CHAPTER - I

INTRODUCTION

1.1 Background of the study

Development of trade, commerce and industry are the prime requisite for the attainment of the economic, political and social goals. To fulfill the purpose of planning, financial functions more often dominates the other functions. There is always lack of finance in underdevelopment economy because natural resource are either underutilized or unutilized in productive sectors or even other purposes i.e.; social welfare and so on. Likewise, underdeveloped countries are not deficient in land, eater, mineral, forest or power resources, thought they may be untapped; constituting only potential resources. And in the underdevelopment countries like Nepal there is always lack of financial resources not only because of its real absence but because of the available resource are not properly mobilized and are not fully utilized for the productive purpose.

So, for the rapid economic development in the underdevelopment countries like Nepal there should be proper utilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized. Hoarding could be one of the reasons for this. So, financial institutions pay a vital role of encourages thrift and discourage hoardings by mobilizing the resources and removing the habits of hoarding. They pursue rapid economic growth, development the banking habit among the people, collecting the small-scattered resources in one bulk and utilizing them in further productive purposes and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow funds against future income, which may improve the economic well begin of the borrower. In this course the banks play the most important role in modern economic

organization. Their business mainly consists of receiving deposits, giving loans and financing the trade of a country. They provide short-terms credit i.e. lend money for short periods.

Bank is the main financial institution, which plays an important role in the economic development of the nation. It is the backbone as well as the foundation for the development of the country. Its principal operations are concerned with the accumulation on the temporary idle money of the public for advancing others for expenditures. In other words, Bank is an institution that deals in money and its substitutes and provides other financial services. Banks accept deposit and make loans and derive a profit from the difference in the interest rates paid and changed, respectively. Depositors may be either individual or institutions. These deposits may be current, saving or fixed and the tenure depends upon the mutual agreements between the bank may be either an individual or institutions. The tenure of the loan may vary as per the demand, criteria and the usefulness of the loan. Some banks also have the power to create money.

The principal types of banking in the modern industrial world are commercial banking and central banking. A commercial banker is a dealer in money and in substitutes for money, such as checks or bills of exchange. The banker also provides a variety of other financial services. The basis of the banking business is borrowing from individuals, firms, and occasionally i.e., receiving “deposits” from them. With these resources and also with the bank’s own capital, the banker makes loans or extends credit and also invests in securities. The banker makes profile by borrowing at one rate of interest and lending at a higher rate and by charging commissions for services rendered. Commercial banks are the major financial institutions that occupy quite an important place in the framework in the economy development sectors as well as in saving and investment sectors. Commercial banks are suppliers of finance for trade and industry and play a vital role in the economic and financial life of the country.

They also provide an opportunity in the development of individual industries, trade and business organization by investing savings and collected deposits. By investing the saving and collected deposits in the productive sectors, they help in the formation of capital. Besides they also render numerous services to its customers in a view of providing facilities to theirs economic and social life in the community.

A bank must always have cash balances on hand order to pay its depositors upon demand or when the amounts credited to them due. It must also keep a proportion of its assets in forms that can readily be converted into cash. Only in this way the confidence in the banking system can be maintained. Working Capital in the lifeblood of the organization. To sustain the belief of the people & customer, the organization should always get ready to meet the obligations.

Working capital management is the crucial aspect of the financial management. It is the Life-blood and controlling nerve center for any types or business organization because without the proper control upon it no business can run smoothly. The management of current assets and current liabilities is necessary for daily operations of any organizations. Thus, it plays the vital role in the success and failure of the organizations as it deal with the part of assets, which are transformed from one form to another form during the course of manufacturing cycle. Therefore, the role of working capital management is more significant for every business organization irrespective to their nature.

Working Capital Management refers to the administration of all aspects of current assets, namely cash, marketable securities, stock and current liabilities. It is the functional area of finance that covers all the current accounts of the firm. It is concerned with the adequacy of current assets as well as the level of risk posed by current liabilities. It is a discipline that seeks proper policies for managing current assets liabilities and practical for maximizing the benefits from managing working capital.

1.1.1 History of Banks in Nepal

Talking about the history of bank, an institutional banking system came into existence in Nepal only in the 19th century. Nepal Bank Limited was the first financial institutional of Nepal established on the 30th of Kartik 1994. Being a commercial bank, it focuses on income generating and profit maximization. As it was only one commercial bank, it has to look the economic condition of country. Only one Nepal Bank Limited was not sufficient to look all the sector of country. So in 2013 B.S. another bank named "Nepal Rastra Bank" was established as the central bank. Similarly the 2nd commercial bank Rastriya Banijya Bank was established as the second commercial bank of Nepal in Magh 10, 2022 B.S., under Rastriya Banijya Bank Act 2021. This act is now revised as Commercial Bank Act 2031. B.S. "Accepting deposits, granting loan and performing commercial banking functions are the main motto of commercial bank" (Commercial Bank Act, 2031**)**. For the development of industry, commerce and trade, Nepal Industrial Development Corporation was established under Industrial Development Corporation Act 2016. For the development of agricultural section, Agricultural Development Bank was established on Magh 7th 2024 B.S., under the Agricultural Bank Act 2024 B.S.

The government of Nepal observed the necessities of rapid development of the country for which it has adopted "liberalized economic policy, laissez fair economy and encouraged foreign investment". "The government formed Foreign Investment & Technology Act 1981 A.D. which was later revised as Act 1992 A.D. by new elected democratic government"(Foreign Investment and Technology Act, 1992). The joint venture bank was introduced in Nepal in 2041 B.S. with the establishment of "Nepal Arab Bank Limited". It was established with joint venture of U.A.E bank, financial institution of Nepal.

The second joint venture bank, Nepal Indosuez Bank Limited was established in 6th Magh 2042 B.S. Similarly, others joint venture banks like, Nepal Grindlays Bank Limited on 16th Marg 2043, Himalayan Bank Limited on 2049

B.S., Nepal State Bank of India Limited on 2050 B.S., Nepal Bangladesh Bank Limited on 2051 B.S., Everest Bank Limited on 2051 B.S., Bank of Kathmandu on 2052 B.S. and Nepal Bank of Celon Limited on 2052 B.S. have been established. Till now other commercial banks have been also established.

Among them majority of banks are established in joint venture banks. "A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation industrial or commercial investment, production or trade." *(Gupta, 1984: 15)*

Joint venture banks play an important role for economic development of nation. They have been adopted new banking technique, management like, hypothecation, syndication lending polices, tale banking credit card, master card from international banking technique. They render various services to their customers in order to facilitate their economic and social life. Joint venture banks are operating in Nepal in an act as commercial banks are operating and performing their work under the direction of Nepal Rastra Bank. Nowadays, there are many joint venture banks and other financial institutions, but there are little opportunities to make fair investment. Meanwhile, the banks and financial institutions are offering very low deposit and credit interest rate. So to survive in the competitive banking market, one should follow the fundamental principles of sound investment policy with minimum risk and maximum profit.

At present, about a dozen of the joint venture banks are operating in Nepal and are playing important role in the economic development of the country.

1.1.2 Introduction of Selected Banks

NABIL Bank Limited

The arrival of Nabil Bank in Nepal on the 12th of July 1984 through a joint venture with Dubai Bank Ltd. under a Technical Service Agreement (TSA),

marks a new dawn in the Nepalese banking industry. What is more admirable is with the opening of then Nepal Arab Bank Ltd, Customer Service or marketing took a U-turn. That in substance accelerated the evolution in banking products and services thereafter in Nepal. The bank commenced with a team of about 50 staff members and Rs. 28 million as capital. From the very inception in 1984 as the first joint venture bank to commence operations in Nepal, NABIL has been a leader in terms of bringing the very best international standard banking practices, products and services to the nation.

Today the bank's mission is to be the Bank of 1st Choice to all stakeholders. For the customers, the bank craves to be the first choice in meeting all financial requirements, for shareholders the bank wants to be the investment of choice, for Regulators to be an example of a model bank, and wants to be an outstanding corporate citizen in all the Communities and finally to be the first choice as an employer with whom to build a career.

Today Nabil Bank is a leader in the financial sector in Nepal with a network that has 26 points of representation spread across the nation; complimented by a network of ATMs and now Nabil Net and Nabil Tele the ease of access of accounts and information for our customers has never been more convenient. NABIL is a full service bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and MasterCard denominated in rupees and dollars, Visa Electron debit cards, Personal Lending products for Auto, Home and Personal loans, Trade Finance products, Treasury services and Corporate Financing. NABIL aims to be able to meet entire gamut of financial requirements that is why the banks prides itself in being 'Your Bank at Your Service'.

Himalayan Bank Limited

The bank was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and

Habib Bank Limited, one of the largest commercial Banks of Pakistan. Banking operation was commenced from January 1993. Himalayan Bank is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the Bank also offers industrial and merchant banking services.

Himalayan Bank has a total network of 17 branches across the Country and a counter in the premises of the Royal Palace. There are six branches in Kathmandu Valley at the following locations: Thamel, New Road, Maharajgunj, Pulchowk (Patan), Suryavinayak (moved from Nagarkot) and Card Center in Pulchowk. In addition, the bank also has ten branches outside Kathmandu Valley in Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairahawa, Biratnagar, Pokhara, Dharan and Butwal. The Bank is aggressively opening new branches at different parts of the Kingdom to serve its customers better.

Himalayan Bank is always committed to providing a quality service, with a personal touch, to its valued customers. All customers are regarded as valued clients and treated with utmost courtesy. The Bank, wherever possible, offers tailored facilities to its clients, to meet unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank has adopted the latest banking technology and runs the world class banking software Globus on IBM platform. The Bank can now boast of its state-of-the-art IT infrastructure with an identical Disaster Recovery System, offsite. This has not only helped the Bank to constantly improve its service level but has also prepared the Bank for future adaptation to new technology. The Bank already offers unique services such as Himal Remit, SMS Banking, Pre-paid Credit Cards and Internet Banking to customers and will be introducing more services like these in the near future.

Nepal SBI Bank Limited

Nepal SBI Bank Ltd. (SBI) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/l.Pa./7/2049/50.

NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 256. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized and Issued Capitals have been increased to Rs. 100 Crores and Rs. 87.45 Crores, respectively. The local promoters are Employees Provident Fund and Agricultural Development Bank/Nepal. The management team and the Managing Director who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agreement. Fifty percent of the total share capital of the Bank is held by the State Bank of India, fifteen percent is held by the Employees Provident Fund, five percent is held by the Agricultural Development Bank Nepal and thirty percent is held by the general public.

Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997.

Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations. And established itself as a leading Private Sector Bank. EBL is ranked as No. 2 bank by NRB as per CAELS.

Despite fragile law and order situation especially during last 3-4 years, the Bank has recorded spectacular performance. As per audited accounts of FY 2004/2005, the Bank's operating profit was Rs. 375.20 million registering a growth of 18.9 % over the previous year. The Bank's credit recorded a growth of nearly 30 % over the last year reaching a figure of Rs 7900.09 million. Similarly, the total deposits of the Bank posted a growth of 25.22 % amounting to Rs 10097.69 million over the preceding year.

The bank is providing its services through a wide network of 23 branches across the nation and over 250 correspondents across the globe. All the major branches of the bank are connected through Anywhere Branch Banking System (ABBS), a facility which enables a customer to do banking transactions from any of the branches irrespective of their having accounts in other branch.

The Bank in association with Smart Choice Technology (SCT) is providing ATM services for its customers. EBL Debit Card can be accessed at more than 50 ATMs and over 250 Point of Sales across the nation. The bank is also managing the SCT ATM at Tribhuvan International Airport for the convenience of the customers and the travellers, the first and the only bank in Nepal to place ATM outlet at the Airport.

EBL is playing a pivotal role in facilitating remittance to and from across globe. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National bank and remit their savings economically through banking channels to Nepal. The bank has a Drafts Drawing Arrangement with 175 branches of PNB all over India.

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

The Bank recognizes the value of offering a complete range of services. We have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rentals), Home Equity Loan, Car Loan, Loan Against Shares, Loan Against Life Insurance Policies and Loan for Professionals. EBL have always endeavored in delivering innovative products suiting the consumer's requirements and needs thus enriching, enabling and beautifying their lives.

1.2 Statement of the Problem

Working capital management has been regarded as one of the conditioning factor in the decision-making issues. The management of working capital is synonymous to the management of short-term liquidity. Working capital is regarded as the lifeblood and nerve of a business concern and is essential to accommodate the smooth operations of any organization. Under and over allocation of working of working capital is harmful to an enterprise to achieve its primary objectives. Therefore, maintaining optimal level of working capital is the crux of the problem as it is strongly related to the trade off between risk and return. However, if is difficult to point out as to how much working capital need by a particular business organization. An organization, which is not wiling to take more financial risks, can go for more short-term liquidity. The more of short-term liquidity means more of current liabilities imply less short-term financing heading. So it is very essential to analyze and find out problems and its solutions to make efficient use of funds for minimizing the risk of loss to attain profit objective. Inadequate investment in working capital threatens the solvency of enterprise as well as affects its growth. On the other hand, excessive investment in working capital yields nothing. Therefore, working

capital should be determined in such a way that total cost i.e. cost of liquidity and cost of non-liquidity is minimum. Hence, the goal of working capital management is to manage the firm's current assets and current liabilities in such a way that it should maintain satisfactory level. Working capital management of banks is more difficult than that of manufacturing and non-manufacturing business organizations. Commercial banks are great monetary institutions, which are playing important role to general welfare of the economy. The responsibility of commercial banks is more then any other financial institutions. They must be ready to pay on demand without warning or notice, a good share of their liabilities. Banks collected funds from different types of deposits for providing loan and advance to different sector. To get higher return, banks must try to increase funds from deposits as well as their investment. The first motive of banking business is to borrow public saving and lend to needy people. But commercial banks always face the problem for utilizing more deposits as investment of loans increase the cash balance on bank, which require paying its large among of liabilities on its depositors demand without notice. But large amount of idle cash balance also decrease profitability of banks.

The sample banks viz. NABIL Bank Limited, Himalayan Bank Limited, State Bank of India, Nepal (SBI) and Everest Bank Limited seen well in comparison to other joint venture banks on the account of their performance and profitability as well. It is the question of the study that whether there is any relationship of working capital management with regard to their performance and profitability among these banks.

So, following are the major problems that have been identified for the purpose of this study.

- What is the bank's image in relation to working capital?
- What are the major factors affecting the management of working capital of NABIL, HBL, SBI and EBL?

- Which of the current assets are more problematic in NABIL, HBL, SBI and EBL?
- What is the lending pattern of loan and advance and other investment?
- What are the components of working capital, which affect the operating income of NABIL, HBL, SBI and EBL?

1.3 Objective of the study

Each an every research study is conducted with a view of achieving some objectives and this study is of no exception. The main objective of this study is to examine of the management of working capital of NABIL, HBL, SBI and EBL. The specific objectives of this study are as fallows:

- To study the current assets and current liabilities and their impact on liquidity and profitability
- To analyze the liquidity, assets utilization, long term solvency and profitability position of NABIL, HBL, SBI and EBL.
- To analyze the comparative study of working capital management among NABIL, HBL, SBI and EBL.
- On the basis of the analysis, to provide recommendation and suggestions for the improvement of working capital management of NABIL, HBL, SBI and EBL in the future.

1.4 Significance of study

Working capital is regarded as the lifeblood and nerve of a business concern and is essential to accommodate the smooth operations of any organizations. Under and over allocation of working capital is harmful to an enterprise to achieve its primary objectives. Inadequate investment in working capital threatens the solvency of enterprise as well as affects its growth. On the other hand, excessive investment in working capital yields nothing. Nepalese commercial banks are operating in the competitive environment. In this situation, banks have to adopt suitable strategies foe their existence. They should balance and coordinate the different functional areas of business

concern. The success or failure of any organization depends on its strategy, which is affected by working capital management. Working capital management is the crux of problem to prepare the proper strategy on its favors. So the study might be helpful for the management of the concerned bank as well as it might be valuable for the researcher, scholars, student who wants to study into the working capital management of the joint venture banks.

1.5 Limitations of the study

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

- This study is basically based on secondary data. The study is focused on balance sheet and income statement maintained by banks published in annual reports, where the information's were given in condensed form.
- The period coverage by the study extends over 5 years 2059/060 to 2063/064 because at the time of conducting the present study, the data could be available up to 2063/064 only. The data of 2064/065 could not be obtained, as there has not been audited, thus there may be a chance of failing to the address the current situation.
- Out of various commercial banks, this study is concerned with the only four commercial joint venture banks viz. NABIL, HBL, SBI and EBL.
- Although there are various aspects of financial management, this is mainly concerned with the working capital aspects of the sample banks.
- Mainly financial tools and statistical tools are employed for analyzing the working capital management.

1.6 Chapter Scheme

The entire study has been organized into five main chapters as:

Chapter I : Introduction

Chapter II : Review of Literature

Chapter III : Research Methodology

Chapter IV : Data Presentation and Analysis

Chapter V : Summary, Conclusion and Recommendations

The first chapter deals with background of the study, a brief review of sample banks, statement of problem, objective of the study, significance of the study and limitations of the study.

The second chapter deals with conceptual framework including the fundamental concept of and tools of working capital management. It also includes the brief review of previous research work.

The third chapter deals with the research methodology which has been followed to achieve the purposes of the study. It consists of research design, the period covered, nature and sources of data, tools to be used, research variable etc.

The fourth chapter deals with presentation and analysis of data. It gives a clear picture of how the collected data has been presented on the study and how it has been analyzed.

And at last, the fifth chapter shows the summary of whole study, conclusion drawn and recommendations given. This ends the study paper.

Besides these chapters, Bibliography and Appendix are included in this research paper.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Meaning of Working Capital

Working Capital refers to the resources of the firm that are used to conduct day-to-day operation that makes business successful. Without cash, bills cannot be paid, without receivable the firm can not allow timing different between delivering goods to services and collecting the money to pay for them, without inventories the firm cannot engage in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets the management of working capital is one of the most important areas in determining whether a firm will be successful. Need of working capital is directly related to firms growth. The term working capital refers to the current assets of the firm's those items that can be converted into cash with in the year. Net working capital is defined as the difference between current assets and current liabilities. *(Hampton and Wagner, 1989: 34)*

Every business needs capital for two purposes. The first requires for long term purpose which is called Fixed Capital. Such funds are required to create production facility. Investment in plants, machinery, land, building etc. comes under production activity. Investment in these assets represents that part of firm's capital which is block on a permanent or fixed basis. Such assets are not purchased with the objective of resale. *(Gupta, 1984: 15)*

To operate business, a firm also needs another type of capital which is known as Short Term Capital or Working Capital. The funds required for purchased of raw material, payment of wages and another day to day expenses etc. is called

as Working Capital. Similarly, the investment required for work-in-progress, raw material, finished goods, sundry debtors, bills receivable etc. also comes under working capital.

The investment for the working capital may be transferred into cash within a short period, generally a year. So it is also called Circulating Capital or Revolving Capital or Floating Capital. Generally, the capital required for running day-to-day operation of a business is called Working Capital. It is concerned with current assets and current liabilities. Asset of an essentially short term nature is known as Current Assets. It is a short term investment. Current assets are expected to be converted into cash within a short period. Those assets which are either readily available cash or are convertible into cash within a short time relatively during the normal course of business are known as Current Assets. The examples of current assets are cash in hand, cash at bank, bills receivable, sundry debtors inventory, prepayments, loans and advances etc. Current liability is another part concerned with working capital. Those liabilities which are expected to have been paid within a short period are known as Current Liabilities. The examples of current liabilities are bank overdraft, sundry creditors, bills payables, outstanding expenses, received in advance cash credit etc. *(Pradhan, 1992: 148)*

The word ‘working’ means work at present. So, working capital is capital working at present. Technically, working capital management is an integral part of overall financial management. *(Khan and Jain; 1999:15.2)* It represents that part of fund that circulates from one form of current assets to another form in ordinary course of business. For example, cash is used to purchase raw material which creates stock of finished goods which, in turn, is sold for cash. Therefore, working capital management is concerned with problems that arise within attempting to manage the current assets, current liabilities and the interrelationship that exists between them. *(Kulkarni, 1990:374)*

2.1.2 Classification of Working Capital

Working capital can be divided into:

i. Permanent Working capital and
ii. Temporary Working capital.

i. Permanent Working Capital

The need for current assets arises because of the operating cycle. The operating cycle is a continuous process and, therefore, the need for current assets is felt constantly. But the magnitude of current assets needed is not always the same, it increases and decreases over time. However, there is always a minimum level of current assets which is continuously required by the firm to carry on its business operations. This minimum level of current assets is referred to as permanent, or fixed, working capital. It is permanent in the same way as the firm's assets are. Depending upon the changes in production and sales, the need for working capital, over and above permanent working capital will fluctuate.

ii. Temporary Working Capital

The extra working capital, needed to support the changing production and sales activities is called fluctuating, or variable, or temporary working capital. Both kinds of working capital-permanent and temporary-are necessary to facilitate production and sale through the operating cycle, but temporary working capital is created by the firm to meet liquidity requirements that will last only temporarily. *(Panday, 1999: 814-815)*

2.1.3 Need and Importance of Working Capital

The connotation of energy in the term working capital is indeed accurate. It refers to the resources of the firm that are used to conduct operation to do the day-to-day "work" that makes the business successful. Without cash, bills can not be paid. Without receivables, the firm cannot allow timing differences between delivering goods and services and colleting the money to pay for them. Without inventories, the firm cannot engage in production, nor can it

stock goods to provide immediate deliveries. As a result of the critical nature of current assets, the management of working capital is one of the most important areas in determining whether a firm will be successful. *(Panday, 1999: 816)*

Following are the main advantages of maintaining adequate amount of working capital in the business: *(Panday, 1999: 822-832)*

I. Solvency

There will be uninterrupted flow of production by an arrangement of adequate working capital. A business can run smoothly only in the presence of adequate working capital. In this situation, the short term liability can be paid within a short period. Thus it helps to strengthen the solvency position of a business.

II. Goodwill

A firm with sufficient working capital can provide the payment within time to employees, workers and creditors. In such a case, there is no complaint against the firm. As a result, it helps a firm in creating and maintaining goodwill.

III. Easy Loans

A reputed company having adequate working capital need not face any problem to get loan. It can arrange the loan easily from the bands and financial institutions for the funds which are necessary to operate a business.

IV. Cash Discount

A business firm having adequate capital can easily manage the cash for purchases of the goods. Immediate payment of cash enables a concern to receive huge discount on purchases and hence it reduces the cost.

V. Regular Supply of Raw Materials

In the case of sufficient working capital, it can easily supply raw materials necessary for production and there is no chance of disturbance in production.

The uninterrupted flow of production enables the concern to supply its production in the market regularly.

VI. Morale of Management

With the help of adequate working capital, the overall efficiency of the business increases. It creates an environment of security, confidence and high morale of management.

VII. Smooth Operation of Business

A firm with sufficient working capital can smoothly operate the business. Due to adequate working capital, it can make regular payment of salaries, wages and other day-to-day commitments. By paying these expenses regularly at time, the morale of employees increases on one hand and on the other, their efficiency also increases.

VIII. Ability to Face Crisis

A business concern has naturally to face various problems such as economic depression, strike, natural disaster etc. Availability of working capital in sufficient volume gives the business concern ability to face these kinds of crisis easily.

IX. Regular Return

The management of ample working capital helps a firm to pay quick and regular dividends to its investors. Because of adequate working capital, the firm does not have to plough back of profit and hence it provides confidence to its investors and creates a favorable market to raise additional funds in the future.

2.1.4 Factors Affecting Working Capital

The working capital need of a firm depends upon various factors. These factors may vary from one type of business to another and also keep on changing from

time to time. The working capital needed at one point of time may not be good enough for some other situations. Internal policies and environmental changes also affect the working capital. A firm should plan its operations in such a way that it should have neither too much nor too little working capital. In general, the following factors are involved in proper assessment of the quantum of working capital required:

a) Nature and Size of Business

The amount of working capital depends mainly upon the nature of business. It is the nature and conduct of the business that differentiates one firm from another as far as working capital requirement is concerned. If we compare public utility, for example, with manufacturing concern, the later will be found to be requiring much more working capital. Trading and financial enterprises may be required to invest even more on working capital for the reason that it has to maintain sufficient amount of cash, inventories and book debts whereas public utility concern have a very limited need for working capital because they have cash sales in most of the cases. *(Kuchhal, 1988: 93)*

b) Manufacturing Process and Length of Production Cycle

Another factor which has the bearing on the quantum of working capital is the manufacturing process and production cycle. By 'production cycle', we mean the time involved from the procurement of raw material till it is finally transferred into finished product. In this process, huge fund are tied up on materials, labor and overhead. The longer the time span i.e. manufacturing cycle, the larger will be the tied up funds and therefore the larger is the working capital needed. Opposite is also true. *(Kuchhal, 1988: 93)*

c) Growth and Expansion of Business

In general, expanding enterprises require more working capital than those which are static, other things being equal. Fixed capital is needed more for the developing enterprises, as the theories state, funds required for operation and

maintenance of the fixed capital also increases proportionately whatsoever. *(Kuchhal, 1988: 95)*

d) Rapidity of Turnover

Turnover represents the speed with which the working capital is recovered by the sale of goods. If the turnover rate is high, lower amount of working capital will be sufficient and vice-versa. *(Kuchhal, 1988: 96)*

e) Terms and Conditions of Purchase and Sales

Credit terms and conditions of sales and purchases have a bearing on the magnitude of working capital required. If the suppliers or trade creditors avail liberal credit terms, the firm will require less working capital and vice-versa. Similarly, the firm selling its product on cash basis will need less working capital than those which sell their products mostly on credit. The credit sales result in higher book debts (receivables). Higher book debts mean more working capital. *(Kuchhal, 1988: 96)*

f) Seasonal Nature

If raw materials are expected to fall short of demand throughout the year for some reasons, the enterprise has to buy the materials in bulk involving huge fund i.e. working capital to make it sure that the production process will not be interrupted during the entire year. *(Ramamoorthy, 1976: 71)*

g) Dividend Policy

The firm having satisfactory level of earning capacity may generate cash profit from operation. The need for working capital can be met with the retained earnings. A firm which declares dividend and distributes large proportion of cash irrespective of its profit need larger amount of working capital than that which retains larger part of its profits and distributes lower amount of cash dividend. *(Ramamoorthy, 1976: 71)*

h) Operating Efficiency of the Firm

The operating efficiency of the concern also plays the key role in determining the level of working capital to be brought from external source. Operating efficiency of the firm results in optimum utilization of resources at minimum cost. Proper utilization of resources improves the profitability of the firm which will in turn release greater funds for working capital purposes. *(Ramamoorthy, 1976: 72)*

i) Working Capital Cycle

The working capital cycle begins with the purchase of raw materials and ends with realization of cash from sale of finished product. Generally, the working capital cycle involves purchase of raw materials and stores, its conversion into stock of finished goods through work-in-progress with progressive increment of labor and services cost, conversion of finished goods into sales, debtors, receivable and ultimately realization of cash. This cycle keeps on repeating again and again. If it takes long time to finish one cycle, large amount of working capital will have to be set aside and vice-versa. *(Ramamoorthy, 1976: 75)*

j) Price Level Changes

Changes in the price level also affect the requirements of working capital. Rising prices necessitates the use of more funds for maintaining an existing level of activity. For the same level of current assets, higher cash outlays are required. The effect of rising prices is that a higher amount of working capital is needed. However, in the case of companies which can raise their prices proportionately, there is no serious problem regarding working capital. The implications of changing price levels on working capital position vary from company to company depending on the nature of its operations, its standing in the market and other relevant considerations. *(Ramamoorthy, 1976: 75)*

k) Business Cycle

Business fluctuations lead to cyclic and seasonal change which in turn, cause a shift in the working capital position particularly for temporary working capital requirement. During the upswing of business activity, the need for working capital is likely to grow to cover the lag between sales and receipt of cash as well as to finance purchases of additional material to cater to the expansion of the level of activity. The downswing phase of business cycle has exactly an opposite effect on the level of working capital requirement. *(Ramamoorthy, 1976: 76)*

l) Production Policy

The quantum of working capital is also determined by production policy. In the case of certain lines of business, the demand for product is seasonal, that is, they are purchased during certain months of the year. During the slack season, the firms have to maintain their working force and physical facilities without adequate production and sale. When the peak period arrives, the firms have to operate at full capacity to meet the demand. In this situation, it can either confine its production only that period when goods are sold or follow a steady production policy. The former policy does not need more working capital than the latter does. A production policy in tune with the changing demands may be preferable. *(Ramamoorthy, 1976: 77)*

m) Access to Money Market

The firm which has good relation with banks and financial institutions is apt to get loans easily as a result of which the need for working capital can be minimized. *(Wright & Valentine, 1997: 47)*

n) Level of taxes

The first appropriation out of profits is payment or provision for tax. Tax liability, in a sense, is a short-term liability payable in cash. An adequate provision for tax payments, therefore, is an important aspect of working capital

planning. If tax liability increases, it leads to an increase in the requirement of working capital and vice-versa. *(Wright & Valentine, 1997: 48)*

o) Transport and Communication Facilities

If transport and communication facilities are effective, they help to publicize and distribute finished goods quickly, speed up the collection of necessary materials and sale of finished goods leading to the requirement of less amount of working capital. On the contrary, if these facilities are not adequately available or not effective, reorder period will be longer. Similarly, longer will be the time to sell the finished products meaning thereby, a larger sum of funds will be blocked on procurement of raw materials and sale of finished products. *(Wright & Valentine, 1997: 48)*

p) Attitude Toward Profit

Most funds involve a cost to the firm. Thus, a relatively large amount of current assets tends to reduce the overall profit. Some firms are willing to accept greater liquidity risks in order to achieve higher profits. Other firms are not highly focused on maximizing profits and do not manage liquid assets aggressively. These behaviors affect the level of working capital. *(Wright & Valentine, 1997: 48)*

q) Attitude Toward Risk

The reverse side of the attitude toward profits involves risk. The greater the level of working capital, the lower the risk and vice-versa. Cash provides safety for paying bills. Inventories provide less risk of running out of goods to sell. Firms that are averse to risk may maintain more current assets than firms willing to accept hither levels of risks. *(Wright & Valentine, 1997: 49)*

2.1.5 Objectives of Working Capital in Banks

A bank undertakes many transactions daily. Sometimes, customers deposit large quantity and sometimes customers withdraw from their deposits in high

quantity. Investment fund of bank is covered by deposit collections of different types of account holder. A bank should have to pay the money to depositors when they want to withdraw. For daily operation of office and to meet the administrative expenses, a bank should have certain level of working capital. Working capital is required to run the business smoothly and efficiently in the context of the set objectives. It is no doubt that no company can achieve its goals without proper use of working capital. Therefore, it can compare as lifeblood to the organization. The main objectives of arranging capital are as follows; *(Smith, 1974: 23)*

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

2.1.6 Determinants of Working Capital of Banks

Working capital in banks is basically concerned with the liquidity management. Thus, the working capital of banks is synonymous to liquidity of banks. Many factors affect the liquidity or working capital of banks. They are: *(Rose, 1999: 17)*

a. External Factors:

- Prevailing interest rate of bank: If interest rate is high cash demand is low & liquidity need is low.
- Savings & investment situation: If income & saving scale of people is high, low liquidity. If investment in commercial field is high, high liquidity.
- Growth & scheming position of the financial market: If financial market

of bank is in growth & prosperity, then low liquidity and if opposite, high liquidity.

b. Internal Factors:

- Lending policy of bank: Great quantity for long-term investment needs high liquidity and if short-term loan policy, low liquidity.
- Management capacity: If management is efficient & ready to bear risk, low liquidity.
- Strategic planning & funds flow situation: Liquidity depends upon planning, & strategy. Current A/C needs high liquidity & payment. On the other hand fixed deposit needs low liquidity.

2.1.7 Demand of Working Capital in Banks

Working capital is maintained at bank by current saving, & fixed deposit collection. Specially, to grant loan and to pay cheques, creditors & account holders demand the liquidity. Generally, banks need liquidity for maintaining following goals; *(Smith, 1974: 38)*

- Transaction motive
- Security motive
- Speculative motive

2.1.8 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding level of each category of current assets and how current assets will be financed. *(Weston, Besley and Brigham, 1996: 333)* To have a clear insight on the working capital policy, we have to know about two basic policies: current assets investment policy and current assets financing policy.

2.1.8.1 Current Assets Investment Policy

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

a. Relaxed Current Assets Investment Policy

This is the policy "where relative large amount of cash, marketable securities, and inventories are carried and where sales are stimulated by the use of credit policy that provides liberal financing to customers and a corresponding high level of receivables." *(Weston, Besley and Brigham, 1996:344)* This policy creates longer inventory and cash conversion cycles and longer receivable collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with lower risk.

b. Restricted Current Assets Investment Policy

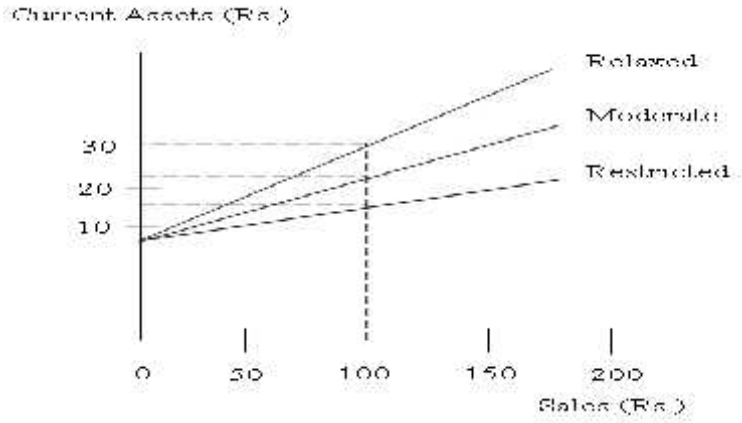
The policy under which a firm holds minimum amount of cash, marketable securities, inventory and receivable to support a given level of sales is known as restricted current assets investment policy or lean and mean policy. In this policy, the firm follows a tight credit policy and bears the risk of losing sales.

c. Moderate Policy

This is the policy that lies between relaxed and restricted policies. In this policy, a firm holds the amount of current assets in between the relaxed and restricted policies. Both risk and return are moderate in this policy.

Figure 2.1

Alternative Current Assets Investment Policies



(Source: Weston, Besley and Brigham, 1996:345)

2.1.8.2 Current Assets Financing Policy

There are different sources by which current assets are financed. However, each and every source entails certain level of cost and risk. Therefore, a careful study is required before making decision as to the financial sources of current assets. The manner in which the permanent and temporary current assets are financed is called the firm's current assets financing policy.

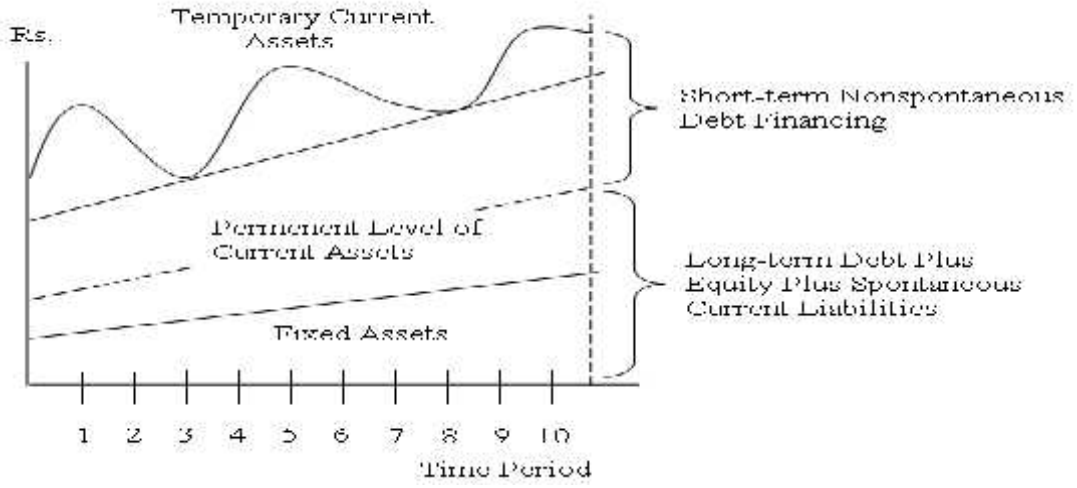
A firm can adopt one of the following policies regarding raising funds for current assets. *(Weston, Besley and Brigham, 1996:346-350)*

a. Aggressive Policy

Degree of aggressiveness in financing the current assets depends upon how the current assets have been financed. A firm is generally regarded aggressive if it finances all of its fixed assets and part of the permanent current assets with long term debt plus equity plus spontaneous current liabilities and all of the temporary current assets with short-term, non-spontaneous liabilities. If part of the fixed assets is also financed with current debt or short term credit, then the firm will be regarded more aggressive.

Figure 2.2

Aggressive Financing Policy



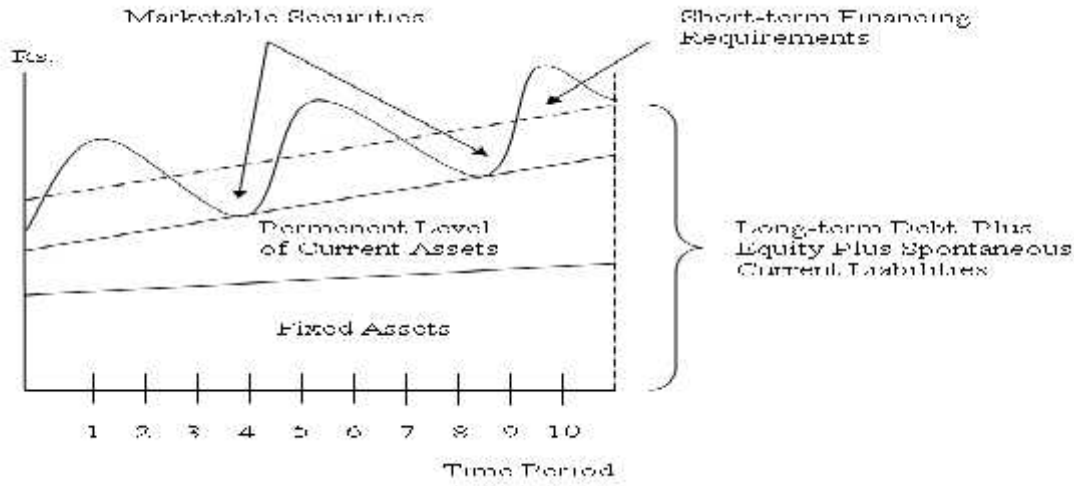
(Source: Weston, Besley and Brigham, 1996:347)

b. Conservative Policy

This is the policy in which all of the fixed assets, all of the permanent current assets, and some of the temporary current assets of a firm are financed with long-term capital. *(Weston, Besley and Brigham, 1996: 348)* This is a very safe financing policy and, therefore, not very appropriate from the standpoint of profit.

Figure 2.3

Conservative Financing Policy



(Source: Weston, Besley and Brigham, 1996:348)

c. Maturity Matching Policy

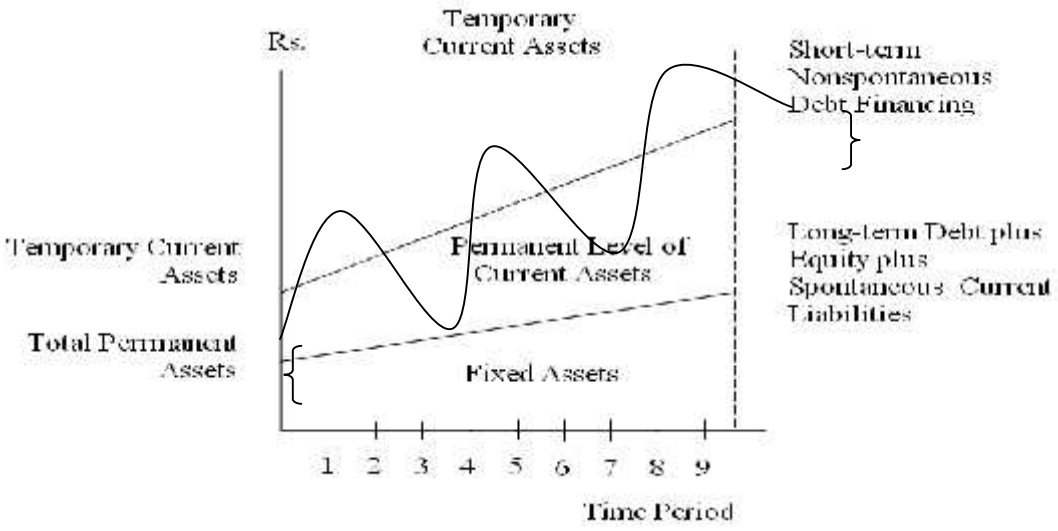
Maturity matching policy, also known as self-liquidating policy calls for matching assets and liability maturities. This strategy minimizes the risk that the firm will be unable to pay off its maturing obligations if the liquidations of the assets can be controlled to occur on or before the maturities of the obligations.

At the limit, a firm could attempt to match exactly the maturity structures of its assets and liabilities. Inventory expected to be sold in 30 days could be financed with a 30-day bank loan; a machine expected to last for five years could be financed by a 5-year loan; a 20-year building could be financed by a 20-year mortgage bond; and so forth. In this policy, generally, the firm finances

permanent current assets with long term financing and temporary with short-term financing. It means the firm matches the maturity of financing sources with an asset's useful life. It lies between the aggressive and conservative policies.

Figure 2.4

Maturity Matching Policy



(Source: Weston, Besley and Brigham, 1996: 350)

2.1.9 An Overview of Working Capital Management

Working Capital Management refers to the administration of all aspects of current assets, namely cash, marketable securities, stock and current liabilities. It is the functional area of finance that covers all the current accounts of the firm. It is concerned with the adequacy of current assets as well as the level of risk posed by current liabilities. It is a discipline that seeks proper policies for managing current assets by current liabilities and practical technique for maximizing the benefits from managing working capital.

In the words of K.V. Smith, The term working capital management closely relates with short-term financing; it is concerned with collection and allocation of resources. Working capital management relates to problems that arise in attempting to manage the current assets, the current liabilities and interrelationships that exist between them. *(Smith, 1974: 5)*

Working capital management is the crucial aspect of the financial management. It is the life-blood and controlling nerve center for any types or business organization because without the proper control upon it no business can run smoothly. The management of current assets and current liabilities is necessary for daily operations of any organizations. Thus, it plays the vital role in the success and failure of the organizations as it deals with the part of assets, which are transformed from one form to another form during the course of manufacturing cycle. Therefore, the role of working capital management is more significant for every business organization irrespective to their nature.

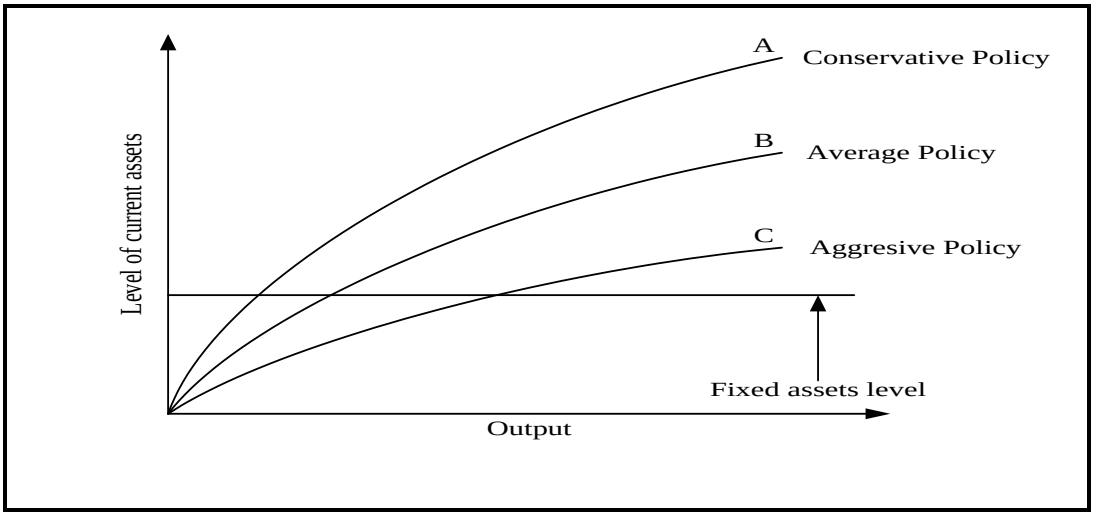
By the definition of various experts of working capital management, we conclude that, all institution, whether private or public, financial institution, manufacturing or non-manufacturing that need just adequate working capital to compete with competitive market. It is because over or under adequacy of working capital is dangerous from the firms objective points of view. Over investment on working capital affects the firm's profitability just as idle investment. On the other hand, under investment on working capital affects the liquidity position of the firm and causes to financial hindrance and failure of the company. It is therefore, a recognized fact that any mistake made in management of working capital can cause to adverse effects in business and reduces the liquidity, turnover and profitability and increases the cost of financing of the organization. *(Smith, 1974: 7)*

Need of working capital is directly related to firms growth. A firm can have different level of current assets to support the same level of output. The level of current assets can be measured by relating current assets to fixed assets. Its proportion upon the fixed assets of the firm indicates the working capital policy of the firm namely conservative and aggressive in two extreme ends. Dividing current assets by fixed assets gives Current Assets to Fixed Assets (CA/FA) ratio. Assuming a constant level of fixed assets, a higher CA/FA ratio indicates

a conservative current assets policy and a lower CA/FA ratio means an aggressive current assets policy assuming other factors to be constant. A conservative policy implies greater liquidity or lower risk, while an aggressive policy indicates higher risk and poor liquidity. *(Panday, 1998: 822)* Higher level of current assets implies greater liquidity and solvency of the firm. There is less risk of technical insolvency, but a considerable amount of funds will be tied up in current assets, which causes to lower the profitability. On the other side, to have a higher profitability, a firm can take an aggressive current assets policy maintaining lower lever of current assets, which will lower the solvency of the firm and the level of risk in the same manner. Thus the reasonable approach is to balance the cost of maintaining current assets and risk associated in such a way that the trade off between risk and return is minimized.

Figure 2.5

Alternative Current Assets Policies



(Source: Panday, 1998: 822)

2.2 Review of Related Studies

This section deals with views of different scholars in relation to working capital management which lay down conceptual foundation for this study.

2.2.1 Review of Books and Reports

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

Pradhan (1986) has published a book on management of working capital in Nepalese PEs. This book is based on the study of nine manufacturing public enterprises of Nepal for the duration of ten years from 1973 to 1982 AD. In his study, he aimed at examining the various aspects of management of working capital in selected manufacturing public enterprises of Nepal. The specific objectives undertaken in his study were:

- To conduct risk return analysis of liquidity of working capital position.
- To assess the short term financial liquidity position of the enterprises.
- To assess the structure and utilization of working capital and
- To estimate the transaction demand functions of working capital and its various components.

His study has mentioned the following findings.

- It was found that most of the selected enterprises have been activating a trade off between risk and return thereby following neither an aggressive nor a conservative approach.
- It has showed a poor liquidity position of most of the enterprises. This poor liquidity position has been noticed as the enterprises have either negative cash flows or negative earnings before tax or they have excessive net current debts which cannot be paid within a year.
- The Nepalese manufacturing public enterprises have on an average half of their total assets in the form of current assets. Of all the different components of current assets, on an average, the share of inventories in total assets is the largest followed by receivables and cash in most of the selected enterprises.
- The economics of scale have been highest for inventories followed by cash and gross working capital, receivable and net working capital.
- The regression results also show that the level of working capital and its components and enterprise desires to hold depend not only on sales but on holding costs also.

Shrestha (1995) has published “Portfolio Behavior of Commercial Banks in Nepal” based on the study of two local commercial banks, three joint-venture banks and one development bank as a sample for the study. Some major findings of her study are hereunder.

- Total deposits have been the major sources of fund for all the banks.
- Capital and reserve funds do not seem to have changed much over the year.
- The user of fund analysis shows that the resources of commercial banks are allocated in the liquid funds, investment on securities, loans and advances. Bills purchased and discounted.
- Among the portfolio, for Nepalese banks loan and advances share highest volume of the resources and the bills purchased and discounted

the least over the year.

- The excess reserves of the commercial banks show unused resource. The cash reserve exceeds much more than the required cash reserve.

Van Horne (2000) another well known expert of financial management and writer in his book "Financial Management and Policy", has given the concept of capital management, it is usually described as involving the administration of these assets namely cash, marketable securities, receivables, inventories and the administration of current liabilities. It means the working capital management is concerned with the problem that arises in attempting to manage the current assets, the current liabilities and the inter-relationship that exist between them. He has also described the different methods for efficient management of cash and marketable securities and various models for balancing cash and marketable securities. For the management of receivable, different credit and collection policies have been described and various principles of inventory have been examined for inventory management and control.

2.2.2 Review of Journals/Articles

Shrestha (July 1982 - June 1983) in his study "Working capital management in public enterprises", based on ten selected public enterprises, states that manager often lacks basic knowledge of working capital and its overall impact on the operative efficiency and financial viability of public enterprises. The sample public enterprises are Birgunj Sugar Factory, Janakpur Cigarette Factory, Raghupati Jute Mills, Dairy Development Corporation, National Trading Ltd., Royal Drugs Ltd., National Construction Company of Nepal, Harisiddhi Brick and Tile Factory, Nepal Cheeuri Ghee Industry Ltd., and Chandeswori Textile Ltd. Specially, his study is focused on the liquidity turnover and profitability position of those enterprises. In this analysis, he found that four public enterprises have maintained adequate liquidity position, two public enterprises have excessive and remaining others public enterprises

had failed to maintain desirable liquidity position. On the turn over side, two public enterprises had negative turnover, four had adequate turnover, and one had higher turnover on net working capital. He had also found that out of ten public enterprises six were operating in loss while only four were setting some percentage of profit. With the reference of his findings, he has pointed certain policy flaws such as deficient financial planning, negligence of working capital management, deviation between liquidity and turnover of assets and inability to show the positive relationship between turnover and return on net working capital. At the end, he has made some suggestive measures to overcome from the above policy issues. These are identification of management information system, positive attitude towards risk and profit and determination of right combinations of short-term and long-term sources of funds to finance working capital needs. *(Shrestha, 1983: 1-4)*

Acharya (Jan - Mar, 1985) has published an article relating on working capital management. He has defined the two major problem i.e. operational problems and organizational problems, regarding the working capital management in Nepalese public enterprises. The operational problems; he found were increase of current liabilities than current assets, not allowing the current ratio 2:1 and slow turnover of inventories. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, than transmutation of working capital employed to sales, absent of apathetic management information system. Break-even analysis, funds flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally, monitoring of the proper functioning of working capital management has never been considered as managerial job. *(Acharya, 1985: 3)*

In the second part, he has listed the organizational problems in the public enterprises. In most of the public enterprises, there is lack of regular internal and external audit system as well as evaluation of financial results. Similarly very few public enterprises have been able to present their capital requirement

functioning of finance department is not satisfactory and some public enterprises are even facing the under utilization of capacity.

Pradhan (1988) has published another article relating to working capital management. He studied on 'the demand for working capital by Nepalese corporation'. He analyzed the selected nine manufacturing public corporation with the 12 years data from 1973-1984. Regression equation has been adopted for the analysis. His study has summarized that the earlier studies concerning about the demand for cash and inventories by business firm did not report unanimous findings. A lot of controversies exist in respect to the presence of economics of scale, roles of capital cost, capacity utilization rates and the speed with which actual cash and inventories adjusted to describe cash and inventories respectively. To pooled regression, result shows the presence of economics of scale with respect to the demand for working capital and its various components. The regression results suggest strongly that the demand for working capital and its components is function of both sales and their capital cost. The estimated results show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivables and gross working capital is doubtful. *(Pradhan, 1988: l)*

Mahat (May 26 2004), also has published article relating to spontaneous resources working capital management. He has defined the three major sources of working capital i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing include short-term bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. whereas spontaneous sources of working capital include trade credit, provisions and accrued expenses. *(Mahat, 2004: 98)*

Mahat has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such an environment should be efficient enough to cope with the possible worst happenings in future for working capital management. He has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by way of debt financing, the company should have to bear interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital will be a better source for working capital in order to improve its performance.

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

2.2.3 Review of Thesis

Shrestha (2003) has conducted a research on "A Study of Working Capital Management with Respect to National Trading Limited and Salt Trading Corporation Limited." The main objective of her study was to present overall picture of National Trading Limited and Salt Trading Limited. The major findings of her study are as follows:

There is operating inefficiency in both the companies and overall return position of the companies is also not in favorable condition because of inefficient utilization of current assets, total assets and shareholders' wealth. The outcome of cash conversion cycle of sample companies are not in

satisfactory condition. Liquidity position of Salt Trading Corporation Ltd shows satisfactory and favorable position by being successful in maintaining the standers but NTL been unable to meet standard. Both are following aggressive financing policy.

The study has suggested the companies to follow the mix-financing policy between moderate and aggressive policy to reduce the risk and earn some profits. According to the researcher, the companies should introduce effective inventory control techniques to decrease huge blockage of inventory and credit policy techniques for collecting receivables. The researcher recommended that the companies should allocate some money for trainings of financial employees to produce skilled and experienced manpower. She suggested NTL to maintain the standard level of both current ratio and quick ratio to get the optimum solvency position.

Lamichhane (2004) has done a research on "An Analysis of Working Capital Management of Nepal Insurance Company". He was concerned with working capital management of neap Insurance Company by analyzing various ratios of the period of five years (1997/98-2001/02). The specific objectives of his study is to analyze the size and structure of working capital and relation between in non-life insurance company with reference to NIC, to analyze the relationship between operating income and different variables of working capital, to check the efficiency of working capital of NIC and to analyze the working capital cash flow cycle or cash conversion cycle of NIC. He has used ratio analysis, trend analysis, standard deviation, coefficient of variation, correlation coefficient etc as the tools of analysis.

Lamichhane found that the higher percentage of current assets in total assets of Nepal Insurance Company denotes liquidity position of the company and lower risk of technical insolvency. The company has adopted the conservative current assets policy. The size of net working capital is also in increasing trend. The

ratio of net working capital to operating income indicates less utilization of working capital where operating income is incomparably smaller than the net working capital. The company has eliminated its external financing using internal fund. Nepal insurance company kept excess amount of working capital in comparison to net sales, which can not be considered as the sign of efficient management of working capital in the organization. The profitability position is being unsatisfactory every year. The corporation has so far greater current assets than current liabilities in all years of observation that clarifies the better liquidity position. Cash is pilling up lying unproductively.

The researcher has suggested the company to make a regular check to identify both excess and short current assets, to make a working capital policy , to increase the investment in fixed assets, to study the reason behind the great decrease in profit in the third year of the study period, to reduce the long term financing in working capital, to search for the better use of funds, to give attention towards decreasing receivable turnover and increasing average collection period, decreasing cash and current assets turnover ratio and decreasing net working capital turnover ratio.

Panday (2005) has carried out a study entitled "Comparative Study of Working Capital Management In A Manufacturing And A Blending Company". The main objectives of his study is to present overall picture of working capital of Nepal Lever Ltd and Nepal Lube Oil Ltd, to examine the influence of working capital on profitability, to study the position of working capital in Nepal Lube Oil and Nepal Lever Ltd and to study the relationship of working capital pattern between manufacturing and blending company.

Panday found out that the average percentage of inventories, cash and bank balance and miscellaneous current assets are higher in NL Ltd in comparison to that of NLO Ltd. The average of sundry debtors is higher in NLO than that of NL Ltd. According to the trend analysis, the rare of change on inventory

percentage in both companies are negative which imply the decreasing rate of inventory percentage to total assets in both companies. Liquidity position of NL Ltd is found to be better than that of NLO Ltd. All turnover ratios of NL Ltd are higher than that of NLO Ltd during the study period. NL Ltd has better profitability position than NLO Ltd. NL Ltd is following more aggressive policy in financing its current assets in comparison to NLO Ltd during the study period. There is inverse relationship between net working capital and net sales in NL Ltd during the study period whereas there is no evidence of the relationship between net working capital and net sales in NLO Ltd. Both of the companies are not implying any inventory policy to manage optimum level of inventory that reduces the cost and leads to the smooth operation of the company. Both of the companies are not implying any credit standard policy and credit collection policy. The analysis of different financial ratios shows that NL Ltd has better liquidity turnover and profitability position than that of NLO Ltd during the study period.

The study has recommended NL Ltd to implement proper inventory policy that reduces unnecessary cost, to have clear vision and proper plan to set standard for its various ratios and to make the proper financing policy to avoid the risk related to liquidity of the company. He suggested that NLO Ltd should set proper standard and credit collection policy. He has further suggested to both of the companies to give emphasis to proper working capital policy to uplift the financial performance of the companies.

Acharya (2006) has carried out research "Working Capital Management of Manufacturing Companies Listed in NEPSE" with the objectives of finding out the working capital financing policy adopted by listed Nepalese manufacturing companies; analyzing the current assets and current liabilities policies; examining the effects of working capital on profitability and pointing out valuable recommendations and suggestions based on the research. He

examined five year data from 2001 to 2005. He has used ratio analysis, correlation coefficient, regression, probable error etc. as the tools of analysis.

From the research, what he found out that the companies are accompanied with various hindrances like lower turnover, lower return, lower net working capital or poor liquidity position, lack of proper working capital policy, deteriorating financing situation, lack of appropriate credit and collection policy, improper inventory management, high operating cost of production etc.

As per the recommendations forwarded by the researcher, the companies should formulate appropriate working capital policies as per their need, invest idle fund in marketable securities, adopt definite credit and collection policies, and adopt good store keeping, material handling and timely inspection system.

Panday (2007) has done a research on working capital management of hotel industry of Nepal using the financial statements of three sample hotels for five years from 2057/58 to 2061/62 under the heading "Working Capital Management in Hotel Industry (With Reference To Hotel Radisson, Hotel Soaltee and Hotel Hyatt)". The main objectives of the study were to analyze the composition of working capital, liquidity position, and profitability position of Hotel Radisson, Hotel Soaltee and Hotel Hyatt; to evaluate the relationship between sales and different variables of working capital; to examine the working capital cash flow cycle and cash conversion cycle of the said hotels.

Panday, in his major findings, found that all three companies have been following aggressive financing policy, they have negative working capital during the study period, non of the hotels seem to have solid view of the management of working capital, Hotel Hyatt has very poor liquidity position as compared to other hotels, turnover of the entire hotels is decreasing due to unstable political situation for more than a decade, sales revenue is decreasing but operating expenses is in increasing trend accounting for the loss to the

hotels, Hotel Radisson and Hotel Hyatt have been paying high amount of interest expenses than Hotel Soaltee.

The researcher has recommended all the hotels to increase the net working capital by reducing short-term loan; introduce effective inventory control techniques and credit policies for collecting receivables; reduce loan from outside and reduce internal controllable expenses as far as possible To confront the liquidity crisis, Hotel Hyatt is suggested to reduce loan, advances and deposits and increase cash and bank balance.

Pathak (2008) has carried out another study entitled, "An evaluation of working capital management of Nepal Lube Oil Ltd." The main objectives of the study were to analyze the working capital management of the Oil Ltd. He has focused on the working capital management with respect to cash credit and inventory management, and relationship between sales and different variable of working capital.

Major findings of his study were high portion of current assets, unfavorable liquidity position and very low level of cash. Inventories have occupied the major portion of current assets, but the share of finished goods stock is very low. Receivable has the second place in current assets and it is continuously growing. Finally he concluded that this company had adopted the moderate financing policy.

The researcher suggests the companies to initiate steps towards minimizing administrative and operating expenses, maintain proper relation and interaction among production, marketing and sales departments and develop appropriate information system in determining exact need of working capital. Not only that, there should be training, participation in the management conferences, foreign enterprises tour etc. for employees in order to increase their efficiency.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology means the analysis of specific topic by using proper method. In other words research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collection, analysis and interpretation of the facts and figures. “Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view” (Kothari, 1994, P. 19). It is also considered as the path from which researcher can systematically solve the research problem.

3.1 Research Design

Selection of appropriate research design is necessary to meet the study objectives of any research. “Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances.” *(Ibid: 43)*

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3.2 Population and Sample

At present there are 25 commercial banks including 14 joint venture banks in Nepal. Among them NABIL, HBL, EBL and SBI has been taken as a sample

for the study. These sample banks are the pioneer leading bank in the Nepal. Financial statements of last five fiscal years from F/Y 2002/03 to F/Y 2006/07 have been taken as sample data for the comparative study of working capital management. These joint venture banks are chosen as they account for the considerable market share of the banking sectors.

3.3 Sources of Data

This study is conducted on the basis of secondary data relating to the investment, deposit, loan and advances and profit are directly obtained from the balance sheet and profit and loss account of concerned bank's annual reports, supplementary data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, Nepal stock Exchange Ltd, Ministry of finance, Economic survey etc.

Similarly, various data and information are collected from the periodicals, economic journals, managerial magazine and other published and unpublished reports and documents from various sources.

3.4 Tools Used

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

3.4.1 Financial Tools

In this research study various financial tools are employed for the analysis. The main focus will be on Ratio Analysis. Ratio analysis is the most important tools of the financial analysis, which help to ascertain the financial conditions of the organizations. Various ratios are employed and grouped for the analysis of composition of working capital, liquidity position, activity or turnover position, profitability position and capital structure or leverage position.

A. Composition of Working Capital

The main components are cash and bank balance, money at call or short notice, loan and advances and government securities.

Composition of working capital is analyzed by calculating the following ratios.

i. Current Assets to Total Assets Ratio

It measures what portion of total assets used in the current assets. Lower ratio shows the risk and profitability will increase and vice-versa.

$$\text{Current Assets Ratio} = \frac{\text{Current Assets}}{\text{Total Assets}} \times 100\%$$

ii. Current Assets to Fixed Assets Ratio

The relation between current assets and fixed assets is shown by this ratio. Higher ratio of this means the company has sounds working capital position and vice-versa.

$$\text{Current Assets to Fixed Assets Ratio} = \frac{\text{Current Assets}}{\text{Fixed Assets}} \times 100\%$$

iii. Cash and Bank Balance to Current Assets Ratio

What percent of current assets cover cash & bank balance is shown by this ratio. Lower the ratio means higher will be risk, profitability, and vice-versa.

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

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What percent of total assets cover cash & bank balance is shown by this ratio. Lower the ratio means higher will be risk, profitability, and vice-versa.

$$\text{Cash and Bank Balance to Total Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Assets}} \times 100\%$$

B. Liquidity Position

Liquidity position of a company is identified with the help of liquidity ratio, which measures the company's ability to pay its current obligations. This ratio is used to measure the company's short-term obligations with short-term resources available at a given point of time.

i. Current Ratio

This ratio measures the short-term solvency, i.e. its ability to meet short-term obligations. Current ratio is calculated by dividing the current assets by current liabilities.

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

ii. Quick/Acid Test Ratio

It establishes a relationship between quick/liquid assets and current liabilities. An asset is quick/liquid if it can be converted into cash immediately or reasonably soon without a loss of value.

$$\text{Quick/Acid Test Ratio} = \frac{\text{Quick assets}}{\text{Current Liabilities}}$$

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

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

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance x 100\%}}{\text{Total Deposit (Excluding Fixed Deposit)}}$$

iv. Saving Deposit to Total Deposit Ratio

The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short-term in nature.

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

C. Activity or Turnover Position

Turnover Position/Activity Position shows the efficiency in assets management as well as effectiveness of the investment of resources in the company. These ratios are intended to measure the effectiveness of the employment of the resources in a business concern.

i. Loan and Advances to Total Deposit Ratio

This ratio assesses to what extent, the banks are able to utilize the depositor's funds to earn profit by providing loans and advances. High ratio is the symptom of higher/proper utilization of funds and low ratio is the signal of balance remained unutilized or idle.

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposits}} \text{ x } 100\%$$

ii. Loan and Advances to Fixed Deposit Ratio

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

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

iii. Loan and Advances to Saving Deposit Ratio

This ratio indicates how many times the short-term interest bearing deposits are utilized for generating the income. It is calculated by dividing the amount of loan and advances by total deposit in saving account.

$$\text{Loan and Advances to Savings Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Savings Deposits}} \times 100\%$$

D. Profitability Position

Profitability Position indicates the degree of success in achieving desired profit. It helps to find the efficiency of the organization. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not.

i. Interest Earned to Total Assets Ratio

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

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

ii. Return on Total Assets

This ratio is very much crucial for measuring the profitability of funds invested in the banks assets. It measures the return on assets.

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

iii. Return on Shareholders' Equity

This ratio is calculated to see the profitability of owners' investment. In other words it tells us the earning power on shareholders' book investment and is frequently used in comparing two or more firms in an industry.

$$\text{ROSE} = \frac{\text{Net Profit}}{\text{Net Worth}} \times 100\%$$

iv. Net Profit to Total Deposit Ratio

This ratio is used for measuring the internal rate of return from deposits. Higher ratio indicates the return from investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing.

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

v. Cost of Services to Total Assets Ratio

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

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

E. Capital Structure or Leverage Position

Leverage refers to the ratio of debt to equity in the capital structure of the firm. The long-term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsiders fund and owners' capital used by the firm.

i. Long-term Debt to Net Worth Ratio

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

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

ii. Net Fixed Assets to Long-term Debt Ratio

Net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times not fixed assets are compared to the fixed liabilities.

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

3.4.2 Statistical Tools

In this research study some statistical tools are also used for analysis to support the objective of the research work. The tools are as follows.

Trend Analysis

The tools that are used to show grandly increase or decrease of variables over a period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly.

Correlation Analysis

Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another (1991, P. 505). The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Person's method is applied in the study. The result of co-efficient of correlation is always between +1 and -1, when r is +1 it means there is perfect relationship

between two variables and vice versa. When r is 0, it means there is no relationship between two variables. In this study, simple coefficient of correlation is used to examine the relationship of different factors with working capital and other variables. Under this study following co-efficient of correlation are calculated.

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Hypothesis Test

Hypothesis test is one of the important applications of statistical interference in decision making. In hypothesis test, an assumption is made about the population parameter. To test whether the assumption or hypothesis is right or not, a sample is selected from the population and the sample statistic is obtained. Generally, two complementary are set up at one time i.e. a) Null Hypothesis (H_0) and b) Alternative Hypothesis (H_1). Among these two hypotheses if one is accepted, then the other hypothesis is rejected and vice versa.

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- There is no significant difference in liquidity position among NABIL, HBL, EBL and SBI.
- There is no significant difference in profitability position among NABIL, HBL, EBL and SBI.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

Under this chapter relevant data and information of working capital as well as financial performance of the sample banks are presented, compared and analyzed. It presents composition of current assets and current liabilities, relationship between current assets and fixed assets, current assets and total assets, turnover position, liquidity position and profitability position. It covers to analyze the ratio as well as the trend with the use of least square method.

4.1 Composition of Working Capital

Working Capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. A bank needs different kinds of current assets to conduct day-to-day operation. The major components of current assets of the sample banks viz. NABIL, HBL, EBL and SBI are cash and bank balance, money at call or short notice, loan and advances and government securities. Miscellaneous current asset is also a component of current assets. Prepaid expenses, outstanding income like interest receivable and other current assets included in miscellaneous current assets.

4.1.1 Current Assets to Total Assets Ratio

This ratio clarifies the portion of current assets on total assets of the bank and thus measures the magnitude of the working capital. Higher the ratio indicates higher availability of working capital for day-to-day transaction. The ratio of four banks, NABIL, HBL, EBL and SBI is presented in the Table 4.1.

Table 4.1

Current Assets to Total Assets Ratio

Fiscal Year	Current Assets	Total Assets	Ratio	Current Assets	Total Assets	Ratio
	NABIL			**HBL**		
2002/03	16310.70	16562.62	98.48	23968.10	24197.97	99.05
2003/04	16407.36	16745.49	97.98	25430.15	25729.79	98.84
2004/05	16825.09	17186.33	97.90	28575.52	28871.34	98.98
2005/06	22010.88	22329.97	98.57	30038.98	30579.81	98.23
2006/07	26966.49	27253.39	98.95	33740.81	34314.87	98.33
Average			**98.38**			**98.68**
	EBL			**SBI**		
2002/03	7942.62	8052.21	98.64	8054.87	8127.01	99.11
2003/04	9490.20	9608.57	98.77	8378.06	8440.41	99.26
2004/05	11598.45	11732.52	98.86	10278.92	10345.37	99.36
2005/06	15807.19	15959.28	99.05	12969.13	13035.84	99.49
2006/07	21262.48	21432.57	99.21	13803.98	13901.20	99.30
Average			**98.90**			**99.30**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The table 4.1 shows the current assets to total assets of sample banks. The current assets to total assets ratio of NABIL followed fluctuating trend and ranged from 97.90% in the fiscal year 2004/05 to 98.95% in the fiscal year 2006/07. In average, NABIL kept 98.38% of the total assets as current assets. Similarly, the ratio of HBL ranged from 98.23% in the fiscal year 2005/06 to 99.05% in the fiscal year 2002/03 and in average the ratio is 98.68%.

Likewise, the ratio followed increasing trend in case of EBL. The ratio started from 98.64% in the base year 2002/03 and reached to 99.21% in the fiscal year 2006/07. The average ratio of EBL within the five year period taken for research is 98.90%. Similarly, the current assets to total assets ratio of SBI followed increasing trend for the first four years, 99.11% in the fiscal year 2002/03 and reached to 99.49% in the fiscal year 2005/06, and finally decreased to 99.30% in the fiscal year 2006/07. In average, SBI maintained 99.30% of the total assets as fixed assets.

Comparing the average ratio of all four banks, it can be considered that the liquidity position of SBI is better than other three banks. After SBI, the liquidity position of EBL is better than NABIL and HBL. However, NABIL has the poorest liquidity position on the basis of current assets to total assets.

4.1.2 Current Assets to Fixed Assets

This ratio measures the composition of total assets on the basis of current assets and fixed assets and clarifies that by how much the working capital is greater than the fixed assets. The current assets to fixed assets of four sample banks is presented in the Table 4.2.

Table 4.2

Current Assets to Fixed Assets

Fiscal Year	Current Assets	Fixed Assets	Ratio	Current Assets	Fixed Assets	Ratio
	NABIL			**HBL**		
2002/03	16310.70	251.92	64.75	23968.10	229.87	104.27
2003/04	16407.36	338.13	48.52	25430.15	299.64	84.87
2004/05	16825.09	361.24	46.58	28575.52	295.82	96.60
2005/06	22010.88	319.09	68.98	30038.98	540.83	55.54
2006/07	26966.49	286.90	93.99	33740.81	574.06	58.78
Average			**64.56**			**80.01**
	EBL			**SBI**		
2002/03	7942.62	109.59	72.48	8054.87	60.88	132.31
2003/04	9490.20	118.37	80.17	8378.06	62.35	134.37
2004/05	11598.45	134.07	86.51	10278.92	66.45	154.69
2005/06	15807.19	152.09	103.93	12969.13	66.71	194.41
2006/07	21262.48	170.10	125.00	13803.98	97.22	141.99
Average			**93.62**			**151.55**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The table 4.2 shows the ratio of current assets to total assets. The table shows that the current assets to total assets of NABIL Bank is in fluctuating trend and ranged from 46.58 times in the fiscal year 2004/05 to 93.99 times in the fiscal year 2006/07. The ratio is 64.56 times in average. Similarly, the ratio of HBL also fluctuated over the periods taken for research. The ratio ranged from 55.54 times in the fiscal year 2005/06 to 104.27 times in the fiscal year 2002/03. In average, HBL kept 80.01 times of fixed assets as current assets.

However, the current assets to fixed assets of EBL is in increasing trend during the periods taken for research. The ratio of EBL was 72.48 times in the fiscal year 2002/03 and eventually reached to 125.00 times in the fiscal year 2006/07. In average, the current assets of EBL is 93.62 times of the fixed assets. Likewise, the current assets to fixed assets of SBI followed increasing trend for the first four years and then decreased in the fiscal year 2006/07. The ratio ranged from 132.31 times in the fiscal year 2002/03 to 194.41 times in the fiscal year 2006/07. In average, the current assets to fixed assets of SBI bank is 151.55 times of the fixed assets.

Comparing the average ratio, it can be concluded that SBI has the highest proportion of current assets to total assets and thus has better liquidity position compared to other three banks.

4.1.3 Cash and Bank Balance to Current Assets

This ratio measures the coverage of cash and balance on current assets of the bank. The higher the cash and balance indicates higher availability of liquid assets on working capital. The cash and bank balance to current assets of four sample banks is presented in Table 4.3.

Table 4.3

Cash and Bank Balance to Current Assets

Fiscal Year	CBB	CA	Ratio	CBB	CA	Ratio
	NABIL			HBL		
2002/03	1144.77	16310.70	7.02	1979.21	23968.10	8.26
2003/04	970.49	16407.36	5.91	2001.18	25430.15	7.87
2004/05	559.38	16825.09	3.32	2014.47	28575.52	7.05
2005/06	630.24	22010.88	2.86	1717.35	30038.98	5.72
2006/07	1399.83	26966.49	5.19	1757.34	33740.81	5.21
Average			4.86			6.82
	EBL			SBI		
2002/03	1139.57	7942.62	14.35	817.36	8054.87	10.15
2003/04	631.80	9490.20	6.66	864.43	8378.06	10.32
2004/05	1049.99	11598.45	9.05	723.75	10278.92	7.04
2005/06	1552.97	15807.19	9.82	1118.16	12969.13	8.62
2006/07	2391.42	21262.48	11.25	1122.69	13803.98	8.13
Average			10.23			8.85

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

From the table 4.3, it can be said that the cash and bank balance to current assets of NABIL fluctuated during the entire period. The ratio decreased from 7.02% in the fiscal year 2002/03 to 2.86% in the fiscal year 2005/06 and again increased to 5.19% in the fiscal year 2006/07. In average, the cash and bank balance of NABIL occupied 4.86% of its current assets. However, the cash and bank balance to current assets of HBL followed decreasing trend. The ratio was 8.26% in the base year 2002/03 and finally reached to 5.21% in the fiscal year 2006/07. The mean ratio of cash and bank balance to current assets of HBL was 6.82%, which indicated that the cash and bank balance of HBL occupied only 6.82% of its total current assets.

Similarly, the ratio of EBL fluctuated during the period taken for research. The ratio ranged from 6.66% in the fiscal year 2003/04 to 14.35% in the fiscal year 2002/03. In average, the cash and bank balance of EBL hold 10.23% of its current assets. Likewise, the ratio of SBI followed fluctuating trend during the

period and ranged from 7.04% in the fiscal year 2004/05 to 10.32% in the fiscal year 2003/04. In average, the cash and bank balance of SBI occupied 8.85% of its current assets.

On the basis of average cash and bank balance of current assets, it can be concluded that EBL has the policy of keeping highest portion of current assets as cash and bank balance than other banks.

4.1.4 Cash and Bank Balance to Total Assets

The cash and bank balance to total assets measures the magnitude of cash and bank balance on total assets. The higher the ratio signifies higher availability of working capital for day-to-day transactions. The cash and bank balance to total assets of four sample banks is presented in Table 4.4.

Table 4.4

Cash and Bank Balance to Total Assets

Fiscal Year	CBB	TA	Ratio	CBB	TA	Ratio
	NABIL			HBL		
2002/03	1144.77	16562.62	6.91	1979.21	24197.97	8.18
2003/04	970.49	16745.49	5.80	2001.18	25729.79	7.78
2004/05	559.38	17186.33	3.25	2014.47	28871.34	6.98
2005/06	630.24	22329.97	2.82	1717.35	30579.81	5.62
2006/07	1399.83	27253.39	5.14	1757.34	34314.87	5.12
Average			**4.78**			**6.73**
	EBL			SBI		
2002/03	1139.57	8052.21	14.15	817.36	8127.01	10.06
2003/04	631.80	9608.57	6.58	864.43	8440.41	10.24
2004/05	1049.99	11732.52	8.95	723.75	10345.37	7.00
2005/06	1552.97	15959.28	9.73	1118.16	13035.84	8.58
2006/07	2391.42	21432.57	11.16	1122.69	13901.20	8.08
Average			**10.11**			**8.79**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The above table depicts the cash and bank balance to total assets of the sample banks. The table shows that the cash and balance to total assets of NABIL followed decreasing trend in the entire period. The ratio was 6.91% in the fiscal year 2002/03 and decreased to 5.80% in the fiscal year 2003/04, again

decreased to 3.25% in the fiscal year 2004/05, 2.82% in the fiscal year 2005/06 and finally increased to 5.14% in the fiscal year 2006/07. In average, the cash and bank balance of NABIL hold 4.78% of the total assets. However, the ratio followed decreasing trend in case of HBL and ranged from 8.18% in the fiscal year 2002/03 to 5.12% in the fiscal year 2006/07. In average, the cash and bank balance of HBL occupied 6.73% of its total assets.

Similarly, the ratio was in fluctuating trend in the entire period taken for research in case of EBL. The ratio ranged from 6.58% in the fiscal year 2003/04 to 14.15% in the fiscal year 2002/03. The mean ratio of cash and bank balance to total assets of EBL was 10.11%. Likewise, the ratio also followed fluctuation in case of SBI. The ratio ranged from 7.00% in the fiscal year 2004/05 to 10.24% in the fiscal year 2003/04. In average, the ratio for the five year period of SBI was 8.79%.

On the basis of cash and bank balance to total assets, it can be concluded that among four banks, EBL has the policy of keeping highest portion of the total assets as cash and bank balance to meet its obligations.

4.2 Liquidity Position

Liquidity of any organization is directly related with the working capital or current assets and current liabilities of that organization. Liquidity is one of the main objectives of working capital management. In case of banks working capital management is mainly concerned with the liquidity management. And a bank is not able to operate its function without sound liquidity. Liquidity is a prerequisite for avoidance of technical insolvency and ultimately for very survival of the banks. However, it is the critical factor to maintain proper level of liquidity. To measure the bank's solvency position or ability to meet its short-term obligations, various liquidity ratios are calculated.

4.2.1 Current Ratio

The current ratio measures the short-term solvency position of a bank, i.e. ability to meet its current obligations. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety, i.e. a 'cushion' of protection for creditors and higher the current ratio, greater the margin of safety, larger the amount of current assets in relation to current liabilities and more the bank's ability to meet its current obligations.

Table 4.5

Current Ratio

Fiscal Year	CA	CL	CR	CA	CL	CR
	NABIL			HBL		
2002/03	16310.70	14286.97	1.14	23968.10	21608.08	1.11
2003/04	16407.36	15034.14	1.09	25430.15	22778.85	1.12
2004/05	16825.09	15389.38	1.09	28575.52	25370.36	1.13
2005/06	22010.88	20281.77	1.09	30038.98	27189.59	1.10
2006/07	26966.49	24313.77	1.11	33740.81	30776.67	1.10
Average			**1.10**			**1.11**
	EBL			SBI		
2002/03	7942.62	7439.38	1.07	8054.87	7813.77	1.03
2003/04	9490.20	8928.25	1.06	8378.06	7696.59	1.09
2004/05	11598.45	10599.90	1.09	10278.92	9186.73	1.12
2005/06	15807.19	14696.48	1.08	12969.13	11241.04	1.15
2006/07	21262.48	19931.06	1.07	13803.98	11722.54	1.18
Average			**1.07**			**1.11**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The above table showed that the current ratio of none of the banks met the benchmark of 2:1. The current ratio of NABIL ranged from 1.09:1 in three fiscal years 2003/04, 2004/05, 2005/06 to 1.14:1 in the fiscal year 2002/03. In the five year periods, NABIL maintained an average current ratio of 1.10:1. Similarly, the current ratio of HBL increased in first three years, i.e. 1.11:1 in the fiscal year 2002/03 to 1.13:1 in the fiscal year 2004/05 and then decreased to 1.10:1 in the fiscal year 2005/06 and 2006/07. The mean current ratio of HBL in the five year period taken for research is 1.11:1.

Likewise, the current ratio of EBL followed fluctuating trend and ranged from 1.06:1 in the fiscal year 2003/04 to 1.09:1 in the fiscal year 2004/05. In

average, the current ratio of EBL is 1.07:1 in the period taken for research. However, the current ratio of SBI followed increasing trend and ranged from 1.03:1 in the fiscal year 2002/03 to 1.18:1 in the fiscal year 2006/07. The average current ratio of SBI in the five year period is 1.11:1.

Comparing the current ratio, it can be considered that SBI and HBL banks have highest current ratio of 1.11:1 than NABIL and EBL. But, the current ratio of none of the bank is satisfactory and thus indicated that all of the bank face difficulties while meeting the obligation.

4.2.2 Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is a most liquid asset. Other assets, which are considered to be relatively liquid and included in quick assets, are book debts and marketable securities. Under this study cash and bank balance, money at call or short notice and government securities are included in quick assets.

Table 4.6

Quick Ratio

Fiscal Year	QA	CL	QR	QA	CL	QR
	NABIL			HBL		
2002/03	16292.35	14286.97	1.14	23950.06	21608.08	1.11
2003/04	16386.57	15034.14	1.09	25408.12	22778.85	1.12
2004/05	16796.92	15389.38	1.09	28555.39	25370.36	1.13
2005/06	21992.11	20281.77	1.08	30010.41	27189.59	1.10

2006/07	26942.06	24313.77	1.11	33709.35	30776.67	1.10
Average			**1.10**			**1.11**
	EBL			**SBI**		
2002/03	7937.8	7439.38	1.07	8052.59	7813.77	1.03
2003/04	9484.53	8928.25	1.06	8375.11	7696.59	1.09
2004/05	11592.39	10599.90	1.09	10276.18	9186.73	1.12
2005/06	15797.74	14696.48	1.07	12965.69	11241.04	1.15
2006/07	21253.75	19931.06	1.07	13793.44	11722.54	1.18
Average			**1.07**			**1.11**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The above table shows the quick ratio of the sample banks. The table indicates that there is only minimal difference between current assets and quick assets, meaning that the inventory and prepaid expenses are significantly very low, as a result there is no difference between the current ratio and quick ratio of all the banks. The quick ratio of NABIL, HBL, EBL and SBI are 1.10:1, 1.11:1, 1.07:1 and 1.11:1 respectively. The quick ratio of all the banks have met the standard ratio of 1:1.

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

The ratio shows the ability of bank's immediate funds to cover its (current, margin, call and saving) deposits. It can be calculated by dividing cash and bank balance by total deposits (excluding fixed deposits).

Table 4.7

Cash and Bank Balance to Total Deposit Ratio

Fiscal Year	**CBB**	**TD**	**Ratio**	**CBB**	**TD**	**Ratio**
	NABIL			**HBL**		
2002/03	1144.77	11195.12	10.23	1979.21	17839.71	11.09
2003/04	970.49	11808.46	8.22	2001.18	17300.16	11.57
2004/05	559.38	12508.07	4.47	2014.47	18706.58	10.77
2005/06	630.24	15898.31	3.96	1717.35	20140.65	8.53
2006/07	1399.83	17907.10	7.82	1757.34	21847.28	8.04
Average			**6.94**			**10.00**
	EBL			**SBI**		
2002/03	1139.57	3900.22	29.22	817.36	3896.87	20.97
2003/04	631.80	5165.94	12.23	864.43	3846.06	22.48

2004/05	1049.99	6693.73	15.69	723.75	4568.42	15.84
2005/06	1552.97	9560.09	16.24	1118.16	4885.87	22.89
2006/07	2391.42	12559.59	19.04	1122.69	5927.82	18.94
Average			**18.48**			**20.22**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The above table depicts that the cash and bank balance to total deposit (excluding fixed deposit) of NABIL decreased for the first four years, i.e. 10.23% in the fiscal year 2002/03 to 3.96% in the fiscal year 2005/06, and then slightly increased to 7.82% in the fiscal year 2006/07. In average, NABIL bank maintained 6.94% of its deposit excluding fixed deposit as cash and bank balance. Similarly, the ratio in HBL ranged from 11.57% in the fiscal year 2003/04 to 8.04% in the fiscal year 2006/07 and the average ratio maintained by HBL for the five year period was 10.00%.

Likewise, the ratio in EBL fluctuated during the entire period and ranged from 12.23% in the fiscal year 2003/04 to 29.22% in the fiscal year 2002/03. The average ratio maintained by EBL was 18.48%. Similarly, the ratio in SBI fluctuated during the period and was highest in the fiscal year 2005/06 (22.89%). In average, SBI kept 20.22% of its total deposit as cash reserve to meet its obligations.

Comparing four banks on the basis of average cash and bank balance to total deposit ratio, it can be concluded that SBI bank has high liquidity position than other. After SBI bank, EBL has greater liquidity position than HBL and NABIL.

4.2.4 Saving Deposit to Total Deposit Ratio

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

Table 4.8

Saving Deposit to Total Deposit Ratio

Fiscal Year	SD	TD	Ratio	SD	TD	Ratio
	NABIL			**HBL**		
2002/03	5229.72	13447.66	38.89	10870.54	21045.09	51.65
2003/04	5994.12	14119.03	42.45	11759.60	22010.33	53.43
2004/05	7026.33	14586.61	48.17	12852.41	24814.01	51.79
2005/06	8770.76	19347.40	45.33	14582.86	26490.85	55.05
2006/07	10187.35	23342.29	43.64	15784.77	30048.42	52.53
Average			**43.70**			**52.89**
	EBL			**SBI**		
2002/03	2757.95	6694.96	41.19	1942.15	6924.98	28.05
2003/04	3730.61	8063.90	46.26	2043.02	7198.33	28.38
2004/05	4806.83	10097.69	47.60	2458.80	8654.77	28.41
2005/06	6929.22	13802.44	50.20	2832.64	11002.04	25.75
2006/07	9029.26	18186.25	49.65	3274.69	11445.29	28.61
Average			**46.98**			**27.84**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The above table delineates the savings deposit to total deposit ratio of sample banks. The table clarifies that the ratio of NABIL bank followed increasing trend for the first four years, i.e. 38.89% in the fiscal year 2002/03 to 45.33% in the fiscal year 2005/06, and finally decreased to 43.64% in the fiscal year 2006/07. Along with the increase in savings deposit and total deposit, the ratio increased. The savings deposit of NABIL bank occupies 43.70% of its total deposit in average. Similarly, the ratio in HBL ranged from 51.65% in the fiscal year 2002/03 to 55.05% in the fiscal year 2005/06 and fluctuated during the period. Although, the saving deposit increased in each year the increment did not increase in same proportion of increment total deposit as a result the ratio fluctuated. However, the saving deposits hold 52.89% of the total deposit in average.

Likewise, the table depicts that both the saving deposit and total deposit of EBL increased in each year. The ratio also followed increasing trend for the first four years, i.e. 41.19% in the fiscal year 2002/03 to 50.20% in the fiscal year 2002/06, and slightly decreased to 49.65% in the fiscal year 2006/07. The

saving deposits of EBL covered 46.98% of the total deposit in average. Similarly, the ratio of SBI bank fluctuated during the period and the ratio ranged from 25.75% in the fiscal year 2005/06 to 28.61% in the fiscal year 2006/07. In average, the saving deposits covered 27.84% of the total deposit of SBI bank.

Comparing four banks on the basis of savings deposit to total deposit, it can be concluded that HBL mobilizes more portion of its total deposit rather than other banks.

4.3 Activity or Turnover Position

Turnover ratios help to analyze the behavior of working capital utilization and improvement. These ratios are used to evaluate with which the firm manages and utilizes its assets. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. It has had direct impact on the efficiency of the company. There is no standard of ideal management though a greater turnover is regarded as efficient utilization of the assets. These ratios moreover, help in measuring the banks' ability to utilize their available resources.

4.3.1 Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which banks are successful in utilizing the outsiders' funds for the profit generating purpose. In other words how quickly collected total deposits are converted into loan and advances given to the client to earn income.

Table 4.9

Loan and Advances to Total Deposit Ratio

Fiscal Year	LA	TD	Ratio	LA	TD	Ratio
	NABIL			HBL		
2002/03	7755.95	13447.66	57.68	10001.85	21045.09	47.53
2003/04	8189.99	14119.03	58.01	11951.87	22010.33	54.30

2004/05	10586.17	14586.61	72.57	12424.52	24814.01	50.07
2005/06	12922.54	19347.40	66.79	14642.56	26490.85	55.27
2006/07	15545.78	23342.29	66.60	16998.00	30048.42	56.57
Average			**64.33**			**52.75**
	EBL			**SBI**		
2002/03	4908.46	6694.96	73.32	4833.43	6924.98	69.80
2003/04	5884.12	8063.90	72.97	5143.66	7198.33	71.46
2004/05	7618.67	10097.69	75.45	6213.88	8654.77	71.80
2005/06	9801.31	13802.44	71.01	7626.74	11002.04	69.32
2006/07	13664.08	18186.25	75.13	9460.45	11445.29	82.66
Average			**73.58**			**73.01**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The above table shows the loan and advances to total deposit ratio of sampled banks. The table shows that the total deposit and loans & advances of NABIL banks increased in each year. However, the loan & advances to total deposit ratio of the bank fluctuated during the period. NABIL bank mobilized highest portion (72.57%) and lowest portion (57.68%) of its total deposit in loan and advances in the fiscal year 2004/05 and 2002/03 respectively. In average, NABIL mobilized almost three-fifth (64.33%) of its total deposit in loan and advances. Similarly, the ratio in HBL ranged from 47.53% in the fiscal year 2002/03 to 56.57% in the fiscal year 2006/07. In average, HBL mobilized 52.75% of its total deposit in providing loan and advances.

Similarly, the ratio in EBL fluctuated during the periods taken for research and ranged from 71.01% in the fiscal year 2005/06 to 75.45% in the fiscal year 2006/07. In average, 73.58% of the total deposit had been utilized by EBL in loan and advances. Likewise, the ratio of SBI followed increasing trend for the first three years, i.e. 69.80% in the fiscal year 2002/03 to 71.80% in the fiscal year 2004/05, and decreased to 69.32% in the fiscal year 2005/06 and finally increased to 82.66% in the fiscal year 2006/07. In average, 73.01% of total deposit of SBI bank had been utilized in loan and advances.

Comparing the average ratios of four banks, it can be concluded that EBL remained more successful in mobilizing the total deposits in providing loan and advances than other banks.

4.3.2 Loan and Advances to Fixed Deposit

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

Table 4.10

Loan and Advances to Fixed Deposit

Fiscal Year	LA	FD	Ratio	LA	FD	Ratio
	NABIL			**HBL**		
2002/03	7755.95	2252.54	3.44	10001.85	3205.37	3.12
2003/04	8189.99	2310.57	3.54	11951.87	4710.18	2.54
2004/05	10586.17	2078.54	5.09	12424.52	6107.43	2.03
2005/06	12922.54	3449.09	3.75	14642.56	6350.20	2.31
2006/07	15545.78	5435.19	2.86	16998.00	8201.13	2.07
Average			**3.74**			**2.41**
	EBL			**SBI**		
2002/03	4908.46	2794.74	1.76	4833.43	3028.12	1.60
2003/04	5884.12	2897.96	2.03	5143.66	3352.27	1.53
2004/05	7618.67	3403.96	2.24	6213.88	4086.36	1.52
2005/06	9801.31	4242.35	2.31	7626.74	6116.17	1.25
2006/07	13664.08	5626.66	2.43	9460.45	5517.47	1.71
Average			**2.15**			**1.52**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The table shows that the loans and advances to fixed deposit of NABIL bank increased for the first three years, i.e. 3.44 times in the fiscal year 2002/03 to 5.09 times in the fiscal year 2004/05, and then decreased to 3.75 times in the fiscal year 2005/06 and finally decreased to 2.86 times in the fiscal year 2006/07. In average, the loan and advances of NABIL bank is 3.74 times greater than the fixed deposits. It clearly indicates that the fixed deposit of the bank covers only one-fourth (approximately) of the loans and advances disbursed. Similarly, the ratio in HBL bank followed fluctuating trend in the five year period taken for research. The ratio was highest (3.12 times) in the fiscal year 2002/03 and lowest (2.03 times) in the fiscal year 2004/05. In average, the fixed deposit of HBL covered approximately forty percent of the total loan and advances disbursed.

However, the ratio in EBL increased in each year compared to the previous year. The ratio was 1.76 times in the fiscal year 2002/03 and reached to 2.43 times in the fiscal year 2006/07. This clearly indicates that the contribution of fixed deposit in loan and advances decreased gradually. In average, the fixed deposit of EBL contributed almost forty six percent of the total loan and advances provided by the bank. Similarly, the ratio in SBI bank followed decreasing trend in the first four years, i.e. from 1.60 times in the fiscal year 2002/03 to 1.25 times in the fiscal year 2005/06 and finally increased to 1.71 times in the fiscal year 2006/07. In average, the loans and advances of SBI bank is only 1.52 times greater than fixed deposit, which clearly indicates high mobilization of fixed deposit, almost 66%, in the loan and advances amount.

Comparing four banks, it can be concluded that the loans and advances of SBI bank is highly dominated by fixed deposit than other banks. In contrast, the loans and advances of NABIL banks is less dominated by fixed deposit than other three banks.

4.3.3 Loan and Advances to Saving Deposit Ratio

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

Table 4.11

Loan and Advances to Saving Deposit Ratio

Fiscal Year	LA	SD	Ratio	LA	SD	Ratio
	NABIL			HBL		
2002/03	7755.95	5229.72	1.48	10001.85	10870.54	0.92
2003/04	8189.99	5994.12	1.37	11951.87	11759.60	1.02
2004/05	10586.17	7026.33	1.51	12424.52	12852.41	0.97
2005/06	12922.54	8770.76	1.47	14642.56	14582.86	1.00
2006/07	15545.78	10187.35	1.53	16998.00	15784.77	1.08
Average			**1.47**			**1.00**
	EBL			SBI		
2002/03	4908.46	2757.95	1.78	4833.43	1942.15	2.49
2003/04	5884.12	3730.61	1.58	5143.66	2043.02	2.52
2004/05	7618.67	4806.83	1.58	6213.88	2458.80	2.53
2005/06	9801.31	6929.22	1.41	7626.74	2832.64	2.69
2006/07	13664.08	9029.26	1.51	9460.45	3274.69	2.89
Average			**1.57**			**2.62**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The table shows that the loan and advances to saving deposit of NABIL bank fluctuated during the period. The ratio ranged from 1.37 times in the fiscal year 2003/04 to 1.53 times in the fiscal year 2006/07. The table showed that NABIL bank provided loan and advances almost one and half times (1.47 times) more

than the saving deposits it had collected. Similarly, the ratio in HBL was in fluctuating trend. The ratio varied from 0.92 times in the fiscal year 2002/03 to 1.08 times in the fiscal year 2006/07. In average, HBL bank granted loan and advances almost equal to the savings deposit it had collected.

Likewise, the ratio in EBL ranged from 1.41 times in the fiscal year 2005/06 to 1.78 times in the fiscal year 2002/03. And in average, EBL granted almost one and half times (1.57 times) more than the savings deposits collected. However, in case of SBI, the ratio followed increasing trend and ranged from 2.49 times in the fiscal year 2002/03 to 2.89 times in the fiscal year 2006/07. SBI provided loan and advances almost two and half times (2.62 times) more than the savings deposit collected.

On the basis of loan and advances to savings deposits, it can be concluded that SBI remained more successful in mobilizing its savings deposits in loan and advances.

4.4 Profitability Position

Under this study various profitability ratios are developed upon the profit under different circumstances to measure the operating efficiency of these four sample banks.

4.4.1 Interest Earned to Total Assets Ratio

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

Table 4.12

Interest Earned to Total Assets Ratio

Fiscal Year	IE	TA	Ratio	IE	TA	Ratio
	NABIL			HBL		
2002/03	1017.87	16562.62	6.15	1201.23	24197.97	4.96
2003/04	1001.62	16745.49	5.98	1245.90	25729.79	4.84

2004/05	1068.75	17186.33	6.22	1446.47	28871.34	5.01
2005/06	1310.00	22329.97	5.87	1626.47	30579.81	5.32
2006/07	1587.76	27253.39	5.83	1775.58	34314.87	5.17
Average			**6.01**			**5.06**
	EBL			**SBI**		
2002/03	520.17	8052.21	6.46	412.47	8127.01	5.08
2003/04	657.25	9608.57	6.84	493.60	8440.41	5.85
2004/05	719.30	11732.52	6.13	578.37	10345.37	5.59
2005/06	903.41	15959.28	5.66	708.72	13035.84	5.44
2006/07	1144.41	21432.57	5.34	831.12	13901.20	5.98
Average			**6.09**			**5.59**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The table shows that the interest earned to total assets of NABIL bank fluctuated during the period. The ratio was 6.15%, 5.98%, 6.22%, 5.87% and 5.83% in the fiscal year 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. In average, the ratio was 6.01%, which indicated that on per Rs. 100 investment in total assets, NABIL generated Rs. 6.01 income in the form of interest. Likewise, the ratio in HBL ranged from 4.84% in the fiscal year 2003/04 to 5.32% in the fiscal year 2005/06. The average ratio of HBL was 5.06%.

In case of EBL, the highest ratio was 6.84% in the fiscal year 2003/04 and the lowest ratio was 5.34% in the fiscal year 2006/07. The average interest earning to total assets ratio was 6.09%. Similarly, the ratio in SBI increased for the first two years, i.e. from 5.08% in the fiscal year 2002/03 to 5.85% in the fiscal year 2003/04, and then decreased to 5.59% in the fiscal year 2004/05, again decreased to 5.44% in the fiscal year 2005/06 and finally increased to 5.98% in the fiscal year 2006/07. In average, SBI bank converted 5.59% of its total assets investment in interest earning.

On the basis of interest earning to total assets, it can be concluded that EBL remained more successful to efficiently utilize its investment in total assets on income generating purpose than other three banks taken for research.

4.4.2 Net Profit to Total Assets Ratio

This ratio is useful in measuring the profitability of all financial resources invested in the bank's assets. The return on assets (***ROA***) or profit to assets ratio is calculated by dividing the amount of net profit by the amount of total assets employed.

Table 4.13

Net Profit to Total Assets Ratio

Fiscal Year	NP	TA	Ratio	NP	TA	Ratio
	NABIL			**HBL**		
2002/03	416.24	16562.62	2.51	212.13	24197.97	0.88
2003/04	455.31	16745.49	2.72	263.05	25729.79	1.02
2004/05	520.11	17186.33	3.03	308.28	28871.34	1.07
2005/06	635.26	22329.97	2.84	457.46	30579.81	1.50
2006/07	673.96	27253.39	2.47	491.82	34314.87	1.43
Average			**2.72**			**1.18**
	EBL			**SBI**		
2002/03	94.18	8052.21	1.17	56.72	8127.01	0.70
2003/04	143.57	9608.57	1.49	60.85	8440.41	0.72
2004/05	168.21	11732.52	1.43	57.39	10345.37	0.55
2005/06	237.29	15959.28	1.49	117.00	13035.84	0.90
2006/07	296.41	21432.57	1.38	254.91	13901.20	1.83
Average			**1.39**			**0.94**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The above table depicts that the return of total assets (ROA) of NABIL bank increased for the first three year, i.e. from 2.51% in the fiscal year 2002/03 to 3.03% in the fiscal year 2004/05, and then decreased to 2.84% in the fiscal year 2005/06 and finally decreased to 2.47% in the fiscal year 2006/07. In average, the NABIL generated 2.72% of its total assets investment as net profit. However, the ratio followed increasing trend for the first four years in HBL, i.e. from 0.88% in the fiscal year 2002/03 to 1.50% in the fiscal year 2005/06, and eventually decreased to 1.43% in the fiscal year 2006/07. HBL converted 1.18% of its total assets in net profit in average.

Likewise, the ratio in EBL fluctuated during the period and ranged from 1.174% in the fiscal year 2002/03 to 1.49% in the fiscal years 2003/04 and 2005/06. The average ratio of 1.39% indicated that from Rs. 100 investment in total assets, EBL generated Rs. 1.39 as net profit. Similarly, the ratio in SBI ranged from 0.55% in the fiscal year 2004/05 to 1.83% in the fiscal year 2006/07. In average SBI generated Rs. 0.94 profit from Rs. 100 investment in total assets.

Comparing the return on assets (ROA) of four banks, the ROA of NABIL (2.72%) bank is far highest than that of other banks which clearly indicated that NABIL is more successful in generating profit from the investment in total assets than other banks.

4.4.3 Net Profit to Shareholders' Equity Ratio

This ratio tells us the earning power on shareholders' book investment and is frequently used in comparing two or more firms in an industry. The return on equity (***ROE***) or net profit to shareholders' equity ratio is calculated by dividing the amount of net profit by the amount of net worth.

Table 4.14

Net Profit to Shareholders' Equity Ratio

Fiscal Year	**NP**	**SE**	**Ratio**	**NP**	**SE**	**Ratio**
	NABIL			**HBL**		
2002/03	416.24	1314.19	31.67	212.13	1905.88	11.13
2003/04	455.31	1481.68	30.73	263.05	2291.93	11.48
2004/05	520.11	1657.64	31.38	308.28	2568.40	12.00
2005/06	635.26	1874.99	33.88	457.46	2885.59	15.85
2006/07	673.96	2057.05	32.76	491.82	2942.23	16.72
Average			**32.08**			**13.44**
	EBL			**SBI**		
2002/03	94.18	613.95	15.34	56.72	609.42	9.31
2003/04	143.57	762.16	18.84	60.85	626.64	9.71
2004/05	168.21	998.03	16.85	57.39	689.01	8.33
2005/06	237.29	1197.97	19.81	117.00	982.37	11.91
2006/07	296.41	1514.67	19.57	254.91	1163.29	21.91
Average			**18.08**			**12.23**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The above table shows that the return on shareholders equity of (ROE) of NABIL bank fluctuated during the periods taken for research. The ratio was highest (33.88%) in the fiscal year 2005/06 and lowest (30.73) in the fiscal year 2003/04. The table shows that NABIL generated 32.08% of shareholders' equity as net profit in average. However, in case of HBL, the ROE followed increasing trend over the period. The ratio was 11.13% in the fiscal year 2002/03 and finally reached to 16.72% in the fiscal year 2006/07. The table showed that HBL generated Rs. 13.44 net profit from Rs. 100 of shareholders' equity in average.

Similarly, the ratio in EBL fluctuated during the period and ranged from 15.34% in the fiscal year 2002/03 to 19.81% in the fiscal year 2005/06. In average, the shareholders' of EBL got 18.08% return from their investment. Likewise, the ratio in SBI was highest (21.91%) in the fiscal year 2006/07 and lowest (9.31%) in the fiscal year 2002/03. And in average, the ratio in SBI was 12.23%.

Comparing the return on shareholders' equity (ROE), it can be concluded that the shareholders of NABIL remained more satisfied than those of other banks as NABIL generated more percentage of return from shareholders' equity than other banks.

4.4.4 Net Profit to Total Deposit Ratio

Deposits are mobilized for investment, loan and advances to public in generating revenue. Mobilization of outsiders' fund is important to earn profit for commercial banks. This ratio is used for measuring the internal rate of return from deposits. It measures the percentage of profit earned from the utilization of the total deposits.

Table 4.15

Net Profit to Total Deposit Ratio

Fiscal Year	NP	TD	Ratio	NP	TD	Ratio
	NABIL			**HBL**		
2002/03	416.24	13447.66	3.10	212.13	21045.09	1.01
2003/04	455.31	14119.03	3.22	263.05	22010.33	1.20
2004/05	520.11	14586.61	3.57	308.28	24814.01	1.24
2005/06	635.26	19347.40	3.28	457.46	26490.85	1.73
2006/07	673.96	23342.29	2.89	491.82	30048.42	1.64
Average			**3.21**			**1.36**
	EBL			**SBI**		
2002/03	94.18	6694.96	1.41	56.72	6924.98	0.82
2003/04	143.57	8063.90	1.78	60.85	7198.33	0.85
2004/05	168.21	10097.69	1.67	57.39	8654.77	0.66
2005/06	237.29	13802.44	1.72	117.00	11002.04	1.06
2006/07	296.41	18186.25	1.63	254.91	11445.29	2.23
Average			**1.64**			**1.12**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The table shows how efficiently the total deposit had been utilized in generating net profit. The table shows that the net profit to total deposit of NABIL bank increased for the first three years and then decreased in the last two years. The ratio in NABIL is highest (3.57%) in the fiscal year 2004/05 and lowest (2.89%) in the fiscal year 2006/07. In average, NABIL bank generated 3.21% of the total deposit as net profit. Similarly, the net profit to total deposit of HBL increased for the first four years, i.e. 1.01% in the fiscal year 2002/03 to 1.73% in the fiscal year 2005/06, and finally decreased to 1.64% in the fiscal year 2006/07. The average ratio of 1.36% indicates that HBL generated Rs. 1.36 from Rs. 100 collection in total deposit.

However, the net profit to total deposit of EBL fluctuated in the five year periods taken for research. The ratio ranged from 1.41% in the fiscal year 2002/03 to 1.72% in the fiscal year 2005/06. In average, EBL generated Rs.

1.64 from Rs. 100 collection in total deposit. Likewise, the ratio in SBI followed increasing trend except in the fiscal year 2004/05 and ranged from 0.66% in the fiscal year 2004/05 to 2.23% in the fiscal year 2006/07. In average, SBI generated Rs. 1.12 from Rs. 100 collection in total deposit.

Comparing the average net profit to total deposit of sample banks, it can be concluded that NABIL remained more successful than other banks in mobilizing total deposit to generate profit. Thus, the profitability position of NABIL is best than that of other sampled banks.

4.4.5 Cost of Services to Total Assets Ratio

This ratio is used to measure the assets utilization with cost of services. This ratio is computed dividing the cost of services by total assets.

Table 4.16

Cost of Services to Total Assets Ratio

Fiscal Year	CS	TA	Ratio	CS	TA	Ratio
	NABIL			**HBL**		
2002/03	317.35	16562.62	1.92	554.13	24197.97	2.29
2003/04	282.95	16745.49	1.69	491.54	25729.79	1.91
2004/05	243.54	17186.33	1.42	561.96	28871.34	1.95
2005/06	357.16	22329.97	1.60	648.84	30579.81	2.12
2006/07	555.71	27253.39	2.04	767.41	34314.87	2.24
Average			**1.73**			**2.10**
	EBL			**SBI**		
2002/03	307.64	8052.21	3.82	213.56	8127.01	2.63
2003/04	316.37	9608.57	3.29	255.92	8440.41	3.03
2004/05	299.57	11732.52	2.55	258.43	10345.37	2.50
2005/06	401.40	15959.28	2.52	334.77	13035.84	2.57
2006/07	517.17	21432.57	2.41	412.26	13901.20	2.97
Average			**2.92**			**2.74**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The table shows that the cost of services to total assets of sample banks. The table shows that ratio in NABIL decreased for the first years, i.e. from 1.92% in the fiscal year 2002/03 to 1.60% in the fiscal year 2005/06, which is a good indication of cost reduction and eventually increased to 2.04%. Within the five

year period, the average ratio maintained by NABIL is 1.73%. However, in case of HBL, the ratio fluctuated during the period and was highest (2.29%) in the fiscal year 2002/03 and lowest (1.91%) in the fiscal year 2003/04. In average, HBL spent 2.10% of its total assets as cost of services.

While in EBL, the ratio decreased in each fiscal year compared to the previous year and showed a good prospect of cost reduction in the future as well. The ratio was 3.82% in the beginning year 2002/03 and eventually decreased to 2.41% in the fiscal year 2006/07. In average 2.92% of the total assets has been spent as cost of services in EBL. Likewise, the ratio in SBI bank fluctuated during the period and was highest (3.03%) in the fiscal year 2003/04 and lowest (2.50%) in the fiscal year 2004/05. In average, SBI bank spent 2.74% of the total assets in cost of services.

As lower the ratio is considered better, NABIL bank is most successful among four banks in minimizing cost of services and eventually increasing the profit.

4.5 Capital Structure or Leverage Ratio

Leverage refers to the ratio of debt to equity in the capital structure of the firm. Debt and equities are long-term obligations and remaining parts in the liability side of the balance sheet are termed as short-term obligations. Both types of obligations are required in forming the capital structure of the firm. The appropriation mix of all types of securities in capital structure results sound position of the firm. Therefore a firm has a strong short-term liquidity as well as long-term financial position. The long-term financial position or the firm is determined by the leverage or capital structure. The difference leverage ratios are mentioned to measure the financial risk or proportion of outsiders fund and owners' capital used by the firm.

4.5.1 Long-term Debt to Net worth Ratio

This ratio measures the proportion of outsiders and owners' fund employed in the capitalization of banks. Here, long-term debt refers to the amount fixed deposits and loans of the banks. This ratio is calculated by dividing the fixed obligations of the banks by owners claim.

Table 4.17

Long-term Debt to Net worth Ratio

Fiscal Year	LTD	NW	Ratio	LTD	NW	Ratio
	NABIL			HBL		
2002/03	3214.00	1314.19	2.45	3813.50	1905.88	2.00
2003/04	2540.23	1481.68	1.71	5369.19	2291.93	2.34
2004/05	2095.60	1657.64	1.26	6613.48	2568.40	2.57
2005/06	3622.29	1874.99	1.93	6854.82	2885.59	2.38
2006/07	6317.76	2057.05	3.07	8437.11	2942.23	2.87
Average			**2.09**			**2.43**
	EBL			SBI		
2002/03	2794.74	613.95	4.55	3114.60	609.42	5.11
2003/04	2897.96	762.16	3.80	3469.45	626.64	5.54
2004/05	3703.96	998.03	3.71	4555.99	689.01	6.61
2005/06	4542.35	1197.97	3.79	6928.60	982.37	7.05
2006/07	5926.66	1514.67	3.91	6532.84	1163.29	5.62
Average			**3.95**			**5.99**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The above table shows the capital structure of four sample banks. The table depicts that the debt capital of NABIL is highest, 3.07 times, in the fiscal year 2006/07 and lowest, 1.26 times, in the fiscal year 2004/05 than the shareholders equity, internal financing. In average, NABIL finances 2.09 times more external fund, debt capital than the internal fund, net worth. Similarly, the long-term debt to net worth of HBL fluctuated during the entire period and ranged from 2.00 times in the fiscal year 2002/03 to 2.87 times in the fiscal year 2006/07. In average, HBL has the practice of financing 2.43 times more debt capital than equity capital.

Likewise, the ratio in EBL decreased for the first four year, i.e. from 4.55 times in the fiscal year 2002/03 to 3.71 times in the fiscal year 2004/05, and

increased to 3.79 times and 3.91 times in the fiscal year 2005/06 and 2006/07 respectively. In average, EBL financed 3.95 times more debt capital than equity capital. However, the ratio in SBI bank increased for the first four years, i.e. from 5.11times in the fiscal year 2002/03 to 7.05 times in the fiscal year 2005/06 and finally decreased to 5.62 times in the fiscal year 2006/07. The increment in ratio indicated that SBI has the policy of financing its assets mostly through debt capital. In average, SBI financed 5.99 times more external fund than internal fund.

Comparing the four sample banks, it can be concluded that NABIL has the policy of using less debt capital to reduce cost of services whereas SBI bank has the policy of using high debt capital to finance the total assets. The ratio shows that SBI bank has more risky and aggressive capital structure than other banks.

4.5.2 Net Fixed Assets to Long-term Debt Ratio

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

Table 4.18

Net Fixed Assets to Long-Term Debt Ratio

Fiscal Year	FA	LTD	Ratio	FA	LTD	Ratio
	NABIL			HBL		

2002/03	251.92	3214.00	7.84	229.87	3813.50	6.03
2003/04	338.13	2540.23	13.31	299.64	5369.19	5.58
2004/05	361.24	2095.60	17.24	295.82	6613.48	4.47
2005/06	319.09	3622.29	8.81	540.83	6854.82	7.89
2006/07	286.90	6317.76	4.54	574.06	8437.11	6.80
Average			**10.35**			**6.16**
	EBL			**SBI**		
2002/03	109.59	2794.74	3.92	60.88	3114.60	1.95
2003/04	118.37	2897.96	4.08	62.35	3469.45	1.80
2004/05	134.07	3703.96	3.62	66.45	4555.99	1.46
2005/06	152.09	4542.35	3.35	66.71	6928.60	0.96
2006/07	170.10	5926.66	2.87	97.22	6532.84	1.49
Average			**3.57**			**1.53**

(Source: Annual Reports of NABIL, HBL, EBL & SBI)

The table shows that the portion of financing fixed assets through external capital in NABIL fluctuated during the entire period. In the fiscal year 2004/05, NABIL mobilized highest percentage (17.24%) in fixed assets, whereas in the fiscal year 2006/07, the bank used lowest percentage (4.54%) of debt capital in financing fixed assets. In aggregate, the bank mobilized 10.35% of the debt capital in financing fixed assets. Similarly, HBL utilized highest percentage (7.89%) of long term debt in fixed assets in the fiscal year 2005/06 and lowest percentage (4.47%) of long term debt in fixed assets in the fiscal year 2004/05. In average, HBL mobilized 6.16% of its external financing in financing fixed assets.

Similarly, the table depicts that the ratio in EBL ranged from 2.87% in the fiscal year 2006/07 to 4.08% in the fiscal year 2003/04. And in average, EBL used 3.57% of its external financing in acquiring fixed assets. However, the practice of financing fixed assets in SBI followed decreasing trend for the first four years, i.e. from 1.95% in the fiscal year 2002/03 to 0.96% in the fiscal year 2005/06, and finally increased to 1.49% in the fiscal year 2006/07. In average, SBI bank used 1.53% of its debt capital in financing fixed assets.

Comparing four banks, SBI bank mobilized lowest percentage (1.53%) and NABIL utilized highest percentage (10.35%) of their respective debt capital in acquiring fixed assets. This clearly indicates that SBI bank uses large portion of its debt capital in current assets than other banks taken for research.

4.6 Trend Analysis

Trend analysis is a part of time series analysis. For a long period it is desired to indicate whether the present data is increasing or decreasing. Trend analysis is also attempted to find out growth factor. The trend analysis projects the rate of change so that budgeting and planning can he made easier. Therefore, trend analysis is taken as a tool to find out future behavior of the data. For the purpose of the study Least Square Method of trend analysis is used.

4.6.1 Current Assets to Total Assets

Let the dependent variable current assets to total assets be denoted by Y and the independent variable time period be denoted by X. Then the regression line of current assets to total assets (Y) on time period (X) is given by; *(Appendix-I)*

$Y_{NABIL} = 97.92 + 0.15 X$

$Y_{HBL} = 99.30 - 0.21 X$

$Y_{EBL} = 98.48 + 0.14 X$

$Y_{SBI} = 99.12 + 0.06 X$

Table 4.19

Trend Line of Current Assets to Total Assets

FY	NABIL	HBL	EBL	SBI
2002/03	98.07	99.10	98.62	99.18

2003/04	98.22	98.89	98.76	99.24
2004/05	98.38	98.69	98.91	99.30
2005/06	98.53	98.48	99.05	99.37
2006/07	98.68	98.28	99.19	99.43
2007/08	98.84	98.07	99.33	99.49
2008/09	98.99	97.87	99.47	99.55

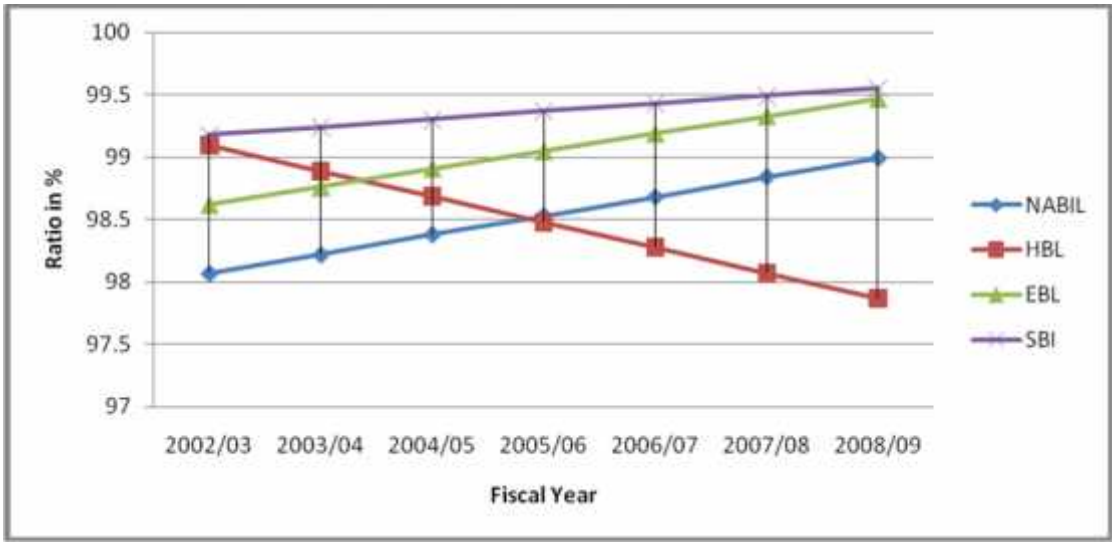
(Source: Appendix-I)

The table shows that the current assets of NABIL covers 98.44% in the fiscal year 2007/08 and 98.99% of the total assets in the fiscal year 2008/09. Also, the predicted coverage of current assets on total assets of HBL will be 98.07% in the fiscal year 2007/08 and 97/.87% in the fiscal year 2007/08. Similarly, the current assets will occupy 99.33% and 99.47% of total assets of EBL in the fiscal year 2007/08 and 2008/09 respectively. Likewise, the estimated value of current assets to total assets of SBI bank will be 99.49% in the fiscal year 2007/08 and 99.55% in the fiscal year 2008/09.

The regression equation of current assets to total assets on time period indicates that in each year the current assets to total assets of NABIL increases by 0.15%, HBL decreases by 0.21%, EBL increases by 0.14% and SBI increases by 0.06%.

Figure 4.1

Trend Line of Current Assets to Total Assets



4.6.2 Current Assets to Fixed Assets

Let the dependent variable, current assets to fixed assets be denoted by Y and the independent variable, time period be denoted by X, then the regression line of Y on X is given by; *(Appendix-I)*

$$Y_{NABIL} = 40.88 + 7.89\ X$$

$$Y_{HBL} = 116.11 - 12.03\ X$$

$$Y_{EBL} = 54.98 + 12.88\ X$$

$$Y_{SBI} = 127.73 + 7.94\ X$$

Table 4.20

Trend Line of Current Assets to Fixed Assets

FY	NABIL	HBL	EBL	SBI
2002/03	48.78	104.07	67.86	135.67
2003/04	56.67	92.04	80.74	143.61
2004/05	64.56	80.01	93.62	151.55
2005/06	72.46	67.98	106.50	159.49
2006/07	80.35	55.95	119.38	167.43
2007/08	88.25	43.92	132.26	175.37
2008/09	96.14	31.89	145.14	183.31

(Source: Appendix-I)

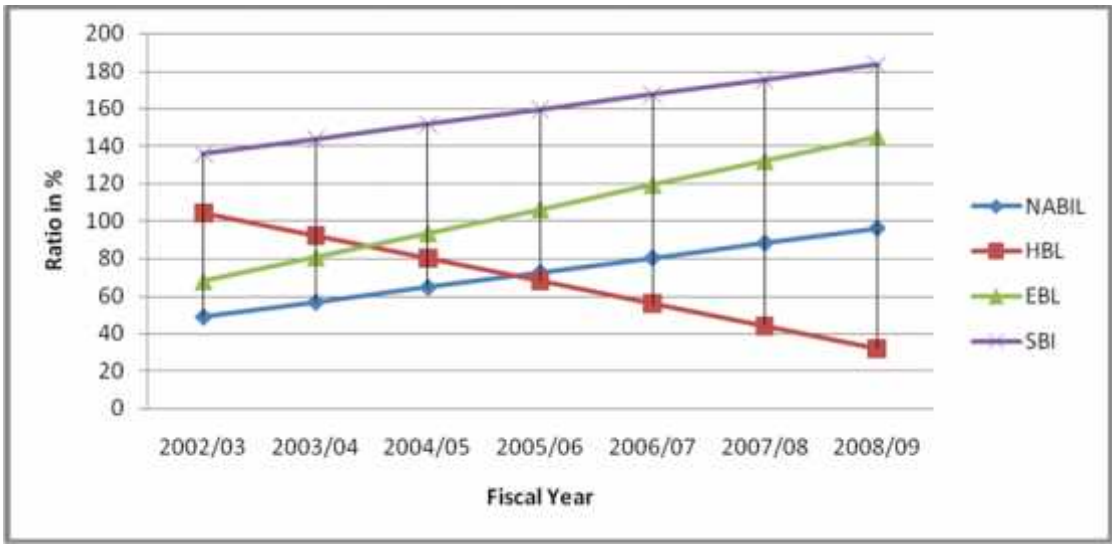
The table shows that the estimated current assets to fixed assets of NABIL will be 88.25 times in the fiscal year 2007/08 and 96.14 times in the fiscal year

2008/09. Also, the ratio in HBL will be 43.92 times in the fiscal year 2007/08 and 31.89 times in the fiscal year 2008/09. Similarly, the predicted current assets to fixed assets in EBL increases with the time period and will be 132.26 times and 145.14 times in the fiscal year 2007/08 and 2008/09 respectively. Likewise, the predicted ratio in fiscal year 2007/08 and 2008/09 will be 175.37 times and 183.31 times respectively.

The regression line of current assets to fixed assets on time period depicts that the ratio has positive relation with time period for three banks, NABIL, EBL and SBI and negative relation for HBL. The ratio increases by 7.89% in NABIL, decreases by 12.03% in HBL, increases by 12.88% in EBL and increases by 7.94% per year.

Figure 4.2

Trend Line of Current Assets to Fixed Assets



4.6.3 Cash and Bank Balance to Current Assets

Here, Y denotes the Cash and Bank balance to current assets, dependent variable and X denotes the time period, independent variable. The regression equation of cash & bank balance to current assets (Y) on time period (X) is;

$Y_{NABIL} = 6.87 - 0.67\ X$

$Y_{HBL} = 9.30 - 0.83\ X$

$Y_{EBL} = 11.14 - 0.30\ X$

$$Y_{SBI} = 10.57 - 0.57\ X$$

Table 4.21

Trend Line of Cash and Bank Balance to Current Assets

FY	NABIL	HBL	EBL	SBI
2002/03	6.20	8.47	10.83	10.00
2003/04	5.53	7.65	10.53	9.43
2004/05	4.86	6.82	10.23	8.85
2005/06	4.19	6.00	9.92	8.28
2006/07	3.52	5.17	9.62	7.70
2007/08	2.85	4.35	9.31	7.13
2008/09	2.18	3.52	9.01	6.56

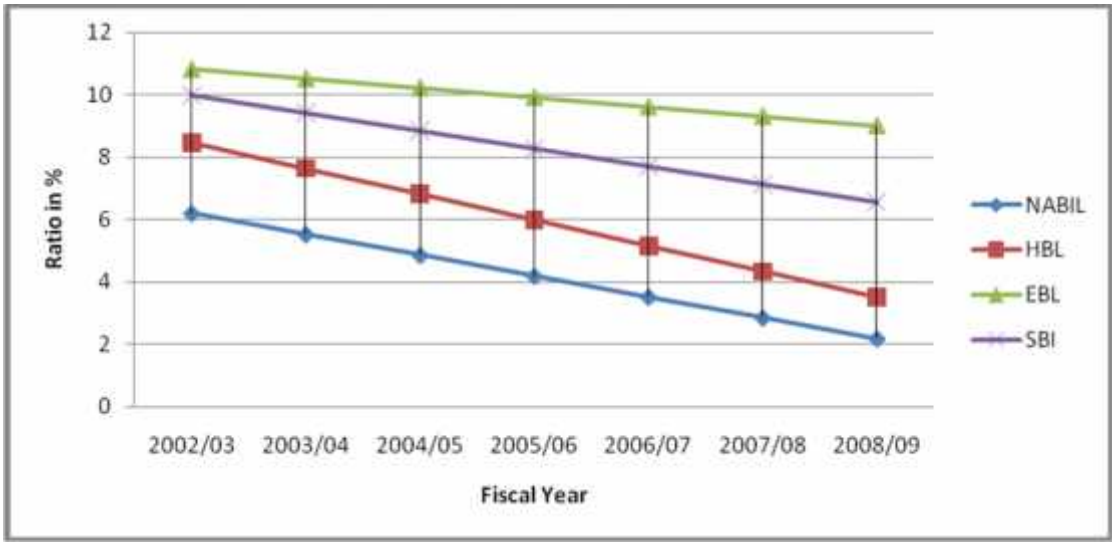
(Source: Appendix-I)

The above table shows that the relationship between cash and bank balance to current assets on time period of all the banks is negative, indicating that the ratio decreases with the lapse of time period. The table shows that the predicted ratio of NABIL, HBL, EBL and SBI for the fiscal year 2007/08 will be 2.85%, 4.35%, 9.31%, 7.13% respectively. Similarly, the estimated ratio of NABIL, HBL, EBL and SBI for the fiscal year 2008/09 will be 2.18%, 3.52%, 9.01% and 6.56% respectively.

Likewise the regression equation of cash and bank balance to current assets on time period indicates that the ratio of NABIL decreases by 0.67%, HBL decreases by 0.83%, EBL decreases by 0.30% and SBI decreases by 0.57% per year.

Figure 4.3

Trend Line of Cash and Bank Balance to Current Assets



4.6.4 Return on Shareholders Equity

Let the dependent variable ROE be denoted by Y and the independent variable time period be denoted by X, then the regression equation of ROE on time period is given by;

$Y_{NABIL} = 30.49 + 0.53\ X$

$Y_{HBL} = 8.77 + 1.56\ X$

$Y_{EBL} = 15.25 + 0.94\ X$

$Y_{SBI} = 4.01 + 2.74\ X$

Table 4.22

Trend Line of Return on Shareholders Equity

FY	NABIL	HBL	EBL	SBI
2002/03	31.02	10.33	16.20	6.75
2003/04	31.55	11.88	17.14	9.49
2004/05	32.08	13.44	18.08	12.23
2005/06	32.62	14.99	19.03	14.97
2006/07	33.15	16.55	19.97	17.71
2007/08	33.68	18.10	20.91	20.45
2008/09	34.22	19.66	21.85	23.19

(Source: Appendix-I)

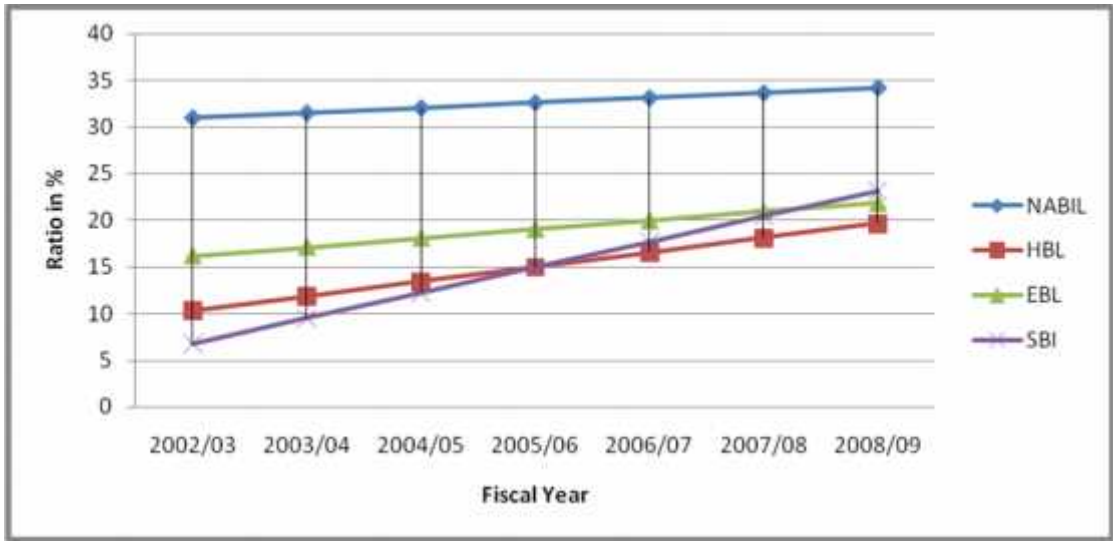
The above table indicates that the ROE has positive relationship with time period in all the sample banks. The estimate ROE of NABIL, HBL, EBL and

SBI for the fiscal year 2007/08 will be 33.68%, 18.10%, 20.91% and 20.45% respectively. Similarly, the ROE of NABIL, HBL, EBL and SBI for the fiscal year 2008/09 will be 34.22%, 19.66%, 21.85% and 23.19% respectively.

Likewise, the regression line of ROE on time period indicates that the ROE of NABIL increases by 0.53%, HBL increases by 1.56%, EBL increases by 0.94% and SBI increases by 2.74% per year.

Figure 4.4

Trend Line of Return on Shareholders Equity



4.7 Correlation Analysis

Correlation is a statistical tool which is used to describe the degree to which one variable is linearly related to another variable. Under this analysis Karl Pearson's method of coefficient of correlation is applied. The coefficient of correlation measures the degree of relationship between two sets of figures. The result of coefficient of correlation is always between +1 and -1, when r is +1 it means there is perfect relationship between two variables and vice versa. When r is 0, it means there is no relationship between two variables.

4.7.1 Coefficient of correlation between Loan and Advances and Total Deposits

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

The table 4.23 shows the coefficient of correlation between loan and advances and total deposits i.e. r, P.E., and 6 P.E. of four sample banks.

Table 4.23

Coefficient of correlation between Loan and Advances and Total Deposits

Bank	r	P.E.	6 P.E.	Remarks
NABIL	0.9672	0.0195	0.1168	Significant
HBL	0.9741	0.0154	0.0924	Significant
EBL	0.9976	0.0014	0.0085	Significant
SBI	0.9628	0.0220	0.1323	Significant

(Source: Appendix-II)

The above table shows that there is positive relationship between Loan and Advances and Total deposits of all the sample banks. The coefficient of correlation between loan & advances and total deposit of NABIL is 0.9672, HBL is 0.9741, EBL is 0.9976 and SBI is 0.9628. This indicates that increase in total deposits leads to increase in loan and advance disbursement. Also the higher coefficient of correlation of each bank is greater than the 6 P.E. proves that the relationship between loan and advances and total deposits is statistically significant.

Thus, from the above analysis, it can be concluded that NABIL, HBL, EBL and SBI have utilized its total deposits on loan and advances effectively.

4.7.2 Coefficient of correlation between Loan and Advances and Net Profit

The basic function of Commercial Bank is to collect deposits and invest such funds on loan and advances to generate higher profit. Large amount of loan and advances generate higher profit. The coefficient of correlation between loan and advances and net profit is calculated to measure the degree of relationship between loan and advances and net profit. In correlation analysis, loan and advances is independent variable and loan and advances is dependent variable. The purpose of computing coefficient of correlation is to justify whether the loan and advances are significantly generating profit or not and whether there is any relationship between these two variables.

The table 4.24 shows the coefficient of correlation between loan and advances and net profit i.e. r, P.E., and 6 P.E. of four sample banks.

Table 4.24

Coefficient of correlation between Loan and Advances and Net Profit

Bank	r	P.E.	6 P.E.	Remarks
NABIL	0.9834	0.0099	0.0595	Significant
HBL	0.9695	0.0181	0.1088	Significant
EBL	0.9841	0.0095	0.0572	Significant
SBI	0.9327	0.0392	0.2353	Significant

(Source: Appendix-II)

The above table shows that the relationship between Loan and Advances and Net Profit of the sample banks is highly positive, indicating that the greater the amount of Loan and Advances disbursed the higher will be the generation of net profit. The coefficient of correlations between loan and advances and net profit of NABIL, HBL, EBL and SBI are 0.9834, 0.9695, 0.9841 and 0.9327 respectively. As the coefficient of correlation of each bank is greater than their

respective 6 P.E., it can be concluded that the relationship between Loan and Advances and Net profit is statistically significant and net profit increases with the increase in Loan and Advances amount.

4.7.3 Coefficient of correlation between Cash and Bank Balance and Current Liabilities

Cash and bank balance is most liquid component of current assets. Banks require cash and bank balance to meet its short-term obligations i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is calculated to measure the degree of relationship between cash and bank balance and current liabilities.

The table 4.25 shows the coefficient of correlation between cash and bank balance and current liabilities i.e. r, P.E., and 6 P.E. of four sample banks.

Table 4.25

Coefficient of correlation between Cash & Bank Balance and Current Liabilities

Bank	r	P.E.	6 P.E.	Remarks
NABIL	0.3856	0.2586	1.5407	Insignificant
HBL	-0.7881	0.1143	0.6856	Insignificant
EBL	0.9211	0.0457	0.2744	Significant
SBI	0.8255	0.0961	0.5766	Significant

(Source: Appendix-II)

The above table shows that the coefficient of correlation of NABIL is less positive (0.3856) and lower than the calculated 6 P.E. (1.5407), which clearly indicates that the relationship between cash and bank balance and current liabilities is insignificant. Similarly, there exist negative correlation (-0.7881) between cash and bank balance and current liabilities in case of HBL, indicating that cash and bank balance decreases with the increase in current

liabilities. However, the lower the value of 'r' (-0.7881) than the 6 P.E. (0.6856) signifies that the relationship between cash and bank balance and current liabilities is statistically insignificant.

In contrast the coefficient of correlation of EBL (0.9211) and SBI (0.8255) between cash and bank balance and current liabilities are highly positive. And the value of 'r' of EBL and SBI is greater than the 6 P.E. of EBL (0.2744) and SBI (0.5766), which verifies that the relationship between cash and bank balance and current liabilities is statistically significant and cash & bank balance increases with the increase in current liabilities.

4.8 Major Finding

The major findings of this study during the period of five years in NABIL, HBL, EBL and SBI from the analysis are summarized below.

- The current assets covers 98.38%, 98.68%, 98.90% and 99.30% of the total assets of NABIL, HBL, EBL and SBI bank respectively in average. SBI bank has the highest ratio (99.30%) and NABIL bank has the lowest ratio (98.38%) compared with other banks.
- Current assets of NABIL, HBL, EBL and SBI are 64.56 times, 80.01 times, 93.62 times and 151.55 times greater than the corresponding fixed assets respectively. SBI has the highest current assets to fixed assets ratio (151.55 times) and NABIL has the lowest ratio (64.56 times) in average.
- Cash and bank balance occupies 4.86%, 6.82%, 10.23% and 8.85% of the current assets of NABIL, HBL, EBL and SBI bank respectively. Likewise, cash and bank balance holds 4.78%, 6.73%, 10.11% and 8.79% of the total assets of NABIL, HBL, EBL and SBI bank respectively. Thus, EBL has the practice of keeping higher portion of cash and bank balance and NABIL keeps less cash and bank balance.
- The current ratios of NABIL, HBL, EBL and SBI are 1.10:1, 1.11:1, 1.07:1 and 1.11:1 respectively. There is no difference between current

ratio and liquid ratio of respective bank, which clearly indicates that the there exist significantly less amount of inventory and prepaid expenses in each bank.

- In average, NABIL, HBL, EBL and SBI mobilized 6.94%, 10.00%, 18.48% and 20.22% of the total deposit excluding fixed deposit in keeping cash and balance reserve respectively. SBI bank has the practice of keeping highest percentage (20.22%) and NABIL keeps lowest percentage (6.94%) of total deposit as cash and bank balance.
- The total deposit of three banks, NABIL, HBL and EBL, is highly dominated by savings deposit and covers almost half of the deposit. Whereas, the savings deposit of SBI covers almost one-fourth (27.84%) of the total deposit.
- In average, NABIL, HBL, EBL and SBI mobilized 64.33%, 52.75%, 73.58% and 73.01% of the total deposit in disbursing loan and advances respectively. Similarly, loan and advances is 3.74 times, 2.41 times, 2.15 times and 1.52 times greater than the fixed deposit collection of NABIL, HBL, EBL and SBI respectively. Likewise, loan and advances is 1.47 times, 1.00 times, 1.57 times and 2.62 times greater than the savings deposit of NABIL, HBL, EBL and SBI respectively.
- In average, NABIL, HBL, EBL and SBI generated 2.72%, 1.18%, 1.39% and 0.94% of the total investment in total assets as net profit respectively. Similarly, NABIL, HBL, EBL and SBI generated 32.08%, 13.44%, 18.08% and 12.23% of the total shareholders' equity as net profit respectively.
- Similarly, NABIL, HBL, EBL and SBI generated 3.21%, 1.36%, 1.64% and 1.12% of the total deposit collection as net profit. Thus, the profitability position of NABIL is strong than the other three sample banks.
- The long term debt of NABIL, HBL, EBL and SBI is 2.09 times, 2.43 times, 3.95 times and 5.99 times greater than the net worth of the

respective banks. It seems that SBI follows the aggressive capital structure than other three banks.

- The prediction of current assets total assets ratio of NABIL, EBL and SBI indicated that the ratio continues to increase in the future years. Whereas, the prediction shows that ratio in HBL decreases in each forthcoming year. Similarly, the current assets to total assets of NABIL, EBL and SBI increases and that of HBL decreases in the coming years. However, the cash and bank balance to currents assets decreases in all the banks in each coming year. In contrast, the ROE of each bank will increase in the forthcoming years.
- There exist highly positive relationship between loan and advances and total deposit, between loan and advances and net profit of each bank. However, the relationship between cash and bank balance and current liabilities of NABIL and HBL is negative and that of EBL and SBI is positive.

CHAPTER - V

SUMMARY, CONCLUSION & RECOMMENDATIONS

This chapter is used to summarize the whole study, to summarize, to draw conclusions of the study and to forward the applicable recommendations for more better and efficient management of working capital of commercial joint venture banks namely Nabil Bank Limited, Himalayan Bank Limited, Everest Bank Limited and State Bank of India Nepal Limited.

5.1 Summary

Nepal, a landlocked country of southern Asia, is one of the least developed nations in the world. The economy is heavily dependent on imports of basic materials and on foreign markets for its forest and agricultural products. Today, foreign employment and other industrial development are the major sources of income besides agriculture. Financial institutions assist in the economic development of the country and are considered as the catalyst. The development process of a country involves the mobilization and deployment of resources. Commercial banks are the major financial institutions that occupy quite an important place in the framework in the economy development sectors as well as in saving and investment sectors. Commercial banks are the suppliers of finance for trade and industry and play a vital role in the economic and financial life of the country. After the implementation of the open market policy, joint venture commercial banks are opened as private banks. The liberal trade and investment policies have facilitated joint venture banks to invest in Nepal. Joint venture bank has been helpful in transferring foreign investment and advanced technology from one country to another. The establishment of joint venture banks gave a new horizon to the financial sector of the country.

In competitive financial market, performance of joint venture banks are very good. The main objective of the study was to study the comparative analysis of the working capital management as well as financial performance of joint venture banks of Nepal. Under this study four commercials joint venture banks are taken into consideration. Commercial bank is income oriented, thus proper financial decision-making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions of a bank are concerned with current assets and current liabilities. Working capital management is concerned with current assets and current liabilities. Generally, working capital refers to the difference between current assets and current liabilities. Thus, working capital management has been regarded as one of the conditioning factor in the decision-making issues of commercial banks. The term working capital management closely relates with short-term financing; it is concerned with collection and allocation of resources. Working capital management relates to problems that arise in attempting to manage the current assets, the current liabilities and interrelationships that exist between them.

To fulfill this objective of this study and other specific objective as described in chapter one, an appropriate research methodology has been developed which includes the ratio analysis as financial tools and trend analysis, correlation coefficient as statistical tools. The major ratio analysis consists of the composition of working capital position, liquidity position, turnover position, capital structure position and profitability position. Under these, main ratios and their trend position are studied in the chapter five. In order to test the relationship between the various components of working capital, Karl Pearson's correlation coefficient r is calculated and analyzed.

The necessary data are derived from the balance sheet and profit and loss A/C of NABIL, HBL, EBL and SBI for the period of five years from fiscal year 2002/03 to 2006/07. Now in this chapter an attempt has been made to present summary or findings, conclusions and some suggestions and recommendations.

5.2 Conclusion

On the basis of analysis of data and major findings drawn, it can be concluded that NABIL has the poorest liquidity position on the basis of current assets to total assets. Comparing the average ratio of all four banks, it can be considered that the liquidity position of SBI is better than other three banks. The ratio of current assets to total assets also verifies that SBI has better liquidity position than other banks. However, on the basis of cash & bank balance to total assets and cash & bank balance to current assets, it can be concluded that EBL has the policy of keeping highest portion of current assets as cash and bank balance than other banks. In addition, the current ratio and quick ration buttress to conclude that SBI and HBL have the better liquidity position than EBL and NABIL.

Likewise, the cash and bank balance to total deposit excluding fixed deposit indicates that SBI has better liquidity position than other banks. Similarly, on the basis of savings deposit to total deposit, it can be concluded that HBL mobilizes more portion of its total deposit rather than other banks.

Similarly, the loan and advances to total deposit ratio implied that EBL remained more successful in mobilizing the total deposits in providing loan and advances than other banks. While, on the basis of loan and advances to fixed deposit, and loan & advances to savings deposit, it can be considered SBI mobilizes maximum amount of interest bearing deposits in disbursing loan than others.

Also, EBL has mobilized more its total assets more efficiently than others to generate interest. However, NABIL become more successful in optimally mobilize its total assets, shareholders' equity, total deposit and cost of services to generate maximum profit. Hence, on the basis of profitability ratios, it can be concluded that NABIL remained more success than other banks.

Eventually, the leverage ratios like long term debt to net worth indicated that NABIL has the policy of using less debt capital to reduce cost of services whereas SBI bank has the policy of using high debt capital to finance the total assets. Similarly, the ratio of net fixed assets to long term debt implied that SBI bank mobilized lowest percentage and NABIL utilized highest percentage of their respective debt capital in acquiring fixed assets.

5.3 Recommendations

On the basis of analysis and findings of this study following recommendations are made.

- NABIL, HBL and EBL should increase their current assets coverage on total assets to increase their working capital amount and compete with the SBI bank.
- Similarly, considering the cash and bank balance to current assets of EBL; NABIL, HBL and SBI should increase their respective cash and bank balance position on current assets and have higher liquidity position.
- All of the sampled banks need to increase their current ratio and quick ratio to meet the benchmark set in the industry in order to have a sound liquidity position and to meet its obligations easily.
- NABIL, HBL and SBI should maximize its loan and advances to total deposit ratio and should seek the secure sector to disburse the maximum amount of loan and thus to compete with EBL.
- NABIL, HBL and SBI need to maximally utilize their total assets with the objective of generating high interest amount. Similarly, EBL, HBL and SBI should effectively mobilize their total assets, shareholders' equity and total deposit to maximize their profit and sustain in long run. Also, these banks need to reduce their cost of services to maximize their profit.

- The bank needs to adopt the best capital structure that will best suit their interest and thus maximizes profitability and liquidity and minimizes cost.
- Finally, the banks need to continue the existing highly positive relationship between loan and advances with total deposit and loan and advances with net profit.

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