are fluctuated during the study period. It examines that SCBNL has positive net working capital.
- d) The current ratios of SCBNL are slightly fluctuated as highest (1.452 times) and lowest (1.176 times) in the year 2066/67 and 2062/63 respectively. Measuring the risk factor, it shows that there is more

variation in current ratio maintained by SCBNL. Lower risk means higher liquidity as well as lower profit in general. Thus, SCBNL has good liquidity position.

- e) The quick ratios of SCBNL are increasing in second year and decreasing in third year again increasing fourth and fifth year. It has highest 1.451 times and lowest 1.75 times in the year 2066/67 and 2062/63 respectively. In this analysis, the quick ratios are found near to ideal quick ratio 1:1.
- f) The cash reserve ratios of SCBNL are highly fluctuated the highest as 8.874% and lowest as 5.484% in the year 2065/66 and 2066/67 respectively. This ratio shows that SCBNL has maintained adequate liquidity position due to high ratio as well as its risk factor also seems lower.
- g) Debt to total capital ratios of SCBNL are slightly decreasing from 92.561% to 89.120% with an average of 91.147%. Due to higher ratio, SCBNL has not satisfactory debt position but SCBNL is tried to improve the debt activities.
- h) The loans and advances to current assets ratios of SCBNL are fluctuated during the study period. The ratios range from 34.291% to 41.349% with the average of 37.441%. These ratio shows maximum mobilization of resources.

- i) Turnover ratios concerned loans and advances to total deposit ratios of SCBNL range from 0.387 times to 0.461 times with the average of 0.423 times during the study period. This ratio finds that SCBNL has the better utilization of total deposit to generate adequate profit.
- j) The loans and advances to fixed deposit ratios are fluctuated the highest as 4.183 times and lowest as 1.739 times in the years 2062/63 and 2066/67 respectively with average of 3.058 times. It indicates that SCBNL is utilizing its fixed deposits but it has more risk.
- k) The loans and advances to saving deposit ratios of SCBNL range from 0.612 times to 1.284 times with average of 0.813 times during the study period, which implies that SCBNL is utilizing saving deposits but it has more risk.
- l) The profitability ratios concerned net profit to total assets ratios of SCBNL range from 2.419% to 2.70% with average of 2.538% during the five years. This ratio represents that SCBNL has not satisfactory profitability position. But this bank has lower risk.
- m) The net profit to total deposit ratios of SCBNL are fluctuated the highest as 3.086% and lowest as 2.753% with average of 2.880% in the study period. Its result finds that SCBNL has satisfactory situation to utilize the deposits for generating profit.
- n) The return on loans and advances ratios of SCBNL range from 5.969% to 7.494% with average of 6.845% for the study period. This ratio is

concluded that the earning capacity of SCBNL is satisfactory and risk factor also be lower.

- o) The return on capital employed ratios of SCBNL are fluctuated during the study period. It has highest as 37.555% and lowest as 32.224% in the years 2062/63 and 2065/66 respectively with average of 33.78%. It indicates that SCBNL seems highly satisfactory.

- p) The coefficient of correlation between current assets and current liabilities is 0.931. So, there is high degree of positive correlation between two variables of sample bank as SCBNL. Similarly, coefficient of correlation (r) is greater than 6P.E. It examines that the relationship between current assets and current liabilities is significant.

- q) The coefficient of correlation between cash and bank balances and current liabilities of SCBNL is 0.816. This correlation coefficient (r) is greater than 6P.E. It shows that there is high degree of positive correlation between two variables and these relationship of SCBNL is significant.

- r) The coefficient of correlation between loans and advances and net profit of SCBNL is 0.915. Thus, there is high degree of positive correlation between two variables. Similarly, coefficient of correlation (r) is greater than 6P.E. It implies the relationship between loans and advances and net profit is significant.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

The chapter is concerned with summary, conclusions and recommendations of SCBNL during the fiscal five years about the topic in working capital management. It is main body of research study. The important task of the researchers is to obtain fact finding and give good suggestions for further improvement.

5.1 Summary

As a developing country, Nepal is striving to develop and modernize. The development process of a country largely depends upon the mobilization and development of resources. Bank and financial institutions plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. Establishment of commercial banks, especially joint venture banks have continued in response to economic liberalization policies of the government. Commercial banks basically helps to promote the money market by providing expert managerial skills and by using advanced and new or latest technologies to serve the customers in an efficient and effective manner. As a result, in Nepal there are thirty-one commercial banks at present competing with each other in their business. These joint venture banks have concentrated themselves on financing foreign trade, commerce and industry. In competitive financial market performance of joint venture banks are very good.

This study is mainly concentrated on the case study of Standard Chartered Bank Nepal Limited on working capital management. Especially, this topic is

chosen for the study because of accessibility and availability of financial data for latest five year period as well as detail study. The main objectives of the study are as follows.

- To study the composition of current assets and current liabilities.
- To analyze the financial position of sample bank.
- To analyze the assets utilization, liquidity and profitability of sample bank.

To fulfill the objectives, various statistical and financial tools have been done for analysis of data, which includes ratio analysis as financial tool and trend analysis, correlation coefficient, probable error, standard deviation, coefficient of variation as statistical tools. The major ratio analysis consists of the composition of working capital, liquidity position, capital structure position, turnover position and profitability position of SCBNL. The financial and statistical tools are used in chapter four. Where financial data of latest five years are presented in table and graph. After that the researcher is concluded the major findings of the study. Similarly, to test the relationship between the various components of working capital, karl pearson's correlation coefficient 'r' is calculated and analyzed. The necessary data are derived from the balance sheet and profit and loss account of SCBNL during the period of five years from 2062/63 to 2066/67 B.S.

5.2 Major Findings

From the analysis of various data it can be said that working capital management is one of the most important part of every financial institution. This study particularly deals about the working capital position with financial analysis of SCBNL. The major conclusions of this research study are drawn as

follows, where mainly focuses financial tools as liquidity, capital structure, turnover, profitability positions and coefficient of correlation of SCBNL.

- a) The liquidity positions of SCBNL are analyzed with the current ratio, quick ratio and cash reserve ratio. The mean of current ratio, quick ratio and cash reserve ratio are 1.279:1, 1.278:1 and 6.997% respectively. Current ratio is lesser than standard current ratio 2:1. But quick ratio is higher than ideal quick ratio 1:1. This implies that SCBNL has better liquidity position because of the nearest ratio. According to measurement of risk factor, there is more variation maintained by SCBNL. Similarly, higher cash reserve ratio is preferable for bank. Thus, this ratio also shows satisfactory liquidity position of SCBNL as well as lower risk factor.

- b) The capital structure positions of SCBNL are analyzed with debt to total capital ratio and loans and advances to current assets ratio. Among them, first ratio is decreasing trends and another ratio is fluctuating trends. The average ratio of debt to total capital ratio is 91.147%, which is not good for the bank. Similarly, the average ratio of loans and advances to current assets ratio is 37.441%, that means the utilization of resources by the SCBNL than debt to total capital ratio. By measuring the risk factor, SCBNL has more risk in debt financing because of higher average ratio. But the bank is improved to mobilize the loans and advances for generating profit.

- c) The turnover positions of SCBNL are analyzed with loans and advances to total deposit ratio, loans and advances to fixed deposit ratio and loans and advances to saving deposit ratio. Its average ratios are 0.423:1, 3.058:1 and 0.813:1 respectively. It indicates SCBNL has utilized their deposits for the income generating purpose. As a comparison, SCBNL is utilizing fixed

deposits more than other deposits due to higher ratio. Similarly, according to measurement of risk factor, there is more variation in fixed deposit and saving deposits than total deposit. As well as there are more risk too except of loans and advances to total deposit ratio.

d) In the case of profitability positions of SCBNL, four ratios are mainly analyzed such as net profit to total assets ratio, net profit to total deposit ratio, return on loans and advances ratio and return on capital employed ratio. Its average ratios are 2.538%, 2.880%, 6.845% and 33.780% respectively. The result of net profit to total assets ratio finds that SCBNL has not satisfactory profitability position because of low ratio. As well as it has low risk. To acquire higher profits, they should take strong steps for the better management, strong marketing and strategic development etc. Similarly, return on capital employed ratio indicates that SCBNL has highly satisfactory profitability position than other profitability ratios due to high ratio. As well as the risk factor is also high in this ratio than other ratios. Therefore, it can be concluded that SCBNL has better utilization of resources.

e) The coefficient of correlation between two variables like as current assets and current liabilities, cash and bank balances and current liabilities as well as loans and advances and net profit of sample bank 'SCBNL' is nearly 1. It means there are high degrees of positive correlation between these two variables. Similarly, correlation of coefficient (r) is greater than 6P.E. and the relationship between two variables of SCBNL is closer to perfect correlation. Therefore, it indicates that the relationship between two variables is significant. As a conclusion, SCBNL is striving for better

performance by adopting various new strategies and providing additional services.

5.3 Conclusion

According to measurement of various ratios, there are found the major conclusions for SCBNL, which helps to know good or worst performance of SCBNL. And then, that can be improved. The major conclusions of this study are summarized as following points.

According to analyzing the liquidity ratios, SCBNL has satisfactory liquidity position as well as lower risk factor due to the nearest of standard or ideal ratio.

In the case of the capital structure ratios of SCBNL, it can be concluded that SCBNL has not as much as satisfactory debt position because of higher ratio. As well as the bank has also more risk. But SCBNL has improved to utilize the resources for generating profit in recent days.

By analyzing the turnover ratios of SCBNL, it can be found that SCBNL has better turnover position because of utilization of their deposits. As a comparison, SCBNL is utilizing fixed deposits more than other deposits due to higher ratio. Similarly, risk factor of the bank is also activated or more risk.

According to evaluating the profitability ratios, the profitability position of SCBNL may be good. Because, the bank is better utilizing in their resources to earn adequate profits. Thus, it has also high risk factor.

In the case of the coefficient of correlation between two variables of SCBNL, as a conclusion, there are high degree of positive correlation and also significant, which indicates that SCBNL has good performance by adopting new strategies and providing additional services.

5.4 Recommendation

On the basis of major finding of the present study, some important recommendations have been forwarded. Although this bank has more than 24 years of commercial experiences in the Nepalese commercial banking sector, some weaknesses have come into light through the study. For improving the drawbacks and to make a succeeds, the important recommendations have been following for SCBNL.

- a) Positive working capital represents the sound liquidity management of the bank. Similarly, negative working capital represents the poor liquidity management of the bank. In case of SCBNL, there are found positive working capital. Thus, to maintain this situation, SCBNL should be keeping optimum size of investment in current assets and current liabilities.
- b) The liquidity position in terms of current ratio of SCBNL is below than normal standard. Therefore, SCBNL should increase the current assets.
- c) The loans and advances to current assets ratio of SCBNL is fluctuating trends. So, to adjust sound capital structure position, SCBNL should try to control fluctuations.

- d) The turnover of the commercial bank is the primary factor of income generating activity. Total deposits and saving deposits turnover position of SCBNL are less than unity. Fixed deposit turnover position is not more satisfactory. As a result, the changes of bad debts and non-earning funds are high. Therefore, SCBNL should give proper attention on collection of over-dated loan and advances and utilization of resources as loan and advances.

- e) The profitability position of SCBNL is not more satisfactory due to lower ratio. Similarly, as a comparison of utilization of resources, SCBNL cannot earn profit. Therefore, SCBNL should try to reduce its operating cost or other unnecessary expenses. Because, which maximizes its profitability position and shareholder return.

- f) Generally, the unskilled manpower, over-staffing, unnecessary expenses, misuse of facilities etc may be causes for high operating cost. So, SCBNL is recommended to pay attention to these aspects.

- g) To maximize the benefits, the SCBNL should maintain positive relationship between loans and advances and net profits in coming years. Similarly, this bank should concentrate more on risk free securities and low risk loans.

- h) According to turnover ratios, the investment policy of SCBNL is not as much as good. Thus, it is necessary for SCBNL to utilize its deposits in income generating activities by better investment efficiency on loan and advances.

- i) By implementing the matching working capital management policy instead of adopting conservative working capital policy, SCBNL can improve in its profitability in both short and long runs.

- j) Improper working capital leads to decrease the profitability of the bank and leads to ruin the company in the long run. So, SCBNL is recommended to give emphasis to proper working capital policy to uplift the financial performance in the competitive age of today.

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Appendix - 1

Standard Chartered Bank Nepal Limited

Five years Balance Sheet

(Figures in Rs.

Millions)

Particular	2062/63	2063/64	2064/65	2065/66	2065/66
Assets					
Current Assets:					
Cash & Bank Balances	1276.24	2021.02	2050.24	3137.16	1929.31
Money at call and Short Notice	1977.27	1761.15	2197.54	2055.55	1669.46
Investment(short term)	12847.54	13553.23	13902.82	20236.12	19847.51
Loans and Advances					
Total Current Assets	25664.29	28446.87	33177.31	39892.88	40063.27
Fixed Assets	101.30	125.59	117.27	137.28	118.53
Long term Assets	10.74	24.23	41.20	36.40	31.52
Total Assets	25776.33	28596.69	33335.79	40066.56	40213.32
Capital & Liabilities					

Current Liabilities:					
Loans and Borrowings	-	400	-	300	-
Saving Deposits	14597.67	15244.38	17856.13	19146.00	12430.01
Current Deposits & Other Deposits	6327.05	6206.15	8586.85	9103.12	13577.64
Bills Payables	55.75	36.17	87.40	72.94	89.22
Proposed and Unpaid Dividend	499.98	341.74	506.37	465.98	769.17
Income tax Liability	-	5.60	2.05	4.26	-
Other Current Liabilities	344.93	989.56	441.59	758.48	734.59
Total Current Liabilities	21825.38	23223.60	27480.39	29850.78	27600.63
Shareholder's Equity:					
Share capital	374.64	413.25	620.78	1397.95	1608.26
Reserves and Funds	1379.50	1703.10	1871.76	1654.52	1761.45
Total Shareholder's	1754.14	2116.35	2492.54	3052.47	3369.71
Fixed Deposits	2136.31	3196.49	3301.02	7101.70	9175.07
Long term Liabilities	60.50	60.25	61.84	61.61	67.91
Total Capital & Liabilities	25776.33	28596.69	33335.78	40066.56	40213.32

Appendix- 2

Standard Chartered Bank Nepal Limited

Comparative Profit and Loss Account

(Figures in Rs.

Millions)

Particulars	2062/63	2063/64	2064/65	2065/66	2066/67
1. Interest Income	1189.60	1411.98	1591.20	1887.22	2042.11
2. Interest Expenses	303.20	413.06	471.73	543.79	575.74
Net Interest Income	886.41	998.93	1119.47	1343.43	1466.37
3. Commission and Discount	222.93	221.21	276.43	288.03	338.30
4. Other Operating Incomes	25.44	28.79	32.59	33.19	34.48
5. Exchange Fluctuation Income	283.47	309.09	345.65	427.47	458.56
Total Operating Income	1418.25	1558.01	1774.15	2092.13	2297.71
6. Staff Expenses	168.23	199.78	225.26	253.06	312.96
7. Other Operating Expenses	221.09	228.45	230.57	276.33	295.30
8. Exchange Fluctuation Loss	-	-	-	-	-
Operating Profit Before Provision for Possible Loss	1028.93	1129.78	1318.32	1562.74	1689.44
9. Provision for Possible Losses	47.73	36.81	69.89	56.63	76.97
Operating Profit	981.20	1092.97	1248.43	1506.11	1612.47
10. Non-Operating Income/Loss	1.43	9.49	1.68	22.20	36.27

11. Provision for Possible Loss Written Back	53.09	20.16	90.64	101.08	58.29
Profit from Ordinary Activities	1035.72	1122.62	1340.75	1629.28	1707.03
12. Income/Expenses from Extra Ordinary Activities	(2.41)	(4.92)	(28.04)	(15.36)	(17.02)
Net Profit after Considering all Activities	1033.31	1117.71	1312.71	1613.93	1690.00
13. Provision for Staff Bonus	93.94	101.61	119.34	146.72	153.64
14. Provision for Income Tax	280.62	324.43	374.45	442.09	450.50
) Current year's	274.50	315.43	381.49	443.12	465.69
) Up to Previous Year	6.11	9	-	-	0.02
) Current Year's Differed Tax	-	-	(7.04)	(1.03)	(15.21)
Net Profit/Loss	658.76	691.67	818.92	1025.11	1085.87

Appendix - 3

Current Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	1.176	0.010609
2063/64	1.225	0.002916
2064/65	1.207	0.005184
2065/66	1.336	0.003249
2066/67	1.452	0.029929
	$\Sigma X=6.396$	$d^2=0.051887$

Here,

$$\text{Average } (\bar{x}) = \frac{\Sigma x}{n}$$

$$= 1.279$$

$$\text{Standard deviation}(\sigma) = \sqrt{\frac{\Sigma d^2}{n}}$$

$$= 0.102$$

$$\text{C.V.} = \frac{\sigma}{\bar{x}}$$

$$= 0.080$$

Appendix- 4
Quick Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	1.175	0.010609
2063/64	1.224	0.002916
2064/65	1.205	0.005329
2065/66	1.335	0.003249
2066/67	1.451	0.029929
	X=6.390	$d^2=0.052032$

Here,

Average (\bar{x})=1.278

Standard deviation (σ)=0.102

C.V. =0.080

Appendix- 5
Cash Reserve Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	5.534	2.14037
2063/64	8.200	1.44721
2064/65	6.893	0.01082
2065/66	8.874	3.52313
2066/67	5.484	2.28917
	X=34.985	$d^2=9.41070$

Here,

Average (\bar{x})= 6.997

Standard deviation =1.372

C.V. =0.196

Appendix- 6
Debt to Total Capital Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	92.561	1.99940
2063/64	91.648	0.25100
2064/65	91.684	0.28837
2065/66	90.723	0.17978
2066/67	89.120	4.10873
	X=455.736	$d^2=6.82728$

Here,

Average $(\bar{x}) = 91.147$

Standard deviation = 1.169

C.V. = 0.013

Appendix- 7
Loans and Advances to Current Assets Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	34.817	6.88538
2063/64	36.920	0.27144
2064/65	41.349	15.27246
2065/66	34.291	9.92250
2066/67	39.829	5.70254
	X=187.206	$d^2=38.05432$

Here,

Average $(\bar{x}) = 37.441$

Standard deviation = 2.759

C.V. = 0.074

Appendix- 8

Loans and Advances to Total Deposits Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	0.387	0.001296
2063/64	0.426	0.000009
2064/65	0.461	0.001444
2065/66	0.387	0.001296
2066/67	0.454	0.000961
	X=2.115	$d^2=0.005006$

Here,

Average (\bar{x})=0.423

Standard deviation =0.032

C.V. =0.075

Appendix- 9

Loans and Advances to Fixed Deposit Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	4.183	1.26563
2063/64	3.286	0.05198
2064/65	4.156	1.20560
2065/66	1.926	1.28142
2066/67	1.739	1.73976
	X=15.290	$d^2= 5.54439$

Here,

Average (\bar{x})=3.058

Standard deviation =1.053

C.V. =0.344

Appendix-10

Loans and Advances to Saving Deposit Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	0.612	0.04040
2063/64	0.689	0.01538
2064/65	0.768	0.00203
2065/66	0.714	0.00980
2066/67	1.284	0.22184
	X=4.067	$d^2=0.28945$

Here,

Average (\bar{x}) =0.813

Standard deviation =0.241

C.V. =0.296

Appendix- 11

Net profit to Total Assets Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	2.556	0.00032
2063/64	2.419	0.01416
2064/65	2.457	0.00656
2065/66	2.559	0.00044
2066/67	2.700	0.02624
	X=12.691	$d^2=0.04772$

Here,

Average (\bar{x}) =2.538

Standard deviation =0.098

C.V. =0.038

Appendix- 12
Net Profit to Total Deposit Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	2.857	0.00053
2063/64	2.806	0.00548
2064/65	2.753	0.01613
2065/66	2.900	0.00040
2066/67	3.086	0.04244
	X=14.402	$d^2=0.06498$

Here,

Average (\bar{x}) =2.880

Standard deviation =0.114

C.V. =0.040

Appendix- 13
Return on Loans and Advances

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	7.372	0.27773
2063/64	6.586	0.06708
2064/65	5.969	0.76738
2065/66	7.494	0.42120
2066/67	6.805	0.00160
	X=34.226	$d^2=1.53499$

Here,

Average (\bar{x}) =6.845

Standard deviation =0.554

C.V. =0.081

Appendix-14

Return on Capital Employed Ratio

Fiscal Year	SCBNL	
	X	$d^2=(X-\bar{X})^2$
2062/63	37.555	14.25063
2063/64	32.682	1.20560
2064/65	32.855	0.85563
2065/66	33.583	0.03881
2066/67	32.224	2.42114
	X=168.899	$d^2=18.77181$

Here,

Average $(\bar{x}) = 33.780$

Standard deviation = 1.938

C.V. = 0.057

Appendix-15

Calculation of Correlation Coefficient between Current Assets and Current Liabilities

X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	X ²	Y ²	XY
25664.29	21825.38	(7784.64)	(4170.78)	60600557.65	17395405.81	32468020
28446.87	23223.60	(5002.06)	(2772.56)	25020564.23	7687066.77	13868511
33177.32	27480.39	(271.61)	1484.23	73769.82	2202950.57	(403131)
39892.88	29850.78	6443.95	3854.62	41524543.15	14858126.18	24838978
40063.27	27600.63	6614.34	1604.47	43749546.55	2574336.82	10612510
167244.63	129980.78			170968981.10	44717886.15	81384889

Here,

Average value of current assets (x) = \bar{x} = 33,448.926

Average value of current liabilities (Y) = \bar{y} = 25,996.156

= 0.931, there is a high degree of correlation.

Probable Error (P.E.) = $0.6745 \times$

= 0.040

6P.E. = $6 \times P.E.$ = 6×0.040 = 0.242 (Significant)

Appendix- 16

Calculation of Correlation Coefficient between Cash and Bank Balances and Current Liabilities

X	Y	X= X- \bar{X}	Y=Y- \bar{Y}	X ²	Y ²	XY
1276.24	21825.38	(806.55)	(4170.78)	650522.90	17395405.81	3363942.61
2021.02	23223.60	(61.77)	(2772.56)	3815.53	7687066.77	171261.03
2050.24	27480.39	(32.55)	1484.23	1059.50	2202950.57	(48311.69)
3137.16	29850.78	1054.37	3854.62	1111696.10	14858126.18	4064195.69
1929.31	27600.63	(153.48)	1604.47	23556.11	2574336.82	(246254.06)
10413.97	129980.78			1790650.14	44717886.15	7304833.8

Here,

Average value of cash and bank balance (X) \bar{X} = 2,082.79

Average value of current liabilities (Y) \bar{Y} = 25,996.16

Coefficient of correlation (r) = 0.816, there is a high degree of correlation.

P.E. = 0.101

6P.E. = 0.604 (Significant)

Appendix - 17

Calculation of Correlation Coefficient between Loans and Advances and Net Profit

X	Y	X=X- \bar{X}	Y=Y- \bar{Y}	X ²	Y ²	XY
8935.42	658.76	(197.31)	(3623.26)	13128013.03	38931.24	714905.43
10502.64	691.67	(164.40)	(2056.04)	4227300.48	27027.36	338012.98
13718.60	818.92	(37.15)	1159.92	1345414.41	1380.12	(43091.03)
13679.76	1025.11	169.04	1121.08	1256820.37	28574.52	189507.36
15956.96	1085.87	229.80	3398.28	11548306.96	52808.04	780924.74
62793.38	4280.33			31505855.25	148721.28	1980259.4

Here,

Average value of loans and advances (X) \bar{X} = 12,558.68

Average value of net profit (Y) \bar{Y} = 856.07

Coefficient of correlation (r) = 0.915, there is a high degree of correlation

P.E. = 0.049

6P.E. = 0.295 (Significant)