CHAPTER – I
INTRODUCTION

1.1 Background of the Study

Nepal has many valuable resources but it is recognized as an underdeveloped country in the world. It is the caused by the lack of proper utilization of available resources. Nepal is an agricultural based country. In Nepal 65.7% (Census: 2058) people earn their livelihood from agriculture and the contribution of agriculture on Gross Domestic Product (GDP) is 40% (Census: 2058). To develop the country in a proper manner, it is necessary to develop industrial sector.

Industry plays an important role in rapid economic development of the country. Development of the industrial sector is important to decrease the problems of growing unemployment and poverty. In this context, concrete steps are to be taken to develop industrial sector in Nepal. This century, Development country like Nepal can be benefitted by industrialization in different ways. Though Nepalese economy is primarily based on agriculture, all agriculture industries of Nepal have introduced revolutionary professionalism in agriculture sector which is considerable.

Industrialization is a process of economic development in which growing part of national resources is mobilized to develop technically up to date diversified domestic economic structure characterized by dynamic manufacturing consumer goods, capable of assuring a high rate of growth for economy as a whole and achieving economic and social progress. To develop the Nepalese economy, Nepal has to turn to industrialization. This is a process of growing path of economy development. In an open economy, public sector initiative along will not be sufficient and active participation of the private sector is indispensable. Private sector's participation greatly helps on economy development. So Nepalese Government is going to take liberalization and privatization policies for private sector. The Nepalese government has defined it, as a promoters and facilitators for attracting the domestic and foreign investor in Nepal. Nepalese Government has to prepare policy framework of grand participation, improvement to existing policy in a bid to create an investment friendly environment. The world is going in globalization, but economy of the world is falling down badly. In the World Trade Organization (WTO), developing countries are dominating by developed countries. Developing countries can not compete in the world trade due to lack of industries and technologies. Thus, government initiates the privatization of the industries in Nepal. Nepalese Government emphasizes for private organizations due to poor performance of public organizations. Basically, public organizations fail to perform a sound management on their business. The financial positions of the organizations become weaker and in return the investment of the government in diminishing. So Nepalese Government is promoting the private sector for initiative and participation in these types of business to increase the efficiency and productivity of investment. The program of privatization has been initiative with the objectives of enhancing the production of private organizations by making efficiency in utilization of resources, competitiveness in global economy, reduce the operating cost and number of favorable impact. Performance of industries depends on the availability of funds on one hand and people utilization and management of funds on other hand. But most of the enterprises have poor financing policy and they have not funds for investment. By choosing suitable financing mix these enterprises can improved their financial performance.

Most of the organizations have to use different types of funds to conduct business such as long-term funds, medium-term funds and short-term funds. These funds are obtained from different sources like an owners, banks, financial institutions and some funds from retain earnings. Every fund has its own merits and demerits and every organization has its own financial policy. The concept of “short-term financial management” covers all decisions of organizations involving cash flows in the short run which emphasize on the management of investment in current assets and their financing. (Western and Copland, 2000:835). There are numerous types ranging from spontaneous credit in the form of account payable and accruals to negotiate interest bearing debt. (James C Van Horne, 1986:451)

The term net working capital is often associated with short-term financing decision making. Net working capital is the difference between current assets and current liabilities. The focus of short-term financing on net working capital seems to suggest that it is accounting subject. However money making net working capital decisions still relies on cash flow and net present value.

A firm has to achieve low cost financing by using the short-term financing. The interest free sources provide low cost financing for the firm by reducing its borrowing need for interest bearing sources. Short-term finance is used for short run with emphasis on the management to investment in current assets and their financing. By using the short-term financing it has to secure additional funds because in some cases, a firm may not be able to issue equity and may be nearing its borrowing capacity from medium or long-term funds.

The starting point for short-term financial planning is an understanding of sources and uses of cash. Firms forecast their net cash requirements by forecasting collection on accounts receivables adding other cash inflows and subtracting all forecast cash outlays.

If the forecast cash balance is insufficient to cover day to day operations and to provide butter against contingencies, you will need to find additional finance. It may make sense to raise long-term finance if the deficiency is permanent and large. Otherwise, you may choose from a variety of sources of short-term finance. (Brealey & Myers, 2002: 873)

Lastly, it is clear that the portion of government ownership companies over whole manufacturing establishment is very small and they are in poor condition. In order to speed up the process of industrial development, the present government has started several policies and programs such as, economic privatization. Government has declared that liberal policy will be adopted in the industrial sector and license requirement system will be relaxed. Government has already adopted one window policy to facilitate the industrial investment and permitting cent percent foreign investment in large and medium scale industries. Adoption of such policies will significantly help to initiate industrialization in faster rates. And other hand most manufacturing companies have not been able to earn desirable volume of profit. In this situation, there is necessary to analysis the financial resources of manufacturing enterprises. Among the number of reasons leading to inefficient of manufacturing companies, ineffectiveness utilizing of short-term financing in consider to be one of the key reason.

1.1.1 Profile of Companies under the Study

A. Bottlers Nepal Limited

Bottled Nepal Limited was established in 1973 as a private limited company under the company act, 1964, It was converted into public limited company in 1984. The main objective of the company is to produce and bottle soft drinks under the brand name of coke, fanta, sprite etc. The company has established a subsidiary company bottles Nepal (tarai) limited, in chitwan district. F & N Coca-Cola Pvt. Ltd, Singapore, the major shareholder of the company is managing the company is since September 1993. The installed capacity of the plant is 220 bottles per minute (BPM).

B. Nepal Lube Oil Ltd.

Nepal Lube Oil Limited was established 1984 as a public sector company under their company under the company act, 1964. The main objective of the company is to produce lubricating oil and process them for the use of automatic machineries and also to contribute for the economic development of the country by reducing the import of various lubricating oils. The company was privatized in 1993, in accordance with privatization programmed of Nepal Government. The company is managed by ADB investment Pvt. Ltd. Under the leadership of Mr. Arun K. chaudhary as managing director.

C. Jyoti Spinning Mills Limited

Jyoti spinning Mills Limited was established in 1989 under the company act, 1994 as joint venture between Asian development bank, manila and Jyoti group of Nepal. The objective of the company is to manufacture cotton, polyester \ viscose yarn of international standard and market them in domestic and international market.

D. Nepal Vanaspati Ghee Udhyog Limited

Nepal Vanaspati Ghee Udhyog Limited was established under the company act, 1964 in 1976 with an objective of producing ghee, oil and other by products and markets them all over the country. The main promoter of the company is Salt Trading Corporation Limited which was largest trading network and well trading regulation throughout the country.

E. Nepal Khadhya Udhyog Limited

Nepal Khadhya Udhyog Limited a subsidiary of Salt Trading Corporation was established in 1971 under the company act, 1964 as a private limited company. It was converted into public company in 1993. The company is purely agro based company and situated in Makawanpur district. The major objective of the company is to produce and distribute high quality flour and other by product within the country.

1.2 Focus of the Study

Industrialization helps to create a country's economic infrastructure and gives a path for diversification into a new area of activity. One of the merits of industrialization is that it makes possible for countries to satisfy their own requirement to a greater degree. It is the major instrument of progress, modernization and social changes in developing countries. Its helps to promote opportunity, it utilizes human resources, national resources and capital resources in optimal manner. It also facilitates the agricultural development by reducing the pressure on land and creates demand for agricultural raw materials. The reason for emphasizing industrialization is that development of country and maximum utilization of available resources of country i.e. manpower, natural resources, capital etc. Nepal has poor condition on manufacturing. It is the cause of poor financial performance. Most of the manufacturing companies have not been able to earn desirable volume of profit. In this situation there is necessary to analysis the financial resources of the manufacturing companies but only the resources analysis is not enough if the companies are not using appropriate financing policy.

Thus this study focuses on to find out the sources of short-term financing of Nepalese manufacturing companies and they are application appropriate financing policy or not. Manufacturing companies could take benefit by short term loans or not .Which kinds of problems are facing to use short term loans.

1.3 Statement of the Problems

Proper financial management is the great importance for every business enterprise from the point of view of achieving success. The management of short-term finance is itself a decision area within the framework of the overall financial management. It has been regarded as one of the conditioning factor in the decision making issue. It is very difficult to point out as to how much short- term financing needed by manufacturing companies. An organization which is not want to take more financial risk keep more short- term liquidity and vice versa .

Different study on manufacturing companies shows that most of the companies have not well recognized the importance of proper short-term financial management and these companies not successful in taping short- term financing according to needs. So it is very essential to analysis and find out problems and its solution to make efficient use of short-term finance for minimizing the risk of loss and gain profit objective.
Following are the major problems that have been identified for the purpose of this study;

a) What forms of short-term financing has mostly been used by Nepalese Manufacturing Companies, Trade Credit, Accruals, Bank Loans, Commercial Paper, Account Receivables, and Inventories etc?

b) Are the Manufacturing Companies in Nepal have well recognized the importance and advantages and disadvantages of proper management of short-term financing?

c) What is the trend in using the short-term financing by Nepalese Manufacturing Companies?

d) Are the manufacturing companies more dependent on short-term financing then long-term financing?

e) What form of shot-term financing should be given more priority?

1.4. Objectives of the Study

The major objective of this study is to analyze various form of short-term financing employed by Manufacturing Companies and difficulties and effectiveness of short-term financing. The specific objectives of this research are pointed as follows;

a) To study the various form of short-term financing used by the Manufacturing Companies.
b) To examine the trend of short-term financing used by Manufacturing Companies.
c) To study the contribution of short-term financing over net profit.
d) To analyze the problems and prospects of the short-term financing using Manufacturing Companies.
e) To suggest for the improvement of short-term financing management of Manufacturing Companies in Nepal in future.

1.5 Importance of the Study

Short- term financing management is difficult work for every kind of enterprises. Short–term finance is used when companies have no working capital, which is required for day to day operation. So all of the associated parties of companies should be very careful to take short-term financial decision. Short-term financing is used for many aspects, so it is an important topic for study. It can be divided into four broader heading.

a) Importance to the Shareholders:

The study will help to aware the shareholder regarding short-term financing i.e. liquidity and profitability of their companies.

b) Importance to the Management:

Survey indicates that the largest portion time of financial manager is devoted for the day to day operation of the firm, which is concerned to the short-term financial management. So the study will be helpful to management when and why the short-term financing decision is importance to achieve objective of enterprises.

c) Importance to the Outsiders:

Form this study the customers, financial agencies, stock exchanges etc can understand where their fund is more secured.

d) Importance to the Policy Makers:

This study helps to policy maker i.e. Government and Nepal Rastra Bank while formulating the policy.

Therefore, considering all these facts the study of short-term financing of the Nepalese Manufacturing Companies is very importance.

1.6 Limitations of the Study

Every activity has its own boundary as the same way this study has also some boundaries, which can not be ignored. These boundaries are called as limitation of this study. This study is mainly based on Secondary Data and Primary data. The secondary data are collected from annual reports of the relevant companies, financial reports of Security Board of Nepal and website of Nepal Stock Exchange i.e. www.nepalstock.com.np. And the primary data are collected from filling designed questionnaires from financial exports who are involved in banks, security markets, teaching and etc. The full required data of Nepalese Organizations are beyond the reach of researcher. Even the financial statements of the companies published are not readily available. Nepal Stock Exchange and Security Board of Nepal publish financial statement and other information of same listed companies. It is on its websites.

And it is an academic research and it should be completed within limited time period given by T.U. just to fulfill the partial requirement of Masters of Business Studies (MBS) Degree. So due to time boundary it could not be carried in depth study. Thus the major limitations of the studies are as follows;

a) This study has been confined to **5** Manufacturing Companies, although there are 21 Manufacturing Companies listed in Nepal Stock Exchange Limited.

b) The comparisons of data are made for five fiscal years only.

c) Primary data are collected from questionnaires survey with financial experts who are involved in different fields that are banks, security markets, teaching etc.

d) The opinion survey is based on opinion of new respondents only and is done informally.

1.7 Organization of the Study

This study has been divided into five parts. They are;

a) Chapter I

The first chapter is the introduction, which deals with background of study, focus of the study, statement of the problem, objectives of the study, importance of the study, limitations of the study and organization of the study.

b) Chapter II

The second chapter deals with the “Review of the Literatures” related to short-term financing. The available literatures are divided into three sections. The first dealt with review of books, second the review of journal or article and third part highlight unpublished thesis related with short-term financing.

c) Chapter III

The third chapter deals with the “Research Methodology” employed for the study. It consists of research design, data collection procedures, samples & population, sources & nature of data, data tabulation & processing and method of analysis.

d) Chapter IV

The fourth chapter is study and analyzes the collected data and information using statistical as well as financial tools in order to fulfill the objectives and problems of the study.

e) Chapter V

In the last fifth chapter, Summary, Conclusion and Recommendation of the study have been given.

Finally, an intensive Bibliography, Annex and are in corporate at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

A review on various aspects of short-term financing is important which can give feedback information to Nepalese Enterprises. For which study, various books, Journals, magazines and unpublished thesis have been reviewed to clear the concept of short-term financing concerning manufacturing and non-manufacturing enterprises.

This chapter is broadly discussed under the headings:

(1) Conceptual review
(2) Review of related articles
(3) Review of thesis

2.1 Conceptual Framework

Most firms use several types of short-term debt to finance their working capital requirement. Included are bank loans, trade credit, commercial paper and accruals. Short term financial management is the term now widely used in place of working capital management. The concept of "short-term financial management" covers all decision of an organization involving cash flows in the short ran with emphasis on the management of investment in current assets and their financing. (Weston and Copeland, 1990:835)

Short-term financing is defined as debt originally scheduled for repayment within one year. A variety of short-term credits are available to the firm and the financial manager must know the advantages and disadvantages of each. (Weston & Copeland, 1990:832)

Management of short-term financing can provide both the highest and lowest cost funds in the firm's capital structure. Some short-term sources provide funds at no cost at all to the enterprises. Accounts payable and accruals fall into this category. (Hamptan, 1998: 426)

The firm can use short-term sources to achieve a number of goals, including flexibility, low cost financing and secure additional funds. A short term loan can be obtained much faster than long term credit. Lender will insist on a more through final examination before extending long tem credit. Therefore if funds are needed in the hurry the firm should look to the show term markets.

Managing the short- terms resource of the firm has a major impact on the relationship between risk and return. In general, the shorter the maturity schedules of a firm's debt obligation the greater the risk than it will be unable to meet principle and interest payment. On the other hand, the longer the maturity schedule, the less risk the financing of the firm all other things the same. So difference in risk between short and long- term financing must be balanced against different in interest cost (ibid P.428)

2.2 Types of Short-term Financing

These are numerous source of short-term funds which is classified in two parts unsecured and secured short-term financing

2.2.1 Unsecured Short-term Financing

If a firm obtains credit from the lender without having to pledge any specific assets as collateral, then this type of financing is called unsecured short –term financing. In this type of financing, the lender depends primarily on the cash generating ability of the firm to repay the debt (Moyer, and Kretlow, 2000: 679). In general it may be manufacturing and non-manufacturing enterprise, they prefer to borrow funds on an unsecured basis because the added administrative costs involved in pledging assets as security raise unsecured source of the short-term financing are described as below.

2.2.1.1 Spontaneous Sources of Short-term Financing

Spontaneous financing arises from the normal operations of the firm. Spontaneous source, which include trade credit, accrued expenses and deferred income. They are as follows.

a) Trade Credit

It refers to the credit that a customer gets from supplies of goods in normal course of business. The buying firms have not to pay cash immediately for the purchasers is called trade credit. It is mostly an information arrangement and it's granted on an open account basis. It depends terms of credit (Van Horne, 2000:471). Trade credit is a form of short-term financing common to almost all business. In fact, it is the largest source of short-term funds for business firms collectively. In an advanced economy, most buyers are not required to pay for goods on delivery but are allowed a short-determent period before payment is due. During this period, the seller of the goods extends credit to the buyer. Because suppliers generally are more liberal in the extension of credit than are financial institutions, small companies in particular rely on trade credit.

COD and CBD – No Extension of Credit

COD terms mean cash on delivery of the goods. The only the seller undertakes in this type of arrangement is that the buyer may refuse the shipment. Under such circumstances, the seller will be stuck with the shipping costs. Occasionally, a seller might ask for cash before delivery (CBD) to avoid all risk. Under either COD or CBD terms, the seller does not extend credit. CBD terms must be distinguished from progress payments, which are common in certain industries.

Net Period –No Cash Discount

When credit is extended, the seller specifies the period of time allowed for payment. The terms, net 30 indicate that the invoice or bill must be paid within 30 days.

Net Period with Cash Discount

In addition to extending credit, the seller may offer a cash discount if the bill is paid during the early part of the net period. The terms 2/10, net 30 indicate that the seller offers a 2% discount if the bill is paid within 10 days, otherwise, the buyer must pay the full amount within 30 days. Usually, a cash discount is offered as an incentive to the buyer to pay early. (Van Horne, 2000:400)

b) Accrual Financing

The firm can also generate short-term fund by postponing payment on its current liabilities. Accruals account represents a spontaneous source of financing. The most common accrual accounts are for wages and taxes.

Accrued expenses represent a liability that a firm has to pay for the service, which it has already received. Thus they represent a spontaneous, interest free source of financing.

Accrued wages and salaries represent obligation payable by the firm to it s employees. The firm incurs a liability the moment employees have rendered services. They are however paid afterwards, usually at some fixed interval like not month. The liability builds up between payables.

Accrued taxes and interest constitute another sources of financing corporate taxes are paid after the firm has earned profit. These taxes are paid quarterly during the year in which profit are earned. This is a differed payment of the firm obligation and thus is a source of finance. Like taxes, interest paid periodically during a year while the firm continuously uses the borrowed funds requiring semiannually interest payments can be used as a source of financing for a period as long as six month.

c) Deferred Income

Deferred income represent fund received by the firm for goods and services, which it has agreed to supply in future. These receipt increase the firm’s liquidity in the form of cash, therefore they constitute an important source of financing.

Advance payment made by customer constitute the main item of deferred income these payment are common in case of expensive product like boilers, turnkey project large contracts or where the product is in short supply and the seller has strong bargaining power as compared to the buyer. These payments are not received as revenue until goods and services have been delivered to the customers. They are, therefore, shown as a liability in the firm’s balance sheet. (Pandey, 1995:855)

1.2.1.2 Non -Spontaneous Sources of Short-term Financing

Non-spontaneous sources, which include Bank Loans, Commercial Paper. They are as follows;

a) Bank Loans

The most common commercial bank borrowing for a firm is the unsecured self-liquidating short - term loan. Self liquidating means that the bank is providing funds for a seasonal or cyclic business peak and the money will be used to finance an activity that will generate cash to pay off a the loan. An example of a self – liquidating loan is money borrowed to finance inventory just before the peak seasonal sales period. T he inventories that are being financed by the bank loan will be concentrated first to pay off the loan.

Short-term bank loans are generally tied into the prime rate, which is defined as a reported level of interest charged on business loans. The prime rate fluctuates with supply and demand for short-term funds. The rate on any individual bank loan is a combination of a prime rate which a borrower has to operating or financial risk greater than the bank's strongest customers. The premium generally runs from 0 to 2%. Firm possessing higher level of firms generally does not quality for unsecured short–term financing. (Hampton, 1990: 430)

There are various types of bank loans which are following;

I) Line of Credit

A line of credit is an agreement between a bank and its customer specifying the maximum amount of unsecured credit the bank will permit the firm to owe at any one time. Usually, credit lines are established for a 1-year renewal. Frequently lines of credit are set for renewals offer the bank receive the audited review the progress of the borrower. If the borrower year – end statement date is Dec-30, a bank may set its line to expire some time in March. At that time, the bank and the company meet to discuses. The credit needs of the firm for the company year in light of its past year's performance. The amount of the line is based on the bank's assessment of the credit worthiness and credit needs of the borrower. Depending on changes in this condition, a line of credit may be adjusted at the renewal date or before if conations necessitate a change. (Van Horne, 1986: 407)

II) Single Payment Note

A single payment note can be obtained from a commercial bank by a creditworthy business borrower. This type of loan is usually a “one – short deal made when a borrower needs additional funds for a short period. The resulting instrument is a note states the terms be signed by the borrower. The notes states the terms of the loan, which include the length of the loan and interest rate. This type of short – term note generally has a maturity of 30 days to 90 months or more. The interest charged is generally tied in some way to the prime rate of interest and may have either a fixed or a floating rate. (ibid, p 632)

III) Revolving Credit Agreement

A revolving credit agreement is a legal commitment by a bank to extend credit up to a maximum amount. While the commitment is in force, the bank must extend credit whenever the borrowed wishes to borrow, provided total borrowings do not exceed the maximum amount specified.

IV) Transaction Loans

Borrowing under line of credit or under a revolving credit arrangement is not appropriation when the firm need short-term fund for only one purpose. A contractor may borrow from a bank in order to complete a job when a contractor receives a payment for the job, the loan is paid. For this type of loan, a bank evaluates each requested by the burrower as a separate transaction. In these evaluations the cash flow ability of the burrow paramount importance.

b) Commercial Paper

Commercial paper is a form of financing that consists of short-term, unsecured promissory notes issued by firm with a high credit standing. Generally, only quite large firms of unquestionable financial soundness are able to issue commercial paper. Most commercial paper has maturities ranging from 3 to 270 days .Although there is no set determination, it is generally issued in multiples of $1, 00,000 or more. A large portion of the commercial paper today is issued by finance companies, manufacturing firm's account for a small portion of this type of financing. Businesses often purchase commercial paper, which they hold as marketable securities to provide on interest earning reserve of liquidity.

Commercial paper is sold at a discount from its par or face value. The interest paid by the issuer of commercial paper is determined by the size of the discount and the length of time to maturity. The actual interest earned by the purchaser is determined by certain calculations.

An interesting characteristic of commercial paper is that its interest cost is normally 2 to 4 percent below the prime rate. In other words, firms are able to raise funds more cheaply by selling commercial paper than by borrowing from a commercial bank. The reason is that many suppliers of short–term funds do not have the option, as banks do, of making low risk business loans at the prime rate. (Gitman, 2004:646)

There are two major types of commercial paper, direct paper and dealer paper. The main issuers of direct paper are large finance companies and banks holding companies that deal directly with the investor rather than using a securities dealer as an intermediary. These companies, which regularly extend installment credit to consumers and large working capital loans and lease to business firms, announce the rates they are currently paying on various maturities of their paper.

The other variety of commercial paper is dealer paper, issued by security dealers on behalf of their corporate customers. Also known as industrial paper, dealer paper is issued mainly by non–financial companies (including public utilities, manufactures, retailers and transportation companies), as well as by smaller bank holding companies and finance companies, all of which borrow less frequently than firms issuing direct paper. The issuing company may sell the paper directly to the dealer, who buys it less discount and commission and then attempts to resell it at the highest possible price in the market. Alternatively, the issuing company may carry all the risk, with the dealer agreeing only to sell the issue at the best price available less commission, referred to as a best efforts basis. (Peter S. Rose, 1997:408)

2.2.2 Secured Short-term Financing

Secured short-term financing has specific assets pledged as collateral. The collateral commonly takes the form of an asset, such as accounts receivable or inventory. The lender obtains a security interest in the collateral through the execution of a security agreement with the borrower that specifies the collateral held against the loan. In addition, the terms of the loan against which the security is held form part of the security agreement. They specify the conditions required for the security interest to be removed, along with the interest rate on the loan, repayment dates, and other loan provisions. A copy of the security agreement is field in a public office within the state – typically, a country or state court.

Although many people believe that holding collateral as security reduces the risk of a loan, lenders do not usually view loans in this way. Lenders recognize that holding collateral can reduce losses if the borrower defaults, but presence of collateral have no impact on the risk of default. A lender required collateral to ensure recovery of some portion of the loan in the event of default. What the lender wants above all, however, is to be repaid as scheduled. In general, lenders prefect to make less risky loans at lower rates of interest than to be in a position in which they must liquidate collateral. (Gitman, 2004:112)

The use of secured debt is costly since it requires security registration and valuation and monitoring of collateral, and imposes registrations on asset usage. However, secured transactions will generate economic gains for a country and reduce the risk of the financial system by broadening its structure. ("Secured Transaction Law Reform in Asia: Unleashing the Potential of Collateral", Law and Policy Reform at the Asian Development Bank, vol. ii, 2000: 3)

There are various types of secured short-term financing, which are followings:

2.2.2.1 Account Receivable Financing

Account receivable financing involves either the assign of receivables (factoring). Assigning or pledging, or discounting of accounts receivable is characterized by the fact that leader not only has a lies on the receivable but also has recourse to the burrower (seller of the goods); if the person or firm that brought the goods does not pay, the selling firm (factoring). Assigning or pledging, or discounting of accounts receivable is characterized by the fact that the lender not only has a lire on the receivable but also has resources to the borrower (seller of the goods); if the person or firm that bought the goods does not pay, the selling firm that bought the goods not pay, the selling firm must take the loss. In order words, the risk of default on the accounts receivable pledged remains with the borrow. Also the buyer of the goods is not ordinarily notified about the pledging of the receivables. The financial institute that lends on the security of accounts receivable is generally either a commercial bank or one of the large industrial finance companies.

Factoring, or selling accounts receivable, involves the purchase Accounts receivable by the lender without recourse to the borrower (Seller of the goods). The buyer of the goods is notified of the Transfer and makes payment directly to the lender. Since the factoring firm assumes the risk of default on bad accounts, it must do the credit checking. Accordingly, factors provide not only money but also a credit department for the borrower.

A) Pledging Accounts Receivables

The pledging of account receivable as collateral for short-term financing involved four steps;

I) Selecting the Account

The firm can pledge some or all of it’s as collateral for a loan usually accounts are pledge on a selective basis, which means that on a selective basis, which means that the lender analyzes that payment records of each customer and lends money only against each customer and lends money only against each customer that represent good credit risks.

II) Adjusting Face Value

Each account receivable has a face value on the books of the borrowing company. But some goods may be returned after being inspected. This lowers that value of the receivable. To allow for returns and to reflect the customer that will take cash discounts for early payment, the lender adjusts the face value of the receivable downward. Thus a 1000 receivable may be increased to be worth $950.

III) Determining the Percentage

Next the lender must determine the percentage of the face value that will be lent. For strong credit risk, the lender may be willing to advance 90 percentages.

IV) Collection of Payment

When the customer pays the obligation that created the receivable the book or finance company gets its money. This can happen in two ways. Non–notification basis, not notified of the pledging. Notification basis, the customer is directed to renal payment directly to the lender.

B) Factoring Account Receivables

A factoring agreement is normally drawn up specifying the changes and procedure for the sale of the receivable. Most factoring arrangements are continuing, that is all the firm’s receivables are sold as they are created. This places the full credit and collection burden on the factor. Some of the key element of a factoring arrangement is:

I) Selection of Account

As with pledging, the factor selects the account to be purchased .If the factor is accepting all the firm receivables, the factor then becomes responsible for making the firms credit decisions.

II) Collection of Accounts:

The factor becomes responsible for the collection of receivable. Normally the customer are notified and instructed to send their payment directly to the factor.

III) Resources as Bad Debts

A resource is the right of one party to demand payment from a second party if third party fails to pay an obligation. Most factoring is done without recourse that is without the factor having the right to demand payment from the firm if the customer does not pay his bills.

IV) Date of Payment

The agreement normally stipulates that the firm will be paid when the factor collects the account or on the last day of the met credit period, whichever occur first. When the data of payment is also the data of collection, two credits are being granted by the factor to the seller.

V) Advance

A factor will establish for the firm an account that is similar to a bank account. Payments are made by depositing. The firm can withdraw the money as needed that factor means an advance against uncollected and not due accounts.

VI) Surplus

The firm does not have to withdraw funds from the account as they deposited by the factor. A surplus is only money that in left in the account, this draw interest.

VII) Factor Reserve

As part of the factoring agreement, a certain percentage of the face value of the receivables is set a side as a reserve to protect against returns or cash discounts.

Factoring Costs

Three kinds of calculations must be considered to measure the cost of factoring.

i) Factoring Commissions

These are payments to the factor to cover the administer active cost of verifying credit rating and collecting receivables.

ii) Interest on Advances

The factor charge 2 to 5 percent above the prime rate as the annual interest rates on advance.

iii) Interest on Surplus

The factor pays a much lower interest on surplus not withdraws by the firm.

2.2.2.2 Inventory Financing

If a firm is relatively good credit risk, the mere existence of the inventory may be a sufficient basis for receiving on insecure loan. Inventory also represents reasonable liquid assets and is therefore suitable as security for loans. As with a receivable loan, the lender determines a percentage advance against the market value of the collateral. This percentage varies according to the quality to the inventory. Certain inventories, such as grain, are very marketable and when properly stored resist physical deterioration .the margin of safety required by the lender on a loan of this sort is fairly small, and the advanced may be as high as 90 percent. On the other hand, the market for highly specialized pieces of equipment may be so narrow that a lender is unwilling to make any advance against its reported market value. Thus, not every king of inventory can be pledged as security for a loan. The best collateral is inventory that is relatively standard and for which a ready market exist apart from the marketing organization of the borrower.

There are a number of different ways a lender can obtain a secured interest in inventorial. In the first methods (floating lien, charter mortgage and trust receipt), the inventory remains in the possession of the borrower. In the last two methods (terminal warehouse and field warehouse receipts) the inventory is in the possession of the third party.

A) Floating Lien Loan

A lien is a claim by a lender on the property of a borrower as a security or collateral for a debate or obligation. A floating lien loan is secured by a group of assets that are not specified identified by an individual item. For example, a loan that is secured by the hard books physically or the premises would be floating lien loan. Some books would be sold and some purchase or a continuing basis, but that existing inventory at any on time is the collateral for the furrowing.

From the lender point of view the floating lien loan is less satisfactory than the trust receipt loan. Thus floating lien loan typically is made as a lower percentage of value then truest receipt loans.

B) Chatter Mortgage

With a chatter mortgage inventories are identified specifically by serial number or by some other means while the borrower had title to the goods. The lender has a lien on inventory. This inventory cannot be sold unless the lender consents. Because of the rigorous identification requirements, chatter mortgage are ill suited for inventory with rapid turnover or inventory that is not easily identified because of size or other reason. Chatter mortgage as well suited for certain capital assets, such as machine tools.

C) Trust Receipt Loan

A Trust receipt is an instrument acknowledging that the burrower holds the goods in trust for the lender. On receiving funds from the lender; the borrowing firm conveys a trust receipt for the goods. The good can be stored in public warehouse or held on the borrower’s premises. The trust receipt provides that the good are held in trust for the lender or are segregated on the borrower’s premises on behalf of the lender or and that proceeds from the sale of such goods are transmitted to the lender at the end of each day. Automobile dealer financing is the best example of trust receipt financing is the best example of trust receipt financing. (Mayer, and Kretlow, 2003:635)

D) Warehouse Receipt Loan

A warehouse receipt loan is an arrangement where by the lender, who may be a commercial bank or commercial finance company, receives control of the pledged inventory collateral, which is stored by a designated agent on the lender hires a warehousing company to act as its agent and take possession of the inventory. (Lawrance J. Gitman, 2004:640)

2.3 Characteristics of Short-term Financing

a) Cost of Funds

Cost of short-term financing may be most costly or least costly or even with no cost at all. For example account payable may be cost free or most costly. Accrual may be cost free.

b) Rollover Effect

This occurs when short-term liabilities are continuously refinanced from period to period. Even though short - term financing is repaid within one year. Some sources provide funds that are continuously rolled over. Especially, the funds provided by payable may remain relatively constant because, as some accounts are paid, other accounts are created.

c) Clean up

This is the case when commercial banks or other financial institutions require the firm to pay off its short-term obligation. Just as some sources are rolled over, some must be reduced to zero or cleaned up at one point in the year.

2.4 Factors Determining Short-term Financing

In choosing a short-term financing the financial manager will be concerned with the following aspects of each financing arrangement.

a) Cost

Generally, the financial manager will seek to minimize cost of financing, which usually can be expressed as an annual interest rate. Therefore, the financing source having lowest effective cost will be chosen. There are, however, other factors which may be important in particular situation.

b) Reliability

Some sources are more reliable than other in that fund are more likely to be available when they are needed. That is why; some time the firm chosen revolving credit instead of line of credit even though cost of revolving credit arrangement is high.

c) Flexibility

Some sources are more flexible than others. Due to greater flexibility the firm can increase or decrease the amount of funds provided very easily. So flexible source is preferable, this flexibility helps to reduce cost and grab market opportunity.

d) Restrictions

Restrictions also affect the decision while choosing the source of financing. Restriction might include amount limit on individual, management salaries and capital expenditure.

e) Others

- Impact on credit rating.
- The period of time when financing is required.
- The availability of the required credit amount.

(Gautam & Thapa, 2065:2.1)

2.5 Advantages and Disadvantages of Short-term Financing

❖ Advantages

There are various advantages of short-term financing over long-term financing.

a) Speed

A short-term loan can be obtained much faster than a long-term one. For example, raising fund through bond issue requires registration of bond, selection of issue manager, issue of bonds, allotment of bond etc. but a short-term loan does not require such a long process.

b) Flexibility

It the funds are needed for seasonal or cyclical purpose, a firm may not want to commit itself to long-term debt for three reasons:

- Flotation costs are higher for long-term debt than for short-term credit.

- Long-term loan agreement always contains pronsion, or covenants, which contain the firm's future action .Short –term credit agreement are generally less restrictive.

- Although long-term debt can be repaid easily, provide the loan agreement includes a prepayment pronsion, payment penalties can be expensive.

According, if a firm thinks its needs for funds will diminish in the near future, it should choose short-term debt.

c) Cost

Interest rates are generally lower on short-term debt. Thus, under normal conditions, interest costs at the time the funds are obtained will be lower if the firm borrows on a short-term rather than a long-term basis.

d) Restriction

The short-term financing may have less restrictive convenience than long-term financing agreement for example restriction on additional borrowing in band contrast.

e) Collateral

Long-term borrowing requires collateral but most of the short-term borrowing may not require such collateral.

❖ Disadvantages

There are various disadvantages of short-term financing also over long-term financing.

a) Financing

Long-term sources can be used to finance both long-term as well as short-term assets but short-term financing is used only to finance current (short-term) assets.

b) Risk

The cost of short-term financing is less than that of long-term sources but it is to be noted that short-term financing is riskier as compared to long-term financing. The repayment time is short and short time is riskier than a long time. A firm having weak financial performance must decrease its credit-worthiness and inability to make repayment sometimes can lead to bankruptcy.

c) Fluctuation in Interest

If a firm borrows on a long-term basis, its interest costs will be relatively stable overtime, but if it is uses short-term credit, its interest rates will fluctuates widely, at time, going quite higher.

2.6 Review of Article /Journal

Dr. R.S. Pradhan 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 trom1973-l984 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 finds. A lot of controversies exist in respect to the presence of economic scale, role of capital cost, capacity utilization rates and the speed with which actual cash and inventories and adjusted to describe cash and inventories respectively. To polled regression, result shows the presence of economic of scale with respect to them working capital and its various components. The regression result suggests strongly that the demand for working capital and its components is function of both sales and their capital costs. The estimated result shows that the inclusion if 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, R.S., The Nepalese Management Reviews: the Demand for Working Capital by Nepalese Corporations, Kathmandu: 1988** Vol.-8, No-1)

Dr. K. Acharaya has published another article relating working capital management; he has defined two major problem i.e. operational problems and organizational problems, regarding the working capital management in Nepalese public enterprise. The operational problems, he found are increase of current liabilities than Current assets, not allowing

The current ratio 2:1 and slow turns over of inventories. Similarly, change in working capital in relation to fixed capital have a impacts over the profitability, then transmutation of working capital employee to sales, absent of Apathetic management information system. Break even analysis, fund flow analysis and rate analysis were either undone or ineffective for performance evaluation. Finally, monitoring of the proper functioning of working capital management has never been considered as managerial job.

In the second part, he has listed the organizational problem in the public enterprises. In most of the public enterprises, then is lack of regular internal and external audit system as well as evaluation of financial result. Similarly very few public enterprise have been able to present their capital requirement, functioning of finance department is not satisfactory and some public enterprises are ever. Facing the under utilization of capacity. (Acharya K., **"Problem and Implement in Management of Working Capital in Nepalese Enterprise",** A quarterly ISDOC bulletin vol-10, no-3Jan-Mar 1985)

L.D. Mahat has published article relating to spontaneous resource working capital management. He has defined the three major sources of working capital i.e. equity financing, debt financing, regaining working capital managernent.

Debt financing include short-term bank financing such as bank overdraft, cash credit bills purchase and discounting, letter of credit etc. where as spontaneous source of working capital include trade credit provision and accrued expenses. Mr. Mahat has defined that working capital management in one of the important pillars of corporate finance. However, Nepalese industries are financial difficulty in their survival by the case of recession which can bring best and worst in corporate finance such as environment should be efficient enough to cope with the possible worst happenings in future of working capital management. He has said that managing the working capital resources for a profit making industries are routing affairs of just making payments 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 turn over and depletion in the profits. Therefore, spontaneous sources of working capital will better to working capital in order to improve its performance. (Consequently, in a changed economic scenario every company should reliability 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 check their financial stability to face and stand in forth coming competitive day. (Mahat L. D. **"Spontaneous Source of Working Management",** The Kathmandu Post Daily. Vol no.-98, 2004 May 26, p-5)

2.7 Review of Thesis

Lastly, the views of various thesis and dissertation and dissertation relating to my study which have already been furnished can reviewed as under some of the dissertation relating to PES have been taken.

A study on ***"The predictive power of the Ratios of Nepalese manufacturing enterprises"(*****Poudel Kalpana** ***,The Predictive Power of the Ratio of Nepalese MPES,*** **Unpublished M.B.A.Thesis T.U.Kirtipur.. pl- 110)** was conducted for 6 year period from 2039/40 to 2044/45 of manufacturing enterprises. This study has shown that the average Short-term debt to total capitalization ratio of loss making manufacturing enterprises excluding the Raghupati Jute mill is 0.41 times where as profit making MPES is 0.45 times which indicate that profit making MPES have used more Short-term debt than loss making MPES group.

A Study on "***Short-term Financing Pattern of Nepalese Published Enterprise"(Singh Dipendra Bhandari, Short-term Financing Pattern of Nepalese Public Enterprises, UN published MBS thesi,T.U. Kritipur, pl-99).****The* study was conducted for period of 10 years, 2035/36 to 2044/45 of 13 manufacturing enterprise.

The study has shown that the Short-term financing is increasing year by year during the study period .The increase in highest for Bhaktpur Brick Factory (34-5) time and increase in lowest for Birgung sugar factory (2-3times) these MPES have followed the increasing trend of trade credit but bank loan has very less used and accurate and commercial paper has not in practice loan .He has recommendation some suggestion for better performance.

Next study on ***"A Short-term Financing, a case study of 15 Manufacturing Company"*** **(Sapkota Rajendra, Short-term Financing, A case Study of 15 Manufacturing Company. Unpublish MBA thesis, T.U. Kritipur)** This study have found Nepalese manufacturing companies have increasing trading but only the JMF (Biratnagar) has decreasing trend. The liquidity position of Nepalese manufacturing companies is not good expecting JMF (Birgung) NVGU Ltd. JSM Ltd. Most manufacturing companies have commonly usage the account payable in financing but they have not effectively utilized the account payable in financing. Other issues like managerial weakness, lack of specific government policy, problem of skilled manpower are also the cause of poor financial performance. He has recommended for better performance.

A study on ***"Short- term Financial Management of Selected Nepalese Manufacturing Companies".(Karki Santosh, Short-term Financing Management of Selected Nepalese Manufacturing Companies. Unpublished MBA thesis, T.U.Kritipur)*** The study was conducted for period of 5 years 2051/52 to 2055/56 of 7 manufacturing enterprises. The study has shown that the manufacturing companies have not followed the increasing trend of short-term financing. The increase in highest for N/L Ltd is (15.32. times) and increase in lowest for NKU Ltd is (0.28 times). He has found after all the analysis that the size of business is large than the current liabilities also high most of the manufacturing companies have commonly uses the traditional sources of short-term financing (i.e. loan and advance, sundry creditors, provision for transaction and incurrent liabilities and provision). He has also found bank loan is in increasing trend of Nepalese companies due to unpaid of the loan in time and two companies(i.e. NKU Ltd and NBU Ltd) have not use loan and advance. The highest proportion of bank loan uses by JSM Ltd (77%) and lowest (nil) of NKU Ltd. The liquidity position is the MPE is good .The short - term debt lower than total assets. He has recommendation some suggestion for better performance like: mix financing pattern, the spontaneous sources of financing, different source of short-term financing, speed collection period and it should try to analyze statistical method for better performance.

Form the review of above mentioned research work; it is clear that only few researches have been done on short-term financing of Manufacturing Companies. The past study on short-term financing are the period up to 1999. After this period many Manufacturing companies are liquidated, many manufacturing public enterprises were privatized during the 8th to 10th year plan and many had been established. The past study also shows that the research had not used statistical tool to compare current liabilities with other financial variables. So, this study on ***"Short-term Financing Provision and practice of Listed Manufacturing and Processing Companies"*** is quite different from previous research work which include data after period 2057/58 to 2061/62 and different statistical tools also has been used

CHAPER – III

RESEARCH METHODOLOGY

3.1 Introduction

Generally, research methodology refers to the numerous process adopted by the researcher during the period. It is the technique to solve the research problem is systematic manner. This includes many techniques and is crucial for every research work. The main objectives of this research work are to evaluate the short-term financing listed manufacturing and processing company's procedure adopted by the organization.

Research methodology refers to the various sequential steps to be adopted by a research in studding a problem with certain objective in view. (Kothari, 1992:5)

This study will seek the conclusion to the point that listed manufacturing and processing companies have great and suggested the precious and meaningful points so that all concerned can fruitful from this research work.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. (Kothari C. R., 1992:32).

Research is the plan, structure and strategy of investigation conceived. So as to obtain answer to research questions and to control variances. To achieve the objectives of the study, description and analytical research design have been used. The research has collected data and information relating to short-term financing practice and provision of Nepalese listed manufacturing and processing companies on the basis of financial statement and other available and related data.

3.3 Data Collection Procedures

3.3.1 Nature and Sources of Data

This research is based on the Secondary Data and primary data. The Secondary Data have been collected from financial statement, annual reports, journal unpublished official records of concerned companies, financial statement of listed companies published by Nepal Stock Exchange. And Primary Data have been collected from questionnaires survey.

Most of the data and information are collected from selected Manufacturing Companies. The data have been collected from following sources;

- **Secondary Data:**

a. Financial statement of related companies.
b. Report of selected Manufacturing Companies.
c. Unpublished officials record.
d. Annual report of SEBO.
e. Business articles.
f. Unpublished thesis and dissertation
g. Websites

- **Primary Data:**

a. Direct personal interview
b. Indirect oral interview
c. Direct observation
d. Questionnaire survey

3.3.2 Sample and Population of the Study

Population means wholly or totality of observation that have selected for study. There are 53 manufacturing companies listed in Nepal Stock Exchange Limited up to fiscal year 2007\08. This scribe has selected five manufacturing companies dealing with different types of business. This study is related to five year financial data that from 2004 to 2008 of selected five manufacturing companies that deal with different types of business. It will provide valuable inputs for the overall picture and status of listed manufacturing companies of Nepal. The selection of samples is done by judgment sampling. The manufacturing company of Nepal is grouped is different industry group. There are 15 industries group according to type of industries. The samples are selected so that they represent food manufacturing, one is manufacturing of electrical, industrial machinery apparatus, appliance on is under manufacturing of textile and the other are under manufacturing of chemical product. Beside this, other things are also taken is consideration, as all manufacturing companies does not provide, the information because some them are established just few year now, some are operating just while established in many years ago and many listed companies are already liquidated. And those companies are selected which provides five year regular data and quantitative information available in Nepal Stock Exchange. On that basis five manufacturing companies are selected which are as follows:

1. Bottlers Nepal Ltd. (Balaju)
2. Nepal Lube Oil Ltd.
3. Jyoti Spinning Mills Ltd.
4. Nepal Khadhya Udhyog Ltd.
5. Nepal Banaspati Ghee Udhyog Ltd.

3.4 Data Tabulation and Processing

The required Secondary Dates are collected from Nepal Stock Exchange's website 0 and other essential information has also been supplemented from the concerned companies, Security Board of Nepal, Department of Industry, Central Bureau of Statistics and Ministry of Finance as well as Primary Data has also been collected through questionnaire and discussion with the managers doing the field visits and observation time.

Problem of collecting data is very acute in every company. These dates are collected in crude form in the initial stage and then, properly synthesized, arranged, tabulated and calculated to serve the objectives of the study. Technically, processing implies editing, coding, classification and tabulation of the collected data, so that they are amenable to analysis.

3.5 Method of Analysis

In order to ascertain investment analysis of any firm, various analytical tools can be used. According to the nature of statement of data, suitable or appropriate tools make the analysis more effective and significant for achieving objective. Two methods i.e. quantitative method and qualitative method are applied for analysis the short-term financing.

3.5.1 Quantitative Method of Analysis

Under this financial and statistical tools are used to analyze the effectiveness of short-term financing.

3.5.1.1 Financial Method

Various financial methods are used to analyze strength and weakness of short-term financing management of Companies and establishing relationship between the items of balance sheet and profit and loss account. Financial tools are categorized as follows;

1. Ratio Analysis

Ratio analysis is a mathematical expression of the relationship of one item to another. There are various methods or techniques used in analyzing the financial statements. One of them is the ratio analysis which is regarded as most powerful tool of financial analysis. It is calculated by dividing one items of the relationship with the other.
Under the ratio analysis try to analyze the following ratio.

i) Liquidity Ratio

Liquidity ratio measure the firm's ability to meet its maturity Short-term obligation. In other word liquidity ratio measure the ability of a firm to meet its Short-term obligation and reflect the Short-term financial strength of a firm. It can be divide into following two parts.

a. Current Ratio

It is a test of liquidity .It measures short run debt paying ability of the firm. It is calculated by dividing current asset by current liabilities.

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

Current assets are those assets which are expected to be converted into cash or consumed in the production of goods and services with in one year.

Current liabilities are those liabilities which fall due for payment in the relating in a year.

b. Quick Ratio

The ratio shows the ability of the firm to pay off its current obligation without relying on the sales and collection of inventories. The current assets should be either liquid or near liquidity. It is calculated by dividing liquid or quick assets by current liabilities.

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

Quick\liquidity assets include current assets less stock or inventory and prepaid expenses.

ii. Debtors to Short- term Financing

This ratio indicates the velocity of debt collection of a firm. It indicates the number of times average debtors are turned over during a year it is calculated as follows.

$$\text{Debt to STF ratio} = \frac{\text{Debtors}}{\text{Short-term financing}}$$

Trade debtors should be included the amount of debtors, bill receivables and account receivables.

iii. Cash and Bank Balance to Short-term Financing

Cash to short-term financing ration shows the financing and how much proportion Short-term financing could receipt immediately. It is calculated as follows the help of financial and the help of financial and statistical tools are tabulated under different heading. Then they are compared with each other to interpret the result. Two kinds of tools have been used to achieve the certain goals.

$$\text{Cash and Bank Balance to STF} = \frac{\text{Cash and bank balance}}{\text{Short term financing}}$$

iv. Inventory to Short- term Financing

Every firm has to maintain a certain level of inventory to meet the requirement of business. The inventory to Short-term financing indicates whether the large size of inventory maintain by a firm considerable amount of fund is required to be committed to them it is therefore, absolutely imperative to manage inventory .It is calculated as follows.

$$\text{Inventory to STF} = \frac{\text{Inventory}}{\text{Short-term financing}}$$

Inventory includes raw material, work -in -process and finished goods in case of manufacturing firm.

v. Trade Credit and Other Payable to Short- term Financing

Among all the financial tool account payable to Short-term financing is one of the major tools for analysis of the Short-term debt. It is calculated as follows.

$$\text{Trade and Other Payable to STF} = \frac{\text{Trade and other payable}}{\text{Short-term financing}}$$

A/P is spontaneous sources of Short-term financing .It arises from normal business operation. There is not explicit cost attached to the A\P. This ratio shows how much portion of A/P usage in short-term financing by the listed Nepalese Manufacturing and Processing Companies. A/P has vital role in the financing of short-term debt of manufacturing and processing companies.

vi. Bank Loan to Short- term Financing

This ratio is calculated dividing the bank loan by Short-term financing .It is calculated as follows.

$$\text{Bank Loan to STF} = \frac{\text{Bank loan}}{\text{Short-term financing}}$$

Bank loan is also a major component of short-term financing. This ratio shows how the manufacturing and processing companies have utilized the bank loan and how much portion of bank loan usage in short-term financing.

vii. Short- term Debt to Total Financing

The manufacturing and processing companies also use the short-term debt. It covers 40 to 45 percentage of total financing. It is calculated as follows.

$$\text{Total debt to STF} = \frac{\text{Total debt}}{\text{Short-term financing}}$$

Viii. Long term Debt to Short-term financing

It is test of long term solvency to short-term solvency of the firm. It measures how much proportion covers the long term debt to short-term debt. It is calculated to measure the extent of debt financing used in the business.

$$\text{Long-term Debt to STF} = \frac{\text{Long term debt}}{\text{Short-term financing}}$$

Short-term financing is defined as debt originally scheduled for repayment with in one year. But long term debt originally scheduled for repayment more than one year.

ix. Shareholder's Equity to Short-term Financing Ratio

This ratio indicates the relationship between short term debt and share holders equity. It relates to shareholders fund indicating the degree of protection enjoyed by Short-term creditors. It is calculated to measure the extent of debt financing used in the business it is calculated as follows.

$$\text{Share holder's Equity to STF} = \frac{\text{Shareholders equity}}{\text{Short-term financing}}$$

x. Sales to Short-term Financing

This ratio shows the relationship between sales and short-term debt. The relationship between sales and short-term financing indicates turnover of roles to short-term financing. This ratio is calculated by dividing sales by short-term financing.

$$\text{Sales to STF} = \frac{\text{Sales}}{\text{Short-term financing}}$$

Xi. Net Profit to Short- term Financing

These ratio measures the relationship been net profit and short-term financing. The relationship between net profit and short-term financing indicates management ability to operate the bines with sufficient success not only cost of borrowed fund but also to leave a margin of reasonable compensation to the owners for providing their capital at risk It is calculated as follows.

Net profit means left to the all over cost. (i.e. Interest, tax and expenses)

$$\text{Net Profit to STF} = \frac{\text{Net Profit}}{\text{Short-term financing}}$$

3.5.1.2 Statistical Method

Various statistical tools can be used to analyze the data for achieving the objectives. These tools are used to measure the relation between different variables, identification of problems in STF management and prospects to develop STF management system of Nepalese manufacturing companies. Following statistical tools are used in this study.

1. Arithmetic Mean

Arithmetic mean of a given set of observations is their sum divided by the number of observations. In such a case all the items are equally important. Simple arithmetic mean is used in this study as per the necessity for analysis.

$$\text{Mean } (\overline{X}) = \frac{\phi X}{N}$$

Where,

X = sum of all values of the variable ‘x’

N= number of observations

X= variables involved

2. Standard Deviation

The standard deviation usually denoted by the letter sigma **( )**. Karl Pearson suffused it as a widely used measure of desperation and is defined as the positive square root of the arithmetic mean of the squares of the deviation of the give observation from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study, has been used to measure the degree of fluctuation of interest rate and that of other variables as the necessity of the analysis.

$$\text{Standard Deviation } (\exists) = \frac{\phi\left(X - \overline{X}\right)^2}{N}$$

The greater the standard deviations the greater will the magnitude of the deviation of the values from mean vice versa.

3. Correlation Coefficient

Correlation is a statistical tool, which studies the relationship between two variables, and correlation analysis involves method. Techniques used for studying and measuring the extent of the relationship between the two variables. Two or more variables are said to be correlation if change in the value of one variable appears to be related or linked with the change in the other variables. When the relationship is of a quantitative nature, the appropriate statistical tool for discovering and the relationship and expressing it in a brief formula is correlation analysis.

$$\text{Correlation Coefficient (r)} = \frac{n\phi XY - (\phi X)(\phi Y)}{\sqrt{n\phi X^2 - (\phi X)^2}\sqrt{n\phi Y^2 - (\phi y)^2}}$$

Correlation may be positive or negative and ranges from -1 to +1. When r = +1, there is perfect correlation; when r = -1, there is perfect negative correlation, when r = 0, there is no correlation and when r < 0.5 then there is low degree of correlation. When ‘r’ lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

When ‘r’ lies between 0.5 to 0.699, there is a moderate degree of correlation. Simple correlation between interest rate and deposit, between interest rate, inflation rate and deposit rate and lending is examined in this study.

Coefficient of Determination (r2)

The square of simple correlation co-efficient is called co-efficient of determination. It measures the percentage of total variation in dependent variable explained by independent variable.

Similarly, multiple correlation coefficients between above mentioned variables also have been determined once assuming interest rate on deposit as dependent variable and other two variables (deposit amount and lending rate) as independent and then assuming interest rate on lending as dependent variable and other two variables (lending amount and deposit rate) as independent.

Where,

X and Y= two variables, correlation between which is calculated

n= total number of observations

The multiple correlations is used for the measure of degree of association between one variable and group of other variables as the independent variable, it lies between 0 and 1. The close it is to ‘1’ the better the linear relationship between the variables. The closer it is to ‘0’ the worse is the linear relationship.

Multiple Correlation Coefficients, variable one as dependent and variables two and three is independent.

$$(R_{1.23}) = \sqrt{\frac{r_{12}^2 + r_{13}^2 - 2r_{12} r_{13} r_{23}}{1 - r_{23}^2}}$$

Where,

r12= correlation coefficient between variable one and two

r13= correlation coefficient between variable one and three

r23= correlation coefficient between variable two and three

Coefficient of multiple determinations

The square of multiple correlation coefficients is called coefficient of multiple determination and it is very useful in interpreting the value of multiple correlation coefficient. The main significance of the multiple determinations is to represent the proportion of total variations in the dependent variable, which is explained, by the variations in the two independent variables. Coefficient of multiple determination measures the percentage of total variation in dependent variation. The significance of it is to represent the proportion of total variation in the dependent variable which is explained by the independent variables.

Coefficient of multiple determination = $R_{1.23}^2$

4. Chi- square Test (χ^2)

Chi- square has been used to check whether there is any association between two independent variables as well as to check the uniform distribution of variables. It is calculated as:

$$\chi^2 = \sum_{i=1}^{r} \sum_{j=1}^{c} \frac{(o_{ij} - E_{ij})^2}{E_{ij}}$$

Where,

χ^2 = Chi-square statistic

r = Number of rows

c = Number of columns

O_{ij}= Observed number of categorized in the ith row of the jth column

E_{ij} = Number of case expected in the i^{th} row of the j^{th} column = $E_{ij} = \frac{RiCj}{N}$

2.5.2 Qualitative Method of Analysis

A list of questions will be asked to the key persons to fill out in paper. Direct interview, indirect oral interview and direct observation have taken from financial experts to fill out designed questionnaires for research purpose. And from collected information results have taken by using statistical tools & SPSS programmed.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This is the heart of the study. The mentioned objectives of this study have been already highlighted in the first chapter. The chapter analyzes and interprets the relevant data about manufacturing companies for the period 2003 to 2007. This chapter is divided into different sectors. In first part the trend of short-term financing is analyzed by calculating the proportion of various from of short-term financing. The next part deals with financial ratio. Then financial approach of these manufacturing companies and financial position of companies are analyzed. Lastly, the relevant data and information, which is collected from questionnaire and interview, have been presented and analyzed

A. Presentation and Analysis of Secondary Data

All the secondary data are taken from published books, journals and reports. These data are presentation for analysis to fulfillment of objective.

4.1 Analysis of Various Forms of Short-term Financing

4.1.1 Analysis of Short-term Financing

This part deals with the analysis and interpretation of short-term financing for 5 selected manufacturing companies for 5 years starting for year 2004 to 2008. Availability of fund is a precondition to be taken care by the management of any enterprise.

No. 4.1

Company Average of Short -term Financing

(Rs. in Million)

S. No	Company	STF
1	NLO Ltd.	87.85
2	JSM Ltd.	219.0
3	NKU Ltd.	44.10
4	NBG Ltd.	352.67
5	BN Ltd.	270.11

Source: Annex No. 1

The table no. 4.1 shows the amount of short-term financing during the study period. The highest amount of current liabilities during the study period is Rs. 368.45 million of NBG Ltd. in year 2008 and lowest amount of current liabilities is Rs. 12.14 million of NKU Ltd. in year 2008. There is widely fluctuating in short-term financing among the 5 listed manufacturing and processing companies. JSM Ltd. has decreasing trend of short-term financing and the rest companies have increasing decreasing and decreasing and increasing trend of short term financing.

After analyzing and assessing the size of short- term financing, an effort is made to determine the major source of short-term financing. The various sources of short-term financing have been grouped in four categories: (a) Loans and Advance (Bank Loan), (b) Sundry Creditors (Account Payable), (c) Provision for Taxation, (d) Miscellaneous Current Liabilities and Provision.

4.1.2 Analysis of Loans and Advances to Short-term Financing

Loan and advance to short-term financing is an important tool that measures how manufacturing companies have been able to utilize the bond effectively. Moreover the form is unknowing what the leader like commercial bank says about the capabilities of manufacturing companies to repay the loan in time as well as need the interest obligation, which is schedule to be paid according to agreement.

There is fluctuation in loans and advance of all sample companies. The highest average loan and advance is Rs. 163.48 million of BN Ltd and lowest average loans and advances is Rs. 11.56 million of NLO Ltd.

Table No. 4.2

Company Average of Loan and Advance of Short-term Financing

S. No	Company	Ratio
1	NLO Ltd.	0.1316
2	ISM Ltd.	0.4068
3	NKU Ltd.	0.2785
4	NBG Ltd.	0.0970
5	BN Ltd.	0.6052
Average		0.31

Source: Annex-2

The above table shows company's average ratio of loan and advance to short-term financing. The overall ratio of sample companies is 0.31 times; this indicates that 31% of short-term financing is financed through loan and advance. The highest ratio is 0.6052 times of BN Ltd. and JSM Ltd has 0.4068 times, which is higher than average and others have lower than average ratio.

Table No. 4. 3

Yearly Average of Loan and Advance to Short- term Financing

S. No	Year	Ratio
1	2004	0.2517
2	2005	0.3210
3	2006	0.3133
4	2007	0.3565
5	2008	0.3781
Average		0.32

Source: Annex-2

From the above table, the annual average ratio of loan and advance of STF during the study period 2004 to 2008 is 0.32 times. The highest ratio of 0.3781 in year 2008 and lowest is 0.2517 in year 2004. The calculated rates show that the yearly average ratio is around the average.

On the basis of analysis about date it can be concluded that the most of the manufacturing companies commonly practices loan and advances in financing. Thus the management of companies is conscious about taking the loan.

The trend of borrowed loan by manufacturing companies is increasing but not to practice to repay thus the loan is increasing for most companies during the study period.

4.1.3 Analysis of Account Payable to Short-term Financing

Short term financing is analysis and interpret with the ratio of account payable on creditor. This ratio shows the position of account payable and as a percentage of short-term financing.

Account payable is a spontaneous source of financing in the sense that it arises from ordinary business transaction. Account payable or trade credit is more flexible means of financing defined in chapter 2.

There is fluctuation in amount of account payable of all sample companies. But the trend of using the account payable in most of the companions is decreasing. The highest average amount is Rs. 204.30 million of JSM Ltd. and lowest average amount is Rs. 10.08 million of NKU Ltd.

Table No. 4.4

Company Average of Account Payable to Short- term Financing

S. No	Company	Ratio
1	NLO Ltd.	0.90
2	JSM Ltd.	0.9329
3	NKU Ltd.	0.0229
4	NBN Ltd.	0.0332
5	BN Ltd.	0.4058
Average		0.46

Sources: Annex -3

The above table shows the average ratio of account payable to short-term financing of the sample companies. The company average ratio is 0.46 times. JSM Ltd. is highly dependent on trade credit that is 0.93 times but its trash credit has been decreased in compassion to earlier year. The NKU Ltd. has used lower account payable. Here, NLO Ltd. and JSM Ltd. have used mover account payable than average and NKU, NBG and BN Ltd. have used lower that average account payable. Higher ratio indicates maximum use of account payable in financing and the lower ratio indicates the lower uses of accounts payable in financing. Account payable is free cost of sources, so management must try to more utilization of account payable.

Table No 4.5

Yearly Average of Account Payable to Short-term Financing

S. No	Year	Ratio
1	2004	0.4545
2	2005	0.5144
3	2006	0.483
4	2007	0.4571
5	2008	0.5722
Average		0.46

Sources: Annex-3

The above table shows the ratio of yearly average of account payable to short- term financing during the study period. The average ratio for overall periods is 0.46 times. The higher ratio is 0.57 times for year 2008 and lower ratio is 0.45 times for year 2004. The ratio is increasing during the study periods.

4.1.4 Analysis of Working Capital

Short-term financing is a part of working capital, so measuring the short-term financing of manufacturing company with the help of working capital.

Working capital is the difference between current assets and current liabilities. It shows the liquidity position of the firm.

Table No. 4.6

Company Average of Working Capital

(Rs. in million)

S. No	Company	WC
1	NLO Ltd.	22.82
2	JSM Ltd.	51.55
3	NKU Ltd.	4.91
4	NBG Ltd.	-234.48
5	BN Ltd.	205.07
Average		9.79

Source: Annex-4

Above table shows the company average of working capital. The average working capital of selected companies for year 2004 to 2008 is Rs. 9.79 millions. The average is positive because most of selected companies have positive WC but NBG Ltd. has negative WC.

Working capital measures the liquidity position of the firm. The higher the working capital is preferable than lower. BN Ltd. has higher working capital that is Rs. 205.07 million and NBG Ltd. has lowest working capital that is Rs. -234.48 millions.

Table No 4.7

Yearly Average of Working Capital

(Rs. in million)

S. No	Year	WC
1	2004	-12.9
2	2005	-4.33
3	2006	19.40
4	2007	25.42
5	2008	21.36
Average		9.79

Sources: Annex-4

Above table shows the yearly average of working capital that is Rs. 9.79 millions. In the year 2004 and 2005 WC is negative and in the other year WC is positive.

Negative WC indicates that the poor condition of the firm, in this condition firms could not grape opportunities. From above table we can say that in the year 2003 and 2004 firm has no good condition to run firm.

4.1.5 Analysis of Current Ratio and Quick Ratio

Current Ratio

It is the relationship of current assets and current liabilities. Current assets mainly include cash and bank balance, receivables, inventories prepaid expenses. This can be converted into cash within one year. This ratio measures the shot-term solvency of the firm. Higher the current ratio better is the liquidity position. The standard value of current ratio is 2:1. So many firms are considered to be an adequate ratio. If the current ratio of the firm is less then 2:1 the solvency position of the firm is not good. If current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce a return.

Table No. 4.8

Company Average of Current Ratio

S. No	Year	Ratio
1	NLO Ltd.	1.27
2	JSM Ltd.	1.68
3	NKU Ltd.	1.35
4	NBG Ltd.	0.33
5	BN Ltd.	1.79
Average		1.28

Sources: Annex-5

The above table shows the average current ratio of selects manufacturing companies, which is widely fluctuating. The company average ratio is 1.28, the BN Ltd. has higher current ratio that is 1.79, and NBN Ltd. has lower current ratio that is 0.33. NLO Ltd. and NBG Ltd. have current ratio less than average ratio and other have higher than average ratio. All companies are unable to meet standard, it means all companies have current ratio less than standard current ratio (2:1).

Table No. 4.9

Yearly Average of Current Ratio

S. No	Year	Ratio
1	2004	0.98
2	2005	1.00
3	2006	1.36
4	2007	1.38
5	2008	1.70
Average		1.28

Sources: Annex-5

The above table shows the annual average of current ratio. The annual average from the selected manufacturing companies is 1.28. The annual average is less fluctuates than company average.

The standard ratio is 2:1 or more that may be suitable for manufacturing concern and the annual average could not be meet the standard ratio. The causes behind the decrease in current ratio are due to increase in bank loan, miscellaneous current liabilities and provision and lastly current liabilities. The causes behind the increase in current ratio are due to increase in inventory and sundry debtors.

Based on the above date, it is concluded that in the year 2006, 2007 and 2008 current assets are higher than current liabilities, in year 2004 current assets and current liabilities are equal and in year 2004 current assets is less than current liabilities. Finally, all the companies have lower current ratio than standard current ratio, so the management is very caution on increasing the current assets than current liabilities.

Quick Ratio

Quick ratio shows the quantitative relationship between quick asses and current liabilities. The objective of computing this ratio is to measure the ability of paying current liabilities by converting its current assets into cash or cash equivalent at a short notice. In other words, the ratio measures the ability of firm to pay current liabilities immediately. The standard quick ratio is 1:1.

Table No 4.10

Company Average of Quick Ratio

S. No	Year	Ratio
1	NLO Ltd.	0.7916
2	JSM Ltd.	0.1236
3	NKU Ltd.	0.5764
4	NBG Ltd.	0.0927
5	BN Ltd.	0.4445
Average		0.41

Source: Annex-6

From the above table, we can analysis the average quick ratio of selected sample company. The average quick ratio of Sample Company is 0.41 times. All samples manufacturing companies are unable to meet standard quick ratio or all sample companies have less quick assets than current liabilities. Among the sample companies NLO Ltd. has higher quick ratio that is 0.7916 and NBG Ltd. has lower quick ratio that is 0.0927.

Based on the above data, it is concluded that all the sample companies are unable of paying current liabilities. And all companies can not lower risk. We know that higher the liquidity position lower the risk and vice versa.

Table No. 4.11

Yearly Average of Quick Ratio

S. No	Year	Ratio
1	2004	0.4378
2	2005	0.2816
3	2006	0.5123
4	2007	0.3682
5	2008	0.429
Average		0.41

Source: Annex-6

The above table shows the annual average of quick ratio. The quick ratio during the study period is not more fluctuated. The highest ratio is 0.51 in the year 2005 and lowest is 0.28 in the year 2005.

Most of the manufacturing companies depend on the short-term financing even fixed assets and current assets are finance through the current liabilities. As increase in current liabilities the quick ratio would decrease and vice versa.

From the above analysis it in concluded that the current liabilities of sample companies is more and quick ratio could not meet the standard of quick ratio. The selected companies have less ability of paying current liabilities. Thus management must match the quick assets with current liabilities.

4.1.6 Analysis of Cash to Short-term Financing

Cash to short-term financing is an important tool that measures how manufacturing companies have been able to utilize the short term financing. Cash to short-term financing ratio indicates the liquidity position of enterprises. This ratio shows how the enterprises have been able to grab the opportunities in short span of time. This ratio helps to analyze and interpret the effectiveness of short-term financing of Nepalese manufacturing companies.

Table No 4.12

Company Average of Cash to STF

S. No	Year	Ratio
1	NLO Ltd.	0.02
2	JSM Ltd.	0.03
3	NKU Ltd.	0.04
4	NBG Ltd.	0.01
5	BN Ltd.	0.06
Average		0.03

Source: Annex-7

The above table shows the ratio of company average of cash to short-term financing. The average ratio among the all companies is 0.03; this ratio indicates that 3% of short-term financing is covered by cash. In other word, 3% of short- term financing could repay by cash. BN Ltd. has highest ratio that is 0.06 and NBG Ltd. has lowest ratio that is 0.01.

Higher the cash balance higher will be the ratio and lower the cash balance lower will be the ratio of cash to short-term financing. The company having more cash balance can grab many opportunities and can lower the risk. But management should know that higher the risk, higher will be the return and lower the risk, lower will be the return. So every time management must consider liquidity position of company to take right decision.

Table No 4.13

Yearly Average of Cash to STF

S. No	Year	Ratio
1	2004	0.04
2	2005	0.02
3	2006	0.03
4	2007	0.02
5	2008	0.05
Average		0.03

Source: Annex-7

The above table shows the annual average of cash to short-term financing. The average ratio for overall period is 0.03. The annual average ratio of cash to short-term financing during the study period is no more fluctuate. The highest ratio is 0.05 in the year 2008 and lowest ratio is 0.02 in the year 2005 and 2007.

On the basis of above analysis, the cause behind the decrease in the ratio of cash to short-term financing is due to decrease in the cash balance. Higher the cash balance higher the ratio and is preferable to creditors. Creditor or investors sees the liquidity position of the company. If it is not favorable they do not allow for the loan. Thus management must be better in the utilization of funds in their capital structure. Every firm must need cash for smooth running of the firm but excessive holding cash means less return and minimum hold of cash may delay to pay the shot-term debt, which could force the firm bankrupt. Thus firm cash must be invested in quick assets such as marketable security. This could be invested in quick assets such as marketable security, which would be converted into cash immediately.

Though it is concluded that the cash to short-term debt ratio is lower. It can be removed by holding more cash than now and excessive cash should be invested in marketable security in off season.

4.1.7 Analysis of Inventory to Short-term Financing

Inventory of short-term financing measures that how the companies have been able to manage inventory efficiently. This ratio also helps of analyze the effectiveness of short-term financing of manufacturing company. Inventories are least liquid assets**.** Inventory increases the current assets but could not be converted into cash quickly whenever shot-term debt and other from their long term debt.

More or less inventory is not good for the company so every time managements have considered for managing the inventory. The average amount of inventory during the study periods of the sample companies is Rs. 91.30 millions. The BN Ltd. has higher amount of inventory that is Rs. 199.30 millions and NKU Ltd. has lowest amount of inventory that is Rs. 17.90 millions.

Table No. 4.14

Company Average of Inventory to Short-term Financing

S. No	**Year**	**Ratio**
1	NLO Ltd.	0.30
2	JSM Ltd.	0.99
3	NKU Ltd.	0.28
4	NBG Ltd.	0.14
5	BN Ltd.	0.78
Average		0.50

Source: Annex-8

The above table shows the company average of inventory to short-term financing. The ratio of company average is 0.50 which indicates that inventory is 50% of short-term financing but these debts not indicate that all inventories are financed by short-term debt. Long-term debt is also used to finance inventory. The ratio is widely varies among the sample companies. The highest ratio is 0.99 of JSM Ltd. and lowest is 0.14 of NBG Ltd. Lastly, it is concluded that inventory play great role in the company. Unbalance of inventory is danger for manufacturing company. Thus, all the time management has to be careful for taking inventory decision.

Table No. 4.15

Yearly Average of Inventory to Short-term Financing

S. No	Year	Ratio
1	2004	0.39
2	2005	0.45
3	2006	0.48
4	2007	0.57
5	2008	0.68
Average		0.50

Source: Annex-8

The above table shows annual average of inventory to short-term financing. The ratio is widely various during the study period. The highest ratio is 0.68 times in year 2008 and lowest 0.39 times in year 2004.

From the above analysis, it is concluded that manufacturing companies hold maximum level of inventory but the sales has not been increase. Thus the management should avoid excessive and uneducated level of Inventory and maintain sufficient inventory for the smooth production and sales operation

4.1.8 Analysis of Debtors to Short-term Financing

This ratio also measures that how the manufacturing companies have been able to utilize the debtors effectively. Debtors are also a part of current asses, so debtors to short-term financing ratio indicates the liquidity position of the enterprises. For proper mange of debtors, management has to consider debtors collection period, opportunity and threat, market condition etc.

The average amount of debtors for the study period of sample companies is Rs. 45.64 millions. The higher amount of debtor is Rs. 95.69 millions of BN Ltd. and lower average amount of debtors is Rs. 17.06 millions of NKU Ltd.

Table No. 4.16

Company Average of Debtors of Short-term Financing

S. No	Year	Ratio
1	NLO Ltd.	0.77
2	JSM Ltd.	0.09
3	NKU Ltd.	0.54
4	NBG Ltd.	0.09
5	BN Ltd.	0.38
Average		0.37

Source: Annex-9

The above table shows the company averages of debtors to shot-term financing ratio. The ratio is 0.37 times, which is higher than cash to short-term fining ratio. The ratio is widely fluctuated among the companies. The higher ratio is 0.77 of NLO Ltd. and lower ratio is 0.09 of JSM Ltd. and NBG Ltd. The higher ratio shows that higher credit sales and lower ratio shows the lower credit sales and higher cash sales.

Table No. 4.17

Yearly Average of Debtors to Short-term Financing

S. No	Year	Ratio
1	2003	0.40
2	2004	0.26
3	2005	0.48
4	2006	0.35
5	2007	0.38
Average		0.37

Source: Annex-9

The above table shows the ratio of annual average of debtors to short-term financing ratio that is 0.37 times. The highest ratio is 0.48 in the 2006 and lowest ratio is 0.26 in the year 2005. The ratio is fluctuated in the study period, it means sometimes credit sales are higher than cash sales and sometimes cash sales are higher than credit sales.

4.1.9 Analysis of Shot-term Financing to Total Financing

Short-term financing plays an important role in manufacturing concern. This ratio shows how much percentage of short-term financing appears in total financing and it also shows that weather the manufacturing enterprises are more dependent on short-term financing or not. Generally in average 45% of total financing is covered by the short-term financing. Increase in the ratio also indicates increase in the risk. Short-term financing has a direct impact on total assets. Effectiveness of short-term financing is assumed to encourage the proper and substantial growth of the asses in manufacturing company.

Table No. – 4.18

Company Average of Short-term Financing to Total Financing

S. No	Year	Ratio
1	NLO Ltd.	0.68
2	JSM Ltd.	0.29
3	NKU Ltd.	0.36
4	NBG Ltd.	0.52
5	BN Ltd.	0.28
Average		0.82

Source: Annex-10

The above table shows that the ratio of companies' average of short-term financing to total financing. The company average ratio for the study period is 0.82. It means 82% of assets are financed by short-term debt. The NBG Ltd. has highest ratio that is 52%. All companies can not meet standard ratio of total financing. NLO Ltd. has 68%, JSM Ltd. has 29%, NKU Ltd. has 36% and BN Ltd. has 28% short-term debt. JSM Ltd, NKU Ltd. and BN Ltd. have less financed its assets through short-term debt.

Table No. 4.19

Yearly Average of Short–term Financing to Total Financing

S. No	Year	Ratio
1	2004	0.70
2	2005	0.77
3	2006	0.83
4	2007	0.88
5	2008	0.94
Average		0.82

Source: Annex-10

The above table shows the ratio of annual of short-term financing to total financing. The annual average ratio during the study period is 82 percentages. In all years, the ratio is higher than standard ratio that is 45%.

The cause behind the increase and the ratio of short-term debt of total assets is due to negative net worth. Based on the above analysis, it is concluded that the ratio of short–tem financing to total financing of all selected companies show the dissatisfactory level of the ratio because the calculated ratios are not matching in standard ratio.

4.1.10 Analysis of Short-term Financing to Total Liabilities

This ratio shows that how much percentage of short term financing appears in total liabilities and its shows that whether the manufacturing enterprise are more dependent on short-term debt or long term debt. Total liabilities include long-term debt deferred liabilities etc. Increase in the ratio is indicated increase in risk and return and vice versa.

Table No. 4.20

Company Average of Short- term Financing to Total Liabilities

S. No	Year	Ratio
1	NLO Ltd.	1.00
2	JSM Ltd.	0.26
3	NKU Ltd.	0.93
4	NBG Ltd.	0.99
5	BN Ltd.	0.96
Average		0.83

Source: Annex-11

The above table shows the company average of short-term financing to total liabilities that is 0.83. This ratio indicates that 83% of total liabilities are covered by short-term debt. This means short-term financing is more than long-term debt. The highest ratio is 100% of NLO Ltd. which has not used long-term debt for the study period. And JSM Ltd has lowest ratio that is 26%.

Table No. 4.21

Yearly Average of Short-term Financing to Total Liabilities

S. No	Year	Ratio
1	2004	0.88
2	2005	0.86
3	2006	0.83
4	2007	0.82
5	2008	0.76
Average		0.83

Source: Annex-11

The above table shows the company annual average of short-term debt to total liabilities. The overall company yearly ratio is 0.83. During the study period the ratio is closed to overall ratio. The highest ratio is 0.88 in the year 2004 and lowest ratio is 0.76 in the year 2008. The ratio is in decreasing trend during the study period.

On the basis of above analyses it can be concluded that 83% of total liabilities is covered by short-term which means short-term debt is more than long-term debt. So most of the Nepalese companies are using more short-term debt than that of long-term. The higher usage of short-term financing is called aggressive approach and low usage of short-term financing is called conservation one. The greater usage of short-term debt is risky because of fixed assets are financé through the short-term financing, fixed asset could not generate cash with short span of times, if firm could no be able to repay the short-term loan and interest within a year, it could cause the bankruptcy of the firm.

Thus Nepalese companies should used financial mix composition both shot-term and long-term financing as required.

4.1.11 Analysis of Short-term Financing to Total Capital

The term total capital comprises long-term share capital, reserve and surplus and long term debt. The ratio of short-term financing to total capital shows that the company uses more short-term loan or not. No hard and fast rule can be set down as to what proper relationship should be earring power of a company may satisfy a higher percentage. However, it is necessary to know that a too heavy debt burden reduces the margin of safely for lenders, increase fixed charge upon earning decrease, earning available for distribution to shareholder and in profits may invite insolvency and force reorganization

Table No. 4.22

Company Average of Short-term Financing to Total Capital

S. No	Year	Ratio
1	NLO Ltd.	2.20
2	JSM Ltd.	0.44
3	NKU Ltd.	0.65
4	NBG Ltd.	1.85
5	BN Ltd.	0.40
Average		0.37

Source: Annex-12

The above table shows the company average of short-term financing to total capital ratio. The overall company ratio is 0.37. The higher ratio is 2.20 for NLO Ltd. and lower ratio is 0.40 for BN Ltd. NLO Ltd. and NBG Ltd. have ratio more than 1 time during the study period is due to negative net worth or current liabilities are more than total capital. It indicates that they have high risk. And JSM Ltd, NKU Ltd. and BN Ltd. have more total capital than current liabilities in average.

The ratio of short-term financing to total capital is more than one due to negative net worth or the current liabilities are more than total capital. Earning power of company may justify a higher percentage but it is however necessary to note that too heavy debt burden reduces margin of safety for lenders.

Table No. 4.23

Yearly Average of Short-term Financing to Total Capital

S. No	Year	Ratio
1	2004	0.22
2	2005	0.59
3	2006	0.29
4	2007	0.31

5	2008	0.42
Average		0.37

Source: Annex-12

The above table shows the annual average of short-term financing to total capital ratio. The overall annual average ratio is 0.37. The highest ratio is 0.59 in year 2005 and lowest ratio is 0.22 in year 2004. The ratio is fluctuating during the study period. The increase in ratio is due to higher uses of short-term financing and decrease in net worth or negative net worth and vice versa.

Based on the above analysis it is concluded that NLO Ltd. and NBG Ltd. have negative net worth and more short -term loan during the study period. The ratio shows that these companies have adopted aggressive policy. The company JSM Ltd, NKU Ltd. and BN Ltd. have ratio less than 1 times, this position indicates that these companies have positive net worth and using less short-term loan during the study period. Lower the short-term debt lower the risk, higher the short-term debt higher the risk. So most of the companies should use lower short-term debt than total capital.

4.1.12 Analysis of Shareholders Equity to Short- term Financing

This ratio tests the short-term solvency of the firm. Shareholders equity to short-term financing ratio measures the relative claim of creditors and owners against the assets of the firm. This ratio indicates the relationship between short-term debt and equity that is outsider fund and shareholders fund which are sometimes calls external and internal equities. It relates to shareholders fund indicating the degree of protection enjoying by the shot-term creditors. It is calculated to measure the extent of short-term debt financing used in the business.

The total shareholders equity includes; common stock, percentage share capital, reserve, share premium, capital reserve, other undistributed profit and appropriate amount from profit less accumulated loss. It is earning available for distribution to shareholders and in profits may invite insolvency and force reorganization.

Table No 4.24

Company Average of Shareholders Equity to Short- term Financing

S. No	Year	Ratio
1	NLO Ltd.	0.47
2	JSM Ltd.	1.17
3	NKU Ltd.	2.21
4	NBG Ltd.	0.21
5	BN Ltd.	2.91
Average		1.40

Source: Annex-13

The above table shows the company average of shareholders equity to short-term financing ratio. The overall company ratio is 1.40. The higher ratio is 2.91 for BN Ltd. and lower is 0.21 for NBG Ltd, BN Ltd, JSM Ltd and NKU Ltd. have used less current liabilities and NLO ltd and NBG ltd has used more current liabilities than share holder's equity. Using the higher current liabilities than shareholders equity is risky condition for company.

Table No. 4.25

Yearly Average of Shareholders Equity to Short-term Financing

S. No	Year	Ratio
1	2004	0.86
2	2005	0.83
3	2006	1.68
4	2007	1.69
5	2008	1.30
Average		1.40

Source: Annex-13

The above table shows the annual average of shareholders equity of short-term financing ratio. The overall annual average ratio is 1.40. The highest ratio is 1.69 in year 2006 and lower ratio is 0.83 in year 2005. The ratio is fluctuated during the study period. In average companies have decreasing trend in used of current liabilities.

BN Ltd. has used less current liabilities, JSM Ltd. and NKU Ltd. have used more short-term loan in year 2004, 2005 and used less short–term loan in year 2006, 2007 and 2008. And NLO Ltd. and NBG Ltd. have used current liabilities in increasing trend.

Based on the above calculation, it is concluded that BN Ltd., JSM and NKU Ltd., are in less risky condition and NLO Ltd. and NBG Ltd. are in high risky condition. The shareholders equity to short-term financing ratio indicates the proportionate claim of owners and the outsides against the asset of the firm. IN this regarded, owners want of high debt finance to increase these earning per share whereas the outsiders want that shareholders should invest more.

4.1.13 Analysis of Sales to Short-term Financing

The ratio of sales to short-term financing also helps to analysis and interprets the effectiveness of short-term financing of manufacturing companies. Sales to short-term financing indicates the number of times short-term financing turnover in every year. Generally, the higher short-term financing turnover is indicates good short-term financing.

The average amount of sales of selected manufacturing companies for the study periods is Rs. 300.59 millions. The highest average amount of sales is Rs. 715.39 of JSM Ltd. and lowest average amount of sales is Rs. 70.95 of NKU Ltd. during the study period.

Table No 4.26

Company Average of Sales to Short-term Financing

S. No	Year	Ratio
1	NLO Ltd.	1.42
2	JSM Ltd.	4.49
3	NKU Ltd.	1.32
4	NBG Ltd.	0.43
5	BN Ltd.	2.40
Average		2.02

Source: Annex-14

The above table shows the ratio of company average of sales of short-term financing. The overall company average ratio is 2.02. The highest ratio is 4.49 of JSM Ltd. and lowest ratio is 0.43 of NBG Ltd. The ratio be high the causes of increase in sales amount and decrease in short-term loan and vice versa. The ratio is fluctuated during the study period. Higher ratio of sales of short-term financing is preferable.

Table No 4. 27

Yearly Average of Sales to Short-term Financing

S. No	Year	Ratio
1	2004	1.74
2	2005	1.40
3	2006	2.35
4	2007	1.93
5	2008	2.70
Average		2.02

Source: Annex-14

The above table shows the annual average ratio of sales to short-term financing. The overall average ratio during the study period is 2.02. The highest ratio is 2.70 in year 2008 and lowest ratio is 1.40 in year 2007. The ratio is fluctuated during the study period.

Based on above analysis it is calculated that most of the companies' sales to short-term financing decreasing because of low sales. JSM Ltd’s ratio is in increasing trend and BN Ltd’s ratio is fluctuated. Nepalese Manufacturing Companies have not practice of sales forecast for the year. To increase sales, management has to forecast sales and maintain other things also.

4.2 Trend Analysis of Short-term Financing

Trend analysis of STF is an important tool that shows how many short-term loans are using by the manufacturing companies during the study period 2004 to 2008.

Table No. 4.28

Trend of Short-term Financing of 5 Manufacturing Companies

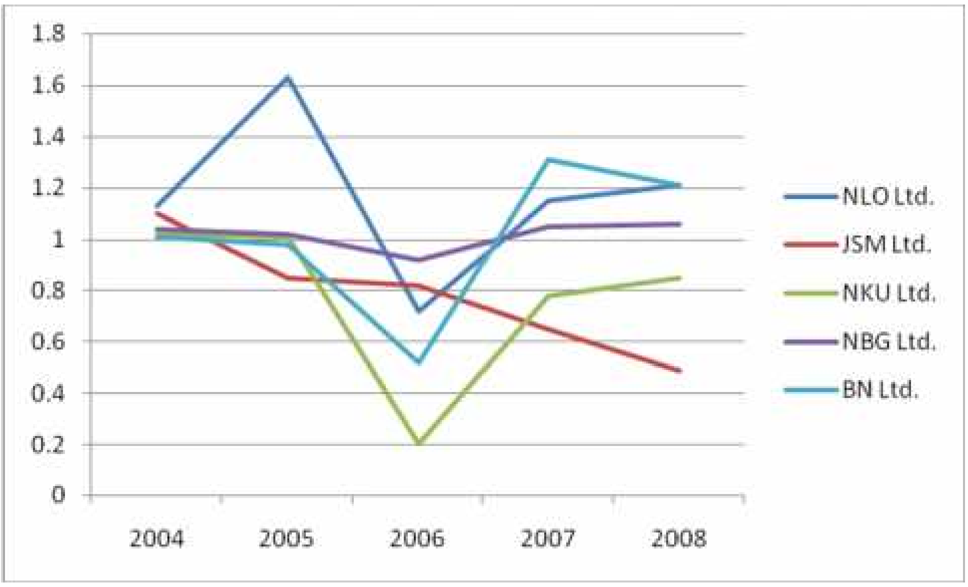
S.No	Name of Company	2004	2005	2006	2007	2008
1	NLO Ltd.	1.13	1.63	0.72	1.15	1.21
2	JSM Ltd.	1.1	0.85	0.82	0.65	0.49
3	NKU Ltd.	1.02	1.01	0.2	0.78	0.85
4	NBG Ltd.	1.04	1.02	0.92	1.05	1.06
5	BN Ltd.	1.01	0.98	0.52	1.31	1.21

The table no. 4.28 shows the trend of short-term financing using by the manufacturing companies during the study period. All the companies do not have followed the increasing trend of short-term financing. JSM Ltd has decreasing trend of using short-term financing and rest companies have increasing, decreasing and decreasing, increasing trend of using STF.

The highest ratio is 1.63 of NLO Ltd in the year 2005 and the lowest ratio is 0.2 of NKU Ltd in the year 2006. To take decision for using STF is very difficult. STF is using to take higher return but it has risk also. So management has always been careful to take STF decision.

Figure No. 4.1

Trend Line of Short-term Financing



The above line shows the trends of using STF by selecting manufacturing companies. JSM Ltd has decreasing trend of using short term financing and other companies have increasing decreasing and decreasing increasing trends of using STF.

On the basis, we can conclude that the selected companies could not properly used short-term loan. It means that management could not operate their business at satisfactory level.

4.3 Analysis of Net Profit to Short-term Financing

This ratio measures the overall profitability of the firm by establishing relationship between net profit and short-terms loan. Profit is the difference between revenue and expenses over a period of time. Profit is the ultimate output of a company and a company will have no future, if it is failed to make sufficient profit. Therefore, the financial manger should continuously evaluate the efficiency of its company in term of profit.

The ratio indicates the firm’s capacity to withstand advance condition and with high net profit to short-term financing ratio would be in an advantageous position to service in the face of falling sales price, rising costs of production.

Table No 4.29

Company Average of Net Profit to Short-term Financing

S. No	Year	Ratio
1	NLO Ltd.	0.04
2	JSM Ltd.	-0.10
3	NKU Ltd.	0.07
4	NBG Ltd.	-0.08
5	BN Ltd.	0.05
Average		-0.0033

Source: Annex-15

The above table shows the company average of net profit to short-term financing ratio. The overall company ratio during the study period is -0.0033. NLO Ltd has profit during the study period and BN Ltd. has also profit except year 2008. JSM Ltd and NKU Ltd have fluctuating condition, it means sometimes appears profit and sometimes loss. But NBG Ltd has loss during the study period.

Table No 4.30

Yearly Average of Net Profit to Short-term Financing

S. No	Year	Ratio
1	2004	0.01
2	2005	-0.003
3	2006	0.17
4	2007	0.04
5	2008	0.21
Average		-0.0033

Source: Annex-15

The above table shows the annual average of net profit to short-term financing during the study period. In year 2004 and 2008 companies' average ratio are negative that means companies have net loss. And in year 2004, 2006 and 2007, companies have net profit.

Based on above analysis, it is concluded that the net profit to shot-term financing ratio is lower and negative. It can be remover by effective utilization of shot-term financing, by curtailment of operating expenses. Gross profit may decline due to fall in demand of commodities, market conditions, increase in cost of production etc. As a consequence, net profit margin will decline unless operating expenses decrease significantly.

Correlation between Short-term Financing and Net Profit

The Annex no.15 shows the correlation coefficient between short-term financing and net profit, which is found -0.381 in NLO Ltd. It shows that short-term finance and net profit are found negatively related with each other. It means that increase in shot-terms finance results to decrease in net profit of some extent and vice versa. Similarly, coefficient of determination is found to be 0.1452 which indicates that 14.52% change in net profit has been determined by short-term finance.

From the above table, we have the correlation coefficient between short-term financing and net profit of Jyoti Spinning Limited that is -0.157. It also shows that short-term finance and net profit are found negatively related with each other. It means that increase in shot-term finance results to decrease in net profit. Similarly, coefficient of determination is found to be 0.0246 which indicates that 2.46% change in net profit has been determined by short term finance.

The above table also shows the correlation coefficient between short-term finance and net profit of Nepal khadhya Udhyog Limited that is -0.412. It has also negative correlation between short-term finance and net profit. It means that increase in short–term finance results to decrease in net profit. And similarly, coefficient of determination is found to be 0.1697 which indicates that 16.37% change in net profits has been determined by short-term finance.

The above table shows that the correlation coefficient between short-term financing and net profit of Nepal Banaspati Ghee Udhyog Ltd, which is found -0.880. It also shows the short-term finance and net profit are found negatively related with each other. It means that increase in STF results to decrease in NP. Similarly, coefficient of determination is found to be 0.7744 which indicates that 77.44% change in net profit has been determined by short-term finance.

The above table also shows the correlation coefficient between short –term finance and net profit of Bottlers Nepal Ltd which is found 0.67. It means that short-term finance and net profit are positively related. It means that increase in STF results to increase in NP and vice versa. And coefficient of determination is found to be 0.4489, which indicates that 44.89% change in net profit has been determined by short-term finance.

B. Presentation and Analysis of Primary Data

The primary data is collected on the basis of a questionnaire spread over to different respondents. The basis purpose of the distributing the questionnaire was to obtain the knowledge of academicians about STF management. That is identifying important aspects for making better short-term financing management system, findings problems and prospects in STF management etc.

1. Demographic Status of Respondents

It shows the personal information relating to respondents, there are 53 respondents. It flashes out the personal background of respondents. For research purpose, demographic variables were categorized into different groups as follows;

i. Gender & Age

The total numbers of male & female respondents were 53, where male respondents were found 35, which cover 66 percent. Where as the number of female respondents were appeared as 18, which cover 34 percent.

There are four age groups. The respondents of 30-39 years age group represent 35.8 percentages in total.

ii. Education & Profession

There are 53 respondents having different academic qualification. Master degree and above covers more percentage in total.

For this research many professions have selected as respondents that are academicians, security marketers, bankers, share marketers and other stakeholders.

iii. Employment Status

There are indicated four positions, officers and under cover more percentage and directors cover less percentage in total respondents.

Many respondents have 1-5 years experience and others have more experience. Experience respondents can give appropriate information about subjects.

4.4. Analysis of Problems & Prospects of Short-term Financing

There are many problems of using short-term financing and there are prospects also using STF in manufacturing companies. There are poor economic markets, so many problems are facing by manufacturing companies and there is less prospects to manage STF.

4.4.1 Problems of Short-term Financing

i) Lack of using money market instruments

Money markets are used to facilitate the transfer of short-term funds to those with different funds. Money market deals with the short term financial needs. Here the investors find the u\instruments with the maturity of short period. There are various types of money market in the world that are Treasury bills, Commercial paper, Certificate of deposit, Bankers acceptances, Eurodollars, Repurchases agreement, Short-term municipal securities and others. Among those, some are used in Nepal and other is not used. And Nepalese market could not used using instrument also. In Nepal no company has issued commercial paper. And only a few commercial banks issue, Certificate of deposit as capital market. So lack of using money market instruments in the companies could not manage STF requirement.

ii) Lack of mortgage

Secured short-term financing has specific assets pledged as collateral. The collateral commonly takes the form of assets. Such as account receivables & inventory. In Nepal, there are lacks of mortgage. Many of companies are small size, they have no more assets. So they are facing such problems and can not properly manage short-term financing.

iii) Unstable economic condition

The economic condition of Nepal is very poor. The main cause of poor economic condition is political instability. Economic condition depends upon political condition; there is no condition to invest in market. So money are wasting and freezing and companies are facing problems of lacking money. And there is low interest rate in the market. In this condition investors are not interested to invest in the market.

iv) Lack of professional management

Managing the short-term financing is very difficult work. Without the knowledge of market conditions, the manager can not properly manage the short-term finance.

Managing the short-term resources of the firm has a major impact on the relationship between risk and return. If the company has professional management, it could take advantages from using short-term finance. Without it the company has compulsion to bear losses. If the company has professional management, they will conscious to use free cost short-term instruments and low cost short-term instruments.

v) Fluctuation on interest rate

If a firm borrow on a long- term basis, its interest costs will be relatively stable overtime, but if it uses short-term credit, its interest rates will fluctuate widely at times. So the using of short-term finance is more risky than long-term debt.

4.4.2 Prospects of Short-term Financing Management

Identification of Important Aspects of Short-term Financing

In this section, tries to explain whether the respondents are familiar with various aspects of short-term financing or not. For this reason, different models of questions were designed and explained as under;

Table No. 4.31

Frequency Distribution of Respondents' View about Concept of Short-term Financing

Variable	Frequency	Percentage
Very Little	6	11.3
Familiar	23	43.4
Understand to some extent	15	28.3
Expert in this area	9	17.0
Total	53	100.0

The result shows that the maximum number of respondents ware found familiar with the concept of short-term financing. In the other hand, very few numbers of respondents were found expert in this area and very little know ledge also. In the same way, average number of persons involved in manufacturing sector can understand the concept of STF.

Table No. 4.32

Rank of the Important Aspects in Important of STF

Variables	Mean Rank
Professional management	1.51
Employee training	3.66
Good financial planning	1.77
Government supervision	3.91
Accounting standard compliance	4.15

N=53, Chi-square=133.06, df=4, Sig. =0.000

In respondents' view, professional management and good financial planning are regarded as the most important aspects for improvement of short -term financing. On the other hand, accounting standard compliance is the least important for improvement of STF. Employees training and government supervision have the average importance.

The resulted observed above was found highly significance. It means that the result was found more than 99 percent level of confidence. Therefore, it can be said that most of the respondents were found consistence in this reason.

Table No. 4.33

Rank of Components in Importance STF

Variable	Mean Rank
Cash flow management	1.36
Inventory	3.34
Receivable	2.6
Capital budgeting	2.7

N=53, Chi-Square=65.445, df=3,Sig.=0.000

In respondents view, cash flow management is found as the most important component in STF. And receivables and capital budgeting are average important in STF. Inventory is found least important component in STF.

Table No. 4.34

Frequency Distribution of Position of Industries in STF Management

Position		Frequency	Percent	Cumulative Percent
Banking	Good	50	94.3	94.3
	Average	3	5.7	100
Trade	Good	1	1.9	1.9
	Average	39	73.6	75.5
	Poor	13	24.5	100
Manufacturing	Good	1	1.9	1.9
	Average	15	28.3	30.2
	Poor	37	69.8	100
Travel &Tourism	Good	4	7.5	7.5
	Average	29	54.7	62.3
	Poor	20	37.7	100

In terms of STF management, the banking industry was found in good position where as manufacturing industry was appeared as the very poor position. Similarly, trade sector and travel tourism were in average position.

Table No. 4.35

Rank of Determinants, Importance in STF Management

Determinant	Mean Rank
Production policy	1.89
Credit policy	3.25
Nature of Business	2.09
Growth & expansion	3.55
Profit level	5.22
Price level change	5.00

N=53, Chi-square=149.067, df =5, sig.=0.000

In respondents' view, production policy and nature of business are regarded as the most important determinants in short-term financing management. On the other hand, credit policy and growth and expansion are found average important and profit level and price level change are found least important determinants in STF management.

Suggestion for Development of STF Management System

There are many reasons behind the unsuccessful STF management. For the development, those reasons should properly be found and proper action should be taken. In this section, some questions were designed to express the respondents' view for the suggestion in development in STF management system.

Table No. 4.36

Descriptive Analysis of Suggestion for Development of STF Management System

	N	Mean	Std. Deviation
Management should be professional	53	4.6415	0.73627
Employees should be trained	53	4.0189	0.60417
Government should provide guideline and support	53	3.7925	0.76858
Management should be responsible towards investors	53	4.0377	0.80771
Accounting system should be effective	53	4.4906	0.69677
Management should focus on the new technology	53	4.1509	0.69049
Appropriate information system should be implement	53	4.1698	0.8023
Effective trade credit policy should be applied	53	4.5472	0.6952
Valid N (list wise)	53		

The respondents were highly agreed in all aspect (except government should provide guideline and support- presented in table). In comparison, they focus on professional management system, effective trade credit policy system and effective accounting system. They don't give more priority in guideline and support of government. Thus, each and every situation should properly be considered for development of STF management system.

The standard deviation of each situation was found below the average (i.e. <1). It shows that the responses were not found high variation in each case.

4.5 Major Findings

4.5.1 Findings from Secondary Data Analysis

a) The short-term financing of Nepalese listed manufacturing have huge proportion. They are not followed any specific criteria to determine the short-term financing. Although the size of business and the shot-term financing proportion is not similar to each other. The highest amount of short –term financing is Rs. 352.87 for NBG Ltd. and lowest amount of short-term financing is Rs. 45.00 for NKU Ltd. JSM Ltd, NLO ltd and BN ltd. have followed increasing trend of short-term financing and NLO Ltd. And NBGLltd. have fluctuated trend.Most of the manufacturing companies have commonly used the short-term financing sources as;

a. Loans and Advances
b. Sundry Creditors
c. Provision for transaction
d. Miscellaneous current liabilities and provisions

b) The bank loan is in fluctuating trend. BN Ltd. has used maximum bank loan that is Rs. 163.48 and NLO Ltd. has used less that is Rs. 11.56. The overall average of loan and advance of short term debt is 32%. The highest ratio is 0.61 of BN Ltd. and lowest ratio is 0.09 of NBG Ltd.

c) Account payable is company used as sources of financing by most of the manufacturing companies but have not effective utilized the A/P. the overall average of A/P to short-term financing is 46%. The highest ratio is 0.93 of JSM Ltd. And lowest ratio is 0.02 of NKU Ltd. And the yearly average of account payable of short-term financing ratio is in fluctuating trend.

d) Working capital is the difference between current assets and current liabilities. It shows the liquidity position of the firm. The BN Ltd has highest average amount of working capital which indicates that the BN Ltd. has high liquidity position. And NBG Ltd has lowest that is Rs. -234.48 millions average working capital; it indicates that it has no good liquidity position. Other companies that are NLO Ltd., JSM Ltd. and NKU ltd. have average liquidity position.

Current ratio also helps to measure the liquidity position. The standard value of current ratio is 2:1. IN this study, the average current ratio of selected manufacturing companies is 1.28, which is less than standard ratio and it indicates that these companies have poor liquidity position. In all these sample companies, BN Ltd has higher current ratio that is 1.79 and NBG Ltd has lower current ratio that is 0.33 and yearly average ratio is in increasing trend.

And the quick ratio measures the ability of firm to pay current liabilities immediately. The standard value of quick ratio is 1:1. All sample manufacturing companies are unable to meet standard quick ratio, it indicates that all these companies have less quick ratio than current liabilities. The yearly average ratios are also can not meet standard ratio. In this analysis, we conclude that these companies have high risk.

e) The cash holding by most of the manufacturing companies is in fluctuating trend. The highest cash balance is Rs 35.93 million of BN Ltd in the year 2008 and the lowest cash balance is Rs. 0.21 million of NKU Ltd. in the year 2007. The overall ratio of cash to short-term financing is 0.03 times that means only 3% of short-term financing is covered by cash.

f) The holding inventory of NLO Ltd and JSM Ltd has increasing trend, NKU Ltd and NBG Ltd. have decreasing trend and BN Ltd has fluctuating trend. The average ratio of inventory to short -term financing is also fluctuating. The JSM Ltd. has higher ratio that is 0.99 and NBG Ltd has lowest ratio that is 0.14. And the overall average ratio is 0.50. The yearly average ratios are no more fluctuate.

g) The debtor is in decreasing and fluctuating trend during the study period. It means collection policy is no applied properly. The highest average debtor is

Rs. 95.69 million of BN Ltd. And NKU Ltd. has lowest debtors i.e. Rs. 17.06 million.

g) All the selected manufacturing companies have lower short-term debt than total assets except NBG Ltd. It indicates that NLO Ltd. JSM Ltd, NKU Ltd and BN Ltd. have positive net worth but NBG Ltd. has negative net worth.

i) The ratio of sales to short tram debt is widely varied among the manufacturing companies. The highest ratio is 4.49 of JSM Ltd and lowest ratio is 0.43 of NBG Ltd. It indicates that JSM Ltd's sales are high and NBG Ltd has low sales ratio.

j) The average ratio of net profit to short-term debt for the NLO Ltd NKU Ltd and BN Ltd have positive but JSM Ltd and NBG Ltd have negative. All the selective companies have not satisfactory position of net profit. All the companies have decreasing trend of net profit. This is due of ineffective utilization of short-term debt, political instability, high export of goods, high operation &production cost, lack & high cost of raw material etc.

k) The JSM Ltd and BN Ltd have high total capital than short-term debt, NLO Ltd has low total capital, NKU Ltd has fluctuating trend in use of capital but NBG Ltd has negative total capital and use of short- term debt is very high. Short-term debt is very sensitive, so entrepreneurs become very careful to use of short-term debt. High use of short-term debt is very risky but by proper utilization of short-term debt entrepreneurs become successful.

l) Working capital is blood of enterprise, without it enterprise can not operate. Without Working Capital Company can not grap beneficial opportunity, so all companies must have working capital. Here, NLO Ltd and BN Ltd. have some working capital and JSM Ltd and NKU Ltd have increasing trend of having working capital but NBG Ltd has no working capital.

m) In out context, manufacturing companies have poor condition, must of the companies are bearing loss.

n) The correlation between short-term debt and not profit is positive of BN Ltd i.e. 0.067 but other companies have negative correlation between short-term debts and net profit.

4.5.2 Findings from Primary Data Analysis

a) From primary analysis, try to find out the important aspects for STF, important components in STF, important determinants in STF, position of industries in terms of STF, problems in STF management and prospects in STF management. For above analysis, we have taken 53 respondents, from respondents analysis, it is concluded that professional management and good financial planning are important aspects for STF management. And cash flow management and receivable are important component. Production policy, credit policy and nature of business are main determinants of STF management. The position of industry in our country is very poor. There are many problems for operating industrials. Among many problems, it is difficult that to mange short-term debt. From respondents view, there are many problems to mange STF management that are lack of use of financial instruments, lack of mortgage, lack of professional management, instability economic condition etc. And there are many prospects also to develop STF management system. To develop STF management system management should be professional; account system should be effective, focus on the new technology, applied effective trade credit policy etc.

CHAPTER – V

SUMMARY, CONCLUSION & RECOMMENDATIONS

This is the last chapter of the study. A brief introduction about this study and the overall view if industrialization has been presented in chapter I In chapter II various related books, journal and other publications as well as been reviewed. Research methodology has been described in chapter III and all the available date related with this study has been presented and analyzed in chapter IV.

This concluding chapter gives a more pertinent view and proposed recommendation to help the manufacturing companies and policy makers to device and mange short-term financing effectively.

5.1 Summary

Industrialization is the back bone of the national economic development. Industry plays an impotent role in rapid economic development of the country. Industry can minimize the problem of unemployment and poverty. Thus the industries are the infrastructure for the economic development of national.

Most of the enterprises have different types of fund that is long-term funds and short-term funds. These funds are obtained from various scarcest. Long-term fund is costly than short-term funds. But the risk is higher in short-term funds. The public sector and manufacturing companies in developing countries have lack of capital and they have required the capital in seasonally. In this regard, short terms financing is appropriate for the aggressive financing policy called for the greatest use short-term funds. Short-term finance is an analysis of decision that effects current assets and current liabilities and will frequently have an import on t firm with in years.

Short-term financing is common source of financing, it has various advantages. The main advantages of short-term financing are lower cost of financing as well as free cost of financing. And other most impotent is flexibility. The main disadvantage of short-term finance is risk or it is risky funds. In our condition, enterprises are not interested in short-term finance. There are many problems to use short-term debt. There is no political stability, perfect market, effective planning etc. And there is no practice of all STF forms. The financing manage always be very careful to take short-term financing decision.

For the purpose of conducting this study on short-term financing management of Nepalese manufacturing companies, secondary data and primary data are used. This study covers a period of fiscal year 2004 to 2008. Needed data for this study are taken from financial statements of listed manufacturing companies mainly the balance sheet and profit and loss account and website www.nepalstock.com.np NEPSE ltd and annual report of the individual company. This study focus on the major sources of short-term financing of manufacturing companies also. And these studies mainly focus on the strength or effectiveness and weakness of Nepalese manufacturing companies to use short-debt.

And for primary analysis, designed some questionnaires and fill up from financial expert who are involved in different fields i.e. bank, security market, teaching profession etc. And primary date also helps to complete this research paper. The study focuses on the important aspects to make better shot-term financing management system, important components in short –term financing, position of industries in terms of STF, problems in using short-term financing and prospects to develop short-term financing management system.

5.2 Conclusion

From this study, it can be said that every Nepalese manufacturing companies should be analyze the short-term financing time to time whether the short-term financing is used according to financial policy of enterprise or not. The management of short-term financing can not be neglected by manufacturing companies otherwise it can seriously erode their financial liability. Thus the managers should understand factors determine short-term needs so that such understanding enables them to have proper management of short-term financing. Most of manufacturing and processing companies are suffering by huge losses due to their inappropriate financial mix and some company has the short-term debt higher than their total assets due to negative net worth. Thus this condition must improve by determination of right combination of short-term and long-term sources of funds to finance incurrent assets and fixed assets. Current assets should be separated into temporary current assets and permanent current assets. Only temporary current assets should finance through the short-term sources and permanent current assets and fixed assets should finance through the long-term source. Thus the liquidity position of firm improved and other various favorable impact on firm's financial performance. Nepalese manufacturing and processing companies in the present context are facing certain policy issues like deficient financial planning, neglects of short-term financing and working capital management etc. These policy issues can be overcome if manufacturing and processing companies undertake measures like identification of needed funds, regular checks development of management information system, positive attitude toward risk and determination of right combination of short-term and long-term sources of funds to finance assets.

5.3 Recommendations

The financial efficiency is one of the life bloods of every organization. The financial efficiency can be enhanced if financial strength of an enterprise is maintained and financial weakness is minimized. On the basis of finding and result derived from the analysis, following recommendations are made for better performance of Nepalese's manufacturing companies.

1. Nepalese manufacturing and processing companies should utilize the spontaneous source of financing because there is normally no explicit cost and it is interest free source. So every manufacturing and processing company should utilize spontaneous sources to the fullest extent.
2. There are different sources of short-term financing. The manufacturing and processing companies have used mainly two sources that are trade and other payable and provision. The use of bank loan is very low and commercial paper, factoring and pledging of account receivables have not in practiced yet. Therefore, Nepalese manufacturing companies should adopt mixed financing policy for betterment their capital structure.
3. The manufacturing and processing companies under the study are not seems to be using secured short-term financing. So that, their goodwill and reputations

may decrease from the point of view of stakeholders. Therefore, it is recommended that the proportion of secured and unsecured loan must be optional.

4. The cash collection period of most of the Nepalese manufacturing companies are too long, so these firms should speed the collection period. The cash collection policy can be made effective by speeding all receivable conversion period and payable conversion period. Delay in payment can increase cash conversion cycle but limper the credit worthiness of the firm. So, payment should also be done in time.
5. Nepalese manufacturing and processing companies should increase the efficiency. There is also lack of skilled manpower. It is universally accepted the skilled manpower decreases the operating cost and deserve higher profitability. Thus training programmer should be held at all levels so skilled manpower can be produced.
6. Sales forecast is necessary to increase sales but Nepalese manufacturing companies have not practice of sales forecast, thus these companies should be sales.
7. The manufacturing companies have lack of knowledge of inventory management analysis, which is very crucial to every organization because worse inventory policy create high inventory cost. Besides these, it is recommended that use optimal inventory management policy for betterment of organization.

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Annex: 1
Correlation between Short-term Financing and Net Profit

Correlations

		STF_NLO	NP_NLO
STF_NLO	Pearson	1	-.381
	Correlation	5	5
	N	-.381	1
NP_NLO	Pearson	5	5
	Correlation		
	N		

Correlations

		STF_NLO	NP_NLO
STF_JSM	Pearson	1	-.157
	Correlation	5	5
	N	-.157	1
NP_JSM	Pearson	5	5
	Correlation		
	N		

Correlations

		STF_NLO	NP_NLO
STF_NKU	Pearson	1	-.412
	Correlation	5	5
	N	-.412	1
NP_NKU	Pearson	5	5
	Correlation		
	N		

Correlations

		STF_NLO	NP_NLO
STF_NBG	Pearson	1	-.880(*)
	Correlation	5	5
	N	-.880(*)	1
NP_NBG	Pearson	5	5
Correlation			
	N		

Correlations

		STF_NLO	NP_NLO
STF_BN	Pearson	1	-.067
	Correlation	5	5
	N	-.067	1
NP_BN	Pearson	5	5
Correlation			
	N		

Gender Group of Respondents

Gender	Frequency	Percent
Male	35	66.0
Female	18	34.0
Total	53	100.0

Profession of Respondents

Profession	Frequency	Percent
Academicians	17	32.1
Security marketers	9	17.0
Bankers	12	22.6
Share marketers	8	15.1
Other Stakeholders	7	13.2
Total	53	100.0

Position or Responsibility

Position	Frequency	Percentage
Officer and under	26	49.1
Manager	12	22.6
Director	7	13.2
Owner	8	15.1
Total	53	100

Formal Education

Education	Frequency	Percentage
Bachelor Degree	10	18.9
Master Degree above	43	81.1
Total	53	100.0

Professional Experience

Experience	Frequency	Percentage
1-5 Year	20	37.7
6-10 Year	11	20.8
11-15 Year	14	26.4
16 & above	8	15.1
Total	53	100.0

Age Group

Age group	Frequency	Percentage
20-29 Year	16	30.2
30-39 Year	19	35.8
40-49 Year	12	22.6
50 & above	6	11.3
Total	53	100.0

QUESTIONNAIRE ON
SHORT TERM FINANCING MANAGEMENT IN NEPALESE MANUFACTURING COMPANIES

1. Are you familiar with the concept of short term financing?

a. Very little
b. Familiar
c. Understand to some extent
d. Expert in this area

2. Please list three Nepalese manufacturing companies with effective short term financing management in your opinion.

a.
b.
c.

3. Please list three Nepalese manufacturing companies with poor short term financing management in your opinion.

a.
b.
c.

4. Which of the following aspects are important to make better short term financing management system in Nepalese manufacturing firms?

(Assign 1 for most important, 2 for second and 5 to least important)

[ ] Professional management [ ] Employee training
[ ] Good financial planning [ ] Government supervision
[ ] Accounting standard compliance

5. Rank the importance of following components in short term financing

[ ] Cash flow management [ ] Inventory
[ ] Receivable [ ] Capital budgeting

6. Compare, following industries in short term financing management Effectiveness:

[ ] Banking Sector	[ ] Good	[ ] Average	[ ] Poor
[ ] Trade Sector	[ ] Good	[ ] Average	[ ] Poor
[ ] Manufacturing Sector	[ ] Good	[ ] Average	[ ] Poor
[ ] Travel Tourism Sector	[ ] Good	[ ] Average	[ ] Poor

7. Rank the importance of following determinants of short term financing management.

(Rank 1 for the best, 2 for the second best and ….. 6 to the least e3ffective)

[ ] Production policy [ ] Credit policy
[ ] Nature of business [ ] Growth and expansion
[ ] Profit level [ ] Price level change

8. What are the major problems you find in short term financing in Nepalese manufacturing sector?

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…………………..………………………………………………………………

……………………………..……………………………………………………

………………………………………………………..

	9. Following are the suggestion to develop short term financing management system in Nepalese manufacturing sector. Please read each of the following statement and circle at the appropriate given alternative number that comes very close to your opinion.	**Strongly disagree**	**Slightly disagree**	**Natural**	**Slightly agree**	**Strongly agree**
a.	Management should be professional	1	2	3	4	5
b.	Employees should be trained	1	2	3	4	5
c.	Government should provide guideline and support	1	2	3	4	5
d.	Management should be responsible towards investors	1	2	3	4	5
e.	Accounting system should be effective	1	2	3	4	5
f.	Management should focus on the new technology	1	2	3	4	5
g.	Appropriate information system should be implement	1	2	3	4	5
h.	Effective trade credit policy should be applied	1	2	3	4	5

Personal Details:

1. Gender: Female/Male
2. Professional
3. Positions or Responsibility
4. Formal Education
5. Professional experience (in year)
6. Age (in year)