CHAPTER ONE
INTRODUCTION

1.1 General Background

The extent of development of any country is reflected by the development of financial sector of that country. The financial sector is a vast field, which comprises of banks, co-operative societies, insurance companies, financial companies, stock exchange, foreign exchange market, mutual funds etc or in other words financial institutions. Financial institutions refer to organizations which act as agents, brokers and intermediaries in financial transactions. These institutions facilitate and improve the distribution of funds, money and capital by providing services like payment mechanism, security trading, transmutations, risk diversification and portfolio management. Further these institutions mobilize saving and make investment in different enterprises of the national economy that consequently help in reducing poverty raising employment opportunities and thereby developing the society and country as a whole, In spite of these services, economists have expressed diverse opinions on the effectiveness of financial institutions in promoting or facilitating economic development (Karmacharya, 2004).

Financial institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and development of resources. Development of trade and commerce and industry are the prime requisite for the attainment of the economic political and social goals. To fulfil the purpose of planning financial functions more often dominate the other function. "There is always lack of finance in underdeveloped economy because natural resources are either underutilized or unutilized in productive sectors or even other purposes i.e. social welfare and so on. Likewise underdeveloped countries are not efficient in land, water, mineral, forest or power resources, though they may be untapped. Constituting only potential resources" (Dewett 1995). So in these countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people such resources have not been properly utilized .Hoarding

could be one of the reasons for this. So financial institutions and banks play a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They pursue rapid economic growth, developing the banking habit among the people the small-scattered resources in one bulk and utilizing them in further productive purposes and rendering other valuable services to the country thus this gives the individuals and opportunity to borrow funds against future income which may improve the economic well being of the borrower (Lamsal, 2004).

One group led by J. Schumer among those who studied the relationship between the growth of financial institutions and economic development regarded financial institutions as one of the two key agents, the other being entrepreneurship. Another group led by John G Gurley did not consider it as highly essential to the growth process. In between these two lay the opinion of some others like Rondo Camron who say the true importance of financial institutions lies somewhere between these two extremes. These opinions do differ in the order of merit to the role of financial institutions (in the process of economic development) but they never ignored its significance. Moreover financial institutions these days actively involved in pooling, pricing and trading risk besides their traditional services such as mobilizing resources and allocating credit. Thus the development of financial institutions has become one of the bases for measuring the level of economic development of nation (Karmacharya, 2004,).

In spite of growing role and importance of financial institutions in international scenario, the development and growth of financial institutions in Nepal were not encouraging till mid eighties. Only two commercial banks and six special purpose financial institutions represented the whole institutional base of financial sector in Nepal. The situation was not expected in that period when the government had a policy of absolute prohibition of free banking and financial institutions (Karmacharya, 2004).

The situation however changed since mid eighties when the government embarked on financial liberalization program with liberal attitude towards free entry of financial institutions in Nepal. In a period of about decade, a number of commercial banks, finance companies, insurance companies had come into existence.

Finance companies although being important components of financial system, they are of recent origin in Nepal. Finance companies are the effective instruments for

mobilizing public, private and external financial resources and canalizing them into productive areas as short term loan and long term loan in different commercial business activities. Being financial intermediaries they accept deposit and allocate them in different sectors in the economy. In this sense they are similar to commercial banks. However, they differ in some other aspects unlike commercial banks; financial companies are not allowed to operate checking accounts and hence not involved in payment mechanism. The exact scope of operation of finance companies differs from country to country. In developed countries like the United States, for example the scope of operation of finance companies is limited to sales finance, consumer finance and business finance activities. Even in India, finance companies are differentiated as hire purchase companies, leasing finance company, and housing finance company etc for regulatory purpose. In Nepal there is no such function based classification of finance companies. According to finance company act 1985, "any public limited company established with the objectives of carrying out financial transactions is known as finance company."

Financial transactions include hire purchase or instalments, housing finance, leasing finance, term lending, deposit mobilization, merchant banking, and underwriting and trading on securities. In this sense, any public limited company licensed under finance company act 1985 to carry out any one or all of the above financial transactions are able to accommodate varieties of financial institutions as finance companies. Such broader definition is helpful to bring different types of financial institutions under one regulatory umbrella. For example, Nepal Finance and saving company, a saving institution, Nepal Housing Development Finance Company ,a housing finance company, NIDC Capital Market ,an investment banker, Internal loan leasing and finance company a leasing company and finance companies (Amatya, 2004).

According to Nepal Rastra Bank, 32 commercial banks, 88 development banks, 21 rural development bank, 16 micro credit development bank, 80 finance companies, 5212 cooperative institution and 47 micro credit NGOs are providing services in all over the country till 2068 Ashad end.

Pashchimanchal Finance Company Limited (PFCL) the first private finance company in western Nepal and eighteenth finance company to be established in Nepal

Started its service from 26th chaitra 2051. It was registered as per company act 2053 and obtains permission form Nepal Rastra Bank according to finance company act 2042. PFCL issued 80,000 common shares on 12th magh 2054. Then the transaction was closed. Among total common shares 4000 units of share were classified for employee of the company and rest of 76000 units was distributed to general public. 60% of share is hold by promoters and 40% by general public.

At present PFCL has 10 crore 8 lakh paid up capital, currently it has Rs. 556031249 deposit collected Rs 535912784/03 as total loan and advance and net profit 12432914/90 as per company's annual report F/Y 2065/066.

It is A categorized finance company categorized by Nepal stock exchange .PFCL has successfully passed 12 years of its operation. At present, it is providing services to its client through 5 branches situated at Katmandu, Tansen, Beni, Syangja and Butwal. It has also established to contact office situated at Parvat and Dang. The head office of PFCL is situated at Butwal-10, Sukrapath, Rupandehi.

The company's board of directors consists of thirteen members. It includes four members from ordinary equity share holders and remaining from founder shareholders. The chairman of BOD is Shree Rupkishor Lakaul.

The objectives of PFCL are: to collect scattered deposits from with in the near territories giving a appropriate interest rate, to provide loan in different ways such as hire purchase, land development, Industries, Trade, Educations and others, to raise the financial products and services to the height to meet the customers need and requirements .In this way other objectives of PFCL are to provide advice to all the borrowers in order to utilize the fund in efficient manner, to develop long term mutual benefit relationship with business partner, to provide superior services return to shareholders and value for their investments, to make contribution in regional development centres by motivating entrepreneurs, and to mobilize half fund of people from rural i.e. micro fund mobilization policy.

PFCL has made its primary objectives to design for customer and also to help them execute the investment portfolio that is very suitable activity. The other main function is to design for the investors, business or venture the optimal capital structure and help them also the capital which is adequate capital formation from overall national

development which is called production consumption linking mode of credit and investment with linkage to above function and operations. PFCL makes up the following major strategy of its full function operation.

- Mobilization of small and large scale deposits from rural urban areas and canalise the deposit into productive structured and high priority areas to assist in the economic development of nation.
- To prepare investment and credit strategy to the productive industrial sectors which assist in the economic development of nation?
- The company also provides advisory function regarding financial issues to individual and institutors.
- The company extends supportive services related to registration of share to different institutions.

1.2 Statement of the Problem

Finance companies are basically risk institutions, retail funds and undertake term lending functions. The structure of resource of finance companies in developing economy depends on institutional sources and retail comprises only a small portion of the total resources mobilized by them (Sharma, 2004).

The role of finance companies in an economy is evident when one views them as finance intermediate company. Like any other financial intermediaries finance company too, provide link between saving and investment.There by facilitating the creation of new wealth. There are three channels of saving investment process.

Internal finance: One's own saving is used for own real investment, under direct external finance: funds are loaned directly from those who save to make investment.

Indirect external: finance, saving flows from ultimate lenders to financial intermediaries and then from intermediaries to ultimate borrowers. Traditionally, finance companies acted as financial intermediaries and helped in indirect external finance. Thus today finance companies are financial intermediaries as well as agents. As intermediate, they purchase security on their account from borrowers and sell their liabilities to investors. As agents or brokers they contact on behalf of investors and borrowers. Finance companies intermediary role needs to be evaluated from another perspective.

They serve marginal savers and marginal investors in saving investment process. Finance company provides higher rate of interest on deposits and induce saving and at the same time, they serve as a marginal investors of the society. Investors are neglected by other financial intermediaries because of their small size requirement; absence of prime grade collateral and other similar reason are served better by these institutions (Amatya, 2004).

In the word of Shrestha (1983), finance companies provide easy access to fulfil individual credit needs, provide attractive return, incentives and favourable terms on deposits, create competitive financial serve environment and encourage consumers to strengthen their purchasing power.

The management of working capital is synonymous to the management of short term liquidity. It has been regarded as one of the conditioning factors in the decision making issues. It is no doubt, very difficult to point out as to how much working capital needed by a particular business organization to function. An organization which is not willing to take more financial risks can go for more short term liquidity. The more of short term liquidity means more of current assets and less of current liabilities. The less current liabilities implies less short term financing heading to the lower returns resulting from the use of more high cost long term financing. So it is very essential to analyze and find out problem and its solutions to make efficient use of funds for minimizing the risk of loss to attain profit objectives (Lamsal, 2004).

Most of the Nepalese industries and companies are still facing the problem of working capital management which is due to the unprofessional manpower. Managers, still focus their attention on the procurement aspect of working capital but not on the efficient utilization of funds defined in term of working capital. Every investor wants to earn. Return more in their investment. Therefore, every organization should make profit for its owner; profit is not only one indicator of proper management of working capital (Neupane, 2000). There are several indicators of working capital. Basically this study tries to figure out the issue of working capital management.

Working capital management of finance company is quite difficult as other commercial banks and manufacturing business organizations. Finance companies, although being important component of financial system, they are of recent origin in Nepal. Finance companies are the effective instruments for mobilizing public/private and

external financial resources and channelizing them into productive areas as such short term loan and in different commercial activities. Being financial intermediaries they accept deposit and allocate them in different sector of economy.

The development of finance companies is very important for the economic development of the country. So the following are the major problems that have been identified for the purpose of this study.

a) Is the composition of working capital of PFCL is appropriate?
b) Is the PFCL following appropriate working capital policy?
c) How is the liquidity position of PFCL?
d) How is the working capital being financed in PFCL?
e) What are the components of working capital of PFCL?

1.3 Objectives of the Study

Working capital plays vital role in the success or failure of any enterprises, the excess working capital concerned with short term financing decision has never received much attention in the literature of finance. Because the earlier emphasis of financial management was more on long term financial decision, which led to the growth and development of many useful theories concerning there decisions as compared to short term financing decisions.

The main objectives of this study is to examine the working capital management of PFCL. The specific objectives of this study are as follow.

a) To analyze the liquidity, composition of working capital, asset utilization and profitability position of PFCL.
b) To analyze the current assets and current liabilities and their impact on liquidity and profitability.
c) To enquire whether the PFCL has maintained optimum level of working capital.
d) To analyze the financing pattern of working capital of PFCL.
e) To point out the valuable recommendations and suggestions, based on analysis and suggest the appropriate management system to working capital to the PFCL.

1.4 Significance of the Study

Nepalese finance companies are operating in the competitive environment. In this situation company has to adopt suitable strategies for their existence not only for profitability. They should balance and co-ordinate the different functional areas of business concern. The success or failure of any company or organization depends on its strategy, which is affected by working capital management.

Working capital management is the crux of problem. To prepare proper strategy on its favour, working capital management is not only the most important factors of any joint venture banks or government owned banks but also finance companies. So the study might be helpful for the management of the concerned finance company as well as it might be valuable for the researcher, scholar students who want to study into the working capital management of the public finance company limited.

1.5 Limitation of the Study

This study is concerned about the working capital management of Pashchimanchal Finance Company Limited (financial institution). The following are the limitations of the study.

a) The analysis is mainly based on the secondary data which is provided by PFCL. The reliability and validity of the conclusion highly depends on the reliability and validity of these data.
b) This study covers the time period of only five years F/Y 2062/063 to 066/67.
c) The major sources for this study is the secondary data of financial statement of PFCL, which are extracted from the annual report of PFCL and other published and unpublished articles.

1.6 Design of the Study

This study has been divided into five chapters. They are as follows.

- Introduction
- Literature Review
- Research Methodology
- Presentation and Analysis of Data

- Summary and conclusion

The first chapter covers general background profile of PFCL. The focus of this study is on the statement of the problems, objectives of the study, significance of the study, limitation of the study and design of the study.

Second chapter focuses on review of literature. It contains the conceptual framework and past research literature on working capital management of various books and research works.

Third chapter presents the methodology used in this study. It deals with research design, population and samples, nature and source of data. Procedure employed, financial and statistical tools are used for the study.

The fourth chapter fulfils the objectives of the study by presenting the data and analyzing them with the help of various statistical and financial tools followed by methodology.

Fifth chapter summarizes the whole study moreover it draws the conclusions and forwards the recommendation for the improvement of working capital management of PFCL.

At the last an appendix have been included. According to the test of relationship in between various variable of working capital and a bibliography cards have also been included according to which literature are reviewed.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

Working capital is a controlling nerve centre of every business organization because no business can run smoothly without the proper control up on it. Thus it plays the crucial role in the success and failure of the organization. As the management of current assets and current liabilities of the business organization is necessary for day to day operations, it plays the key role in the success and failure of the organization not only in the short run in the long run also. In the concern of the management of working capital there have been made number of studies from different management experts and students in various enterprises.

The main purpose of this chapter is to review the available literature on working capital management in the context of Nepalese financial institution. This chapter is divided in two parts. A first part deals with the conceptual framework of financial institutions and second parts deals about working capital. Working capital management and with relating to some available literature including review of books, articles and thesis.

2.2 Concept of Finance Companies

Meir Kohn (1999), gives the meaning of finance companies as "An institution set up to provide credit to household or firms, usually to finance the purchase of appliance or equipment". He again writes "finance company borrows in the money market. In deed they are one of the biggest issuers of commercial paper. They lend to house holds and to small businesses. In doing so, they act as intermediaries between the money market and the small borrowers. Small borrowers and house holds, with no chance of borrowing in the money market in their own name, do so indirectly from finance companies."

In the words of Dictionary of Economics (1988),"Finance company is a financial institution, which in engaged in the provision of hire purchase and other forms of

instalment credit. It is also called finance house, hire purchase finance companies and industrial banks."

According to Encyclopaedia Britannica (1975) "Finance company, specialized financial institution that supplies credit for the purchase of consumer goods and services by purchasing the time sales control of merchants or by granting small loans directly to consumers."

"The more developed financial system of the world characteristically fall into three parts. They are the central bank, commercial banks and other financial institutions. They are also known as financial intermediaries" (Sayers, 1976). However central bank is the main bank of any nation that directs and controls to all the financial institutions, whose existence is in the country. In Nepal, NRB (Nepal Rastra Bank) is the central bank. All the finance institutions perform their functions under the rules and regulations of the NRB. The financial institutions and separate finance companies are defined in many ways however the simplest and clearest definitions are given below.

"A financial intermediaries not a bank which may obtain fund from its own capital resources by accepting deposits (usually for fixed periods) or even by borrowing from other institutions and which it on tends for a variety of purposes, especially to finance hire purchase contracts but also leasing."

"An institution that used its fund chiefly to purchase financial assets (deposits loans and bonds) is opposed to tangible property. Financial institutions can be classified according to the nature of the principle claims, they issue non deposits. Intermediaries including among other life and property insurance companies and pension funds. These claims are the policies they fail on the promise to provide income after retirement, depository intermediaries option funds mainly by accepting deposit from the public" (J. Rosenberg, 2000).

Finance companies are the financial institutions, which play a significant role in the development of the country. It has been subjective for growing importance and facilities to provide employment as well as consume funds and helps to increase purchasing power, which develops standard of living. We don't go far to search development of finance companies in Nepalese economy. All the finance company have been established as a growth of mushrooms. Now a days, finance companies and its

branches are mainly operated in urban areas not in the rural areas of the kingdom. No country may properly fulfil the demand of the people without establishing finance institutions. For the rapid development of the developing countries like Nepal, banking transaction is not so significant. Finance companies have an important role in accelerating the rate of socio economic development.

After the political change of 2046 (1989) democratic government has came and adopted libber economic policy to operate finance company continuously. Nepal has adopted mixed economy to attract private sector, but private parties are not interested to invest on large scale or process of banking transactions rather than immediate return from their investment. In this case interested investors have invested their capital on small scale operating finance companies, which are more profitable and provide return immediately. With the view to boost financial development finance company has emerged as an important sector for the national economy. However it is the segment of society that are extending credit to the people.

Non banking functions, not only have been providing loans, deposits to the people, they also have been providing support services. They have been helping in employment opportunities too. There is a regular upward trend in saving mobilization of people by institutional credit facilities. Because of their sources of cultivation loans and the non bank special credit schemes had their desired impact in helping the poorer to better living conditions. For the borrowers, these credits were able to use modern technology using high field varieties.

"Finance companies are second stage intermediaries. Large amount of the funds loaned by finance companies are funds that are borrowed by finance companies from commercial banks. Indirectly then commercial bank lend to ultimate borrowers of marginal credit worth. The risks are assumed and profits are taken. However the finance companies also procure funds which are a very large amount through issuing long term bonds and short term paper. Most of these securities are banks, business and other organizations. Very little personal saving gets placed directly with finance companies" (Robinson & Wrightsman 1980).

"Finance company is a financial instrument which is a company, a non banking institution whose principle business is to receive the deposits under any scheme or arrangement or in any other manner and lending in any manner" (Baidya, 1999).

2.3 History of Finance Companies

Financial companies now-a-days plays a very dominant role for the development of industrial and commercial sectors. It is due to open market policy and liberalization policy. Economic liberalization policy has created the environment for the establishment, growth and development of financial institutions. The initial step to organize financial service originated for the establishment of "The First Investment Bank" begins in Philadelphia, USA in 1764. The first commercial bank "The Bank of North America" started in the same city in 1781 and first investment company, "The Massachusetts Hospital Life Insurance Company" in 1816 usually designated as the first saving bank insurance company. Instalment credit was used for only a few items such as pianos, Encyclopaedias and sewing machines the total household expenditure which were increased later for the items such as automobiles, boats and household appliances.

Finance company is the recent innovation in south Asia. In Philippines and Singapore, this established growth and developed from the mid 1950's. In those days, they had to suffer from many difficulties and problems associated with collecting deposit and lending. The companies established in Hong Kong, Thailand and Malaysia developed efficiency to accomplish their objectives and goals. In order to operate finance company faithfully, governments in south Asian countries have enacted legislation to protect both the depositors and investors in the industry (Shakya, 2004).

2.4 Evaluation of Finance Companies of Nepal

Financial sector plays a vital role for the economic development of a country. Even before the establishment of banking system in Nepal, financial transactions were in practice as undertaken by some moneylender like Sahu-Mahajans, Jamindars, relatives,

friends and few informal organizations limited to ethnic groups such as Guthi. The borrowings form other people and the informal organization was limited and based on personal understanding. On that time, people used to deposit their gold and valuable goods for the sake of security rather than earning interest. Thus, these private money lenders can be taken as forerunner of the concept of financial institution (Amatya, 2004).

Finance company is relatively a new concept in the Nepalese market the opening of non banking financial institutions have shown an encouraging trend by which the country adopted the liberal and open economic policy. This was done as per the objectives of HMG to make the national economy more liberal, dynamic and competitive through increased participation of the private sector in economic development. The first legislative provision related with the finance company Act 1985 (with its amendments), governs the establishment and functioning of finance company. Despite of this provision, private sector kept more silence till 1912, the first finance company named Nepal Housing Development Finance Company Limited was in 1990, which is one of the specialized government sector. The second came in 1992; Nepal Finance and Saving Company Limited, which is related in private sector (Amatya, 2004).

"Finance Companies are registered only as public limited companies as per finance company act 1985, which are registered in 'Company Register Office,' After registration, the finance companies are applying for license with Nepal Rastra Bank which is the high level technical committee that has been constituted for more serious and detailed study and analysis of feasibility report submitted by finance company under the management and leadership of NRB Deputy Governor to accomplish the objectives of creating more competitive environment in the financial sector. Based on the recommendation of this high level committee policy forwards and guides the new finance companies. They monitors those already established and are being operated financial institutions. The minimum paid up capital of the finance companies is fixed at Rs. 2.5 million, but if these companies are interested in operating more than one activity or want to expand their branches, the minimum paid up capital is fixed at Rs. 10 million. However, the paid up capital of Rs. 30 million is fixed for the operation of leasing finance companies" (Neupane, 2000).

There had been growth of finance companies as mushroom growth during the period from 1992 to 1998. Although selective approach was followed during 1999, the official figure shows about registration of many finance companies of various sizes

registered in HMG company register office. Out of them many finance companies are operating in country and additional of finance companies are in the process to get licence to operate which are waiting in the pipeline in the field of purchase, housing, term loan and leasing for the approval of NRB. Among those which have already started operation, some finance companies are located in capital and remaining is in outside.

"Finance companies are of the recent origin in Nepal, which virtually are subsidiaries of commercial banks and other financial institutions. As such, they are assigned a limited commercial banking function in terms of deposit mobilization, but finance companies, as a groups are becoming the second largest mobilizer of public saving in Nepal." At present, NRB has demanded detail feasibility studies to ensure qualitative growth of finance companies in the country (Paudel, 1997).

Although almost all finance companies have taken hire purchase as a major part of their lending activities. A gradual shift has taken place to housing loan and then to term loan that consists of industrial and business loan. Only a few finance companies have found to divert their activities in new issue market and portfolio management (Amatya, 2004).

2.5 Objectives and Role of Finance Company

According to the finance company Act 1985, finance companies are established with the following objectives.

- To provide instalments or hire purchase credit/loans for the purpose of vehicle, machinery, tools, equipment, durable household goods or other similar movable property.
- To provide credit for the purchase or construction of residential houses or 'go down' or the land for the construction or for similar.
- To provide lease finance for vehicles, machinery tools, equipments, durable household goods or similar other movable properties.
- To provide term loan for operating any industrial, commercial or other enterprise likely to promote economic development.
- To collect deposits.
- To performs functions relating to merchant banking with the prior approval of the bank such as corporate counselling, loan syndication, issue management and

underwriting, design and development of software packages for finance companies and other activities like merger and acquisition, financial engineering, capital structure, restructuring and debt/equity ratio, etc.

- To perform other functions necessary and relevant to the implementation of the objectives of the finance company act, 1985.
- Under finance company act 1985, a number of rules have been promulgated regarding the establishment and operation of financial companies in Nepal. Following are the important rules and regulations defined by the finance company rules, 1992 regarding the establishment, operation, management, and share distribution, monitoring and controlling measures.
- Finance companies can be established to mobilize financial activities by distributing shares.
- The board should at least consist of 5 members who are elected by general meeting.
- The chair person of the boards has to call the general meeting with in one year of the company's establishment. After that the general meeting to be conducted once a year, with in six months of completion of the company's fiscal year.
- The company is not allowed to give loan to the members of the board or any firm where board member have more than five percent share.
- The company has to have at least Rs. 2.5 million as the initial capital to establish the finance company. But NRB is given the right to fix this amount looking at the size of the company and the number of branches the finance company has (it has been raised to Rs. 10 million).
- The company has to get approval from NRB to increase its authorised share capital.
- The finance companies are required to offer at least 40% of the authorised capital to the general public. Whereas, finance companies, established under the collaboration of foreign or international finance companies, the present of share to the public can be at least 25%.
- If the fund is inadequate for various activities, then the company has the provision to finance through debentures with the prior approval of NRB.

- NRB has the authority of monitor the accounting process and other financial activities of the company at any time of the year.
- NRB is given the responsibility to direct the finance companies from time to time on various financial activities such as on the approval for loans, the interest rates on loans and deposits, discount rates, commission rates and other fees.
- At present, finance companies are allowed to collect deposits equivalent to maximum amount of ten times the capital funds. Also, they are required to manage their funds and mach costs funding within interest rate margin or spread maximum 6% between and loans. Moreover, finance companies have to accept deposits varying from minimum three months to the maximum of six years.
- They cannot give loan without collateral.
- They are required to maintain 8-10 percent liquid funds of total minimum deposits liabilities. The liquidity ratio is likely to change according to the rules of NRB.

They have to maintain a reserve fund equivalent to two times of the paid up capital. Till the required amount in the fund is reached, they have to transfer at least 25% of their net profit to the reserve fund each year.

2.6 Different between Finance Companies & Joint Venture Banks

In the conceptual definition of companies having financial transactions i.e. financial institutions, the whole financial institutions are classified into banking and non banking financial institutions. The former comprise the banking institutions, particularly indicates to commercial banks with a primary aim to mobilize resources in various firms and to channelise to same into the different sectors of an economy, which is more or less defined and controlled by the central bank of the nation, where as the non banking institutions are not allowed to do banking transactions, such as issue of cheque, drafts, letters and other negotiable instruments. They are also not allowed to collect deposit from public. They basically concentrate and deals on finance i.e. money. These institutions are known as finance company (Shakya, 2004).

On the basic of the activities and service area the major different between commercial banks and financial companies are:

- Finance companies focus their activities and services towards consumer and their facilities whereas the commercial banks focus their activities only with in the banking area.
- In compare to commercial banks finance companies offer high interest rates on the deposits.
- Finance companies can extend their financial services to those areas where commercial banks are not able to reach.
- Finance companies provide long term and short term loans while commercial banks deals mostly with in long term loans.
- Commercial banks can not work jointly provide bridge loans in situation where reliable and potential clients, needs credits which are beyond the capacity of single bank to finance it. But finance companies can work jointly to provide these kinds of transactions.
- Finance companies deal with individual directly or through capital market to fulfil their credit needs and investment portfolio plans while commercial banks deal more with institutional credit needs like developing business and industry.
- The recycle of funds from individual to individuals is done by finance companies while commercial banks can not be able to do it.

2.7 Contribution of Finance Company toward National Economy

Finance companies are recently featured in our society. For the continuous growth and development of any business organizations, sectors, continuous public trust and confidence is imperative. Finance companies are potential institutional tools of collecting and mobilizing funds for investment in the country. The role of finance companies has to channalise funds by gradually shifting priorities from hire purchase and trading to industry to help in the capital formation. The establishment growth and development of finance companies are applicable as financial instruments to attract small saving. The need to strengthen the institutionalization of finance companies is important to have meaningful relationship between finance companies and national development through shift of credit to the productive industrial sector.

Financial development is one of the key indicators of economic development of any country. Financial activity accelerates the rate of economic development. The main objectives of finance company should be directed to support industries. First and then after that consumer credit should follow to link credit to industries. The relationship between production and consumptions functions is very important to make credit worth while to have a meaningful contribution to the development of national economy.

Finance company has to channelize fund by gradually shifting priorities from hire purchase and trading to industry to help in the capital formation with in the country. Thus in the course of time, industrial financing should get higher priority in the lending strategy of the finance company. Expansion and growth of both small and medium scale industries help for the development of economy that creates the market for industrial product with in the country. Finance can help consumer to consume domestic products and at the same time helping both for financing and creating market for their products (Shakya, 2004).

2.8 Conceptual Review of Working Capital

2.8.1 Concept of Working Capital

Working Capital refers to the resources of the firm that are used to conduct operations of day to day work that makes the business successful. Without cash, bills cannot be paid, without receivable the firm cannot be paid, without receivable the firm can not allow timing different between delivering goods to services and collecting the money to pay for them, without inventories the firm cannot be engaged in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets. The management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of the firm's that can be converted into cash within the year. Net working capital is defined as the different between current assets and current liabilities (Hampton and Wagner, 1983).

There are two concepts of working capital, gross capital and net capital. According to the gross concept, working capital and it refers to the capital invested in current assets of a firm. It focuses only the optimum investment on current assets and

financing of current assets (Khan and Jain 1992). It includes cash, short term securities, inventories, account receivables loans and advances. The level of investment in current assets should be just adequate. The level of current assets may be fluctuating with the changing business activity. This concept can help earning more profit through maximum utilization of current assets. This concept is called quantative concept.

According to the net concept of working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long term funds. It focuses the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds. It is not very useful for comparing the performance of different firms as a measure of liquidity but it is quite useful for internal control. This concept helps to compare the liquidity of the same firm over a time (Pradhan, 1986).

According to the well known Indian professors I.M. Pandey (1992), there are specially two concept 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 or those assets, which can be converted in to cash with in an accounting year and it includes cash, short term securities, debtors, bills receivables, stock (inventories) and prepaid expenses. 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 with in an accounting year and it includes, creditors, bills payable, bank overdraft and outstanding expenses or accured income. Net working capital can be positive or negative. A positive net working capital arises when current assets exceed current liabilities and a negative working capital occurs when current liabilities are in excess of current assets. He also added that net working capital concept also covers the question of judicious mix of long term and short term funds for financing current assets.

By analyzing the above concept of working capital, we concluded that all the corporations, whether public or private, manufacturing or non-manufacturing should have just adequate working capital to serve in competitive market. It is because excessive or inadequate working capital is dangerous from the firm's point of view. Excessive investment on working capital affects a firm's profitability just as idle investment yields

nothing. In the same way, inadequate investment on working capital affects the liquidity position of the company and leads to financial embarrassment and failure of the company.

2.8.2 Working Capital Management

The management of the funds of business can be described as financial management. It is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities in other words long term investment and sources of funds secondly current uses and sources of funds. Both of these types of funds play a vital role in business finance.

In the words of K.V. Smith (1974), the term working capital management is closely related with short term financing and it is concerned with collection and allocation of resources. Working capital management is related to the problems that arise in attempting to manage the current assets, current liabilities and the interrelationships that exist between them.

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 have included in analyzing the trade off between risk and return when managing working capital

(i) Insolvency: This condition occurs when a firm can no longer pay its bill and must default on obligations and possibility declares bankruptcy. A firm without adequate level of working capital may have to face this risk

(ii) Profitability of assets: Different level of current assets will have varied effects 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.

(iii) (iii) Cost of financing: When interest rates are high its cost more to carry inventory then when rates are low large cash balance may not earn the return that is possible if the cash is converted into operating assets. The cost of debt and the

opportunity costs of alternative investments are items to consider when evaluating working capital level (Hamption & Wagner 1989).

In the view of Agrawal (1990) working capital management is the effective lifeblood of any business. Hence the management of working capital plays a vital role for existing of any public enterprises successfully while studying it. It is the centre of the routine, day to day administrations of current assets and current liabilities. Therefore working capital management in public enterprises is very important mainly for four reasons.

Firstly public enterprises must need to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidity base.

Secondly, they must select the type of current assets suitable for investment, so as to raise their operational efficiency.

Thirdly, they are required to ascertain the turnover of current assets, which determine the profitability of the concern. Lastly they must find out the appropriate sources of funds of finance the current assets.

Proper management of working capital must ensure adequate amount of working capital as per need of business firm. It should be in good health and efficiently circulated. To have adequate healthy and efficient circulation of working capital, it is necessary that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed (Agrawal -1990).

For the working capital management, I.M. Pandey (1992) has described various aspects of working capital management into five chapters. The first chapter deals with the concepts of working capitals, need for working capital, determinants of working capital, dimensions of working capital management, optimum level of current assets and working trends in India. In the second chapter, he has described the management of cash and marketable securities, where he has dealt with facts of cash management, motives for holding cash, cash planning, managing the cash flows, determining the optimum cash balance, investment in marketable securities. In the Third chapter, he has described the management of receivables, in which he has dealt with goals credit management optimum credit policy aspects of credit policy credit procedures for individual accounts. In the fourth chapter of inventory management, he has described the need to hold

inventories, objectives of inventory management, inventory management techniques, selective inventory control techniques and financial manager's role in inventory management.

The management needs to determine the size of working capital as accurately as possible. It should be neither over invested nor under invested. There is no precise way to determine the exact amount of current assets for any firm. For that the data and problems of each company should be analyzed. There is no specific rule to finance current assets. Keeping in view the constraints of the individual company, a proper mix of long term and short term sources of finance should be invested in current assets. For an organization, it is necessary to pay proper attention to the relevant factors which generally influences the working capital require of the firm. Such determinants of working capital differ from one enterprise to another. Some of the most common and important determinants are:

- Nature and size of business.
- Sales and demand conditions.
- Technology and manufacturing policy.
- Credit policy.
- Availability of credit.
- Operating efficiency and
- Price level changes.

A firm, then talking those determinants under consideration, should determine optimum size of investment in each type of current assets e.g. cash, receivables and investor. These factors affect different enterprises differently and also vary from time to time. All factors are of separate importance and also the importance of the factors changes for a firm over time.

A firm can have different level of current assets to support the same level of output. Its proportion up on the fixed assets of the firm indicates the working capital policy of the firm namely conservative and aggressive in two extreme ends. Dividing current assets by fixed assets gives current assets to fixed assets, a higher CA/FA ratio means and aggressive current assets policy assuming other factors to be constant. Higher level of current assets implies greater liquidity and solvency of the firm. There is less risk of technical insolvency, but a considerable amount of funds will be tied up in current

assets, which caused to lower the profitability. On the other side, to have a higher profitability, a firm can take an aggressive current assets policy maintaining lower level of current assets, which will lower the solvency of the firm and the level of risk in the same manner. Thus the reasonable approach is to balance the cost of maintaining current assets and risk associated in such a way that the trade off between risk and return is minimized (Pandey, 1992).

Van Horne (1994), has categorized the various components of working capital i.e. liquidity, receivable and inventory and current liabilities and grouping them according to the way they affect valuation. He has also described the different methods for efficient management of cash and marketable securities and various models for balancing cash and marketable securities. For the management of receivable, different credit and collection policies have been described and various principles of inventory have been examined for inventory management and control.

The well known professors Weston and Brigham (1984), have given same theoretical insights into working capital management after their various research studies on it. The bone conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management of working capital in any enterprises. On this study they also explained that in the beginning. The importance of working capital, concept of working capital, financing of working capital, the use of short term versus long term debt, relationship of current assets to fixed assets. In the next chapter, they have dealt with the various components of working capitals and their effective management techniques. The components of working capital, they have dealt with the cash, marketable securities, receivable and inventory for the efficient management of cash. They have explained the different cash management models. They have also explained the major sources of forms of short term financing, such as trade credit, loans from commercial banks and commercial paper.

Pradhan (2004) in his book "Basic of financial management" has shed light on financing of working capital as "There are two ways of financing working capital requirements i.e. internal and external sources. Internal source includes use of retained earnings, depreciation fund and share capital. External sources includes trade credit, advance from customers, short term deposit, cash, credit, short term government loan

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

a) Long term financing: The sources of long term financing include long term debt (i.e. long term loans and bonds) common stock and preferred stock and retained earning.
b) Short term financing: It includes short term bank loan notes payable, line of credit, overdraft factoring, pledging, blanket, lien etc. Those are obtained for period less than one year.
c) Spontaneous financing: It includes operating sources like trade credits, accounts payable, accruals etc.

A company can follows three approaches on the mix of short term and long term source of financing, namely conservative, aggressive and matching approach. If more short term funds and used in financing current and fixed asset, it can be considered as aggressive approach. Conservative approach refers to more use of long term financing, which is less risky than aggressive approach. Matching approach is to finance variables current assets by long term source. In working capital management, an important aspect is matching the type of financing with the type of assets. However, the degree of managerial aggressiveness often guides in choosing a certain combination of short and long term financial for working capital (Pradhan, 2004).

2.9 Review of Past Studies

Giri (1986), in his study has attempted to evaluate "Working capital management of Balaju Textile Industry Limited." The major findings of his study were: no significant improvement in working capital during study period increased. Working capital was financed by sales of fixed assets or sources of share capital. Current assets was financed

by long term financing and high level of sluggish inventories amount to unnecessary tied up of funds, impairment of profit and increased costs.

He has suggested for efficient working capital management of BTIL. It is better to fix a minimum target rate of return, make regular check to identify both excess and deficient current assets to avoid risk in management of working capital, financing current assets from the appropriate combination of short term and long term sources to preserve liquidity and maintain stability, take necessary actions for disposing a huge inventory with tied up working capital, involved huge carrying cost, risk of losses, sick position and working inefficiency of corporation should improve.

He had set only three research questions to analyse working capital management of BTIL, which is insufficient. He had used ratio analysis as a research tools. But he had not done analysis to evaluate the relationship of current assets components with total current assets. Similarly, he has set null hypothesis but has not tasted it through appropriate tools to find out whether null hypothesis is accepted or rejected, so we can say it is not fully analytical type of research.

Rajbhandari (1990), conducted thesis entitled "Working Capital Management", A case study of Nepal Bank Limited' has research for the ten years period 2034 to 2043 B.S. He has drawn some major findings from his study. They are as follows.

The bank has heavy liquid assets that reflects the improper utilization of the banks fund it was due to heavy growth in deposit and other borrowed capital. The volume of share capital became insufficient, rate of return on shareholders' investment was considered insufficient, the bank could not fully utilize its fund and had not paid attention to the portfolio management in investment.

Joshi (1986), in his study seeks to have true insight into the "Working Capital Management" of current assets and it covers five years period (2036/37 to 2040/41). The study has embodied various financial ratios for measuring "Biratnagar Jute Mill's", financial viability. The study is based is on secondary data with opinion survey method and limited to gross concept of working capital. The study has indicated mismanagement of inventory, no proper policy of cash holding and heavy dependence on short term bank credit. He has recommended for effective working capital management of the mill by planning realistic turnover target specimen designing effective inventory management program, following productive investment approach preparing effective sales plan and

exhaustive market research program, using short term bank credit up to certain reasonable limit, maintaining optimum cash balance and making proper utilization of accumulated collection debts.

Joshi (1989), studied on financial performance of commercial banks and he concluded that liquidity position of commercial banks is sound. Their debt to equity ratio of local commercial banks is higher than joint venture banks. Conservative credit policy is followed by commercial banks for assets utilization that's why more investment is done on loans and advance, assets utilization for earning purpose is two third of the total assets. The main sources of income for these banks are interest from loans and advances and overall profitability position of NABIL is better than others.

The thesis entitled "An Appraisal of Financial Position of Nepal Bank Limited", by Amatya (1993), analyzed, examined and interpreted the financial position of the bank from 1980/81 to 1989/90. Main findings of his study were as follows.

- Regarding the liquidity management, the bank is in a better position but the bank has been following a uniform policy to finance current assets and current liabilities.
- The trade and commerce advance are playing major role in the credit composition of the bank. Although, the reserve of the bank is increasing gradually, it plays a nominal role in the credit expansion control.
- The bank is successful in deposit collection but it has always adopted conservative and traditional credit policy.
- The major portion of investment of the bank is in government's securities and the volume of transaction is high in all respects but the bank does not show higher ratio of profit or it shows a decreasing trend of profit.

Paudel (1997) in his thesis entitled "A Comparative Analysis of Financial Performance Between NBL and NGBL" has drawn some major findings. Although the liquidity position of NBL is better than NGBL but the whole the current assets of these banks are adequate to meet the current liabilities. NGBL has better credit position than NBL in terms of short term investment. It also found that NBL has better turnover and highly laboured than NGBL. Joint venture banks such as NGBL is fastly growing the

overall profitability are higher but government owned commercial banks such as NBL has higher expenditure and the profit making capacity is lower and gradually decreasing.

The thesis entitled “Comparative Study of Working Capital Management of NBL and NABIL Ltd.” By K.C (2000), aims to examine the management of working capital in both banks. The specific objectives undertaken in his study were:

- To study the current assets and current liabilities and their impact and relationship to each other in NBL and NABIL.
- To analyze the comparative study of working capital of both banks.
- To give recommendation and suggestion for the improvement of working capital management of NBL and NABIL in the future.

The study has maintained the following findings. The average cash, bank balance, loan and advance are higher on NABIL than NBL. Management of loan and advances was more problematic in NBL than NABIL. Interest income of NBL is better than NABIL. The liquidity management policies of these two banks were significantly different. NABIL has better utilization of deposits in income generating activity than NBL. It also shows that NABIL has better investment efficiency in loan and advance. Due to more conservative working capital risk of insolvency is less but cost of fund is higher on NBL than NABIL. Profitability position of NABIL is far better than NBL, though NBL earned higher interest than NABIL.

Sharma (2004), in her thesis entitled "Comparative Analysis of Working Capital Management of Bank of Kathmandu”, NABIL Bank, Nepal Investment Bank and Standard Chartered Bank" aims to examine the management or working capital in concerned banks. The specific objectives undertaken in her study are, to analyze the liquidity composition, assets utilization and profitability position of concerned bank, to study current assets are current liabilities and their impact on liquidity and profitability, to analyze the position of she has used liquidity, activity capital structure and profitability ratios.

Her study has maintained the following findings: The major components of current assets of all banks are cash and bank balance, loan and advance, government securities and others. Liquidity position of standard chartered bank is better than other three banks. It has more short term and less costly sources of fund than other on the basis of saving deposit to total deposit in income generating activity than other banks. The

profitability position of standard chartered bank is better than Bank of Kathmandu, NABIL and NIBL.

The thesis entitled 'A Comparative Study of Working Capital Management of NABIL and Standard Chartered Bank' by Lamsal (2002), had analysis, examined and interpreted the financial position of both banks. Study covers only 5 years time period from 2054/55 to 2063/64. The study was based on secondary data and some primary data where required. The objectives of his study were: to study current assets and current liabilities and their impact on liquidity and profitability.

To analyze the comparative study of working capital management between NABIL Bank Limited and Standard Chartered Bank Limited.

He has drawn some major findings form his study. They are as follows:

The major components of current assets in both banks cash and bank balance, loan and advances and government securities miscellaneous currents assets are also source of current assets. The management of loan and advance is more problematic in standard chartered bank than NABIL. Liquidity position of standard chartered is better than NABIL. In the study period NABIL has better investment efficiency on loan and advance. Study also shows that both banks follow conservative working capital policy, risk of insolvency is less but cost of fund is higher on NABIL than Standard Chartered Bank.

Research Gap

The present study has selected a financial company "Pashimanchal Finance Company" it has been selected. It is a 'C' grade licensed financial institution from Central Bank of Nepal. Other researchers have conducted research on Commercial banks and development bank etc.

Normally it is just emerging financial company and to be well established in society. It is very good management. There are lot of very good and well known financial institutions it is possible to take a look or to research on same topic of them. But to help to established new finance company. Well established financial Company was quite changing for them. So it is one of the reason why choose it my research. It did not research like interviewing, worker. There with a lot of question. So choose the secondary data.

It has get the detailed knowledge based articles, statistical analysis and searching knowledge which make the research more relevant and easy to understand very well. "The Working Capital Management" system is well explained and well interpreted in this research.

The data have presented cash at bank, loan and advance, interest receivable, misce current assets etc. It tried to use modern and latest knowledge and technology to solve the quires that my researches focus about. ATM and other Banking system.

The data have been clearly describing the liquidity position and in overall " The Working Capital Management" of PFCl interpreted the 5 years period.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology employed in this study. It consists of research design, population and sample, nature and source of data, data collection procedure, tools and techniques of data analysis. The study is mainly based on secondary data collected from respective annual reports of concerned company especially from profit and loss account, balance sheet and other publications made by the company itself.

3.2 Research Design

The appropriate research design has been used for guiding, analyzing and evaluating the study. Secondary data have been used in order to achieve the predetermined objectives of the research. In some cases primary data have also been used. This study is based on descriptive and analytical method. This study aims to portraying accurately upon the working capital (current assets and current liabilities) and its impact on overall financial position of the PFCL.

The basic objective of the study is to under take the position of the working capital management of PFCL, the five years period by following simple research methodology. Research methodology is the research method or technique to be used in the entire study. A suitable methodology of study is design and followed in the study to fulfil the stated objectives.

In order to achieve the objectives of the company and obtained answer the research question. The research descriptive as well as analysis research design has been used.

Source and collection of data information is the life blood of any research work. Information and data collection is the main task of any research. Primary data have been collected in interview method and secondary data had collected past thesis.

3.3 Population and Samples

Currently there are about 80 finance companies in Nepal and more than half dozen finance companies in Butwal. Among them PFCL has been taken as sample for this study. Annual reports of latest 5 years from F/Y 2062/63 to 2066/67 have been taken as sample for the study of working capital management. Selected company (PFCL) is an 'A categorised finance company', categorised by Nepal Stock Exchange (NEPSE). It is 18^{th} finance company of Nepal and 1st finance company of western region of Nepal.

3.4 Nature and Sources of Data

The study is mainly based upon the secondary data. The data relating to financial performance are directly obtained from PFCL. The supplementary data and performance obtained from unpublished or published official records of PFCL, booklets, journals and other organizations like Nepal Rastra Bank. But some required information has been collected through personal employees of PFCL too.

3.5 Data Collection Procedure

This study is mainly based on secondary data obtained from various sources mentioned above. They are collected directly from official records and published statements of the company. The researcher has constantly consulted with concerned office for data and information. Verification and clarification of data has been done through discussion with concerned authorities wherever is possible. Besides, a detailed review of literature has been conducted in order to collect relevant data and information. Such review materials were mainly collected from central library of T.U. (Kirtipur), library of Shankar Dev Campus, library of Tribhuvan Multiple Campus (Palpa).

3.6 Tool and Techniques of Data Analysis

The analysis of data can be done according to the pattern of data available. Wide varieties of methodology have been applied according to reliability and consistency of data. The data thus collected, have been extracted and as per the need of this study, processed and have been analyzed and interpreted using relevant financial tools,

statistical tools. Mainly, the following tools have been applied to analyze the available data.

3.6.1 Financial Tools

In this study, various financial tools have been employed for the analysis, the hidden facts put forth by financial tools. Mainly Ratio Analysis, have been applied to undertake this study.

3.6.1.1 Ratio Analysis

In financial analysis, a ratio is used a benchmark for evaluating the financial position and performance of a firm. An analysis of financial statements with the helps of ratio is nothing but ratio analysis. Ratio helps to summarize the large quantities of financial data and to make qualitative judgement about the firm's financial performance.

Ratio Analysis is used to compare the firm's financial performance and status to that of other firms or to itself overtime." (Gitman, 1998).

The ratios selected for the analysis of financial performance of the company are as follows.

Liquidity Ratio

Activity Ratio

Profitability Ratio

Capital Structure Ratio

(i) Liquidity Ratio:

Liquidity of any business company or organization is directly related with working capital or current assets and current liabilities of that organization. In other words one of the main objectives of working capital management is keeping sound liquidity position. Finance companies are a different organization which is engaged in better mobilization of funds so without sound liquidity position of company is unable to operate its functions. To measure the finance company's solvency position or ability to meet its short term obligation various liquidity ratios are calculated.

(a) Current Ratio

This ratio indicates the current short term solvency position of the company. This ratio is calculated by dividing current assets by current liabilities. Current assets include cash and advance for commercial banks; investment in government securities, interest receivable. Miscellaneous current assets, and current liabilities includes deposit and other accounts, short term loan, bills payable, tax provision, staff bonus and miscellaneous current liabilities.

Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety, i.e. a 'cut ion' of protection for creditors and the highest the current ratio, greater the margin of safety, large amount of current assets in relation to current liabilities, more the finance companies ability to meet it's current obligations. It is calculated as follows.

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

(b) Quick Ratio

Quick Ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid assets. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. This quick ratio can be found by dividing the total of quick assets by total current liabilities.

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

(c) Cash and Bank Balance to Current Margin and Other Deposit Ratio (Without Fixed Deposit)

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and

bank balance by saving margin and current deposits (excluding fixed deposits) the ratio is calculated as:

$$= \frac{\text{Cash and bank balance}}{\text{Deposit (except fixed deposit)}}$$

(d) Saving Deposit to Total Deposit Ratio

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

$$\text{Saving deposit to total deposit ratio} = \frac{\text{Saving Deposit}}{\text{Total deposit}}$$

(ii) Activity Ratio / Turnover Ratio:

Activity Ratios are concerned with measuring the efficiency of assets management or through these ratios. It is to know whether the company has employed the available funds efficiently. These ratios also examine how many times the company has utilized the available resources for the purpose of income generation other things being the equal greater, the turnover, more efficient the utilization of funds. Necessary ratios that are employed to evaluate the financial performance of the company are defined in following paragraph.

(a) Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which banks or companies are successful in utilizing the public funds for the profit generating purposes. In other words, how quickly total collected deposits are converted into loan and advance given to the client to earn income. Only short term loan and advances are including in the study. It is calculated as follows:

$$\text{Loan and advance to total deposit ratio} = \frac{\text{Loan and advance}}{\text{Total deposit}}$$

(b) Loan and Advance to Fixed Deposit Ratio

This ratio examines that how many times the funds is used in loan and advance against fixed deposit. For finance companies, fixed deposits are long term interest bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is computed as:

$$= \frac{\text{Loan and advance}}{\text{Fixed deposit}}$$

(c) Loan and Advance to Saving Deposit Ratio

This ratio assesses, how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short term obligations and the major sources of investment in loan and advances for income generating purpose by CBs. This ratio indicates how many times the short term interest bearing deposits are utilized for generating the income is calculated, dividing the loan and advances by total deposit in saving account. The following formula is used to calculate this ratio as:

$$= \frac{\text{Loan and advance}}{\text{Total saving deposits}}$$

(iii) Capital Structure or Leverage Ratio:

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

(a) Long Term Debt to Net Worth Ratio

Long term debt refers to the amount of fixed deposits and loans of the banks. The ratio measures the proportion of outsiders and owners fund employed in the capitalization

of finance company. It is calculated by dividing the fixed obligations of the banks by owner's claim. It is calculated as follows.

Long term debt to net worth ratio = $\frac{\text{Long term debt}}{\text{Net worth}}$

(b) Net fixed Assets to Long Term Debt Ratio

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

Net fixed assets to long term debt ratio = $\frac{\text{Net fixed assets}}{\text{Long term debt}}$

(iv) Profitability Ratio:

Profitability ratios indicate the degree of success in achieving desire 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 as follows.

(a) Interest Earned to Total Assets Ratios

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

Interest earned to total assets ratio = $\frac{\text{Interest earned}}{\text{Total assets}}$

(b) Net Profit to Total Deposit Ratio

This ratio is used for measuring the internal rate of return from deposits. It is computed dividing the net profit by total deposits. The following formula is used as:

Net profit to total deposit ratio = $\frac{\text{Net profit}}{\text{Total deposit}}$

Higher ratio indicates the return form investment on loans and advances are desirable and lower ratio indicates the funds are net properly mobilizing.

(c) Net Profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of fund invested in the company's assets. It measures the return on assets. It is computed dividing the net profit after tax by total assets. The formula used for computing this ratio is as:

$$\text{Net profit to total deposit ratio} = \frac{\text{Net profit}}{\text{Total deposit}}$$

(d) Cost of Services to Total Assets Ratio

A sound management always tries to utilize its larger amount of assets with minimum cost. This ratio is useful in measuring the assets utilisation with cost of services. The ratio can be expressed.

$$\text{Cost of services to total assets ratio} = \frac{\text{Cost of services}}{\text{Total assets}}$$

(e) Net Profit Margin

Net profit margin ratio is the overall measure of the company's ability to turn each cash income into net profit. This ratio established a relationship between net profit and total income received. High ratio indicates that company's financial condition is favourable and low ratio indicates that the company is failing to achieve satisfactory return. It is measured by dividing net profit after tax by total income. The formula is:

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Total income}}$$

3.6.1.2 Composition of Working Capital

To operate the business, different kinds of assets are needed. For the day to day business operation, different types of current assets are required. The composition of current assets of the main components of current assets at Pashchimanchal Finance Company Limited are cash and bank balance, short term loan and advance and interest receivable. Miscellaneous current assets are also components of current assets. Prepaid expenses, sundry debtors, stock, prepaid taxes and others are included in miscellaneous current assets.

In this part of study includes following tables and figures.

- Cash and bank balance amount and percentage
- Loan and advance amount and percentage
- Interest receivable amount and percentage
- Misc. current assets amount and percentage

3.6.1.3 Index Analysis

In financial analysis, the direction of changes over a period of years is of crucial importance. Whether the financial position of PFCL is improving or deteriorating over the last 5 years period is made possible by the use of trend analysis. From this analysis, we will be able to find out the direction of movement i.e. whether the movement is favourable or unfavourable. In index analysis, the items of financial statements are expressed as an index relative to base year. All items in base year naturally assume a value of 100 and percentage changes in each item of other years are calculated in relation

to base year. So, index number for key financial indicators of PFCL are computed taking the base year 2062/63 and assigning the number 100 for this year and related percentage for remaining years.

3.6.2 Statistical Tools:

Another quantative analytical tool, which is employed in this study, to evaluate the financial performance of PFCL, is statistics. The relationship between different variables related to study would be drawn out by using such statistical tools. The tools that are relevant and suitable for this study are defined in this section.

(i) Time Series Analysis

The time series analysis is an important statistical tool, which helps to analyze the data in relation with time. The dynamic pace of movement of phenomenon over a period can be reflected with the help of this tool. It assumes the time element as independent variable and others are considered as dependent on time.

There are many method of time series analysis but only the method of least square or straight line trend will be applied to evaluate the financial performance of the company as well as to forecast the numerical value of any variable for future based on the past data. The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular punctuations. The trend value increases or decreases by a constant absolute amount 'b' per unit of time. Hence, the linear trend values from a series in arithmetic progression, the common difference being 'b' the slope of the trend lines" (Gupta, 1992).
The straight line trend is represented by the equation

$Yc = a+bx$

Where,

Yc = Trend value of y variables

Y = Variables which is assumed to depend up on time

a = Computed trend value of the y variable when x = 0

b = Slope of the trend line or the amount of change in y corresponding to the change in x by one unit

x = the variable which represents time (x = 1 year)

The following two simultaneous equations must be solved to find out the value of a, b and x to estimate the trend equation.

$\Sigma Y = Na + b\Sigma x$

$\Sigma xy = a\Sigma x + b\Sigma x^2$

Where,

N = Number of years

When,

$\Sigma Y = 0$

Then,

$a = \frac{\Sigma y}{N}$ and $b = \frac{\Sigma xy}{\Sigma x^2}$

(ii) Co-efficient of Correlation

Co-efficient of correlation is a technique to determine the relationships between two or more than two variables. In this study, the Karl Pearson's Coefficient of Correlation has been used to determine the relationship between different financial variables of PFCL.

The formula for computing Pearson's Correlation Coefficient 'r' is as follows.

$r = \frac{\Sigma xy}{\Sigma x^2 \Sigma y^2}$

Where,

$x = x - \bar{x}$

$y = y - \bar{y}$

x & y = variables (Gupta, 1992)

The value of 'r' lie between - 1 and +1

When,

r = +1, it shows perfectly positive correlation between variables

r = 0, it shows no correlation between variables

r = -1, it shows perfectly negative correlation between variable

(iii) Probable Error

The probable error of the Co-efficient of correlation helps in interpreting its value with the help of probable error. It makes possible to determine the reliability of the value of Co-efficient and can be obtained as follows.

$$Per = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

Here,

r^2 = the square of Co-efficient of correlation

N = Number of years

If the value of r is less than PEr than there is no evidence of correlation and if the value of r is more than 6 times the Per, the value of Co-efficient of correlation is practically certain, i.e. the value of r is significant.

3.7 Definition of the key Terms

The key terms used in this study have been defined below avoid any confusion and disorder standing.

i) Working Capital

The term working capital refers to the gross working capital for the study. It means that the working capital refers that volume of current assets of company.

ii) Current Assets

Current assets include cash and all those assets which can be converted into cash with in a accounting period. It includes cash and bank balance, loan and advance, govt. securities, prepaid expenses and advance payments.

iii) Current Liabilities

Current liabilities include those liabilities which are estimated to mature with in an accounting year. It includes saving deposits, current and other deposits short term loan, bills payable, tax provision, staff bonus, dividend payable etc.

iv) Cash and Bank Balance

Cash and bank balance are those assets which have been collected from sales of share. Those amounts are liquid assets.

v) Loan and Advance

Here in study short term loan only are included in loan and advance. Loan and advance provided by company to clients for an accounting year are included in loan and advance.

vi) Interest Receivable

Interest from loan and advance and interest from bank account are included in interest receivable. It is a part of current assets.

vii) Long Term Debt

Long term debts are long term liabilities of the company. Here long term debt refers to the amount fixed deposit and loan of the banks.

viii) Net Worth

Net worth is outsiders or owner's fund, employed in the capitalization of banks. If includes amount of share capital, reserve and other profit.

ix) Cost of Services

It includes interest expenses, employee expenses and other operation expenses. Company should try to provide these facilities or services to clients in minimum cost of service.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The major objectives of this chapter is to fulfil the objectives of the study by presenting data and analyzing them with the help of various statistical and financial tools followed by methodology on the topic of working capital management of Pashchimanchal finance company. It studies different variables. The major variables of the study are cash, bank balance short term loan, advance interest receivable and others. In this chapter relevant data and information of working capital as well as financial performance of PFCL are presented and analyzed accordingly. It covers analysis of the ratio as well as trend analysis, index and composition of current assets, liquidity, turnover, leverage and profitability of PFCL. It also uses correlation analysis.

4.2 Composition of Working Capital

The following table shows the amount of cash and bank balance, loan and advance, interest receivables and miscellaneous current assets of PFCL. Table also presents the percentage on the total current assets of different four components of current assets of PFCL.

Table No. 4.1

Current Assets Components of PFCL (Rs. in 000)

F/Y	Cash & Bank Balance		Loan and Advance		Interest receivable		Misc. Current assets		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
062/63	39371.16	48.62	15696.93	19.38	17785.74	21.96	8122.67	10.04	80976.50	100
063/64	56365.98	50.28	19239.39	17.16	19593.93	17.48	16888.96	15.08	112088.28	100
064/65	65872.12	54.99	17532.08	14.63	19405.78	16.20	16965.91	14.18	119775.89	100
065/66	97977.24	65.46	19030.16	12.71	23364.52	15.61	9297.28	6.22	149669.21	100
066/67	92450.11	60.69	17974.49	11.80	27894.03	18.32	13991.24	9.19	152313.88	100

Ave.		56.01		15.14		17.91		10.94		100

(Source: Appendix 13)

From table 4.1 it is clear that the data has adopted an increasing treand, except in the last year. Cash & bank balance the relative proportion has been increasing during the study period except in the year 2066/67. The average cash and bank balance percentage is 56.01%. It shows cash and bank balance is the main components of current assets of PFCL. It covers more than 50% of current assets of the company.

Loan and advance percentages were decreasing in fluctuationg rate at whole study period. Percentages rates from 11.80% to 19.38%. The average loan and advance percentage is 15.14%. The loan and advance percentage in the last three year were less than average. The loan and advance percentage are higher than average. It shows the loan and advance is one of the important components of current assets of PFCL.

The interset receiable percentages are also in decreasing trends excepts in last year. The avegare interest receiable percentage is 17%. Rest three years percentages are lower than average percentage ie.19%.

Interest receivables percentages are always decreasing for four years and it has increased in the fifth year. It is highest in the year 2062/63 i.e. 21.96% and lowest in the year 2065/66 i.e. 15.61%. The range of interest receivable is 21.96 to 15.61%. The average interest receivables percentages are 17.91%. In the year 2062/63 and 2060/62 the percentage are higher than average interest receivable percentage and in the rest three year 2063/64, 2064/65 and 2065/66. The interest receivable percentages are lower than average percentage i.e. 19.91%

Miscellaneous current assets include prepaid expenses, Sundry debtors, Stock etc. Miscellaneous current assets percentages are 6.22% to 15.08%. In the year 2063/64 the percentage of miscellaneous current assets is highest i.e. 15.08%.

. Average misc. current assets percentages is 10.94%. The percentage of misc. current assets are lower except in the year 2063/64 and 2064/65.

4.3 Trend Analysis

This statistical tool is very useful to analyze the data in relation to time. It is very useful to analyze the financial performance as well as to forecast the numerical value of any variable for future based on past data.

So, here researcher is going to analyze cash and bank balance, loan and advance interest receivable and miscellaneous current assets with the help of this tool taking the relevant data of 5 years understudy. Similarly, the trend line of best fit straight line is being obtained and the numerical value of variables for next 5 years is being forecasted.

(a) Trend analysis of cash and bank balances

Cash and bank balance is the main sources of working capital or current assets. It covers more than 50% on total current assets.

Table No. 4.2

The actual and trend value of cash and bank balances (Rs. In 000)

F.Y.	Actual Value	Trend Value	Deviation
062/63	39371.16	40853.490	-1482.330
063/64	56365.98	55630.406	735.574
064/65	65872.12	70407.322	-4535.202
065/66	97977.24	85184.238	12793.002
066/67	92450.11	99961.154	-7511.044
067/68		114738.07	
068/69		129514.99	
069/70		144291.9	
070/71		159068.82	
071/72		173845.73	

Deviation = (actual value - Trend value)
(Source: Appendix 9 & 13)

The trend equation of cash and bank balance is obtained as "yc = 70407.322 + 14776.916 X" where, Y is denoted for cash and bank balance and X for time variables.

The Y intercept is 70407.322, which is nothing but an average amount of cash and bank balances during the five years study period. The slope of trend line is 14776.916, which indicates that cash and bank balance of PFCL has been growing at the rate of 14776.916 thousand in each year.

The table 4.2 clearly says that actual amount of loan borrowing & investment are in increasing trends except the last year (2066/67). Also it is clear that the actual amount of cash and bank balance have been increasing year by year except in the last year 2066/67. And the trend amount of cash and bank balance had increased year by year.

Forecast for next 5 year from F/Y 062/63 to 066/67 also shown in table we can see the amount of cash and bank in F/Y 2062/63 is 114738.07 thousand and it increased to 173845.73 thousand in F/Y 2066/67. Amount of cash and bank balance will be increasing at slow rate i.e. 14776.916 thousand per year.

(b) Trend analysis of loan and advance:

Loan and advance is a main source of current assets of PFCL.

Table No. 4.3

Actual Value and Trend Value of Loan and Advance (Rs. In 000)

F.Y.	Actual Value	Trend Value	Deviation
062/63	15696.93	17025.43	-1328.5
063/64	19239.39	17460.02	1779.37
064/65	17532.08	17894.61	-362.53
065/66	19030.16	18329.2	700.96
066/67	17974.49	18763.79	-789.3
067/68		19198.38	
068/69		19632.97	
069/70		20067.56	
070/71		20502.15	

071/72		20936.74	

(Source: Appendix 10 & 13)

The trend equation of short term loan and advance is "Y = 17894.61 + 434.59 X" where Y and X are denoted for total short term loan and advance and time variable respectively. The Y intercept is 146288, which is nothing but an average amount of loan and advance during the study period. The slope of trend line is 434.59, which indicates that total deposit has been increasing at the annual rate of Rs. 434.59 thousand during the 5 years according to the trend equation.

Table 4.3 revels that the trend value of the Loan and Advance has reached at slow increasing rate. Similarly, the actual value of the loan and the advance had slowly increased in second year then after third year it is declined. We can say that the actual value of loan and advance is fluctuating.

The table shows that the forecasting value of loan and advance for five years. It was Rs.19198.38 thousand in F/Y 2062/63 and was increased to Rs. 20936.74 in the last year i.e. F/Y 2066/67. By this trend we can analyze, the amount of loan and advance with increase at slow rate.

(c) Trend Analysis of Interest Receivable

Table No. 4.4

Actual value and trend value of Interest Receivable (Rs. in 000)

F.Y.	Actual Value	Trend Value	Deviation
062/63	17785.74	16811.38	974.36
063/64	19593.93	19210.09	383.85
064/65	19405.78	21608.80	-2203.02
065/66	23364.52	24007.51	-642.99
066/67	27894.03	26406.22	1487.81
067/68		28804.93	
068/69		31203.64	
069/70		33602.35	

070/71		36001.06	
071/72		38395.77	

(Source: Appendix 11 & 13)

The obtained trend equation is "Y = 21608.80 + 2398.71 X" where Y is denoted for interest receivable and X is denoted for time variable. The Y interest is 21608.80, which is an average of interest receivable during the five years period. The slope of this trend line is 2398.71, which indicates that the interest receivable has been changing at the rate of 2398.71 thousand, according to the trend equation.

Table 4.4 clearly shows that the actual value of interest receivable was Rs. 17785.74 thousand in F/Y 2062/63 then it has increased to Rs. 27894.03 thousand in (i.e.1008.29) F/Y 2066/67. Where as, the trend value of interest receivable was Rs. 16811.38 thousand in F/F 2062/63 base year and it has reached to Rs. 26406.22 thousand at the last year of the study period. i.e FY2066/67

From the above analysis it can be interpreted that interest receivable of PFCL was increasing except in the F/Y 2064/65. Interest is the main source of income and current assets or working capital. Company should increase it in higher rate.

Table 4.4 shows that forecasting value of interest receivable for next 5 years. It will be Rs. 28804.93 thousand in F/Y 2062/63 and it will reach 38399.77 thousand in F/Y 2066.67.With increasing rate of Rs. 16811.38 thousand per year.

(d) Trend Analysis of Miscellaneous Current Assets:

Table No. 4.5

Actual Value & Trend Value of Miscellaneous Current Assets (Rs. in 000)

F.Y.	Actual Value	Trend Value	Deviation
062/63	8122.67	12224.04	-4101.37
063/64	16888.96	12638.58	4250.38
064/65	16965.91	13053.12	3912.79
065/66	9297.28	13467.66	-4170.38
066/67	13991.24	13882.2	109.04
067/68		14296.74	
068/69		14711.28	
069/70		15125.82	

070/71		15540.36	

(Source: Appendix 12 & 13)

The trend equation of miscellaneous current assets is "Y = 13053.12 + 414.54 X" where, Y and X are denoted for miscellaneous current assets and time variable respectively. The Y intercept is 13053.12, which is an average of miscellaneous current assets of different years study period. The slope of trend live is 414.54, which indicates that miscellaneous current assets have been increasing at the annual rate of Rs. 414.54 thousand during 5 year according to the trend equation.

Table 4.5 clearly reveals that the trend value of miscellaneous current assets has reached to Rs. 13882.2 thousand in F/Y 2066/67 as compared to base year value Rs. 12224.04 thousand. Similarly, on the above analysis that the slope of trend line is not satisfactory, trend values have been increasing year by year at slowly. And actual value has been fluctuating during the study period.

The forecasting value of miscellaneous current assets for next 5 year is also shown in the table. In F/Y 2062/63, it is Rs. 14296.74 thousand in F/Y 2062/63 and it increased to Rs. 15954.90 in F/Y 2066/67.

4.4 Ratio and its Index Analysis

Ratio analysis is the powerful financial tools to measure the financial performance of the company. As mentioned in research methodology liquidity ratio, turnover ratio, capital structure ratio and profitability ratios are calculated. To find the overall performance as well as general movement of important ratios, the method of least square was used.

4.4.1 Liquidity Ratio

Liquidity of any business, company on organization is directly related with working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Finance companies are a different organization which is engaged in better mobilization of funds, so without sound liquidity position of company is not able to

operate its functions. To measure the finance company's solvency position or ability to meet its short term obligation various liquidity ratios are calculated.

4.4.1.1 Current Ratio

This ratio indicates the current short term solvency position of the company. This ratio is calculated by dividing current assets by current liabilities. Current assets include cash and bank balance, money at call and short notice, loan and advance for commercial banks, investment in government securities, interest receivables and miscellaneous current assets. Current liabilities includes deposit and other accounts, short term loan, bills payable, tax provision, staff bonus and miscellaneous current liabilities.

Higher current ratio indicates better liquidity position. In other words current ratio represents a margin of safety, i.e. a 'cushion' of protection for creditors and the highest the current ratio, greater the margin of safety, large amount of current assets in relation to current liabilities, more the finance companies ability to meet it's current obligations.

Table No 4.6

Current Ratio (in times) (Rs. in 000)

Fiscal Year	Current Assets	Current Liabilities	Ratio	Deviation
062/63	80976.50	117933.39	0.69	-0.10
063/64	112088.28	122758.24	0.91	+0.12
064/65	119775.89	144436.18	0.83	+0.04
065/66	149669.21	178352.52	0.84	+0.05
066/67	152313.88	219776.66	0.69	-0.10
Average			0.79	

(Source: Appendix 13)

The amount of current assets is based on 2:1 but banking sectors is 1:1 is also preferable ratio. The current asset has adopted is increasing trend in the study period in fiscal year 2062/63 – 66/67.

The current liabilities are also in increasing trends in all over the study periods. The average current liabilities ratio is 0.79%

Higher current ratio reveals better liquidity position of company. So we can conclude that in year 2063/64 has better liquidity position than other years during the study.

4.4.1.2 Quick Ratio

Quick ratio established a relationship between quick on liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is most liquid assets. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. This quick ratio can be found out by dividing the total quick or liquid assets by total current liabilities. Quick assets include cash and bank balances.

Table No. 4.7

Quick Assets to Current Liabilities Ratio (Rs. in 000)

Fiscal Year	Quick Assets	Current Liabilities	Ratio
062/63	39371.16	117933.59	0.33
063/64	56365.98	122758.24	0.46
064/65	65872.12	144436.18	0.46
065/66	97977.24	178352.52	0.55
066/67	92450.12	219776.66	0.42
Average			0.44

(Source: Appendix 13)

The trend is in increasing order except in the fifth year (066/67) during the study period. Amount of current liabilities are increasing all over the study period. The average is 0.44.

4.4.1.3 Cash and Bank Balance to Total Deposit (Excluding Fixed Deposit) Ratio

The ratio show the ability of company's 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)

Table No. 4.8

Cash and bank balance to total deposit Ratio

(Excluding fixed deposit) (Rs. in 000)

Fiscal Year	Cash & Bank balance	Total Deposit	Ratio
062/63	39371.16	41541.97	0.95
063/64	56365.98	42586.87	1.32
064/65	65872.12	56749.78	1.16
065/66	97977.24	85858.08	1.14
066/67	92450.12	135064.60	0.64
Average			1.05

(Source: Appendix 13)

Amount of cash and bank balance has adopted increasing trend except the last year (FY 066/67) of the study period.

Amount the deposite has adopted increasing trend all over the study period the ratio has adopted an decreasing trend. Average ratio of the study period is 1.05.

The highest ratio in 2063/64 shows that the ability of company immediate funds to cover its current margin, call and saving deposit better than the other year during the study period of five years.

4.4.1.4 Saving Deposit to Total Deposit Ratio:

Saving deposit to total deposit of PFCL is presented here. This ratio is interest bearing short term deposit. It is developed in order to find out the proportion of saving deposit which is interest bearing and short term nature.

Table No. 4.9

Saving Deposit to Total Deposit Ratio (Rs in 000)

Fiscal Year	Saving Deposit	Total Deposit	Ratio
062/63	39395.92	326138.47	0.12
063/64	35692.65	354662.89	0.10
064/65	47332.63	408924.36	0.11
065/66	73006.57	517628.40	0.14
066/67	119011.10	556031.25	0.21

Average			0.13

(Source: Appendix 13)

Table 4.9 depicts that the fluctuating trend of saving deposit to total deposit ratio. During the study period saving deposits are also fluctuating except in second year in other side total deposits are increasing all over the study period. Average ratio is 0.136. In the first three years, the ratios is lower than average and rest two years has higher ratio than average.

4.4.2 Activity or Turnover Ratio

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

4.4.2.1 Loan & Advance to Total Deposit ratio

This ratio assesses to what extend, the banks are able to utilize the depositor's funds to earn profit by providing loans and advances.

Table No. 4.10

Loan and Advance to Total Deposit Ratio (Rs. in 000)

Fiscal Year	Loan & Advance	Total Deposit	Ratio
062/63	15696.93	326138.47	0.0518
063/64	19239.39	354662.89	0.054
064/65	17532.08	408924.36	0.043
065/66	19030.16	517628.40	0.037
066/67	17974.49	556031.25	0.032
Average			0.043

(Source: Appendix 13)

Amount of loan and advance are in fluctuating trend. The amount of total deposits are increase during the study period.

Table 4.10 depicts that ratio between loan and advance and total deposit is increased in 2nd year and then decreasing during the whole study period. Average ratio is 0.043. In the year 2064/65 ratio is equal to average ratio. In the first two years the ratios are higher than average ratio and in last two years. The ratio is lower than average ratio i.e. 0.043.

4.4.2.2 Loan and Advances to Fixed Deposit Ratio

This ratio examines that how many times the funds is used in loans and advances against fixed deposit. Fixed deposits are interest bearing long term obligation where as loan and advances are the major sources of investment in generating income for commercial banks or finance companies.

Table No. 4.11

Loan and Advance to Fixed Deposit Ratio (Rs. in 000)

F/Y	Loan and advance	Fixed deposit	Ratios
062/63	15696.93	284596.49	0.055
063/64	19239.39	312076.02	0.062
064/65	17532.08	352174.58	0.050
065/66	19030.16	431770.33	0.044
066/67	17974.49	420966.64	0.043
Average			0.051

(Source: Appendix 13)

It is the highest in the second year of the study period and lowest at first of the study period.

There is a fluctuating trend of loan and advance.

Table 4.11 shows loan and advance to fixed deposit ratio of PFCL during the five years study period. Ratios are in range of 0.043 to 0.662.The average ratio is 0.051 Ratios

are in decreasing trend from 2nd year but it is increased in 1st to 2nd years. In the year first two years of study period the ratios are higher than average ratio but in the last three years the ratio is lower than average ratio.

4.4.2.3 Loan and Advance to Saving Deposit Ratio

The ratio is also employed for the purpose of measuring the utilization of saving deposits in generating revenue by giving loan and advances to the client i.e. to what extent collected saving deposit amount is deploying in providing loan and advances to generate income. Saving deposits are interest bearing obligation for short term purpose whereas loan and advances and the short term investment are as for revenue income. This ratio indicates how many times short term interest bearing deposits are utilized for income generating purpose.

Table No 4.12

Loan and Advance to Saving Deposit Ratio (Rs. in 000)

F/Y	Loan and advance	Saving deposit	Ratios
062/63	15696.93	39395.92	0.398
063/64	19239.39	35692.65	0.539
064/65	17532.08	47332.63	0.370
065/66	19030.16	73006.57	0.263
066/67	17974.49	119011.10	0.151
			0.344

(Source: Appendix 13)

Amount of loan and advance are in fluctuating trend and saving deposited is increased all year except the 2nd year of all the study period.

Table 4.12 shows that the ratio between loan and advance and saving deposit of PFCL. It is within the range of 0.151 to 0.539. Ratios are decreasing from second year to fifth year but it is increased in first to second year during the study period. The highest ratio is in the 2nd year. The lowest ratio is 0.151 which is in the last year. Average ratio of

the study period is 0.344. In the year first three year of the stud period, the ratios are higher than average and rest two years ratios are lower than average ratio i.e. 0.344.

4.4.3 Capital Structure or Leverage Ratio:

4.4.3.1 Long Term Debt to Net Worth Ratio

Here, Long term debts refer to the amount of fixed deposits and loans of the financial intuition. The ratio measures the proportion of outsiders and owners fund employed in the capitalization of banks.

Table No. 4.13

Long term debt to net worth ratio (Rs. in 000)

F/Y	Long Term Debts	Net worth	Ratios
062/63	302259.38	48728.12	6.203
063/64	323828.21	50164.79	6.455
064/65	360170.06	63235.30	5.696
065/66	440458.47	63450.13	6.942
066/67	433155.57	68883.05	6.288
Average			6.312

(Source: Appendix 13 & 14)

Table 4.13 shows that the amount of long term debt are increasing except in the last year (2066/67). The amount of net worth is increasing during the whole study period.

Ratio of long term debt to net worth is fluctuating. The second and fourth year has more than average ratio and all other year has lower ratios during the study period of five years.

4.4.3.2 Net Fixed Assets to Long Term Debt Ratio

Here net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are in decreased or increased compared to the fixed liabilities.

Table No.4.14

Net fixed assets to long term debt ratio (Rs. in 000)

F/Y	Net fixed Assets	Long Term Debts	Ratios
062/63	12235.04	302259.38	0.040
063/64	18309.65	323828.21	0.057
064/65	25537.54	360170.06	0.071
065/66	41819.66	440458.47	0.095
066/67	41745.81	433155.57	0.096
			0.072

(Source: Appendix 13 & 14)

Table 4.14 depicts that the amount of net fixed assets are in increasing trend but in 5th year it decreased. In the other side and as long term debts are increasing during the study period expect in 5th year.

The ratios of net fixed assets and long term debts are increasing. It varies (0.040 to 0.096) the average ratio of study period is 0.072. In the year of first three years, the ratios are lower than the average. But in the last two years the ratio is higher than the average ratio.

4.4.4 Profitability Ratios

Profit is an important factor that determines the firm's expansion and diversification. A required level of profit is necessary for the firm's growth and survival in the competitive environment. Various ratios can be developed on the profit under different circumstances. These different ratios are called profitability ratios, which are required to support the purpose of the study.

4.4.4.1 Interest Earned to Total Assets Ratio

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

Table No. 4.15

Interest Earned to Total Assets Ratio (Rs. in 000)

F/Y	Interest Earned	Total Assets	Ratio
062/63	64592.36	472153.97	0.137
063/64	85706.08	500394.68	0.171
064/65	85791.12	567836.54	0.151
065/66	86063.00	685974.60	0.125

066/67	89397.44	728780.96	0.123

(Source: Appendix 13 & 14)

The table 4.15 show that the amounts of interest earned is in increasing trend during the study period. On other side the amount of total assets are also increasing trend fall over the study period. The ratio of interest earned to total assets ratio is increased to second year and then decreased. The range of ratios is within 0.123 to 0.171. In the year 2063/64, the ratio is 0.171 which is highest ratio during the study period and 0.123 is the lowest ratio which is in the year 2066/67. The average ratio is 0.141. In the last two years, the ratios are higher than average and in the three years 2062/63, 2065/66 and 2066/67 the ratios are lower than average ratio.

4.4.4.2 Net Profit to Total Assets Ratio

This ratio is useful in measuring the profitability of all financial resource invested in the firm's assets. The return on assets or profit to assets ratio is calculated by dividing the amount of net profit by the amount of total assets employed. The ratio can be expressed as:

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

Table No. 4.16

Net Profit to Total Assets Ratio (Rs. in 000)

F/Y	Net profit	Total Assets	Ratio
062/63	11836.20	472153.40	0.025
063/64	5746.68	500394.68	0.011
064/65	21271.84	567836.54	0.037
065/66	12064.02	685974.60	0.018
066/67	12432.91	728780.96	0.017
Average			0.022

(Source: Appendix 13 & 14)

The Table given above shows that amount of net profit is in fluctuating trend. It is decreased to 2nd year then increased to 3rd year than again decreased in fourth year. It also increased in fifth year. In the other side amount of total assets are increasing all over the study period.

The ratios of net profit to total assets are in fluctuating trend. It varies 0.011 to 0.037. Average ratio during the period is 0.022.

4.4.4.3 Return on Total Deposit (ROTD) / Net Profit to Total Deposit Ratio

Deposits are mobilized for investment, loan and advance, to the public in generating revenue. The ratio measure, the percentage of profit earned from the utilization of the total deposits.

Table No. 4.17

Net Profit to Total Deposit Ratio (Rs. in 000)

F/Y	Net profit	Total Deposit	Ratio
062/63	11836.20	326138.47	0.036
063/64	5746.68	354662.89	0.016
064/65	21271.68	40924.36	0.052
065/66	12064.02	517628.40	0.023
066/67	12432.91	556031.25	0.022
Average			0.030

(Source: Appendix 13 & 14)

Table 4.17 shows that the amount of net profit is fluctuating during the study period. In other side amount of total deposit is increasing all over the study period. The ratios of net profit to total deposit are fluctuating. It is decreased to 2nd year and than increased to 3rd year than the ratios are decreasing during the study period

The average ratio is 0.030.

4.4.4.4 Cost of Services to Total Assets Ratio

A sound management always tries to utilize its larger amount of assets with the minimum cost. This ratio is useful in measuring the assets utilization with cost of services. It includes interest expenses employee expenses. The operation expenses and total assets include fixed assets current assets and other assets.

Table No. 4.18

Cost of Services to Total Assets Ratio (Rs. in 000)

F/Y	Cost of service	Total assets	Ratios
062/63	49415.46	472153.97	0.105
063/64	54278.10	500394.68	0.108
064/65	53629.18	567836.54	0.094
065/66	64958.42	685974.60	0.095
066/67	67242.50	728780.96	0.092
Average			0.099

(Source: Appendix 13 & 14)

Table 4.18 depicts that cost of services to total assets ratio during the study period. Amount of cost of services are in fluctuating trend. On the other side amount of total assets are in increasing trend. Ratio of cost of services to total assets ratio is in fluctuating trend. Average ratio is 0.099. In the first two years the ratio is higher than average ratio and in the last three year of the study period have lower ratio than average.

4.4.4.5 Net Profit Margin

The net profit margin established a relationship between net profit and total income received. It is the overall measure of the company's ability to turn each rupee income into net profit. Here the net profit margin of the company is analyzed taking the 5 years relevant data from the company, which are presented in table 4.19

Table No.4.19

Net profit margin (Rs. in 000)

F/Y	Net profit	Total Income	Net profit margin
062/63	11836.20	70957.70	16.68%
063/64	5746.68	91436.56	6.28%
064/65	21271.84	91321.48	23.29%
065/66	12064.02	91104.00	13.24%
066/67	12432.91	95233.80	13.06%
Average			14.51%

(Source: Appendix 14)

The average for net profit margin is 14.51% the net profit margin of the first and third year i.e. 064/62 is above the average ratios. The company's financial performance is satisfactory in these years. From the same table, it is clearly shown that the net profit margin of the company. During the study period net profit is highly fluctuating. Such trend in this ratio is net favourable for the company to enhance the financial performance.

Table 4.19 clearly shows that, the total income has increased from 70957.70 (062/063) to 95233.8 (066/67) ie. Gross profit is in increasing trend but the net profit is fluctuating so it can be concluded that merely rise in gross profit does not imply rise in net profit.

4.5 Correlation Analysis

Correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figure. Among the various methods of findings out co-efficient of correlation Karl Pearson's co-efficient of correlation is always between +1 and -1. When r is +1, it means there is perfect relationship between two variables and vice versa, when r is 0 it means there is no relationship between two variables. When r is -1 there is not perfect relationship between two variables.

4.5.1 Co-Efficient of Correlation between Loan and Advances and Total Deposit

The coefficient of correlation between loan and advances and total deposits is to measure the degree of relationship between major components of current assets i.e. loan and advance and major sources of fund of the company i.e. total deposits. In correlation analysis, deposit is independent variable (Y) and loan and advance is dependent variable (X). The purpose of computing coefficient of correlation is to justify whether the deposits are significant used in loan and advances or not and whether there is any relationship between these two variables. To find out the correlation ® various calculations are done.

The following table 4.20 shows the coefficient of correlation between loan and advances and total deposits i.e. r, PEr, 6PEr of PFCL.

Table no. 4.20

Coefficient of Correlation between Loan & Advances & Total Deposit

Item	Value
r	0.397
Per	0.254
6Per	1.524

(Source: Appendix 1)

From the above table 4.20, we confined that the correlation coefficient between loan and advance and total deposits of pachchimanchal finance company united is 0.397, which shows positive relationship between these two variables. By considering the probable error, since the value of ‘r’ i.e. 0.254 is less than six times of pEr i.e. 1.524. We can say the value of 'r' is not significant.

4.5.2 Co-Efficient of Correlation between Cash and Bank Balance and Current Liabilities

Cash and bank balance is most liquid components of current assets. This is required to meet the unexpected short term obligation i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities.

To find out the correlation various calculations are done. The following table 4.21 shows the coefficient of correlation between cash and bank balance and current liabilities i.e. r, PEr and 6PEr of Pashchimanchal finance company limited.

Table no. 4.21

Co-Efficient of Correlation between Cash and Bank Balance and Current Liabilities

Item	Value
r	0.887
Per	0.064
6Per	0.384

(Source: Appendix 2)

From the table 4.21, we can find that co-efficient of correlation between cash and bank balance and current liabilities in PFCL is 0.887. It shows highly positive relationship between these two variables. By considering the probable error, since the value of r i.e. 0.887 is more than the value of 'r' is highly significant i.e. there is significant relationship between cash and bank balances and current liabilities.

4.5.3 Co-Efficient of Correlation between Loan and Advance and Net Profit

The basic function of finance company is to collect deposit and invest these funds on loan and advance to generate higher profit. The co-efficient of correlation between loan and advance and net profit is to measure the degree of relationship between loan and advance and net profit. In correlation analysis, loan and advance is independent variable (Y) and net profit is dependent variable (X). The purpose of computing the correlation of the co-efficient is to justify whether the loan and advance are significantly generate profit or not and whether there is any relationship between these two variables. The following table 4.22 shows the r, PEr and 6PEr of PFCL.

Table no. 4.22

Co-Efficient of Correlation between Loan and Advance and Net Profit

Item	Value
r	0.274
Per	0.279
6Per	1.674

(Source: Appendix 3)

From the table no. 4.22, we can find that co-efficient of correlation between loan and advance and net profit of PFCL 'r' is 0.274 which shows positive relationship between these two variables. By considering the probable error since the value of r i.e. 0.274 is less than 6 times of PEr i.e. 1.674 so we can also say that the value of 'r' is not significant.

4.5.4 Co-Efficient of Correlation between Interest Receivable and Net Profit

Interest receivable is a second main source of current assets. The basis functions of finance company are to collect deposit and invest these funds on different loan, advances and investments. Finance company earns interest from loan and advance. It is a main part of current assets of PECL. The co-efficient of correlation between interest receivable and not profit is to measure the degree of relationship between interest receivables and net profit. In correlation analysis, in receivable is independent variable ® and net profit is dependent variable (X). The purpose of computing the correlation of the coefficient is to justify whether the interest receivables significantly affects profit or not and whether there is any relationship between these two variables. The following table 4.23 shows r, per and 6Per of PFCL during the study period.

Table No. 4.23

Co-Efficient of Correlation between Interest Receivable & Net Profit

Item	Value
r	-0.259
Per	0.417
6Per	2.507

(Source: Appendix 4)

From the above table no. 4.23, we can find that the co-efficient of correlation between cash and bank balance and current liabilities in PFCL is -0.259. It shows negative relationship between these two variables. By considering the probable error, since the value of r i.e. 0.259 (ignoring sign) is less than six times of per i.e. 2.507, we can say that the value of r is not significant.

From the above analysis it can be concluded that there is no significant relationship between interest receivables and net profit of PFCL.

4.6 Relationship between Profitability and Liquidity

Theoretically profitability and liquidity position of the firms are closely related. Theoretical relationship between these variable should be adverse. In other words, the principle of higher liquidity, the lower profitability should be held. In order to examine the significance of the relationship between the two variables like liquidity and profitability position of PFCL, Karl Pearson's coefficient of correlation 'r' has been calculated so r between current ratio and net profit margin, quick ratio and net profit margin. Cash and bank balance to deposit ratio to net profit margin and saving deposit to total deposit ratio have been worked out to examine the relationship between liquidity and profitability position of PFCL. Karl Pearson's correlation coefficient 'r' and their probable error (Per) are calculated and given appendixes and their results are presented in following table.

Table No. 4.24

Relationship between profitability and liquidity

S.N.	Particular	r	PE	6PE
1	Current ratio	-0.463	0.237	1.423
2	Quick ratio	-0.250	0.283	1.697
3	Cash & bank balance	-0.224	0.286	1.796
4	Saving deposit to total deposit	-0.058	0.301	1.804

(Source: Appendix 5, 6, 7 & 8)

Theoretically correlation between current ratio and net profit margin should be adverse. From the above table no. 4.24, we can find that coefficient of correlation between current ratio and net profit margin in PFCL is -0.463. It shows negative relationship. But value of r i.e. -0.463 is not greater than six times of PE i.e. 1.423. So it is not significant. Thus the principle of adverse relationship between profitability and liquidity exists in PFCL. But the value of r is not reliable and there is no evidence of correlation. There is not significant relationship between those variables.

According to principle of liquidity and profitability trade off, coefficient of correlation between quick ratio and net profit margin should be negative. Table no. 4.24 shows the value of 'r' is -0.250, It shows negative relationship between this two variables. By considering the probable error since the value of 'r' i.e. -0.250 is less than six times of pEr i.e. 1.697. So we can say that the value of 'r' is not significant. Relation between net profit and quick ratio is not significant.

We can see correlation coefficient between cash and bank balance and net profit is -0.224. It shows negative relationship between these two variables. By considering the value of 'r' i.e. -0.224 is less than six times of PEr i.e. 1.796. So we can conclude that the value of 'r' is not significant. There is not significant relationship between those two variables.

We can also see correlation coefficient between saving deposit to total deposit and net profit marine is also negative i.e. -0.058. By considering the value of 'r' is less than six times of Per i.e. 1.804. So we can say that the value of correlation coefficient 'r' between those two variables is not significant. We can also conclude that relationship between those two variables is not significant. There is no evidence of relationship.

CHAPTER FIVE
SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Introduction

This chapter is used to summarise the whole study and to draw the major findings of this study. This study also aims to draw the conclusions of the study and forward the applicable recommendations for more efficient working capital management of PFCL.

5.2 Summary

The role of finance companies becomes the crucial in the task of capital formation which is no doubt a key variable in the economic development of a country. Finance companies contribute to the process of capital formation by mobilizing dispersed saving into meaning full capital investment in order to aid industry, trade and commerce for the economic development of the nation.

At present 80 finance companies are providing their services in Nepal though due to time and resources constraints, Pashchimanchal Finance Company Limited is selected for the study purpose. To undertake the study case study research design is followed. The study is mainly based on secondary data obtained from various sources, such as financial statements of PFCL annual reports employees, administration etc. Besides a detail review of literature has been conducted to collect relevant data and information, the data so collected has been analyzed in relevant way. Then analyzed data has been properly interpreted through various financial and statistical tools such as Ratio Analysis, Trend Analysis, Index analysis and financial tools such as annual report raw data publish or unpublished data etc.

In Consonance with the analysis, the following findings are made:

The major components of current assets in PFCL are cash and bank balance, loan and advance, interest receivables and miscellaneous current assets. In The study period, the proportion of cash and bank balance, loan and advance, interest receivable and miscellaneous assets to total current assets on an average are 56.01%, 15.14%, 17.91% and 10.94% respectively. So it is found that cash and bank balance is the most important components of current assets in PFCL.

Cash and bank balance percentage on total current assets are increasing except last year of the study period. During the study period loan and advance percentages are decreasing. The percentage of interest receivable on total current assets is decreasing except in the F/Y 2066/67. Percentage of miscellaneous current assets is fluctuating during the whole study period.

The trend value and actual value of cash and bank balance amount are increasing year by year but not so high. Actual value of loan and advance are fluctuating but trend value of that is slowly increasing. Trend value and Actual Value of interest receivable amount both are in increasing trend. Actual value of misc. current assets amount is fluctuating but the trend value of these is increasing year by year in slow pace during the study period.

Current ratio of current liabilities and current assets was 0.69 in F/Y 2062/63 then it increased to 0.79 in F/Y 2066/67. It is in fluctuating trend during the study period and the average is 1.33. Liquidity position of the company is less than one it is not favourable for the company. To enhance the financial performance, the company should maintain an appropriate ratio. However, there is no standard ratio in this aspect, ratios more than one satisfactory for financial institutions. These all depends upon company's experience and other various factor there for it is so poor during the study period of 5 years.

The amount of quick assets is in increasing trend expect in the fifth year.

Amount of current liabilities is in increasing trend all over the study period. Average quick ratio to current liability ratio is 0.44,.

Cash and bank balance has adopted in increasing trend except the last year

It is 0.44 times in an average liquidity power of the company’s fluctuating over the years though high ratio could hamper the profitability of the company and its financial

performance, as long parts of its funds remain idle. Due to lack of standard ratio, it can be said the liquidity position is not satisfactory.

The ratio shows the ability of company's immediate funds to cover their current margin call and saving deposits. There ratios are not poor. It presents satisfactory liquidity position of PFCL.

Saving deposit to total deposit ratio has declined 0.10 times in F/Y 063/64. It shows the amount of saving deposits on total deposit is in increasing trend except 2nd year. The average ratio is 0.136 times.

Activity Ratio

The average value of loan and advance to total deposit ratio was 0.043 in the first year of the study period it was 0.055 and it has decreased to 0.043 in the last year of the study period. It is following a fluctuating trend. The average value of this ratio is 0.051 during the five years study period. It shows a small portion of fixed deposits is utilising in loan and advance.

Loan and advance to saving deposit ratio has reached to 0.044 in F/Y 062/63. It was 0.056 in the F/Y 066/67. This ratio is in fluctuating trend. 0.057 is an average ratio during the study period of five years. In the F/Y 063/64. 0.063 is the highest ratio during the study period.

Leverage Ratio

Long time debt to net worth ratio of PFCL was 6.206 in the first year and it reached to 6.288 in last year. Average ratio of the 5 years is 6.317. Ratios are increasing for first four years and then it is decreased. It shows the company has risky and aggressive capital structure policy.

The average net fixed assets to long term debt ratio is 0.72, for the five years of study period. The individual ratio was 0.040 in first fiscal years of study period. The ratio was highest i.e. 0/096 at the last year of the study period.

Profitability Ratio

The ratio of interest on to total assets in first fiscal years i.e. 062/63 was 0.137 and it decrease slightly to 0.123 on the last year of the study period i.e. 066/67 within five years the ratio are in fluctuating trend. The profitability ratio was highest at second fiscal year which was about 0.171.

The net profit ratio in the base year was just 0.025 which later reached to 0.017 at the end of fiscal year 066/67. The average ratio 0.022. The trend of this ratio fluctuating randomly. The efficiency are utilization of total assets was deteriorating area the years time and again.

Interest earned to total assets to 0.137 in F/Y 062/63 and it reached to 0.123 in F/Y 066/67. 0.141 is an average ratio of the 5 years. Ratios are in fluctuating trend. In the F/Y 063/64 i.e. 0.171 is highest ratio during the study period.

Net profit to total assets ratio was 0.025 in the base year 062/63 then it has reached to 0.017 in F/Y 2066/67. It has followed fluctuating trend during the study period. The average ratio is 0.022. The efficiency in utilization of total assets is deteriorating over the years.

Net profit to total deposit ratio has declined to 0.022 in 2066/67 from 0.036 in F/Y 062/63. It has followed fluctuating trend, which is not desirable for the company to enhance the financial performance. In fact, it is deteriorating the financial company.

The cost of services to total assets ratio was 0.105 in the first year (F/Y 062/63) and it had reached to 0.092 in the last year (F/Y 066/67). Average ratio of five years study period is 0.099. The net profit margin has declined to 13.06% in the last year (F/Y 066/67) from the base level of F/Y 2062/63 i.e. 16.68. It is 14.51% in an average of 5 years study period. It has followed decreasing trend during the study period. In the F/Y 064/65 the margin was in highest position i.e. 23.29% we can conclude that the margin of the study period is satisfactory.

Correlation

Correlation between loan and advance and total deposit is 0.397. It shows positive relationship but the value of 'r' is not significant.

Correlation between cash, bank balance and current liabilities is highly positive i.e. 0.887. It shows very close relationship between those two variables. Here the value of r is significant.

Correlation between loan and advance and net profit is positive with 'r' value of 0.274, but the value of r is not significant.

Correlation between interest receivable and net profit is negative i.e. -0.259. Which means there is negative relationship so the value of r is also not significant.

In the relationship between profitability and liquidity. Different correlations were ascertained. The correlation between current ratio, quick ratio, cash and bank balance to total deposit ratio and saving deposit to total deposit ratio with net profit margin all are negative i.e. -0.463, -0.250,-0.224 and -0.058 respectively but all the value of r are not significant. in this sector company should give more attention on its function.

5.3 Conclusion

In the light of major findings mentioned above the study is able to draw some conclusion.

The development of any country is reflected by its financial sector. The financial sector is vast field, which companies of bank, cooperative foreign exchange market financial company, stock exchange, mutual funds etc. The financial institutions refer to any organization which act as intermediaries in financial transaction. These organization facilities and services like payment mechanism, security trading risk diversification and portfolio management.

Finance companies are important component of financial system. They being financial intermediaries they accept deposit and allocate then in different economical sectors. Finance Companies are effective instrument for mobility public promotion sectors

Cash and bank balance, loan and advance, interest, receivables and miscellaneous currents are major components of current assets in PFCL.

Current ratio quick ratio, cash and bank balance to total deposit ratio and saving deposit to total deposit ratio are fluctuating during the 5 years study period. In all year,

current ratios and quick ratios are less than one. It shows that poor liquidity position of PFCL cash and bank balance on total deposits ratios are quite satisfactory.

According to activity ratio, the efficiency of utilization of funds in to income generating purpose or assets management is poor. All ratios are less than 0.01.

On leverage ratio, long term debt to net worth ratios is fluctuating. It is 6.317 in an average. But net fixed assets to long term debt are in increasing trend during the study period.

According to profitability ratio the efficiency of operation of enterprises are not stable. It is in fluctuating trend. Except net profit margin all ratios are less than 0.5. But the net profit margin of the company during the study period is satisfactory.

Relationship of loan and advance with total deposit is positive and with net profit also positive. But the relationship between interest receivable and net profit is negative. Relationship between cash and bank balance and current liabilities is also positive in PFCL.

The relationship between profitability and liquidity is negative during the whole study period in PFCL. The principle of adverse relationship between profitability and liquidity exists in the PFCL.

In conclusion it can be said that PFCL has been found to be financially sound and strong. Its liquidity position is poor, assets utilization is satisfactory and profitability is satisfactory.

5.4 Recommendations

On the basis of above findings during the study following applicable recommendations for the overall improvement of working capital management are forwarded to the management of the PFCL.

1) Due to growing competition in this sector, PFCL is facing more competition from recently establish JVBs finance company, rural banks etc. In such situation the business should be more client oriented, market oriented, service oriented, step forward on new business activities, and should offer a complete range of financial services such as, ATM, longer, War Lang hour, shift counters etc. The company should strive to increase fee based income by providing services to their clients.
2) Out of the total current assets, proportion of cash and bank balance is more than 50% in all the year. Company should give priority to invest their fund on other current assets. Company should seriously adjust its policy of investment on short term loan and advance, investment on Govt. security, with collected funds and increase their proportion in total current assets.
3) Total deposits turnover position of bank is not stable but it is satisfactory company should give attention to stabilities as it is quite important company . Company should try to increase saving deposit which is interest bearing and short term in nature.
4) Company should try to increase loan and advance for better performance and employing the funds of deposits for the income generating purpose. The company should maintain the level to current assets and fixed assets. Company's long term obligation are high risky so company should more focus on it.
5) The company should be accessible to all small medium and higher level customers. Enjoying depositing, borrowing and other services and small parties should not be neglected. The company should operate new branches representing for urban areas as wells for more deposit collection and more utilization of the assets as well as to increase their transaction and to provide financial services and facilities to more customers. It is also recommended to provide incentives and afters for attracting more depositors.

6) Company's procedure for obtaining services should be simplified and minimum time consumable. Company should try to provide wide and reliable services in minimum cost. It should try to reduce cost of services.

7) Profitability position of the company is satisfactory. But the margin of net profit is not stable. It is fluctuating somehow and in decreasing trend. Company should give attention to enhance more efficiency of employee's performance and better management of resources. To get stable net profit margin company should increase amount of net profit.

8) The company should carefully examine the safety of principal as well as sources of repayment, requirements, credit worthiness of the borrower for providing credit or the loan manager should evaluate credit risk by considering well known give Cs of Credit Viz character, capacity, capital, collateral and condition.

9) In today's competitive environment, protection of employees is one of the most important factors to be considered by the management of the company. Job security promotion and career development should go side to motivate employees towards better work financial performance of the company and proper training of both old and new employees is must for generating efficiency.

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APPENDIX - 1

Correlation bewteen Loan and Advance and Total Deposit

F /Y	Loan & Advance(X)	Total Deposit (Y)	$x = (X- \bar{x})$	$y = (Y- \bar{y})$	xy	x^2	y^2
062/63	15.697	326.138	-2.198	-106.539	234.173	4.831	11350.559
063/64	19.239	354.663	1.344	-78.014	-104.851	1.806	6086.184
064/65	17.532	408.924	0.362	-23.753	-8.599	0.131	564.205
065/66	19.030	517.628	1.136	84.951	96.504	1.296	7216.672
066/67	17.974	556.031	0.079	123.354	9.745	0.006	15216.209
	$\sum X$ = 89.473	$\sum Y$ = 2163.385			$\sum xy$ = 226.973	$\sum x^2$ = 8.065	$\sum y^2$ = 40433.829

$\bar{x} = \frac{89.473}{5} = 17.895$

$\bar{y} = \frac{2163.385}{5} = 432.677$

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

$$= \frac{226.973}{\sqrt{8.065} \times \sqrt{40433.829}}$$

$$= \frac{226.973}{571.051}$$

$$= 0.397$$

$$6Per = 0.6745 \times S.D$$

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

$$= 0.6745 \times \frac{1- (0.39796)^2}{\sqrt{5}}$$

$$= 0.6745 \times 0.377$$

$$= 0.254 \text{ or } 25.4\%$$

$$6Per = 6(0.254)$$

$$= 1.524$$

APPENDIX - 2

Correlation bewteen Cash &Bank Balance and Current Liabilities

F/Y	Cash &Bank (X)	Current Liabilities (Y)	$x = (X - \bar{x})$	$y = (Y - \bar{y})$	xy	x^2	y^2
062/63	39.371	117.933	-31.036	-38.718	1201.651	963.233	1499.08
063/64	56.365	122.759	-14.042	-33.893	475.91	197.177	1148.735
064/65	65.872	144.436	-4.635	-12.215	55.395	20.566	149.206
065/66	97.977	178.352	27.57	21.701	598.296	760.105	470.933
066/67	92.450	219.776	22.043	63.125	1391.46	485.893	3984.76
	$\sum X$ = 352.035	$\sum Y$ =783.255			$\sum xy$ =3722.72	$\sum x^2$ =2426.97	$\sum y^2$ =7252.72

$\bar{x} = \frac{\sum x}{N} = \frac{352.035}{5} = 70.407$

$\bar{y} = \frac{\sum y}{N} = \frac{783.255}{5} = 156.651$

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

$= \frac{3722.72}{\sqrt{7252.72} \times \sqrt{2426.97}}$

$= \frac{3722.72}{4195.49}$

$= 0.8873$

$6PEr = 0.6745 \times S.D$

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

$= 0.6745 \times \frac{1 - (0.8873)^2}{\sqrt{5}}$

$= 0.6745 \times 0.095$

$= 0.064$

$6Per = 6(0.064)$

$= 0.3849$

APPENDIX 3

Correlation bewteen Loan and Advance and Net Profit

F/Y	Loan & Advance (X)	Net Profit (Y)	$x = (X - \bar{x})$	$y = (Y - \bar{y})$	xy	x^2	y^2
062/63	15.697	11.836	-2.198	-0.834	15.538	4.831	0.696
063/64	19.239	5.746	1.344	-6.924	-9.306	1.806	47.942
064/65	17.532	21.272	0.362	8.602	3.114	0.131	73.994
065/66	19.030	12.064	1.136	-0.606	-0.688	1.296	0.367
066/67	17.974	12.433	0.079	-0.237	-0.019	0.006	0.056
	$\sum X$ = 89.473	$\sum Y$ =			$\sum xy$ =8.639	$\sum x^2$ =8.065	$\sum y^2$ =123.056

$$\bar{x} = \frac{\sum x}{N} = \frac{89.473}{5} = 17.895$$

$$\bar{y} = \frac{\sum y}{N} = \frac{63.351}{5} = 12.670$$

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

$$= \frac{8.639}{\sqrt{8.065} \times \sqrt{123.056}}$$

$$= \frac{8.639}{31.503}$$

$$= 0.274$$

$$6PEr = 0.6745 \times S.D$$

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

$$= 0.6745 \times \frac{0.925}{2.236}$$

$$= 0.279$$

$$6Per = 6(0.279)$$

$$= 1.674$$

APPENDIX 4

Correlation bewteen Interest Receivable & Net Profit

F/Y	Interest Receivable (X)	Net Profit (Y)	$x = (X - \bar{x})$	$y = (Y - \bar{y})$	xy	x^2	y^2
062/63	11.836	17.786	-0.834	-3.823	3.188	0.696	14.615
063/64	5.746	19.594	-6.924	-2.015	13.952	47.942	4.060
064/65	21.272	19.406	8.602	-2.203	-18.950	73.994	4.853
065/66	12.064	23.364	-0.606	1.755	-20.014	0.367	3.080
066/67	12.433	27.894	-0.237	6.285	-1.490	0.056	39.501
	$\sum X$ = 63.351	$\sum Y$ =108.044			$\sum xy$ =-23.313	$\sum x^2$ =123.056	$\sum y^2$ =66.110

$$\bar{x} = \frac{\sum x}{N} = \frac{63.351}{5} = 12.670$$

$$\bar{y} = \frac{\sum y}{N} = \frac{108.044}{5} = 21.609$$

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

$$= \frac{-23.313}{\sqrt{123.056} \times \sqrt{66.110}}$$

$$= \frac{-23.313}{90.196}$$

$$= -0.259$$

$$6PEr = 0.6745 \times S.D$$

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

$$= 0.6745 \times \frac{1 - 0.067}{\sqrt{5}}$$

$$= \frac{0.933}{2.236}$$

$$= 0.417$$

$$6Per = 6(0.417)$$

$$= 2.507$$

APPENDIX 5

Correlation between N.P.M. & C.R.

F/Y	C.R. (X)	N.P.M. (Y)	$x = (X - \bar{x})$	$y = (Y - \bar{y})$	xy	x^2	y^2
062/63	16.68	0.69	-.10	2.17	-0.217	0.01000	4.71
063/64	6.28	0.91	0.12	-8.23	-0.988	0.01440	67.73
064/65	23.29	0.83	0.04	8.78	0.351	0.00160	0.002
065/66	13.24	0.84	0.05	-1.27	-0.064	0.00250	0.003
066/67	19.06	0.69	-0.10	-1.45	1.45	0.01000	0.010
	$\sum X =$	$\sum Y =$			$\sum xy$ =0.03850	$\sum x^2$ =72.455	$\sum y^2$ =-0.773

$\bar{x} = \frac{\sum x}{N} = \frac{0}{5} = 0.79$

$\bar{y} = \frac{\sum y}{N} = \frac{0}{5} = 14.51$

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

$$= \frac{-0.773}{\sqrt{0.0385} \times \sqrt{72.455}}$$

$$= \frac{-0.773}{1.670}$$

$$= -0.463$$

$$6PEr = 0.6745 \times S.D$$

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

$$= 0.6745 \times \frac{1 - 0.214}{\sqrt{5}}$$

$$= \frac{0.6745 \times 0.786}{2.236}$$

$$= 0.237$$

$$6Per = 6(0.237)$$

$$= 1.423$$

APPENDIX 6

Correlation between N.P.M. & Q.R.

F/Y	Q.R. (X)	NPM (Y)	$x = (X - \bar{x})$	$y = (Y - \bar{y})$	xy	x^2	y^2
062/63	0.33	16.68	-0.11	2.17	-0.239	0.0121	4.71
063/64	0.46	6.28	0.02	-8.23	-0.165	0.0004	67.73
064/65	0.46	23.29	0.02	8.78	0.176	0.0004	0.002
065/66	0.55	13.24	0.11	-1.27	-0.140	0.0121	0.003
066/67	0.42	19.06	-0.02	-1.45	0.029	0.0004	0.010
062/63	$\sum X = 2.2$	$\sum Y =$			$\sum xy = -0.339$	$\sum x^2 = 0.0254$	$\sum y^2 = 72.455$

$\bar{x} = \frac{\sum x}{N} = \frac{2.20}{5} = 0.44$

$\bar{y} = \frac{\sum y}{N} = \frac{0}{5} = 14.51$

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

$= \frac{-0.339}{\sqrt{0.0254} \times \sqrt{72.455}}$

$= \frac{-0.339}{1.357}$

$= -0.250$

$6PEr = 0.6745 \times S.D$

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

$= 0.6745 \times \frac{1 - 0.0625}{\sqrt{5}}$

$= \frac{0.6745 \times 0.938}{2.236}$

$= 0.283$

$6Per = 6(0.283)$

$= 1.697$

APPENDIX 7

Correlation between N.P.M. & Cash Balance to Deposit

F/Y	Cash Balance to Deposit (X)	NPM (Y)	$x = (X - \bar{x})$	$y = (Y - \bar{y})$	xy	x^2	y^2
062/63	0.95	16.68	-0.092	2.17	-0.208	0.00846	4.71
063/64	1.32	6.28	0.278	-8.23	-2.288	0.07728	67.73
064/65	1.16	23.29	0.118	8.78	1.036	0.01392	0.002
065/66	1.14	13.24	0.098	-1.27	-0.124	0.00960	0.003
066/67	0.64	19.06	-0.402	-1.45	0.583	0.1616	0.010
	$\sum X = 5.21$	$\sum Y =$			$\sum xy = -0.993$	$\sum x^2 = 0.271$	$\sum y^2 = 72.455$

$$\bar{x} = \frac{\sum x}{N} = \frac{5.21}{5} = 1.042$$

$$\bar{y} = \frac{\sum y}{N} = \frac{0}{5} = 14.51$$

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

$$= \frac{-0.993}{\sqrt{0.0271} \times \sqrt{72.455}}$$

$$= \frac{-0.339}{4.431}$$

$$= -0.224$$

$$6PEr = 0.6745 \times S.D$$

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

$$= 0.6745 \times \frac{1 - 0.056}{\sqrt{5}}$$

$$= \frac{0.6745 \times 0.93}{2.236}$$

$$= 0.286$$

$$6Per = 6(0.286)$$

$$= 1.719$$

APPENDIX 8

Correlation between N.P.M. & Sav. Dep. To Total Deposit

F/Y	Sav. Dev. To Total Deposit (X)	NPM (Y)	$x = (X - \bar{x})$	$y = (Y - \bar{y})$	xy	x^2	y^2
062/63	0.87	16.68	0.05	2.17	0.109	0.00250	4.71
063/64	0.86	6.28	0.04	-8.23	0.329	0.00160	67.73
064/65	0.84	23.29	0.02	8.78	0.176	0.0004	0.002
065/66	0.81	13.24	-0.01	-1.27	0.013	0.0001	0.003
066/67	0.71	19.06	-0.011	-1.45	0.016	0.00012	0.010
	$\sum X =$	$\sum Y =$			$\sum xy = -0.015$	$\sum x^2 = 0.00093$	$\sum y^2 = 72.455$

$$\bar{x} = \frac{\sum x}{N} = \frac{0}{5} = 0.82$$

$$\bar{y} = \frac{\sum y}{N} = \frac{0}{5} = 14.51$$

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

$$= \frac{-0.015}{\sqrt{0.00093} \times \sqrt{72.455}}$$

$$= \frac{-0.015}{0.260}$$

$$= -0.058$$

$$6PEr = 0.6745 \times S.D$$

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

$$= 0.6745 \times \frac{1 - 0.003}{\sqrt{5}}$$

$$= \frac{0.6745 \times 0.997}{2.236}$$

$$= 0.301$$

$$6Per = 6(0.301)$$

$$= 1.804$$

APPENDIX 9

Computation of Trend Value
(i) Cash and Bank

F.Y	X	Y	XY	X2
062/63	-2	39371.16	-78742.320	4
063/64	-1	56365.98	-56365.98	1
064/65	0	65872.12	0	0
065/66	1	97977.24	97977.24	1
066/67	2	92450.11	184900.220	4
062/63			147769.160	10

$Yc = a + bx$ since $\sum x = 0$

Then, $a = \frac{\sum y}{N} = \frac{352036.610}{5} = 70407.322$

$B = \frac{\sum xy}{\sum x^2} = \frac{147769.160}{10} = 14776.916$

Then the equation $yc = a + bx$

Calculation of trend value for various fiscal year

F/Y	a + bx	Yc
57/58	70407.322+14776.916 (-2)	40853.490
58/59	70407.322+14776.916 (-1)	55630.406
59/60	70407.322+14776.916 (0)	70407.322
60/61	70407.322+14776.916 (1)	85184.238
61/62	70407.322+14776.916 (2)	99961.154
62/63	70407.322+14776.916 (3)	114738.07
63/64	70407.322+14776.916 (4)	129514.99
64/65	70407.322+14776.916 (5)	144291.90
65/66	70407.322+14776.916 (6)	159068.82
66/67	70407.322+14776.916 (7)	173845.73

APPENDIX 10

(ii) Loan and advance

F.Y	X	Y	XY	X2
062/63	-2	15696.93	-31393.86	4
063/64	-1	19239.39	-19239.39	1
064/65	0	17532.08	0	0
065/66	1	19030.16	19030.16	1
066/67	2	17974.49	35948.98	4
		89473.05	4345.98	10

$Yc = a + bx$ since $\sum x = 0$

Then, $a = \frac{\sum y}{N} = \frac{89473.05}{5} = 17894.61$

$b = \frac{\sum xy}{\sum x^2} = \frac{4345.89}{10} = 434.59$

Then the equation $yc = a + bx$

Calculation of trend value for various fiscal year

F/Y	a + bx	Yc
062/63	17894.61+434.59 (-2)	17025.43
063/64	17894.61+434.59 (-1)	17460.02
064/65	17894.61+434.59 (0)	17894.61
065/66	17894.61+434.59 (1)	18329.2
066/67	17894.61+434.59 (2)	18763.79
067/68	17894.61+434.59 (3)	19198.38
068/69	17894.61+434.59 (4)	19632.97
069/70	17894.61+434.59 (5)	20067.56
070/71	17894.61+434.59 (6)	20502.15
071/72	17894.61+434.59 (7)	20936.74

APPENDIX 11

(iii) Interest Receivable

F.Y	X	Y	XY	X2
062/63	-2	17785.74	-35571.48	4
063/64	-1	19593.94	-19593.94	1
064/65	0	19405.78	0	0
065/66	1	23364.52	23364.52	1
066/67	2	27894.03	55788.06	4
			23987.16	10

$Yc = a + bx$ since $\sum x = 0$

Then, $a = \frac{\sum y}{N} = \frac{108044.01}{5} = 21608.80$

$b = \frac{\sum xy}{\sum x^2} = \frac{23987.16}{10} = 2398.71$

Then the equation $yc = a + bx$

Calculation of trend value for various fiscal year

F/Y	a + bx	Yc
062/63	21608.80+2398.71 (-2)	16811.38
063/64	21608.80+2398.71 (-1)	19210.09
064/65	21608.80+2398.71 (0)	21608.80
065/66	21608.80+2398.71 (1)	24007.51
066/67	21608.80+2398.71 (2)	26406.22
067/68	21608.80+2398.71 (3)	28804.93
068/69	21608.80+2398.71 (4)	31203.64
069/70	21608.80+2398.71 (5)	33602.35
070/71	21608.80+2398.71 (6)	36001.06
071/72	21608.80+2398.71 (7)	38399.77

APPENDIX 12

(iv) Interest Receivable

F.Y	X	Y	XY	X2
062/63	-2	8122.67	-16245.34	4
063/64	-1	16888.96	-16888.96	1
064/65	0	16965.91	0	0
065/66	1	9297.28	9297.28	1
066/67	2	13991.24	27982.48	4
		65266.06	4145.46	10

$Yc = a + bx$ since $\sum x = 0$

Then, $a = \frac{\sum y}{N} = \frac{65266.06}{5} = 13053.12$

$b = \frac{\sum xy}{\sum x^2} = \frac{4145.46}{10} = 414.54$

Then the equation $yc = a + bx$

Calculation of trend value for various fiscal year

F/Y	a + bx	Yc
062/63	13053.12+414.54 (-2)	12224.04
063/64	13053.12+414.54 (-1)	12638.58
064/65	13053.12+414.54 (0)	13053.12
065/66	13053.12+414.54 (1)	13467.66
066/67	13053.12+414.54 (2)	13882.2
067/68	13053.12+414.54 (3)	14296.74
068/69	13053.12+414.54 (4)	14711.28
069/70	13053.12+414.54 (5)	15125.82
070/71	13053.12+414.54 (6)	15540.36
071/72	13053.12+414.54 (7)	15954.90

APPENDIX 13

Comparative Balance sheet (Rs in 000)

Assets	Fiscal Year				
	062/63	063/64	064/65	065/66	066/67
Cash &Bank	39371.16	56365.98	65872.12	97977.24	92450.12
Loan & Adv.	15696.93	19239.39	17532.08	19030.16	17974.49
Interest Rec.	17785.74	19593.93	19405.78	23364.52	27894.03
Misc.C.A.	8122.67	16888.96	16965.91	9297.28	13991.24
Total C.A.	80976.50	112088.28	119775.89	149669.21	152313.88
Fixed Assets	12235.04	18309.65	25537.54	41819.66	41745.81
Other Assets	378942.43	369996.75	422523.11	494485.732	534721.27
Total Assets	472153.97	500394.68	564836.54	685974.602	72780.96
Liabilities					
Saving Deposit	39395.92	35692.65	47332.63	73006.57	119011.1
Current Deposit &Other C.L.	78537.67	87065.59	97103.55	105345.95	100765.56
Total C.L.	117933.59	122758.24	144436.18	178352.52	219776.66
Fixed Deposit	284596.49	312076.02	352174.58	431770.33	420969.64
Other Liabilities	17662.89	11752.19	7995.48	8688.14	12188.93
Long term Debt	302259.38	323828.21	360170.06	440458.47	433155.57
ShareCapital	40000.00	40000.00	40000.00	4000000	4400000
Reserve & Prov.	8728.12	10164.79	23235.30	23450.13	24883.05
Net Worth	48728.12	50164.79	63235.30	63450.13	68883.05
Total Capital & Liabilities	472153.97	500394.68	564836.54	685974.602	72780.96

Source: 5Years Annual Report (from PFCL)

APPENDIX 14

Comparative Profit and Loss A/c(Rs in 000)

Particular	Fiscal Year				
	062/63	063/64	064/65	065/66	066/67
Interest Earned	64592.36	85706.08	85791.12	86063.00	89397.44
Commission& Disc.	208.20	165.763	89.95	80.99	113.97
Other Income	6157.09	5564.71	5440.41	4959.99	5722.42
Total Income	70957.70	91436.56	91321.48	91104.00	95233.80
Interest Exp.	41010.99	44505.92	43404.86	54250.62	53817.47
Employee Exp.	3715.09	4336.96	4503.47	5283.31	5587.87
Office Operation Exp.	4689.37	5435.21	5720.84	5424.47	7837.14
Cost of Services	49415.46	54278.10	53629.18	64958.42	67242.50
Other Provision	2738.40	20242.03	2415.62	4786.93	6122.73
Employee Bonus	1894.94	1691.64	3527.66	2130.73	2186.86
Special Tax	-	-	-	338.69	345.18
Income Tax	5072.65	9478.09	10477.17	6773.90	6903.64
Total Expenditure	59121.5	85689.88	70049.80	79039.98	82800.89
Net Profit	11836.20	5746.68	21271.68	12064.02	12432.91
Total	70957.70	91436.56	91321.48	91104.00	95233.80

Source: 5Years Annual Report (from PFCL)