CHAPTER -I

INTRODUCTION

1.1 Background of the study:

Industry and commerce play a vital role in the economic development of the country. Many developed countries have proved that for overall development of the country, industry and commerce play a main role. As development proceeds, the share of industry and service sector dominates. Nepal is predominantly an agricultural country. Agricultural is still the mainstay of Nepalese economy. This sector alone has provided employment to nearly 80 % of the labor force. It contributes 41 % to gross domestic product. Despite the emphasis being given to the development of agriculture sector since the fifth plan, a radical change is yet to be seen in this sector. There is a need of good efforts to transfer the increased labor force to the non- agriculture sector. There is a need of good efforts to transfer the increased labor to the non-agriculture sectors like industry, trade, tourism, communication etc. The average per capita income of Nepalese is just $ 210, which is too much lower than in developed countries. This has resulted into lower savings or negative savings in most of the cases. So capital formation is either very slow or negative. Therefore, several efforts have been made from concerned sectors to diversify the economic contributors from solely agro-based towards industry based. To increase the pace of industrialization huge amount of capital is needed and at this threshold, actual need of bank or financial institution occurs. The banking and financial infrastructure is inadequate and insufficient and needs to be expanded to finance to growth of industrialization and service sector in the country. Finance is the lifeblood and the role of banks to the development of Nepal is paramount.

In simple language, bank can be defined as a place where the transactions of money take place. In other words, bank is such an institution that collets scattered deposits and paid advances, loans. Banks collect deposits from different individuals and institutions. These collected deposits are mobilized by giving loans to different industries, commercial enterprises, individuals, households etc. A bank does not only perform the

activity of receiving deposits and advancing loans but at the same time it performs payment or remittance and other credit activities as well. Therefore, bank plays a significant role in the economic development of the country; bank fills the gap between the searcher and provider of fund. It also provides sufficient back support for the growth and expansion of trade and industry of the country, which eventually aids to its economic condition.

Earlier banks were different from modern commercial banks in many respects. The banks, which operated in the past, combined central banking functions, such as issue of currency with commercial banking functions like accepting deposits and financing business. In course of time this practice was abandoned and specialized institutions for the central banking functions were created. Now a central bank can be easily distinguished from a commercial bank due to their objectives and unique functions.

Commercials banks are the supplier of finance for trade and industry and play a vital role in the economic and financial life of the country. By investing the saving in the productive areas, they help in the formation of capital. The qualitative credit policy ensures certain portion of the credit of bank invested in the productive and priority areas so that there may not be shortage of resources in such areas. Moreover, flexible monetary and credit policy improve the prevailing slow down in the economic activities to alleviate sluggish credit expansion to the private sector from the banking sectors. People living in rural areas of the underdeveloped countries like Nepal need various banking facilities. In most of the countries, the banks are generally concentrated in the urban and semi-urban areas and the rural areas are neglected due to risk and low return. But in fact, the rural development is the key to the economic development without which the economy of the country cannot be flourished.

In the developing countries like Nepal the propensity to save is quite low. This hinders the capital formation and which is major cause of poor economic condition of the developing countries. That’s why the basic problem of the developing countries is raising the level of saving. Nowadays in Nepal, several banks such as development

banks, joint venture banks, commercial banks, agricultural banks, co-operative etc are coming into existence in quite a few numbers with the purpose to collect the scattered saving and put them into productive channels so that the saving will be safely and properly utilized for the all round development of the country.

Every business needs capital for two purposes. The first require for long term purposes which is called fixed capital. Investment in plants, machinery, land, building etc. comes under production activity. Investment in these assets represents that part of firm's capital which is huge amount of money blocked in the fixed basis. These assets are not purchased for resale.

We need another type of capital is short term capital or working capital. The funds required for purchase of raw material, payment of wages and other day to day expenses etc. is called as working capital. Working capital is invested into the work-in-progress, raw material, finished goods, sundry debtors, bills receivable etc. also comes under working capital.

The capital required for running day-to-day operation of a business is called working capital. It is concerned with current assets and current liabilities. Assets of an essential short term nature are known as current assets. It is a short term investment. Current assets are expected to be converted into cash within a short period. This asset which is either readily available cash or is convertible into cash within a short time relatively during the normal course of business is known as current assets. Liability is another part concerned with working capital. Those liabilities which are expected to have been paid within a short period are known as current liability.

1.2 Focus of the study:

This study focuses on how the Nepalese commercial joint venture banks utilized the available working capital funds very well. This study also focuses on the relationship between current assets and current liabilities and relationship of other variables, which affect the working capital management. This study also only focuses the working

capital management and its significance during past three years up to 2009 A.D. Working capital is the life-blood of every business activities. It is a controlling nerve center of business the success and failure of any business organization is heavily dependent upon the sort of efficiency in its working capital management . it is the process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. Specially, working capital management requires financial managers to decide what quantity of cash, other liquid assets, account receivables, and inventories. The firm will hold at any point of time.

Working capital management is concerned with the problem that arises in attempting to manage the current assets, current liabilities and, interrelationship between them. The basic total of working capital management is to manage the currency assets and current liabilities of firm. In such a way that the satisfactory working capital is maintained i.e. these are neither inadequate not excessive. No adequate of working capital may lead the firm to insolvency and excessive working capital implies idle fund, which earns no profit for the business.

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

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

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

NCC Bank Ltd.

NCC Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, NCC Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of NCC lives on in an institution that's known throughout Nepal for its innovative. Approaches to merchandising and customer service. Products such as Premium Savings Account, NCC Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by NCC. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of NCC by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

NCC is not only a Bank, It is committed Corporate Citizen

Corporate Social Responsibility (CSR) holds one of the very important aspects of NCC. Being one of the corporate citizens of the country, NCC has always promoted social activities. Many activities that do a common good to the society have been undertaken by NCC in the past and this happens as NCC on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society as large.

Nepal Investment Bank, one of the leading commercial banks of the country, was earlier known as the Nepal Indosuez Bank. **Nepal Investment Bank** Limited was established in 1986. Nepal Investment Bank was a joint commercial enterprise between the Credit Agricole Indosuez (one of the largest banking group in the world) and the Nepalese. The Head office of the Nepal Investment Bank Limited is located at Durbar Marg- Kathmandu, which remains open all round the year. This bank has 15 branches and 78 remittance centers across Nepal. The CEO of the Nepal Investment Bank Limited is Mr. Prithivi Bahabur Pandey.

Nepal Investment Bank Limited (NIBL) functions on the thumb rule given by the Nepal Government and the Nepal Rastra Bank or the Central Bank of Nepal. Besides all the function that Nepal Investment Bank Limited (NIBL) performs, it is generally known for its remittance services. It boasts of being one of the most dependable and the strongest center of money transfer to Nepal. Money can be sent to NIBL via their exchange houses, correspondent banks and the Middle-East banks using NIBL's in-house remittance software and the Prithivi Express by the remitters across the globe.

The various modes of money transfers are:

- Demand Draft: This facility is available worldwide through correspondent banks.
- Swift Transfers: This service ensures quick money transfer by the NIBL from any part of the globe. Beneficiary details and the swift address NIBLNPKT is asked for.
- Cash Management Services: If one is engaged into exporting goods to India, NIBL helps the exporter to collect receivables and bills properly. Also one can get the details of the Indian buyer with the help of NIBL
- Travelers Cheque: “American Express Traveler’s Cheque”, accepted globally is issued here.
- Remittance from the Middle- East: NIBL authorizes worldwide agents of large remitting companies like Instant Cash, UAE Exchange, Wall Street Exchange

and Doha Bank.

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore K.

Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Joint Venture Partner

Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

Awards

- The bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London.
- The bank was bestowed with the “NCCCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector

Pioneering achievements

Recognizing the value of offerings a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal.

EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.

EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society.EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

1.3 Statement of the problem:

There are many commercial banks in our country. These banks play important role in the economic development of the country. Wrong decisions on working capital management of commercial banks not only affect the liquidity and profitability of the bank but also economic condition of the country.

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

amount of liabilities on its demand without depositors' notice. But large amount remain idle.

There are many problems but some of the major problems that have been identified for the purpose of this study are as follows:

- Which of the current assets are more problematic in commercial bank?
- Does current assets management plays significant role in working capital management of Nepalese commercial banks?
- Does working capital promotes the financial image of commercial bank?
- What is the size of investment in each types of current assets management?
- What are the components of working capital, which affect the operating income of commercial bank?

1.4 Objective of the study:

Working capital plays a vital role behind the success or failure of the business. Working capital has to be adequate. The excess or the shortfall of the working capital is harmful for a business. The main objectives of the study are as follows:

- To analyze the liquidity, assets utilization, composition of working capital and profitability positions of the banks.
- To study the current assets and current liabilities and their impact on liquidity and profitability.
- To provide appropriate recommendation and suggestion for the improvement of the working capital management and enhancing the profitability scenario of commercial banks.

1.5 Limitations of the study:

Limitation exists everywhere and this study is also not an exception of it. Following are some limitations.

- The study is mainly based on the secondary data.
- The study is limited time for working capital management.
- The study is confined to two or three selected banks.

- Due to time constraint, all the related areas are not possible to cover in depth but I will try my best.

1.6 Organization of The Study:

This study will consist of five chapters:

Chapter I Introduction: This chapter contains the introductory part of the study. As already mentioned, this chapter describes the major issues to be investigated along with the general background, brief profiles of the sample banks statement of problem, objectives, significance of the study and finally limitation of the study.

Chapter II Review of Literature: This chapter deals with is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies in general.

Chapter III Research Methodology: This chapter describes the research methodology employed in the study. This chapter deals with the research design, source of data, methods of analysis, analysis of financial indicators and variables, test of hypothesis, definition of statistical tools etc.

Chapter IV: This chapter deals with the presentation and analysis of data to indicated quantitative factors on dividend policy using statistical tools and techniques.

Chapter V: states summary, findings, conclusion and recommendations, this chapter presents the major findings and compares them with other empirical evidence to the extent possible and provides some suggestions. Finally bibliography and appendices are given in a prescribed form.

CHAPTER- II

REVIEW OF LITERATURE

Introductions:

The second chapter of this thesis throws light on the conceptual framework of commercial bank and working capital management. It also provides insight into the findings of earlier studies through the review of books, publications and previous studies related to the working capital management.

2.1 conceptual frameworks:

The concept evolved from the concept of commerce and bank. Commercial bank is the financial institution that deals in accepting deposits of individuals and institutions, and giving loans against securities. Commercial bank also provides techNCCal and administrative assistance to industries, trades and businesses. There are different types of banks such as agriculture bank industrial bank, joint venture bank etc. this classification is done on the basis of their functions, which they render to their customer. With regard to the functions of banks, commercial bank performs their own functions, which are different from the functions performed by the other banks. Commercial bank serves the following functions:

To accept deposit

To provide loan

To purchase bills

To transfer money

To foreign currency exchange

To deals letter of credit

To help in issuing share

2.2 Concept of working capital Management

Finance is the life blood for any organization, without which the operation of a business concern is not possible. But only the availability of funds is not enough, I requires the

proper management of those funds to drive a firm on the road to success. The management of the funds of a business can be described as financial management. Financial management is mainly concerned with two aspects. They are fixed assets & liabilities and current assets & liabilities. Fixed assets and fixed liabilities are long term investment and sources of funds. Current assets and current liabilities means current or the short term uses and sources of funds. Both of such funds play an important role in financial aspects of a business concern.

The term working capital management is associated with the short term financing and it is concerned with the collection and allocation of resources in the proper manner. Working capital management is the tool by which we can find solutions related to the problems that arise in attempting to manage the current assets, the current liabilities and the appropriate combination of these for the efficient operation of the business activities.

Working capital refers to the resources of the firm that are used to conduct operation of day to day activities that make the business successful. Without cash, bills cannot be paid. Without receivables and payables the firm cannot allow the timing difference between delivery of goods and services and collecting the money to pay for them. Without inventories the firm cannot engage the production and nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets the management of working capital is one of the most important areas in determining whether a firm will be successful. Working capital are those resources which can be converted into cash within a year and net working capital is defined as the difference between current assets and current liabilities.

The goal of working capital management is to support the long term operation and financial goals of the business. In effect, this involves recognizing the relationship between risk and return. Three elements must be included in analyzing the tradeoff between risk and return when managing working capital.

The first one is insolvency, which is the condition that occurs when a firm can no longer pay its bills and must default on obligations and possibly declares bankruptcy. A firm without the adequate level of working capital may have to face this risk.

The second one is profitability of the assets. Different level of current assets will have varied bearings on profits. A high level of inventory will require high carrying cost. At the same time, the firm will have a wide range of goods to sell and may be able to generate higher sales and profit. Each decision on the level of cash, receivables and inventory should consider the effects to different levels.

The third one is the cost of financing. When interest rates are high, it costs more to carry inventory than when the rates are low. Large cash balances may not earn the return that is possible if the cash is converted into operating assets. The cost of debt and the opportunity cost of alternative investments are the items to consider when evaluating working capital level.

There are two concepts of working capital, Gross concept and net concept. The gross working capital, simply called as working capital, refers to the firm's investment in current assets. Current assets are the assets, which can be converted into cash within the accounting year and include cash,, short term securities, debtors, Bills receivables and stocks. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year and include creditors, bills payables, and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities and a negative net working capital arise when current liabilities are in excess of current assets.(Pandey; 1992:796).

After going through the above concepts of working capital, we can conclude that adequate working capital is the essential condition for any organization, whether it is private or public, manufacturing or non-manufacturing. When a firm holds excessive

working capital, it affects a firm's profitability just because an idle investment yields nothing. Likewise, inadequate investment on working capital affects the liquidity position of the company and leads to financial crisis and downfall of the company, so it is very clear that any mismanagement in working capital can hamper the overall efficiency of an organization.

2.3 Types of working capital:

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

2.3.1 Permanent working capital

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

2.3.2 Variable working capital:

Variable working capital represents that portion of working capital which is required over permanent working capital. If the nature of production and sales of a firm is directly related to seasonal variations, it should stock extra raw material, work in progress and the inventory of finished goods. Hence, this portion of working capital depends on the nature of firm's production relation between labor and management. If a firm has sound management on this portion of working capital, it can easily win over other competitors. (Pandey; 1992:808)

2.4 Working capital policy:

Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. So, in working

capital management, a firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policies according to the financial manager's attitude towards the risk- return trade off. One of the most important decisions is the financing of current assets.

2.4.1 Current assets investment policy:

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

2.4.1.1 Fat Cat Policy:

This is also known as relaxed current assets investment policy, under which relatively large amount of cash, marketable securities and inventories are carried while sales are stimulated by a liberal credit policy which results in a high level of receivables which also creates the longer receivables collection period. Thus this policy provides the lowest expected return on investment with lower risk. (Weston & Brigham; 1996:344).

2.4.1.2 Lean and Mean policy:

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

2.4.1.3 Moderate policy:

It is the policy that lies in between the relaxed and restrictive policies. Under it, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both the risk and return are moderate in this policy.

2.4.2 Current Assets Financing Policy:

Under this policy, permanent & temporary current assets are financed with funds raised from different sources. As cost & risk affect the financing of any assets, it should

clearly outline the sources of financing. Aggressive, conservative and matching are the three policies under current assets financing.

2.4.2.1 Aggressive policy:

Under aggressive policy, all the fixed assets of the firm are financed with long term capital, yet some of the firm's permanent current assets are financed with short term, non spontaneous sources of fund. (Weston & Brigham; 1996:348)

In other words, the firm not only finances temporary current assets but also a part of permanent current assets with short term financing. In general, Interest rate increases with time, i.e. shorter the time, lower the interest rate. It is because lenders are risk averse and risk generally increases with the length of lending period. Thus under normal circumstances, the firm borrows on a short term financing rather than long term financing. On the other hand, it the firm finances its permanent short term financing, then it runs the risk of renewing the borrowing again and again. This future interest expenses will fluctuate widely, and it may also be difficult for the firm to raise the funds during the stringent credit policy. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

2.4.2.2 Conservative policy:

Under this policy, the firm uses long term financing not only to finance fixed assets and permanent current assets but also a part of temporary current assets.(Weston & Brigham; 1996: 348) it means that the firm depends upon the long term sources for financing needs. This policy leads to the high level of current assets, long conversion cycle, low level of current liabilities and higher interest cost. The risk and return are lower than that of aggressive one. The risk average management follows this policy.

2.4.2.3 Matching policy:

It is self-liquidity approach, in which the firm finances the per assets with long term financing and temporary current assets with short term financing. It means that the firm matches the maturity of financing source with an assets useful life. It lies in between the

aggressive and conservative policies. It leads to neither high nor low, Level of current assets and current liabilities. It lies in between a low profitability.

2.4.3 Determinants of working capital:

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

Nature and size of business:

Working capital requirement depends on the nature and size of the business. Bigger firm requires more working capital while a small firm needs less working capital. Trading and financial firm require larger amount of working capital to public utilities, while manufacturing concern lies between these two extremes.

2.4.3.1 Growth and expansion:

A growing firm needs more working capital than those of static ones. However it is difficult to precisely determine the relationship between the growth and expansion of the firm and working capital requirements.

2.4.3.2 Credit policy:

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

2.4.3.3 Production policy:

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

2.4.3.4 Availability of credit:

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

2.4.3.5 Manufacturing cycle:

Working capital requirement of a firm is also influenced by the manufacturing or production cycle. Production cycle refer to the time involved to make the finished goods from raw materials. During the process of production cycle, the larger will be the working capital requirement and vice versa.

2.4.3.6 Profit margin:

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

2.4.3.7 Price level changes:

Generally a firm is required to maintain the higher amount of working capital if the price level rises as the same level of current assets needs more funds to the increasing price. Hence, the implication of changing price level on working capital position will

vary from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

2.4.3.8 Operating efficiency:

Operating efficiency also has a big influence on the working capital requirement of the firm. Operating efficiency refers to the efficiency utilization of the available resources at minimum cost. Thus, financing manager can contribute to strong operating efficiency then it needs less amount of working capital otherwise it requires large amount of working capital. (Pandey; 1999:817 – 819).

2.4.3.9 Level of Taxes:

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

2.4.3.10 Need for working capital:

Working capital is the lifeblood and controlling nerve centre of every business organization as without the proper control upon working capital no business organization can operate smoothly, therefore, it plays a crucial role in the success & failure of the organization. The need for working capital to run the day to day business activities cannot be overemphasized. We can hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. As we know that business 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 other thing. For the constant operation of business, every firm needs to hold the working capital components such as cash, receivables, inventory

etc. hence, and every firm needs working capital to meet the following motives. (Pandey; 1999:809)

2.4.3.11 Transaction motive:

Transaction motive require a firm to hold cash & inventories to facilitate smooth production and sales operations regularly. Thus, the firm needs working capital to meet the transaction motive.

2.4.3.12 Precautionary motive:

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

2.4.3.13 Speculative motive:

It refers to the desire of a firm to exploit opportunities as an opportunity of purchasing raw materials at reduced price on immediate payment, making investment on lucrative fields, to speculate on interest rates, to make purchase at favorable price and the like. Hence, the firm needs the working capital to meet the speculative motive. (Van Horne & Wachowicz; 1999:220).

2.4.3.14 Financing of working capital:

Every manufacturing concern or industry requires additional assets whether they are in stable or growing state. When the growing firm wants to generate sustained profit, it normally requires fixed as well as working capital. Additional portion of the working capital is approximately dominated by the same rate of sales. However, this portion of capital requirement depends upon the nature of the firm. So, the most important function of a finance manager is to determine the level of working capital and to device how it is to be financed. Financing of any assets is concerned with two major factors-

cost and risk. Therefore, the financial manager must determine an appropriate financing mix or decide how current liabilities should be used to finance current assets. However, a number of financing mixes are available to the finance manager. He can present generally three kinds of financing:

2.4.4 Long term financing:

Long term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earnings and long term debts are the major sources of long term financing.

2.4.5 Short term financing:

Business firm must arrange short term credit in advance. The sources of short term financing of working capital are trade credit and bank credit.

2.4.5.1 Trade credit:

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

2.4.5.2 Bank credit:

Bank credit is a primary institutional source for working capital financing. For the purpose of bank credit, amount of working capital requirement has to be estimated by the borrowers and banks are approached with the necessary supporting data. Bank determines the maximum credit based on the margin requirements of the security. The following types of loan are provided by commercial banks.

Loan arrangement:

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

Overdraft arrangement:

Under this arrangement the borrower is allowed to over draw on his current account with the bank up to the stipulated limit. Within this limit, a numbers of drawing are permitted and repayment should be made in short period.

Commercial papers:

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

Spontaneous Financing:

Spontaneous financing arises from the normal operation of the firm. The two major sources of such financing are trade credit and accruals. Whether trade credit is free of cost or not actually depends on the term of trade credit. Finance manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of current assets financing is either short term or long term sources. Thus, the finance manager concentrates his power in short term versus long term financing. Hence, the financing of working capital depends on the working capital policy, which is perfectly dominated by the management's attitude towards the risk & return. (Pandey; 1999: 827)

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 trading firm, the account for even more excessive levels of current assets can easily result in a firm realizing a substandard return on investment. However, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations.

For small companies, current liabilities are the principal sources of external financing. These firms do not have access to the longer term capital markets, other than to acquire a mortgage on a building. The fast growing but larger company also makes the use of current liability financing. For these reasons, the finance manager and the staffs devote a considerable portion of their time to the matters related to working capital. The management of cash, marketable securities, account receivables, account payable, accruals and other means of short term financing is the direct responsibility of the finance manager; only the management of inventories is not. Moreover, these management responsibilities require continuous, day to day supervision. Unlike Working capital 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 finance manager's time that must be devoted to it. More fundamental, however, is the effect that working capital decisions have on the company's risk, return, and share price. (van Horne & Wachowicz; 1999: 204).

Determinants of working capital

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

i **Nature and size of business**

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

ii **Manufacturing cycle**

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

iii **production policy**

Working capital requirement is also determined by its production policy. If a firm produces seasonal goods, then its production and sales volume fluctuates with different seasons. This type of fluctuating production policy affects the working capital policy of the firm.

iv **Credit policy**

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

v Availability of credit

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

vi Growth and expansion

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

vii Price- level change

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

viii Operating efficiency

Operating efficiency is also important factor, which influences the working capital requirement of the firm. It refers to the efficient utilization of available resources of minimum cost. Thus, financial manager can contribute to strong working capital position through operating efficiency. If a firm has strong operating efficiency then it needs fewer amounts of working capital and vice- versa.

ix Profit Margin

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

x Level of taxes

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

xi Cash requirements

Cash is one of the current assets, which is essential for the successful operation of the production cycle. Cash should be adequate and properly utilized. Adequate cash is also required to maintain good credit relation.

xii Business fluctuations

This situation whether an organization operating is boom or recession or depression period also determine the working capital needs of the organization.

xiii Change in technology

Technology developments related to the production process have a sharp impact on the need for working capital. Change in technology will need additional amount of working capital due to fresh investment in new fixed assets.

2.5 Reviews of Journals/ Articles

This section is also important for literature review of working capital. For the study of this section many 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 Joseph (1962) has presented the article on “working capital concept”. This article looks a fresh at the problem of determining working capital, and purposes a simple yet comprehensive restatement of principle with respect to current assets and current liabilities. The working capital measures the liquidity, the fluidity of capital and serves as an indicator of balance sheet in the assets and liability structure of the company. Bank and the other short-term creditor are vitally interested in the amount of working capital from the stand point of evaluating the prospect of repayment of their claim against the company. 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 Factor.

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

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 enterprises.

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 to finance working capital requirements.

Radhe S. Pradhan and K.D Koirala (2005) had jointly published an article on "some reflections of working capital management in Nepalese corporations". This article aims to find out the difficulty, problems and importance of current assets management and also aims to find out the motive for holding cash and inventory, the study use only primary data to find out the basic constraints and distributed 200 questionnaires. For the purpose of study, they use both manufacturing public corporation as a sample companies. After analyzing the collected data the major findings of this study are as follows:

- To provide a reserve for routine net outflows of cash is the major motive for holding cash in Nepalese corporation.
- The major reason for holding inventories is to facilitate smooth operation of production and sales.
- The major factor affection the large investment in receivable is found to be the liberal credit policy followed by Nepalese corporation. The large paying practice of customer is also responsible for larger investment in receivable. However, corporations are reluctant to take inefficient collection of trade credit as one of the major factor affecting receivables.
- Public enterprises should take care of negatively affecting policies directives from HMG Nepal itself.
- Public enterprises should avoid fictitious holding of assets immediately.
- Finance staff must be adequate with the modern scientific tools used for the presentation and analysis of data.
- Lastly, this study has suggested optimizing its level of investment because both of these situations will erode the efficiency of concern.

R. S. Pradhan (2008), in his article, "the demand for working capital by Nepalese corporations", selected nine manufacturing public corporations for the analysis with 12 years data 1973 to 1984. Regression equation had been adopted for the analysis. From his study, he concluded that:

Earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exist with respect to the presence of economies of scale, role 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 results strongly suggested that the demand for working capital and its components is a function of both sales and their capital costs. The estimated results revealed that the inclusion of capacity utilization variable in the model seemed to have contributed to the demand functions of cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivables and gross working capital was doubtful.

L.D. Mahat (2009), has published article relating to "spontaneous resources working capital Management". The article has defined the three major sources of working capital i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing includes short term, bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. where as spontaneous sources of working capital include trade credit, provisions and accursed expenses.

The articles has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such as environment should be enough to cope with the possible worst happening in future for working capital management.

The study has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by the way of debt financing, the company should have to bear interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profit. Therefore, spontaneous sources of working capital will better to working capital in order to improve its performance.

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

2.6 Review of Thesis

Besides the review of available books and research studies, a number of studies have been made by student of MBA and MBS relating to working capital management in

different PEs and private companies of Nepal. This section will review some of those dissertations.

Sapkota (2007) had carried out "*A study on working capital management of Himal Cement Company limited"*. He had used ratio analysis using financial statements of the company for five years from 2000 to 2004.

His Major Objectives:

- To examine the current assets and current liabilities position.
- To revel the specific performance in working capital management.
- To evaluate the each type of current assets of the company.
- To understand the accuracy of working capital depending upon the nature of financing by current assets or not.

His Research Methodologies are as follows:

- Research methodology is the focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data will be done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, coefficient of correlation, regression analysis and the technique of least square are adopted in this study. Financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

His Major Findings:

- Major part of current assets is occupied by inventory.
- Inventory turnover ratio, cash conversion cycle and receivable conversion. Period is found at satisfaction level.
- Poor liquidity position.

- Poor profitability position of the firm i.e profit making capacity is low due to low utilization of plant capacity, inefficiency in sales and operations activities and lack of efficient management of the company.
- High operation inefficiency due to high production cost.
- Management of receivable seems to be far better than other aspects.

Sharma (2008), in his thesis entitled *"A study on working Capital Management of Nepal Battery Co. Ltd."* has concerned with working capital management Of NBCL by analyzing various ratio of the period of five years. He used secondary data of balance sheet and profit and loss a/c of the company from 2001 to 2005.

His Major Objectives:

- To analyze the liquidity composition of working capital (assets utilization and profitability position).
- To study the relationship between sales and different variable of working capital of NBCL.

His Research Methodologies are as follows:

- In this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Loans and advances to Total Risk Weighted Assets Ratio, non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing Loan, Arithmetic Mean Standard Deviation and Hypothesis Test.

His Major Findings:

- Major component of working capital of NIBC are cash and bank balance, account receaibles, inventory and misc. current assets and inventory holds large position of current assets.

- Inventory to total assets shows fluctuating trend and receivable to total assets position show increasing trend. The turnover position is in fluctuating trend and receivable conversion period and inventory conversion period is long which is unfavorable for the company.
- Values of current and quick ratios are found nearly equal to standard inefficiency in operation can be see through wide difference between gross profit margin and net profit margin and high level of operation ratio.

Shrestha (2009), has carried out his thesis entitled *"A study on working capital management of Nepal Diary Development Corporation"*. He has taken five years study period and applied the secondary data.

His Major Objectives:

- To appraise the working capital management of DDC.
- To study the relationship between sales and different variables of working capital.

His Research Methodologies are as follows:

- In his thesis the data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Debt to Equity ratio, Debt Ratio Interest Coverage Ratio, Earnings per Share, Price Earnings Ratio, Return on Total Assets, Return on Share Holder's Fund or Equity, Arithmetic means, Standard Deviation and Correlation Coefficient.

His Major Findings:

- The Major components of current assets are inventory, cash and bank balance sundry debtors and miscellaneous current assets in which inventory hold the major position and cash hold the smallest position.
- Company's investment in form of working capital has been increasing. The average investment in current assets in lower with respect to net fixed assets

during the study period and DDC has on clear vision about the investment in current assets to fixed assets position.

- There is growing tendency of investment over current assets.
- Liquidity position of the company is not well because current and quick ratios are below standard value.
- Because of high collection, period, turnover position of the company in weak.
- The overall return position of DDC is negative because of inefficient utilizing of CA, TA and shareholders wealth.

Shrestha, (2010) has done a research on *"Working capital management of selected manufacturing companies in Nepal"* .The study is covered only the five years data of 2002 AD to 2006 A.D. It study is based on only six manufacturing companies, like unlevel ltd bottlers Nepal, Dabur Nepal, Dairy development corporation, Nepal tea development corporation and Nepal drugs.

His Major Objectives:

- To examine the position of working capital is selected companies.
- To analyze risk return of working capital position.
- To assets than turnover of working capital and analyze.

His Research Methodologies are as follows:

- The research, data are analyzed by using different types of tools. For this study following statistical tools Arithmetic mean, Standard Deviation, Correlation Coefficient, Probable Error and Regression Analysis and financial tools Earnings per Share, Price Earnings Ratio, Return on Total Assets and Return on Share are also use.

His Major Findings:

- Is the composition of working capital in manufacturing companies is appropriate.

- The overall selected manufacturing companies are positive on other correlation coefficients between various components of working capitals with moderate sales.
- Those liquidity and profitability position of all selected companies is satisfactory.

Shrestha, (2011) has done a research on *"A study on working capital management of Nepal lube oil limited."*

His Major Objectives:

- To examine the working capital position of NLOL.
- To examine the structure of working capital.
- To assess the financial liquidity position of the NLOL.

His Research Methodologies are as follows:

The research is analyzed by using different types of tools. For this study following statistical tools and financial tools are use such as Loans and advances to Total Risk, Weighted Assets Ratio, Non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing, Loan Ratio Loan Loss Provision to Total Loans and Advances, Arithmetic mean, standard Deviation, Correlation Coefficient, Probable Error, Regression Analysis and Test of Hypothesis.

His Major Findings:

- 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 un sounded inventory management.
- The company has insufficient in collecting receivable

2.7 Research Gap

Many research studies have been conducted by the different students, experts and researchers about working capital management. Some studies are related to case study of a single company and some are comparative in nature. The financial and statistical tools used by most of the researcher were ratio analysis, test of hypothesis, correlation analysis and trend analysis. Regression analysis and primary tools have not been used by many researches. This research will include different tools like ratio analysis, correlation analysis; regression analysis and interview as a primary tool of analysis, regression and interview are the specific tools used in this research and also used the latest data to show the overall working capital of NIBL and EBL. This research can help the person who wants to know about overall working capital management of NIBL and EBL. This research may be new as well as the research work may be appreciable.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction:

This is the third chapter of the thesis, named as Research Methodology. Research methodology is the way to solve the research problems systematically. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It also highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated etc. (Joshi, P.R.; 2002: 19).

This chapter describes the methodology employed in the study. It consists of research design, population and sample study, sources of data, data processing procedure and technique of analysis of data. This study is more analytical and empirical. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of concerned banks, especially from profit and loss account, balance sheet and other publications published by the bank.

3.2 Research Design:

Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. It 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 means an overall framework or plan for the collection and analysis of data. The study aims to portraying accurately upon the working capital and its impact on overall financial performance of these two banks. The research design followed for this study is basically a historical, empirical and descriptive cum analytical research method is followed.

3.3 Population and Sample:

In Nepal, there are 31 commercial banks in existence till the date. Among them few are government owned banks, few are joint venture banks and the others are private banks. To carry out the study, Nepal Investment Bank and Everest Bank Ltd. have been taken as a sample for the study. Financial statements of five years from 2005/2006 to 2009/2010 have been taken as sample data.

3.4 Nature and Sources of Data:

Data collection is considered as an integral part of the research activity. The sources of information are generally classified as secondary.

a. **Primary Data:** Data collected by researcher or through agent for the first time from related field and processing original character are known as primary data. In preparing this thesis, primary data are lesser used due to time factor and nature of availability.
b. **Secondary Data:** Data collected by someone else, used already and are made available to others in the form of published statistics are known as secondary data.

Different types of data from several sources are necessary for this study. Therefore, both quantitative and qualitative data have been collected. Qualitative data have been collected through office visit and informal interviewing with some staff and quantitative data are collected through reports etc. published by relevant banks.

3.5 Data Processing Procedure:

Data are analyzed by using simple methods so that it would be easy to understand. The obtained data are presented in various tables, diagrams and charts that will definitely help to reach towards meaningful interpretations of the presented data. For convenience, the calculations that cannot be shown in the body part of the report are presented in the appendices section.

3.6 Data collection Technique:

The study is mainly based upon secondary data; the data relative to financial performance and directly obtained from concerned banks. The supplementary data performance records of concerned banks, booklets, journals and other organization. Data are collected through annual report, minutes and memorandum of association relative websites and several organizations. Concept paper made by few organizations, newsletters, bulletin and brochures also helped in collection of data for the study. Similarly methods like surfing in website and personal visit to bookshops is also used for the collection of data and information.

3.7 Method of data analysis and interpretation:

The collected data through various instruments and sources have been edited, coded, processed, analyzed and tabulated using simple financial and statistical methods. Major findings were based on the analysis and interpretation of data. The major data analysis tools used for the analysis and presentation of data are as follows:

3.7.1 Financial Analysis Tools:

Financial ratios are useful indicators of a firm's performance and financial situation. Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statement. Most ratios can be calculated from information provided by the financial statements. Most ratios can be calculated from information provided by the financial statements. Financial ratios can be used to analyze trends and to compare the firm's financials to those of other firms. In some cases, ratio analysis can predict future bankruptcy. It helps the related parties to spot out the financial strength and weakness of the firm. The related parties may be creditors, long term debt suppliers, investors and the company's management. it is the process of summarizing large quantity of financial data and making qualitative judgment about the firm's financial data and making qualitative judgment about the firm's financial performance. In the research study various financial tools are employed for the analysis. There are various ratios but in this study some selected ratios among them are used.

A. Liquidity Ratios:

One of the main objectives of working capital management is keeping sound liquidity position. Cash is a main liquid asset and other assets which can be easily converted into cash are also called near cash or liquid assets. So managing or maintaining liquid assets is termed as liquidity. In banking sector liquidity is very essential for smooth operation of day to day activities. Thus liquidity is concerned with maintaining adequate liquid assets. The followings are the liquidity ratios:-

a. Current Ratio

Current assets Working capital by current liabilities from the most recent quarter. The current ratio is a measure of the firm's immediate financial health and it's ability to meet current obligations. Generally, the current ratio should be 2:1 or higher; the higher the current ratio, the more conservative the firm, although a high current ratio can mean less profitability than a competing firm with a leaner current ratio. Also, like so many ratios, this one can vary by industry. Restaurant companies, for example, often have current ratios of less than 1:1, but since there is usually a delay between payment for services (which is immediate) and payments to vendors, who typically grant credit, this low ratio raises few eyebrows.

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

b. Quick Ratio

The sum of cash and receivables are from the most recent quarter Working capital by the total current liabilities from the most recent quarter. This assessment of a company's ability to meet short-term obligations is also known as the acid test. In general, the quick ratio should be 1 or better. A high quick ratio is usually a sign of a solid, conservatively run company in no danger if imminent demise even if for some awful reason sales immediately ceased. A firm's quick ratio might be of special interest to investors anticipating some kind of downturn in the firm, business or the economy at large.

$$\text{Quick Ratio} = \frac{\text{current assets} - \text{inventory} - \text{Prepaid expenses}}{\text{Current Liabilities}}$$

C Cash and Bank balance to Deposits (Excluding fixed Deposits)

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

$$\text{Cash \& bank balance to Deposit} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

D Saving Deposit to total Deposit

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

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

e. Absolute liquidity ratio

Although current assets like receivable, marketable securities etc. can be changed into cash as required. It takes time to be changed. It means it is not absolute liquid. The absolute liquidity ratio measures the liquidity of a firm in absolute term. It is calculate by dividing cash by current liabilities.

$$\text{Absolute liquid ratio} = \frac{\text{Cash}}{\text{Current Liabilities}}$$

C Activity Ratio/ Turnover Ratio:

Activity Ratios are intended to measure the effectiveness regarding the employment of the resources in a business concern. These ratios reveal whether the funds employed have been used effectively in the business activities or not. The following are the ratios employed to analyze the activeness of the concerned joint ventures.

This ratio assesses, to what extent the bank is able to utilize the depositors' funds to earn profit by providing loans and advances. It is computed by dividing the total amount of loans and advances by total deposit funds. The ratio is computed as:

$$\text{Loans and advances to total deposit ratio} = \frac{\text{Loans and Advances}}{\text{Total deposits}}$$

High ratio is the symptom of higher or proper utilization of funds whereas low ratio is the signal of underutilized or idle funds.

ii Loan and advances to Fixed Deposit Ratio

The ratio indicates what proportion of fixed deposits has been used for loans and advances. Loans and advances are the major sources of investment to generate income by the commercial banks. Fixed deposits are long-term interest-bearing obligation. It carries high rate of interest. Funds collected are needed to invest in such sectors, which yield at least sufficient return to meet the obligations. The ratio measures the extent to which the fixed deposits are utilized for the income generating purpose. High ratio means utilization of fixed deposit in form of loans. The ratio is calculated by dividing loans and advances by fixed deposits.

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

iii Loan and advance to saving deposit ratio

The ratio indicates how many times the short-term interest bearing deposits are utilized for generating the income. Saving deposits are the short-term interest bearing liabilities. Loans and advances are the major sources of investment to generate income in commercial banks. Loans and advances to saving deposits ratio is measured to find out how many time of fund is used in loan and advances against saving deposit. High ratio indicates greater utilization of the saving deposits in advancing loans. The ration is calculated dividing the amount of loan and advances by total deposit in saving account. The following formula is used to calculate this ratio as:

$$\text{Loans and advances to saving deposit ratio} = \frac{\text{Loans \& Advances}}{\text{saving deposits}}$$

iv Investment to Total Deposit Ratio

The ratio shows how efficiency the major resources of the bank have been mobilized. High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds. The ratio is obtained by dividing investment by total deposits collected in the bank.

$$\text{Investment to Total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposit}}$$

Investment comprises investment its HMG treasury bills, development bonds, company shares and other type of investment.

D Profitability Ratio

Profitability ratios offer several different measures of the success of the firm at generating profits. It indicates of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used is as follows:

i Interest Earned to Total Assets Ratio

Interest Earned to Total Assets Ratio formed to find out the percentage of the interest earned investing total assets. This ratio can be calculated by dividing the amount of interest earned by the total assets of the firms. It can be expressed as:

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

ii Net Profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets. It can be calculated by dividing the net profit after tax by total assets. It can be expressed as:

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

iii Net Profit to Total Deposit ratio

This ratio is used for measuring the internal rate of return from deposits. It is computed by dividing the net profit by total deposits. This can be expressed as:

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

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

E Total interest expenses to Total Interest income Ratio

The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view. The ratio is obtained by dividing total interest expenses by total interest income.

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Total interest expenses}}{\text{Total Intrest Income}}$$

Total interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total interest income includes interest income received from loans, advances, cash credit, overdrafts and government securities, inter- bank and other investments.

Statistical Tool Used

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured form groups of individuals or groups of observations from a single individual. In this research study some statistical tools are also used for analysis. Those tools are as follows:

A Correlation

Correlation is the statistical tool that refers the closeness of the relationship between two or more variables. We can use correlation to describe the degree to which one variable is linearly related to other variables. The coefficient of correlation deals to

determine the degree of relationship between two or more sets of figures. Among the various method of finding out coefficient practice for calculating correlation coefficient, the most widely used in practice for calculating correlation coefficient is Karls Pearson's correlation coefficient. So, Karls Pearson's correlation coefficient method is applied in the study. Correlation coefficient always lies between +1 to -1. When r= +1, there is perfect positive correlation between two variables and when r= -1, there is perfect negative correlation. And when r=0, there is no correlation. We can calculate correlation of variables with the formula. That is:

Correlation (r) =

Where, x= (x-x)

Y= (y-y)

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, to attain the objective, which is set in introduction chapter, the pertinent data and information on Working capital policy and its impact on market price of stock of commercial banks are presented. Presentation and analysis of data is the study. Using the various financial variable and statistical tools discussed in "Research Methodology". This Chapter has Working capital into four sections.

4.1 Presentation of Financial Variables

Before observing the impact of different financial indicators and variables on Working capital as well as value of firm, we need to present and analyze them systematically. For this purpose DPS, EPS, DPR, MPS, DY, P/E ratio have been selected as an effecting variables. However these variables show the Working capital status of the banks as well as their strength. Consequently, helps to identify the banks' position regarding Working capital payout. These variables have been presented by the help of table, figure and analyzed by using statistical tools as specified in chapter three.

4.1.1 Analysis of EPS of the Sample Banks

The Earning per share of the sample banks under study are tabulated as follows:

Table 4.1

EPS of Sample Banks

Banks / Year	NIBL	EBL	NCC
2004/05	143.14	54.22	22.75
2005/06	175.84	62.78	16.10
2006/07	167.37	78.42	24.01
2007/08	131.92	91.82	25.75
2008/09	109.99	99.99	27.83
2009/10	77.67	100.16	34.30
Mean	134.32	81.23	25.12
S.D.	33.42	17.80	6.05
C.V. (%)	24.88	21.91	24.08

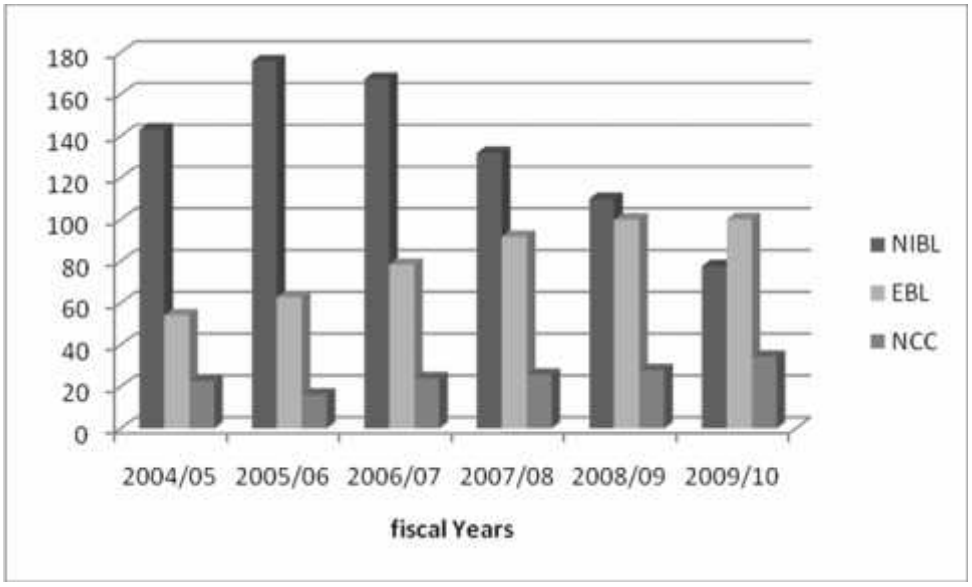
Source: Annual Report of Sample Bank provided by SEBON

Table 4.1 shows the EPS of the selected banks from the year 2004/05 to 2009/10. In the table mean, standard deviation and coefficient of variation respective have been presented. NIBL within the period of study has an average EPS of Rs.134.32 ranging between Rs.77.67 to Rs.175.84. The S.D. is33.42 and the fluctuation of 24.88% in shown by the C.V. of the bank. The EPS range between Rs.13.29 to Rs.39.35. The C.V. shows there is period of study which is 34.71%. EBL has the EPS range between Rs.54.22 to Rs100.16. The average EPS is Rs81.23. The S.D. of EPS is Rs.17.80 where as C.V. of EPS is 21.91% during the period of study, NCC has an average EPS is Rs.25.12 and S.D. of EPS is Rs.6.05. The EPS range between Rs.16.10 to Rs.34.30. The C.V. shows period of study is 24.08.

From the above analysis, it can be seen that the average EPS of NIBL is the highest and average EPS of NCC is the lowest under the period of study It indicates that SBI has the most consistent EPS among all sample bank during the period of study.

Figure 4.1

EPS of Sample Banks



4.1.2 Analysis of DPS of Sample Banks

The Working capital per share of the banks under the study is tabulated as follows:

Table 4.2

DPS of Sample Banks

Banks / Year	NIBL	EBL	NCC
2004/05	120	0	10
2005/06	130	25	0.53
2006/07	80	10	1.05
2007/08	80	20	1.05
2008/09	50	30	0.79
2009/10	55	30	26.32
Mean	85.83	19.17	6.62
S.D.	30.06	11.04	9.42
C.V. (%)	35.02	57.59	142.30

Source: Annual Report of Sample Bank provided by SEBON

Table 4.2 shows the DPS of the selected banks from the year 2004/05 to 2009/10.

In the table mean, standard deviation and coefficient of variation respectively have been presented.

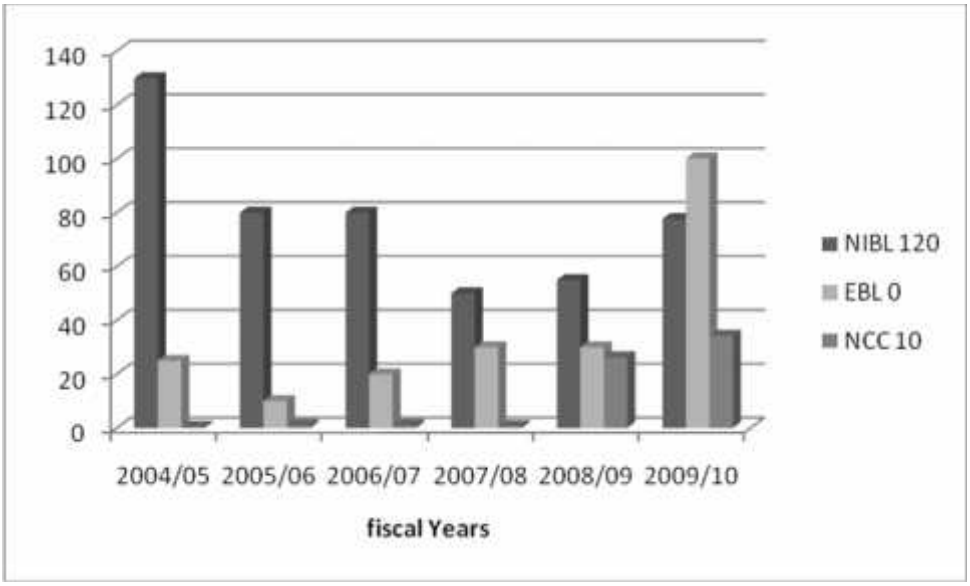
While observing the mean DPS, NIBL in first position with Rs.85.83.Similarly EBL NCC and NIBL are in position of mean DPS with Rs Rs19.17 Rs 6.62, respectively. This result indicates that NIBL is better than that of other banks with respect to Working capital per share.

By means of the C.V. criterion, we can say that steadiness in DPS for NIBL is highest than other banks. C.V. of NIBL is lowest than other banks i.e., 35.02. It indicates the bank is following. Stable Working capital policy in comparison to other banks policy. In another words, as it is less volatile than others are, there is more stability in Working capital payment in NIBL. Whereas the DPS of EBL, and NCC is high fluctuation. Similarly C.V. for, EBL and NCC are 57.59% and 142.30% respectively. From above

analysis we can see also that SBI, EBL and NCC have not paid cash Working capital regularly during the period of study.

Figure 4.2

DPS for the Sample Banks



4.1.3 Analysis of Working capital Payout Ratio (DPR) of Sample Banks

The DPR of the sample banks under the study are tabulated as follows.

Table 4.3

DPR of Sample Banks

Banks / Year	NIBL	EBL	NCC
2004/05	83.83	0	43.96
2005/06	73.93	39.82	3.29
2006/07	47.80	12.75	4.37
2007/08	60.64	21.78	3.78
2008/09	45.46	30	2.84
2009/10	70.83	29.95	76.74
Mean	63.75	22.38	22.49
S.D.	13.31	12.99	28.39
C.V. (%)	20.88	58.04	126.23

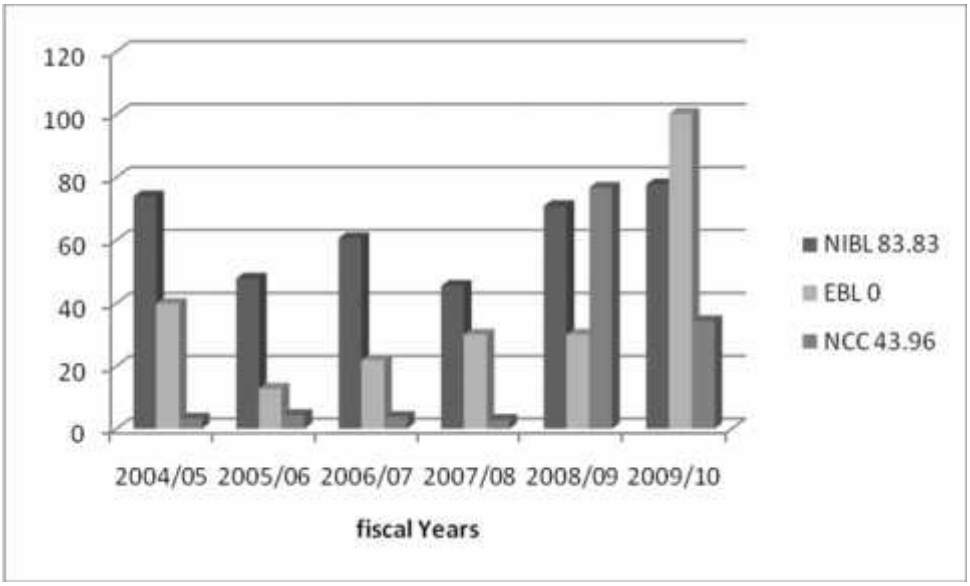
Source: Appendix I and II

Which indicates that there are only about 27.10% fluctuations in the DPR of the bank over the study period? NIBL has an average DPR is 63.75% it means NIBL is generally paying 63.75% it means NIBL is generally paying 63.75% of its earning as Working capital to its shareholders. The S.D. of DPR is 13.31% and the C.V. is20.88%. . EBL has an average DPR is 22.38 during the study period. The Bank generally payout 22.38% of its total earning as Working capital. The S.D. is 12.99% and the C.V is 58.04% fluctuation during the period of study. NCC has an average DPR is 22.49%. The S.D. of DPR is 28.39% and C.V is 126.23% which is indicates that there is 126.23% fluctuation in the DPR of NCC highly inconsistency during the period of study.

The above calculation shows that an average DPR of NIBL is higher among the all bank and its C.V. has also lowest among all banks under study. It shows NIBL has the consistent Working capital payment.

Figure 4.3

DPR of Sample Banks



4.1.4 Analysis of MPS of Sample Banks

The MPS of the sample banks under the study are tabulated as follows:

Table 4.4

MPS of Sample Banks

Banks / Year	NIBL	EBL	NCC
2004/05	2345	87	366
2005/06	3775	1379	496
2006/07	5900	2430	950
2007/08	6830	3132	1284
2008/09	6010	2455	1126
2009/10	3279	1630	626
Mean	4689.83	1852.17	808
S.D.	1638.76	976.76	335.09
C.V. (%)	34.94	52.74	41.47

Source: Annual Report of Sample Bank Provided By SEBON.

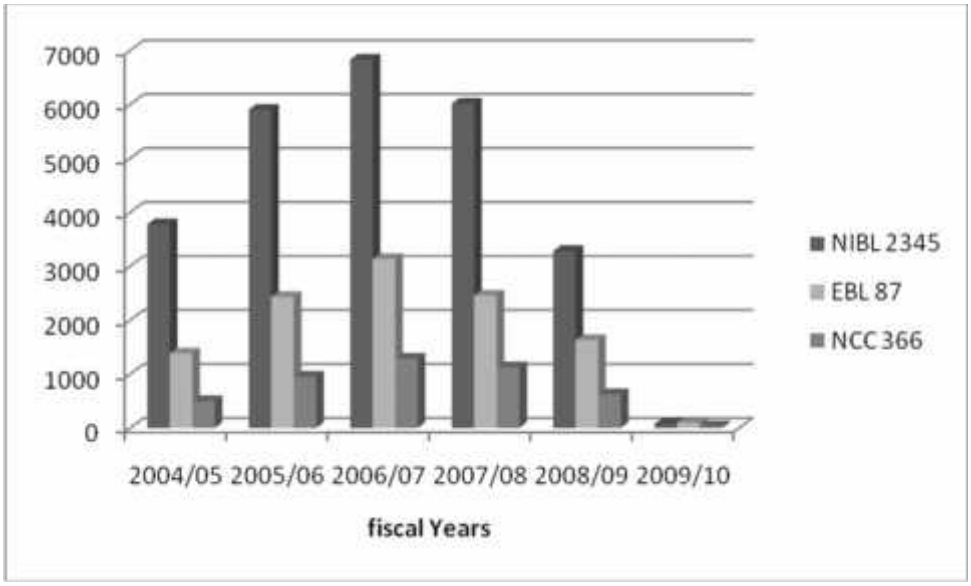
Table 4.4 shows the MPS of selected banks during the study period. Like previous table, MPS of the selected banks has been presented in the top part and mean, standard deviation and coefficient of variation (C.V.) of MPS have been demonstrated in the bottom part.

As per the table, highest mean MPS is Rs 4689.83 of NIBL and the lowest one is Rs.808 of NCC. Mean MPS of and EBL are and Rs.1852.17 respectively. By this result we can say that NIBL is best than others i.e. Rs.4689.83. As we observe in figure 4.4 MPS of all banks generally in increasing trend. When the capital rate increases, there is also increase in MPS. Here the analysis of MPS trend shows that capital increasing rate of all banks is not similar to each other.

When we take the CV criterion, consistency in MPS is highest in NIBL over the study period that is why is has lowest C.V. (i.e., 34.94%). Similarly C.V. for EBL, NCC are 52.74%, 41.47% respectively.

Figure 4.4

MPS for the Sample Banks



4.1.5 Analysis of Working capital yield (DY) of the Sample Banks

The Working capital Yield (DY) of the Sample banks under study is tabulated as follows:

Table 4.5

DY of Sample Banks

Banks / Year	NIBL	EBL	NCC
2004/05	5.12	0	2.73
2005/06	3.44	1.81	0.11
2006/07	1.36	0.41	0.11
2007/08	1.17	0.64	0.08
2008/09	0.83	1.22	0.07
2009/10	1.67	1.84	4.20
Mean	2.27	0.99	1.22
S.D.	1.53	0.69	1.63
C.V. (%)	67.40	69.70	133.61

Source: Appendix I and II

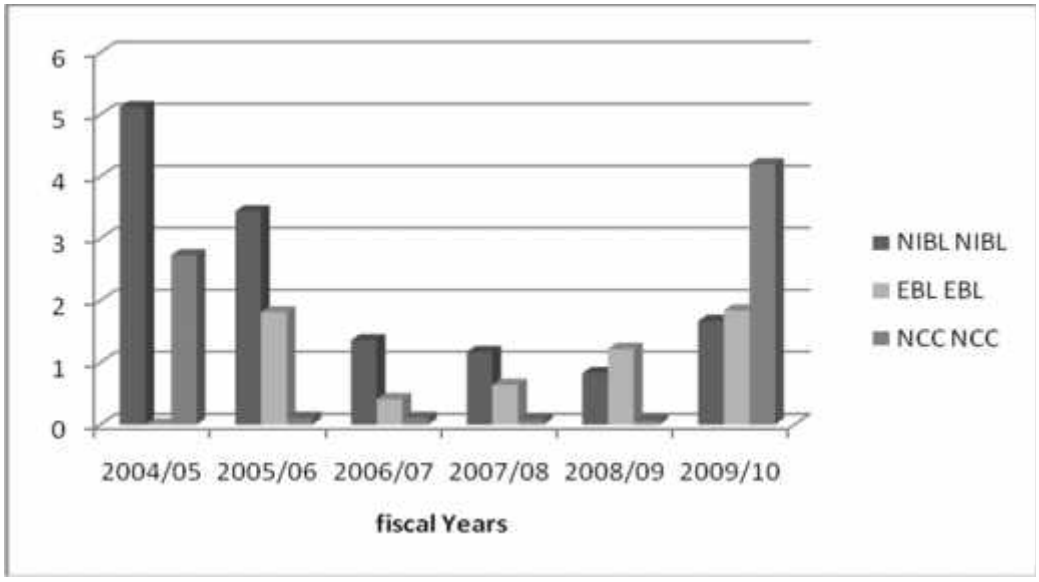
NIBL within the period of study has an average DY 2.27% ranging .The S.D. is 1.53 where as C.V. 67.40. The C.V. indicates there is fluctuation of 67.40% in the Working capital Yield.

EBL within the period of study has an average DY of 0.99% ranging between 0% to 1.81%, EBL has not paid Working capital in FY 2004/05. The S.D. is 0.69% where as C.V. is 69.70%. The C.V. indicates there is a fluctuation of 69.70%. During the period of study BOK has an average DY is 1.56% with a S.D. of 1.13. The DY range between 0.09 to 3.49%. The C.V. shows that there is a fluctuation of 72.44% in DY of BOK. The DY. of NCC range between 0.11% to 4.20% during the period of study. The average DY. is 1.22% with a S.D. of 1.63. The C.V. shows that there is a fluctuation of 133.61% in the DY which is higher fluctuation.

From the above data and calculation it can be seen that the average DY of NIBL is the highest. The C.V. of these banks shows a high level of fluctuation in DY if compared NABIL has the most consistent DY among all sample banks.

Figure 4.5

Working capital Yield for the Sample Banks



4.1.6 Analysis of P/E Ratio of Sample Banks

Price earnings ratio reflects the price which is currently paid by the market for each rupees of price which is currently reported earnings per share. The price earnings ratio could be calculated by dividing the market price per share by earning per share.

Table 4.6

P/E Ratio of Sample Banks

Banks / Year	NIBL	EBL	NCC
2004/05	16.38	16.04	16.09
2005/06	21.47	21.97	30.81
2006/07	35.25	31.99	39.56
2007/08	51.77	34.11	49.86
2008/09	54.64	24.55	40.46
2009/10	42.23	16.27	18.25
Mean	36.96	24.16	32.51
S.D.	14.30	7	12.18
C.V. (%)	38.69	28.97	37.47

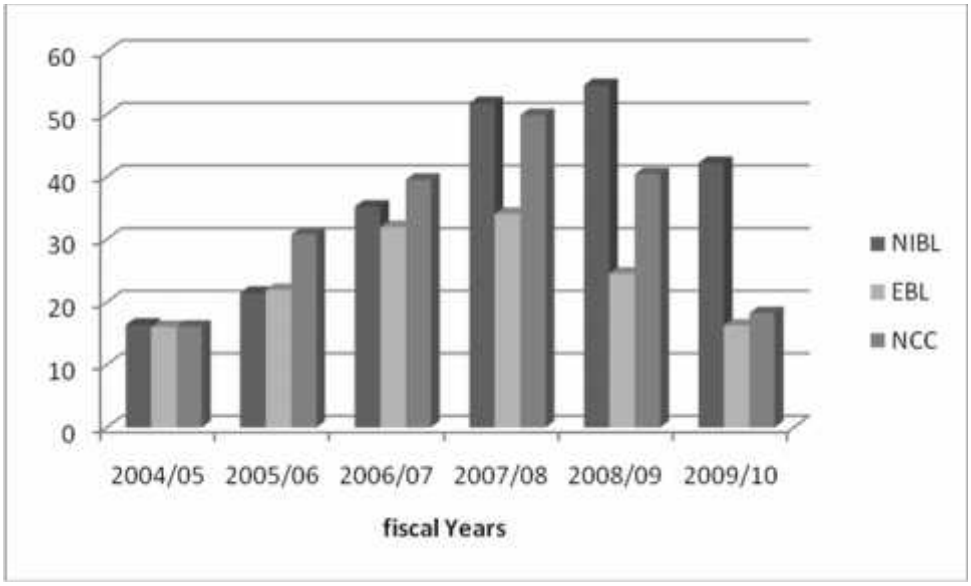
Source: Annual Report of Sample Bank Provided By SEBON

P/E ratio of selected banks has been presented table 4.6 .Similarly NIBL, NCC, and EBL are in 2nd, 3rd, and 5th position with 36.96, and 24.16 times respectively. P/E ratio of all banks is in increasing trend. It means that the stocks to their earnings and Working capital payout.

From the above data and calculation it can be soon that the C.V. of NABIL is the highest and C.V. of EBL is lowest. So the consistency in P/E is highest EBL over the period of study.

Figure 4.6

P/E Ratio of Sample Banks



4.2 Statistical Tools

4.2.1 Correlation Analysis

The correlation analysis is generally used to describe the degree to which one variable is related to another. Hence, in statistics, it is used in order to depict the co-variation between two or more variable. It helps to determine whether a positive or a negative relationship exists. The positive correlation indicates that increase in value of one variable leads to decrease in the value of the other. The correlation coefficient lies between +1 and –1. The +1 coefficient indicates that if the correlation coefficient is 0, it means that the variable is not related to each other. The number indicates the degree of correlation between the variable.

Correlation matrix for selected banks among seven variables has been presented bellows:

4.2.1.2 Correlation between Financial Variable of NIBL

Table 4.8
Correlation Matrix of NIBL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.019	-0.54	1	-0.891	-0.79	0.83
EPS	1	0.76	-	0.0097	0.38	-0.574
DPS	-	1	-	0.7015	0.837	-0.876
P.E.	-0.5738	-0.876	-	-0.7668	-0.915	1
6 ×P.E.	3.443	5.256	-	4.601	5.49	6

Sources: Appendix III

The above table indicates that MPS of NIBL have high degree of positive correlation with its P/E ratio and perfectly positive correlation with itself. The MPS of NIBL has moderate negative correlation with its DY, and high degree of negative correlation with its DPR, DY and DPS. The EPS of SCB has moderate positive correlation with its DPS DPR and DY. The EPS has moderate negative correlation with its P/E ratio. The DPS of NIBL has high degree of positive correlation with its DPR & DY and perfectly positive correlation with itself. The DPS has high degree of negative correlation with its P/E ratio.

The correlation between MPS on EPS, MPS on DPS, MPS on DPR, MPS on DY and MPS on P/E ratio are greater that probable error (P.E) so, it is nothing can be concluded. Again correlation between MPS on EPS is less than 6 × P.E. So it is also nothing can conclude. The correlation between MPS on DPS, MPS on DPR, MPS on D.Y and MPS on P/E ratio is greater than 6 × P. E. So it is significant.

4.2.1.4 Correlation between Financial Variable of EBL

Table 4.9

Correlation between Financial Variable of EBL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.7232	0.479	1	0.3656	0.1301	0.844
EPS	1	-0.0016	-	0.0039	8.45	0.388
DPS	-	1	-	0.91	2.041	-0.004
P.E.	0.38	-0.004	-	0.0099	-0.289	1.38
6 ×P.E.	2.28	0.024	-	0.060	1.734	8.28

Sources: Appendix III

From the above table it is found that the MPS of EBL has high degree of positive correlation with its EPS and P/E ratio and moderate degree of positive correlation with its DPS,DPR,DY. The EPS of EBL has moderate positive correlation with its P/E rario, DPR and high degree of positive correlation with its DY. The EPS has low degree of negative correlation with its DPS. The DPS of EBL has high degree of positive correlation with its DY, moderate positive correlation with its DPR and low degree of negative correlation with the P\E ratio. The correlation of EBL MPS with MPS, EPS with EPS and DPS with DPS are perfectly positive.

The correlation between MPS on EPS, MPS on DPS, MPS on DY and MPS on P/E ratio is greater than probable error (P.E), So it is nothing can be concluded. The correlation between MPS on DPR is less than probable error (P.E.), So it is in significant. Again the correlation between MPS on DPS & MPS on DPRo is greater than 6× P.E so it is significant. The correlation between MPS onEPS, MPS on DY and MPS on P/E ratio are less than 6× P.E, so it is also nothing can be concluded.

4.2.1.6 Correlation between Financial Variable of NCC

Table 4.10

Correlation between Financial Variable of NCC

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.263	-0.4475	1	-0545	-0.588	0.9054
EPS	1	1.25	-	0.558	0.527	-0.1176
DPS	-	1	-	0.9834	0.975	-0.7384
P.E.	-0.1176	-0.738	-	-0.82	-0.857	0.021
6 ×P.E.	0.706	4.428	-	4.92	5.142	0.126

Sources: Appendix III

The above table indicates that MPS of NCC has moderate positive correlation with its EPS and P/E ratio; it is perfectly positive correlation with itself. The MPS of NCC has moderate negative correlation with its DPS; DPR and DY. The EPS of NCC has low degree of positive correlation with its DPR and DY; The EPS has high degree of positive correlation with its DPS. The DPS of NCC has high degree of positive correlation with its DPR and DY and perfectly positive correlation with itself. The DPS has moderate negative correlation with it's P/E ratio.

The correlation between MPS on EPS, MPS on DPS, MPS on DPR, MPS on DY and MPS on P/E ratio are greater than probable error (P.E.), So it s nothing can be concluded. The correlation between MPS on EPS and MPS on P/E ratio are greater than 6× P.E, So it is significant. Again the correlation between MPS on DPS, MPS on DPR and MPS on DY are less than 6× P.E, so it is also nothing can be concluded.

4.2.2 Regression Analysis

The regression analysis is used to determine the statistical relationship between two or more variables and to make predication of one variable on the basis of the others. The regression analysis can either be simple regression or multiple regression. When we take only one independent to predict the value of the dependent variable through the appropriate regressions time then the analysis is known as simple regression analysis.

But the analysis performed by the use of two more independent variable is known as multiple regression analysis.

4.2.2.1 Regression Analysis between MPS on EPS

Table 4.11

Regression Analysis between MPS on EPS

Bank	a	b	r^2	S.E.E	S.b
NIBL	3682.96	5.17	0.069	2384.59	44.64
EBL	-1250.78	42.63	0.861	413.14	8.58
NCC	-676.68	65.34	0.696	270.41	21.61

Sources: Appendix IV

The table 4.13 of regression analysis shows that regression constant (a), regression coefficient (b), coefficient of determination (r^2) between MPS on EPS of NIBL, EBL, and NCC. The regression constants are 3682.96m -1250.78, -676.68 of NIBL, EBL, and NCC respectively. The regression coefficients are 5.17, 42.63, and 65.34 of NIBL, EBL and NCC respectively.

The standard error of estimate (SEE) of NIBL, EBL, AND NCC are 2384.59, 413.14, and 270.41 respectively. The S.b. of NIBL, EBL, and NCC are 44.64, 8.58 & 21.61 respectively. These values indicate the probable error in the predicates value for the respective banks.

The coefficient of determination (r^2) is lowest for NIBL (0.069) which indicates that only 6.9% in MPS is explained by EPS i.e. 6.9% variation in MPS of the banks is explained due to the change in value of EPS of the bank. The value of r^2 of EBL, and NCC are, 0.861, 0.943 and 0.696 respectively which indicate that 74.3%, 86.1%, and 69.6% variation in the MPS of these banks are explained by to the change in EPS of the respective banks.

4.2.2.2 Regression Analysis between MPS on DPS

Table 4.12

Regression Analysis between MPS on DPS

Bank	a	b	r^2	S.E.E	S.b
NIBL	9538.52	-53.73	0.587	1522.08	22.56
EBL	1314.73	29.12	0.102	1116.53	46.06
NCC	824.86	-37.94	0.109	462.53	54.10

Sources: Appendix IV

The above regression analysis of MPS on DPS shows that among the banks under study, EBL have positive regression relation between MPS and DPS of the banks where as NIBL and NCC have negative relation between MPS and DPS. The regression relation between MPS and DPS of EBL indicate that with an increase of Rs 1 in DPS the MPS will increased by Rs 21.88 and Rs 29.12 respectively, other variable remaining constant. In contrast there will be decreases MPS of NIBL and NCC by Rs 53.73, and 37.94 respectively with an increase on DPS by Rs 1 assuming that the other variables are constant.

The standard error of estimate of NIBL, EBL and NCC are Rs 1522.08, 116.53, 1409.59 and 462.53 respectively. The standard error of b (S.b.) of NIBL, EBL, and NCC are 22.56, 46.06, and 54.10 respectively. These values indicates the probable error in the predicated values for the respective banks there S.E. of b is lowest in NIBL (22.56) which shows the estimation of DPS can be predicted nearer to accuracy.

The coefficient of determination (r^2) which indicates that only variances in the MPS is of the bank is explained due to the change in value of DPS of the bank the coefficient of determination in highest in case of NIBL (0.587). This indicates that 58.7% in variation in MPS of NIBL is explained due to changed in the DPS of the bank. The value of r^2 of EBL, and NCC are 0.102, and 0.109 respectively, which indicate that 10.2%, 32.9% and 10.9% variation in the MPS of these banks are explained due to change in DPS of the respective banks.

4.2.2.3 Regression analysis between MPS on DPR

Table 4.13

Regression Analysis between MPS on DPR

Bank	a	b	r^2	S.E.E	S.b
NIBL	11743.08	-112.94	0.717	1250.78	35.10
EBL	2052.86	-9.25	0.025	1092.53	29.51
NCC	830.08	-9.28	0.128	457.89	12.15

Sources: Appendix IV

The regression relation between MPS and DPR of SBI indicates that with an increase of in DPR, the MPS will increase assuring that the other variables constant in the other hand the regression analysis between MPS and DPR of NIBL, EBL, and NCC which indicates that with an increase in 1% in DPR the MPS of NIBL, EBL, and NCC will decrease by Rs 112.94, 9.25 and 9.28 respectively, assuming that other variables are constant.

The standard error of estimate of NIBL, EBL, and NCC are 1250.78, 1092.53 and 457.89 respectively. The standard error of b (s.b.) of NIBL, EBL, and NCC are 57.44, 35.10, 29.51, and 12.15 respectively which indicate the possible error in the predicated value for the respectively banks. Here S.E. of b is lowest in NCC (12.15), which shows the estimation of DPR can be predicated nearer to accuracy.

The coefficient determination is highest in cased of CBL which indicate that variation in MPS of is due to the change of DPR of the bank. The value of r^2 of EBL, and NCC are 0.025, and 0.128 respectively which indicates that 2.5%, and 12.8% variation in the MPS of these banks are explained due to the charge in DPR of the respective banks.

4.2.2.4 Regression Analysis between MPS on DY

Table 4.14

Regression Analysis between MPS on DY

Bank	a	b	r^2	S.E.E	S.b
NIBL	7181.11	-904.59	0.964	466.96	91.02
EBL	2293.36	-400.88	0.190	995.59	414.47
NCC	819.73	-154.32	0.161	451.02	186.0

Sources: Appendix IV

The above table of regression analysis shows that will banks have negative regression relation between MPS on DY MPS of NIBL, EBL, and NCC will decreases by Rs.904.59, Rs.400.88, Rs.154.32 respectively only MPS on DY of SBI is positive which is increases by Rs.738.13 with an in DY by 1% assuming that other variables are constant.

The standard error of estimate of NIBL, EBL, and NCC are Rs.718.11, Rs. 2293.36 Rs.995.59, and Rs.819.73, respectively. The standard error of b (S.b.) of NIBL, EBL, and NCC are Rs.91.02, Rs.414.47, Rs.53.44 and Rs.186.0 respectively.

The coefficient of determination (r^2) is lowest for which indicates that only in MPS is explained by D.Y variation in MPS of the banks is explained due to the change in value of DY of the banks. The value of r^2 of NIBL, EBL, and NCC, 0.964, 0.190, and 0.161 respectively. Which indicate that 7.1%, 96.4%, 19%, 95.3% and 16.1% variation in the MPS of these banks are explained due to change in DY of the respective banks.

4.2.2.5 Regression Analysis between DPS on EPS

Table 4.15

Regression analysis between DPS on EPS

Bank	a	b	r^2	S.E.E	S.b
NIBL	122.61	-0.19	0.461	35.40	0.66
EBL	0.908	0.23	0.204	21.88	0.45
NCC	-0.37	0.12	0.033	4.21	0.34

Sources: Appendix IV

The regression analysis between DPS and EPS show that among the bank under study, EBL and NCC have positive relation but NIBL have negative relation between DPS and EPS. The regression relation between DPS and EPS indicates that with an increase of Rs.1 and EPS, there will be increase in DPS of NIBL and NCC by Rs.0.23 and Rs.0.12 respectively. On the other hand NIBL will decrease by Rs.0.19 respectively.

The standard error of estimate of NIBL, EBL, and NCC are 35.40, 21.88, and 4.21 respectively. The standard error of b (S.b.) is of NIBL, EBL, and NCC are 0.66, 0.17, 0.45, and 0.34 respectively. These values indicate the possible error in the predicated value for the respective banks. Here S.b. is lowest in SBI which shows the estimation of EPS can be predicated nearer to accuracy.

The coefficient of determination (r^2) is lowest for NCC (0.033) which indicate that only 3.3% in DPS is explained due to the change in value of EPS of the bank. The value of r^2 of NIBL, and EBL are 0.461, 0.204 and 0.033 respectively which indication that variation in the DPS of these bank are explained due to change in EPS of the respective banks.

4.2.3 Multiple Regression Analysis

To see the impact of more than one independent variable the multiple regressions have been used. It examines the relationship between one dependent variable and more independent variables. The market price of stock depends on more than one variable. So, the results of simple regression analysis are not reliable as far the multiple regression analysis eliminates all the limitations of simple regression analysis. This part of the study is designed to examine the relationship between two independent variables and one dependent variable. The regression results are presented. As, in this study, the pooled average data of the observed banks are used for multiple regression and coefficient of determination analysis.

1. Multiple regression and coefficient of Determination Analysis of MPS on EPS and DPS;

   The model developed for this purpose;

   $y = a + b_1X_1 + b_2X_2$

Where,

Y = market price per share (Dependent variables)

X_1 = Earnings per share (Independent variables)

X_2 = Working capital per share (Independent variables)

a_1 = Regression Constant

b_1 & b_2 = Coefficient of Net Regression (or simply regression constant)

Multiple Regression and coefficient of determination Analysis of MPS or EPS and DPS.

Multiple Regression and Coefficient of Determination Analysis of MPS on EPS and DPR

The model developed for this purpose is as;

$Y = a + b_1X_1 + b_2X_2$

Where,

Y = Market price per share (Dependent variable)

X_1 = Earnings per share (in dependent variable)

X_2 = Working capital payout ratio (independent variable)

a_1 = Regression constant

b_1 & b_2 = Coefficient of net regression (or simply, regression constant)

The following results have been obtained from the multiple.

Multiple Regression and Coefficient of Determination Analysis of MPS on EPS and DPR.

Table 4.16

Multiple Regression and Coefficient of Determination Analysis of MPS on EPS and DPR

Regression Model	a_1	b_1	b_2	$S_{y.12}$	$(R_{y.12})^2$
$Y = a+b_1X_1+b_2X_2$	-263.10	73.17	-82.57	211.13	0.98

Sources: Appendix V

The above table shows the output of multiple regression analysis between MPS (Y) and other variables EPS(X_1) and DPR (X_2)of the banks in average. The regression constant (a_1) is -263.10. The regression coefficient b_1 for bank is 73.17, Another regression coefficient b_2 is -82.57. EPS has positive impact in MPS where as another independent variable DPR has negative impact in MPS of the observed banks in average. As the coefficient of multiple determination. $(R_{y.12})^2$ is 0.98 it means 98"% of variation in MPS is explained by variation in EPS and DPR. The standard Error of estimation ($S_{y.12}$) is 211.13 it indicates that the possible error in the predicated value for the respective banks.

4.3 Test of Hypothesis

To test the significance difference among mean value of EPS, DPS, MPS, DPR, Working capital yield and PLE ratio in the sample banks, there are altogether six sets of hypothesis formulated and then tested in the study. Under the first set, significant differences among DPS of the banks are tested. The same are tested for EPS, MPS, DPR, DY and P.E. ratio respectively.

First set of Hypothesis

Ho_1: There is no significance difference among mean value of DPS of NIBL, EBL, and NCC.

H_{11}: There is a significance difference among mean value of DPS of NIBL, EBL and NCC.

Table 4.17

Result of Hypothesis Regarding DPS

Particulars	
Numerator Degree of Freedom	6
Denominator Degree of freedom	35
Significance level	5%
Calculated value of F-statistic	34.31
Prob. value of F-Statistic	2.53

Sources: Appendix VI

The above table 4.20 shows that prob. value of F-statistic is less than calculated value of F-statistic which implies that F-static is significant at 5% level of significance. That means null hypothesis is rejected and alternative hypothesis is accepted. It reveals that the Working capital per share among the banks is not same but they are significantly different.

Second set of Hypothesis

Null Hypothesis ($H0_2$): These are no significance different among mean value of EPS of NIBL, EBL, and NCC.

Alternative Hypothesis (H_{12}): There is significance different many mean value of EPS of NIBL, EBL, and NCC.

Table 4.18

Result of Hypothesis Regarding EPS

Particulars	
Numerator Degree of Freedom	6
Denominator Degree of freedom	35
Significance level	5%
Calculated value of F-statistic	55.71%
Prob. value of F-Statistic	2.53

Sources: Appendix VI

Table 4.21 conclude that prob. value of F-statistic is less that calculated value of F-statistic which implies that F-statistic is significant at 5% level of significance. That means null hypothesis is rejected and alternative hypothesis is accepted. It reveals that the Earning per share among the banks is not same but they are significantly different.

Third set of Hypothesis

$H0_3$: There is no significance difference among mean value of mps of NIBL, EBL, and NCC.

H_{13}: There is significance difference among mean value of MPs of NIBL, EBL, and NCC.

Table 4.19

Result of Hypothesis Regarding MPS

Particulars	
Numerator Degree of Freedom	6
Denominator Degree of freedom	35
Significance level	5%
Calculated value of F-statistic	7.71%
Prob. value of F-Statistic	2.53

Sources: Appendix VI

When observe in the table 4.22, it is clear that the prob. value of F- statistic is less than calculated value of F-Statistic is less than calculated value of F-statistic. It implies that the F-statistic is significant at % level of significance. Hence, the null hypothesis is rejected and alternative hypothesis is accepted. It means that the market price per share among the banks is not same but they are significantly different.

Fourth Set of Hypothesis

$H0_4$: There is no significance difference among mean value of DPR of NIBL, EBL, and NCC.

H_{14} : There is no significance difference among mean value of DPR of NIBL, EBL, and NCC.

Table 4.20

Result of Hypothesis Regarding DPR

Particulars	
Numerator Degree of Freedom	6
Denominator Degree of freedom	35
Significance level	5%
Calculated value of F-statistic	12.82%
Prob. value of F-Statistic	2.53

Sources: Appendix VI

Result of Hypothesis regarding DPR show in the table 4.23, it is clear that the prob. value of F-statistic less than calculated value of F-statistic. It implies that the F-statistic is significant at 5% level of significance. Hence, the null hypothesis is rejected and alternative hypothesis is accepted. It means the Working capital payout Ratio among the banks is not same but they are significantly different.

Fifth set of Hypothesis:

Ho_5: There is no significance difference among mean value of Working capital yield (D.Y) of, NIBL, EBL, and NCC.

H_{15} : There is significance difference among mean value of Working capital Yield (DY) of, NIBL, EBL, and NCC.

Table 4.21

Result of Hypothesis Regarding D.Y

Particulars	
Numberator Degree of Freedom	6
Denominator Degree of freedom	35
Significance level	5%
Calculated value of F-statistic	3.61
Prob. value of F-Statistic	2.53

Sources: Appendix VI

From the table 4.24, we can conclude the result of hypothesis regarding Working capital yield among banks. From the table 4.24, we can conclude that the F-Statistic is

significant at 5% level of significance with prob. value 2.53. Hence, null hypothesis is rejected and alternative hypothesis is accepted which implies that there is no similarity among the banks Working capital yield. They are significantly different to each other.

Sixth set of Hypothesis:

$H0_6$: There is no significance difference among mean value of P/E ratio of NIBL, EBL, and NCC.

H_{16} : There is significance difference among mean value of P/E ratio of NIBL, EBL, and NCC.

Table 4.22

Result of Hypothesis Regarding P/E ratio

Particulars	
Numerator Degree of Freedom	6
Denominator Degree of freedom	35
Significance level	5%
Calculated value of F-statistic	0.637
Prob. value of F-Statistic	2.53

Sources: Appendix VI

Table 4.25 present the result of hypothesis regarding price earning ratio among sample banks. As we see from the table 4.25 that prob. value of F-statistic is 2.53 which is at 5% level of significance. Hence Null hypothesis is accepted and alternative hypothesis is rejected. Because calculated value of F-statistic is less than prob. value of F-statistic. It implies that there is similarity among the banks price earning ratio.

4.4 Major Findings

This section includes the key findings of the study obtained from the analysis of data. Conclusion derives from the findings are presenting in the next chapter.

- The NIBL has the highest mean EPS among the banks which is Rs 145.30 and NCC has the lowest, which is Rs 21.68 the same result is seen to be Rs 113.24, Rs and Rs73.13 in NIBIL, and EBL respectively. Most of the firm always seeks to have more earning so that they can sustain efficiently in the competitive capital

market. Therefore, earning is the indicator of firms. Again these is higher earning consistency in where as there is lower consistency in NIBL, EBL, an NCC.

- The NIBL has the highest mean DPS among selected banks where as it is lowest in NCC (i.e. Rs95 and Rs2.24). If DPS of any firm is high, it will create positive attitude of its shareholders towards the firm, which is consequently helps to increase the market value of the share. In another words the firm is paying higher Working capital implies that it is performing better. Consistency in DPS is also highest in NIBL than that other banks representing (C.V. = 28.99%) which is lower than others.

- Higher DPR indicates that the firm is paying higher Working capital to its shareholders and lower Working capital payout ratio implies that the firm is retaining its profit to profitable investment opportunities. The mean DPR of NIBL, EBL and NCC are 60.58%, 31.74%, and 9.71 respectively. This evidence shows that NCC is retaining more its earning and it might be the consequences of the higher growth opportunities.

- The NIBL has the highest mean MPS among the selected banks which is Rs4434.17 and NCC has the lowest, which is Rs740. Increase in MPS is the indication of better performance MPS trend over the sample period. Consistency in mps in NIBL in higher than that of others as its C.V. (i.e. 43.58%) is smallest as compared to other banks.

- The average Working capital yield of the bank which is one is zero.52% in NCC. Working capital yield defined the relationship between Working capital per share and market value per share. It is very useful for the investors.

- Correlation matrix of selected banks shows that correlation between DPS and mps is positive in EBL. It implies that there is a positive impact of Working capital of market price of stock. It means if Working capital increase, market price of share

also increases and vice-versa. Correlation between DPS and mps in NIBL, NIBL, and NCC is negative.

- It implies that there is a negative impact of Working capital on market price of stock. It means if Working capital increase, market price of stock decrease and vice-versa. Correlation between EPS and MPs is positive in EBL, and NCC and negative correlation between EPs and MPs in NIBL.

- Similarly correlation between MPS and DPR is positive in NIBL, EBL and NCC. Whereas correlation between MPS and DY is positive in NIBL, EBL, and NCC. The correlation between MPS and P/E ratio is positive in NIBL, EBL, and NCC.

- The regression analysis of mps on EPs shows that the regression coefficient (n) is positive for NIBL, EBL, and NCC . The regression analysis of MPS on DPS indicates that the regression coefficient (b) is positive for EBL while negative for NIBL, EBL, and NCC. The coefficient of multiple determinations for the regression analysis of mps on DPS of NIBL is highest and NIBL has lowest among sample Banks.

- The regression coefficient (b) for relation between mps on DPR is negative for NIBL, EBL, and NCC. The coefficient of multiple determinations (r^2) of NIBL has highest among sample banks. The regression coefficient (b) of the regression analysis between mps on DY Shows that NIBL, EBL, and NCC have negative regression coefficient but SBI have positive regression coefficient. The coefficient of multiple determinations (r^2) of NIBL is highest sample banks. The regression coefficient (b) of the regression analysis between DPS on EPS is positive of NIBL, EBL, and NCC on the other hand NIBL have negative regression coefficient.

- The multiple regression analysis of mps on EPs and DPS shows that the regression coefficient (b) is positive, which is shown from pooled average analysis of

multiple regressions. The coefficient of multiple determination r^2 is 0.95. Again the regression coefficient (b_2) is negative. Whereas the multiple regression analysis of MPS on EPS and DPR shows that the first regression coefficient (b_1) is positive and second regression coefficient (b_2) is negative. The multiple determinations (r^2) is 0.98. It is shown from the bank pooled average analysis of multiple regressions.

- From the test of hypothesis, it is found null hypothesis of no significant difference of EPs, DPS, MPs, DPR and DY among selected banks are rejected and where as null hypothesis and no significant different of P/E ratio is accepted.

CHAPTER - V

SUMMARY, CNCLUSION AND RECOMMENDATION

This chapter focuses on summarizing the study held with the conclusions and some recommendation on the basis of findings. For this purpose, the chapter has been Working capital into three parts as summary, conclusion and recommendation.

5.1 Summary

The study was conducted with objectives to analyze the Working capital practices and its impact on market price of stock of selected Nepalese commercial banks over the study period 2004/05 to 2009/010. Following a descriptive and analytical research design. The sample for the study of six commercial banks listed in Nepal Stock Exchange (NEPSE). The Study is based on secondary data and the data obtained were analyzed using various descriptive statistical tools, correlation analysis and multiple regression models and various financial tools.

Working capital services as simple, comprehensive signal of management's interpretation of the firm's recent performance and its future prospects. Working capital policy constitutes one of the most critical issues of the public limited companies. Working capital police decision is one of the major decisions of financial management. The Working capital policy decision affects on the operation and prosperity of the organization because it has the power to influence other two decision of the organization i.e. capital structure decision and investment decisions.

Theories of Working capital policies do differ some prefer resident theories that convey passive residual earning available for payment whereas M.M. Hypothesis insists on Working capital irrelevance in the sense that Working capital does not affect the stock price. There are other who argue that Working capital policy does affect value to the factors of uncertainty. Many factors affect the Working capital payment depending

upon investors need and preference on one hand and the financing need of the financial institutions potential investment opportunities on the other hand. Working capital policy involves many aspects such as selecting the type's o Working capital and other forms as well as selecting stable or fluctuating or extra Working capital payment.

The stockholders have a high desire and expectation that market price of share will be higher than net worth and getting high percent of Working capital from earning. So distributing Working capital to the share holder is effective way to achieve the trust of investors and encourage them to invest in shares. Besides this Working capital paying ability reflects the financial position of the organization in the market. So the funds that could not be used due to the lack of investment opportunities would be better as Working capital. Since share holders have investment opportunities elsewhere.

Working capital paying banks have been selected for the study, so the references can be made about implication of Working capital policy they have adopted in their market price per share. Even if market price is governed by various factors, this study is made to analyze one of the important facts i.e. working capital. The study covers six commercial banks and only for last six fiscal years from 2004/05 to 2009/010. The available secondary data have been analyzed using various financial and statistical tools. So, the reliability of the conclusion of this study is determined on the accuracy of secondary data.

To make the study more reliable, different types of analysis have been conducted to find out the appropriate relationship between market price and other Variables, which affect the Working capital. The theoretical statement is to study of the impact of Working capital on stock price, therefore it is concluded that none of the sample firm have adopted consistent Working capital policy except NIBL. More or less the Working capital policy depends on the earning per share of the company: the earning per share and Working capital per share having the positive relation may also impact on market price of stock.

5.2 Conclusions

Based on major findings, this study concludes that there is higher Working capital impact on market value of the banks share in most of the banks. In another words, Working capital plays an important role to change the market price of stock. Besides this, the following conclusions are made. The market price per share is affected by the Working capital related financial variable i.e. DPS and DPR either positively or negatively changes are DPS affected the market price per share differently in different bank. In case of some banks, there exist positive relation between Working capital and mps while for other there exist negative relation besides the mps. Largely depends upon the Working capital which been shown by the coefficient of multiple determination. Besides Working capital other factors also affected the market price per share i.e. EPS, DY P/E ration etc. Their effect is also different for different banks. An analysis of the average DPR of the sample banks shows that out of the total income generated 33.72% is distributed as Working capital in general if the individual DPR of the banks are compared to this figure. SCNL has the average DPR of all banks. The individually average DPR of SBI has 14.38% which is less than the average DPR of all banks. On the other hand the average DPR of NABIL, EBL, BOK and NCC are 55.24%, 22.38%, 31.49% and 22.49%.The coefficient of variation of the average DPR of the banks in function in the payment of Working capital is 124.58 which is in high level. This it can be conducted that Working capital policy of the banks are not stable. There is no strategy of calculating growth in the Working capitals paid by banks. This shows that the Working capital policy of the commercial banks is not uniform and consistent. There is fluctuation in the Working capital payment even if the banks are making profit regularly the Working capital payout ratio also does not show any stability and coordination with others variables.There is large fluctuation in Working capital in each year. There is not certain criterion for paying Working capitals. This study concludes that there is no long term vision regarding the Working capital policy. All the selected commercial banks paid a Working capital which's shows that Working capital paying practice is established in Nepalese commercial bank is depending on current earnings. The banks are following earning based Working capital policy. Only two variables earning and Working capital is not sufficient to explain the change in Working capital

and market price of share meaning that it necessary to add other more variables in the regression model.

5.3 Recommendations

On the basis of findings, of the study, following recommendation made for the further applications of Working capital of the repercussion but there is not doubt have these measures to improve the existing conditions;

- The sample Banks are not adopting a fixed or defined Working capital policy they are adopting the Working capital policy according to their requirement with the change of time and situation. But most of the investors prefer defined Working capital policy; therefore, companies should clearly desire their Working capital policy and communicate to investors. Clearly defined Working capital policy help to determine specific policy i.e. stable Working capital or constant payout or low regular plus extra. This helps to investors in deciding whether to buy or not the share of the particular company and to build good image, stock market.
- Most of the banks had great fluctuation in DPS, EPS, Working capital payout ratio, P/E ratio and share price in terms of coefficient of variation. Such fluctuation increase in risk position of investors. Therefore, company should try to stabilize these variables. Wide fluctuation in Working capital payout ratio should be minimized. Consistency in Working capital payout ratio over the period helps in gaining the payout ration over the period helps in gaining the share holders confidence and then maximizing firm value.
- The legal rule regarding Working capital should be clear for the smooth growth of the enterprises as well as growth of the national economy. There is lack of rules finding companies to pay Working capital. Some of the companies are unable for paying Working capital, some are suffering from less and there is an effort to minimize loss rather than payment investors and bind these companies by special rules. This is not any other organization fully devoted to protect

interest. For this purpose, NEPSE, SEBON and other concerned parties should work together in favour of investors and bind their company's spare rules.

- Formulae of Working capital policy will clearly guide the way of Working capital distribution. The policy should determine whether the company is going to adopt stable Working capital policy, constant payout ratio or low regular plus extra Working capital. What should be the long run Working capital payout ratio, either it is pure residual ratio theory, fixed Working capital payout policy of smooth residual Working capital policy, should have been clearly explained by the Working capital policy.
- Certain specific rules and regulation should be made from Working capital management as well from the side of the government side regarding of the Working capital. The legal rules and regulations must be in favour of investors to exercise the Working capital practice and to protect the shareholders right.
- Companies should have long term vision regarding earning and Working capital payment, also companies should define their vision clearly considering their future plans, expansion in business, future economy of the country etc various internal and external factors should be considered before taking decision.
- Lastly, after making this study it is realized that Working capital payment practices of the commercial banks are not regular in Nepal. Banks organizations establish to run for long periods in the small economy of Nepal there are already over a two dozen banks and have neck to neck competition. So even a small wrong decision can lead to bank runty. So it is necessity of legal provisions and rules for preserving certain policy regarding the Working capital payment in the banking sectors for this purpose the concerned authority. i.e. Nepal Government, Nepal Rastra Bank, Security Board, Nepal Stock Exchange and also commercial institution should be can serious about the formulation and implication of rules regarding Working capital payment this will help to regularized the Working capital policy of the financial sector in Nepal.