CHAPTER – ONE
INTRODUCTION

1.1 Background of the Study

Economic development is really depends up on the development of the industrial and financial development sectors. To support economic development, it has been proved that industrialization is one of the most important tools. Mostly the developing countries are backward in the word on the industrial sector. This situation is mainly due to the predominated agro-based economy. Nepal is one of the agro-based economic countries. To develop the nation, it must be developed in the industrial sectors. Another must important concept is financial concept. All of the underdeveloped countries are doesn't consider about the financial concept.

Nepal is poor in industry but industry plays a significant role in the economic development of the country. This century, Nepal is going to highly support the industry for development of the economy. Nepalese economy is primarily based on agriculture but all agricultural industries are not proficient in agricultural sector. So agricultural industries of Nepal have introduced revolutionary professionalism in agricultural sector which is considerable. This absorbs more than 79% of the total active population of the country in this sector.(Encarta reference Library, 2004) This sector has contributed about before deduction of bank service charges 39.13% to GDP at current price in FY 2004/05.(National Accounts of Nepal, 2003/04). In Nepal; due to government's intuitiveness manufacturing industries are making notable progress. These industries provide around 2% employment of total human resources.(Joshi, 2002) The contribution of manufacturing industries to GDP is 9.2% at current price in FY 2003/2004.(Nepal Rastra Bank, 2003/04) .The gross domestic saving increased significantly by 13.8% on national income in FY 2003/2004.(Nepal Rastra Bank, 2003/04). The overall performance of industrial sector remained less satisfactory in FY 2003/2004, due to inefficient law and order situation prevailing in the country for the last couple of years. (Nepal Rastra Bank, 2003/04).

Industrialization is a process of economic development in which growing part of the national resources are 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 Nepalese economy, Nepal has to convert 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 contributes on economic 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. The government has to make situation favorable for investor and in manufacturing industry, 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, developed countries are dominating developing countries. Developing country cannot compete in the world trade due to lack of industries and technologies. Thus government initiates the privatization of industries in Nepal. Government of Nepal emphasizes for private organizations due to poor performance of public organizations. Basically, public organizations fail to perform a sound management on their business. Nepalese government has to be financial supportive to the public organizations. As a result the financial positions of the organizations become weaker and in turn the investment of government is diminishing. So Nepalese government is promoting the private sector for initiative and participation in these types of business to increase the efficiency in utilization of investment, better utilization of resources and competitiveness in global economy reduce the operating cost and number of favorable impact. Though the Nepalese government privatized Telecom in the beginning of 10th plan and most of private companies invest on banking sector. Private Banks make satisfactory service to customers. The performance of organizations depends on utilization of available funds and perfect human resources. Nepalese industries have a poor financial management and government is inefficient in policy, rules and regulations. Every industry has to manage suitable financial mix. Financial mix helps to improve the financial performance of the industry. The relationship between growth of financial performance and short term financial management require strong tie up to achieve the goal of economy development. Utilization of short term resources uplifts the financial performance of organizations as well as national economy. In the world context, when finance is known as most important discipline in the economic

development. All of the financial rules and regulations are playing most vitals rules in economic development. In traditional concept finance is only related with procurement and rising of the fund which is only long term. But now a day, finance is not concern with only the long term fund but it is relates with the short-term financing.

There are different kinds of financing like as long-term financing, medium-term financing and short-term financing. Short-term financing means that types which life is not more than one years. But if that type of debt or fund which life is more than one year is call long-term financing.

Most of the organizations have used different types of funds such as long-term, medium-term and short-term funds. These funds are collected from different sources. Each source of capital has its own benefits as well as defect. The aggressive financing policy called for the greatest used of short-term debt. Short-term financing cash provide both the highest and lowest cost funds in the firm's capital structure. Some funds of short-term financing are more costly then medium or long-term funds and some are at no cost at all to the firm (John J. Hampton, 1986).

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. By using the short-term financing, it has to additional funds because in some cases. A firm may not be able to issue equity and debentures.

Flexibility is one of the most important mints of using the short-term sources. In the seasonal or cyclical period, a firm does not want to use long term debt because when raising the long-term debt flotation costs are generally high. If a firm thinks its needs for funds may diminish in the near future, it should choose short-term debt for the flexibility it provides and lastly short term credit agreements are generally much less provisions than the long-term loan agreements which constrain the firm's future action.

Short-term financing is more risky than long-term financing because if a firm borrows on a long-term widely to uses basics its interest cost will be relatively stable overtime but it will fluctuate widely to uses short-term credit, at times going quite high. Brigham & Gapenski, 1988). Another reason of risk ness of short-term financing is that if a firm borrows high

amount on short-term basics it may find itself unable to repay this debt and it may be in such a weak financial position that the lender will not extend the loan; this may force the firm in to bankruptcy.

The financial performance of public enterprises in Nepal has been very poor. Most of the public enterprises have not been able to earn desirable values of profit. They are unable to use various sources of financing at required time. Most of the Nepalese firm's use various types of fund to fulfill their needs but they are unable to use short-term fund at appropriate time. In this situation there is necessary to analysis the financial resources of the manufacturing enterprises. In this study, there are research among these topic, what is the trend apply, which financing is more used and which financing is much cost effective for the Nepalese manufacturing companies.

1.2 Overview of Nepalese Industry

The history of industrialization is not long in Nepal, even though the first industry in Nepalese history was Biratnagar Jute Mill in 1936 (A.D.) and Nepal Bank Ltd. 1937 (A.D.). Taking in the account of industrialization process in Nepal it is quoted that there was a good deal more of pre-industrial manufacturing activity during the first decade of the last century than during the greater part of Rana period.(Shah Rishikesh,1915).

At the period of Rana Regime other manufacturing enterprises such as Raghupati Jute Mill comes in to operation. After the thrown of Rana Regime effort are being made of to accelerate the pace of economic development. As a result many industries were established before the first plan. Government initiated the growth of industries in Nepal since the very inception of the first plan. Government makes rules and regulations and bring act to support the establishment of public enterprises. Thus at the end of 8th five year plan, 59 public enterprise comes in to operation. In this period most of the big industries are operated by public sector but private sector operates small size of industries only, mainly they produce Shoes, Textile, Refine food, Iron, Handicraft, Carpet and other consumer goods etc. Mostly industries are involved in cottage industry.

Even though, the performance of public enterprises is poor and burdened for the government only up to seventh five year plan government is encourage to establishment public enterprises but it is realized by the government planner and policy maker that in

order to speed up to the process industrialization on merely the establishment of the public enterprises is out enough for the economic development of the nation, it is equally important that the role of private sector. After the eight five years plan government changes their policy by establishment of public enterprises to create favorable condition for encouraging the private sector to operate company and takes liberalization policy. After liberalization of the economy, though the emphasis on market economy by privatization device though international support and consistence, privatization cell of Nepal government under ministry of finance. 24 public enterprises are privatized; the rationale behind it is to tangible improvement on performance measured by rising in productivity, better utilization of resources, competitiveness in economy cost reduction and the number of other favorable impacts.

After the member of WTO, in 24 march, 2004, Nepal also commitments for open market system. Entries in WTO, Nepal have get opportunity to expand market all over the world. But it also bring various constants in industrialization sectors because foreign organization and goods also easily entries under the WTO regulation. So Nepalese manufacturing company have to face more competition to increase their status.

Financial performance is very low of the most Nepalese manufacturing companies. It's also not improved after the privatization of public enterprises because of the poor financing policy. By choosing suitable financing mix, these companies can improved financial performance, short-term resources avability is an urgent needs for the uplift the financial performance of company as well as the national economy. This short-term financing management has been continuously going on through government effort in the beginning. Although, the private sectors come into a limelight after deliberate policy of liberalization.

Among the no. of reasons leading of inefficient of manufacturing companies, ineffectiveness in utilization of short term-financing is consider to be one of the key reasons. Such focus of my study is to highlight regarding how manufacturing companies are managing short-term financing and then analyzing how far they are successful in taping short-term financing according to needs.

1.3 Statement of the Problem

In all organization short-term funds are used. If there is not proper working capital those types of organization will be unsuccessful. In most organization management of short-term financing has been misunderstand as the management of available resources rather than its effective utilization. Regarding the management of short-term financing sources (trade credit, account receivables, inventory financing). Most of the organizations never have been thought seriously. Although the financial manager still focuses on Bank loan, commercial paper, issue of bond and share but not on the effective utilization of funds defined in term of trade credit, account receivable financing and inventory financing. First goal of every organization is profit maximization and achieved to the goal, organization have to use proper use of working capital. But in fact, most of the Nepalese organization are unable to achieve their goal because poor utilization of various sources of short-term financing. So thus, the study focus to the following issues :

- What kinds of short-term financing source are used by different kinds of manufacturing companies in Nepal?
- Which form of short-term financing has been mostly used by manufacturing companies?
- Are the manufacturing companies more dependent on short-term financing than other?

1.4 Objectives of the Study

Main objective of this study will highlight about the use of short-term financing in the manufacturing company. Following objective are taken for this study.

- To analyze the various forms of short-term financing (Trade credit, Receivable financing, Inventory financing) used by the Nepalese manufacturing companies.
- To find out the most effective sources of short-term financing .
- To examine the financing policy adopted by manufacturing companies.
- To provide suggestions and recommendations on the basis of major findings.

1.5 Importance of the Study

Finance is one of the most important disciplines in the economic development. In traditional concept, finance is only related with long-term sources of financing. But now a day's finance is not only concern with long-term financing but also in their short-term financing. Short-term financing is that types of financing which matures within one year or less. Short-term financing is used to support a large portion of the firms current assets like as cash, marketable securities, inventory etc.

This study is related with pattern of short-term financing of manufacturing companies in Nepal. Every Organizations needs to funds of mature with in less than one year to declare different types of task. To manage short-term financing most organization are used various sources of short term financing like as trade credit account receivable and inventory financing etc. so this study is important for analysis of the role of short-term financing development of organization. This study also helpful to analysis the different sources of financing and its importance in organization. In other hand it also helpful to find out what types of short-term financing sources are used by different manufacturing companies and its impact in alternative choice of various sources of short-term financing. At last it also helpful to access about the trends of short-term financing.

1.6 Limitation of the Study

Time limitation, resource constrains, avability of raw material and objectives of the study confine the study, thus following are the limitation of study.

- The whole study is based on secondary data.
- This research has been confined only at the manufacturing companies, those are listed in NEPSE.
- Certain period data has been taken for the analysis, result is based on this data.
- The study is limited only in the short-term financing of selected manufacturing companies.

1.7 Organization of the Study

The study is splitted into five chapters. The first chapter deals with the introduction of the study. It covers background of the study, focus of the study, statement of the problem, objectives of the study, importance of the study and limitation of the study The second chapter deals with the literature review of the study. It inspects the related literatures and provides further insights concerning the study.

The third chapter deals with the research methodology applied in the study which encompasses introduction of the study, research design, sources of data and data collection procedures, sample and population, data tabulation and processing and method of analysis. The fourth chapter deals with the presentation and analysis of the data. It introduces the method of presenting the data and analytical tools applied thereon. The fifth chapter summaries the main conclusion that follows from the study and provide the suggestion for the further improvement and conclusion of the study. Bibliography and Appendix will be attached at the end of study

CHAPTER - TWO
REVIEW OF LITERATURE

2.1 Conceptual Framework

Short-term financial planning is important it involves the liquidity of the firm. Its ability to pay its bills. In a broader sense this means being able to meet its financial obligations to all of its stakeholders including suppliers, employers, sources of funds, it's customer as well as it's customers as well as its expanded social obligation. The objectives of short-term financial planning are managing the cash flows of the firm effectively (Weston & Copland, 1976)

Short-term financing management is the term now widely used in the place of working capital management. The concept of short-term financial management covers all decision of an organization involving cash flows in the short run with emphasis on management of investment in current assets.

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 advantages and disadvantages of each (Weston & Copland, 1976).

Short-term financing is the principle by which assets are funded. There are number, types, ranging from spontaneous credit in the form of amount payable and accruals to negotiable, interest bearing debt. The proportion of short-term vs. long-term financing is function of a company's funds requirements seasonal vs. more permanent as well as of the aggressiveness of management in matching its financing with its funds requirements (Van Hones, 1994).

The firm can use short-term sources of achieve a number of goals. Including flexibility, low cost financing and secured additional funds. A short-term loan can be obtained much faster than long-term. Lender will insist on a more though financial examination before extending long-term credit. Therefore if funds are needed in the hurry the firm should look to the short-term market (Hampton, 1986).

2.2 An overview of Long-Term Financing

Long term finance is related to long term investment decisions of a firm. They have to be financed with long-term sources of finance, which are approving for more than one year. That is called long term funds. The main sources of long-term finance are internal sources and long term finance.

The internal sources of long-term funds are companies depreciation charge and retained earning. The depreciation charges are normally used to replace the concerned fixed assets. Retained earning is used to expansion and diversification of the company.

The external sources of long-term funds are equity share, preference shares, term loan, convertibles, warrants, options, debenture, leasing and hire purchase financing and venture capital financing. And some funds are obtained from securities and some from capital market. All the funds are used to expansion and diversification of the company.

2.2.1 Relations between Long-term and Short-Term Financing

As the manufacturing company both of long-term and short-term funds are used. Long-term finance is mostly used on fixed assets and infrastructures of the company. But short-term finance is used to working capital of the company which is mostly used for daily operation of growth sales. Long-term finance obtained from shareholder's equity, term loan, and other sources but short-term finance obtained from secured and unsecured collateral and creditors like; commercial paper, trade credit, receivable financing and inventory financing. Short-term financing approved only for one year but long term for more than one to ten years. Long -term finance is used for expansion and diversification of the company and short term finance is used for sales maximization.

2.3 Financing Review

What role does finance play in the successful operation of the firm? as well as we see that follow, proper financing management will help any business provide better products to its customers at lower prices, pay higher salary to its employees and still provide greater return to investors who put the fund needed to firm and operate the business because the economic. Both national and international – consists of customers, employers, and investor's sound financial management contributes to the well- being of both individuals and the general population.

Finance is an art and science of managing money. This is also the branch of economics concerned with providing funds to individuals, businesses, and government within the areas of banking and related institutions. (Khan & Jain, 2005) Finance allows these entities to use credit instead of cash to purchase goods and invest in projects. For example, an individual can borrow money from a bank to buy a home. An industrial firm can raise money through investors to build a new factory. Government can issue bonds to raise money for projects.

Finance plays an important role in the economy. As banks, credit unions, and other financial institutions provide credit, they help expand the economy by directing funds from savers to borrowers. For example, a bank acquires large amounts of money from the deposits of individual savers. The bank does not let this money sit idle but instead provides loans to borrowers who might then build a house or expand a business. The savings of millions of people percolate through many financial institutions, spurring economic growth. (Microsoft Encarta Reference Library, 2004).

Finance involves the investment, financing, and dividend policy decisions of an organization. (Khan & Jain, 2005) The main functions of financial managers are to plan for, acquire, and use fund to make the maximum contributions to the efficient operation of an organization. This requires familiarity with the financial markets from which funds are drawn as well as with the products/markets in which the organization operates. All financial decisions involve alternative choices between internal versus external funds, long term versus short term projects, long term versus short term financing, a higher growth rate versus a lower rate of growth. The basic financial statements which encapsulate the effect of operating and financial decisions are also explained.

Finally, financing is the acquisition and uses of resources in a market system perform an important social role. Without decision rules development from the value maximization principle, the allocation and use of a society's limited resources will be arbitrary and inefficient. According to R.W. Johnson & R.W. Melicher "financial management is the acquisition management and financing of resources for the firm by means of money". (Sapkota & Koirala, 2000).

2.4 Review of Short-Term Financing

For mobilization of investigable resources from one sector to another, short-term financing plays a vital role in bridging of the deficit units and surplus units, " short-term planning with emphasis on the role of cash budget we then analyzed policies of managing cash, marketable securities, account receivable and inventories. These comprise the current assets section of the balance sheet. We treat the relation between current assets and current liabilities and their financing. Formally, this was called working capital policy. While usage varies, working capital is generally defined in financial report as current assets and current liabilities. Some refer to this measure as net working capital but if working capital is what remains after deducting current liabilities. It is redundant to add the word ‚Net''. (Weston & Copeland, 1992).

Working capital policy was defined to encompass all aspects of the management of both current assets and liabilities. Short term financial management is the term now widely used in place of working capital management. The concept of short-term financial management cover all decisions of an organization involving cash flows in the short run with emphasis on the management of investment in current assets and their financing. (Weston & Copeland, 1992).

Short term financing as defined as debts are repayment within one year. Short-term credits are available to firm on different forms, namely trade credit, bank credit, commercial paper and taxes, etc. and the financial manager must knowledge among these sources of funds with short term maturities period. The sources are namely trade credit among firms, loans from commercial banks, commercial paper and taxes.

There are mainly mechanisms to borrow of the short term funds, some funds are unsecured and some funds are secured. Unsecured funds rose from credit purchase by the supplier of goods and services. Secured funds rose from credit sales and inventory. Short-term credits are often secured some form of collateral. Hence, there are two common methods for securing financing, accounts receivable financing and inventory financing and unsecured financing, trade credit and commercial paper. The overview of the research among unsecured financing namely trade credit, secured financing, namely account receivable financing and inventory financing

2.4.1 Un Secured Short-Term Financing

Unsecured short-term financing mean a firm borrows funds without having pledge any specific assets and the lender depend primarily on cash generating ability of firm to repay the debt. They are as follows:

2.4.1.1 Trade Credit (Account payable)

Trade credit refers to the credit extended by the supplier of goods and services in the national course of business transaction of the firm. “According to trade practices, cash is not paid immediately for purchases but after an agreed period of time. Thus deferral of payment (trade credit) represents a source of finance for credit purchases”. (Kahn & Jain, 2005).

Trade credit is an informal arrangement between two company either buyer or seller. There is, however, no specific negotiation for trade credit. There are no legal instruments/acknowledgements of debt which are granted on an open account basis. So such credit appears in the records of the buyer of goods as sundry creditors or account payable.

Trade credit is a form of short-term financing common to almost all business. In fact it is the largest sources 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 deferment period before payment is due. During this period, the seller of the goods extends credit to the buyer. As the firm increased its productions account payable increase, as decrease. Thus account payable credit more liberal in the extension of credit than are financial institution, small companies in a particular relay on trade credit.

2.4.1.1.2 Type of Trade Credit

There are three types of trade credit.

2.4.1.1.2.1 Open-Account

Open-account is the most common type. The seller ship goods to the buyers and sent an invoice that specifies the goods or service, the price, the total amount due and the term of the sell open account credit derive it name from the fact that the buyers does not former debt instrument evidencing the amount owned the seller.

2.4.1.1.2.2 Promissory Note

The buyers sign a note that evidences a debt to the seller. The note itself calls for the payment of the obligation at some specific future data.

2.4.1.1.2.3 Trade Acceptance

Under this arrangement the seller draw a draft on the buyer ordering the buyers to pay the draft at some data in the future. The firm (payer) can sign the draft, formally acknowledging the debt or the payer's Bank can accept the responsibility for its payment in the event of the firms and default. Once accepted by the bank, drafts become a banker's acceptance. Which the supplier can sell the owner of the banker's acceptance present the drafts for collections at the guarantee bank on the specified data.

2.4.1.2 Credit Term

The firm's credit term state the credit period, the size of cash discount period and the date the credit period begin the price, the total amount due and the term of the sale.

2.4.1.2.1 Net Period No Cash Discount

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

2.4.1.2.2 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 net period the terms 2/10, net 30 indicate that the seller offers a 2 percent discount if the bill is paid within 10 days, otherwise the buyers must pay the full amount within 30 days.

2.4.1.2.3 Stretching Account Payable

Stretching account payable means postpone the payment of payable up to net period. The cost of stretching payable two fold. The cost of the cash discount foregone and the possible deterioration in credit and rating.

2.4.1.3 Advantages of Trade Credit

Trade credit, customary part of the doing business in most industries is convenient and informal. A firm that does not qualify for credit from a financial institution may receive trade credit because previous experience has familiarized the seller with the credit worthiness of the customers the seller know the merchandising practices of the industry and it's usually in good position to judge the capacity of customers. When the buyer has no alternative form of financing available, trade credit is important source of financing.

At the other extreme, trade credit may represent a virtual subsidy or roles promotions device offered by the seller. During the period of inflection and tiger and tiger money, firm have raised their standard for extending trade credit to the customer. Since cleaning up account receivable is one way to obtain a more favorable liquidity position.

2.4.1.4 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 command accrual accounts are for wages and taxes.

Accrued expenses represent liabilities 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 its employees. The firm incurs a liability the movement employees have rendered services. They are however paid afterwards, usually at some fixed interval like one month. The liability builds up between payables. The longer the payment intervals, the greater the amount of funds provided by the employees. Legal and practical aspects constrain the flexibility of a firm in lengthening the payment interval.

Accursed 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 differed payment of the firm's obligation and thus is a source of finance. Like taxes, interest paid periodically during a year while the firm continuously uses the borrowed funds. Thus accrued interest on borrowed fund requiring semiannually interest payments can be used as sources of financing for a period as long as six month. The government provides strict rules and procedure for the payments of with holding and social

taxes, so that the accrual of taxes cannot be readily manipulated. It is however, possible to change the frequency of payable to increase or decrease the amount of financing through wage accrual.

2.4.1.5 Deferred Income

Deferred income represent fund received by the firm for goods and service, which it has agreed to supply in future. These 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 of where the product is in short supply and the seller has strong bargaining power as compare to the buyer. These payments are not recorded as revenue until goods and services have been delivered to the customers. They are, therefore shown as liabilities in the firm's balance sheet (Pandey, 1992).

2.4.2 Un Secured Interest Bearing Sources of Short-term Fund

A stable and profitable firm can borrow funds from short-term source at competitive rates of interest.

2.4.2.1 Bank Loan

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 of cyclic business peal and the money will be used to finance an activity that will generate cash to pay off the loan. An example of a self- liquidating loan is money borrowed to finance inventory just before the pear seasonal sales period. The inventories that are being financed by the bank loan will be concerted first to receivable, than in to cash, which will be used to pay off the loan (Hampton, 1990).

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 I s a combination of a prime rate which a borrower has to operating of financial risk greater that the bank's

strongest customers. The premium generally runs from 0 to 2%. Firm possessing higher levels of firms generally do not qualify for unsecured short-term financing (Ibid, 430).

2.4.2.1.1 Types of Unsecured Short-Term Bank Loans

2.4.2.1.1.1 Single Payment Note

A commercial bank will lend a strong business customer a lump sum repayable with interest in a single payment and at a specified maturity usually 30 to 90 days. A note is a legal instrument that is signed evidencing the debt.

2.4.2.1.1.2 Line of Credit

A line of credit is an agreement between a bank and its customer specifying the maximum amount of unsecured credit the bend will permit the firm to owe at any one time. Usually, credit lines are established for al 1-year renewal. Frequently lines of credit are set for renewals after 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 sometime in March. At that time, the bank and the company meet to discuss. 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 theses condition, a line of credit may be adjusted at the renewal date or before if conations necessitate a change.

2.4.2.1.1.3 Revolving Credit Management

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 borrower wishes to borrow, provided total borrowing do not exceed the maximum amount specified. If the revolving credit is for 5 million and 3 million in already owned, the borrower can borrow an additional 2 million at any time. For the privilege of having this formal commitment the borrower is required to pay a commitment fee on the 3 million unused portions. If the fee is ½% the cost of this privilege will be 15000 for the year. Revolving credit agreement of more than a year must be regarded as intermediate rather than short-term credit.

2.4.2.1.1.4 Transaction Loan

Borrowing under line of credit of 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 jib. When the contractor receives a payment for the job, the loan is paid. For this type of loan, a bank evaluates each requested by the borrower s a separate transaction. In these evaluation the cash flow ability of the borrow paramount importance.

2.4.2.2 Commercial paper

Commercial paper represents an unsecured, short-term negotiable promissory note sold in the money market. Because these notes are unsecured and are a money market instrument, only the more creditworthy companies are able to use commercial paper as a source of short-term financing. Commercial paper is important money market instruments in advanced countries live USA to raise short-term funds. The commercial paper market in the USA is a blue-chip market where financially sound and highest rated companies are able to issue commercial papers. The buyer of commercial paper includes banks. Insurance companies, units trust and firms with surplus funds to invest for a short-term with minimum of risk.

The interest paid by issuer of commercial paper is determined by the size of the discount and the length of time to maturity. Commercial paper is sold at a discover from its part of face value and actual interest earned is determine value and actual interest earned is determine as face value x 360/Maturity period. The interest rate of commercial paper is generally lower than prime rate so it is more cheaply than by borrowing from a commercial bank. This is became many supplies of short-term funds of not have the option of making low risk business loan at the price rate; they can invest only in marketable security such as treasury bills and commercial

paper. Commercial paper is directly placed within investors by the issuer or sold by commercial paper dealers. For performing the marketing function, the commercial paper dealer is paid a fee.

2.4.2.2.1 Merit of Commercial Paper

From issuing firm's pant of view merit of commercial paper are as:

- It is an alternative source of raising short-term finance and provides to be handy drawing period of high bank credit.
- It is a cheaper source of finance in compares to the bank credit. Usually interest yield on commercial paper in loss than prime rate of interest. From investor's point of view
- It provides an opportunity to make a safe, short-term investment of surplus funds.

2.4.2.2.2 Demerits of Commercial paper

- It is an impersonal method of financing. If a firm is unable to redeem its paper due to financial difficulties, it may not be possible for it get the maturity of paper extended.
- It is available always to financially sound and highest rated companies. A firm facing temporary liquidity problem may not be able to raised funds by issuing new paper. The amount of loan able fund available in the commercial paper market is limited to the amount of excess liquidity of various purchasers to commercial paper.
- It cannot be redeem until maturity thus if a firm no more needs the fund is cannot repay until maturity and will have to incur interest cost.

2.4.3 Secured Short-Term Financing

Many firms cannot obtain on an unsecured basis either because they are new and unproven or because bankers do not highly regard the firms' ability to service debt. In order to make a loan, lenders required securities that will reduce their risk of less. A secured loan occurs when the borrower pledge a specific assets, called collateral to back a loan. The collateral may be securities, receivable or physical assets. The Lander is a given a claim to the collateral through the signing of an agreement that may be field in a public office, normally a country. By filling the securities agreements the borrower is legally establishing the lender first claim on the assets in the event of default.

It is ordinarily better to borrow on an unsecured basis, since bookkeeping costs of secured loans are often high. However, a potential borrower’s credit rating may not be sufficiently strong to justify the loan. If the loan can be secured by some form of collateral to be claimed by the lender in the event of default, then the lender may extend credit to an

otherwise unacceptable firm. Similarly, a firm that can borrow on an unsecured basis may elect to use security if it finds that this will induce lenders to quote a lower interest rate.

Several different kinds of collateral can be employed-marketable stocks of bonds, land or buildings, equipment, inventory, and accounts receivable. Marketable securities make excellent collateral, but few firms hold portfolios of stocks and bonds. Similarly, real property (land and buildings) and equipment are good forms of collateral, but they are generally used as security for long term loans. The bulk of secured short term business borrowing involves the pledge of short term assets –account receivable or inventories.

In the past, state laws varied greatly with regard to the use of security in financing. By the late 1960 however, most states had adopted the Uniform Commercial Code which standardized and simplified the procedure for establishing loan security. (Weston & Copeland, 1992).

The heart of the UCC is the security agreement, a standardized document, or form, on which are stated the specific pledged assets. The assets can be items of equipment, accounts receivable or inventories. Procedures for financing under the UCC are described in the following sections.

2.4.3.1 Account Receivables Financing

Accounts receivable financing involves either the assigning of receivables or the selling of receivables (factoring). Assigning, or pledging or discounting of accounts receivable is characterized by the fact that the lender not only has a lien on the receivables but also has recourse to the borrower; if the person or firm that bought the goods does not pay the selling firm must take the loss. In other words, the risk of default on the accounts receivable pledged remains with the borrower. Also, the buyer of the goods is not ordinarily notified about the pledging of the receivables. The financial institution that lends on the security of accounts receivable is generally either a commercial bank or one of the large industrial finance companies. In account receivables financing, there are two methods involved which are:

a. Pledging Accounts receivables

b. Discounting/Factoring Account Receivables

2.4.3.1.1 Pleading Account Receivables

Account receivable is one of the most commonly used forms of collateral for secured short term borrowing. From the lenders standpoint, account receivables represent a desirable form of collateral since they are relatively liquid and their value is relatively easy to recover if the borrower becomes insolvent. (Moyer, Mcguiban & Kretlow, 1986).Once the pledging the account receivables as collateral the bank must be satisfied with the authenticity and credit worthiness of the accounts receivables. The lender investigates the account to determine which are acceptable as collateral. To use its account receivables as collateral, the firm first discusses the loan with the bank, which then writes a letter dealing the bank terms, if the firm is satisfied with the term of loan, it notified the bank. Then the firm and the bank sign a formal security agreement. Once the agreement has been signed , the bank usually files a public notice announcing that the account receivable are pledged as collateral, so that others will not lend the firm money on the same collateral (Bolten & Conn, 1983) Most receivable loans are made on a non notification basic, which means that the customer is not notified that the receivable has been pledged by the firm, the customer to make payments directly to the firm. When loans are made on notification basic, the customer is instructed to make payments directly to the lender while firms obviously prefer to borrow on a notification basic.

2.4.3.1.2 Factoring Account Receivable

A factor is a financial institution that purchase account receivables from business firms factoring account receivables, involves the purchase of accounts receivable by the lender, generally without the recourse to the borrower. Under factoring, the buyer of goods is typically notified of the transfer and is asked to make payment directly to the financial institution. Since the factoring firm assumes the risk of default on bad accounts, it must do a credit check (Brigham & Gapenski, 1986) Most factoring of receivables is done on a non resource basic, in other words, the factor assume the risk of default. If the factor refuse to purchase a given receivables the firm can still ship the order to the customer and assume the default risk itself, but this receivable does not provide any collateral for additional credit. In the factoring agreement the firm receives payment from the factor after the normal collection or due date of the factors accounts. If the firms wants to receive the funds prior too this date, it can usually obtain an advance from the factor.

The factors also charge a factoring commission or service fee. Three kinds of calculations must be considered to measure the cost of factoring. Factoring commissions are payments to the factoring to cover the administrative cost of verifying credit ratings and collecting receivables. The factor charges 2 to 5 percent above the prime rate as the annual interest rate on advance.

The procedure for factoring is somewhat different from that for simply using accounts receivable as collateral for a loan. Again an agreement between the seller and the factor is made to specify legal obligations and procedural arrangements. When the seller receives an order from a buyer, a, credit approval slip is written and immediately sent to the factoring company for a credit check. If the factor does not approve the sales, the seller generally refuses to fill the order. This procedure informs the seller prior to the sale about the buyer‟s credit worthiness and acceptability to the factor. If the sale is approved, shipment is made and the invoice is stamped to notify the buyer to make payment directly to the factoring company

The factor performs three functions in carrying out the procedure outlined above:
a. Credit checking
b. Lending
c. Risk bearing

The seller can select various combinations of these functions by changing provisions in the factoring agreement. For example, a small or medium sized firm can avoid establishing a credit department. The factor's service may well be less costly than a department that has a capacity in excess of the firm's credit volume. Also if the firm uses a part time non-credit specialist to perform credit checking, the person's lack of education, training and experience may result in excessive losses. In some situations, the seller may have the factor perform the credit checking and risk-taking functions but not the lending function.

Factoring is much higher than the effective interest rate in the pledging scenario; this is due solely to the addition of the factoring commission or credit checking fee, since other variables were not altered. But since the use of factoring may reduce the firm's costs of a credit department, it may still be cost-efficient.

Once a factoring arrangement is established, a continuous circular flow of goods and funds take place among the seller, the buyers, and the factor. The seller of the goods receive orders and transmits the purchase orders to the factor for approval; on approval, the goods are shipped; the factor advances the money to the seller; the buyer pay the factor; and the factor periodically remits any excess reserve to the seller of goods. Thus once the agreement is in force, funds from this source are spontaneous (Weston & Copeland; 1992).

Accounts receivable financing occurs because the seller needs to borrow, but its credit position isn't strong enough to borrow on an unsecured basis. Pledging of accounts receivables involve this financing aspect alone, with the receivables treated as collateral for the loan. Pledging would be appropriate where a firm's buyers tend to be high- quality companies. Factoring, on the other hand, involves both the financing aspect and credit evaluation and assumption of credit risk by the factor. Thus, in a sense, it is misleading to include the factoring commission in calculating the effective financial cost of factoring.

The key issue for this insurance element of the cost is whether the credit-checking and risk bearing functions can be carried out more cheaply by the factor or by the firm itself. An efficient factor has the advantage that having done a credit evaluation of a buyer firm, it can sell its evaluation to, for example, ten different selling firms for as little as one tenth of the cost of the evaluation. In contrast, each individual seller would have to bear the entire cost of the evaluation alone and the evaluation would have to be duplicated as many times as there are sellers. This raises the question why a company would ever do a credit evaluation on its own. The answer may be that, when done properly, credit evaluation involves continuing interaction between the sales and credit departments of the selling firm with the buyers, which can benefit follow-on sales. Also, the cost difference may not be large, so that the issue comes down to the relative efficiency of the selling company versus the factoring company. For .example, where the number of buyers is large but the amount of sales to each is relatively small, the efficiency aspect may hinge on the sheer mechanics of handling the paperwork.

Accounts receivable financing also has disadvantages. When invoices are numerous and relatively small in amount, the administrative costs involved may render this method of financing inconvenient and expensive. And the firm is using a highly liquid asset a security. For a long time, accounts receivable financing was frowned on by most trade creditors; it

was regarded as confession of a firm’s unsound financial position. It is no longer regarded in this light, however, and many sound firms engage in receivables pledging or factoring. Still, the traditional attitude causes some trade creditors to refuse to sell on credit to a firm that is factoring or pledging its receivables, on the ground that this practice removes one of the most liquid of the firm’s assets and, accordingly, weakens the position of other creditors.

In the future, accounts receivable financing is likely to continue to increase in relative importance. Computer technology is rapidly towards the point where credit records of individuals and firms can be kept in computer memory. Systems already have been devised whereby a retailer can insert an individual’s magnetic credit card into a box and receive a signal showing whether the person’s credit is good and whether a bank is willing to buy the receivable created when the store completes the sale. The cost of handling invoices will be greatly reduced from present day costs because the new systems will be so highly automated. This will make it possible to use accounts receivable financing for very small sales, and it will reduce the cost of all receivables financing. This suggests a continued expansion of accounts receivable financing.

2.4.3.1.2 Inventory Loans

Short-term funds can also be raised by pledging inventory as collateral, if the firm is a relatively poor risk, the lending institution may insist upon security. Inventories are another commonly used form of collateral for secured short-term loans. Like receivables, much type of inventories is fairly liquid. Thus lenders consider them to be a desirable form of collateral. When judging whether a firm's inventory would be suitable collateral for a loan, the primary consideration of the lender are the type, physical characteristics, identifiably, liquidity and marketability of the inventory. Firms hold three types of inventories raw materials, work in progress and finished goods. Normally only raw materials and finished goods are consider acceptable as security for a loan. The physical characteristic that lenders are must concerned with is the items perishable. There are a number of different ways a lender can obtain a secured interest in inventories. In the first methods (floating, lien, chattel, mortgage and trust receipt) the inventory remains in the position of borrower. In last two methods (terminal warehouse and field warehouse); the inventory is the position of the third party.

2.4.3.1.2.1 Floating Liens

A floating collateral lien is a pledge of inventory without regard to specific items. This may include both present and future inventory. The firm pledges a certain quantity of inventory or inventory value, reserving the right to substitute specific items of similar type of agreement in often employed when the average value of inventory items is small and the inventory terms over frequently. Specific items are not identified. Thus a floating lien does not offer the lender much protection against losses from bankruptcy (Ibid: 30). This type of arrangement has the advantage of not restricting the firm from selling a specific item of collateral, allowing the firm to maintain control over the inventory.

2.4.3.1.2.2 Chattel Mortgage

With a chattel mortgage, inventories are identified especially by serial number or by some other means. While the borrower holds 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 requirement, chattel mortgage are ill suited for inventory with rapid turnover or inventory that is not easily identified because of size or other reasons. Chattel mortgages are well suited for certain capital assets, such as machine tools (Van Horne, 1986)

2.4.3.1.2.3 Trust Receipt Loans

The receipt, which is an instrument acknowledging that the goods are held in trust for the lender. When trust receipts are used, the borrowing firm, upon receiving funds from the lender, signs and delivers a trust receipts for the goods. The goods can be stored in a public warehouse or held on the premises of the borrower. The trust receipt knowledge that the goods are held in trust for the lender and that any proceeds from the sole of trust goods are held in trust for the lender and that any proceeds from the sale of trust goods must be transmitted to the lender at the end of each day. Automobile dealer financing is one of the best example of trust receipt financing (Brigham and Gapenski, 1986)

2.4.3.1.2.4 Warehouse Receipts Loans

A warehouse receipt loan is a form of short-term financing that is secured by a pledge of inventory controlled by the lender. The lender selects the company that is acceptable as collateral for the loan. A warehousing company they take physical possession of the inventory in one of two ways:

2.4.3.1.2.4.1 Terminal Warehouse Receipts

A borrower secures a terminal warehouse receipt loan by storing inventory with a public or terminal warehousing company. This arrangement generally occurs when the goods are easily and inexpensively transportable. When the inventory is delivered to the warehouse, the warehouse company issues a warehouse receipt listing the specific items received by senior of lot number. The warehouse receipt is forwarded to the lender, who then advances funds to the firm (Mayer, Guiban & Kertlow, 1986).

The terminal warehouse receipt is typically non-negotiable, although where negotiable warehouse receipts through there are are negotiable warehouse receipts through which the inventory can be transferred by endorsement to another firm. Financing for this type of inventory pledge in typically more costly then it is other forms of inventory pledge because of the lender's greater risk that the pledged inventory will be fraudulently removed. The firm bears the cost of the warehouse installation, warehousing charges, the guards, insurances and other associated expanses in addition to the interest the lender charges on the advances (Bolton & Conn, 1986).

2.4.3.1.2.4.2 Field Warehouse Receipts

In a terminal warehouse receipt loan, the goods are located in a public warehouse. Another arrangement, know as field warehousing, permits loans to be made against inventory that is located on the borrower's premises for the inventory pledged as collateral. The field warehousing issues a warehouse receipt as described to terminal warehouse receipt loans and lender extends a loan based upon the collateral value of the inventory. The field warehouse receipt lending is particularly appropriate when a borrower must make frequent use of inventory. This arrangement is a useful means of financing when it is not desirable, either because of the expanses or because of the inconvenience, to place the inventory in a public warehouse. With these conceptual frameworks in mind, review of literature has been conducted which is presented in the following sections.

2.5 Short-Term Financing in Nepal

The reason behind Nepal’s underdevelopment economy is not due to lack of resources but due to not proper utilization of the available resources in efficient manner. For proper and efficient utilization of resources it needs proper plan and strategy development, and for plan and strategy development huge amount of current capital investment is required. The

history of trade credit in Nepal dated back to the era before to the business operated, but at that time there was not any rules and regulation. They issued trade credit on trust. Nowadays, some rules are legalized in Nepal, like net 45, net 60 etc. There was no any discount on before payment, only trade credit facilities. Principle of trade credit system is not practice in Nepal till now. Also Nepalese government does not make any strong strategic and law on trade credit and its principle.

The history of short term financing in Nepal dates back to the era before establishing Nepal Bank Limited, there was no any strategic on short term financing. Commercial Banks was flowing short term against collateral pledging account receivable and inventory financing for the event of default but the government does not issue any rule and regulation for that part. Commercial banks only provided short term loan against non movable assets or fixed assets or Trust Receipts. Only some commercial banks and financial institutions accept pledging and discount or provide packing credit on certain interest rate which is less than other account receivable financing and inventory against collateral on trust. But there is no any particular rule and regulation up to now, some trend is practiced.

2.6 Review of Articles/Journals

In this section, attempt has been made to review the short-term financing and working capital management from various published on journal. The study is only related to short-term financing but short-term financing is a part of the working capital.

Shrestha,(1982). has examined the ten selected PEs on working capital management. The study has focused on the liquidity, turnover and profitability position of those enterprises. In this analysis, he found that fours PEs has excessive and the remaining four had failed to maintain desirable liquidity position. The study had brought certain policy issue such as lack of suitable financing, planning, negligence of working capital management, deviations between liquidity and turnover of assets and in ability to show positive relationship between turnover and return on net working capital (Shrestha,1982).No doubt every industrial enterprise need sufficient amount of capital to run its activities smoothly. In absences of sufficient capital, industrial enterprises are completed to hold up many of their profit propensities. In view of different industrial enterprises capital, they have different status regarding introduction, employment, wages and even the profit. Large industrial

enterprise with few capital and small enterprises with huge capital both are the single boat on ocean (James, 1961).

The study has conclude that the credit management (Receivable management) as an integrate part of short-term working capital management involved in a project is synonymous with the systematic operationalization of account receivables. In his journals, he Focus on how to manage account receivables and how is it helpful to increase the sales and profit volume. He describe about the short-term financing under the pattern of establishments of credit terms gathering credit information sources and credit granting decisions, which are helpful to manage the account receivables (Shrestha & Banijya).

Pradhan & Koirala,(1984). have conducted a study on working capital management in Nepalese Corporation. The study focused an evaluation of the working capital position of selected manufacturing and non Manufacturing Corporation of Nepal. They have sampled five manufacturing and six non manufacturing public enterprises. This study is concern in the size of investment, trend of investment and need to control the investment in current assets. Major finding of this study are as follows:

I) Investment in total assets had declined over a period of time in both Mfg. and non Mfg. Corporation.

II) Management of working capital was more difficult than that of fixed capital. They found the high level of inventory in manufacturing ones.

III) Inventory management was a great significant in manufacturing corporations and the management of cash and receivable was a great significant in non Manufacturing Corporation.

IV) The major motives for holding cash in Nepalese corporation was to provide a reserve for routine not outflows of cash to keep on the production process and sales.

Another article by Acharya, which is based on the finding and conclusion of his Ph. D thesis. He has focused working capital management of Nepal Tea Development Corporation for eight year from 1975/76 to 1982/83 AD. In his study, he found that the net working capital of NIDC was negative due to increase in current liabilities inventory held the largest portion and it was accumulating in the corporation. The size of receivables of NIDC had also increasing trend where as cash balance held by the corporation where insufficient to meet the routine work of the corporation. At the sane time the liquidity

position was very poor since current assets were less than the current liabilities. The turnover inventory receivables and current assets were below average. The break even analysis repealed that the NIDC had been selling mostly below the even print. Acharaya gives some suggestion regarding this were proper planning of production and sales, new credit policy action against the delinquent dealers, obtaining loans from any individual of financial institutions. (Acharya, the management of working capital in the PEs of Nepal, Nepalese Development studies, 1988). Koirala S.R., which article has written for “Banijaya Sansar” and his study s focused on "Birgang sugar factory limited” on account receivables represent for extension or open account credit by one firm to another and individual sound management of working capital is a vital aspect or an enterprises. The term funds required for financing the operations in the duration or an operating cycle in business. Every organization expects a minimum loss due to bad debts to achieve those goal company have to make good management in account receivables its save to factory to go to loss and bankruptcy (Koirala & Baniya, 1991).

2.7 Review of Related Studies

Shrestha, (1994). in his thesis entitled "working capital management in Bhirkuti paper mills Ltd." Consider the financial statement of this organization for the five fiscal year from 1987/88. He has drawn some conclusion from study the major components of current assets are cash and Bank balance, inventories and receivables. Among them cash and bank balance holds the largest portion and has fluctuating trend. Due to the lack of definite credit and collection policy the receivables are increasing year after year. Various turnovers are decreasing which indicate that current assets are not properly utilized in the mill. The liquidity position of mill is not bad. It is due to decrease trend of current liabilities.

Pathak, (1994). has carried out a study of working capital management of Nepal Lube Oil Ltd. He analyzed the working capital management of the Nepal Lube Oil for five years (1986 -1990). He has focused on the working capital management with respect to cash, receivable and inventory management and relationship between sales and different variables of working capital. He has used ratio analysis. Karl Person’s co-efficient of correlation (r) and t-test. Major findings of this study were high portion of current assets: unfavorable liquidity position of current assets but the share of finished goods stock is very low. Receivable has the second place in current assets and it is continuously growing. Finally it has concluded that this company had adopted the moderate financing policy.

Sharma, (1999). has carried out a study on working capital management of selected manufacturing companies. He had selected sixteen companies which are listed in Nepal Stock Exchange. He had taken 15 years (1981-1996) for analysis. He focused to analyze the empirical testing of the variable affecting in Nepalese manufacturing companies based on these variables such as current assets, current liabilities, sales, net profit, and total assets. He used financial and statistical tools such as ratio analysis, cash conversion cycle, coefficient of correlation, probable error, and simple regression methods. He found that many companies followed conservative policy. He recommended following the quarterly working capital plan and using effective working capital policy some may improve their liquidity position and most minimize the operating cost.

Shrestha, (2002). study on "short term financing management of selected Nepalese enterprise" was conducted for five years from 1996/097 to 2001/02 of manufacturing and non manufacturing companies. Her study was focus on the major source of short-term financing of Nepalese enterprise and its utilizing trend in Nepalese manufacturing and non manufacturing companies. In her study, she found that, the average employment of short-term financing is in increasing trend and the size of short-term financing is higher the manufacturing sector than non manufacturing sectors in Nepal. In her study, she found that, short-term bank loan was the major sources of short-term financing in Nepalese manufacturing enterprises as compare to non manufacturing enterprises during the study period. On the basis of her study she recommended in following terms.

I) Determine the appropriate financing policy
II) Determine the short-term funds requirement
III) Manage the less costly sources of fund
IV) Improve the liquidity position
V) Improve cash collection period.

Singh ,(1986). Conducted a study on short term financing pattern of Nepalese manufacturing public enterprise. The study was conducted for period of ten years of eight manufacturing enterprise. The study has shown that the short term financing is increasing year by year during the study period. The increase in the highest for Bhakatpur Brick Factory and increase is lowest for Birgung Sugar Factory. These MPEs have followed the

increasing trend of trade credit but Bank loan has very less used and accrual and commercial paper has not in practice.

Karkee.S, (2002). study entitle on "Short-term financing management of selected Nepalese manufacturing companies (listed in Nepal Stock Exchange)" was conducted for period 5 years from 1995 to 1999 of manufacturing companies. The objective of study is to analyze various form of short term financing employed by manufacturing company and its effectiveness of short term financing. The specific objectives are examining the trend, study on various form, relationship, analysis of cash cover cycle, relation between return on equity and short term financing and success/failure of manufacturing companies. To find out the objective on methodology he used ratio analysis, cash conversion cycle and predictive power for ratio of success and failure method. In this thesis he mainly finds all the manufacturing companies have not followed the increasing trend of short term financing. Most of company has commonly uses, loan and advance, sundry creditor, provision for transaction and miscellaneous current liabilities as provision as a short-term financing. Bank Loan is in increasing trend of Nepalese companies due to unpaid of the loan in time. Account payables are mainly sources of financing. All the companies" position is liquid form. All the companies hold high cash balance and they hold high inventory. Poor collection cycle, short term debt lower than total assets short term debts are widely varied, ratio of net profit to short term debt is positive for all selective companies and average cash conversion cycle is too long as varied. Most of manufacturing enterprises have not signed anything for obtaining a trade credit and trade credit received in between 1 to 30 days. Nothing gets any discount with supplies for early payment and not effect on delaying payment and no one enterprises have formulae policy regarding the selection of bank for taking the loan.

Karkee recommendations for Nepalese manufacturing enterprises following are made:

- Nepalese manufacturing companies should adopt mix financing pattern, maximum utilized the spontaneous source of financing and mix approach must be employed, and Company has to select the bank for regular customer of banks loan and set maximum advantage with banks.

- Cash Collection should be made effective policy for speed collection and payment should be being done in time. Manpower should be skillful by organizing training programme.
- To arrange for borrowing trade credit should be formulate debt instrument. Target sales forecast for maximizing, sales plan and decision regarding sales.

- Nepalese companies must be timely interpreting the relationship between return on equity and current liabilities with help of financial tools or statistical tool correlation and regression and company or firm has to note, higher debt is risky.

Gurung.O.B, (2002). study on "A study on working capital management of Nepal Lever Limited" which studies for period of five years from 2053/054 to 2057/058 B.S. of the Nepal Lever Limited. The objective of this study is to examine the working capital management of the limited. The specific objectives of the study are analyze liquidity, composition of working capital, utilization and profitability position of the limited, maintained optimum level of working capital, patterns and relation between liquidity and profitability of the limited. To analyze the objective, there is used on methodology, research design, nature and source of data, collection method, data processing and statistical tools. Statistical method has shown the ratio of different portion, correlation coefficient on different variables. Find out the average proportion of inventory, receivable, cash and bank balance and miscellaneous current assets to total current assets are 47.99%, 7.70%, 7.18% and 37.13% respectively during the period, where as inventory hold major portion of the current assets. Liquid position between current ratio and quick ratio are 0.86 and 1.73 averages during the period, it means limited has satisfactory but not enough to be perfect. The proportion of current assets to sales is fluctuating and current liabilities components are highly fluctuating during the study period. Limited has not used long term loan last three year during 1998 to 2002 maximum utilization of short term financing, it means limited turned to moderate policy. All the ratios of short term financing are fluctuating but inventory turnover ratio is satisfactory. Profitability of Nepal Lever Ltd is increasing trend except in 1998 during the study period. On the basis of finding, recommends to Nepal Lever Ltd, the company used high amount on inventory and receivable so company should be reduced optimum level of the sales and production they should set target and make strategies marketing and decrease in unnecessary receivables. The company must have to

its proportion of fixed assets and current assets, volume of sales should be increased and current assets should be maintained according to sales volume. The company has no fixed financing policy so it should fix the financing policy. An alternative inventory control techniques should be innovate for the company.

Financing of Nepalese manufacturing companies have increasing trading, but only the JMF (Biratnagar) has decreasing trend. The liquidity position of Nepalese manufacturing companies is not good excepting JMF (Birgung). Most manufacturing companies have commonly usage the account payable in financing but they have not effectively utilized the account payable. Other issues like managerial weakness, lack of specific government policy, problem of Skill manpower are also the cause of poor financial performance. He has recommended for better performance, like Nepalese manufacturing company should adopt financing policy, should improve the liquid position, should ensure effective utilization of Bank loan etc.

2.8 Research Gap

Form the review of above mentioned research work; it is clear that only few researchers have been done research on short term financing management. The past study on short term financing cover the period up to 2001, after this period many public manufacturing companies are liquidated and some of the public companies were privatized during the Tenth plan and many had already been established. The past study also shows that the researcher had not used statistical tool to compare current liabilities with other financial variables. So, this study on short term financing of selected manufacturing companies is quite different from previous research work which include data after period 2001 to 2005 and different analysis tools also has been used.

CHAPTER - THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the research methodology adopted for the current study on short-term financing adopted by manufacturing companies. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is the most important tax advancement of knowledge and accomplishment of process. Thus the research methodology is the plan, structure and strategy of investigation to obtain the objective of research and solve the research objective. Research methodology refers to the various sequential steps, along with a relational. On each such steps, to be adopted by a researcher in studying a problem with certain objective in view. In other word research methodology describe the method and process applied in the entire aspect of the study. Thus this part of my study deals with the research design, sample and population sources and types of data, data gathering instrument and procedure data tabulation and processing and method of analysis.

3.2 Research Design

Research Design is the main part of the thesis on any research work to achieve the general objectives of the research. The research has collected data and information relating to short term financing of Nepalese manufacturing company on the basis of financial statement and other available data. Attempt has been made to investigate the level of short term financing with the help of analytical tools. Literature on short term financing has been reviewed to acquire theoretical basis and recent approach to short-term financing.

3.3 Sources of Data and Data Collection Procedures

This study is based mainly on the secondary sources of data the data are taken from the Nepal stock exchange Ltd., published financial statement of listed company and other information taken from the individual company. Data are also collected from website www.nepalstock.com. After collection of data they are refining in the form of tables and then necessary items, out of many have been picked up for analysis and interpretation under study.

3.4 Sample and Population

Population means totality of observations that have selected for study. Sample is a part of population, which represents population with regard to the study. There are 37 manufacturing companies listed in Nepal stock exchange and data of 5 companies for 5 years collected and analysis as per need and objective of study. The selection of samples is done by judgment sampling. The manufacturing company of Nepal is grouped in different industry group. There are 15 industries group according to type of industries. The samples are so selected so that they represent different industry group. Beside this other things are also taken in consideration, as all manufacturing companies do not provide the information because some of them have been established just few years now, some are established just few years now, some are operating just while established in many years ago and many listed companies are already liquidated. Sample has been taken for provides five year regular data as per data bank on Nepal Stock exchange. The following are the samples companies taken on the study.

a. Nepal Lever Ltd
b. Bottlers Nepal Ltd
c. Jyoti Spinning Mills Ltd
d. Raghupati Jute Mills Ltd
e. Nepal Lube Oil Ltd.

3.5 Data Tabulation and Presentation

The secondary data which were required are collected from SEBO. A detail review research was also conducted to collect relevant information... After collection of data, they are refined in the form of tables and then various analytical tools had been implemented.

3.6 Method of Analysis

Both the quantitative and qualitative method were used while analyzing the data.Stastical tools such as correlation analysis, stander deviation, coefficient of variation were

3.6.1 Ratio Analysis

In order to make decisions in keeping with the objectives of the company and its financial liability an analysis is undertaken by every interested party such as creditors, investors and

also by the company itself. Such analysis various according to the specific interest of party involved.

Ratio analysis in defined as the relationship between two accounting figures expressed automatically. The significance of financial ratio analysis may be view in different ways. For example, a trade creditor is interested in the liquidity of the firm because his claim is short term and the ability of a firm to pay the claim is best judged by mean of a thorough analysis of its liquidity. Similarly, a shareholder might concentrate his analysis on the profit ability of the firm because he is concerned principally with the earning of the firm and its stability about a trend management also employs financial analysis for purpose of internal control. Under the ratio analysis following ratios is calculated.

1. Liquidity Ratio

Liquidity ratio measure the firm's ability to means its maturing short term obligation. In other words liquidity ratio measure the ability of a firm to meet its short term investigation and reflect the short term financial strength of a firm liquidity ratio can be divided into two parts they are:

a. Current ratio

Current ratio is calculated by dividing current assets by current liabilities.

$$Current\,ratio = \frac{Current\,assets}{Current\,liabilities}$$

Current assets include each and these assets that can be converted into cash within a year, such as debtor, receivable, cash and bank balance, prepaid expenses, inventory, etc. Current liabilities mean all obligations with a year. Under the current liabilities include creditor, provision for taxation, bank loan, miscellaneous current liabilities provision, etc.

b. Debtors to Short-Term Financing

Debtors to short term financing ratio is calculated by dividing debtors by short term financing.

Debtors to Short Term Financial Ratio = $\frac{Debtors}{Short-Term\ Financing}$

Account receivable or debtor is the around due from debtors to item good a service have been solid on credit. These accounts are generally realized into cash within the accounting period. The ratio debtors to short-term financing show the relation between the debtors and short term financing and it also indicated that how much portion of short term financing recovered by debtors.

3.6.2 Short-Term Financing to Total Financing

Short-term financing to total financing ratio is calculated by dividing short-term financing to total assets.

Short-Term Financing to Total Financing = $\frac{Short-Term\ Financing}{Total\ Assets}$

This ratio helps to find out the percentage of short-term financing that is being fulfilled by total assets.

3.6.3 Cash to Short-Term Financing

Cash to short-term financing ratio is calculated by dividing cash by short-term financing.

Cash to Short-Term Financing= $\frac{Cash}{Short-Term\ Financing}$

This ratio helps to detect the percentage of cash that is being used for financing shortterm needs.

3.6.4 Statistical Tools

The relationship between different variables related to study on the measuring the effectiveness of short-term financing in Nepalese manufacturing companies listed in Nepal Stock Exchange Ltd will be drawn out listing statistical tools. The tools to be used are as follows:

a. Cross Section Analysis

This method is used to determine the position of the company among the selected companies. Each annual figure has been compared with yearly average carried out summing up figure of each company and dividing by number of years.

b. Measures of Dispersion

Measures of Dispersion show the standard deviation and coefficient of variance of data. Actually the dispersion is the scatter ness of the items from the central value. So dispersion method is used to measure the variation of the data from the central value. The main objectives of measuring variability are as follows:

- To determine the reliability of an average.
- In devising a system of quality control.
- To compare two or more than two series with regard to their variability.

3.6.4.1 Methods of Measuring Dispersion

The standard deviation is the absolute measure of dispersion in which the drawbacks present in other measures of dispersion are removed. It is the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion. The standard deviation is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean.

If X be the variable values x their arithmetic mean, then standard deviation is given by;

$$\text{s.d} = \frac{\sqrt{\sum x^2}}{n} - (\sum x/n)$$

Where n= no of observations.

And coefficient of variance (C.V.) is given by:

$$\text{c.v.} = \text{s.d} / \bar{x} * 100$$

Where $\bar{x}$ = mean.

C.V. is independent of unit, so two distributions can be bitterly compared with help of coefficient of variance for their variability. Less C.V, more will be found out the uniformity, consistency and more C.V, less will be the uniformity, consistency, etc.

3.6.4.2 Regression Analysis

Regression is the measure of the average relationship between two or more variable in term of the original units of the data. In simple linear regression a single variable is used to predict another variable on the assumption of linear relationship between the given variable. The variable to be predicted is called the dependent variable and the variable on which the prediction is based is called the independent variable. Simple linear regression model is stated as under:

$$Y = a + bx$$

Where,

Y= Dependent variable
x= Independent variable
a= y-intercept
b= Slope of line

In my study dependent variable is treated as return on equity and independent variable as current liabilities percentage on total liabilities and total capital.

3.6.4.3 Standard Error

Standard error of estimate is a measure developed by statistician for measuring the reliabilities of the estimated equation. It measures the variability are scatter of the observed values of y around the regression line standard error estimate is worked out as under:

$$S.E. = 1-R*R/N$$

Where,
R*R= coefficient of determination
N= no of sample

Probable error of the correlation coefficient applicable for the measurement of reliability of the computer value of the correlation coefficient.

The probable error is defined by

P.E. = 0.6745 x 1-r*r/N

P.E. = 0.6745 x S.E.

If r<P.E., the value of r is not significant i.e. there is no evidence of correlation between the variable.

If r>P.E. the value of r is significant i.e. correlation is certain. The upper and lower units within which the correlation in the population in expected to we are (r + P.E.) and (r- P.E.) respectively.

3.6.4.4 Correlation Analysis

Correlation analysis attempt to determine the degree of relationship between variable. Positive correlation indicates that increase of current liabilities percentage in total liabilities will increase return on equity of those company and vice-versa. Negative correlation indicates that increase of current liabilities in total liabilities will decrease the return on equity and vice-versa.

CHAPTER - FOUR

DATA PRESENTATION AND ANALYSIS

The chapter concerns with presentation and interpretation of relevant data of manufacturing Companies for the period 2004 to 2008. The chapter is divided into different sections. The first section overviews the structure of short-term financing of five manufacturing companies. The second section deals with financial ratios. The third section concerns with the implementation of statistical measures such as mean, standard deviation, coefficient of variance, and correlation and regression analysis of relevant data.

4.1 Short-Term Financing Structure of Bottlers Nepal Limited

Table 4.1

Structure of STF of BNL

(Rs in million)

Year	Trade credit		Accruals		Short-term Loan		Others CL		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2004	27.74	32.01	5.49	6.34	*	*	53.42	61.64	86.66
2005	94.2	63.11	0.54	0.36	*	*	54.51	36.52	149.26
2006	126.38	66.52	8.15	4.29	*	*	55.46	29.19	189.99
2007	116.9	63.5	7.82	4.25	*	*	59.37	32.25	184.1
2008	58.99	50.34	0.017	0.01	*	*	58.18	49.65	117.19

The Table 4.1 shows the structure of short-term financing of the company BNL. The highest amount on trade credit is Rs.126.38 million in the year 2006 and lowest amount is Rs.27.74 million in the year 2004. The highest amount on accruals is Rs. 8.15 million in the year 2006 and lowest amount is Rs.0.017 million in the year 2008. There has been no any short-term loan taken by the company during the study period. Trade credit ranked the highest percentage among the component of short-term financing from the year 2005 to 2008. From the above analysis it has been interpreted that trade credit has become one of the significant source of abort-term financing for the company BNL.

4.2 Short-Term Financing Structure of Nepal Lube Oil Limited

Table 4.2

Structure of STF of NLO

(Rs in million)

Year	Trade credit		Accruals		Short-term loan		Others CL		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
2004	19.4	56.76	3.42	10	*	*	11.34	33.18	34.18
2005	19.19	68.54	1.65	5.89	*	*	7.15	25.54	28.00
2006	33.63	50.84	1.18	1.78	24.22	36.61	7.1	10.73	66.15
2007	46.43	49.41	0.9	0.96	41.75	44.43	4.85	5.16	93.96
2008	38.00	56.3	0.32	0.47	21.42	31.74	7.73	11.45	67.49

The Table 4.2 shows the structure of short-term financing of the company NLO. The highest amount on trade credit is Rs. 46.43 million in the year 2007 and lowest amount is Rs.19.19 million in the year 2005. The highest amount on accruals is Rs. 3.42 million in the year 2004 and lowest amount is Rs. 0.32 million in the year 2008. There has been no any short-term loan taken by the company in the year 2004 and 2005, whereas from the year 2006 to 2008 the company has heavily relied on it being the proportion 36.61%, 44.43% and .74%. Trade credit ranked the highest percentage among the component of short-term financing from the year 2004 to 2008. Short-term loan being the second highest component of short-term financing from the year 2006 to 2008. From the above analysis it has been interpreted that trade credit and short-term loan have become the significant sources of abort-term financing for the company NLO.

4.3 Short-Term Financing Structure of Raghupati Jute Mills Limited

Table 4.3

Structure of STF of RJM

(Rs in million)

Year	Trade credit		Accruals		Short-term loan		Others CL		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2004	28.02	83.42	2.26	6.73	*	*	3.29	9.795	33.59
2005	35.78	94.06	2.16	5.68	*	*	0.09	0.237	38.04
2006	54.11	94.17	1.97	3.43	*	*	1.37	2.384	57.46
2007	36.34	82.11	0.05	0.11	*	*	7.86	17.76	44.26
2008	49.02	82.99	6.05	10.2	*	*	3.99	6.755	59.04

The Table 4.3 shows the structure of short-term financing of the company RJM.The highest amount on trade credit is Rs.54.11 million in the year 2006 and lowest amount is Rs.28.02 million in the year 2004. The highest amount on accruals is Rs. 6.05 million in the year 2008 and lowest amount is Rs.0.056 million in the year 2007. There has been no any short-term loan taken by the company during the study period. Trade credit ranked the highest percentage among the component of short-term financing from the year 2004 to 2008. From the above analysis it has been interpreted that trade credit has become one of the significant source of abort-term financing for the company RJM.

4.4 Short-Term Financing Structure of Jyoti Spinning Mills Limited

Table 4.4

Structure of STF of JSM

(Rs in million)

Year	Trade credit		Accruals		Short-term loan		Others CL		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
2004	3.28	0.677	237.13	49.0	233.67	48.26	10.13	2.09	484.22
2005	3.49	0.71	247.54	50.3	229.54	46.68	11.11	2.26	491.69
2006	8.32	2.524	317.59	96.3	*	*	3.73	1.13	329.66
2007	7.82	2.851	262.72	95.8	*	*	3.78	1.37	274.33
2008	6.07	2.713	213.86	95.6	*	*	3.79	1.68	223.73

The Table 4.4 shows the structure of short-term financing of the company JSM.The highest amount on trade credit is Rs.8.32 million in the year 2006 and lowest amount is Rs.6.07 million in the year 2008. The highest amount on accruals is Rs. 317.59 million in the year 2006 and lowest amount is Rs.213.86 million in the year 2008. There has been short-term loan taken by the company in the year 2004 and 2005 whereas from the year 2006 to 2008 the company did not feel of taking it. Accruals ranked the highest percentage among the component of short-term financing from the year 2004 to 2008 .Short-term loan being the second highest component of short-term financing in the year 2004 and 2008 from the above analysis it has been interpreted that accrual and short-term financing have become the significant source of short-term financing for the company RJM.

4.5 Short-Term Financing Structure of Nepal Lever Limited

Table 4.5

Structure of STF of NLL

(Rs in million)

Year	Trade credit		Accruals		Short-term loan		Others CL		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
2004	140.69	89.6	4.73	3.01	*	*	11.59	7.381	157.02
2005	102.72	37.43	7.94	2.89	145.08	52.87	18.69	6.81	274.43
2006	85.69	88.72	1.49	1.54	*	*	9.4	9.732	96.59
2007	240.42	97.34	1.93	0.78	*	*	4.65	1.883	247.00
2008	329.34	98.08	0.002	0	*	*	6.36	1.894	335.77

The Table 4.5 shows the structure of short-term financing of the company NLL. The highest amount on trade credit is Rs.329.34 million in the year 2008 and lowest amount is Rs.85.69 million in the year 2006. The highest amount on accruals is Rs7.94 million in the year 2005 and lowest amount is Rs.0.002 million in the year 2008. There has been short-term loan taken by the company in the year 2004 but in the year 2005 the company had gone for it and again felt unnecessary in the subsequent years. Trade credit ranked the highest percentage among the component of short-term financing in the year 2004, 2006, 2007 and 2008. Short-term loan being the highest component of short-term financing only in the year 2001 From the above analysis it has been interpreted that trade credit and short-term loan have become the significant source of abort-term financing for the company NLL.

4.6 Analysis of Short-Term Financing

This part deals with the analysis and interpretation of short-term financing for five selected manufacturing companies for five years initiating from 2004 to 2008. The Table 4.6 shows the short-term financing of the concerned manufacturing companies during the study period. The manufacturing companies exhibited different trend of short-term financing. Companies like BNL, NLO and JSM have followed increasing trend in the first few years but then have a decreasing trend in the last years. But companies like RJM and NLL have followed increasing trend in the first few years, have gone down in the middle and again

soared in the last years. The highest amount of current liabilities during the study period was Rs. 491.69 million of JSM on 2005 and lowest amount of current liabilities was Rs. 28 million for NLO on 2005.

Table 4.6

Company Average of Short-Term Financing

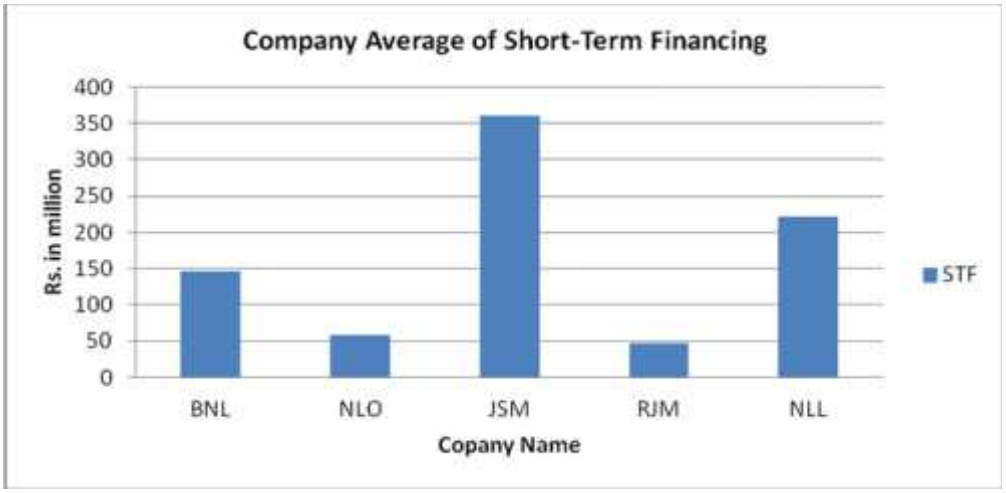
Rs in million

S.N.	Company	STF
1	BNL	145.44
2	NLO	57.95
3	JSM	360.72
4	RJM	46.48
5	NLL	222.15

Appendix - 1

The Table 4.6 shows average STF of selected companies for the study period 2004 to 2008. The highest average STF is Rs.360.72 for JSM and lowest average is Rs. 46.48 for RJM.

Figure 4.1



4.7Analysis of Working Capital and Operation

Short-term financing is a component of working capital so measurement of short-term financing of manufacturing companies with the aid of working capital has been conducted. Working Capital is the difference between current assets to current liabilities. It shows the liquidity position of the firm.

Table 4.7

Company Average of Working Capital

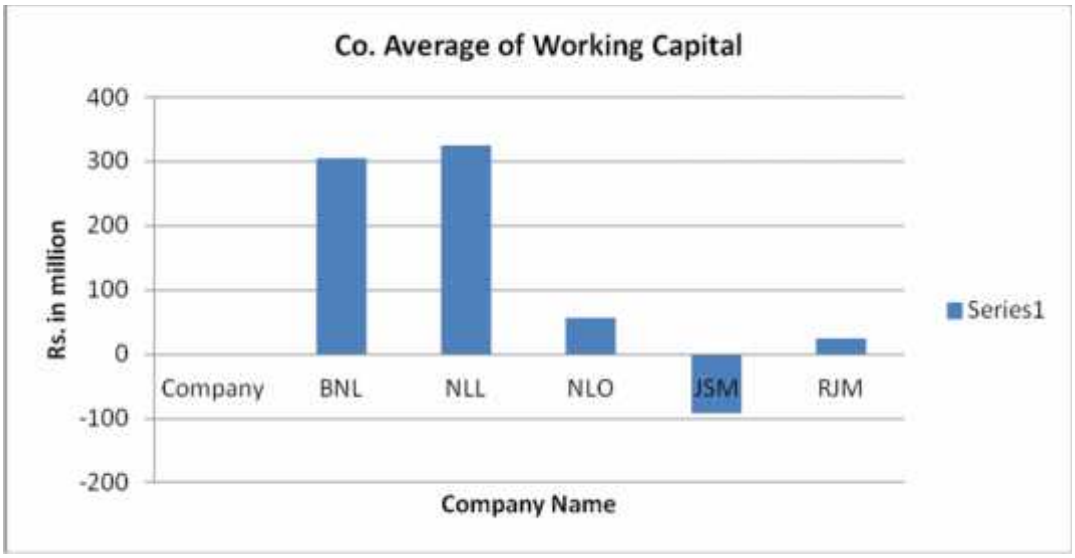
(Rs. in million)

Co/Yr	2004	2005	2006	2007	2008	average
BNL	82.75	244.58	316.43	348.28	330.64	304.53
NLL	294.86	293.15	302.54	342.88	388.53	324.39
NLO	70.61	69.37	44.67	49.37	47.61	56.32
JSM	-204.61	-211.07	-89.56	-10.1	54.83	-92.10
RJM	26.67	21.94	23.05	32.15	21.05	24.97
Average	94.05	83.59	119.42	152.51	168.53	123.65

Appendix - 2

The Table 4.7 shows the company average of working capital. The company average of working capital of selected companies for year 2004 to 2008 is Rs.123.62 million. The average is positive because most of the companies have positive working capital except JSM. It means that they possess greater current assets than current liabilities. Working capital also measures the liquidity position of the firm. Higher working capital is preferable than lower working capital. The highest working capital is Rs. 388.53 million for NLL in the year 2008 and lowest is Rs. (204.61) for JSM in the year 2004. Thus on the basis of above facts and figures it is concluded that most of the companies(BNL, NLL, NLO and RJM) have higher current assets than current liabilities and they are in a position to meet their short term obligations as they fall due. But the company JSM has negative working capital which is an indication to bankruptcy.

Figure 4.2



4.8Analysis of Current Ratio

Current Ratio

The current ratio shows the ability of payment of short-term debt. It measures the liquidity position of the company. The current ratio is the ratio of current assets to current liabilities. The current assets of the company represent those assets which can be easily converted into cash within a short span of time, normally not exceeding one year. The current liabilities are defined as liabilities which are short-term obligations, normally having a maturity period of one year. This current ratio shows the liquidity position of the company. Increasing ratio indicates decreased risk because it indicates the good liquidity position of the company. Decreasing ratio indicates increased risk and bad liquidity position.

Table 4.8

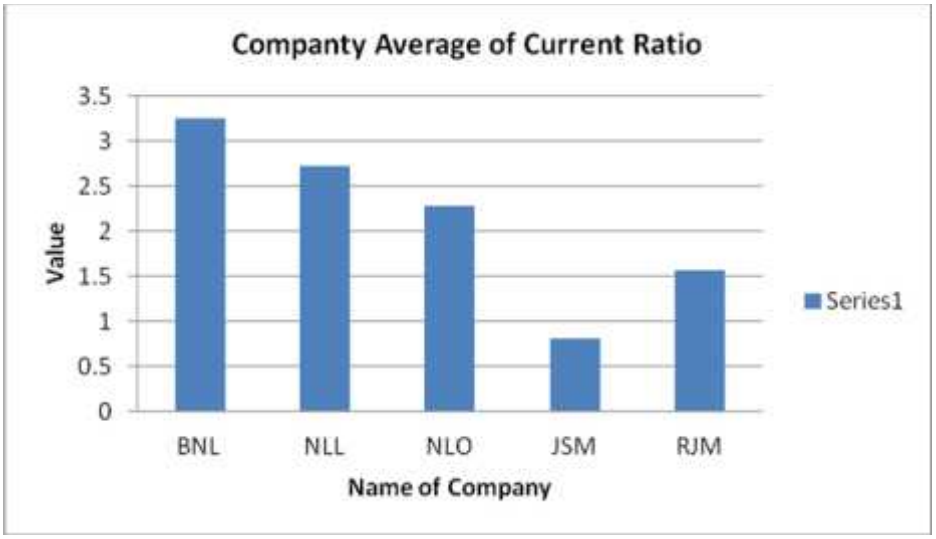
Company Average of Current Ratio

Co/Yr	2004	2005	2006	2007	2008	Average
BNL	4.26	2.63	2.66	2.89	3.82	3.25
NLL	2.87	2.06	4.13	2.38	2.15	2.72
NLO	3.06	3.47	1.67	1.52	1.70	2.28
JSM	0.57	0.57	0.72	0.96	1.24	0.81
RJM	1.79	1.57	1.40	7.72	1.35	1.57
Average	2.51	2.06	2.12	1.89	2.05	2.13

Appendix - 3

The Table 4.8 shows the average current ratio of selected manufacturing companies. The company average ratio is 2.13. Companies like BNL, NLL, NLO and RJM have current ratio more than 1 which is a good indication of sustainability. These companies have greater current assets than current liabilities and they can meet their short-term obligation as they fall due with ease. But the company JSM has current ratio less than 1 which is an indication to bankruptcy of the firm. Lenders like banks and other financial institutions test this ratio before sanctioning loan because they envisages the sustainability of the firm as to whether they are in a position to pay the short term debt or not. The Table 4.8 shows yearly average of current ratio. The yearly average is 2.13.The reason behind the decrease in current ratio is due to increase in bank loan, miscellaneous current liabilities and provisions and lastly current liabilities. The reason behind the increase in current ratio is due to increase in inventory, sundry debtors and cash. Based on the above analysis it is concluded that most of the companies possess favorable current ratio as they are up to the standard ratio except JSM which should take preventive measures in time to improve its current ratio by searching other alternatives.

Figure 4.3



4.9 Analysis of Debtors to Short-Term Financing

This ratio measures how the manufacturing companies have been able to utilize the debtor effectively.

Table 4.9

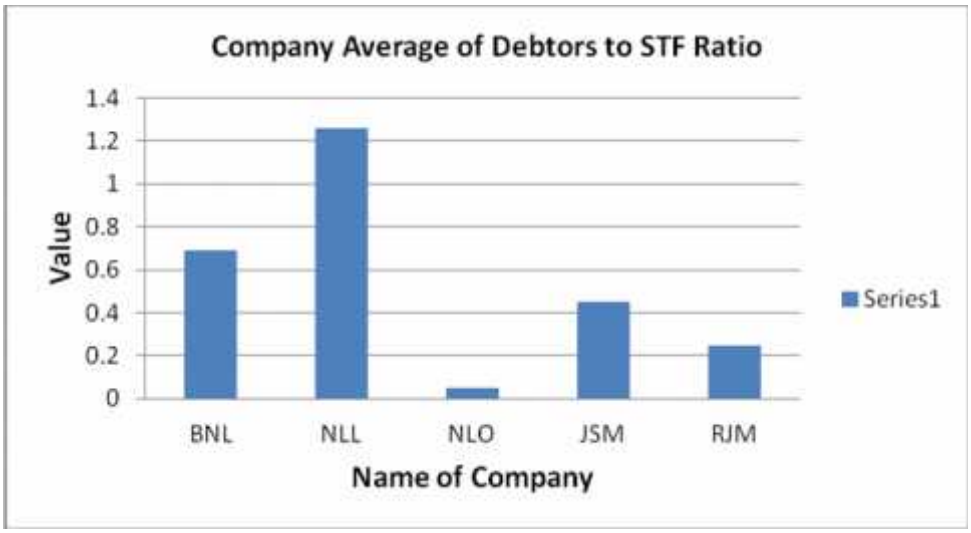
Company Average of Debtors to Short-Term Financing Ratio

Co/Yr	2004	2005	2006	2007	2008	Average
BNL	0.08	0.53	0.60	0.47	1.05	0.69
NLO	1.94	1.73	1.02	0.80	0.81	1.26
JSM	0	0	0.08	0.08	0.12	0.05
RJM	0.81	0.49	0.40	0.27	0.29	0.45
NLL	0.31	0.11	0.33	0.26	0.28	0.25
Average	0.77	0.57	0.48	0.37	0.51	0.54

Appendix - 4

The Table 4.9 shows the ratio of company average of debtors to short-term financing of sample manufacturing companies which is 0.54 times. The ratio is widely fluctuated among the companies. The highest average ratio is 1.26 of NLO.BNL and NLO have ratio more than average ratio and remaining three JSM, RJM and NLL have lower than average. The higher ratio shows that higher credit sales and lower ratio shows that there is lower credit sales and higher cash sales. The table 4.9 shows the ratio of yearly average of debtors to short-term financing which is 0.54 times. The highest average ratio is 0.77 in year 2004 and lowest average ratio is 0.37 in year 2007.

Figure 4.4



4.10 Analysis of Short-Term Financing to Total Financing

Short-term financing plays an important role in manufacturing concern. Generally in an average 45% of total financing cover by the short-term financing. This ratio shows how much percentage of short term financing appears in total financing and it also shows that whether the manufacturing enterprises are more dependent on short term financing or not. 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 assets of manufacturing company.

Table 4.10

Company Average of Short-Term Financing to Total Financing

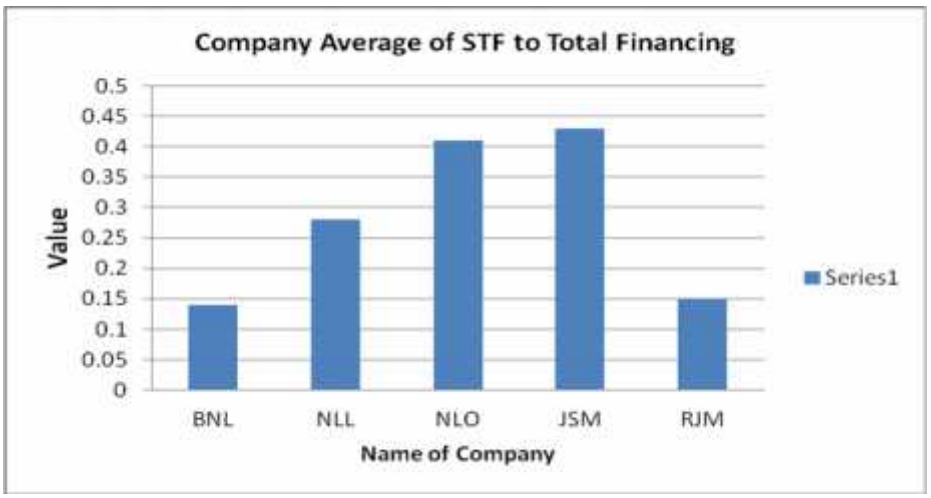
Co/Yr	2004	2005	2006	2007	2008	Average
BNL	0.10	0.15	0.15	0.17	0.13	0.14
NLL	0.24	0.36	0.16	0.31	0.35	0.28
NLO	0.27	0.23	0.50	0.56	0.49	0.41
JSM	0.55	0.57	0.41	0.35	0.29	0.43
RJM	0.11	0.13	0.18	0.14	0.19	0.15
Average	0.25	0.28	0.28	0.30	0.29	0.28

Appendix - 5

The Table 4.10 shows the ratio of company average of short-term financing to total financing. The company average ratio for the study is 0.28. The highest average ratio is 0.43 of JSM which implies that 43% of assets are financed by short-term debt the lowest average ratio is 0.14 of BNL which means 14% of its assets is financed by short-term debt.

The table shows the ratio of yearly average of short-term financing to total assets. The yearly average ratio is 28%. The ratio is in increasing trend. This calculated ratio is around the average ratio. The reason behind the decrease in the short-term debt to total assets is due to decrease in current liabilities or minimum ratio of short-term debt. The reason behind the increase in the ratio of short-term debt to total assets is due to negative net worth.

Figure 4.5



4.11 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 grasp the opportunities in short- span of time. This ratio helps to analyze and interpret the measurement of the effectiveness of short-term financing of Nepalese manufacturing companies.

Table 4.11

Company Average of Cash to STF

Co/Yr	2004	2005	2006	2007	2008	Average
BNL	0.55	0.02	0.15	0.02	0.11	0.17
NLL	0.63	0.02	0.64	1.28	1.16	0.74
NLO	0.02	0.06	0.01	0.02	0.01	0.02
JSM	0.001	0.002	0.02	0.008	0.04	0.01
RJM	0.004	0.015	0.06	0.01	0.01	0.01
Average	0.24	0.02	0.18	0.27	0.27	0.19

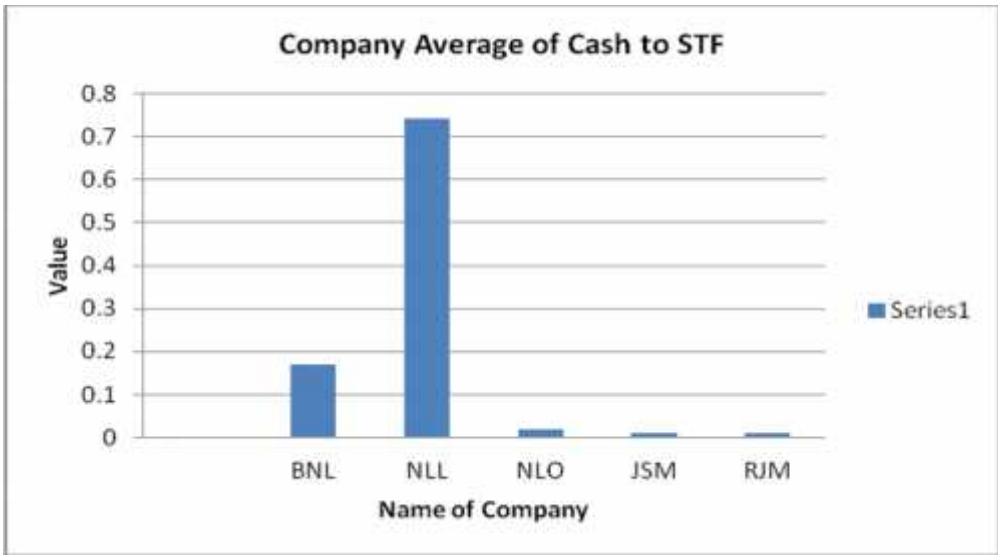
Appendix - 6

The Table 4.11 shows the ratio of company average of cash to short-term financing which is 0.19 times. This ratio indicates that only 19% of short-term financing is covered by cash. In other words 19% of short-term financing could be repayable by cash. The highest average ratio is 0.74 times of NLL and lowest average ratio is 0.01 times of JSM.

Higher the cash balance, higher the ratio and lower the cash balance, lowers the ratio. The Table 4.11 shows the yearly average of cash to short-term financing which is 0.19 times. The yearly average ratio of cash to short-term financing is fluctuated during the study period due to the fluctuation of cash in latter period of time. The highest ratio is 0.27 times in the year 2007, 2008 and lowest is 0.02 times in the year 2005.

On the basis of above analysis, the cause behind the increase in the ratio of cash to short-term financing is due to the increment in the cash balance. Higher the cash balance and is preferable to creditors. Investors or creditors see the liquidity position of the company. If the liquidity position of the company is favorable then banks and financial institutions do allow loan and if it is not favorable then they do not allow so. Thus management must be better off in terms of cash balance. Every firm must need cash for steady and smooth operation but excessive accumulation of cash means less turnover. So management must be cautious in terms of having suitable cash balance in order to avoid any bankruptcy.

Figure 4.6



4.12 Statistical Analysis

The arithmetic mean, standard deviation and coefficient of variance of the ratio short-term financing to long-term financing of manufacturing companies BNL and NLL,NLO,JSM and RJM. were analysis in this part.

Table 4.12

Mean, S.D. and C.V of the ratio STF/LTF

Company	**BNL**	**NLL**	**NLO**	**JSM**	**RJM**
Mean	1.35	4.16	2.86	0.59	0.17
S.D	0.36	1.19	1.71	0.28	0.04
C.V	26.6%	28.6%	59.8%	47.4%	23.5%

The Table 4.12 shows the arithmetic mean, standard deviation and coefficient of variance of the ratio short-term financing to long-term financing of manufacturing companies BNL and NLL,NLO,JSM and RJM.. The arithmetic mean of BNL is 1.35 and that of NLL is 4.16.Regarding the standard deviation, BNL has 0.36 and that of NLL is 1.19. The vital statistical measure i.e. the coefficient of variance is the measure of relative risk. The coefficient of variance of BNL is 26.66% and that of NLL is 28.6%. This implies that the risk factor is comparatively higher in NLL than BNL. The arithmetic mean of NLO is 2.86 and that of JSM is 0.59.Regarding the standard deviation, NLO has 1.71 and that of JSM is

0.28. The vital statistical measure i.e. the coefficient of variance is the measure of relative risk. The coefficient of variance of NLO is 59.8% and that of JSM is 47.4%. This implies that the risk factor is comparatively higher in NLO than JSM. The arithmetic mean of RJM is 0.17.Regarding the standard deviation, RJM has 0.04. The vital statistical measure i.e. the coefficient of variance is the measure of relative risk. The coefficient of variance of RJM is 23.5% .This implies that the risk factor is comparatively lower in RJM among other manufacturing companies.

Table 4.13

Mean S.D. and C.V of the ratio STF/TF

Company	**BNL**	**NLL**	**NLO**	**JSM**	**RJM**
Mean	0.26	0.50	0.50	0.44	0.15
S.D.	0.04	0.07	0.09	0.10	0.03
C.V.	15.38%	14%	18%	22.72%	20%

The Table 4.13 shows the arithmetic mean, standard deviation and coefficient of variance of the ratio short-term financing to total financing of manufacturing companies BNL,NLL,NLO,JSM and RJM.The arithmetic mean of BNL is 0.26 and that of NLL is 0.50.Regarding the standard deviation, BNL has 0.04 and that of NLL is 0.07. The vital statistical measure i.e. the coefficient of variance is the measure of relative risk. The coefficient of variance of BNL is 15.38% and that of NLL is 14%. This implies that the risk factor is comparatively higher in BNL than NLL. The arithmetic mean of NLO is 0.50 and that of JSM is 0.44.Regarding the standard deviation, NLO has 0.09 and that of JSM is 0.10. The vital statistical measure i.e. the coefficient of variance is the measure of relative risk. The coefficient of variance of NLO is 18% and that of JSM is 22.72%. This implies that the risk factor is comparatively higher in JSM than NLO. The arithmetic mean of RJM is 0.15.Regarding the standard deviation, RJM has 0.03. The vital statistical measure i.e. the coefficient of variance is the measure of relative risk. The coefficient of variance of RJM is 20% .This implies that the risk factor is comparatively higher in RJM than BNL, NLL and NLO.

4.13 Analysis of ROE & CL/Total Liability

Regression and correlation analysis is the technique of studying how the variation in one series is related to variation on another series. So with the help of regression and correlation the relation between these variable is analyzed. Among all financial tools the relation between return on equity and ratio of current liability to total liability is an important tool that measure how Nepalese manufacturing companies are able to utilize short-term financing effectively or not in general when current liability increase return on equity also increase and to see if this happens in Nepalese manufacturing companies, regression and correlation analysis help to predict this relationship. The definition about correlation, regression and probable error is defined in research methodology chapter.

Table 4.14

Regression and Correlation between ROE & Ratio of CL/TL

S.N	Company	R	R*R	a	b	P.E.	6P.E.
1	BNL	-0.51	0.26	20.91	-2.38	0.22	1.32
2	NLO	0.44	0.19	13.4	-1.53	0.24	1.44
3	JSM	-0.31	0.09	-2.22	0.45	0.27	1.62
4	RJM	0.92	0.84	2.06	0.92	0.04	0.24
5	NLL	0.66	0.43	101.04	7.11	0.17	1.02
	Average	0.23	0.36	27.03	0.91		

From the Table 4.14 the ROE is taken as dependent variable (Y) and the ratio of current liability to total liability is taken as independent variable(X). So that the simple regression equation between ROE and ratio of CL to total liabilities is $y = a + bx$

Where,

Y= dependent variable (ROE)

X=independent variable (ratio of CL/TL)

b= Slope of line

a= y-intercept

The overall company regression equation between return on equity and ratio of CL to TL is y = 27.03 + 0.91x. This equation help to predict dependent variable return on equity based on independent variable current liabilities percentage on total liabilities.

The slope of line 'b' represents change in y variable for a unit change in variable. From the overall company equation slope of line 'b' is 0.91, which shows that 1 percent change in current liabilities in total liabilities will change return on equity by 91%. The highest slope of line is 7.11 of NLL which shows change in ROE for change in CL percentage in total liabilities is highest for NLL ltd. BNL and NLO have negative slope of line. Negative slope of line indicates that if x variable increases, y variable decreases. So for BNL and NLO increase in current liabilities percentage in total liabilities will decrease their return on equity. The y-intercept denoted by 'a' is highest for NLL, which is 101.04. This shows when x of NLL is zero; y remains positive equal to y-intercept i.e. 101.04%.

Probable error measures the reliability of the computed value of correlation coefficient or only BNL and JSMs 'R' is less than P.E. which shows computed R of BNL and JSM is not significant. The value of R is expected to lie at R+ P.E. or R-P.E.

4.14 Correlation between ROE and CL/TL

The correlation between the two variables of the selected companies shows all companies have positive correlation except BNL and JSM have negative correlation. Positive correlation indicates that increase of current liabilities percentage in total liabilities will increase return on equity of those company and vice-versa. Negative correlation indicates that increase of current liabilities in total liabilities will decrease the return on equity and vice-versa. The highest correlation is 0.92 for RJM and lowest -0.51 of BNL.

The coefficient of determination R*R value lies between 0 and 1 which indicates the goodness of fit. The highest R*R is 0.84 of RJM and it indicates that 84% of ROE is dependent on current liabilities percentage on total liabilities, remaining other variable constant.

In other words, the variation of dependent variable ratio of current liabilities to total liabilities could explain 84% of the variation of the dependent variable ROE of RJM. The lowest R*R is 0.09 i.e. 9% of JSM.

The overall company average correlation between two variables is positive 0.23 which shows that increase of CL percentage in total liabilities will increase ROE of Nepalese manufacturing companies. The overall company R*R is 36%, which shows that variation of current liabilities percentage in total liabilities explain 36% variation of ROE.

4.15 Analysis of Return on Equity with Current Liabilities to Total Capital

Return on equity is analyzed and interpreted with current liabilities percentage on total capital. The relation between return on equity and current liabilities percentage on total capital is also important tool that measure how Nepalese manufacturing companies are able to utilize short-term financing effectively or not.

Table 4.15

Regression and Correlation between ROE and ratio of Current Liabilities to Total Capital

S.N	Company	R	R*R	a	b	P.E.	6P.E.
1	BNL	-0.37	0.13	20.91	-2.38	0.26	1.56
2	NLO	0.41	0.16	13.4	-1.53	0.25	1.5
3	JSM	-0.25	0.06	-2.22	1.45	0.28	1.68
4	RJM	0.92	0.84	2.06	0.92	0.04	0.24
5	NLL	0.65	0.42	101.04	7.11	0.17	1.02
	Average	0.27	0.32	27.03	0.91		

The Table 4.15 shows coefficient of correlation R, coefficient of determinant R*R, slope of line b and y-intercept a. The overall company regression equation is $y = 27.03 + 0.91x$ where y is dependent variable return on equity and x is independent variable current liabilities percentage in total capital. From the overall company regression equation the slope of line 'b' is 0.91, which indicates that 1 percentage change in 'x' (current liabilities percentage in total capital) will change 'y' (return on equity) by 91%. The highest slope of line 'b' is 7.11 of NLL. All the selected companies have positive slope of line except BNL and NLO, which indicates that increase in current liabilities percentage on total capital will decrease return on equity. The highest y-intercept is 101.04 of NLL. The other companies

have positive y-intercept. For these companies zero current liabilities will not make return on equity negative.

Probable error measures the relationship of the computed value of correlation coefficient. Probable error of all selected companies is less than computed value of R, except for the companies BNL and JSM. For RJM only, computed value R is greater than 6P.E. which indicates significance of R i.e. correlation is certain of these companies. The value of R is expected to lie at R + P.E. or R – P.E.

4.16 Correlation between ROE & CL/TC

The correlation between the two variables of the selected companies shows all companies have positive correlation except BNL and JSM. NLO, RJM and NLL have positive correlation which shows that for these companies increase in current liabilities percentage in total capital will increase their return on equity and vice-versa. The highest correlation is 0.92 of RJM. The highest coefficient of determinant R*R is 0.84 of RJM which indicates that the variation of independent variable current liabilities in total capital would explain 84% of the variation of the dependent variable return on equity of RJM. The lowest R*R is 0.06 of JSM ltd. The overall company correlation is 0.27 and coefficient of determinant is 0.32. The coefficient of determinant among the companies is widely varied.

4.17 Major Findings

The manufacturing companies exhibited different trend of short-term financing. Companies like BNL, NLO and JSM have followed increasing trend in the first few years but then have a decreasing trend in the last years. But companies like RJM and NLL have followed increasing trend in the first few years, have gone down in the middle and again soared in the last years. The highest amount of current liabilities during the study period was Rs. 491.69 million of JSM on 2005 and lowest amount of current liabilities was Rs. 28 million for NLO on 2005.

- The company average of working capital of selected companies for year 2004 to 2008 was Rs.123.62 million. The highest working capital is Rs.388.53 million for NLL and lowest is Rs. (204.61) million for JSM.

- Regarding the current ratio, the company average ratio is 2.13. Companies like BNL, NLL, NLO and RJM have current ratio more than 1 which is a good indication of sustainability. Company like JSM has current ratio less than 1 which is an indication of riskiness of the firm.

- Regarding the debtors to short-term financing, the company average ratio is 0.54 times. The highest average ratio is 1.26 of NLO. The yearly average ratio of debtor to short-term financing is in decreasing trend.

- The company average of short-term financing to total financing for the study is 0.28. The highest average ratio is 0.43 of JSM and NLO which implies that 43% of assets are being financed by short-term debt and the lowest average ratio is 0.14 of BNL which means 14% of its asset is being financed by short-term debt.

- The company average of cash to short-term financing is 0.19 times. This ratio indicates that only 19% of short-term financing is being covered by cash. The highest average ratio is 0.74 times of NLL and lowest average ratio is 0.01 times of JSM. The ratio is varied among the selected manufacturing companies. The yearly average ratio of cash to short-term financing is fluctuated during the study period due to the fluctuation of cash in latter period of time. The highest ratio is 0.27 times in the year 2007, 2008 and lowest is 0.02 times in the year 2005.

- The arithmetic mean, standard deviation and coefficient of variance of the ratio short - term financing to long-term financing of manufacturing companies BNL and NLL are 1.35, 0.36, 26.66%, 4.16, 1.19 and 28.6%.This implies that the risk factor is comparatively higher in NLL than BNL.

- The arithmetic mean, standard deviation and coefficient of variance of the ratio short-term financing to long-term financing of manufacturing companies NLO and JSM are 2.86,1.71, 59.8%, 0.59, 0.28 and 47.4%.This implies that the risk factor is comparatively higher in NLO than JSM.

- The arithmetic mean, standard deviation and coefficient of variance of the ratio short-term financing to long-term financing of manufacturing company RJM is 0.17, 0.04 and 23.5%.This implies that the risk factor is comparatively lower in RJM among other manufacturing companies.

- The arithmetic mean, standard deviation and coefficient of variance of the ratio short-term financing to total financing of manufacturing companies BNL and NLL are 0.26,0.04,15.38%,0.50,0.07 and 14%.This implies that the risk factor is comparatively higher in BNL than NLL.

- The arithmetic mean, standard deviation and coefficient of variance of the ratio short-term financing to total financing of manufacturing companies of NLO is 0.50, 0.09 and 18%, of JSM is 0.44, 0.10 and 22.72% and of RJM is 0.15, 0.03 and 20%.This implies that the risk factor is comparatively higher in JSM than NLO and RJM..

- The relation between return on equity and current liabilities shows that if current liabilities percentage in total liabilities increase, return on equity also increase. The correlation between the two variables of the selected companies shows that all companies have positive correlation except BNL and JSM have negative correlation. Positive correlation indicates that increase of current liabilities percentage in total liabilities will increase ROE of those company and vice-versa. Negative correlation indicates that increase of current liabilities in total liabilities in TL will decrease ROE and vice-versa. The highest correlation is 0.92 of RJM and lowest is -0.51 of BNL.

- The relation between return on equity and current liabilities show that if current liabilities percentage in total liabilities increase return on equity also increase. The correlation between the two variables of the selected companies shows that all companies have positive correlation except BNL and JSM. NLO, RJM and NLL have positive correlation which shows that for these companies increase in current liabilities percentage in total capital will increase their return on equity and vice-versa. The highest correlation is 0.92 of RJM and lowest is -0.37 of BNL.

CHAPTER-FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Industry plays an indispensable role in the rapid economic development of the nation by eliminating the problem of graving unemployment and rising poverty. Thus the industries are the infrastructure for the economic development of the nation. The financial performance of most of the manufacturing companies of Nepal is not improved because performance of industries depend upon the availability of fund on one hand and properutilization and management of fund on the other hand. The relationship between growth of manufacturing industries and management of short-term financing requires strong ties up to achieve the goal of economic development. Availability of short-term resources is an urgent thing for the uplift of the financial performance of company as well as the national economy.

In the conduct of the study, most of the enterprises have different types of funds. These funds are obtained from various sources. Long-term financing is costly and rigid than short-term financing. The public sector and manufacturing companies in developing counties are lacking adequate capital and they require capital on seasonal basis. In this regard short-term financing is appropriate for them. The aggressive financing policy calls for the greatest use of short-term debt. Short-term financing is an analysis that affects current assets and current liabilities and will frequent impact on the firm within a year.

Short-term financing is common source of financing. The short-term financing decision is a relatively common problem in practice. Many companies are faced with choosing a source of short-term funds from a set of financing alternatives. If one of the alternatives is clearly superior to all other alternative, the short-term financing problem is easily resourced by accepting that alternative more frequently, however is the situation where either one alternative is not superior in every respect or where various constraints are placed on the alternatives. In instances the decision maker of finance must choose from the available alternatives and select a financing package as a solution.

For the purpose of conducting this study on short-term financing of Nepalese manufacturing companies, secondary data are used. This study covers a period of years since 2004 to 2008.

5.2 Conclusion

Eventually it can be said that every Nepalese manufacturing companies should analyze their short-term financing time to time whether the short-term financing is used according to the financial policy of the enterprises or not. The management of short-term financing cannot be neglected by manufacturing companies. Neither higher usage nor lower usage of short-term financing should be done. Only the temporary and seasonal requirement should be financed through short-term financing. As most of the Nepalese manufacturing companies suffer hedge losses due to their inappropriate financial mix.

Thus this study on short-term financing of selected Nepalese manufacturing companies listed on stock exchange is beneficial to all manufacturing companies to improve their financial policy. But this research study has been made only on the basis of five companies for five years. So there is necessity for the further research in order to notice the changes that these manufacturing companies have undergone.

5.3 Recommendation

The financial efficiency is one of the vital elements to achieve the goals and objectives of any enterprises. The financial efficiency can be enhanced if financial strength of an enterprise is maintained and financial weakness is minimized. On the basis of findings and result derived from the analysis, following recommendations are made for better performance of Nepalese manufacturing companies.

- There are different sources of short-term financing. The manufacturing companies have used mainly two sources, trade credit and accruals. Bank loan has been used very less, applicable only to the companies like NLO, JSM and NLL partially during the study period. Nepalese manufacturing companies are therefore advised to rely on trade credit and accruals for their short-term financing need as these components do not incur any costs.

- Nepalese manufacturing companies should increase their efficiency both at lower and higher level. There is also lack of skilled manpower. It is universally accepted that skilled manpower decrease the operating cost and induce higher profit. Thus training program should be held at all level to generate skilled manpower.

- If the enterprises need fund in a hurry situation then they should obtain the fund from short-term sources because under this source the fund is obtained much faster, at lower cost as well as less restriction than the long-term sources.

- The Nepalese manufacturing companies have not formulated the policy regarding the selection of bank for taking loan, thus it must consider factors like interest rate, time period and other facilities before choosing a bank.

- Nepalese manufacturing companies should timely interpret the relationship between return on equity and current liabilities with the aid of statistical tools, correlation and regression. Those companies whose return on equity increase by increase in current liabilities should increase their current liabilities and vice-versa. But it should be noted that higher debt is risky for the firm.

- Nepalese manufacturing companies should improve their financial performance. For this cost should be minimized. Management should be cost sensitive, should curtail cash expenses and adopt cost control mechanism.

- Nepalese manufacturing companies should adopt mix-financing pattern. The manufacturing companies of Nepal have followed the increasing trend of short-term financing but not have followed the financing policy. Every manufacturing company should follow matching approach. The company should prepare work plan and determine the seasonal need, seasonal requirement could be sub-divided in temporary seasonal needs and permanent seasonal needs. Only the temporary seasonal requirements should be financed through the short-term sources and permanent requirement and permanent seasonal requirement through the long-term source. It should try to maintain the total debt to total assets ratio.

BIBLIOGRAPHY

Review of Books

Adhikari,G.P.(2000). *Proposal and thesis writing;* Kathmandu: Ratna Pustak Bhandar.

Bajracharya, B.C. (2060). *Business statistics and mathematics*. Kathmandu: M.K. Publishers & Distributors.

Colb, B.A. (1983). *Principle of financial management*, Texas: Business publication.

Eugene, F.B. & Louis, C.G. (1988). *Financial management*. New York: Dryden Press.

George, E. (1990). *Essential of financial management* , New York: Haper Collins

Gitman, L.J. Jochnk, M.D. & Pinches,G.E. (1985). *Manegiral finance*, New York: Haper Collins Publisher.

Publisher.

Gupta, S.P. (1988). *Statistical method*. New Delhi: Himalayan Publication House.

Hampton, J.J. (1986). *Financial decision making*. New Delhi. Prentice Hall of India.

Joshi, P.R. (2059). *Research Methodology*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Joshi, S. (2057). *Economic policy analysis*. Kathmandu: Tateju Prakashan.

Khan, M.Y & Jain, P.K. (1976). *Financial management*. New Delhi: Row Publishers.

Khan, M.Y & Jain, P. K. (2005). *Financial management*. New Delhi: Tata McGraw-Hill Publishing Company Limited.

Kothari, C.R. (1991).*Quantitative technique*, New Delhi: Vikash publishing House Pvt. Ltd.

Kothari, C.R. (1991). *Quantitative technique*. New Delhi: Wiley Eastern Limited.

Kuchal, S.C. (1982). *Financial management*. Allahabad: Chaitanya Publication House.

Kuchal, S.C. (1996). *Financial management*. Allahabad: Chaitanya Publication House.

Pandey, I.M. (1995). *Financial management*. Allahabad:Vikas Publishing House Pvt Ltd.

Pradhan, R . (1986). *Management of working capital*. National Book Organization.

Shrestha, A. (2059). *Business policy and environment*. Kathmandu: Buddha Academic Enterprises Pvt Ltd.

Sthapit, A.B. (2062). *Statistical method*. Kathmandu: Bhotahity.

Van Horne, J.C. (1986). *Financial management and policy*. New Delhi: Prentice Hall of India.

Western, J.F. & Brigham, F.E. (1982). *Managerial finance*. New York: Hoet-Saurders International edition.

Weston, J.F. & Copeland, T.E. (1990). *Managerial finance*. New York. The Dryden Press.

Pradhan, R.S. (1992). *Basic of financial management,* Kathmandu: Educational Enterprises Pvt. Ltd.

Weston, J. Fred, Brigham, Eugene F. (1996). *Essentials of managerial finance*. Chicago: The Dryden Press

Van Horn, James C. (1994). *Financial management and policy*. New Delhi: Prentice. Hal of India Pvt. Ltd

Weston, J. Fred, Brigham, Eugene F. (1984). *Managerial finance*. Chicago: The Dryden Prss.

Smith, K. V. (1974). *Management of working capital*. New York: West Publishing Company.

Review of Thesis

Karkee, S. (2002). *Short term financing management of selected nepalese manufacturing companies listed in nepal stock exchange*. An Unpublished Master Degree Thesis, T.U.

Pradhan, S. (1989). *Working capital policy of manufacturing public enterprises*. An Unpublished Thesis, Central Dept of Management. T.U, Kirtipur

Sapkota, E. (1998). *Short term financing of manufacturing companies*. An Unpublished Master Degree Thesis, Central Department of Management, T.U

Sapkota, R. (1998). *Short term financing of manufacturing companies*. An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Singh, D.B. (1991). *Short term financing pattern of nepalese public enterprises*. An Unpublished Thesis, Central Dept of Management, T.U.

Karki, S. (2002). *A study on sort term financing management of selected nepales manufacturing company*. Unpublished Master's Degree Thesis, TU, Kathmandu.

Neupane, D. (2004). *A study on short term financing pattern of joint venture bank in nepal.* Unpublished Master's Degree Thesis, TU, Kathmandu

Pathak, P.K. (1994). *working capital management of Nepal Lube Oil Ltd*. Un published MBA Thesis, TU.

Subadi, B. (2007). *A tudy on short-term financing patterns of nepalese manufacturing companies.*Unpublished Master's Degree Thesis, TU, Kathmandu.

Sharma, Y.P. (1999). *A study on working capital management of selected manufacturing companies*. Unpublished Master's Degree Thesis, TU, Kathmandu

Shrestha, A. (2002). *A study on short term financing management of Nepalese enterprises.* Unpublished Master's Degree Thesis, TU, Kathmandu

Sing, D.B. (1986). A study on short-term financing pattern of nepalese manufacturing enterprises Unpublished MBA Thesis, TU, kathmandu

Tibrewal, S.K.(2010). *Short-term financing management of selected nepalese manufacturing Companies listed in Nepal Stock Exchange*. Unpublished MBA Thesis, TU, kathmandu

Gurung, Om Bikram. (2002). study *on A study on working capital management of Nepal Lever Limited.* Unpublished Master's Degree Thesis, TU, Kathmandu

Karkee, Santosh. (2002). Study entitle on *short-term financing management of selected Nepalese manufacturing companies (listed in Nepal Stock Exchange)* .Unpublished Master's Degree Thesis, TU, Kathmandu

Review of Journal and Reports

Acharya, R. (1988). The management of working capital in The PEs *of Nepal. Nepalese Developmet Studies*. P -21

Economic Report. (2005/06). Nepal Rastrya Bank, Baluwatar;Kathmandu

Financial statement of Listed Company.(2008). *Nepal stock Exchange*; Nepal.

Koirala,S.R.(1991). Account receivable management of Birgang Sugar Factory. *The journal of Binajya Sansar*. P -21; Kathmandu.

Ministry of Finance, (2006). *Economic survey*; Kathmandu. FOM.

Shrestha, M.K. (1991). Account receivable management. *The Journal of Banijjya Sansar*. P (9 -10); Kathmandu.

Ministry of Finance HMG .(2001). *Economic survey*. P –(58-68).

James, A.B. (April 1961). Finance of small and big business. *The Business Magazine. P -295.*

Securities Exchange Board of Nepal. (2000-2004). *Trading report* of listed Manufacturing Companies; Kathmandu

Website:

nepalstock.com

www.nrb.org.np

www.mof.gov.np

www.sebonp.com

S. NO.	Company Name	2004	2005	2006	2007	2008	Average
1	BNL	86.66	149.26	189.99	184.1	117.19	145.44
2	NLO	34.18	28.00	66.15	93.96	67.49	57.95
3	JSM	484.22	491.69	329.66	274.33	223.73	360.72
4	RJM	33.59	38.04	57.46	44.26	59.04	46.48
5	NLL	157.02	274.43	96.59	274.00	335.77	222.15
Average							

Annex 2 ***Calculation of Working Caoital***

Current Asset								Current aliabities						Ratio					
S.N.	Company	2004	2005	2006	2007	2008	Avg.	2004	2005	2006	2007	2008	Avg.	2004	2005	2006	2007	2008	average
1	BNL	394	506	532	448	553	487	285	340	333	174	229	227	83	245	316	348	331	305
2	NLO	97	92	212	96	110	104	44	74	105	76	87	77	295	293	303	343	389	324
3	JSM	568	343	599	724	891	625	418	223	426	544	882	499	71	69	45	49	48	56
4	RJM	60	81	76	80	101	74	38	58	45	59	67	53	-205	-211	-90	-10	55	-92
5	NLL	41	40	42	54	64	48	54	73	93	127	155	100	27	22	23	32	21	25
Avg.		232	213	274	281	344	269	168	154	200	196	284	200	94	84	119	153	169	124

Annex 2 ***Calculation of Working Caoital***

	Current Asset								Current aliabities						Ratio					
S.N.	Company	2004	2005	2006	2007	2008	Avg.	2004	2005	2006	2007	2008	Avg.	2004	2005	2006	2007	2008	average
1	BNL	393.85	506.42	532.38	447.83	553.16	486.73	285.06	340.12	332.85	174.02	228.98	227.21	82.75	244.58	316.43	348.28	330.64	304.53
2	NLO	97.37	92.48	212.10	96.49	110.15	103.52	43.78	73.76	105.4	76.09	87.40	77.29	294.86	293.15	302.54	342.88	388.53	324.39
3	JSM	567.58	343.03	598.88	724.24	891.42	625.03	418.07	223.21	426.45	543.7882.02	498.69		70.61	69.37	44.67	49.37	47.61	56.32
4	RJM	59.98	80.51	76.49	80.13	100.55	73.53	38.05	58.04	44.74	59.07	67.36	53.45	-204.61	-211.07	-89.56	-10.1	54.83	-92.10
5	NLL	41.37	40.36	42.40	53.87	64.32	48.46	53.86	72.65	92.85	127.27	154.98	100.32	26.67	21.94	23.05	32.15	21.05	24.97
Avg.		232.03	212.56	274.25	280.51	343.92	268.65	167.76	153.63	200.45	196.03	284.15	200.41	94.05	83.59	119.42	152.51	168.53	123.65

Appendix - 3

CAOCA

Current Asset								Current aliabities						Ratio					
S.N.	Company	2004	2005	2006	2007	2008	Average	2004	2005	2006	2007	2008	Average	2004	2005	2006	2007	2008	Average
1	BNL	393.85	506.42	532.38	447.83	553.16	486.73	285.06	340.12	332.85	174.02	228.98	272.21	4.26		2.66	2.89	3.82	3.25
2	NLO	97.37	92.48	121.10	96.49	110.15	103.52	43.78	73.76	105.4	76.09	87.40	77.29	2.87		4.13	2.38	2.15	2.72
3	JSM	567.58	343.03	598.88	724.24	891.42	625.03	418.07	223.21	426.45	543.7	882.02	498.69	3.06		1.67	1.52	1.70	2.28
4	RJM	59.98	80.51	76.49	80.13	100.55	79.52	38.05	58.04	44.74	59.07	67.36	53.45	0.57		0.72	0.96	1.24	0.81
5	NLL	41.36	40.36	42.40	53.87	64.32	48.46	53.86	72.65	92.85	127.27	154.98	100.32	1.79		1.40	7.72	1.35	1.57
Average		232.5	213.16	275.05	281.51	345.12	268.65	167.67	153.63	200.45	196.03	284.15	200.41	2.51		2.12	1.89	2.05	2.13

Appendix - 4 ***CAODTSTFR***

Current Asset								Current aliabities						Ratio					
S.N.	Company	2004	2005	2006	2007	2008	Average	2004	2005	2006	2007	2008	Average	2004	2005	2006	2007	2008	Average
1	BNL	80.48	115.21	88.04	124.17	158.57	113.30	285.06	340.12	332.85	174.02	228.98	272.21	0.08	0.53	0.60	0.47	1.05	0.69
2	NLO	46.68	67.94	75.49	54.79	60.53	61.48	43.78	73.76	105.4	76.09	87.40	77.29	1.94	1.73	1.02	0.80	0.81	1.26
3	JSM	32.18	32.16	64.78	96.06	157.72	76.58	418.07	223.21	426.45	543.7	882.02	498.69	0	0	0.08	0.08	0.12	0.05
4	RJM	18.77	23.12	12.18	17.73	32.92	20.94	38.05	58.04	44.74	59.07	67.36	53.45	0.81	0.49	0.40	0.27	0.29	0.45
5	NLL													0.31	0.11	0.33	0.26	0.28	0.25
Average														0.77	0.57	0.48	0.37	0.51	0.54

Appendix – 5 CAoSTFtTF

Current Asset								Current aliabities						Ratio					
S.N.	Company	2004	2005	2006	2007	2008	Average	2004	2005	2006	2007	2008	Average	2004	2005	2006	2007	2008	Average
1	BNL	285.06	340.12	332.85	174.02	228.98	272.21	479.9	535.0	527.78	368.91	427.78	467.87	0.10	0.15	0.15	0.17	0.13	0.14
2	NLO	43.78	73.76	105.4	76.09	87.40	77.29	100.33	94.05	125.69	96.38	107.69	104.83	0.24	0.36	0.16	0.31	0.35	0.28
3	JSM	418.07	223.21	426.45	543.7	882.02	498.69	510.13	312.28	518.52	635.77	974.09	590.16	0.27	0.23	0.50	0.56	0.49	0.41
4	RJM	38.05	58.04	44.74	59.07	67.36	53.45	245.82	250.70	250.20	235.33	223.11	241.03	0.55	0.57	0.41	0.35	0.29	0.43
5	NLL	53.86	72.65	92.85	127.27	154.98	100.32	112.50	136.32	153.5	190.94	218.65	162.39	0.11	0.13	0.18	0.14	0.19	0.15
Average		200.41	153.63	200.45	196.03	284.15	200.41	289.73	265.67	315.14	305.47	390.26	313.25	0.25	0.28	0.28	0.30	0.29	0.28

Appendix – 6 CAoCtSTF

Current Asset								Current aliabities						Ratio					
S.N.	Company	2004	2005	2006	2007	2008	Average	2004	2005	2006	2007	2008	Average	2004	2005	2006	2007	2008	Average
1	BNL	3.94	29.45	5.33	17.76	1.92	11.68	285.06	340.12	332.85	174.02	228.98	272.21	0.55	0.02	0.15	0.02	0.11	0.17
2	NLO	1.81	1.32	2.29	0.70	2.91	1.81	43.78	73.76	105.4	76.09	87.40	77.29	0.63	0.02	0.64	1.28	1.16	0.74
3	JSM	6.27	62.33	317.40	391.53	443.31	244.17	418.07	223.21	426.45	543.7	882.02	498.69	0.02	0.06	0.01	0.02	0.01	0.02
4	RJM	0.58	3.86	0.81	1.02	1.16	1.49	38.05	58.04	44.74	59.07	67.36	53.45	0.001	0.002	0.02	0.008	0.04	0.01
5	NLL	1.07	0.31	0.22	0.26	0.49	0.47	53.86	72.65	92.85	127.27	154.98	100.32	0.004	0.015	0.06	0.01	0.01	0.01
Average		2.73	19.45	65.21	82.25	89.96	51.52	167.76	153.63	200.46	196.03	284.1	200.41	0.24	0.02	0.18	0.27	0.27	0.19

Current Asset								Current aliabities						Ratio					
S.N.	Company	2004	2005	2006	2007	2008	Average	2004	2005	2006	2007	2008	Average						
1	BNL																		
2	NLO																		
3	JSM																		
4	RJM																		
5	NLL																		
Average																			

Current Asset								Current aliabities						Ratio					
S.N.	Company	2004	2005	2006	2007	2008	Avg.	2004	2005	2006	2007	2008	Average						
1	BNL																		
2	NLO																		
3	JSM																		
4	RJM																		
5	NLL																		
Average																			