A STUDY ON WORKING CAPITAL MANAGEMENT OF SELECTED JOINT VENTURE BANKS IN NEPAL

By:
PRABHA DHUNGANA
Shanker Dev Campus
Campus Roll No.: 1449/063
T.U. Regd. No.: 7-2-38-1243-2003
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RECOMMENDATION

This is to certify that the thesis

Submitted by:

PRABHA DHUNGANA

Entitled:

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has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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Asso. Prof. Achyut Raj Bhattarai	**Prof. Dr. Kamal Deep Dhakal**	**Asso. Prof. Prakash Singh Pradhan**
(Thesis Supervisor)	**(Head, Research Department)**	**(Campus Chief)**

……..……..……..…….

Lecturer Mikha Shrestha

(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by:

PRABHA DHUNGANA

Entitled:

A STUDY ON WORKING CAPITAL MANAGEMENT OF SELECTED JOINT VENTURE BANKS IN NEPAL

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department ……..……

Member (Thesis Supervisor) ……..……

Member (Thesis Supervisor) ……..……

Member (External Expert) ……..……

DECLARATION

I hereby declare that the work reported in this thesis entitled " **a Study on Working Capital Management of Selected Joint Venture Banks in Nepal"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Asso. Prof. Achyut Raj Bhattarai** and **Lecturer Mikha Shrestha** of Shanker Dev Campus.

……..

Prabha Dhungana

Shanker Dev Campus

Campus Roll No.: 1449/063

T.U. Regd. No.: 7-2-2-1286-200

2nd Year Exam Symbol No.: 3090

CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern that is mainly confined to finance for the development of the trade, commerce and industry. The trade, commerce and industry are the main factors of the economic development. Bank is a financial institution, which primarily deals with borrowing and lending. Banking is an important part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprises.

Commercial banks are the heart of the financial system. They hold the deposits of individuals, government institutions and business units. They make funds available through their lending and investing activities to borrowers: individuals, business firms and government institutions. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a nation is very important to the functioning of its economy *(Van Horne; 2000:74)*.

The concept of financial institutions in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL) was established in Kartik 30, 1994 B.S. as a semi-government organization. In Baishak 14, 2013 B.S. the first central bank, Nepal Rastra Bank, was established with an objective of supervising, protecting and directing the functions of commercial banking activities. Consequently, another commercial bank fully owned by the government, Rastriya Banijya Bank, was established in 2022 B.S. under the Banijya Bank Act 2021 B.S. In the fiscal year 2039/40, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. Its objective was to create healthy competitive banking system and to provide better and

smoother banking facilities to the people. The establishment of joint venture banks gave a new horizon to the financial sector of the country. Nepal Arab Bank Limited (NABIL) is the first joint venture commercial bank incorporated in 2041 B.S. In 2043 B.S., the second joint venture commercial bank, Nepal Indosuez Bank Ltd (currently Nepal Investment Bank Limited) was established. In the same year, Nepal Grindlays Bank Ltd (currently Standard Chartered Bank Nepal Limited) in the form of joint venture commercial bank was also established. But more joint venture banks came into existence after the initiation of government's policy of economic liberalization and privatization in 2049 B.S. They are Himalayan Bank Ltd (2049), Nepal SBI bank Ltd (2050), Nepal Bangladesh Bank Ltd (2051), Everest Bank Ltd (2051) and Bank of Kathmandu (2052) etc. Under favorable environment, various other banks were established thereafter *(Pradhan; 2003:147).*

In a global prospective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups and services for sharing advantages. "A Joint Venture is the joining of forces between two or more enterprises for the purpose of carrying out a special operation (Industrial or Commercial Investment, Production or Trade)" (Gupta, 1984:15). These Joint Venture Banks came into existence to accelerate the pace of economic development and financial system of the nation.

Short term financial management is known as working capital management. It deals with management of current assets and current liabilities of firms. Current assets include cash, debtors and bills receivable and current liabilities include creditors, bills payable and short- term loan. Most of the financial decisions of a bank are concerned with current assets and current liabilities *(Pandey; 2006:193).*

1.1.1 A Brief Introduction of Joint Venture Banks Selected for the Study

There are all together 32 commercial banks including 20 joint venture banks. However, this study is concerned with first three Joint Venture Banks of Nepal, namely NABIL Bank Limited(NABIL), Nepal Investment Bank Limited(NIBL) and Standard Chartered

Bank Nepal Limited (SCBNL).The selected Joint Venture Banks' introduction is as follows:

1.1.1.1 NABIL Bank Limited (NABIL)

The first Joint Venture Bank of Nepal, Nepal Arab Bank Limited, established in 12/7/1984 under a technical service agreement with Dubai Bank Limited, which merged with Emirates Bank Limited, Dubai was renamed as NABIL Bank Limited (NABIL). In the beginning, the authorized capital of the bank was Rs.100million and paid up capital was RS.28 million 400 thousand. The share of NABIL owned by Dubai Bank Limited was transferred to Emirates Bank international limited. Later on, Emirates bank international limited sold its 50%share to National Bank Limited. According to the agreements, the National Bank limited is managing the NABIL bank with the technical services agreement since July 1995.

Table 1.1

Composition and Ownership of Capital

S.N.	Shareholders	No of Shares
1	N.B. International Ltd	50%
2	Nepal Industrial Development Corporation	10%
3	Rastriya Beema Sansthan	9.67%
4	Nepal Stock Exchange	0.33%
5	General Public	30%
	Total	100%

Source: Annual Report of NABIL

Table 1.2

Capital Amount of NABIL

S.N.	Types of Capital	Amounts
1	Authorized Capital	Rs.500,000,000.00
2	Issued Capital	Rs.491,654,400.00
3	Paid up Capital	Rs.491,654,400.00

Source: Annual Report of NABIL

1.1.1.2 Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously, Nepal Indosuez Bank Limited, was established in 21st January 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50%of the capital of NIBL) was credit Agricole Indosuez, a subsidiary of one of the largest banking groups in the world.

With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professional, industrialists and businessmen acquired on April 2002 the 50%of shareholding of credit Agricole Indosuez Bank Ltd .The name of the bank thereafter has been changed to Nepal Investment Bank Ltd. upon approval of banker's annual general meeting.

Table 1.3

Composition and Ownership of Capital

S.N.	Shareholders	No of Directors	No of Shares
1	A Group of Companies(Group A)	4	50%
2	Rastriya Banijya Bank(group B)	1	15%
3	Rastriya Beema Sansthan(group C)	1	15%
4	General Public	1	20%
5	Independent Professional Director	1	-
	Total		100%

Source: Annual Report of NIBL

Table 1.4

Capital Amount of NIBL

S.N.	Types of Capital	Amounts
1	Authorized Capital	Rs.590,000,000.00
2	Issued Capital	Rs.295,293,000.00
3	Paid up Capital	Rs.295,293,000.00

Source: Annual Report of NIBL

1.1.1.3 Standard Chartered Bank Limited (SCBNL)

The third joint venture Bank of Nepal, Nepal Grindlays Bank Ltd., established in 1985 under a technical services agreement with ANZ Grindlays Bank of UK was renamed as

Standard Chartered Bank Ltd. in16th July 2001. The bank originally started its operation in 1986.The 50% of equity share capital was originally owned by ANZ Grindlays Bank, which managed and controlled the overall activities of the Bank. Later on, the ownership of 50%share of ANZ Grindlays Bank has been transferred to Standard Chartered Bank Ltd., U.K. in the August 2000. The bank at present is managed and controlled by Standard Chartered Bank Ltd, U.K.

Table 1.5

Shareholders Pattern of SCBNL

S.N.	Shareholders	No of Shares
1	Standard Chartered Group, U.K.	75%
2	Nepal Public	25%
	Total	100%

Source: Annual Report of SCBNL

Table 1.6

Capital Amount of SCBNL

S.N.	Types of Capital	Amounts
1	Authorized Capital	Rs.339,548,800.00
2	Issued Capital	Rs.339,548,800.00
3	Paid up Capital	Rs.339,548,800.00

Source: Annual Report of SCBNL

1.2 Focus of the Study

Working capital is the life-blood of every business activities. It is a controlling nerve center of business the success and failure of any business organization is heavily dependent upon the sort of efficiency in its working capital management. It is the process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. Specially, working capital management requires financial managers to decide what quantity of cash, other liquid assets, account receivables, and inventories. The firm will hold at any point of time.

Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and, interrelationship between them. The

basic total of working capital management is to manage the current assets and current liabilities of a firm in such a way that the satisfactory several of working capital is maintained i.e. these are neither inadequate nor excessive. Adequate of working capital may lead the firm to insolvency and excessive working capital implies idle fund, which earns no profit for the businesses.

That is why, taking into consideration the all above facts the researcher has taken this subject for detailed study. The study is directed toward the working capital management of selected different Nepalese commercial joint venture banks, to analysis the working capital, to find out major bleeps and suggestive recommendation to solve the working capital management that selected company's objective can be achieved. Thus it is an exploratory fact finding research study.

This study focuses on how the Nepalese commercial joint venture banks utilize the available working capital funds properly. Besides, this study also focuses on the relationship between current assets and current liabilities and relationship of other variables, which affect the working capital management. This study also only focuses the working capital management and its significance during past five years up to 2007 A.D.

1.3 Statement of the Problem

Commercial banks are monetary institutions that are playing important role to general welfare of the economy; the responsibility of commercial banks is more than other financial institutions. Commercial banks always face the problem of utilizing more deposits as investment fully and productively. The gap between collection of deposits and disbursement of loans increase the cash balance of the bank, which requires paying its large amount of idle cash balance also decreases profitability of banks.

Three banks are taken as sample from joint venture banks i.e. NABIL Bank Ltd (NABIL), Nepal Investment Bank Ltd. (NIBL) and Standard Chartered Bank Ltd. (SCBNL). Many problems may occur in working capital management of those banks.

The major problems that have been identified for the purpose of this study are as follows:

- What are the position of current assets and current liabilities of the NABIL, NIBL and SCBNL, and their impact on liquidity?
- What is the management attitude towards risk?
- How to utilize the liquidity in NABIL, NIBL and SCBNL?
- How to build the image of bank through working capital management?
- What are the major factors affecting the management of working capital of NABIL, NIBL, and SCBNL?
- Which of the current assets are more problematic in NABIL, NIBL, and SCBNL.

1.4 Objectives of the Study

In the context of above mentioned background, the main objective of the study is to analyze the management of working capital of NABIL, NIBL and SCBNL. The specific objectives of the studies are pointed out as follows:

- To study the position of current assets and current liabilities of the NABIL, NIBL and SCBNL, and their impact on liquidity.
- To analyze the composition of working capital and liquidity utilization of NABIL, NIBL and SCBNL.
- To analyze the composition of working capital and assets utilization of NABIL, NIBL and SCBNL.
- To analyze the comparative study of working capital management among NABIL, NIBL and SCBNL.
- On the basis of the analysis, to provide recommendations and suggestions for the improvement of working capital management of NABIL, NIBL and SCBNL in the future.

1.5 Significance of the Study

Any research study can have its own significance. This study is concerned with working capital management of the three joint venture banks, namely NABIL, NIBL and SCBNL. The findings of the study will help various concerned aspects. They are as follows:

- Its significance to the shareholders: The study might be helpful to make shareholders aware of working capital management, i.e. liquidity and profitability of their banks. The comparison will help them to identify the productivity of their funds in each of these three banks.
- Its significance to the management: The study might be helpful to go deep into the matters as to why the working capital management of their banks is better (or worse) than their competitors.
- Its significance to the policy makers: Policy makers here refer to the government and Nepal Rastra Bank. The study will be helpful to them while formulating the policy regarding commercial banks.
- Its significance to the students: The study will play the role of reference to the students making similar study in the future.

1.6 Limitation of the Study

The scope of the present study has been limited in terms of period of study as well as sources and nature of data. The period covered by the study extends over 5 years from 2063/64 to 2067/68 B.S. The limitations of this study are as follows:

- This study is conducted to fulfill the requirement of Master's degree in business studies (MBS). So the study may not cover all the dimensions of the subject matter.
- Lack of sufficient time and resources is another limitation of the study. The study is fully based on the student's financial resources and is to be completed within limited time. The report covers only 5 years data for the study from year 2063/64 to 2067/68 B.S.
- The study is based mainly on secondary data. It is done mostly on the basis of published financial documents, like Balance Sheet, P/L account and other Journals, Magazines and Books, etc.
- Out of various joint venture banks, this study is concerned only with the three joint venture banks, i.e. NABIL, NIBL and SCBNL.
- Although there are various aspects of financial management, this study is mainly concerned with the working capital management of the sample banks.

- The study follows with specific tools such as Ratio analysis, Mean, CV, Correlation and Hypothesis.

1.7 Organization of the Study

This study has been organized into five different segments or chapter to make the study more systematic. The following is the division of chapters.

Chapter I- Introduction

The first chapter contains the introductory part of the study. It describes the major issues and background of the study; it also deals with the scope of the study, statement of the problem, objectives of the study, hypothesis setting, significance of the study, limitation of the study and organization of the study.

Chapter II- Review of Literature

The second chapter deals with the conceptual frame work, review of empirical works, relevant research studies, review of majors studies in Nepal and finally concluding remarks of the literature.

Chapter III- Research Methodology

The third chapter contains research methodology employed in the study. It explains the research methods, research design, nature and sources of data, data processing, procedure, the basic tools and techniques and definitions of key terms.

Chapter IV- Presentation and Analysis of Data

The fourth chapter contains presentation and analysis of data. In this chapter, data is collected through different sources such as Balance Sheet, Profit and Loss account of bank and presented in tables. Ratio analysis and statistical tools are used to perform analysis and interpretations of data.

Chapter V: Summary, Conclusion and Recommendations

The fifth chapter contains summary and conclusion of the study. After that all necessary recommendation are presented for the improvement of the further study and research.

CHAPTER- II
REVIEW OF LITERATURE

Review of literature means reviewing research studies or other related proposition in related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. Under this section of the study, the conceptual review related to the working capital management, the review of journal and articles, and the review of thesis have been presented.

2.1 Conceptual Review

2.1.1 Concept of Working Capital

Working capital is a controlling nerve of business. It is an important and integral part of financial management as short term survival is a prerequisite to long term success. As pointed out by Ralph Kennedy and Steward MC Mullas, "the inadequacy or mismanagement of working capital is the leading cause of business failure. Unless the payment is made of the maturity of the particular debt, the firm is at worst and the creditors may force the firm to terminate its business" *(Van Horne; 2000:112).*

Working Capital therefore is:
Working Capital = Current Assets - Current Liabilities

Where,
Current Assets = Stock + Debtors + Cash
Current liabilities = Creditors + Bills Payable + Bank Overdraft

"There are two concepts of working capital - gross concept and net concept. The gross working capital, simply called as working capital, refers to the firms' investment in current assets. Current assets are the assets which can be converted into cash within one accounting year (or operating cycle) and include cash, short term securities, debtors, bills receivable and stocks. The term net working capital refers to the difference between

current assets and current liabilities. Current liabilities are those of outsiders, which are expected to mature for payment within an accounting year include creditors, bills payable, bank overdraft and outstanding expenses or accrued income. Net working capital can be positive or negative. A positive net working capital can be a raised when current assets exceed current liabilities and negative net working capital occurs when current liabilities are in exceed of current assets. Net working capital concept also covers the question of judicious of long term and short term funds for financing current assets" (*Pandey; 2003:296-297).*

"In simple words working capital is the excess of current Assets over current liabilities. Working capital has ordinarily been defined as the excess of current assets over current liabilities. Working capital is the heart of the business. If it is weak, business cannot proper and survives. Cash is the lifeline of company. If this lifeline deteriorates so does the companies ability to fund operation, reinvest do meet capital requirements and payment. Understanding Company's cash flow health is essential to making investment decision. A good way to judge a company's cash flow prospects is to look at its working capital management. The company must have adequate working capital as much as needed by the company. It should neither be excessive or nor inadequate" (*Western and Brigham; 2003:405).*

Generally, the banks employ their funds in the following assets. They are given in the order of liquidity.

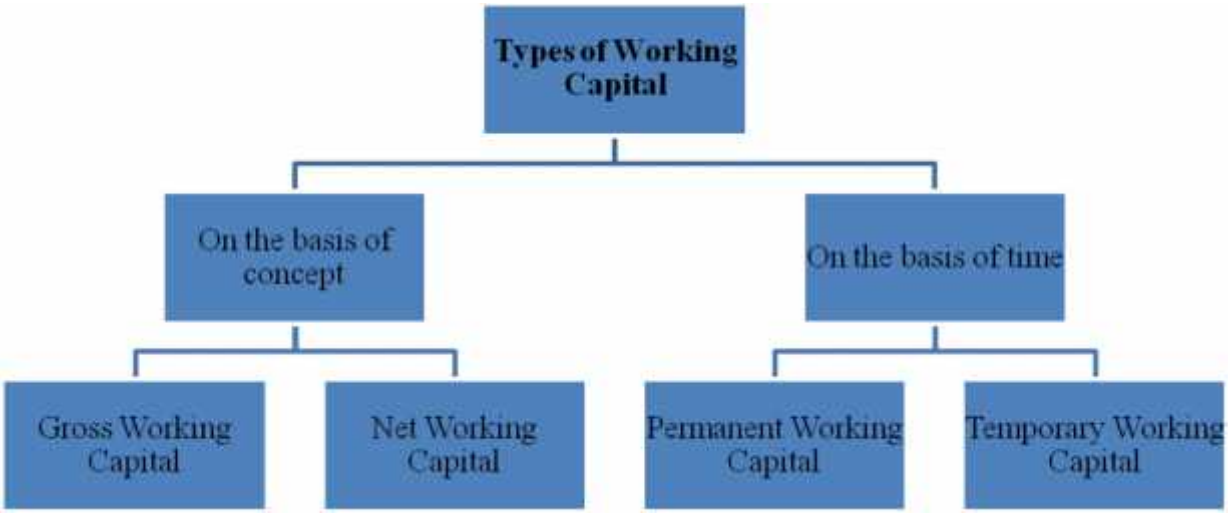
- Cash and bank balances
- Money at call and short notice
- Bills discounted and purchased
- Investment (Govt. securities, stock exchange securities, etc.)
- Loan and Advances to the customer.

2.1.2 Types of Working Capital

On the basis of the concept and the time, the working capital has been categorized in four main types;

Figure 2.1

Types of Working Capital



(Source: Sharma; 2002:71)

I. Gross Working Capital

This thought says that total investment in current assets is the working capital of the company. This concept does not consider current liabilities at all. Reasons given for the concept are:

- When we consider fixed capital as the amount invested in fixed assets. Then the amount invested in current assets should be considered as working capital.
- Current asset whatever my be the sources of acquisition, are used in activities related to day to day operations and their forms keep on changing. Therefore they should be considered as working capital.

*Gross Working Capital = Total Current Assets

II. Net Working Capital

It is narrow concept of working capital and according to this, current assets minus current liabilities forms working capital. The excess of current assets over current liabilities is called as working capital. This concept lays emphasis on qualitative aspect which indicates the liquidity position of the concern/enterprise.

*Net Working Capital = Current Assets – Current Liabilities

III. Fixed or Permanent Working Capital

The volume of investment in current assets changes over a period of time. But always there is minimum level of current assets that must be kept in order to carry on the business. This is the irreducible minimum amount needed for maintaining the operating cycle. It is the investment in current assets which is permanently locked up in the business, and therefore known as permanent working capital.

IV. Variable or Temporary Working Capital

It is the volume of working capital which is needed over and above the fixed working capital in order to meet the unforced market changes and contingencies. In other words any amount over and about the permanent level of working capital is variable or fluctuating working capital. This type of working capital is generally financed from short term sources of finance such as bank credit because this amount is not permanently required and is usually paid back during off season or after the contingency *(Sharma; 2002:70-74).*

2.1.3 Determinants of Working Capital

Working capital requirements of a concern depends on a number of factors, each of which should be considered carefully for determining the proper amount of working capital. It may be however be added that these factors affect differently to the different units and these keeps varying from time to time. In general, the determinants of working capital which are as under:

I. Nature of Business

Need for working capital is highly depends on what type of business, the firm in. there are trading firms, which needs to invest a lot in stocks, ills receivables, liquid cash etc. public utilities like railways, electricity, etc., need much less inventories and cash. Manufacturing concerns stands in between these two extends. Working capital requirement for manufacturing concerns depends on various factors like the products, technologies, marketing policies.

II. Production Policies

Production policies of the organizations effects working capital requirements very highly. Seasonal industries, which produces only in specific season requires more working capital. Some industries which produces round the year but sale mainly done in some special seasons are also need to keep more working capital.

III. Size of Business

Size of business is another factor to determines the need for working capital

IV. Length of Operating Cycle

Operating cycle of the firm also influence the working capital. Longer the orating cycle, the higher will be the working capital requirement of the organization.

V. Credit Policy

Companies follow liberal credit policy needs to keep more working capital with them. Efficiency of debt collecting machinery is also relevant in this matter. Credit availability form suppliers also effects the company's working capital requirements. A company doesn't enjoy a liberal credit from its suppliers will have to keep more working capital.

VI. Business Fluctuation

Cyclical changes in the economy also influence the level of working capital. During boom period, the tendency of management is to pile up inventories of raw materials and finished goods to avail the advantage of rising prove. This creates demand for more

capital. Similarly during depression when the prices and demand for manufactured goods. Constantly reduce the industrial and trading activities show a downward termed. Hence the demand for working capital is low.

VIII. Current Asset Policies

The quantum of working capital of a company is significantly determined by its current assets policies. A company with conservative assets policy may operate with relatively high level of working capital than its sales volume. A company pursuing an aggressive amount assets policy operates with a relatively lower level of working capital

IX. Fluctuations of Supply and Seasonal Variations

Some companies need to keep large amount of working capital due to their irregular sales and intermittent supply. Similarly companies using bulky materials also maintain large reserves' of raw material inventories. This increases the need of working capital. Some companies manufacture and sell goods only during certain seasons. Working capital requirements of such industries will be higher during certain season of such industries period.

X. Other Factors

Effective co-ordination between production and distribution can reduce the need for working capital. Transportation and communication means. If developed helps to reduce the working capital requirement *(Khan and Jain; 2002:125).*

2.1.4 Sources of Working Capital

The company should meet its working capital needs through both long term and short term funds. It will be appropriate to meet at least 2/3 of the permanent working capital equipments form long term sources, whereas the variables working capital should be financed from short term sources. The working capital financing mix should be designed in such a way that the overall cost of working capital is the lowest, and the funds are available on time and for the period they are really required. The company can choose to finance its current assets by:

I. Long Term Sources of Permanent Working Capital

It includes equity and preference shares, retained earning, debentures and other long term debts from public deposits and financial institution. The long term working capital needs should meet through long term means of financing. Financing through long term means provides stability, reduces risk or payment and increases liquidity of the business concern. Various types of long term sources of working capital are summarized as follow:

i. Issue of Shares

It is the primary and most important sources of regular or permanent working capital. Issuing equity shares as it does not create and burden on the income of the concern. Nor the concern is obliged to refund capital should preferably raise permanent working capital. Issue of preference shares is also a source of creating working capital.

ii. Retained Earnings

Retain earning accumulated profits are a permanent sources of regular working capital. It is regular and cheapest. It creates not charge on future profits of the enterprises.

iii. Issue of Debentures

It creates a fixed charge on future earnings of the company. Company is obliged to pay interest. Management should make wise choice in procuring funds by issue of debentures.

iv. Long Term Debt

Company can raise fund from accepting public deposits, debts from Financial Institution like banks, corporations etc. the cost is higher than the other financial tools.

II. Short Term Sources of Temporary Working Capital

Temporary working capital is required to meet the day to day business expenditures. The variable working capital would finance from short term sources of funds. And only the period needed. It has the benefits of, low cost and establishes closer relationships with banker. Some sources of temporary working capital are given be:

i. Commercial Bank

A commercial bank constitutes a significant source for short term or temporary working capital. This will be in the form of short term loans, cash credit, and overdraft and though discounting the bills of exchanges.

ii. Public Deposits

Most of the companies in recent years depend on these sources to meet their short term working capital requirements ranging for six month to three years.

iii. Various Credits

Trade credit, business credit papers and customer credit are other sources of short term working capital. Credit from suppliers, advances from customers, bills of exchanges, promissory notes, etc. helps to raise temporary working capital.

iv. Reserves and Other Funds

Various funds of the company like depreciation fund. Provision for tax and other provisions kept with the company can be used as temporary working capital.

III. Sources of Additional Working Capital

Sources of additional working capital include the following

- Existing cash reserves
- Profits (when you secure it as cash)
- Payables (credit from suppliers)
- New equity or loans from shareholder
- Bank overdrafts line of credit
- Long term loans

If you have insufficient working capital and try to increase sales, you can easily over stretch the financial resources of the business, this is called overtrading *(Western and Brigham; 2003:375).*

2.1.5 Objective of Working Capital in Banks

For daily operation of offices and to meet the administrative expenses, a bank should have a certain level of working capital. Working capital is required to run the business smoothly and efficiency in the context of the set objectives. It is no doubt that no company can achieve its goal without proper use of working capital. Therefore, it can be defined as lifeblood to the organization.

The main objectives of working capital management are:

- To pay depositors,
- To maintain cash reserve ratio(CRR)
- To maintain statutory liquidity ratio (SLR)
- To increase the attraction of business.
- To achieve goal and smoothly run business *(Van Horne; 2000:321)*

2.1.6 Need of Working Capital

The need of working capital to run the day to day business activities cannot be underestimated. We will hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. We know that firms aim at maximizing the wealth of shareholders. In its endeavor to do so, a firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among the other things. For constant operation of business, every firm needs to hold the working capital components, cash, receivable, inventory etc. Therefore, every firm needs working capital to meet the following motivates:

I.Transaction Motive

Transaction motive requires a firm to hold cash and inventories to facilitate smooth production and sales operations in regular. Thus, the firm need working capital to meet the transaction motive.

II Precautionary Motive

Precautionary motive is the need to hold cash and inventories to guard against the risk of the unpredictable change in demand and supply forces and other factors such as strike, failure of important customers, unexpected slow down in collection of account receivable, cancellation of some other order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet contingencies in future.

III Speculative Motive

It refers to the desire of a firm to take advantage of the opportunities like opportunities of profit making investment, an opportunity of purchasing raw material at a reduced price on payment of immediate cash, to speculate on interest rate, and to make purchases at favorable price etc. Thus the firm needs the working capital to meet the speculative motive *(Bhattacharya; 2006: 135).*

2.1.7 Significance of Working Capital Management

The management of working capital is important for several reasons. For small companies, current liabilities are the principal source of external financing. These firms do not have access to the longer term capital markets, other than to acquire a mortgage on a building. The fast growing but larger company also market use of current liability financing. For these reasons, the financial manager and staff devote a considerable portion of their time to working capital matters. The management of cash, marketable securities, account receivable, account payable, accruals, and other means of short term financing is the direct responsibility of the financial manager; only the management of inventories is not. Moreover, these management responsibilities require continuous, day to day supervision. Unlike dividend and capital structure decisions, we cannot study the issue, reach a decision, and set the matter aside for many months to come, thus working capital management is important, if for no other reason than the proportion of the financial manager's time that must be devoted to it. More fundamental, however, is the effect that working capital decisions have on the company's risk, return, and share price *(Van Horne and Wachowicz; 1999:204).*

2.2 Review of Related Study

2.2.1 Review of Book and Articles /Journals

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

Pradhan(2003), has published a book on "*management of working capital in Nepalese Public Enterprises"*. This book is based on the study of nine manufacturing public enterprises of Nepal for the duration of ten years from 1973 to 1982 AD. In his study, he aimed at examine the various aspects of management of working capital in selected manufacturing public enterprises of Nepal. The specify objectives undertaken in his study were:

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

Some major findings he found in his study, most of the selected enterprises have been activating a tradeoff between risk and return thereby following neither an aggressive nor a conservative approach. Most of the enterprises have poor liquidation position, the poor liquidity position has been noticed as the enterprises have either negative cash flows or negative earnings before tax or they have excessive net current debts which can be paid in a year.

The Nepalese manufacturing PEs have on an average half of their total assets in the form of current assets. Different components of the current assets, on an average, the share of the inventories in total assets is the largest followed by receivables and cash in most of the selected enterprises. The economies scales of scale have been highest for inventories followed by cash and gross working capital, receivable and net working capital. The regression results also show that the level of working capital and its components and enterprise desires to hold depend not only on sales but on holding cost also.

Sharma (2000), in his article, *"Banking the Future of Completion"* has said due to the bank of the investment revenues bank are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effects would show colors only after 4 or 5 years. Again he said that private commercial banks have mushroomed only in urban areas where banking transactions in large volume is possible the rural and sub urban areas mostly remain unattended too. This is likely to prevail till competition takes its fall rain in the urban area."

Sharma and Bhatt (2002), in their article *"Priority Sector"* has presented the commercial bank should take care of board national interest and they showed not confine their lending activities only to commercial area providing quick interest if some proportion could be directed to the area conclusive to build economic infrastructures of the country it would create atmosphere conductive to their investment in future. In our society where ignorance and literacy is in wide scale, it is necessary that the bank search entrepreneurs instead of entrepreneurs searching banks. so they have opined that the priority sector program is a timely and appropriate will designed to create additions productive employment opportunities there by increasing production and the general living standard of rural poor. But the success of the program large depends upon the integrated operation with other programs designs for rural development.

Pradhan and Koirala (2003), have studied on the topic "*Aspects of Working Capital Management in Nepalese Corporations*". Among the eleven public corporations, five manufacturing and six non-manufacturing corporations. The problem dealt in this study

were size of investment in current assets management and it also dealt with the motive for holding cash and inventory and major factors affecting the size of investment. In this study report, they concluded that investment of current assets had declined over the period of time in both types of corporations. However, the Nepalese PEs had consistently more investment in cash and receivable as compared to non-manufacturing corporations due to more liberal and less consistent policies. Inventory management is of great significance to manufacturing corporations and management of cash and receivables is of great significance to non manufacturing corporation. The major motive of holding cash in Nepalese corporation was to provide a reserve for routine net out flows of cash and for holding inventory was to facilitate smooth operation of production and sales. They have found that working capital was more difficult to manage than fixed capital. Further more, the inventory in Manufacturing Corporation and cash and receivable in non-manufacturing ones were more problematic to manage.

With reference to the above problems and findings they recommended that need to control investment in Working capital as a whole manufacturing corporation as the average proportion of working capital to sales increased over time. Since manufacturing and non Manufacturing Corporation had been trying to control investment in receivables. The focus of the attention should be derived to control of investment in cash and inventory. But Manufacturing Corporation should pay attention to control the investment in inventory during(031/32 to 035/36).

Mahat (2004), has published article relating to spontaneous resources working capital management. He has defined the three major sources of working capital management i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing include short- term bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. whereas spontaneous sources of working capital include trade credit, provisions and accrued expenses. Mahat has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst corporate finance such

an environment should be efficient enough to cope with the possible worst happenings in future for working capital management. He had said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by way of debt financing, the company should have to bear interest, which may cause to increase in percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital in order to improve its performance.

Acharaya (2005), in his study on "*Problem and Implementation of Management of Working Capital in Nepalese Enterprises*" has defined the two major problem i.e. operational problems and organizational problems, regarding the working capital management in Nepalese public enterprises. The operational problems, he found were increase of current liabilities than current assets, not allowing the current ratio 2:1 and slow turnover of inventories. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, then transmutation of working capital employed to sales, absence of apathetic management information system. Break- even analysis, funds flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally, monitoring of the proper functioning of working capital management has never been considered as managerial job. In the second part, he has listed the organizational problems in the public enterprises. There is lack of regular and internal external audit system as well as evaluation of financial results. Similarly, very few public enterprises have been able to present their capital requirement functioning of finance department is not satisfactory and some public enterprises are even facing the under utilization of capacity.

Shrestha (2005), *Portfolio Behaviour of Commercial Banks in Nepal*", study of two local commercial banks, three joint venture banks and one development bank concluded the following findings:

- Total deposits have been the major sources of fund for all banks.
- Capital and reserve funds do not seem to have changed much over the year.

- The used fund analysis shows that the resources of commercial banks are allocated in the liquid funds, investment on securities, loans and advances, bills purchases and discount.
- Among the portfolio, for Nepalese banks' loan and advances share highest volume of the resources and the bills purchased and discount over the year.
- The excess reserves of the commercial banks show unused resource. The cash reserve exceeds much more than the required cash reserve.

Pandey(2006), has described some conceptual ingredients, which are based on his various research studies. He has described various aspects of working capital management in to five chapters.

The first chapter deals with the concept of working, need for working capital, determinants of working, dimension of working capital management, optimum level of current assets, and working capital trends.

In the second chapter, he has described the management of cash and marketable securities, where he has dealt with facts of cash management, motives for holding cash, cash planning, managing the cash flows, determining the optimum cash balance, investment in marketable securities.

In the third chapter, he has described the management of receivable, in which he has dealt with goals with credit management, optimum credit policies, aspect of credit policies, credit producers for individual accounts.

In fourth chapter on inventory management, he has described the need to hold inventories, objectives of inventory management, inventory management technique, selective inventory control technique and financial manager’s role in inventory management.

In fifth chapter, he has described conclusion and recommendation.

Gautam (2008), writes in an article, "*WTO and challenges of Financial Services Liberalization in Nepal*" published in capital structure has put his opinion in the context of financial service liberalization in Nepal is very recent phenomenon. It has been gathering pace gradually, the process of liberalization was started with the financial sector reform in mid eighties. It was surged up after the initiation of Structural Adjustment Program and Enhanced structural Adjustment Program with respective loan and assistance of the World Bank and International Monetary Fund. Financial sector reform was implemented on a phase wise basis. It was designed to address the institutional deficiencies and closed and controlled financial system. Various macroeconomic policies were modified and adjusted during the liberalization process. The procedural relaxation on the entry of joint venture banks, determination of interest rate (first, in 1986 with certain limit and then in 1989 without any limit) and operation of various financial transactions are mainly attributable for the reform (NRB, 2008: 62).

Thapa (2011), in the article "*Monetary Policy and Questions of Financial Stability''* has stated that safeguarding financial stability has become an increasingly dominant objective in economic policy. Hence, it is argued that monetary policy should also take care of it. In light of this, besides maintaining price stability and supporting economic growth, Monetary Policy often has the task credit; liquidity and the level of interest rates are used to attain monetary policy objectives. The NRB Act 2002 curtails the unlimited lender of last resort (LOLR) facility for both the government of Nepal and the banking sector as the facility has a danger of creating a perpetual financial instability. Monetary policy in measured in terms of interest rate spread. There will be growing demand for the excessive us of Monetary Policy for securing financial stability. Those financial institutions which cannot survive on their own under the liberal framework of financial architecture should be allowed to disappear.

2.2.2 Review of Previous Thesis

Lamsal (2004), has done a research on *"A Comparative Study of Working Capital Management of NABIL and SCBNL*". The main objective of his study was to study the current assets and current liabilities and their impacts on liquidity and profitability as well as to analyze the liquidity, assets utilization, long term solvency and profitability position of selected banks. He used five years financial data from 2054/55 to 2058/59. His findings are as follows:

- NABIL and SCBNL maintain current ratio of 1.55 and 1.31 in average respectively. Trend values of current ratio were negative. The average quick ratio of NABIL and SCBNL were 0.64 and 0.75 respectively. Liquidity of SCBNL was always better than NABIL during the period.

SCBNL had more short-term and less costly resources of fund then NABIL. NABIL had better investment efficiency on loans and advance. Both banks follow conservative working capital policy though NABIL has more. SCBNL has better profitability than NABIL.

Shrestha (2004), had undertaken a study entitled "*A Study on Working Capital Management of NABIL*." The main objective of her study was as follows:-

- To analyzed the liquidity, composition of working capital, assets utilization and profitability utilization of Nabil.
- To know whether the Nabil banks has maintain optimum or working capital or not.
- To analyzed the current assets policy of Nabil bank.
- To analyzed the current liabilities policy of Nabil bank.
- To analyzed the financing pattern of working capital of Nabil bank.
- To identify the liquidity position of Nabil bank.
- To examine the relationship between liquidity and profitability of Nabil bank.
- To profit out the valuable recommendations and suggestions based on analysis.
- To suggest the appropriate management system of working capital of the Nabil.

The major findings of her study are summarizing below:-

- The major components of current assets in Nabil bank are cash and bank balance, loan and advances, and government securities. Other current assets are also the component of current assets. The average percentages covered by these components during the study are cash and bank balance is 20.18%, loan and advances is 54.40%, loan and advances 19.52% , and other current assets are 5.85%. It shows that the average percentage of loan and advances is higher and then in the second place comes cash and bank balance after that comes government securities. Other current assets hold very little percentage of total current assets. The trend value of loan and advance are government securities proportion are positive and trend value of cash and bank balance is negative, which implies that Nabil bank is investing its current assets in income generating sectors. The trend value shows that the management of loan and advances is more problematic in the bank's current assets management.
- Among the major three current assets components, government securities holds the smallest portion and it is fluctuating every year with in the study period. The ratio range from 30.97% to 8.34%. The total average percentage of loan & advances and government securities are 54.4% and 19.52% respectively. It show that interest income is satisfactory.
- The liquidation position of bank is analyzed with the current ratio, quick ratio, cash and bank balance to current, margin and other deposit ratio. The current ratio is ranging from 1.7 to 1.34. Nabil has maintained its current ratio of 1.49 in average over the study period. The current assets ratio trend is negative. The average quick ratio is 0.6, so it is found that the current ratio and quick ratio of the bank can be considered good but still it is not meeting the standard ratio i.e. 2:1 and 1:1 respectively. The trend of quick ratio and current ratio are decreasing which shows that the bank is trying to reduce its idle cash & bank balance. Although higher liquidity consider as low risk, lower profit but in commercial bank higher liquidity is not always the cause of lower profitability.
- Correlation between investment on government securities and total deposit are not significant. It shows that there is no closely relationship between investment on

government securities and total deposit. The significant correlation of between government securities and total deposit shows that only idle cash balance are invested on government securities if there is no more opportunities to invest on loan and advances. Loan and advances are total deposit are significantly correlated with coefficient value=0.91. It shows that the bank utilizes its total deposit on loan and advances effectively.

- Coefficient of correlation between cash and bank balance and current liabilities is 0.58. It shows that the holding of cash and bank balance is not related with current liabilities.
- Coefficient of correlation between loan and advances and net profit is 0.38, which is less t hat 6 per. It shows that the net profit is significantly related with loan & advances. It shows that the change on loan & advances do not change the amount of profit significantly.

Devkota (2009), in his thesis, *"Working Capital Management of Manufacturing Companies Listed in NEPSE"*, has the main objective to find out the working capital financing policy adopted by listed Nepalese manufacturing companies. The specific objectives of the study are;

- To analyze the current assets and current liabilities policies.
- To examine the effects of working capital on profitability.
- To trace out the problems faced by the companies in having sound working capital management.

The major findings of the study are

- The listed manufacturing companies have not truly considered the working capital management pragmatically in their operations.
- There is procrastinating in cash conversion cycle. Further, the companies have extensively used long term debt to meet the cash requirement, which indicates the adoption of conservative policy.

- The relationship between working capital and net profit is not statistically significant. The gross working capital of the companies is highly dominated by the inventory.
- The return on equity is in irregular trend. It indicates that the companies are not efficient to increase the profit in same proportion in the increment in shareholders' equity.
- The companies are accompanied with various hindrances like lower turnover, lower return, lower net working capital or poor liquidity position, lack of proper working capital policy, deteriorating financing situation, lack of appropriate credit and collection policy, improper inventory management, high operating cost of production etc.

Upreti (2010), in his thesis, *"Working Capital Management in Joint Venture Banks"*, has the main objective to examine the management of working capital of NABIL, HBL, SBI and EBL. The specific objectives of the study are;

- To study the current assets and current liabilities and their impact on liquidity and profitability
- To analyze the liquidity, assets utilization, long term solvency and profitability position of NABIL, HBL, SBI and EBL.
- To predict the working capital ratios of NABIL, HBL, SBI and EBL in future.

The major findings of the study are

- The current asset covers 98.38%, 98.68%, 98.90% and 99.30% of the total assets of NABIL, HBL, EBL and SBI bank respectively in average. SBI bank has the highest ratio (99.30%) and NABIL bank has the lowest ratio (98.38%) compared with other banks.
- Current assets of NABIL, HBL, EBL and SBI are 64.56 times, 80.01 times, 93.62 times and 151.55 times greater than the corresponding fixed assets respectively. SBI has the highest current assets to fixed assets ratio (151.55 times) and NABIL has the lowest ratio (64.56 times) in average.

- In average, NABIL, HBL, EBL and SBI mobilized 64.33%, 52.75%, 73.58% and 73.01% of the total deposit in disbursing loan and advances respectively. Similarly, loan and advances is 3.74 times, 2.41 times, 2.15 times and 1.52 times greater than the fixed deposit collection of NABIL, HBL, EBL and SBI respectively. Likewise, loan and advances is 1.47 times, 1.00 times, 1.57 times and 2.62 times greater than the savings deposit of NABIL, HBL, EBL and SBI respectively.
- The prediction of current assets total assets ratio of NABIL, EBL and SBI indicated that the ratio continues to increase in the future years. Whereas, the prediction shows that ratio in HBL decreases in each forthcoming year. Similarly, the current assets to total assets of NABIL, EBL and SBI increases and that of HBL decreases in the coming years. However, the cash and bank balance to currents assets decreases in all the banks in each coming year. In contrast, the ROE of each bank will increase in the forthcoming years.
- There exists highly positive relationship between loan and advances and total deposit, between loan and advances and net profit of each bank. However, the relationship between cash and bank balance and current liabilities of NABIL and HBL is negative and that of EBL and SBI is positive.

Shrestha (2010), also has conducted study on "*A Study on Working Capital & Liquidity Management*". The main objective of his study is to examine of the management of working capital position of Bank of Kathmandu limited.

The major finding of his study as follows:

- All the year of study period, the working capital of BOKL is positive. The working capital depicts the liquidity of the organization. It means the working capital higher the liquidity of the firm and vice versa.
- The current ratio of the bank is slightly fluctuating.
- Cash and bank balance to current assets ratio of the bank is fluctuating.
- The saving deposit to total deposits ratio of the bank has been gradually increasing at initial and decreasing at the end of the study period.
- The loan and advance to total deposit ratio of BOKL is in increasing trend.

Thapa (2011), has done his research on, "*A study on Working Capital Management of Salt Trading Corporation Limited*" and the main objectives of his thesis are follows:

- To examine the liquidity, profitability, & turn over ratio of the company.
- To examine level of working capital and networking capital.
- To examine the working capital cycle.
- To explore the need to control investment in each type of current assets over the study period.
- To analyze the effect of working capital on liquidity and profitability.
- To suggest and recommend for the improvement in working capital management of trading company.

The major findings from his research are mentioned below:

- Investment pattern of the company is the current assets and their fluctuation is years. Investment is industrial and loan and deposit have been found as major I comparison to other current assets.
- The proportion of current assets of total assets is fluctuating. The relation between C/A & T/A are not uniform higher level of CA indicate good liquidity position but it adversely affect the profitability of the company because idle money earn nothing.
- The proportion of cash & bank to current assets is high in 2064. The cash & bank balance of STCL is fluctuating trend.
- The correlation coefficient 'r' between assets and current liabilities is 0.896. This rivals that have so positive and high degree of relationship between CA and CL this increase/decrease in CL NWC and sales is positive relationship.
- Current assets of STC are less than normal ratio. The current ratio of STCL firm or there is higher risk of short term solvency. Quick ratio also not satisfactory condition.

Basnet (2011), in his thesis, *"Management of Working Capital in Commercial Banks"*, has the main objective to analyze the working capital policy followed by BOK, EBL, KBL and LBL. The specific objectives of the study are;

- To measure the working capital to total assets of BOK, MBL, KBL and LBL.
- To evaluate the liquidity position of the banks by analyzing the current ratio.
- To examine the mobilization of working capital in banks.

The major findings of the study are:

- All the banks have followed aggressive working capital policy. The usage of debt capital, more specifically the short term debt, is higher than the equity capital.
- The working capital represents 88.23%, 78.61%, 90.01% and 89.23% of the total assets of BOK, MBL, KBL and LBL. Thus, the total assets of KBL is most risky than that of others.
- The current ratios of BOK, MBL, KBL and LBL are 1.10:1, 1.11:1, 1.07:1 and 1.11:1 respectively. There is no difference between current ratio and liquid ratio of respective bank, which clearly indicates that the there exist significantly less amount of inventory and prepaid expenses in each bank.
- Cash and bank balance occupies 4.86%, 6.82%, 10.23% and 8.85% of the current assets of BOK, MBL, KBL and LBL bank respectively. Likewise, cash and bank balance holds 4.78%, 6.73%, 10.11% and 8.79% of the total assets of BOK, MBL, KBL and LBL bank respectively. Thus, KBL has the practice of keeping higher portion of cash and bank balance and BOK keeps less cash and bank balance.
- In average, BOK, MBL, KBL and LBL mobilized 6.94%, 10.00%, 18.48% and 20.22% of the total deposit excluding fixed deposit in keeping cash and balance reserve respectively. LBI bank has the practice of keeping highest percentage (20.22%) and BOK keeps lowest percentage (6.94%) of total deposit as cash and bank balance.

Gyanwali (2012), done thesis on, "*Working Capital Management of Commercial Bank, A Case Study of Siddhartha Bank Limited*". The objectives of her thesis are as follows:

- To analyze the working capital management of the Siddhartha Bank
- To examine the financing current assets of the Siddhartha Bank

- To analyze the relationship between investment on government securities and Total Deposit, Loan & Advances and Total Deposit, Cash & Bank Balance and Current Liabilities, Loan & Advance and Net Profit.
- To examine the trend analysis of total deposit, loan and advances and net working capital.

The major findings of her research are explained below:

- The net working capital of SBL has been increasing trend over the study period. The working capital depicts the liquidity of the organization. It means higher the working capital higher the liquidity of the firm and vice versa.
- The current ratio of the bank was decreasing trend. As depicted by the study, SBL has satisfactory liquidity.
- Cash and bank balance to current assets ratio of the bank is fluctuating.
- The saving deposit to total deposits ratio of the bank was decreasing trend. As stated by the study, SBL' position seems satisfactory level over the study period. As stated by the study, mobilization of deposit of the bank is not satisfactory level over the study period.
- Finding from the trend analysis of total deposits, Loan & Advances and Net Working Capital is increasing both actual and forecast trend values.

2.3 Research Gap

As the above research works are concerned with working capital management. They are mostly done by their analysis is in absolute nature. The studies also observed same defects in working capital management. The tools used for analysis have been limited to rational analysis. So this study tries to explore the working capital management patterns in banking sector. Furthermore this study will be helpful to the interested groups. At least this study will be different from the above in-terms of sample banks, data presentation as well as statistical method used for interpretation and analysis of data.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, efforts have been made to present and explain specific research design for the sake of attaining the research objective. It describes the methods and process applied in the entire subject of the study. it covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of concerned banks especially from profit and loss account, balance sheet and other publication made by the banks. It consists of research design, population and sample study, sources of data, data processing procedure and tools and technique of analysis of data.

3.2 Research Design

The study aims at portraying accurately on the working capital (or current assets and current liabilities) and its impact on overall financial position of these three banks. It is based on recent 5 years data from fiscal year 2063/064 to 2067/68. The study has been conducted to assess the existing situation of working capital management of selected Joint Venture Banks of Nepal and describe the situation and events occurring at present. The research design followed for this study is basically a historical, empirical and descriptive cum analytical.

3.3 Population and Sample

At present out of 32 commercial banks there are 20 Joint Venture Banks in Nepal. Among them NABIL, NIBL and SCBNL, the first three joint venture banks have been taken as a sample for the study. Financial statements of last five fiscal years from F.Y. 2063/064 to 2067/68 have been taken as sample data for comparative study of working capital management. These Joint Venture Banks are chosen as they account for considerable market share of the banking sectors.

Table 3.1

Lists of Licensed Commercial Banks

S.N.	Name	Head Office	Established Date
1.	Nepal Bank Limited	Kathmandu	1994/7/30
2.	Rastriya Bannijya Bank	Kathmandu	2022/10/10
3.	Agriculture Dev. Bank Ltd.	Kathmandu	2024/10/07
4.	Nabil Bank Limited	Kathmandu	2041/03/29
5.	Nepal investment Bank limited	Kathmandu	2042/11/26
6.	Standard chartered Bank Limited	Kathmandu	2043/10/16
7.	Himalayan Bank limited	Kathmandu	2049/10/5
8.	Nepal SBI Bank Limited	Kathmandu	2050/3/23
9.	Nepal Bangaladesh Bank Limited	Kathmandu	2051/2/23
10.	Everest Bank Limited	Kathmandu	2051/7/1
11.	Bank of Kathmandu	Kathmandu	2051/11/28
12.	Nepal credit & Commercial Bank. Ltd.	Siddartha Nagar	2053/6/28
13.	Lumbini Bank Limited	Narayanghat	2055/4/1
14.	Nic Bank	Biratnagar	2055/4/5
15.	Machhapuchchher Bank Ltd.	Pokhara	2057/6/17
16.	Kumari Bank Limited	Kathmandu	2057/12/21
17.	Laxmi Bank Limited	Birgunj	2058/12/21
18.	Siddharth Bank Limited	Kathmandu	2059/9/9
19.	Global Bank Limited	Birgunj	2063/9/18
20.	Citizens Bank International Ltd	Kathmandu	2064/1/7
21.	Prime Commercial Bank Limited	Kathmandu	2064/6/7
22.	Sunrise Bank Limited	Kathmandu	2064/6/25
23.	Bank of Asia Nepal Limited	Kathmandu	2064/6/25
24.	Development Credit Bank Limited	Kathmandu	2065/2/12
25.	NMB Bank Limited	Kathmandu	2065/2/20
26.	Kist Bank Limited	Kathmandu	2066/1/24
27.	Janta Bank Limited	Kathmandu	2066/2/23
28.	Mega Bank	Kathmandu	2067/4/4
29.	Nepal commerz and Trust Bank	Kathmandu	2067/6/4
30.	Civil Bank Limited	Kathmandu	2067/8/10
31.	Century Bank Limited	Kathmandu	2067/10/9
32.	Sanima Bank Limited	Kathmandu	2068/11/3

Source: NRB

3.4 Nature and Sources of Data

This study is basically based on secondary data only. The necessary data and information have been collected from various sources covering a period of five years i.e., from F.Y. 2063/064 to 2067/68. The data relating to the financial performance are directly obtained

from concerned bank. And other information are obtained from unpublished official records of concerned bank, booklets, journals, banks' official website, related publications of performance and other organization like Nepal Rastra Bank.

3.5 Data Collecting Procedure

Data are analyzed by using simple methods so that everyone would easily understand it. The obtained data are presented in various tables, diagrams and chart, which definitely help to reach towards meaningful interpretation of the presented data. For the sake of convenience, the calculations that cannot be shown in the body part of the report are presented in the appendices section.

3.6 Tools and Techniques of Analysis

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

3.6.1 Financial Tools

In this research study various financial tools are employed for the analysis. There are various ratios but in this study some selected ratios among them are used.

3.6.1.1 Ratio Analysis

The main focus will be on ratio analysis. Ratio analysis is the most important tools of the financial analysis, which helps to ascertain the financial conditions of the organizations. "Ratio analysis is such a powerful tool of financial analysis that through the help of it economic and financial position of business unit can be fully x-rayed" *(Kothari; 1994:187)*. Ratios are calculated to obtain the better insight into real situation of working capital management of sample banks. Various ratios are employed for the analysis of composition of working capital, liquidity position, activity or turnover position, profitability position and capital structure or leverage position.

(A) Composition of Working Capital

Working capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. Simply, working capital refers to the current assets of the firms that can be converted into cash within one year. The main composition of working capital is as follows:-

- Cash and Bank Balance
- Loan and Advance
- Government Securities
- Money at Call or Short notice

Composition of working capital is analyzed by calculating the following ratio:-

I. Cash and balance to Total Current Assets Ratio

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

$$\text{II. Money at call to Total Current Ratio} = \frac{\text{Money at Call}}{\text{Total Current Assets}} \times 100$$

$$\text{III. Loan and Advance to Total Current Assets Ratio} = \frac{\text{Loan and Advance}}{\text{Total Current Assets}} \times 100$$

$$\text{IV. Government Securities to Total Current Assets Ratio} = \frac{\text{Government Securities}}{\text{Total Current Assets}} \times 100$$

(B) Liquidity Ratio

Liquidity Ratio measures the firm's ability to meet current obligation. It reflects the short-term financial strength of business. One of the main objectives of working capital management is keeping sound liquidity position. Cash is the main liquid assets and other assets which can be easily converted into cash are also called near cash or liquid assets. So managing or maintaining liquid assets is termed as liquidity. In banking sector liquidity is very essential for smooth operation of daily banking business. There are two ratios under liquidity ratio which are as follows:

(i)Current Ratio

A ratio between current assets and current liabilities is known as current ratio. Current assets are those assets which can be converted into cash within short period of time, normally not exceeding one year. Cash in hand, cash at bank, bills receivable, marketable securities, short-term investment, inventory, debtors, prepaid or paid in advance, accrued or outstanding income, loan and advances, account receivable, government securities, etc are current assets.

Current liabilities are those obligation which are payable within short period, normally not exceeding one year. Creditors, bank overdraft, short term loan, bills payable, provision for tax, provision for dividend received in advance, outstanding expenses, accounts payable, etc are current liabilities.

The calculation is made by dividing total of current assets by total of current liabilities.

Thus,

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

Higher the current ratio better is the liquidity position. In banking sector business 2:1 is considered to be an adequate ratio. If the current ratio of a bank is less than 2:1 the solvency position of the firm is not good. The cash may not be available to pay current liabilities. If the current ratio is more than 2:1, the bank may have an excessive investment in current assets that do not produce adequate return.

(ii) Quick Ratio

A ratio between quick assets and current liabilities is known as quick ratio. The calculation is made by dividing total quick assets by total current liabilities.

Thus,

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

Quick Assets = Current Assets-inventory-prepaid expenses

Higher the quick ratio better is the liquidity position. For banking types of business 1:1 is considered to be an adequate ratio. If the quick ratio of the bank is less than 1:1 the solvency position of the bank is not good. The cash may not be available to pay current liabilities. If the quick ratio is more than 1:1 then the company may have an excessive investment in quick assets that do not produce adequate return.

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

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

Thus,

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

(iv) Savings Deposit to Total Deposit Ratio

Savings deposit is interest bearing short-term deposit. The rate of interest in this deposit is less than fixed deposit. In this deposit only limited amount of money can be withdrawn each day. The limit of withdrawing from this account differs according to banks' rules and regulation. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short –term in nature. It is found out by dividing the total amount of saving deposits by the total amount of deposit. The ratio is calculated as follows:

$$\textit{Sa}\text{ving Deposit to Total Deposit Ratio } X\frac{\text{Total Saving Deposit}}{\text{Total Deposit}} \mid 100\%$$

(C)Activity or Turnover Ratio

Activity ratios are employed to evaluate the efficiency with which the bank manages and utilizes its assets. This ratio indicates how quickly certain assets are converted into cash. These ratios are intended to measure the effectiveness of employment of the resources in

a business concern. Through these ratios, it is known whether the funds employed have been used effectively in the business activities or not.

(i) Loan and Advances to Total Deposit Ratio

This ratio assesses to what extent the bank is able to utilize the depositors' funds to earn profit by providing loans and advances. It is computed dividing the total amount of loans and advances by total deposited funds. The ratio is calculated as follows:

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

Higher ratio is the symptom of higher or proper utilization of funds and low ratio is the signal of balance remained unutilized or idle.

(ii) Loan and Advances to Savings Deposit Ratio

This ratio examines that how many times the funds is used in loans and advances against saving deposits. For commercial banks, saving deposits are short-term interest bearing obligation, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by saving deposits as under. A low ratio indicates idle cash balance. It means total funds are not properly utilized. The ratio is calculated as follows:-

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

This ratio examines to what extent the savings deposits are utilized for income earning purpose.

(iii) Loan and Advances to Fixed Deposit Ratio

This ratio assesses, how many times the fund is used to loans and advances against fixed deposits. Fixed deposits are interests bearing long term obligation and major sources of investment in loan and advances for income generating purpose by commercial banks. This ratio indicates how many times the long term interest bearing deposits are utilized

for generating income. It is calculated by dividing the amount of loan and advances by total deposit in fixed account. The ratio is calculated as follows:

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

3.6.2 Statistical Tools

In this research study some statistical tools are used for the analysis of the data more accurately, which are given below.

3.6.2.1 Mean or Average

The arithmetic mean is the sum of total values to the number of values in the sample. The formula is given below:

$$\bar{\varepsilon} = \frac{\varepsilon}{\rho}$$

Where,

$\bar{\varepsilon}$ = Arithmetic Mean

ε = Sum of values of all terms, and

N= Number of terms

3.6.2.2 Standard Deviation (S.D.)

Standard deviation is an absolute measure of dispersion. The standard deviation is the square root of mean squared deviation from the arithmetic mean. Standard deviation is represented as:

$$\pm = \sqrt{\frac{d^2}{N \; Z1}}$$

Where,

± = Standard deviation,

d^2 = Sum of squares of the deviations measured from the arithmetic average, and,

n = Number of items

3.6.2.3 Trend Analysis

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

$Y_C = a+bx$, where

Yc = 1 Estimated value of Y for given value of x in coordinate axes,

a = Y intercept of mean of Y value,

b = slope of the line or rate of change

x = variable in time axis

3.6.2.4 Correlation Analysis

Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. If two quantities vary in related manner so that a movement- an increase or decrease in one trend to accompany by a movement in the same or opposite direction in other, they are called correlated. If the relationship is direct they are called positively correlated and if the relation is inverse they are called negatively correlated. If any change in one does not affect the other variable they are called uncorrelated. The correlation may be perfect, imperfect or zero. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1,

r is +1, it means there is perfect relationship between two variables and vice versa. When r is 0, it means there is no relationship between two variables. The formula for the calculation of coefficient of correlation between X and Y is given below:

$$r = \frac{\phi \varepsilon \psi}{\sqrt{\phi X^2 \phi Y^2}}$$

3.6.2.5 Hypothesis Test

Hypothesis test is one of the important applications of statistical interference in decision making. In hypothesis test, an assumption is made about the population parameter. To test whether the assumption or hypothesis is right or not, a sample is selected from the population and sample statistic is obtained. The main goal of hypothesis test is to test the characteristics of hypothesized population parameter based on sample information whether the difference between population parameter and sample statistic is significant or not. Smaller the difference, the sample mean is close to hypothesized value and large the difference the hypothesized value has low chance to be correct.

Generally, two complementary are set up at one time i.e. a) Null hypothesis (H_0) and (b) Alternative hypothesis (H_1). A statistical hypothesis or assumption made about the population parameter to testing its validity for the purpose of possible acceptance is called null hypothesis and complementary hypothesis to null hypothesis is called alternative hypothesis. Between these two hypothesis if one is accepted, then the other hypothesis is rejected and vice versa. The research is based on Fisher's F-distribution.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The main purpose of this study is to know thoroughly about the working capital management of sample banks i.e. NABIL, NIBL and SCBNL. The major variables of this study are cash and bank balance, money at call or short notice, loan and advance, government securities. The relevant data and information of working capital as well as financial performance of sample banks are presented, tabulated and analyzed accordingly. To reach toward accurate interpretation, this study analyzes composition of Current assets and Current liabilities, Turnover position and Liquidity position. It analyzes the ratio as well as the trend with the use of Least Square Method. It also uses Correlation Analysis and Hypothesis Test.

4.2 Analysis of Working Capital

The composition of current assets of NABIL, NIBL and SCBNL are cash and bank balance, money at call or short notice, loan and advance and government securities. Miscellaneous current assets are also a component of current assets. Prepaid expense, outstanding income, interest receivable and other current assets are included in miscellaneous current assets.

The following table shows the amount of cash and bank balance, money at call or short notice, loan and advances, government securities and miscellaneous current assets of the sample banks i.e. NABIL, NIBL and SCBNL.

Table 4.1

Current Assets Components

(Rs .in million)

S.N.	Banks	Fiscal Year	Cash & Bank Balance	Money at Call or Short notice	Loan & Advance	Government Security	Misc. Current Assets	Total
1	NABIL	2063/64	1399.83	563.53	15545.78	4808.34	512.05	22829.53
		2064/65	2671.14	1952.36	21365.05	4646.88	606.39	31241.82
		2065/66	3372.5	552.88	27589.93	3706.10	864.70	36086.11
		2066/67	1400.1	3118.14	32268.87	13703.02	882	51372.13
		2067/68	2436.55	2452.51	38034.09	13081.21	1201.98	57206.34
2	NIBL	2063/64	2441.51	362.97	17286.43	3256.40	233.67	23580.98
		2064/65	3754.94	-	26996.65	3155.00	170.17	34076.76
		2065/66	7918.00	-	36241.21	2531.30	390.65	47081.16
		2066/67	6815.83	-	40318.31	8635.53	399.44	56169.17
		2067/68	8140.37	150	41095.51	7423.10	439.38	57248.36
3	SCBNL	2063/64	2021.02	1761.15	10502.64	7104.94	7036.41	28426.16
		2064/65	2050.24	2197.54	13718.60	8137.61	1349.32	27453.31
		2065/66	3137.16	2055.55	13679.76	9998.76	1341.58	30212.81
		2066/67	1929.30	1669.46	15956.95	19847.51	619.54	40094.76
		2067/68	2975.79	4280.89	18427.51	17258.6	761.81	43704.36

Sources: Appendix 1, 2 and 3 (Annual Report of NABIL, NIBL & SCBNL)

From the above table, the amounts of the current assets are shown. NIBL has highest current assets all over the selected sample years. NABIL has lowest current assets all over the sample years and SCBNL has medium. The lowest current asset is Rs. 22829.53 million of NABIL in FY 063/64 and the highest is Rs. 57248.36 of NIBL in FY 2067/68.

According to the above table, we came to know that each item of current assets contain different amount of rupees. To be clear about the proportion of each item i.e. cash and bank balance, money at call or short notice, loan and advance, investment in government securities and miscellaneous current assets, the percentage of each item of current assets to total current assets has been taken and shown in the following tables:

Table 4.2

Current Assets Components

(in percentage)

S.N.	Banks	Fiscal Year	Cash & Bank Balance	Money at Call or Short Notice	Loan & Advance	Government Security	Misc. Current Assets	Total
1	NABIL	2063/64	6.13	2.47	68.10	21.06	2.24	100
		2064/65	8.54	6.25	68.39	14.87	1.94	100
		2065/66	9.35	1.53	76.46	10.30	2.40	100
		2066/67	2.73	6.07	62.81	26.67	1.72	100
		2067/68	4.26	4.29	66.48	22.87	2.10	100
		Average	6.20	4.12	68.45	21.33	2.08	
2	NIBL	2063/64	10.35	1.54	73.31	13.81	0.99	100
		2064/65	11.02	-	79.22	9.26	0.50	100
		2065/66	16.82	-	76.98	5.38	0.83	100
		2066/67	12.13	-	71.78	15.37	0.71	100
		2067/68	14.22	0.26	71.78	12.97	0.77	100
		Average	12.11	0.36	74.61	11.36	0.76	
3	SCBNL	2063/64	7.11	6.20	36.94	24.99	24.76	100
		2064/65	7.47	8.00	49.97	29.64	4.91	100
		2065/66	10.38	6.80	45.28	33.09	4.44	100
		2066/67	4.15	4.16	39.80	49.50	1.72	100
		2067/68	5.87	9.79	42.16	39.49	1.74	100
		Average	7.00	6.99	42.83	35.34	7.51	

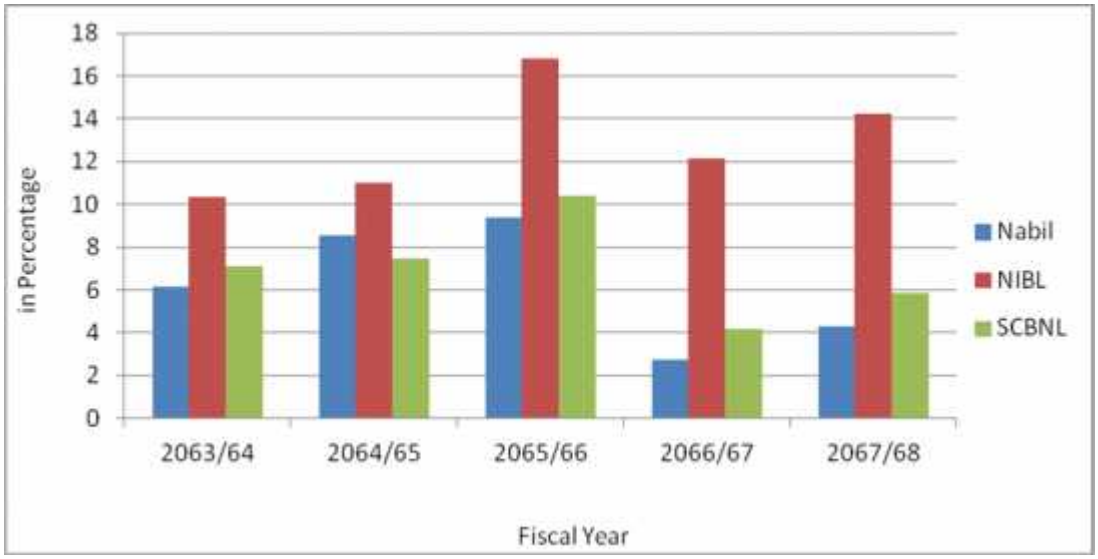
Sources: Appendix 1, 2 and 3(Annual Report of NABIL, NIBL & SCBNL)

4.2.1 Cash and Bank Balance

According to the above table 4.2, sample banks' cash and bank balance percentage are fluctuating over the study period. Following figure shows this clearly.

Figure 4.1

Cash and Bank Balance (%)



According to above figure, the sample banks allocate their cash and bank balance as their needs.

NABIL

In the first year, the bank has invested 6.13% of its current assets in cash and bank balance. In the second year, the cash and bank balance is increased to 8.54% and 9.35% respectively and then fourth it is highly decreased to 2.73% and final year; it is again increased to 4.26% respectively.

NIBL

The bank has increasing and decreasing trend. In the first year, the bank has invested 10.35% of its current assets in cash and bank balance. In the second year, it is increased to 11.02%. And then third year it is it is highly increased to 16.82%. And fourth year; it is decreased to 12.13%. Final year it is highly increased to 14.22%.

SCBNL

In the first year, the bank has invested 7.11% of its current assets in cash and bank balance. In the second year, the percentage of cash and bank balance is increased to

7.47% and then in the third year it is increased to 10.38%. In the fourth year, it is slightly decreased to 4.15% and in the final year, it is increased to 5.87%.

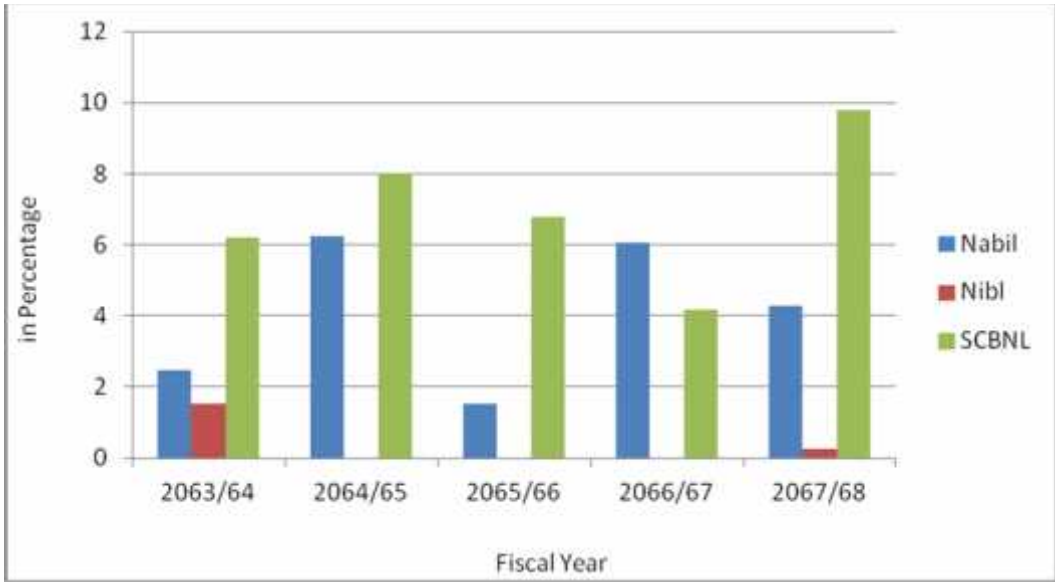
The average cash and bank balance percentage of NABIL, NIBL and SCBNL are 6.20%, 12.11% and 7.00% respectively.

4.2.2 Money at Call or Short- Notice

According to table 4.2 it is clear that money at call or short notice percentages of sample banks are fluctuating all over the study period. Following bar diagram shows it clearly.

Figure 4.2

Money at call or Short Notice (%)



Source: Table 4.2

According to above figure, the sample banks allocate their money at call or short notice as their needs.

NABIL

In the first year, money at call or short notice is 2.47% and it is highly increased to 6.25% in the second year. In the third year, it is highly decreased to 1.53%. In the fourth year, it

is highly increased to 6.07%. In the final year, the percentage of money at call or short notice is decreased to 4.29%.

NIBL

The bank has decreasing and increasing trend. In the first year, it has invested 1.54% of its current assets in money at call or short notice. Then, it is decreased to 0.39% in the second year and increased to 1.54% in the third year. In the second third and fourth the bank has not invested of their current assets in money at call or short notice. In final year, the bank has invested 0.39% of its current assets in money at call or short notice

SCBNL

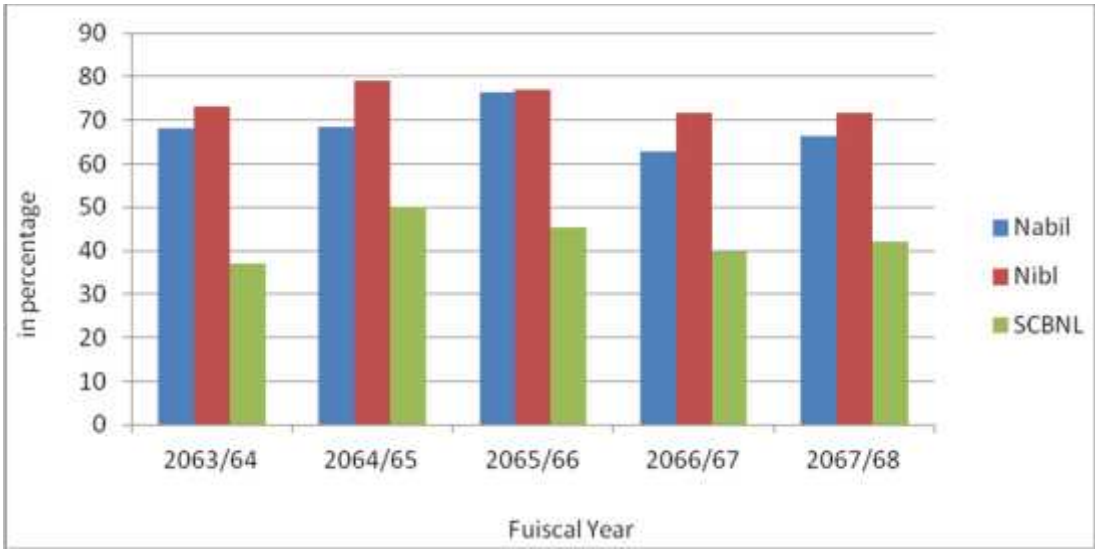
In the first year, the bank has invested 6.20% of its current assets in money at call or short notice. Then, it is increased to 8.00% in second year. In the third year and fourth year, the percentage is decreased to 6.80%. and 4.16% respectively. In the final year, the percentage of money at call or short notice is slightly increased to 9.79%.

The average money at call or short notice percentage of NABIL, NIBL and SCBNL are 4.12%, 0.36% and 6.99% respectively. NIBL has invested small portion of current assets in money at call or short notice.

4.2.3 Loan and Advance

According to the table 4.2 it is clear that loan and advance percentages of sample banks are fluctuating all over the study period. Following bar diagram shows it clearly.

Figure 4.3
Loan and Advance (%)



Source; Table 4.2

According to above figure 4.3, the sample banks allocate their loan and advance as their needs.

NABIL

In the first year, loan and advance is 68.10% and it is slightly increased to 68.39% in the second year. In the third year, it is increased to 76.46%. In the fourth year, it is highly decreased to 62.81%. In the final year, the percentage of loan and advance is slightly increased to 66.48%.

NIBL

The bank has decreasing and increasing trend. In the first year, it has invested 73.31% of its current assets in loan and advance. Then, it is increased to 79.22% in the second year and slightly decreased to 76.98% in the third year. In the fourth year, it is decreased to 71.78%. In the final year, loan and advance remain same as 71.78%.

SCBNL

In the first year, the bank has invested 36.94% of its current assets in loan and advance. Then, it is increased to 49.97% in the second year. In the third year, the percentage

decreased to 45.28%. In the fourth year, the percentage is highly decreased to 39.80%. In the final year, the percentage of loan and advance is increased to 42.16%.

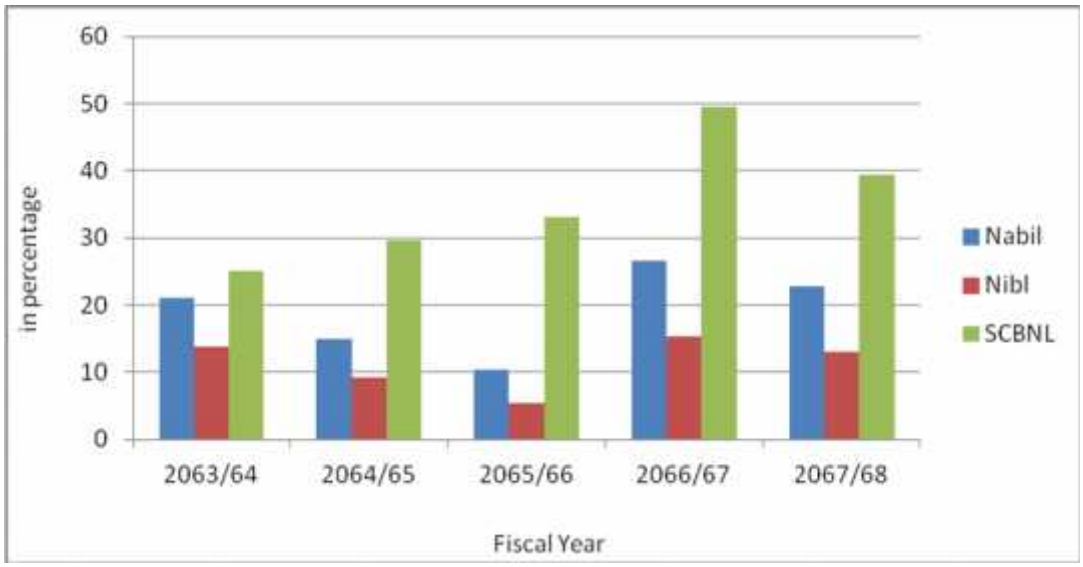
The average loan and advance percentage of NABIL, NIBL and SCBNL are 68.45%, 74.61% and 42.83% respectively during the study period. SCBNL has invested small portion of current assets in loan and advance than others.

4.2.4 Government Securities

According to table 4.2 it is clear that government securities percentages of sample banks are fluctuating all over the study period. Following bar diagram shows it clearly.

Figure 4.4

Government Security (%)



Source; Table 4.2

According to above bar diagram, the sample banks allocate their loan and advance as their needs.

NABIL

In the first year, the bank has invested 21.06% of its current assets in government securities. And it is highly decreased to 14.87% in the second year. In the third year, it is again decreased to 10.30%. In the fourth year, it is highly increased to 26.67%. In the final year, it is decreased to 22.87%.

NIBL

The bank has decreasing and increasing trend. In the first year, it has invested 13.81% of their current assets in government securities. Then, it is decreased to 9.26% and 5.38% in the second year and third year respectively. In the fourth year, it is highly increased to 15.37%. In the final year, it is slightly decreased to 12.97%.

SCBNL

In the first year, the bank has invested 24.99% of its current assets in government securities. Then, it is slightly increased to 29.64% in the second year. In the third fourth and final year, the percentage is increased to 33.09% and 49.50% respectively. In the final year, it is slightly decreased to 39.49%.

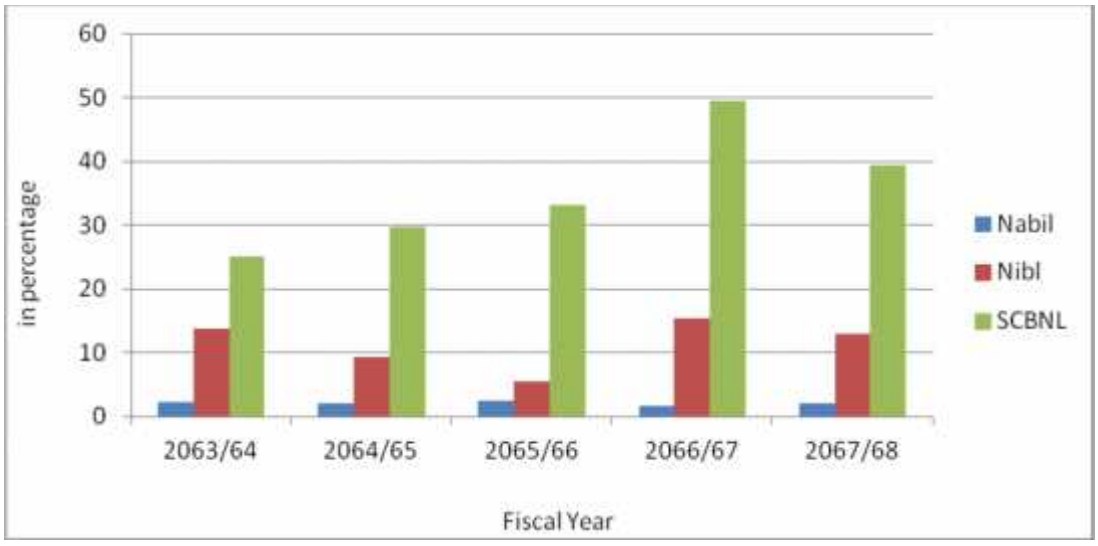
The average government securities percentage of NABIL, NIBL and SCBNL are 21.33%, 11.36% and 35.34% respectively. NIBL has invested small portion of current assets in government securities.

4.2.5 Miscellaneous Current Assets

According to table 4.2 it is clear that miscellaneous current assets percentages of sample banks are fluctuating all over the study period. Following bar diagram shows it clearly.

Figure 4.5

Miscellaneous Current Assets (%)



Source; Table 4.2

According to above figure, the sample banks allocate their loan and advance as their needs.

NABIL

In the first year, percentage of miscellaneous current asset is 2.24% and it is slightly decreased to 1.94% in the second year. In the third it is increased to 2.40% and in fourth year decreased 1.72% respectively. In the final year, the percentage of miscellaneous current asset is increased to 2.10%.

NIBL

The bank has increasing and decreasing trend. In the first year, the bank has invested 0.99% of its current assets in miscellaneous current assets. Then, it is decreased to 0.50%, 0.83% and 0.71% in the second, third and fourth year respectively. In the final year, it is increased to 0.77%.

SCBNL

In the first year, the bank has invested 24.76% of its current assets in miscellaneous current assets. Then, it is highly decreased to 4.91% in the second year. In the third year, the percentage is decreased to 4.44%. In the fourth year, it is highly decreased to 1.72%. In the final year, it is slightly increased to 1.74%.

The average miscellaneous current assets percentage of NABIL, NIBL and SCBNL are 2.08%, 0.76% and 7.51% respectively. NIBL has invested small portion of current assets in his miscellaneous current assets, whereas SCBNL has invested higher portion than others.

From the overall analysis of the composition of working capital, NIBL and NABIL have better utilized their funds on loan and advance to earn interest. SCBNL has invested very low percentage of total current assets on loan and advance but has invested high percentage in money at call or short notice and government securities. So compositions of working capital of sample banks are different.

4.3 Liquidity Position

Liquidity of an organization is directly related with the working capital or current assets and current liabilities of that organization. Liquidity is one of the main objectives of working capital management. These ratios provide insight into the present cash solvency in the event of adverse financial condition. In case of banks working capital management is mainly concerned with the liquidity management. And a bank cannot operate its function without sound liquidity. To measure the banks' liquidity position, various liquidity ratios are calculated.

4.3.1 Current Ratio

The current ratio measures the short-term solvency position of a bank, i.e. ability to meet its current obligations. Higher current ratio indicates better liquidity position. A ratio between current assets and current liabilities is known as current ratio.

The calculation is made by dividing total of current assets by total of current liabilities.

Thus,

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

The following table shows the current ratio of NABIL, NIBL and SCBNL.

Table 4.3

Current Ratio (times)

(Rs. in million)

Fiscal Year	NABIL			NIBL			SCBNL		
	CA	CL	Ratio	CA	CL	Ratio	CA	CL	Ratio
2063/64	22829.53	25095.29	0.91	23580.98	24899.12	0.95	28426.16	26420.09	1.08
2064/65	31241.82	34328.76	0.91	34183.44	35123.72	0.97	27453.31	30781.40	0.89
2065/66	36086.12	31629.86	1.14	47234.76	48040.61	0.98	30212.81	37473.40	0.81
2066/67	51372.13	50160.82	1.02	56169.17	51813.50	1.08	40094.76	36997.23	1.08
2067/68	57206.34	54126.40	1.06	57248.36	52108.34	1.10	43704.36	39942.56	1.09
Average			1.01			1.02			0.99
Total average of the sample banks = 1.01									

Sources: Appendix 1, 2 and 3(Annual Report of NABIL, NIBL & SCBNL)

According to table 4.3 the sample banks' current ratio is different all over the study period. They allocate their current assets according to their needs.

NABIL

In the first year, current ratio is 0.91 and it is neither increase nor decrease i.e. 0.91 in the second year. In the third year, it is increased to 1.14. In the fourth year, it is decrease to 1.02. In the final year, the ratio of current ratio is slightly increased to 1.06.

NIBL

The bank has increasing and decreasing trend. In the first year, its current ratio is 0.95. In the second, third, fourth and final year, it is increased to 0.97, 0.98, 1.08 and 1.10 respectively.

SCBNL

In the first year, current ratio is 1.08. In the second and third year, it is decreased to 0.89 and 0.81 respectively. In the fourth and final year, it is increased to 1.08 and 1.09 respectively.

The average current ratio of NABIL, NIBL and SCBNL are 1.08, 1.09 and 0.99 respectively. The total average of current assets of sample banks is 1.01. NIBL has invested small portion in current assets.

From the above analysis, it can be concluded that although the banks are not meeting the standard ratio i.e. 2:1, its current ratio can be considered good, as its current assets excess current liabilities. There is increasing and decreasing trend of current ratio of sample banks. SCBNL has the highest current ratio among the sample banks but does not meet the standard.

4.3.2 Quick Ratio

Quick Ratio establishes a relationship between quick ratio or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably

soon without loss of original value. Cash is most liquid assets. Under this study cash and bank balance, money at call or short notice and government securities are included in quick assets. A ratio between quick assets and current liabilities is known as quick ratio. The calculation is made by dividing total quick assets by total current liabilities.

Thus,

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

The following table shows the quick ratio of NABIL, NIBL and SCBNL.

Table 4.4

Quick Ratio (times)

(Rs. in million)

Fiscal Year	NABIL			NIBL			SCBNL		
	QA	CL	Ratio	QA	CL	Ratio	QA	CL	Ratio
2063/64	6771.70	25095.29	0.27	6060.88	24899.12	0.24	10887.11	26420.09	0.41
2064/65	9270.38	34328.76	0.27	6909.94	35123.72	0.20	12385.39	30781.40	0.40
2065/66	7631.49	31629.86	0.24	10449.30	48040.61	0.22	15191.47	37473.40	0.41
2066/67	12540.3	50160.82	0.25	11917.18	51813.50	0.23	15538.85	36997.23	0.42
2067/68	14072.9	54126.4	0.26	11463.34	52108.34	0.22	17175.31	39942.56	0.43
Average			0.26			0.22			0.41
Total average of the sample banks = 0.31									

Sources: Appendix 1, 2 and 3(Annual Report of NABIL, NIBL & SCBNL)

According to table 4.4 the sample banks' quick ratio is different all over the study period. They allocate their quick assets according to their needs.

NABIL

In the first year, quick ratio is 0.27. It is neither increased nor decreased i.e. 0.27 in second year and it is slightly decreased to 0.24 in the third year. In the fourth year and final year, it is increased to 0.25 and 0.26 respectively.

NIBL

The bank has increasing and decreasing trend. In the first year, its quick ratio is 0.24. Then, it is decreased to 0.20 in second year and increased to 0.22 in third year. In the fourth year, it is increased to 0.23. In the final year, quick ratio is increased to 0.22.

SCBNL

In the first year, the bank's quick ratio is 0.41. It is decreased to 0.40 in the second year. In the third, fourth and final year it is increased to 0.41, 0.42 and 0.43 respectively.

The average quick ratio of NABIL, NIBL and SCBNL are 0.26, 0.22 and 0.41 respectively. The total average of quick ratio of sample banks is 0.30. SCBNL has invested far higher portion in quick assets than other sample banks.

From the above analysis, it can be concluded that although the banks are not meeting the standard ratio i.e. 1:1, its quick ratio can be considered good, as its quick assets equal to current liabilities. There is increasing and decreasing trend of quick ratio of sample banks. SCBNL has the highest quick ratio among sample banks but does not meet standard. NIBL and NABIL have far lower quick ratio than SCBNL. So these banks have no sound management of working capital.

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

The Ratio shows the ability of banks immediate funds to cover their deposit. It can be calculated by dividing cash and bank balance by total deposits (excluding fixed deposit).

Thus,

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

The following table shows the cash and bank balance to total deposit ratio of NABIL, NIBL and SCBNL.

Table 4.5
Cash and Bank Balance to Total Deposit Ratio (%)

(in million)

Fiscal Year	NABIL			NIBL			SCBNL		
	CBB	TD	Ratio	CBB	TD	Ratio	CBB	TD	Ratio
2063/64	1399.83	23342.29	6.00	2441.51	24488.86	9.97	2021.02	24647.64	8.16
2064/65	2671.14	31915.05	8.37	3754.94	34451.73	10.9	2050.24	29743.99	6.89
2065/66	3372.50	37348.26	10.06	7918.00	46638.10	16.98	3137.16	35871.73	8.74
2066/67	1400.10	46410.70	9.03	6815.89	50094.72	13.61	1929.30	35182.72	5.48
2067/68	2436.55	49696.11	4.90	8140.37	50138.12	16.24	2975.79	37999.24	7.83
Average			7.67			13.54			7.42
Total average of the sample banks = 9.54									

Sources: Appendix 1, 2 &3 (Annual Report of NABIL, NIBL & SCBNL)

According to table 4.5 the sample bank's cash and bank balance to total deposit ratio is different all over the study period. They allocate their cash and bank balance according to their needs.

NABIL

In the first year, cash and bank balance to total deposit ratio is 6.00% and it is slightly increased to 8.37% and 10.06% in the second and third year respectively. In the fourth year, it is even increased to 9.03%. In the final year, the ratio is decreased to 4.90%.

NIBL

The bank has increasing and decreasing trend. In the first year, its cash and bank balance to total deposit ratio is 9.97%. Then, it is increased to 10.9% in the second year and highly increased to 16.98% in the third year. In the fourth year, it is decreased to 13.61%. In the final year, it is highly increased to 16.24%.

SCBNL

In the first year, the cash and bank balance to total deposit ratio is 8.16%. In the second year it is slightly decreased to 6.89%. In the third year, cash and bank balance to total deposit ratio is increased to 8.74%. In the fourth year, it is highly decreased to 5.48%. In the final year, it is increased to 7.83%.

The average cash and bank balance to total deposit ratio of NABIL, NIBL and SCBNL are 7.67%, 13.54% and 7.42% respectively. The total average of cash and bank balance to total deposit ratio of sample banks is 9.54%. NIBL has invested far higher portion than other sample banks in cash and bank balance.

From the above analysis, NABIL and SCBNL have lower and almost similar cash and bank balance to total deposit ratio. So they have invested their fund to earn more interest. However, NIBL has the greatest cash and bank balance to total deposit ratio among them. So it has more idle fund and less risk. So NABIL and SCBNL have sound management of working capital but with a high risk.

4.3.4 Saving Deposit to Total Deposit Ratio

Savings deposit is interest bearing short-term deposit. The Ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short term in nature. It is calculated by dividing the total amount of saving deposit by the amount of total deposit, which is as follows:

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

The following table shows the savings deposit to total deposit ratio of NABIL, NIBL and SCBNL.

Table 4.6

Saving to Total Deposit Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			NIBL			SCBNL		
	SD	TD	Ratio	SD	TD	Ratio	SD	TD	Ratio
2063/64	10187.35	23342.29	43.64	10742.33	24488.86	43.87	15244.38	24647.64	61.85
2064/65	12159.90	31915.05	38.10	13688.77	34451.73	39.73	17856.13	29743.99	60.03
2065/66	14620	37348.26	39.14	17066.25	46638.10	36.59	19187.64	35871.73	53.49
2066/67	13783.58	46410.70	29.70	14324.25	50094.72	28.59	12430.0	35182.72	35.33
2067/68	14288.52	49696.11	28.75	13490.30	50138.12	26.91	11619.81	37999.24	30.58
Average			35.87			35.14			48.26
Total average of the sample banks = 39.76									

Sources: Appendix 1, 2 & 3(Annual Report of NABIL, NIBL & SCBNL)

According to table 4.6 the sample banks' savings to total deposit ratio is different all over the study period.

NABIL

The bank has decreasing trend. In the first year, savings to total deposit ratio is 43.64% and it is decreased to 38.10% in the second year. In the third year, it is slightly increased to 39.14%. In the fourth and final year, it is even decreased to 29.70%, 28.75% respectively.

NIBL

The Bank has increasing and decreasing trend. In the first year, its savings to total deposit ratio is 43.87%. Then, it is decreased to 39.70% in the second year and slightly decreased to 36.59% in the third year. In the fourth and final year, it is even decreased 28.59% and 26.91% respectively.

SCBNL

The Bank has decreasing trend. In the first year, the bank’s savings to total deposit ratio is 61.85%. In the second, third, fourth and final year, the saving to total deposit ratio is decreased to 60.03%, 53.49%, 35.33% and 30.58% respectively.

The average savings to total deposit ratio of NABIL, NIBL and SCBNL are 35.87%, 35.14% and 48.26% respectively. The total average of saving to total deposit ratio of sample banks is 39.76%. SCBNL has highest portion of savings deposit, whereas NABIL and NIBL have lower and almost similar.

From the above analysis, it can be concluded that the banks have decreasing trend except the ratio of NABIL in the year 065/066. Higher savings deposit shows higher risk and higher gain. So the large amount of savings deposit in total deposit shows the high liquidity of the bank. NABIL and NIBL have lower savings to total deposit ratio. So they have lower burden and low risk. However, SCBNL has greatest savings to total deposit

ratio. It has more risk and high burden. So NABIL and NIBL have sound management of working capital with a low risk.

4.4 Activity Turnover Ratio

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

4.4.1 Loan and Advance to Total Deposit Ratio

This Ratio measures the extent to which banks are successful in utilizing the profit generating purpose. In other words how quickly collected deposits are converted into loan and advances to the clients to earn income. It is calculated by dividing loan and advance by the amount of total deposit.

Thus,

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}} \times 100\%$$

The following table shows the loan and advance to total deposit ratio of NABIL, NIBL and SCBNL.

Table 4.7

Loan and Advance to Total Deposit Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			NIBL			SCBNL		
	L&A	TD	Ratio	L&A	TD	Ratio	L&A	TD	Ratio
2063/64	15545.78	23342.29	66.60	17286.43	24488.86	70.59	10502.64	24647.02	42.61
2064/65	21365.05	31915.05	66.94	26996.65	34451.73	78.36	13718.60	29743.99	46.12
2065/66	27589.93	41832.86	66.95	36241.21	46698.10	77.61	13679.76	35871.73	38.14
2066/67	32268.87	46410.70	69.53	40318.31	50094.72	80.48	15956.95	35182.72	45.35
2067/68	38034.09	49696.11	76.53	41095.51	50138.12	81.96	18427.27	37999.24	48.49
Average			69.31			77.80			44.14
Total average of the sample banks =63.75									

Sources: Appendix 1, 2 and 3(Annual Report of NABIL, NIBL & SCBNL)

According to table 4.7 the sample banks' loan and advance to total deposit ratio is different all over the study period.

NABIL

In the first year, loan and advance to total deposit ratio is 66.60% and it is slightly increased to 66.94% and 66.95% in second and third year respectively in the fourth and final year, it is even increased to 69.53% and 76.53% respectively.

NIBL

The bank has increasing and decreasing trend. In the first year, its loan and advance to total deposit ratio is 70.59%. Then, it is increased to 78.36% in the second year and decreased to 77.61% in the third year. In the fourth year, it is increased to 80.48%. In the final year, it is slightly increased to 81.96%.

SCBNL

In the first year, the bank’s loan and advance to total deposit ratio is 42.61%. In the second year it is increased to 46.12%. In the third it is decreased to 38.14%. In fourth and final year, it is increased to 45.35% and 48.49% respectively.

The average loan and advance to total deposit ratio of NABIL, NIBL and SCBNL are 69.31%, 77.80% and 44.14% respectively. The total average of loan and advance to total deposit ratio of sample banks is 63.75%. NIBL has highest portion of loan and advance to total deposit ratio.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Higher loan and advance to total deposit ratio shows higher risk and higher turnover. So, NABIL and NIBL have invested their deposit more in loan and advance to earn higher profit. However, SCBNL has far lower loan and advance to total deposit ratio. It has less risk and it has low profit. So NABIL and NIBL have sound management of working capital.

4.4.2 Loan and Advance to Fixed Deposit Ratio

This Ratio examines that how many times the fund is used in loan and advances against fixed deposit. Fixed deposits are interest bearing long term obligation whereas loan and advances are the major sources of investment in generating income for commercial banks. This ratio indicates how many times the long term interest bearing deposits are utilized for generating income. It is calculated by dividing the amount of loan and advances by total deposit in fixed account. The ratio is calculated as follows:

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

Table 4.8

Loan and Advance to Fixed Deposit Ratio (%)

(Rs in million)

Fiscal Year	NABIL			NIBL			SCBNL		
	L&A	FD	Ratio	L&A	FD	Ratio	L&A	FD	Ratio
2063/64	15545.78	5435.19	286.02	17286.43	7516.69	229.97	10502.64	3196.49	328.57
2064/65	21365.05	8464.08	252.42	26996.65	7944.23	339.83	13718.60	3301.01	415.59
2065/66	27589.93	8310.71	331.98	36241.21	11633.38	311.53	13679.76	7101.70	192.63
2066/67	32268.87	14711.15	219.35	40318.31	16825.15	239.63	15956.95	9175.07	173.92
2067/68	38034.09	16840.83	225.84	41095.51	18378.01	223.61	18427.27	10136.24	181.80
Average			263.12			268.91			258.50
Total average of the sample banks = 263.51									

Sources: Appendix 1, 2 and 3 (Annual Report of NABIL, NIBL & SCBNL)

According to table 4.8 the sample banks' loan and advance to fixed deposit ratio is different all over the study period.

NABIL

In the first year, loan and advance to fixed deposit ratio is 286.02% and it is decreased to 252.42% in the second year. In the third year, it is increased to 331.98%. In the fourth year, it is decreased to 219.35%. In the final year, it is increased to 225.84%.

NIBL

The bank has increasing and decreasing trend. In the first year, its loan and advance to total fixed deposit ratio is 229.97%. Then, it is increased to 339.83% in the second year and decreased to 311.53% in the third year. In the fourth year, it is decreased to 239.63%. In the final year, loan and advance to total fixed deposit ratio is even decreased to 223.61%.

SCBNL

In the first year, the bank's loan and advance to total fixed deposit ratio is 328.57%. In second it is increased to 415.59%. In third and fourth year, it is highly decreased to 192.63% and 173.92% respectively. In the final year, it is increased to 181.80%.

The average loan and advance to total fixed deposit ratio of NABIL, NIBL and SCBNL are 263.12%, 268.91% and 258.50% respectively. The total average of loan and advance to total fixed deposit ratio of sample banks is 263.51%. SCBNL has highest portion of loan and advance to total fixed deposit ratio, whereas NIBL has the lowest portion among them.

From the above analysis, it can be concluded that the banks have increasing and decreasing trend. Higher loan and advance to total fixed deposit ratio shows lower risk and higher turnover. So SCBNL has invested more in loan and advance to earn higher profit than other sample banks. Similarly, NABIL has invested slightly lower than SCBNL. However, NIBL has the lowest investment in loan and advance. So it has higher risk and lower portion of earning. So SCBNL and NABIL have sound management of working capital.

4.4.3 Loan and Advance to Savings Deposit Ratio

This Ratio examines that how many times the funds are used in loan and advance against saving deposit. For commercial banks, saving deposits are short-term interest bearing obligations, whereas investment in loan and advances are the main sources of earning. This ratio is computed dividing loans and advances by saving deposits. A low ratio

indicates idle cash balance. It means total funds are not properly utilized. The ratio is calculated as follows:-

Loan and Advance to Saving Deposit Ratio = $\frac{\text{Loan and Advance}}{\text{Saving Deposit}} X100$

The following table shows the loan and advance to saving deposit ratio of NABIL, NIBL and SCBNL.

Table 4.9

Loan and Advance to Saving Deposit Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			NIBL			SCBNL		
	L&A	SD	Ratio	L&A	SD	Ratio	L&A	SD	Ratio
2063/64	15545.78	10187.35	152.60	17286.43	10742.33	160.92	10502.64	15244.38	68.90
2064/65	21365.05	12159.97	175.70	26996.65	13688.77	197.22	13718.60	17856.13	76.83
2065/66	27589.93	14620.00	188.71	36241.21	17066.25	212.36	13679.76	19187.64	71.29
2066/67	32268.87	13783.58	234.11	40318.31	14324.25	281.47	15956.95	12430.0	128.37
2067/68	38034.09	14288.52	266.19	41095.51	13490.30	304.63	18427.27	11619.81	158.58
Average			203.46			231.32			100.79
Total average of the sample banks = 178.52									

Sources: Appendix 1, 2 and 3 (Annual Report of NABIL, NIBL & SCBNL)

According to table 4.9 the sample banks' loan and advance to saving deposit ratio is different all over the study period.

NABIL

In the first year, loan and advance to saving deposit ratio is 152.60% and it is slightly increased to 175.70% in the second year. In the third year, it is increased to 188.71%. In the fourth year, it is highly increased to 234.11%. In the final year, it is again increased to 266.19%.

NIBL

The bank has increasing trend. In the first year, its loan advance to saving deposit ratio is 160.92%. Then, it is increased to 197.22%, 212.36%, 281.47% and 304.63% in the second and third, fourth and final year respectively.

SCBNL

In the first year, the bank's loan and advance to saving deposit ratio is 68.90%. It is increased to 76.83% in the second year. In the third it is slightly decreased to 71.29%. In the fourth and final year, it is increased to 128.37% and 158.58% respectively.

The average loan and advance to savings deposit ratio of NABIL, NIBL and SCBNL are 203.46%, 231.32% and 100.79% respectively. The total average of loan and advance to saving deposit ratio of sample banks is 178.52%. NIBL has the highest portion of loan and advance to savings deposit ratio, whereas SCBNL has far lower portion than others.

From the above analysis, it can be concluded that NIBL has only increasing trend whereas other sample banks have increasing and decreasing trend. Higher loan and advance to savings deposit ratio shows lower risk and higher turnover. So, NIBL has more investment in loan and advance to earn higher profit than all other sample banks. Similarly, NABIL has almost similar investment and profit to NIBL. But SCBNL has far lower investment in loan and advance, so it has higher risk and lower portion of profit. So, NABIL and NIBL have sound management of working capital.

4.5 Trend Analysis

The tools that are used to show gradually increase or decrease of variables over the selected period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly. It is a part of time series analysis. For a long period, it is desire to indicate whether the present data is increasing or decreasing. It is also attempted to find out growth factor. The trend analysis projects the rate of change so that budgeting and planning can be made easier. Therefore, trend analysis is taken as a tool to find out future behavior of data. Least square method of trend analysis is used for the study.

4.5.1 Cash and Bank Balance Percentage

According to the table 4.5.1, sample banks' cash and bank balance percentage and trend values are fluctuating over the study period. The value of constant a and b of sample banks are as follows:

Table 4.10

Cash and Bank Balance Percentage

Bank	a	b
NABIL	6.20	-0.955
NIBL	12.91	0.885
SCBNL	7.00	-0.58

Sources: Appendix 7(Annual Report of NABIL, NIBL & SCBNL)

According to the above table 4.10 the rate of change on cash and bank balance percentage b is positive. NIBL has the highest positive value i.e. 0.885 which indicates the better utilization of cash on income generating sources.

4.5.1.1 Actual & Trend Line of Cash and Bank Balance (%)

Table 4.11

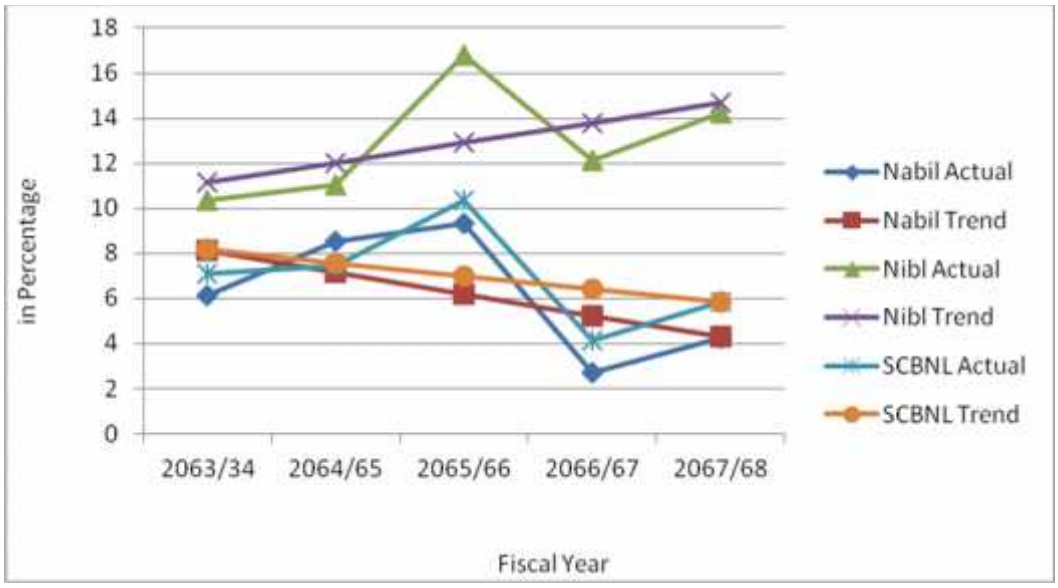
Actual & Trend Line of Cash and Bank Balance (%)

Fiscal Year	Nabil		Nibl		SCBNL	
	Actual	Trend	Actual	Trend	Actual	Trend
2063/064	6.13	8.11	10.35	11.14	7.11	8.16
2064/65	8.54	7.15	11.02	12.02	7.47	7.58
2065/66	9.35	6.20	16.82	12.91	10.38	7
2066/67	2.73	5.24	12.13	13.79	4.15	6.42
2067/68	4.26	4.29	14.22	14.68	5.87	5.84

Sources: Annual Report of NABIL, NIBL & SCBNL)

Figure 4.11

Actual & Trend line of Cash and Bank Balance (%)



According to above figure 4.11 the sample banks allocate their cash and bank balance as their needs.

NABIL

In the first year the bank has cash and bank balance trend value is 8.11% of their current assets. In the second, third, fourth and final year, it is decreased to 7.15%, 6.20%, 5.24% and 4.29% respectively.

NIBL

The bank has increasing trend. In the first year, cash and bank balance trend value is 11.14% of its current assets. In the second, third, fourth and final year, it is decreased to 12.02%, 12.91%, 13.79% and 14.68% respective.

SCBNL

The bank has increasing trend. In the first year, the bank's cash and bank balance trend is 8.16% of its current assets. Then, it is decreased to 7.58%, 7.00%, 6.42% and 5.84% in the second, third, fourth and final year respectively.

It is concluded that the trend line of NIBL is always higher of the study period due to high cash and bank balance percentage. In this way, we can say that average cash and bank balance percentage of NIBL is higher than NABIL and SCBNL. Trend value of cash and bank balance of NIBL shows that the bank has maintained constant balance.

4.5.2 Money at Call or Short Notice

According to the table 4.12, sample banks' money at call or short notice percentage and trend values are fluctuating over the study period. The value of constant a and b of sample banks are as follows.

Table 4.12

Money at Call or Short Notice

Bank	a	b
NABIL	4.12	0.346
NIBL	0.36	-0.256
SCBNL	6.99	0.334

Sources: Appendix 8

According to the above table 4.12 the rate of change on cash and bank balance of NABIL & SCBNL percentage b is positive. NABIL has highest value i.e.0.346 which indicates the better utilization of money at call or short notice on income generating sources.

4.5.2.1 Actual and Trend Value of Money at Call or Short Notice (%)

Table 4.13

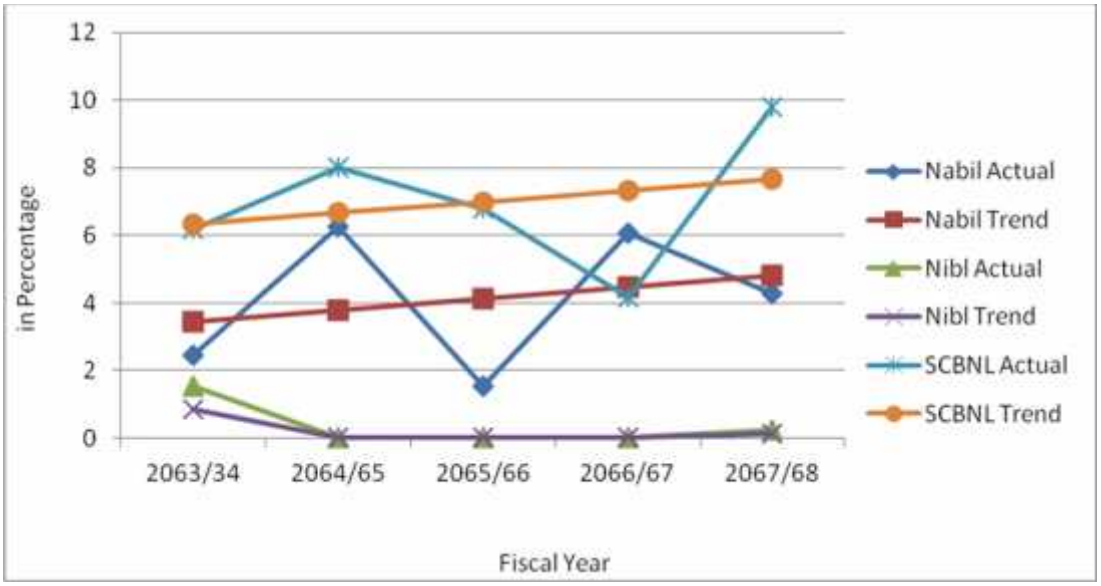
Actual and Trend Value of Money at Call or Short Notice (%)

Fiscal Year	Nabil		Nibl		SCBNL	
	Actual	Trend	Actual	Trend	Actual	Trend
2063/064	2.47	3.43	4.54	0.872	6.20	6.32
2064/65	6.25	3.77	-	-	8.00	6.66
2065/66	1.53	4.12	-	-	6.80	6.99
2066/67	6.07	4.47	-	-	4.17	7.32
2067/68	4.29	4.81	0.26	0.152	9.79	7.66

Sources: Annual Report of NABIL, NIBL & SCBNL

Figure 4.12

Actual and Trend Value of Money at call or short Notice (%)



According to above figure 4.12, the sample banks allocate their money at call or short notice as their needs.

NABIL

The Bank has decreasing trend. In the first year, the bank has money at call or short notice percentage trend value is 3.43% of its current assets. In the second year, third year, fourth year and final year, it is increased to 3.77%, 4.12%, 4.47%, and 4.81% respectively.

NIBL

The Bank has increasing trend. In the first year, money at call or short notice percentage trend value is 0.87% of their current assets. Then, it is decreased to 0.15% in final year.

SCBNL

The bank has decreasing trend. In the first year, the bank's money at call or short notice trend value is 6.32% of their current assets. Then, it is increased to 6.66%, 6.99%, 7.32% and 7.66% in the second, third, fourth and final year respectively.

It is concluded that the trend line of SCBNL is always higher of the study period due to high money at call or short notice percentage. In this way, we can say that average money at call or short notice percentage of SCBNL is higher than NABIL and NIBL. Trend value of money at call or short notice of SCBNL shows that the bank has maintained constant balance.

4.5.3 Loan and Advance Percentage

According to the table 4.14 sample banks' loan and advance percentage and trend values are fluctuating over the study period. The value of constant a and b of sample banks are as follows:

Table 4.14

Loan and Advance Percentage

Bank	a	b
NABIL	68.45	-0.882
NIBL	74.60	-1.05
SCBNL	42.83	0.027

Sources: Appendix 9

According to the above table 4.14, the rate of change on loan and advance of NABIL & NIBL percentage b is negative. NIBL has highest negative value i.e. -1.05 which indicates the better utilization of money at call or short notice on income generating sources.

4.5.3.1 Loan and Advance Percentage

Table 4.15

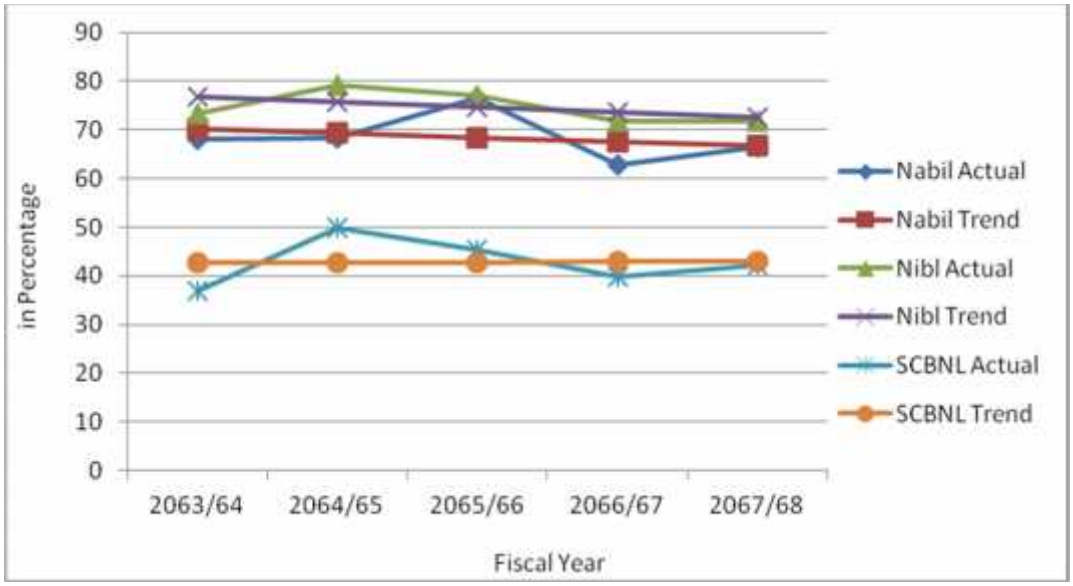
Loan and Advance Percentage

Fiscal Year	Nabil		Nibl		SCBNL	
	Actual	Trend	Actual	Trend	Actual	Trend
2063/064	68.10	70.21	73.31	76.7	36.94	42.78
2064/65	68.39	69.33	79.22	75.65	49.97	42.80
2065/66	76.46	68.45	76.98	74.60	45.28	42.83
2066/67	62.81	67.57	71.78	73.55	39.80	42.86
2067/68	66.48	66.69	71.78	72.50	42.16	42.88

Sources: Annual Report of NABIL, NIBL & SCBNL

Figure 4.13

Actual and Value of Loan and Advance (%)



Sources: Appendix 9&13

According to above figure 4.13, the sample banks allocate their fund in loan and advance as their needs.

NABIL

In the first year the bank's loan and advance percentage trend value is 70.21% of their current assets. Then, it is decreased to 69.33%, 68.45%, 67.57% and 66.69% in the second, third, fourth and final year respectively.

NIBL

The bank has increasing trend. In the first year, loan and advance percentage trend value is 76.70% of its current assets. Then, it is increased to 75.65% in the second year. And in the third, fourth and final year it is decreased 74.60%, 73.55% and 72.50% respectively.

SCBNL

The bank has increasing trend. In the first year, the bank's loan and advance trend value is 42.75% of its current assets. Then, it is slightly increased to 42.80% in the second year.

Then, it is increased to 42.83%, 42.86% and 42.88% in the third, fourth and final year respectively.

It is conclude that the trend line of NIBL is always higher of the study period due to high loan and advance percentage. In this way, we can say that average loan and advance percentage of NIBL is higher than NABIL and SCBNL. Trend value of loan and advance of NIBL shows that the bank has maintained constant balance.

4.5.4 Government Securities Percentage

According to the table 4.16 the samples banks' government securities percentage and trend values are fluctuating over the study period. The value of constant a and b of the sample banks are as follows:

Table 4.16

Government Securities Percentage

Bank	a	b
NABIL	19.15	1.542
NIBL	11.36	0.443
SCBNL	35.34	4.87

Sources: Appendix 10

According to the above table 4.16, the rate of change on government securities percentage b is positive. It shows that increasing government securities percentage to total current assets in all sample banks. SCBNL has highest positive value i.e. 4.87 which indicates the better utilization of fund on income generating sources.

4.5.4.1 Government Securities Percentage

Table 4.17

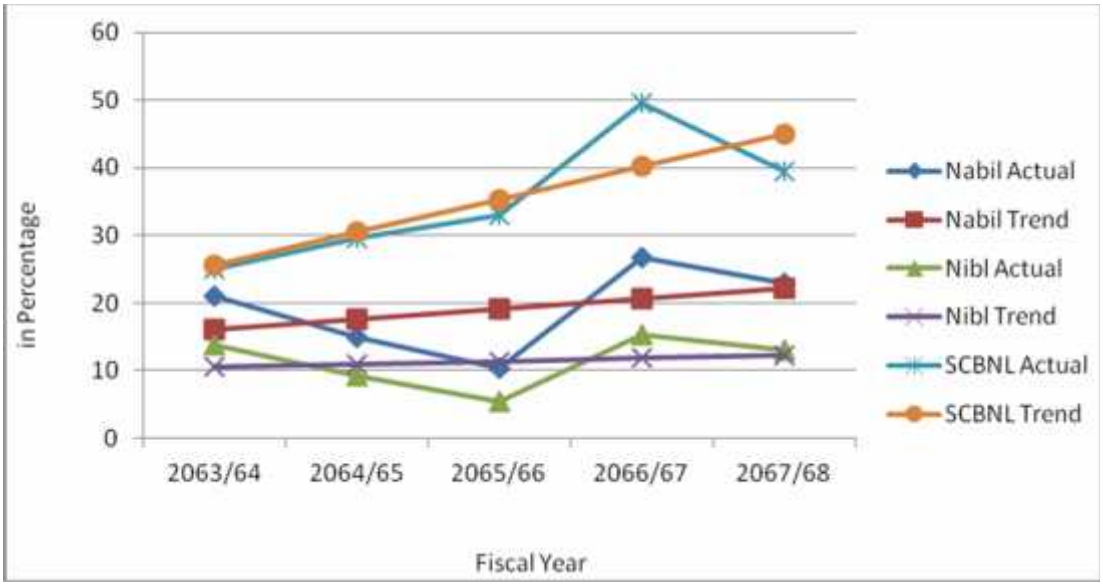
Government Securities Percentage

Fiscal Year	Nabil		Nibl		SCBNL	
	Actual	Trend	Actual	Trend	Actual	Trend
2063/064	21.06	16.06	13.81	10.474	24.99	25.6
2064/65	14.87	17.608	9.26	10.917	29.64	30.47
2065/66	10.30	19.15	5.38	11.36	33.09	35.34
2066/67	26.67	20.692	15.37	11.803	49.50	40.21
2067/68	22.87	22.234	12.97	12.246	39.49	45.08

Sources: Annual Report of NABIL, NIBL & SCBNL

Figure 4.14

Actual and Trend Value of Government Securities (%)



According to above figure 4.14, the sample banks allocate their fund in government securities as their needs.

NABIL

In the first year the bank's government securities percentage trend value is 16.07% of its current assets. In the second, third, fourth and final year, it is increased to 17.61%, 19.15%, 20.69% and 22.23% respectively.

NIBL

The bank has decreasing trend. In the first year, government securities percentage trend is 10.47% of its current assets. Then, it is slightly increased to 10.92% in the second year. And then, it is even increased to 11.36%, 11.80% and 12.25% in the third, fourth and final year respectively.

SCBNL

In the first year, the bank's government securities percentage trend value is 25.60% of its current assets. Then, it is increased to 30.47%, 35.34%, 40.21% and 45.08% in the second, third, fourth and final year respectively.

It is concluded that the trend line of SCBNL is always higher of the study period due to high government securities percentage. In this way, we can say that average government securities percentage of SCBNL is higher than NABIL and NIBL. Trend value of government securities of SCBNL shows that the bank has maintained constant balance.

4.5.5 Current Assets Ratio

According to the table 4.18 sample banks' current ratio percentage and trend values are fluctuating over the study period. The value of constant a and b of sample banks are as follows:

Table 4.18
Current Assets Ratio

Bank	a	b
NABIL	1.00	0.037
NIBL	1.02	0.041
SCBNL	0.92	-0.031

Sources: Appendix 11

According to the above table 4.18 the rate of change on current ratio percentage b is negative of SCBNL. It shows that current assets is in decreasing trend and unable to meet the standard. NABIL and NIBL have positive b constant it shows better utilization of fund on standard maintaining.

4.5.5.1 Actual and Trend Value of Current Ratio

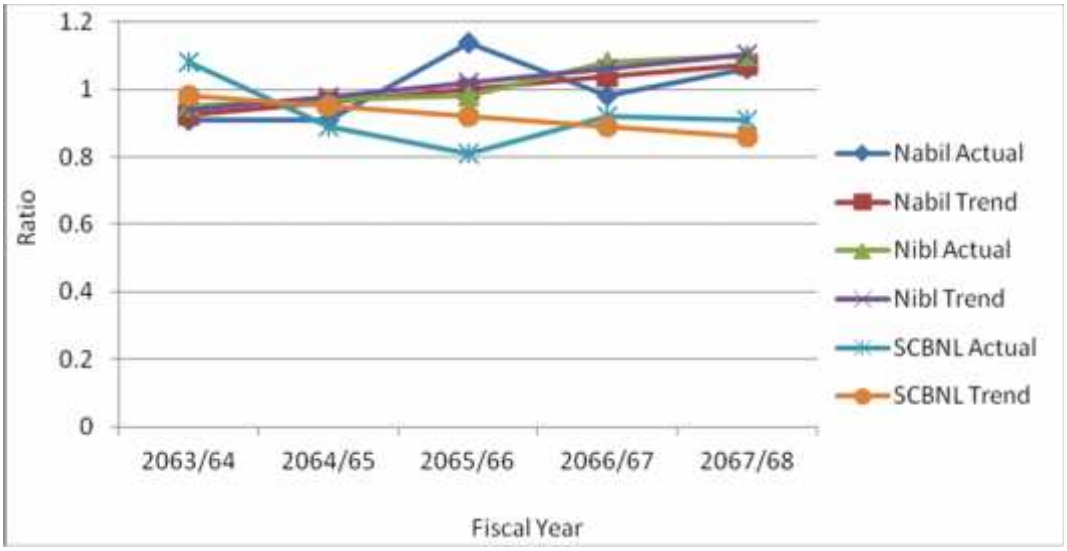
Table 4.19

Actual and Trend Value of Current Ratio

Fiscal Year	Nabil		Nibl		SCBNL	
	Actual	Trend	Actual	Trend	Actual	Trend
2063/064	0.91	0.926	0.95	0.938	1.08	0.982
2064/65	0.91	0.963	0.97	0.979	0.89	0.951
2065/66	1.14	1.00	0.98	1.02	0.81	0.92
2066/67	0.98	1.037	1.08	1.061	0.92	0.889
2067/68	1.06	1.074	1.10	1.102	0.91	0.858

Sources: Annual Report of NABIL, NIBL & SCBNL

Figure 4.15
Actual and Trend Value of Current Ratio



According to above figure 4.15, the sample banks allocate their fund in current assets as their needs.

NABIL

The bank has increasing trend. In the first year, the bank's current assets trend value is 0.926. In the second, third, fourth and final year, it is increased to 0.963, 1.00, 1.037 and 1.074 respectively.

NIBL

The bank has increasing trend. In the first year, current assets trend is 0.938. Then, it is increased to 0.979, 1.02, 1.061 and 1.102 in the second, third, fourth and final year respectively.

SCBNL

The bank has decreasing trend. In the first year, the bank's current assets ratio trend is 0.982. Then, it is decreased to 0.951, 0.92, 0.889 and 0.858 in the second, third fourth and final year respectively.

It is concluded that the current assets trend line of NIBL is always higher of the study period due to high current assets. In this way, we can say that average current assets ratio of NIBL is higher than NABIL and SCBNL. Trend value of current assets ratio of NIBL shows that the bank has maintained for standard increasing total current assets. Trend value of current assets ratio of NIBL shows that it is always better than NABIL and SCBNL so the NIBL has better liquidity position in comparison to other sample banks.

4.5.6 Quick Assets Ratio

According to the table 4.20 sample banks' quick assets ratio and trend value are fluctuating over the study period. The value of constant a and b of sample banks are as follows:

Table 4.20

Quick Assets Ratio

Bank	a	b
NABIL	0.26	-0.004
NIBL	0.22	-0.001
SCBNL	0.41	0.006

Sources: Appendix 12

According to the table 4.20, the rate of change on quick ratio b is positive of SCBNL. It shows that increasing in investment in quick assets which indicates the investment in quick assets is in increasing trend and better utilization of fund on standard maintaining

i.e. 1:1. NABIL and NIBL have negative b constant that shows unable to meet the standard.

4.5.6.1 Actual and Trend Value of Quick Ratio

Table 4.21

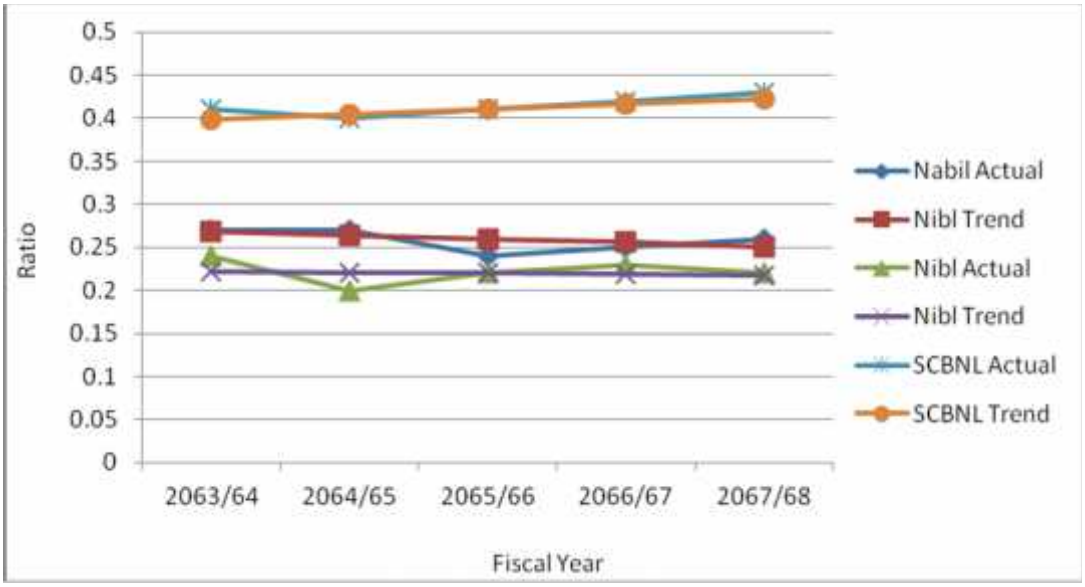
Actual and Trend Value of Quick Ratio

Fiscal Year	Nabil		Nibl		SCBNL	
	Actual	Trend	Actual	Trend	Actual	Trend
2063/064	0.27	0.268	0.24	0.222	0.41	0.398
2064/65	0.27	0.264	0.20	0.221	0.40	0.404
2065/66	0.24	0.26	0.22	0.220	0.41	0.41
2066/67	0.25	0.256	0.23	0.219	0.42	0.416
2067/68	0.26	0.251	0.22	0.218	0.43	0.422

Sources: Annual Report of NABIL, NIBL & SCBNL

Figure 4.16

Actual and Trend Value of Quick Ratio



Sources: Appendix 12 and 13

According to above figure 4.16 the sample banks allocate their fund in quick assets as their needs.

NABIL

In the first year, the bank's quick assets ratio trend value is 0.268. In the second, third, fourth and final year, it is decreased to 0.264, 0.260, 0.256 and 0.251 respectively.

NIBL

In the first year, quick assets ratio trend value is 0.222 and thereafter in the second, third and fourth year its trend value is slightly decreased to 0.221, 0.220, 0.219, and 0.218 respectively.

SCBNL

In the first year, the bank's quick assets ratio trend value is 0.398. Then, in the second, third, fourth and final year; it is increased to 0.404, 0.41, 0.416 and 0.422 respectively.

It is concluded that the current assets trend line of SCBNL is always higher of the study period due to high quick assets. In this way, we can say that average quick assets ratio of SCBNL is higher than NABIL and NIBL. Trend value of quick assets ratio of SCBNL shows that it is always better than NABIL and NIBL. So the SCBNL has better liquidity position in comparison to other sample banks.

4.6 Correlation Analysis

Correlation is the statically tool, which measure the relationship between two or more variables of a population or a sample. In other words, it describes the degree to which one variable is linearly related to another. The coefficient of correlation measure the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1 when r is +1, it means there is perfect relationship between two variables and vice versa. When r is 0 it means there is no relationship between two of them.

4.6.1 Co-efficient of Correlation between Investment on Government Securities and Total Deposit

The coefficient of correlation between investment on government securities and total deposit is to measure the degree of relationship between government securities and total deposit. The purpose of computing correlation coefficient is to justify whether the excess deposits are significantly used in government securities or not or whether there is any relationship between these two variables. The following table shows the coefficient of correlation between deposits and government securities.

Table 4.22

Co-efficient of Correlation between Investment on Government Securities and Total Deposit

Banks	Correlation	PEr	6PEr
NABIL	0.91	0.05	0.29
NIBL	0.64	0.18	1.06
SCBNL	0.091	0.30	1.80

Sources: Appendix 14 a, b & c

The above table 4.22 shows the correlation, PEr &6PEr of the sample banks.

NABIL

The bank's correlation between government securities and total deposit is 0.91 which shows positive correlation. Probability error (PEr) is 0.05 and 6PEr is 0.29. Correlation's value is less than 6PEr which indicates that there is significance relationship between government securities and total deposit.

NIBL

The bank's correlation between government securities and total deposit is 0.64 which shows positive correlation. Probability error (PEr) is 0.18 and 6PEr is 1.06. Correlation's value is less than 6PEr which indicates that there is significant relationship between government securities and total deposit.

SCBNL

The bank's correlation between government securities and total deposit is 0.091 which shows positive correlation. Probability error (PEr) is 0.3 and 6PEr is 1.80. Correlation's value is less than 6PEr which indicates that there is no significant relationship between government securities and total deposit.

It is concluded that there is no significant relationship of the sample banks. Although NABIL, NIBL and SCBNL have positive correlation but not significant relationship between government securities and total deposit.

4.6.2 Co-efficient of Correlation between Investment on Loan and Advance and Total Deposit

The coefficient of correlation between investment on loan and advance and total deposit is to measure the degree of relationship between loan and advance and total deposit. The purpose of computing correlation coefficient is to justify whether the excess deposits are significantly used in loan and advance or not or whether there is any relationship between these two variables.

In correlation analysis, total deposit is independent variable and loan advance is dependent variable. The following table shows the coefficient of correlation between loan and advance and total deposit.

Table 4.23

Co-efficient of Correlation between Investment on Loan and Advance and Total Deposit

Banks	Correlation	PEr	6PEr
NABIL	0.91	0.052	0.031
NIBL	0.997	0.0015	0.0091
SCBNL	0.88	0.068	0.41

Sources: Appendix 15 a, b and c

The above table 4.23 shows the correlation, PEr & 6PEr of the sample banks.

NABIL

The bank's correlation between loan and advance and total deposit is 0.91 which shows positive correlation. Probability error (PEr) is 0.052 and 6PEr is 0.031. Correlation's value is greater than 6PEr which indicates that there is highly significant relationship between loan and advance and total deposit.

NIBL

The bank's correlation between loan and advance and total deposit is 0.997 which show positive correlation. Probability error (PEr) is 0.0015 and 6PEr is 0.0091. Correlation's value is greater than 6PEr which indicates that there is highly significant between loan and advance and total deposit.

SCBNL

The bank's correlation between loan and advance and total deposit is 0.88 which show positive correlation. Probability error (PEr) is 0.068 and 6PEr is 0.41. Correlation's value is greater than 6PEr which indicates that there is highly significant relationship between loan and advance and total deposit.

It is concluded that NIBL has the highest significant relationship. Although NABIL and SCBNL have positive correlation and highly significant relationship between loan and advance and total deposit.

4.6.3 Co-efficient of Correlation between Cash and Bank Balance and Current Liabilities

The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities. Commercial banks use large amount of cash and bank balance to meet their current obligation. The purpose of computing correlation coefficient is to justify whether the excess cash and bank balance are significantly used to meet current obligation or not or whether there is any relationship between these two variables. In correlation analysis, total cash and bank balance is independent variable and current liabilities are dependent

variable. The following table shows the coefficient of correlation between cash and bank balance and current liabilities.

Table 4.24

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

Bank	Correlation	PEr	6PEr
NABIL	0.25	0.28	1.70
NIBL	0.96	0.024	0.14
SCBNL	0.272	0.279	1.67

Sources: Appendix 16 a, b & c

The above table 4.24 shows the correlation, PEr &6PEr of the sample banks.

NABIL

The bank's correlation between cash and bank balance and current liabilities is 0.25 which shows positive correlation. Probability error (PEr) is 0.28 and 6PEr is 1.70. Correlation's value is less than 6PEr which indicates that there is no significant relationship between cash and bank balance and current liabilities.

NIBL

The bank's correlation between cash and bank balance and current liabilities is 0.96 which shows positive correlation. Probability error (PEr) is 0.024 and 6PEr is 0.14. Correlation's value is greater than 6PEr which indicates that there is highly significant relationship between cash and bank balance and current liabilities.

SCBNL

The bank's correlation between cash and bank balance and current liabilities is 0.272 which shows positive correlation. Probability error (PEr) is 0.279 and 6PEr is 1.67. Correlation value is less than 6PEr which indicates that there is no significant relationship between cash and bank balance and current liabilities.

It is concluded that NIBL has highly significant relationship. NABIL and SCBNL have positive correlation and have no significant relationship between cash and bank balance and current liabilities.

4.7 Test of Hypothesis

Hypothesis test is one of the important applications of statistical interference in decision making. In hypothesis test, an assumption is made about the population parameter. To test whether the assumption or hypothesis is right or not, a sample is selected from the population and sample statistic is obtained. The main goal of hypothesis test is to test the characteristics of hypothesized population parameter based on sample information and whether the difference between population parameter and sample static is significant or not. Smaller the difference, the sample mean is close to hypothesized value and large the difference the hypothesized value has low chance to be correct.

In this study three hypothesis sets are set to identify whether there is significant different or not in (a) composition of working capital management and (b) liquidity position. Here, two complementary are set up at one time i.e. (1) Null hypothesis (H_0) and (2) Alternative hypothesis (H_1). Among these two hypotheses if one is accepted, then the other is rejected and vice versa.

Hypothesis 1

$H_{0:}$ There is no significant difference in composition of working capital among NABIL, NIBL and SCBNL.

$H_{1:}$ There is significant difference in composition of working capital among NABIL, NIBL and SCBNL.

Hypothesis 2

$H_{0:}$ There is no significant difference in liquidity position among NABIL, NIBL and SCBNL.

H_1: There is significant difference in liquidity position among NABIL, NIBL and SCBNL.

Since three banks are taken into consideration as samples in this study, F- test is applied to test the validity of our assumptions. For applying F- test in the contest of small sample, the f value is calculated first and compared with the table value of F at a 5% level of significance for given degree of freedom. If calculated value is greater than tabulated value, the null hypothesis is rejected i.e. the difference is significant at 5% level of significance. But if F is less than the conserving table value of F the null hypothesis is accepted i.e. the difference is not significant. For the computation of value F, analysis of variance (ANOVA), a statistical tool is used. It is powerful statistical technique for the tests of significance to evaluate difference between two variables. For the test of hypothesis one-factor analysis of variance is used.

4.7.1 Composition of Working Capital

The composition of working capital of sample banks i.e. NABIL, NIBL and SCBNL are tested as follows by formulating null and alternative hypothesis.

Null Hypothesis

H_0: There is no significant difference in composition of working capital among NABIL, NIBL and SCBNL.

Alternative Hypothesis

H_1: There is significant difference in composition of working capital among NABIL, NIBL and SCBNL.

The following table shows the mean value, calculated F value and tabulated F value to measure the composition or structure of working capital management of sample banks.

Table 4.25

Alternative Hypothesis

Working Capital	NABIL (Mean)	NIBL (Mean)	SCBNL (Mean)	Calculated F- value	Tabulated F-Value	Decision
Cash & bank balance	6.20	12.91	7.00	10.08	3.89	H_0 reject
Money at call or short notice	4.12	0.36	6.99	16.11	3.89	H_0 reject
Loan and advance	68.45	74.60	42.73	69.86	3.89	H_0 reject
Government securities	19.15	11.36	35.34	15.01	3.89	H_0 reject
Misc. current assets	2.08	0.76	2.53	6.63	3.89	H_0 reject

Sources: Appendix 17, 18, 19, 20 and 21

The above table 4.25 shows the mean, F value decision of sample banks.

A. Cash and Bank Balance

The sample banks' (NABIL, NIBL and SCBNL) cash and bank balance mean values are 6.20, 12.91 and 7.00. Their calculated F (2, 12) value is 10.08 and tabulated F – value at 5% level of significant for (2, 12) is 3.89 i.e. $F_{0.05}$ (2, 12) equal to 3.89. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

B. Money at Call or Short- notice

The sample banks' (NABIL, NIBL and SCBNL) money at call or short notice mean values are 4.12, 0.36 and 6.99. Their calculated F (2, 12) value is 16.11 and tabulated F-value at 5% level of significant for (2, 12) is 3.89 i.e. $F_{0.05}$ (2, 12) equal to 3.89. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

C. Loan and Advances

The sample banks' (NABIL, NIBL and SCBNL) loan and advances mean values are 68.45, 74.60 and 42.73. Their calculated F (2, 12) value is 69.86 and tabulated F- value at 5% level of significant for (2, 12) is 3.89 i.e. $F_{0.05}$ (2, 12) equal to 3.89. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

D. Government Securities

The sample banks' (NABIL, NIBL and SCBNL) government securities mean values are 19.15, 11.36 and 35.34. Their calculated F (2, 12) value is 15.01 and tabulated F- value at 5% level of significant for (2, 12) is 3.89 i.e. $F_{0.05}$ (2, 12) equal to 3.89. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 rejected.

E. Miscellaneous Current Assets

The sample banks' (NABIL, NIBL and SCBNL) miscellaneous current assets mean values are 2.08, 0.76 and 2.53. Their calculated F (2, 12) value is 6.63 and tabulated F-values at 5% significance level for (2, 12) is 3.89 i.e. $F_{0.05}$ (2, 12) equal to 3.89. Since, the calculated value of F is greater than tabulated value of F, there is significant difference and H_0 rejected.

It is concluded that the sample banks' cash and bank balance, money at call or short notice, loan and advance, government securities and miscellaneous current assets are significantly different. There is significant difference in composition of working capital among NABIL, NIBL and SCBNL.

4.7.2 Liquidity Position

The liquidity position of sample banks i.e. NABIL, NIBL and SCBNL are tested as follows by formulating null and alternative hypothesis.

Null Hypothesis

H_0: There is no significant difference in liquidity position among NABIL, NIBL and SCBNL.

Alternative Hypothesis

H_1: there is significant difference in liquidity position among NABIL, NIBL and SCBNL.

The following table shows the mean value, calculated F value and tabulated F value to measure the liquidity position of working capital management of sample banks.

Table 4.26

Liquidity Position

Ratios	NABIL (Mean)	NIBL (Mean)	SCBNL (Mean)	Calculated F- value	Tabulated F- Value	Decision
Current Ratio	1.00	1.02	0.92	1.57	3.89	H_0 accept
Quick Ratio	0.26	0.22	0.41	45.68	3.89	H_0 reject

Sources: Appendix 22 and 23

The above table 4.26 shows the mean, F value decision of the sample banks.

A. Current Ratio

The sample banks' (NABIL, NIBL and SCBNL) current ratio mean values are 1.00, 1.02 and 0.92. Their calculated F (2, 12) value is 1.57 and tabulated F- value at 5% level of significant for (2, 12) is i.e. $F_{0.05}$ (2, 12) equal to 3.89. Since, the calculated value of F is less than tabulated value of F, there is no significant difference and H_0 is accepted.

B. Quick Ratio

The sample banks' (NABIL, NIBL and SCBNL) quick ratio mean values are 0.26, 0.22 and 0.41. Their calculated F (2, 12) value is 45.68 and tabulated F- value at 5% level of significant for (2, 12) is 3.89 i.e. $F_{0.05}$ (2, 12) equal to 3.89. Since, the calculated value F is greater than tabulated value of F, there is significant difference and H_0 is rejected.

It is concluded that the sample banks' current ratio is not significantly different. But quick ratio is significantly different. Although, it is concluded that there is significant difference in liquidity position of NABIL, NIBL and SCBNL.

4.8 Major Findings of the Study

The major findings of this study during the period of five fiscal years i.e. 063/64 to 067/68 are summarized as follow.

1. The average major components of the current assets i.e. cash and bank balance, money at call or short notice, loan and advance, government securities and miscellaneous assets are 6.20%,4.12%,68.45%,19.15% and 2.08% on NABIL;

12.91%,0.36%, 74.60%, 11.36% and 0.76% on NIBL and 7.00%,6.99%, 42.73%, 35.34% and 2.53% on SCBNL respectively. It shows that the average cash and bank balance and loan and advance percentages are higher in NIBL. Money at call or short notice, government securities and miscellaneous assets are higher in SCBNL.

2. The liquidity positions of the sample banks are analyzed with the current ratio and quick ratio. The average current ratio of NABIL, NIBL and SCBNL are 1.00, 1.02 and 0.92 respectively. Similarly, average quick ratio of NABIL, NIBL and SCBNL are 0.26, 0.22 and 0.41 respectively. NIBL has highest current ratio and SCBNL has highest quick ratio.
3. Trend analysis:

- Trend value of NIBL is always higher than NABIL and SCBNL of the study period due to high cash and bank balance percentage. Therefore, trend value of cash and bank balance of NIBL shows that the bank has maintained constant balance.
- Trend value of SCBNL is always higher than NABIL and NIBL of the study period due to high money at call or short-notice. Therefore, trend value of money at call or short-notice of SCBNL shows that the bank has maintained constant balance.
- Trend value of NIBL is always higher than NABIL and SCBNL of the study period due to high loan and advance percentage. Therefore, trend value of loan and advance of NIBL shows that the bank has maintained constant balance.
- Trend value of SCBNL is always higher than NABIL and NIBL of the study period due to high government securities percentage. Therefore, trend value of government securities of SCBNL shows that the bank has maintained constant balance.
- The trend value of NIBL is always higher than NABIL and SCBNL of the study period due to high current assets. Therefore, trend value of current ratio of SCBNL shows that it is always better than NABIL and NIBL so the SCBNL has better liquidity position in comparison to other sample banks.

- The trend value of SCBNL is always higher of the study period due to high quick assets. Therefore, trend value of quick assets ratio of SCBNL shows that it is always better than NABIL and NIBL so the SCBNL has better liquidity position in comparison to other sample banks.

4. Correlation between government securities and total deposit of sample banks is not significant; it shows that there is not close relationship between two variables. But there is highly significant correlation between loan and advance and total deposit of NABIL, NIBL and SCBNL. The banks have better utilization of their loan and advance and total deposit. There is positive correlation between cash and bank and current liabilities and highly significant in NABIL, NIBL and SCBNL. Therefore, the banks have been better utilization of their cash and bank balance and current liabilities.
5. From the above calculation of hypothesis, the composition of working capital are cash and bank balance, money at call or short notice, loan and advance, government securities and miscellaneous current assets are significantly different. There is significant difference in composition of working capital among NABIL, NIBL and SCBNL. Since, the mean value of loan and advance on total current assets of sample banks are significantly high and invest their fund in income generating sectors.
6. From the calculation of hypothesis, liquidity position of the sample banks' current ratio is not significantly different. But quick ratio is significantly different in liquidity position of NABIL, NIBL and SCBNL. The mean value of current ratio of NIBL is higher than NABIL and SCBNL but quick ratio of SCBNL is higher. However, liquidity position of SCBNL is better.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter explains the summary of whole study, major findings, conclusion of the study and forwards the applicable recommendations for better and efficient management of working capital management of sample banks. The main purpose of this study is to make familiar about the working capital management as well as financial performance of NABIL, NIBL & SCBNL to the reader and interested person.

5.1 Summary

Nepal is a landlocked and least developed country. The reason behind Nepal's underdeveloped economy is not due to lack of resource but due to not proper utilization of the available resources, even though the process of economic development depends upon various factors. So, for the rapid economic development in the underdeveloped countries like Nepal there should be proper utilization of resources. Financial system plays an important role in allocating resources in productive sectors and helps increase income and employment in an economy. Bank is the main financial institution which plays an important role in the economic development of the nation. A bank collects deposit from different individuals and institutions and collected deposits are mobilized by giving loans to different industries, commercial enterprises, individuals, etc. In this process, joint venture banks are putting their best effort. Such banks help to transfer foreign investment and advanced technology from one country to another country. Nepal has adopted liberal and free economic policy to encourage such foreign investment in banking sectors.

The main objective of the study was to study and analyze of the working capital management as well as financial performance of the selected joint venture banks i.e. NABIL, NIBL & SCBNL. Most of the financial decisions of the banks are concerned with the current assets and current liabilities. Working capital management is concerned with current assets and current liabilities. Generally, working capital refers to the

difference between current assets and current liabilities. So, working capital management is one of the important factors of decision making, related to short-term financing.

To make this thesis more understandable to the interested party, available data and information are presented in different tables and diagram with appropriate analysis and interpretations. This thesis work has been divided into five chapters. They are introduction, review of literature, research methodology, presentation and data analysis and finally summary, conclusion and recommendation.

To carry out thesis work secondary data have been used. The necessary data are derived from the balance sheet and profit and loss account of NABIL, NIBL and SCBNL. Only five fiscal years data i.e. 2063/64 to 2067/68 is taken as sample.

To fulfill the objective of this study and specific objective which is described in chapter one, an appropriate research methodology has been developed which includes the ratio analysis as financial tools and trend analysis, correlation coefficient and test of hypothesis as statistical tools. The major ratio analysis consists of the composition of working capital position, liquidity position and turnover position. To test the relationship between various components of working capital, Karl Pearson's correlation coefficient r is calculated and analyzed. Some null hypothesis is set, calculated and tested the validity by using f- test.

5.2 Conclusion

Working capital components of the sample banks are fluctuating all over the study period. Cash and bank balance, money at call or short notice and miscellaneous current assets cover the small portion of the total current assets. Loan and advance and government securities cover huge portion of total current assets. NIBL invests more in loan and advance to earn more income than other. SCBNL invests more in government securities to earn more as secured income. It is found that SCBNL segregates its fund in working capital more efficiently.

All three banks have almost similar current ratio but SCBNL has highest quick ratio than NABIL and NIBL. SCBNL is unable to meet the standard although it is better than other banks. However, the sample banks are efficient in the management of the funds but failed to maintain minimum required level of the liquidity. So, the liquidity position of the SCBNL is better than NABIL and NIBL. Over all study of the working capital management of the sample banks are sound and manageable. SCBNL is in the first rank, and NIBL and NABIL are in the second and third respectively.

5.3 Recommendations

On the basis of analysis and major findings of the study following recommendations are made:

- SCBNL segregates very low portion in the loan and advance, so it is unable to maximize the shareholders' value. SCBNL should increase loan and advance portion from 42.16% to 75%. The bank should improve its current investment policy about loan and advance.
- All the sample banks' liquidity position is not good. Their current and quick ratio are lower than normal standard. So they have faced liquidity problem for last years. It is better, as soon as the SCBNL, NABIL and NIBL try to maintain the standard by increasing current and quick assets.
- By adopting the matching working capital management policy instead of adopting conservative policy these banks can improve their profitability in the short as well as in the long run.
- All of three banks need to utilize the outsiders as well as insiders fund effectively and efficiently in order to keep all the stakeholders happy.
- As the services of these banks have been limited to urban and semi urban regions of the nation, they should initiate some measures to widen their reach to the people of rural areas.
- These banks should also focus on research and development activities in order to retain and keep their position up, as more and more players are entering into the limited market of banking industry of Nepal.