WORKING CAPITAL MANAGEMENT PRACTICES AND EARNINGS PER SHARE OF MANUFACTURING COMPANIES IN NEPAL

A Dissertation Submitted to the Office of the Dean, Faculty of Management in Partial Fulfillment of the Requirements for the Masters of Business Studies

by

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Working Capital Management Practices and EPS of Manufacturing Companies in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been a cease of used. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Urusha Kushatha has defended research proposal entitled "**Working Capital Management Practices and EPS of Manufacturing Companies in Nepal**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidance of supervisor Keshar Singh Khati and submit the dissertation for evaluation and vice- voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled "**Working Capital Management Practices and EPS of Manufacturing Companies in Nepal**" presented by Urusha Kushatha, a candidate for the degree of Master of Business Studies (MBS Semester). We hereby certify that the dissertation is worthy of acceptance.

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ABBREVIATIONS

WCM	Working Capital Management
CR	Current Ratio
QR	Quick Ratio
IT	Inventory Turnover
ARP	Average Receivable Period
APP	Average Payment Period
EPS	Earnings Per Share
NEPSE	Nepal Stock Exchange Limited
CCC	Cash Conversion Cycle

ABSTRACT

The main objective of this study is to study what influence does the components of working capital like Current Ratio, Quick Ration, Inventory Turnover, Average Receivable Period and Average Payment Period has on Earnings Per Share. This study is done to examine the Working Capital Management practices and Earnings Per Share of manufacturing companies in Nepal. In this study, quantitative research design has been implemented using secondary data of eight NEPSE listed manufacturing companies for over a twelve-year period. The statistical tools like Descriptive statistics, correlation analysis, and regression analysis has been used to analyze the influence of working capital management on Earnings Per Share of the companies.

The findings of correlation analysis imply that the companies which take longer time to pay the suppliers tend to have a higher Earnings Per Share. Hence, Average Payment Period show a significant impact on EPS. The results of regression show that Average Receivable Period and Average Payment Period are the only variables that has significant impact on Earnings Per Share amongst all variables.

The overall findings of the study show that if the management of components of working capital is efficient the Earnings Per Share of the company is enhanced. The study recommends that managers focus optimizing the working capital cycle especially by reducing inventory holding period and improving receivables collection efficiency to strengthen firm value.

Keywords: Working Capital Management, Earnings Per Share, Current Ratio, Quick Ratio, Inventory Turnover, Accounts Receivable Period, Accounts Payable Period

CHAPTER I
INTRODUCTION

1. Background of the study

Working capital refers to the portion of a firms capital that is dedicated to supporting its day-to-day operational activities. It is obtained by subtracting current liabilities from current assets and this difference reflects the resources available to meet short-term obligations. In the financial analysis, working capital plays the role an indicator of a company's operating liquidity and its ability to maintain a smooth business functions functions without facing any interruptions in cash flows. Considering only the total value of current assets, the concept is often called gross working capital. The analysts can know a company's short-term solvency, operational efficiency and overall financial strength from the evaluation of working capital management practice. It is important to maintain an adequate level of working capital to ensure that a company can manage inventory, meet immediate and unexpected financial expenses.

The management of working capital is related to the financial theories such as liquidity profitability trade-off. The liquidity profitability theory states that maintaining higher level of current asset improves liquidity only not profitability and lower level of current assets can increase profitability but there incur a liquidity risk. The cash conversion cycle theory implies that it is necessary to manage receivables, inventories and payables efficiently to improve and optimize the company's performance. The above mentioned theories clearly points how effective working capital management can impact the Earnings Per Share of a company. They also focus on maintaining a balance of liquidity, operational efficiency and profitability.

Working Capital Management plays an important role identifying the company's liquidity position, points out the daily efficiency and the impact of the components of working capital on the Earnings Per Share. Proper management of working capital ensures that the company has good liquidity level and the liabilities of the company are settled timely so that there are no any interruptions in smooth operation of the business. If cash, inventory and short-term debts are managed properly it will help in

reducing the holding cost of the capital. The main objective of working capital management is to maintain a proper balance in current assets and current liabilities to ensure that the business can pay its short-term liabilities short-term liabilities on time. And also good working capital practices help in improving the company's financial stability and sustainability for long term.

Working capital management helps to determine the financial wellbeing of any company as it affects the liquidity. Its efficiency determines the level of inventories, production, operations and sales. If suppliers' payments are delayed while receivables collection is consistent, current cash inflows improve in the short term. On the other hand, if a company's credit policy is not firm and tight, cash inflow gets delayed which results in low liquidity. Working capital management policy is also important for small companies as they face even more difficulties in obtaining funds than larger companies.

The main goal of WCM is the efficient use of use of each component of working capital to get optimal result. It involves managing inventories, accounts payable, accounts receivable cash, as well as understanding how these elements these elements are interdependent. Liquidity risks are higher if current assets are not maintained in an appropriate level and on the other hand more investment in current assets may have a negative impact on profitability. Therefore, a balance in working capital is a must to be able to cover day-to-day operational expenses and pay short-term obligations.

The manufacturing sector is considered one of the important sector of industrial development in Nepal, which has a significant contribution to the gross domestic product, employment generation, and export incomes of Nepal. According to the Economic Survey 2023/24 published by the Ministry of Finance, the manufacturing sector contributed an approximate of 13.1% to the GDP of Nepal. Although the importance of the sector, the sector continuously face both long-term challenges and short term challenges such as inconsistency in electricity and resource supply, weak and mismanaged infrastructure, limited financial accessibility and inefficient management of inventory and cash in inventory and cash management practices and

as the result the company faces problems like liquidity risk and bad cash conversion cycle.

Earnings Per Share (EPS) is defined as one of the key measure and indicator of a profitability of the company. It also helps to determine the company's ability to provide returns to shareholders in capital markets. Besides being an important indicator of a company's performance it also has also influences also influences market valuation, investor mindset regarding the company and share market conclusions. The companies which has higher EPS are usually perceived as as financially strong and is considered capable of giving long-term value. The careful management of revenues and expenses helps to maintain a consistent growth in EPS. Management of working capital basically is the effective handling of working capital components such as accounts receivable, accounts payable, inventories, and cash. The working capital elements directly affect a company's ability to achieve operational efficiency, liquidity, and overall profitability.

The recent reports published in NEPSE indicate the substantial variance in that liquidity ratios and EPS among manufacturing companies. This shows the differences and weaknesses management of working capital. Some companies face cash shortages that interrupt in their daily operations while others maintain excessive inventories, which results in increased inventory holding costs and hence a reduce in profitability. Therefore, these differences aware us the importance of working capital management for financial stability and improving shareholder returns.

The financial environment of Nepal is very unstable and difficult due to unstable market demand, higher production costs, and limited availability of internal funds. All these challenges make the operation of manufacturing companies difficult in Nepal. .In such a situation, proper management of working capital plays an important role to determine a company's overall performance profitability and its Earnings Per Share. Working capital is the net of current assets and current liabilities it is the the funds required to operate day-to-day business activities hence and maintaining a balance level help to continue daily operations without any interruption. There is no need to rely on external borrowing if the company has an efficient working capital

management practice. This also helps to avoid additional financing costs. This also prevents the problem of holding up too much money in stocks and inventories. However, bad working capital management may lead to cash shortages which will compel us to depend on loans, and result in higher interest expenses. These issues can ultimately lower profitability and have an adverse effect on EPS. Therefore effective working capital management supports operational efficiency, improves financial performance, and enhances value for shareholders.

Although working capital management (WCM) plays a significant role in firm performance, studies that examine its effect on Earnings Per Share (EPS) in Nepal's manufacturing sector are very limited Most previous research conducted in Nepal has mainly concentrated on overall financial performance and has major focused on service-based industries. Due to this focus, manufacturing companies have received comparatively less attention from researchers. As a result there is insufficient empirical evidence showing how different working capital management practices affect EPS in manufacturing firms. This lack of sector specific analysis creates a clear research gap in the existing literature. Therefore the present study seeks to fill this gap by analyzing analyzing the impact of WCM on EPS in manufacturing companies listed on the Nepal Stock Exchange (NEPSE). The main focus of this study is to emphasize the role of effective management of management of current assets and current liabilities to improve financial performance.

Since, it is important to study the impact of working capital management on EPS of NEPSE listed manufacturing companies is essential to analyze both operational efficiency and shareholder value. Therefore the present study is important and provides the rationale for analyzing working capital strategies in relation to Earnings Per Share.

2. Problem Statement

The impact of WCM on firm performance in various contexts and industries has been examined in several study. The researches that made earlier indicates that indicate that specific factors of WCM such as CR, QR, ITR, ARP and APP can significantly

influence overall profitability and performance of a company and an improper and poor management of working capital can have a negative effect on the operational efficiency and efficiency and profitability (Hill et al., 2010) of the company. Bagh, Nazir, Khan, Khan, and Razzaq (2016) investigated the relationship between firm performance and performance and different aspects of working capital management. Their findings revealed that certain components, including inventory turnover, inventory the cash conversion cycle, and the average payment period, have an inverse relationship with firm performance. On the other hand, the results of the study showed that the average collection period positively and significantly contributes in improving a company's performance by focusing on the the complex role of various working capital elements and their interdependency.

Although numerous studies have explored various aspects of working capital management, most of this research has overlooked the specific relationship between relationship among working capital management (WCM) and Earnings Per Share (EPS) There is limited empirical evidence on how WCM practices influence shareholder returns and profitability as measured by EPS particularly in the context of Nepal's manufacturing sector. The main focus of this study seeks is to fill this gap by studying the working capital management practices and EPS trend among manufacturing firms listed on the Nepal Stock Exchange (NEPSE). This study also aims to provide suggestions regarding how efficient management of current assets and liabilities can improve a company's profitability and shareholder value in return. The study tries to highlight the practical implications and importance of WCM for internal financial management, investors and other stakeholders in the capital market by drawing attention on the EPS.

There are very limited research studies found on this context in Nepal especially within the manufacturing sector. For example, Koirala (2017) found out that there is a very weak but positive correlation between the current ratio and return on assets (ROA), while Adhikari (2019) found that there is no any significant effect of accounts receivable on net profit margins. These kind of mixed findings created a research gap by raising questions about the consistency and applicability of existing evidence

within the context of Nepal. Also there is a clear gap in research that directly examines the impact of impact of working capital management on Earnings Per Share (EPS). The acknowledgement of this gap is necessary for this gap providing practical information that tells us how an effective WCM can influence profitability and EPS in Nepal's manufacturing firms.

The main problem this study aims to address is that there is lack of clear and reliable empirical evidence that shows how Working Capital Management practices influence Earnings Per Share of manufacturing companies of Nepal. It is known that the manufacturing companies play an important role in uplifting the Nepalese economy but still they face a lot of difficulties like mismanagement of short-term funds and lack of funds to operate daily activities. There are only limited studies done that examines analytically how different WCM policies and practices affect the EPS in manufacturing companies. This gap makes decision making difficult for managers and investors due to insufficient information. Therefore, it is essential for financial managers to understand the WCM practices and its effects on EPS. This will help the managers to maintain a balance between current assets and current liabilities efficiently. The liquidity of a company can be improved through proper working capital management practices. This increases operational efficiency and reduce unnecessary financing costs. This can lead to higher profitability and better valuation of the companies in share market.

The manufacturing companies of Nepal contribute significantly to the economic growth of Nepal, creates employment and development of industry as a whole. They face a lot of operational and financial challenges such as costly production expenses, limited access to finance, demand fluctuation and over dependence on the imported raw materials. These challenges create obstacles in day-to-day operation and make working capital management difficult. The goal of a company must be to maintain the balance in need of liquidity to achieve better financial performance and profitability. Effective management of current assets and liabilities is not only essential for day-to-day operations but also for the long-term sustainability of these companies.

The finding of international studies that have examined WCM and profitability often show mixed results due to differences in industry structure, economic conditions, and firm size. In Nepal there is limited empirical research linking WCM to EPS in manufacturing sector. Existing studies focus mainly on ROA or net profit margins, net profit margins leaving the direct impact on EPS unstudied. This gap point outs the necessity of a focused investigation that address the financial and operational situation of NEPSE-listed manufacturing firms.

The study is guided by the following key research questions:

i. What is the current situation of working capital management practices and EPS of NEPSE listed manufacturing in Nepal?
ii. Is there any relationship between individual components of working capital such as current ratio, quick ratio, inventory turnover, and accounts payable management and EPS?
iii. How does overall working capital management influence the Earnings Per Share (EPS) of manufacturing firms listed on the Nepal Stock Exchange (NEPSE)?

3. Objectives of the study

The primary objective of this study is to examine the impact of working capital management (WCM) on the Earnings Per Share (EPS) of manufacturing companies listed on the Nepal Stock Exchange (NEPSE).

The specific objectives of the study are as follows:

i. To assess the current status of working capital management practices and EPS of NEPSE listed manufacturing companies in Nepal.

ii. To analyze the relationship between the current ratio and EPS of NEPSE listed manufacturing firms, evaluating how liquidity levels affect profitability.

iii. To examine the impact of the current ratio, quick ratio, inventory turnover, accounts receivable period and accounts payable period on EPS of NEPSE listed manufacturing companies in Nepal.

4. Hypothesis

As per the research questions in the problem statement, the following hypotheses are formulated to statistically examine the relationship between components of working capital management and Earnings Per Share (EPS) of NEPSE listed manufacturing companies:

Alternative Hypotheses (H_1):

$H_{1\ 1}$ **:** There is a significant relationship between current ratio and EPS of NEPSE-listed manufacturing firms.

$H_{1\ 2}$ **:** There is a significant relationship between quick ratio and EPS of NEPSE-listed manufacturing firms.

$H_{1\ 3}$ **:** There is a significant relationship between inventory turnover ratio and EPS.

$H_{1\ 4}$ **:** There is a significant relationship between accounts receivable period and EPS.

$H_{1\ 5}$ **:** There is a significant relationship between accounts payable period and EPS.

5. Rationale of the Study

Several studies have explored the impact of working capital management (WCM) on the performance of firms particularly in sectors such as development and commercial banking. However, there is a lack of empirical research examining how WCM affects the financial performance of manufacturing firms in Nepal. This gap is significant this gap is significant because manufacturing firms operate under special financial and operational conditions, including high working capital intensity, thin profit margins, and limited access to external financing.

There has been done a very limited investigations on WCM practices in Nepal and particularly in the manufacturing sector. The lack of detail study provides the primary rationale for this research. We all know that working capital is essential for the smooth day-to-day operation but still very limited studies have been made that analyzes the specific components of WCM in the context of Nepal. This study examines the key elements of working capital such as current ratio, quick ratio, inventory turnover, accounts receivable and accounts payable This study helps us to understand their effect on Earnings Per Share (EPS) especially in the manufacturing

sector of Nepalese industry. The finding of the study are expected to assists managers in decision making related to level of required liquidity and day-to-day operations and help investors to grab better knowledge about the company's performance more accurately. This study also benefits policy maker by providing valuable insights for formulating financial and industrial policies. Hence, this study is focused to fill an important research by demonstrating the current status of WCM practices and its association with EPS in the manufacturing companies of Nepal.

This study is focused to understand how WCM influences company's profitability, particularly measured by EPS in the manufacturing companies of Nepal. This is the main rational of the study. If current assets and current liabilities are managed properly and efficiently, we can make sure that liquidity level is optimal, financial risk is minimal and returns are maximum. Though there are numerous international studies examining the relationship between WCM and profitability, the research focused specifically in Nepalese manufacturing company is very limited.

The Nepalese manufacturing sector faces numerous challenges such as limited access to finance, fluctuating market demand, high production costs, and relying on imported raw materials. These are the factors that higher demands and lesser supply too make effective working capital management crucial for operational efficiency and sustainable profitability is the main problem here. This study provides knowledge to how on how to WCM components such as liquidity ratios, inventory turnover, also the value and accounts receivable/payable periods affect EPS supported by the evidence that are directly relevant to Nepal's economic and financial environment. The findings will be used to guide managers in optimizing the very useful resource allocation assist investors in evaluating company's performance and inform policymakers in building strategies that enhance the overall the efficiency and competitiveness of the manufacturing sector.

The difficulties and challenges faced by the Nepalese manufacturing companies are hard to comprehend theoretically. There exists a vast practical difficulties which are beyond any policies and strategies. A current in time tactic can solve those difficulties. In such circumstances, the effective management of detail WC

components is not only essential for liquidity but also for sustaining profitability. Although the significance of these practices many companies continue to rely on traditional financial strategies without examining their actual impact on EPS. This study quantifies and evaluates the influence of working capital decisions on company's financial outcomes.

Many studies that are done internationally have examined the relationship between WCM and company's performance in developed and growing economies, but research focused empirically on Nepalese manufacturing companies is limited. Many companies are still relying on the old financial strategies and WCM practices. There is lack of systematic evaluation of the impact of WCM on EPS. This study helps to fill the gap by including the manufacturing companies listed in NEPSE and their EPS.

This study aims to generate knowledge that are relevant to Nepal's unique economic and financial environment based on the evidence. This study investigates the effects of working capital components on EPS. The findings will support managers in optimizing liquidity and improving operational efficiency, guide investors in evaluating firm performance based on EPS, and inform policymakers in developing strategies that enhance the sustainability and competitiveness of the manufacturing sector. Overall this research seeks to fill an important knowledge gap and helps in better understanding of the impact of WCM on EPS.

There is the dire need of formulating the guidelines and support strategies to promote good financial practices. This study helps to do that by providing valuable knowledge to the policymakers and regulatory bodies. The output and findings of this research serve as a valuable evidence for regulators to understand the importance of effective management of WC. The effective working capital management helps to strengthen the company's financial performance and profitability. This study also highlights the importance of decision making based and back-up by data and evidences. This data-based approach support managers in improving transparency and efficiency in financial operations. A good WCM practice can help in better corporate governance practices and this can lead to the improvement in financial performance and indicators of financial profitability.

6. Limitations of the Study

Every research study has its inherent limitations, this study it too. Those limitations could influence the findings of the results. The major limitations of this study are as follows:

i. This research focuses on only one performance-related measure, Earnings Per Share (EPS), which may not capture all aspects of firm performance. Indicators such as return on assets (ROA) or return on equity (ROE) are ignored meanwhile.

ii. There are a total of 13 manufacturing companies listed on the Nepal Stock Exchange (NEPSE), but only eight companies have been selected as the sample due to data availability. This may limit the relevance of the result over the entire sector.

iii. The study is based on financial data collected from past twelve financial years. This duration might be short and due to which full long-term impact of macroeconomic fluctuations may not be discovered.

iv. The inherent limitations and assumptions of the financial tools ratios used for analysis may affect the findings of the study.

v. The data are taken from published annual reports available on company websites hence the accuracy of these reports is assumed. The findings of this study may be influenced in case of any errors or omissions in the reported data.

CHAPTER II
LITERATURE REVIEW

1. Theoretical Review

Working capital management (WCM) is based in different fundamental theories which are focused on explaining how a company determines its levels of the liquidity, operational efficiency, and shareholder's value. These theories helped in the selection of variables such as as CR, QR, IT, ARP, and APP that have been used for this study. Such theories also provide a basic concept for examining the influence of WCM on Earnings Per Share (EPS). The major theories relevant to this study are discussed in detail below.

i. Working Capital Theory

The Working Capital Theory is the basic foundation of this study. It states that a firm must maintain an optimal level of current assets and current liabilities for smooth operations. The theory states that:

- Too little working capital leads to production disruptions, late supplier payments, inability to meet short-term obligations, and higher financial risk.
- Too much working capital causes inefficient utilization of financial resources because idle funds do not generate adequate returns.

For manufacturing companies in Nepal where production processes require continuous acquisition of raw materials, inventory conversion, and credit sales working capital plays a crucial role. Efficient WCM ensures:

- Regular production cycles
- Adequate inventory levels
- Timely payment to suppliers
- Smooth credit management

All these ultimately influence the firm's profitability and shareholder value, represented by EPS. Thus, Working Capital Theory justifies investigating how components such as inventory days, collection period, payables period, CR, and QR affect EPS.

ii. Operating Cycle Theory

The Operating Cycle Theory explains how cash flows through different stages of the production and sales process before returning as cash inflows. The operating cycle consists of:

- Inventory Conversion Period (ICP) is the time required to convert raw materials into finished goods.
- Receivables Collection Period (RCP) is the time taken to convert sales into cash.
- Payables Deferral Period (PDP) is the time firms are allowed to pay suppliers.

According to this theory:

- A shorter operating cycle means faster cash turnover, reduced financing needs, lower borrowing cost, and higher profitability.
- A longer operating cycle means cash is tied up in inventory or receivables for too long, increasing financing costs and reducing firm earnings.

Manufacturing firms in is Nepal typically maintain large inventories and often extend credit to customers, which extends the operating cycle. the theory helps explain why managing ICP, RCP, and PDP efficiently may lead to better performance and higher EPS. The operating cycle directly connects to the Cash Conversion Cycle (CCC), which is crucial to this study.

iii. Cash Conversion Cycle (CCC) Theory

The CCC Theory explains on the operating cycle by focusing specifically on how long it takes for a firm to recover its cash outflows invested in working capital. CCC is calculated as:

CCC = ICP + RCP – PDP

The theory argues that:

- A short CCC indicates strong operational efficiency, less time capital is locked in current assets, and greater potential to reinvest funds for profit.
- A long CCC signals inefficient management, as excessive capital is tied up, increasing the need for external financing, which reduces profitability.

Delay in receiving cash from customers and excessive inventory holding are common issues in manufacturing sector. According to CCC Theory reducing this delays improves liquidity minimizes interest costs and increases profitability ultimately improving EPS. This theory is central to the study because CCC is often the most useful and appropriate indicator of working capital efficiency.

iv. Liquidity Profitability Trade-Off Theory

This theory states that the firms must balance the trade-off between maintaining liquidity and achieving profitability. The Key concepts include:

- Firms must hold a certain level of liquid assets (cash, receivables, inventories) to meet short-term obligations.
- However, excessive liquidity means funds are kept idle, which lowers the profitability.
- Insufficient liquidity forces firms to rely on costly external financing, which also reduces the profitability.

Liquidity is the commonly measured using current ratio (CR) and quick ratio (QR). These ratios indicate the firm's ability to pay short-term liabilities.

For manufacturing firms in Nepal:

- High inventory levels may improve CR but reduce the profitability.
- High receivables improve sales but reduce the liquidity.
- Lower liquidity may force the firms to borrow at high interest rates, affecting the EPS.

This theory explains why CR and QR have either positive or negative relationship with EPS depending on how efficiently working capital components are managed.

v. Risk-Return Trade-Off Theory

The Risk–Return Trade-Off Theory is known as one of most fundamental principles in finance which emphasizes that the firms must balance the level of risk they are willing to bear and it must align with the financial returns they are willing to achieve. This theory tells us that decision regarding the involvement of composition current assets and of the current liabilities uses a trade-off between liquidity risk and the profitability. When a firm is adopting adopts an aggressive working capital policy

which is characterized by maintaining comparatively low levels of current assets and then relying more strongly on short-term liabilities it it exposes that the itself to higher liquidity risk. This occurs when the company struggles to meet very obligations if cash is inflows are delayed or if unexpected financial demands is arised. However the aggressive step also frees up more current assets for investment in productive revenue-generating activities and can ultimately enhance the profitability and improve shareholder's return that is including measures such as Earnings Per Share.

The Risk–Return Trade-Off Theory is particularly relevant for Nepalese manufacturing companies due to the nature of their operations. They require continuous investment in raw materials, inventory, also and credit sales. Managers must decide how much liquidity to maintain to ensure uninterrupted production while simultaneously striving to achieve the very acceptable returns for the shareholders. These decisions directly influence profitability indicators such as EPS. An optimal balance between risk and return is therefore essential; firms that it is difficult to manage to maintain adequate liquidity without sacrificing too much return are better positioned to achieve sustainable financial performance. This theory thus provides a strong conceptual is the foundation for examining how working capital components such as inventory levels, receivables, payables, and liquidity ratios affect the financial outcomes of manufacturing companies included in this study.

2. Empirical Review

Stavropoulos & Zounta (2025) examined how the cash conversion cycle (CCC) relates to profitability in Greek service companies across hotels, education, healthcare, rentals, and IT using data from 343 publicly listed service-sector firms for 2023, the authors apply descriptive statistics, Pearson correlation, and ANOVA to explore how CCC components (inventory days, receivables, payables) affect return on assets (ROA). The study found that many firms have a negative CCC, and interestingly, a longer negative CCC (i.e., more efficient liquidity) positively correlates with ROA, suggesting that effective working capital management in these industries is linked to higher profitability, regardless of firm size.

Tobazaa & Gatsi (2025), assessed how CCC and its components (days receivable, days inventory, days payable) influence profitability (ROA and ROE) in Ghana's energy companies, Using data from four energy-sector firms covering 2014–2022, the authors employ correlation and regression analysis to estimate the impact of CCC on earnings. Their results show that a longer is the CCC is negatively associated with profitability, while higher inventory days and receivable days improve ROA but elongated payables (DPO) hurt both ROA and ROE, pointing to the importance of optimizing working capital in capital-intensive industries.

Kukeli, Widner, Deari, Sargsyan & Barbuta-Misu (2025) explored how the relationship between CCC and profitability changes under crisis conditions, using a panel of 6,072 firms from five the European countries. It is the applied fixed-effects and weighted least squares estimation, testing for non-linearity and crisis interaction. The result of this study show the inverted-U relationship which implies that profitability increases with CCC until an optimal point, after which further increase in them are harmful during the time of economic crises. The marginal effect of CCC on profitability is focused suggesting the readers that that efficient working capital management is even more important during the decline in business and economy.

Ishikawa (2024/2025) studies the impact of CCC and the working capital efficiency on operating profit in Japanese software companies. The authors analyze data from 125 software firms listed in the between 2021 and 2023, using regression on CCC components (inventory, receivables, payables) and margin outcomes. They conclude that higher working capital efficiency (shorter CCC) significantly improves operating profit margins, stressing the importance of internal cash management in growth-oriented, high-intangible sectors.

Bhusal Khanal, S. & Neupane, B. (2024/25), focused on Nepalese banks, this thesis evaluates the effect of liquidity ratios on the is bank profitability using regression analysis on recent annual report data, finding that current ratio and cash ratio significantly explain variations in ROA/ROE for banks a reminder that sectoral dynamics influence WCM performance relationships and that manufacturing context may differ.

Karim, Mamun & Kamruzzaman (2024) investigated the impact of the CCC on profitability (ROA and EPS) in a large sample of Bangladeshi manufacturing firms. The authors use panel data of 61 firms over 18 years (2003–2020) and adopt a is system; CCC is the main independent variable, while asset the turnover and the leverage are used as controls.They find a significant negative relationship between CCC and both ROA and EPS, implying that more efficient working capital management i.e. shorter CCC enhances both operational profitability and shareholder earnings.

Deari & Palomba (2024), studied the relationship between CCC and firm profitability among firms listed on the Macedonian Stock Exchange. It has uses set of data from 2011 to 2019 and has applied a fixed effects regression which are necessary for controlling for factors such as size, liquidity ratios and leverage. Their finding suggest a non-linear relationship which shows that initially shorter CCC increases profitability but the benefit diminishes from a certain point which indicate that returns declines from overexploitation of working capital too aggressively.

Marasini, N. (2024), conducted a study on WCM practices across Nepali manufacturing firms over a ten-year period (2013/14–2022/23). He used descriptive statistics and panel the regressions on firm-level financials. The study reports that firms with tighter receivables control and optimum inventory levels report better profitability indicator and it highlights the diversity across also manufacturing sectors in Nepal.

SSRN (2024), analyzed how WCM strategies perform across economic cycles in Nepal. He used panel regressions and is the interaction terms for cycle phases. It concludes that efficient WCM lower CCC faster collections supports profitability especially during declining economies and shocks which further emphasizing the importance of liquidity management in volatile economies.

Khadka S. & Khadka A. K. (2022), examined how working capital variables influence profitability among Nepalese non-financial firms. They used the secondary data and applying correlation and regression techniques is on on a panel of sampled firms. The authors finds that shorter collection periods and efficient inventory

management improve profitability measures but also although results vary across firms and years. The paper emphasizes data limitations and points out the need of sector wise research data.

Adhikari, Narayan (2021), examined the impact of various working capital management components on the profitability of manufacturing and trading firms in Nepal. The study concluded that accounts receivable period and accounts payable period significantly influence profitability, with ARP having a negative effect and APP having a positive effect. Liquidity measures such as current ratio and quick ratio showed insignificant relationships with profitability. The findings suggest that credit and payment policies are more important predictors of firm performance in Nepal than traditional liquidity measures.

Anton, S. G., & Nucu, A. E. (2021), assessed the relationship between working capital level and profitability in a large sample of the Polish firms over time. It has used Panel data analysis using OLS, fixed effects, and corrected standard error models on data from 719 Polish listed firms (2007–2016). The study is concluded that There is an inverted U-shape relationship: profitability increases as working capital increases up to an optimal point but beyond that more working capital reduces profitability.

Diponegoro Univ. Aryawan, et al. (2020), examined the effect of CCC, ICP, ACP, and APP on profitability (ROA) in Indonesian manufacturing firm. The authors has used Panel regression using data from Indonesian publicly listed manufacturing firms (2013–2017), controlling for size, leverage, and liquidity. They also found that CCC, ICP, and ACP are significantly negatively associated with profitability efficient management of working capital components is crucial for enhancing ROA.

Nastiti, P. K. Y., Atahau, A. D. R., & Supramono, S. (2019), conducted a study on how working capital management (WCM) affects both profitability and sustainable growth of manufacturing firms. The used Panel data regression (fixed effects) on a sample of 136 Indonesian in the manufacturing firms from 2010–2017. They concluded that WCM significantly increases profitability (ROA), but working capital

does not directly influence sustainable growth; rather, its effect is mediated through profitability.

Girma, A. M. (2019), investigated how working capital components (receivable days, inventory days, payable days, CCC) affect profitability in manufacturing firms in Dire Dawa city. They had used Quantitative analysis using secondary data from 14 manufacturing companies (2011–2015), applying correlation and regression. They found that There is a significant negative relationship between CCC, receivable days, inventory days, and profitability, while payables days show no clear positive effect.

Akomeah, J., & Frimpong, S. (2019), assessed the impact of WCM measures (ARP, APP, ICP, CCC) on profitability in Ghana's manufacturing sector. They used Panel regression (fixed effects) on data from 7 manufacturing firms listed on the Ghana Stock Exchange (2005–2014), with the control for firm size and liquidity. They found that ARP and ICP are negatively associated with profitability, while CCC, CR (current ratio), and firm size positively influence profit, implying that that longer collection or inventory periods diminish profitability unless offset by efficient liquidity.

Altaf & Ahmad (2019), examined the the relationship between WCM (measured by CCC and related proxies) and firm performance, and whether financial constraints alter that relationship. The authors used large sample of 437 non-financial Indian firms (2007–2016) using two-step GMM and nonlinear specification tests. The finding showed the evidence of an an inverted-U (nonlinear) relationship some working capital is beneficial but beyond an optimum it reduces performance; financially constrained firms hold sub-optimal WCM levels, implying the financing conditions matter.

P. Lamichhane (2019), evaluated efficiency of the WCM and its effect on profitability for Nepalese firms (contextualized to local accounting/reporting). It collected financial statements of Nepalese firms over several years and applied ratio analysis and and panel regression tests (CCC, ICP, RCP, PDP against profitability proxies). The study found that inventory conversion and the payable deferral periods negatively associate with profitability, while receivable conversion shows mixed

effects; overall a longer CCC tends to reduce firm profitability in the Nepalese sample.

Panda & Nanda (2018), assessed how the working capital financing policies (use of short-term vs long-term sources for WCM) affect corporate profitability in Indian manufacturing. They used the panel regression on a large sample of manufacturing firms (data period across 2000–2014/2016 depending on subsample), controlling for the the size, leverage, and sector. They found out that firms that that rely more on current liabilities to finance working capital tend to show higher profitability (an "aggressive" financing effect), but the authors warn this raises liquidity and default risk tradeoffs between return and the risk.

Quy (2017), examined how the cash conversion cycle (CCC) and its components (accounts receivable, inventory, accounts payable) affect firm performance and value in the fisheries sector. The methods used was panel data for listed fisheries firms over several years, estimating system GMM to control for endogeneity and dynamic effects. The study concluded that CCC and longer receivable/inventory periods harm firm the performance, while longer payables can be beneficial; the study stresses the need for industry-specific WCM rules and suggests an the optimal (shorter) CCC improves firm value.

Bagh, Nazir, Khan, Khan, & Razzaq (2016) analysed how working capital management (WCM) affects financial performance of Pakistani manufacturing firms listed on the Karachi Stock Exchange. Using a purposive/random sample of 50 non-financial (manufacturing) firms over the period 2005–2014, the authors measure WCM with standard proxies (cash conversion cycle and its components such as inventory, receivables, payables) and firm performance by profitability ratios. The methodology is quantitative: descriptive statistics, correlation matrix, and multiple regression models are applied to secondary financial statement data to test relationships and control for firm characteristics. The main findings indicate that inefficient WCM particularly longer collection and inventory periods and an extended cash conversion cycle is associated with lower profitability; in contrast, managing payables strategically shows limited or mixed effects. The authors conclude that

tighter receivables and inventory management improve firm performance in the Pakistani manufacturing context of industries and recommend that managers optimize WCM to enhance profitability.

Napompech Kulkanya (2012), analyzed how key working capital components such as the accounts receivable period, inventory conversion period and cash conversion cycle affect the profitability of firms listed on the Stock Exchange of Thailand. It was found that there is a negative relationship between accounts receivable period and profitability, indicating that shorter credit periods improve firm earnings. The cash conversion cycle also had a negative effect on profitability, suggesting that efficient working capital management contributes to better financial performance. The results highlights the importance of minimizing the time that the companies hold up capital in operations.

Sharma, Ashok K, Kumar, Satish (2011), assessed whether working capital management practices influences the profitability of Indian firms and the evaluated the impact of liquidity is the indicators such as current ratio and quick ratio on firm performance. The results show that the current but ratio and quick ratio have an insignificant or mixed impact on profitability indicating that higher liquidity does not necessarily which has lead to higher earnings. But working capital efficiency specially inventory turnover was contributed more significantly to profitability. The study concluded that firms should focus on optimizing working capital components rather than holding excessive liquidity.

Gill, Amarjit, Biger, Nahum, Mathur, Neil (2010), examined how working capital management affects the profitability of firms in the United States, with a specific focus on the relationship between accounts receivable period, accounts payable period, inventory conversion period, and firm profitability. The study found a negative relationship between accounts receivable period and profitability, suggesting that firms can increase earnings by reducing the time taken to collect customer payments. Inventory turnover also showed a significant relationship with profitability. The authors concluded that efficient management of short-term assets and liabilities contributes positively to firm performance.

Table 1

Literature Summary

Writers	Objectives	Findings
Stravropoulos & Zounta (2025)	To examine how the cash conversion cycle (CCC) relates to profitability in Greek service companies across hotels, education, healthcare, rentals, and IT	The study found that many firms have a negative CCC, and interestingly, a longer negative CCC (i.e., more efficient liquidity) positively correlates with ROA, suggesting that effective working capital management in these industries is linked to higher profitability, regardless of firm size.
Tobazaa & Gatsi (2025)	To assess how CCC and its components (days receivable, days inventory, days payable) influence profitability (ROA and ROE) in Ghana's energy companies,	Their results show that a longer CCC is negatively associated with profitability, while higher inventory days and receivable days improve ROA but elongated payables (DPO) hurt both ROA and ROE, pointing to the importance of optimizing working capital in capital-intensive industries.
Kukeli, Widner, Deari, Sargsyan & Barbuta-Misu (2025)	To explore how the relationship between CCC and profitability changes under crisis conditions, using a panel of 6,072 firms from five European countries.	The findings show an inverted-U relationship: profitability increases with CCC until an optimal point (~90 days), after which further increases are detrimental; during economic crises, the marginal effect of CCC on profitability is magnified, suggesting that efficient working capital management becomes even more important in downturns.
Ishikawa, et al. (2024/2025)	To examine the impact of CCC and working capital efficiency on operating profit margins in Japanese software companies	They conclude that higher working capital efficiency (shorter CCC) significantly improves operating profit margins, stressing the importance of internal cash management in growth-oriented, high-intangible sectors.

Bhusal Khanal, S. & Neupane, B. (2024/25)	To evaluate the effect of liquidity ratios on bank profitability using regression analysis on recent annual report data	current ratio and cash ratio significantly explain variations in ROA/ROE for banks a reminder that sectoral dynamics influence WCM performance relationships and that manufacturing context may differ.
Karim, Mamun & Kamruzzaman (2024)	To investigate the impact of the CCC on profitability (ROA and EPS) in a large sample of Bangladeshi manufacturing firms	They find a significant negative relationship between CCC and both ROA and EPS, implying that more efficient working capital management i.e., shorter CCC enhances both operational profitability and shareholder earnings.
Deari & Palomba (2024)	To study the relationship between CCC and firm profitability among firms listed on the Macedonian Stock Exchange	Their results suggest a non-linear (convex) relationship: initially, shorter CCC increases profitability, but beyond a point, the benefit diminishes, indicating diminishing returns from compressing working capital too aggressively.
Marasini, N. (2024)	To study on WCM practices across Nepali manufacturing firms over a ten-year period (2013/14–2022/23).	firms with tighter receivables control and optimized inventory levels report better profitability metrics, and it highlights the heterogeneity across manufacturing sub-sectors in Nepal.
SSRN (2024)	To analyze how WCM strategies perform across economic cycles in Nepal, using panel regressions and interaction terms for cycle phases	It concludes that efficient WCM (lower CCC, faster collections) supports profitability especially during downturns and shocks, reinforcing the importance of liquidity management in volatile economies.
Khadka, S. & Khadka, A. K. (2022)	To examine how working capital variables influence profitability among Nepalese non-financial firms.	shorter collection periods and efficient inventory management tend to improve profitability measures, although results vary across firms and years; the paper emphasizes data limitations and calls for

		sector-specific research.
Adhikari, Narayan (2021)	To investigate the impact of various working capital management components on profitabilityof manufacturing and trading firms in Nepal.	The findings suggest that credit and payment policies are more important predictors of firm performance in Nepal than traditional liquidity measures.
Anton, S. G., & Nucu, A. E. (2021)	To assess the relationship between working capital level and profitability in a large sample of Polish firms over time	The study concluded that There is an inverted U-shape relationship: profitability increases as working capital increases up to an optimal point, but beyond that, more working capital reduces profitability.
Diponegoro Univ. Aryawan, et al. (2020)	To examine the effect of CCC, ICP, ACP, and APP on profitability (ROA) in Indonesian manufacturing firm	CCC, ICP, and ACP are significantly negatively associated with profitability; efficient management of working capital components is crucial for enhancing ROA.
Nastiti, P. K. Y., Atahau, A. D. R., & Supramono, S. (2019)	To study on how working capital management (WCM) affects both profitability and sustainable growth of manufacturing firms.	WCM significantly increases profitability (ROA), but working capital does not directly influence sustainable growth; rather, its effect is mediated through profitability.
Girma, A. M. (2019)	To investigate how working capital components (receivable days, inventory days, payable days, CCC) affect profitability in manufacturing firms in Dire Dawa city	There is a significant negative relationship between CCC, receivable days, inventory days, and profitability, while payables days show no clear positive effect.
Akomeah, J., & Frimpong, S. (2019)	To assess the impact of WCM measures (ARP, APP, ICP, CCC) on profitability in Ghana's manufacturing sector	ARP and ICP are negatively associated with profitability, while CCC, CR (current ratio), and firm size positively influence profit, implying that longer collection or

		inventory periods diminish profitability unless offset by efficient liquidity.
Altaf & Ahmad (2019)	To examine the relationship between WCM (measured by CCC and related proxies) and firm performance, and whether financial constraints alter that relationship.	The evidence of an inverted-U (nonlinear) relationship some working capital is beneficial but beyond an optimum it reduces performance; financially constrained firms hold sub-optimal WCM levels, implying financing conditions matter.
P. Lamichhane (2019)	To evaluate efficiency of WCM and its effect on profitability for Nepalese firms (contextualized to local accounting/reporting)	Inventory conversion and payable deferral periods negatively associate with profitability, while receivable conversion shows mixed effects; overall a longer CCC tends to reduce firm profitability in the Nepalese sample.
Panda & Nanda (2018)	To assess how working capital financing policies (use of short-term vs long-term sources for WCM) affect corporate profitability in Indian manufacturing	Firms that rely more on current liabilities to finance working capital tend to show higher profitability (an "aggressive" financing effect), but the authors warn this raises liquidity and default risk tradeoffs between return and risk.
Quy (2017)	To examine how the cash conversion cycle (CCC) and its components (accounts receivable, inventory, accounts payable) affect firm performance and value in the fisheries sector.	CCC and longer receivable/inventory periods harm firm performance, while longer payables can be beneficial; the study stresses the need for industry-specific WCM rules and suggests an optimal (shorter) CCC improves firm value.
Bagh, Nazir, Khan, Khan, & Razzaq (2016)	To analyse how working capital management (WCM) affects financial performance of Pakistani manufacturing	Tighter receivables and inventory management (i.e., a shorter CCC) improve firm performance in the Pakistani manufacturing context and recommend

	firms listed on the Karachi Stock Exchange.	that managers optimize WCM to enhance profitability.
Napompech, Kulkanya (2012)	To analyze how key working capital components including accounts receivable period, inventory conversion period, and cash conversion cycle affect the profitability of firms listed on the Stock Exchange of Thailand.	The study found a negative relationship between accounts receivable period and profitability, indicating that shorter credit periods improve firm earnings.
Sharma, Ashok K, Kumar, Satish (2011)	To assess whether working capital management practices influence the profitability of Indian firms and to evaluate the impact of liquidity indicators such as current ratio and quick ratio on firm performance.	The results showed that current ratio and quick ratio have an insignificant or mixed impact on profitability, indicating that higher liquidity does not necessarily lead to higher earnings.
Gill, Amarjit, Biger, Nahum, Mathur, Neil (2010)	To examine how working capital management affects the profitability of firms in the United States	The study found a negative relationship between accounts receivable period and profitability, suggesting that firms can increase earnings by reducing the time taken to collect customer payments.

3. Research Gap

Despite the fact that numerous study on the working capital management and firm performance globally studies focusing on the Nepalese manufacturing companies is very limited. Most prior research have examined that WCM in large economies such as India, Pakistan, and Indonesia, emphasizing the relationship between cash conversion cycle, receivables, payables, and profitability. While these have been studies provide useful knowledge the institutional, financial and that market contexts

of Nepal differ substantially from how these countries. Factors such as is limited access to short-term financing, fluctuating raw material prices, and smaller firm sizes can influence the effectiveness of WCM strategies in Nepalese firms, indicating that international findings may not be directly applicable.

The existing studies on Nepalese firms often focus broadly on profitability or firm value neglecting the impact of the working capital management on the Earnings per Share (EPS), which is is a key performance indicator for investors. EPS has reflects not only operational efficiency but also make a better managerial decisions on financing, investment not only and dividend policies, which are closely linked to working capital strategies. By examining the EPS specifically, this study bridges a the gap in the literature by connecting short-term liquidity management to shareholder value in the Nepalese context which has received little empirical attention.

Prior research have overlooked the dynamic nature of WCM in response to economic fluctuations, sector-specific challenges, and firm size differences. Most studies has used have used the type of linear models without considering potential nonlinear relationships and ignoring the optimal working capital limit. This have hugely gap is particularly relevant for Nepal where manufacturing firms vary widely in size, capital structure and oalso perational efficiency. Therefore there is a great necessity for a focused empirical study that addresses for these important factors and provide practical guidance for managers and investors on how to optimize working capital to enhance EPS.

CHAPTER III
RESEARCH METHODOLOGY

The research methodology consists of the study concept, population and sample, data type and their nature, techniques of data processing and conclusions. Research methodology simply means the planning and design and presentation of research data and their conclusions.

1. Research Design

The research design defines the overall strategy and framework for investigating the impact caused by WCM on the EPS. This study uses a descriptive analysis, correlation analysis and regression analysis research design which enables the researcher to analyze the patterns and trends and relationships between variables over time.

The study uses financial and statistical techniques such as correlation analysis and regression models to show how the components of working capital such as current ratio, quick ratio, inventory turnover, accounts receivable and accounts payable affect the EPS. The study aims to provide a basis for detailed understanding of whether how and what influence of WCM practices has on profitability and shareholder value in Nepalese manufacturing firms by adopting this technique.

2. Population and Sample and Sampling Design

13 manufacturing companies listed on the Nepal Stock Exchange (NEPSE) is the population for this study. Out of those 13, only 8 companies have been selected as samples from the financial year 2070/71 to 2081/82 due to the unavailability of secondary data. The eight manufacturing companies are selected based on data availability and accessibility using a convenience sampling technique. The sample companies are given below:

I. Uniliver Nepal Limited
II. Bottlers Nepal (Balaju) Limited
III. Bottlers Nepal (Terai) Limited
IV. Himalayan Distillery Limited

V. Nepal Lube Oil Limited
VI. Shivam Cement Limited
VII. Sarbottam Cement Limited
VIII. Ghorahi Cement Limited

The data consists of closing working capital, EPS and other performance indicators at the end of each financial year from 2070/71 to 2081/82. This study has use convenience sampling due to the limited number of listed manufacturing firms and the accessibility of complete financial records.

3. Nature and Sources of Data and Instruments of Data Collection

This study is based on secondary data which has been obtained from the published financial statements and annual reports of the companies. The financial and operational data for the selected companies were collected from the fiscal years 2070/71 to 2081/82 from the company websites, annual reports and other verified online sources. These secondary sources provide a reliable basis for analyzing trends in working capital management and its impact on EPS over the time.

Secondary data has been collected from the websites and published annual reports of the selected companies. The data have been collected from multiple sources and hence the data have been carefully evaluated, edited and tabulated for consistency. The processing ensured that all financial figures were an comparable amongst the companies and years. The data they were transformed into formats suitable for statistical analysis using Microsoft Excel and regression modeling.

4. Methods of Analysis

The study uses both the financial and statistical techniques to examine the impact of relationship between WCM components and EPS The study has used Microsoft Excel and other statistical tools to perform the analyses. Three primary techniques which were applied are given below:

i. **Descriptive Analysis**

Descriptive analysis is the statistical method used to summarize and organize data. It provide an overview of the main features of the dataset. This study has used mean and standard deviation to describe the central tendency and dispersion of variables.

Mean ($\overline{X}$)

The mean represents the average value of a dataset and is calculated using the formula:

$$\overline{X} = \frac{\sum X}{n}$$

where,

X= each observation

n= total number of observation

Standard Deviation (SD)

The standard deviation measures the extent to which individual values deviate from the mean, reflecting data variability, and is calculated as:

$$SD = \sqrt{\frac{\sum(X - \overline{X})^2}{n - 1}}$$

ii. **Correlation Analysis**

Correlation analysis is a statistical method used to examine the strength and direction of the relationship between two or more variables. It is used to assess the linear association between WCM variables such as current ratio, quick ratio, inventory turnover accounts receivable accounts payable and EPS.

The correlation coefficient (r) ranges from -1 to +1.

r = +1 indicates a perfect positive relationship

r = -1 indicates a perfect negative relationship

r = 0 indicates no linear relationship

A correlation closer to ±1 implies a stronger relationship while a value near 0 indicates a weak or negligible relationship.

The formula for correlation analysis is:

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

n= number of years

Σ X= sum of series X

Σ Y= sum of series Y

Σ XY= sum of product X and Y variable

$\Sigma (X)^2$= sum of square of series X

$\Sigma (Y)^2$ = sum of square of series Y

iii. **Regression Analysis**

Regression analysis is a statistical technique used to examine the relationship between a dependent variable and one or more independent variables. It helps to determine how the changes in independent variables influence the dependent variable. In this study, the dependent variable is EPS, and the independent variables include current ratio, quick ratio, inventory turnover, accounts receivable period and accounts payable period.

The general form of the regression model used in this study is as given:

$$Y = \beta 0 + \beta 1 CR + \beta 2 QR + \beta 3 IT + \beta 4 ARP + \beta 5 APP + e.$$

where:

Y = Dependent variable (EPS)

β0 = Constant term

β1, β2, β3, β4, β5 = Coefficient of variables

CR = Current Ration

QR = Quick Ratio

IT = Inventory Turnover Ratio

ARP = Average Receivable Period

APP = Average Payment Period

e = Error term

This model helps in determining the statistical significance and the level of impact of each WCM component on EPS.

5. Research Framework and Definition of Variables

i. Research Framework

The conceptual framework illustrate the relationship between Working Capital Management (WCM) and Earnings Per Share (EPS). The independent variables are the key components of working capital and the dependent variable is EPS. EPS is used to measure the company's profitability and shareholder return.

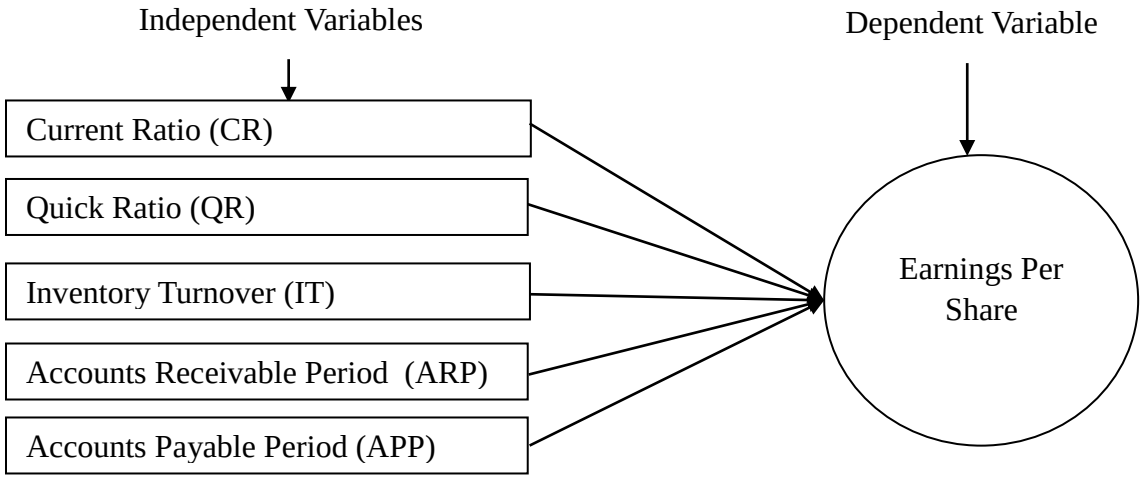

Figure 1 Research Framework

Source: Bagh, Nazir, Khan, Khan, & Razzaq (2016)

ii. Definition of Variables

a. Dependent Variable

Earnings Per Share (EPS)

EPS represents the portion of a company's profit which is allocated to each outstanding share which are being hold by the shareholders. It is a key indicator of profitability and shareholder value.

$$EPS = \frac{Net\ Profit\ After\ Tax}{Number\ of\ Outstanding\ Shares}$$

In this study EPS has been used as the dependent variable to measure how working capital management practices influence profitability and returns to shareholders.

b. Independent Variables (WCM Components)

Current Ratio (CR)

Current ratio measures a company's ability to meet its short-term obligations using its current assets. In other words, Current ratio is the difference between current assets and current liabilities.

$$CR = \frac{Current\ Assets}{Current\ Liabilities}$$

CR evaluates the liquidity position and financial health of a company. A higher CR indicates better short-term solvency which may positively impact EPS.

Quick Ratio (QR)

Quick ratio also known as the acid-test ratio measures a company's ability to pay short-term obligations without relying on inventory.

$$QR = \frac{Current\ Assets - Inventory}{Current\ Liabilities}$$

QR provides a stricter measure of liquidity and short-term financial efficiency which may affect profitability and EPS.

Inventory Turnover (IT)

Inventory turnover measures how efficiently a firm manages its inventory meaning how many times inventory is sold and replaced over a period.

$$IT = \frac{Cost\ of\ Goods\ Sold}{Average\ Inventory}$$

IT indicates operational efficiency. Higher turnover reduces holding costs and may improve EPS.

Accounts Receivable Period (ARP)

ARP measures the average number of days it takes a firm to collect payments from its customers.

$$ARP = \frac{Accounts\ Receivable}{Net\ Credit\ Sales} * 365$$

A shorter collection period improves cash flow and liquidity potentially increasing EPS.

Accounts Payable Period (APP)

APP measures the average number of days a firm takes to pay its suppliers.

$$APP = \frac{Accounts\ Payable}{Cost\ of\ Goods\ Sold} * 365$$

A longer APP may improve liquidity by retaining cash longer but the excessive delays may harm supplier relationships. Its management can influence overall profitability and EPS.

CHAPTER-IV
RESULTS AND DISCUSSION

This chapter discusses the empirical results which are obtained from the analysis of secondary data collected from eight manufacturing companies which are listed on the Nepal Stock Exchange for a period of twelve years. The objective of this chapter is to analyze the impact of working capital management variables such as Current Ratio (CR), Quick Ratio (QR), Inventory Turnover (IT), Average Collection Period (ARP) and Average Payment Period (APP) on the Earnings per Share (EPS) of the selected companies. The results that are obtained from calculations are organized and presented using descriptive statistics, correlation analysis and regression analysis. Each section provides a detailed examination of the data and interpretation of the findings in connection to the objectives of this study. The chapter also aims to offer a clear understanding of the statistical patterns and effects observed in the dataset which forms the basis for the discussion section.

1. Descriptive Analysis

Descriptive statistics is basically understanding of the distribution and characteristics of the study variables. This section summarizes the central tendency and dispersion of both the dependent variable Earnings per Share and the independent variables Current Ratio, Quick Ratio, Inventory Turnover, Average Receivable Period and Average Payment Period. The analysis is based on 96 observations obtained from eight manufacturing companies for over twelve financial year. The mean value represent the average performance of each variable during the study period and the standard deviation indicate to how much extent the variables vary from the mean. The minimum and maximum value explain the range of fluctuation in the variables. The above descriptive measures provide an important basis for the correlation and regression analysis.

Table 2

Descriptive Statistics of Study Variables

Variables	Mean	Standard Deviation	Minimum	Maximum
EPS	233.69	416.29	-32	2144
CR	1.71	1.93	0.58	11.49
QR	1.16	1.72	0.24	9.84
IT	1.70	1.84	0.16	7.20
ARP	46.82	49.94	0.02	197.42
APP	37.81	39.93	0.03	131.73

Table 2 represents the descriptive statistics of the selected 8 manufacturing companies for over the twelve financial year period. The mean of the Earnings per Share is 233.69. This indicate that the companies earned Rs. 233.69 per share on an average. The minimum EPS is -32. This shows that at least one company experienced a loss. The maximum EPS is 2144. This reflects that another company achieved a very high profit per share. The standard deviation of 416.29. This shows a high variability in profitability among the sample companies..

The mean of the Current Ratio is 1.71. This means that on an average companies held 1. 71 times more current assets than current liabilities. This tells us that companies maintained a good liquidity. The minimum CR is 0.58. This indicates that one company had insufficient current assets to meet short-term liabilities. The maximum CR is 11.49. This suggests that another company had a very high liquidity position. The standard deviation is 1.93. This shows moderate variation in liquidity among the firms.

The average of the Quick Ratio is of 1.16. This shows that companies could meet short-term obligations without relying on inventory on an average. The minimum value is 0.24 which shows that one company was significantly less liquid. The maximum value is 9.84. This indicates extremely high liquidity in another company. The standard deviation is 1.72. This reflects the wide variability range in immediate liquidity across the companies.

The mean of the Inventory Turnover is 1.7 times. This indicating that companies sold and replaced their inventory about 1.7 times per year on an average. The minimum

turnover is 0.16. This suggest that there is a slower inventory movement in some companies. And the maximum value of 7.20 indicate highly efficient inventory management in other companies The standard deviation is 1.84 . This highlights that there is a moderate difference in handling the inventory efficiently.

The average of the Average Receivable Period is 46.82 days. This means that the companies take approximately 47 days to collect receivables on an average. The minimum value is 0.02 day. This show that some companies collected the receivables very quickly whereas the maximum of 197.42 day indicate that some companies are much slower in collection period of receivables. The standard deviation is 49.94 days. This shows that the receivable management practices vary significantly among the selected companies.

The mean of the Average Payment Period is 37.81 days. This tells us that companies take about 38 days to pay their suppliers on an average. The minimum value is 0.03 days. This shows that at least one company paid almost all payables immediately and the maximum value is 131.73 days indicating that some companies delayed payments for over four months. The standard deviation is 39.93 days. This shows that there is a considerable variation in payment practices among the sample companies.

2. Correlation Analysis

The correlation analysis is done to examines the linear relationships between working capital management variables and company's EPS of the the selected manufacturing companies over the twelve financial year period. This analysis provides insights into how liquidity, inventory management and receivables/payables practices are associated with earnings per share. The correlation analysis helps to understand which components of working capital management are most closely related to company's EPS by studying the direction and strength of their relationships. Correlation analysis is a quantitative statistical tool which helps us to study the establishment of the relationship and influence among the dependent and independent variables.

Table 3

Correlation Statistics of Study Variables

	EPS	CR	QR	IT	ARP	APP
EPS	1					
CR	0.02 (0.84)	1				
QR	0.041 (0.69)	0.933 (1.6)	1			
IT	0.118 (0.25)	0.064 (0.53)	0.097 (0.34)	1		
ARP	-0.062 (0.54)	0.265 (0.009)	0.272 (0.007)	0.215 (0.03)	1	
APP	0.238 (0.01)	-0.159 (0.12)	-0.146 (0.155)	0.282 (0.005)	0.547 (8.1)	1

Table 2 shows the correlation analysis conducted between the variables and it shows how the different variables/components of working capital are related to earnings per share of manufacturing companies in Nepal. In the above result the Current Ratio has a very weak positive relationship with EPS which is proved by the value of r = 0.02. The relationship is not statistically significant again proved by the value of p = 0.84. This means that the company's ability to meet short-term liabilities does not have a significant effect on EPS. Similarly the Quick Ratio also show a very weak positive correlation with EPS which is proved by the value of r = 0.041 and is statistically insignificant again proved by the value p = 0.69 indicating that immediate liquidity does not influence on EPS.

The correlation between Inventory Turnover and EPS is weak but positive which is proved by the value of r = 0.118. But the relationship is not significant since the value of p = 0.25. This tells us that the speed of inventory movement does not have strong impact on EPS. The Average Receivable Period shows a weak negative relationship with EPS as shown by the value of r = −0.062 and is also not statistically significant since the value of p = 0.54. This means that delay in collecting the receivable amounts from the customers reduce the EPS but also the effect is very small.

However, the Average Payment Period shows a positive and statistically significant relationship with EPS since the values of r = 0.238 and p = 0.01. This indicates that companies who take longer time to pay their payables and creditors or suppliers tend to report higher earning per share. This may be because the delay in payments help company to maintain cash for daily operation or investments. Among all the working capital variables calculated above only APP shows a significant impact on EPS which suggests that it plays an important role in influencing EPS of a company.

3. Regression Analysis

The regression analysis is conducted to examine the effect of working capital management practices on the EPS of manufacturing companies in Nepal. This analysis investigates how key components of WCM that are Current Ratio, Quick Ratio, Inventory Turnover, Average Receivable Period and Average Payment Period influence the EPS of the company. The study is focused on identifying what type of practice contribute significantly to enhance the EPS of a company by establishing the relationship between EPS and the WCM variables. This analysis also provides insights into effective financial management strategies within the Nepalese manufacturing sector.

Table 4

Summary Output

Regression Statistics	
Multiple R	0.408
R Square	0.166
Adjusted R Square	0.120
Standard Error	390.554
Observations	96

Table 4 is the regression model output which shows a Multiple R value of 0.408. This indicates that there exists a moderate relationship between the working capital management variables and earnings per share. The R Square value is 0.166 which means that approximately 16.6 percent of the variation in EPS is explained by the selected working capital variables.

A relatively low R^2 value of 0.166 is common in studies that involve financial performance indicators such as EPS, especially when the dependent variable is influenced by many external and uncontrollable factors. Earnings per share is affected by market conditions, macroeconomic stability, interest rates, management decisions, investment policies, industry-wide shocks and firm-specific events such as restructuring or extraordinary gains/losses. Working capital indicators alone CR, QR, IT, ARP and APP capture only the short-term liquidity side of a firm's operations. EPS is shaped by a much wider set of financial and non-financial variables that's why it is expected that these five variables explain only a portion of its variation. Therefore, an R square of 0.166 does not indicate a weak study; rather, it reflects the complex and multidimensional nature of EPS.

Many previous studies on working capital management and firm performance have also reported low R^2 values, especially when analyzing cross-sectional or pooled data. Research conducted by Gill et al. (2010), and studies in Nepal by Sharma (2018) and Adhikari (2021) found that liquidity and working capital indicators explain only a moderate or small portion of firm performance. This support the idea that working capital management is just one component of financial management. Although the low R^2 value ARP and APP still show significant relationship with EPS. This confirms that these factors do matter even if they do not explain the entire output systematically. Thus, the low R^2 is not a limitation of the research but it is a realistic outcome which is consistent with empirical findings in this study.

The Adjusted R square is 0.120 which indicate that about 12 percent of changes in EPS is explained by by the model. The value R Square only shows by how much percent of change is explained by the model.

The standard error is 390.554. This represents the average distance between the actual EPS value and the predicted EPS values from the regression model. A lower standard error would have indicated a better model fit but this value only gives a moderate level of prediction accuracy. The model is based on 96 observations. This provides the adequate sample size for statistical analysis and support the reliability of the result.

The model attempts to show that working capital management variables have some influence on EPS. However, it is evident that the factors outside the scope of this study is the main reason behind the large variation in the EPS.

Table 5

ANOVA Table

	df	SS	MS	F	Significance F
Regression	5	2735414.51	547082.90	3.59	0.01
Residual	90	13727895.32	152532.17		
Total	95	16463309.83			

Table 5 shows the ANOVA result that indicate that the overall regression model is statistically significant. The model has 5 degrees of freedom for regression and 90 degrees of freedom for residuals. The calculated F-value is 3.59 with a significance value of 0.01 which is less than the 5 percent level of significance. This means that all independent variables taken together have a significant effect on earnings per share (EPS). Therefore, the regression model is appropriate and reliable for explaining the relationship between working capital management variables and EPS.

The regression sum of squares is 2,735,414.51, showing the variation in EPS explained by the model, while the residual sum of squares is 13,727,895.32, representing the unexplained variation. The mean square of residuals is 152,532.17, which reflects the average prediction error of the model.

The overall result confirms that working capital management variables when considered together have significant influence on EPS even though each variable may not show a strong individual effect.

Table 6

Coefficient Table

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	240.518	109.564	2.195	0.031	22.850	458.187	22.850	458.187
CR	-244.390	177.910	-1.374	0.173	-597.839	109.060	-597.839	109.060
QR	322.439	199.651	1.615	0.110	-74.202	719.080	-74.202	719.080
IT	3.296	23.630	0.139	0.889	-43.650	50.241	-43.650	50.241
ARP	-3.150	1.060	-2.974	0.004	-5.255	-1.046	-5.255	-1.046
APP	4.751	1.326	3.582	0.001	2.116	7.386	2.116	7.386

Table 6 presents Beta Coefficient of CR is -244.390 i.e. negative and P-value is 0.173 which is greater than 0.05 i.e. insignificant. It indicates that there is insignificant negative impact of CR on EPS.

Similarly, Beta Coefficient of QR is 322.439 i.e. positive and P-value is 0.110 which is greater than 0.05 i.e. insignificant. It indicates that there is insignificant positive impact of QR on EPS.

Likewise, Beta Coefficient of IT is 3.296 i.e. positive and P-value is 0.889 which is greater than 0.05 i.e. insignificant. It indicates that there is insignificant positive impact of IT on EPS.

The Beta Coefficient of ARP is -3.150 i.e. negative and P-value is 0.004 which is less than 0.05 i.e. significant. It indicates that there is significant negative impact of IT on EPS. This indicates that longer collection periods reduce earnings per share, meaning that firms collecting receivables more slowly tend to earn lower profits. And, the Beta Beta Coefficient of APP is 4.751 i.e. positive and P-value is 0.001 which is less than 0.05 i.e. significant. It indicates that there is significant positive impact of APP on EPS. This result suggests that companies that delay their payments to suppliers tend to generate higher earnings per share, possibly because of better cash availability for operational use or investment. Among all variables, ARP and APP are the only factors that significantly impact EPS, while CR, QR, and IT do not show significant impact.

Table 7

Hypothesis Testing Summary

Variable	Expected Relationship	Result
CR → EPS	Positive	Rejected (p = 0.173)
QR → EPS	Positive	Rejected (p = 0.110)
IT → EPS	Positive	Rejected (p = 0.889)
ARP → EPS	Negative	Accepted (p = 0.004)
APP → EPS	Positive	Accepted (p = 0.001)

The regression analysis confirms that working capital management has a significant combined effect on EPS, as supported by the ANOVA results (p = 0.01). However, only Average Receivable Period and Average Payment Period show significant individual influence on profitability. Efficient management of receivables and payables therefore appears to be more important for improving EPS than maintaining liquidity ratios or inventory turnover.

4. Discussion

The results of this study shows that working capital management has a limited but meaningful impact on the earnings per share (EPS) of manufacturing companies listed on NEPSE. Among the tested five variables only Accounts Receivable Period (ARP) and Accounts Payable Period (APP) showed significant relationships with firm performance. ARP had a negative effect, indicating that longer collection periods reduce EPS, while APP had a positive effect, indicating that delay in the payments helps to improve earnings. Other variables Current Ratio (CR), Quick Ratio (QR), and Inventory Turnover (IT) were not statistically significant, implying that liquidity and inventory efficiency do not affect EPS strongly in the short term. The regression model's R Square of 0.166, although low, indicate that EPS is influenced by many external and internal factors beyond working capital.

The finding of this study partially agree with the conclusions drawn by Bagh (2016) in Pakistan. Their study also reported that components of working capital have mixed effects on firm performance. They also found out that ARP had a negative relationship with profitability which supported the idea that inefficiency in collection

of receivables reduces a company's earnings. Similarly, APP showed a positive association with financial performance which consistent with the result of this study. This confirms that extended payment periods can improve liquidity and profitability. However, unlike their findings, the liquidity ratios (CR and QR) in this research were not significant suggesting that Nepalese firms may manage liquidity differently or operate under different financial difficulties. Their stronger and significant results compared to the present study may be due to several factors. One possible reason might be the use of a larger sample size which enabled them to capture more variation across firm. A longer study period might be another reason which allowed better observation of long-term relationships. Also, differences in the industrial structure and economic environment may also influence the results. These factors put all together explains why their model show more significant results than the findings of this study.

Stavropoulos & Zounta (2025) concluded that reducing collection periods improves firm profitability. It directly supports the negative relationship found between ARP and EPS in this study. Both the studies highlight that efficient receivable management contributes to better earning. However, Gill also observed that inventory conversion had a significant effect on profitability but in our study IT was not found significant. This difference has could be due to the scale and technological advancement of the companies because manufacturing companies in developed markets may rely more on inventory optimization compared to those in Nepal. Despite these differences, both studies emphasize the importance of managing short-term assets to strengthen financial performance.

Tobazaa & Gatsi (2025) reported that liquidity indicators such as CR and QR have a mixed or insignificant effect on firm performance which is consistent with our results. Both studies indicate that maintaining very high liquidity does not necessarily improve profitability. Specially in manufacturing firms that require steady reinvestment in production activities. However, they found inventory turnover to be more influential than what have appeared in our findings. This variation may be due to different cost structures and production cycles the across industries. Howerve, the

overall implication is similar firms should not rely swholly on liquidity ratios to predict financial outcomes.

Kukeli, Widner, Deari, Sargsyan & Barbuta Misu (2025) in their study on Thai firms found a negative relationship between ARP and profitability which strongly agrees with the findings of this research. Their study further noted that a decrease in the cash conversion cycle significantly improves earnings. While our study only examined five working capital components without calculating the full cash conversion cycle, the negative effect of ARP supports their argument that efficient credit management is essential for firm performance. The similarity of results across different countries Thailand and Nepal highlights that receivable management is a universal factor affecting profitability regardless of economic size.

Marasini, N. (2024), who studied Nepalese manufacturing and trading firms, found that ARP and APP significantly influence profitability, closely matching the findings of the current research. His study similarly reported that liquidity ratios were not strong predictors of firm performance. This result suggests that Nepalese firms rely heavily on credit policies and supplier relationships rather than liquidity reserves to manage day-to-day operations. The consistency between both studies assures the idea that efficient handling of receivables and payables has a greater impact on profitability in Nepal's manufacturing sector than traditional liquidity indicators. Overall, our findings complement existing Nepalese research and provide further evidence that working capital decisions play an important but partial role in determining firm earnings.

CHAPTER V
SUMMARY AND CONCLUSIONS

1. Summary

This study examined the relationship between working capital management and earnings per share (EPS) of the selected manufacturing companies which are listed on the NEPSE. The data are taken for twelve-year financial period. The working capital variables includes Current Ratio, Quick Ratio, Inventory Turnover, Average Receivable Period and Average Payment Period (APP). The data in this study has been analyzed using descriptive statistics, correlation analysis, and regression techniques to identify relationship and impact of WCM on EPS performance.

The descriptive analysis in this study proved that there exists a noticeable difference in the liquidity levels, the operating efficiency ratios and the EPS among the sampled companies. Correlation analysis revealed that most of the components of working capital had a weak and statistically insignificant relationship with EPS. CR, QR. IT did not show any meaningful impact which indicate that holding higher liquidity or achieving faster inventory turnover does not necessarily give a positive impact into the shareholder earnings. However, APP showed a positive and significant correlation which indicated that payment management policy can play an ever more important role in profitability.

The Regression analysis also further supported the findings of this study. The overall model was statistically significant which indicated that working capital management collectively affects EPS. However, as per the the individual results ARP had a significant negative effect on EPS while APP had a significant positive effect on EPS. Longer collection periods reduce profitability and longer payment periods enhance earnings by improving available cash flow. CR, QR, and IT remained statistically insignificant in relation to their effects on EPS.

The overall findings indicate that the most critical components of WCM are receivables and payables management rather than liquidity or inventory efficiency. Firms which are able to manage cash inflows and outflows carefully are more likely

to improve earnings performance than those focusing only on maintaining high current assets or inventory turnover.

2. Conclusion

From the results calculated above, it can be concluded that working capital management has a combined impact on the earnings per share of manufacturing companies in Nepal. However, not all elements of working capital contribute equally to profitability. The study revealed that the liquidity ratios such as CR and QR do not have any significant impact on EPS which proves that holding excess liquid assets does not automatically result in higher profit.

Similarly, Inventory Turnover also does not have significant effect on the EPS. This shows that the faster movement of stock only is not sufficient to improve the EPS. The rise in EPS is also dependent on the efficient receivables collection and payment strategies. In Nepal, manufacturing companies often rely on longer production cycles because of which they face delay in the market which limit the impact of inventory control on the EPS.

However, Average Receivable Period and Average Payment Period proved to be the most influential factors affecting EPS. When the collection from customers is slow it reduces profitability by reducing cash availability this automatically increases financial risk. On the other hand, the companies that manage to delay payments without damaging supplier relationships can benefit from a good liquidity status. Liquidity can be used for operations and growth activities.

Therefore, for the conclusion we can say that the that improved profitability in the Nepalese manufacturing companies depends less on maintaining high liquidity ratios and more on effective credit management and strategic payment policies. The companies which tries to shorten collection period and manage payables wisely are likely to generate better earnings for their shareholders.

3. Implications

The findings of this study lays out many important implications for managers, investors and policymakers. The result of this study highlights that it is necessary to

focus on receivables management rather than only maintaining high liquidity levels for better management of company and to earn better EPS. When the average time taken to collects the payments is reduced, it will help in improving the stability of cash flow and ultimately profitability also improves. The companies should try to strengthen their credit policies. They should also focus to improve customer screening and adopt active follow-up systems to ensure timely collections.

The positive impact of the Average Payment Period on the EPS suggests that companies can benefit by adopting favorable credit policy with the suppliers. The companies should make scheduled and timely and delayed payments without unnecessary early settlements. However, this strategy should be applied carefully to maintain their trust with suppliers and avoid penalties or supply disruptions. The companies should be aware that a balanced payment management support cash retention and helps in preserving long-term business relationships.

Although CR, QR, and IT were not found to significantly influence EPS, these variables should not be ignored. The companies should still maintain an adequate level of liquidity to meet operational and that needs and unexpected expenses but avoid holding excessive idle assets. The companies should be aware that effective inventory monitoring is also equally essential to control costs. It helps to minimize waste and avoid any shortages in stock even if inventory turnover alone does not drive the growth in EPS.

Also, when seen from the perspective of an investor the results of this study suggest that investors should pay close attention to the companies credit collection efficiency and payment management practices. They should be kept in mind while evaluating profitability potential. Policymakers and financial institutions may also use these findings to develop financial training programs and credit support initiatives which in return help companies to improve cash flow and help to draw a better working capital strategies which will ultimately contribute to a better financial position of the companies in Nepalese manufacturing sector.

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