

Chapter – 1

Introduction

1.1 Background of the Study

The growth of banking in Nepal is not so long in comparison with other developed or developing countries. Nepal had to wait for a long time to come to the present banking system. The development of any country cannot be imagined without economic activities. The development of the banking system is one of the grounds for economic development. So we should take a bank as strong means for the economic development. The development of a bank is interwoven with the development of a person, a society and a nation. It is impossible to fulfill the needs without bank whether it is inside the nation or in foreign country whether it is individual development or business and whether it is the people or the government. So to solve the problems relating to economic development, development of banking system is necessary.

Like goldsmith, merchants and moneylenders were the ancient bankers of Nepal. Tejarath Adda established during the tenure of the prime minister Randodipp Singh (B.S. 1933) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but gave loans to employees and public against the bullion.

Banking in modern sense started with the inception of Nepal bank limited (NBL) on B.S. 1994-07-30. NBL had a Herculean responsibility of attracting people toward banking sector from predominant money-lenders net and of expanding banking services. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branch at urban centers.

Government however had onus of providing banking services to the nook and corner of the country and also managing financial system in a proper way. Thus Nepal Rastra Bank (NRB) was set up on B.S. 2013-01-14 as a central bank under Nepal Rastra Bank Act 2012 B.S. Since then it has been

functioning as the government's bank and has contributed to the growth of financial sector.

Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corner of the country. Keeping this in mind, government set up Rastriya Banijiya Bank (RBB) in B.S 2022-10-10 as fully government owned commercial bank.

The commercial bank had to carry out the functions of all the type of financial institution such as to improve people's economic welfare and facility to provide loan to offer banking services to the people and the country. Hence, industrial development center (IDC) was set up in 2013 for industrial development in 2016. IDC was converted to Nepal Industrial development Corporation (NIDC). Similarly, agricultural development Bank (ADB) was established in B.S. 2024 – 10 – 07 to provide finance for agricultural products so that agricultural productivity could be enhance by introducing modern agricultural techniques. Moreover, security exchange center was established in 1976 to enhance capital markets activities. Securities exchange center was renamed Nepal stock exchange (NEPSE) in 1933.

With the establishment of RBB and ADB, banking services spread to both urban and rural areas to help the common people to reduce their burden of paying higher rate of interest to moneylenders and absolved them from kowtowing before moneylenders. It is natural expectations of customers keep on increasing. Once they got banking services, they were expecting improvement and efficiency. However, excess political and bureaucratic interference and absence of modern managerial concept in these institutions was hurdle in this regard. Banking services to the satisfaction of customers was a far cry. The inception of Nepal Arab Bank Limited (Renamed as Nabil Bank Limited) in B.S. 2041-03-29 as a first joint venture bank proved to be milestone in the history of banking which gave a new ray of hope to the sluggish financial sectors.

After that a number of joint venture commercial banks is established. These are Standard Chartered Bank Ltd, SBI Bank Ltd, Nepal Bangladesh Bank Ltd, Nepal Credit and Commercial Bank Ltd, Nepal Industrial and

Commercial Bank Ltd. Machhapuchchre Bank Ltd, Laxmi Bank Ltd, etc. These banks are playing a great role for the economic development of the country directly or indirectly.

These joint venture banks launched its operation with marketing concept i.e. customer is the king in the market they started knocking the doors of the customer breaking then the trend of knocking the door of a bank by a customer.

A customer is the most important visitor on our premises. He does not depend on us. We are dependent on him. He is not an interruption on our business. He is purpose of it. He is not an outsider on our business. He is a part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so.

Working capital is a controlling nerve of center of every business organization because no business can run smoothly without the proper control upon it. Thus, it plays the crucial role in the success and failure of the organization. As the management of current assets and current liabilities of the business organization is necessary for day-to-day operations, it plays the key role in the success and failure of the organization not only in the short run, in the long run also. In the concern of the management of working capital there have been made number of studies from different management experts and students in various enterprises.

The management of working capital plays a vital role for exiting of any public enterprises successfully while studies it. It is the centers on the routine day-to-day administration of current assets and current liabilities. Therefore working capital management in public enterprises is very important mainly for four reasons. Firstly, public enterprises must need to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidity base. Secondly, they must select the type of current assets, suitable for investment so as to raise their operational efficiency. Thirdly they are required to ascertain the turnover of current assets, which determine profitability of the concerns. Lastly, they must find out the appropriate source of funds of finance current assets.

1.2 High Light of Bank

Bank is a commercial institution, licensed to accept deposits and acts as a safe custodian of the spendable funds of its customers. Banks are concerned mainly with functions of banking i.e. receiving, collecting, transferring, buying lending, investing, dealing, exchanging and servicing (safe deposit, custodianship, agency, trusteeship) money and claims to money both domestically and internationally. The principal activities of a bank are operating current accounts, receiving deposits, taking in and paying out notes and coins and making loans.

Bank is a financial institute where the money is deposited and supplied to the needy person for their different transaction who comes in the bank to fulfill their requirement of cash. So, we can say the main game of the play is to play with money and through it generates profit. Actually, the bank collects money from general public by attracting them with sound interest rate in their deposit. Through the money they have collected from the public they provide loans to the business house, industry and needy people etc. Now a day Bank also provides education and property loans. The bank charges the different interest rate, highly for loan and low for depositors. So, the difference gives actual profit. Just by collecting cash from saver and providing loans to the investor, we can say that actually the bank acts as an agent between the saver and the investor.

Banking activities undertaken by banks include personal banking (non-business customers), commercial banking (small and medium sized business customers) and corporate banking (large international and national corporations).

According to Charles J. Woelfel

A complete banking services would comprehend a variety of functions include any of the followings.

- i) Receive demand deposits and pay customer's cheque drawn against them and operate automated teller machine (ATM).

- ii) Receive times and saving deposits, issue negotiable orders of withdraw and pay interest thereon, as well as provide automatic transfer service (ATS) for funds from serving accounts to cover cheques.
- iii) Discounts notes, acceptances and bills of exchange.
- iv) Supply credit to business firms with or without security, issue letter of credit and accept bills drawn there under.
- v) Transfer money at home and aboard.
- vi) Make collections and facilitate exchanges.
- vii) Issue drafts, cashier's cheque, money order and certify cheques.
- viii) Function safe deposit vault services.
- ix) Provide custodianship for securities and other valuables.
- x) Provide personal loans, credit and services to individuals and lend on discount customer installment receivables of vendors.
- xi) Act in a fiduciary capacity for individuals, as well as establish trust funds.
- xii) Provide corporate trust services (stock transfer agent register, paying agents, and escrow agent and indenture trustee)
- xiii) Act in factors and engage in equipment leasing.
- xiv) Deal in government securities and underwrite general obligations of state and municipal securities.
- xv) Invest in government and other debt securities.
- xvi) Act as fiscal agent or depository for the central government, state and subsidiary of states.

Without bank it would be quite impossible for the industrial list and entrepreneurs to go directly to general public for getting they're saving for investment. So, the simplest definition is that, bank takes the saving of the public by providing them with certain rate of interest & loans it to needy customers charging them certain rate of interest and earns some profit by doing

this inter-mediation. This is the broadest form of banking but in this age banking is such a vague term. It does a lot more than deposits and credits. Remitting of money, issues of the money, guarantee, letter of credit, controlling monetary activities of country etc, are also major function of the bank. Bank as an institution originated from Italy. The bank of Venice, established in 1157 AD, was the first bank in the world. Therefore, the word bank also from Italian word 'bank' where means accumulative of money or stock. The second bank was Bank of Barcelona of Spain established in 1844 AD.

The history of modern banking business in Nepal is very short, less than half century. If we try to see the history of banking transaction in depth, evidence of money lending function are found in practice before 8th century. In 732 AD, Gunakama Dev the ruler of Kathmandu contracted Kathmandu town by collecting fund from people. Towards the ends of 14th century "Tankadhari" the moneylender, was the owner of the monetary transaction. Due to the lots of convenience brought by money lender, during the period of Prime Minister Rana (1877-1885) established "Tezarth Adda" a financial institute which supply credit at 5% rate of interest against security of gold, silver and ornaments. The main objective of this institution was to free the people from moneylender exploitation Nepal in developing country. In the history of Nepal to solve this problem, for the first time commercial bank was established in 1983 AD. Nepal Rastra Bank came into existence as a central bank. The commercial bank "Rastriya Banijya Bank" was established in July 23rd 1966 A.D. The purpose of this bank is also to provide facilities for the economic welfare of the general public.

In our country, apart from local commercial banks, a board of joint venture bank entered with the view to accelerate the pace of development of nation. At present there are many joint venture banks, which are running successfully in a competitive environment. His Majesty Government deliberate policy of allowing foreign joint venture banks to operate in Nepal basically targeted to encourage local traditional commercial bank to enhance their capacity through competition efficiency, mechanization and modernization is of computerization and promote customer services.

1.1.1 Commercial Banks in Nepal

Although bank can be categorized into different types on the basis of the function, objective etc, the word "Bank" will always be synonymous with the commercial bank and its functions. Basically, the functions of commercial bank all over the world are the same. Basic functions are various types of deposit facilities namely, current, saving and fixed, safety of public money, remittance of money, guarantee, locker facility loans serving as agent of client, foreign exchange, travel cheque etc. the commercial banks of Nepal also so all these functions.

Mainstream function of commercial banks remains the mobilization of otherwise rigid and scattered saving of public for providing credit to needy firms, industries or people to get productive use. All other function can be said as ancillary function.

Commercial bank is a profit oriented financial service institution. Certain rate interest is given to the depositors. Therefore the bank charges certain rate or interest in the loan facility.

From the view point of function, the Commercial Bank Act 2031 B.S. defines it as a "A commercial bank is that bank which exchange money, accepts deposits, grants loans and performs banking functions."

Basic sources funds for commercial banks are capital (Funds from shareholders), servers (retained profit) and various types of deposits. Basic uses of funds are loans, advance and investments.

Obviously now in Nepal, banks and financial institutions have started to grow considerably and getting concentrating on both off-balance sheet and on-balance sheet activities. The history of modern banking starts after the establishment of Nepal bank limited in 1994 B.S. up to mid-June 2007 all together 23 commercial banks are in operation in Nepal and some other commercial banks are coming in to operation in near future besides these, 38 development banks including regional development banks, 73 finance companies, 11 micro finance institutions, 17 NRB licensed cooperatives (undertaking limited banking transactions) and 47 NRB licensed non

government organizations undertaking micro finance transactions) are actively participating in the financial markets of Nepal.

At the present there are 25 commercial banks in Nepal. They are listed below:

S.N	Date of Operation	Name Of Banks	Central Office
1	1994/07/30	Nepal Bank Limited	Dharmapath, Ktm
2	2022/10/10	Rastriya Banijya Bank	Singh Durbar, Ktm
3	2024/11/07	Agricultural Development Bank Nepal	Ramshahapath, Ktm
4	2041/03/29	Nepal Arab Bank Limited	Kantipath, Ktm
5	2042/11/26	Nepal Investment Bank Ltd.	Durbarmarg, Ktm
6	2043/10/16	Standard Chartered Bank Nepal Ltd.	Newbaneshwore, Ktm
7	2049/10/05	Himalayan Bank Limited	Thamel, Ktm
8	2050/02/23	Nepal Bangladesh Bank Ltd.	Newbaneshwore, Ktm
9	2050/03/23	Nepal SBI Bank Limited	Hattisar, Ktm
10	2051/07/01	Everest Bank Limited	Lazimpat, Ktm
11	2051/11/28	Bank Of Kathmandu Ltd.	Kamaladi, Ktm
12	2053/06/28	NCC Bank Limited	Siddharthanagar, Rupandehi
13	2055/04/01	Lumbini Bank Limited	Narayangadh, Chitwan
14	2055/04/05	NIC Bank Limited	Biratnagar, Morang
15	2057/06/07	Machhapuchhre Bank Ltd.	Prithivichowk, Pokhara
16	2057/12/21	Kumari Bank Limited	Putalisadak, Ktm
17	2058/12/21	Laxmi Bank Limited	Adarshanagar, Birjung

18	2059/09/09	Siddhartha Bank Limited	Kamaladi, Ktm
19	2063/09/18	Global Bank Limited	Parsa, Birjung
20	2064/01/07	Citizens Bank International Ltd.	Kamaladi, Ktm
21.	2064/06/07	Prime Commercial Bank Ltd	New road Ktm.
22	2064/06/25	Bank of Nepal Ltd.	Tripureshowar, Ktm
23	2064/06/25	Sunrise Bank Ltd.	Gairidhara, Ktm
24	2053/08/11	Nepal Merchant Bank Ltd.	Babarmahal, Kathmandu
25	2057/09/07	Development Credit Bank Ltd.	Kamaladi, Kathmandu

Source: Nepal Rastra Bank, 2065

1.1.3 Profile of Everest Bank Limited

Everest Bank Limited was established in 1992 AD, under the company Act. It is also a foreign joint venture bank and the foreign partner was United Bank of India Ltd. and was managed from the very beginning till Nov. 1996.

Everest Bank Limited started its Operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 22 branches. This bank was established as a joint venture bank with Punjab National Bank with 20% share holding. The Punjab National Bank is one of the largest nationalized banks in India having 112 years of banking history. Punjab National Bank is a technology driven bank serving over 35 billion customers through a network of over 4500 branches spread all over the country with a total business of around INR 2178.74 billion. Everest Bank has recognized the value of offerings a complete range of services and has pioneered in extending various customer friendly products such as home loan, education loan, EBL flexi loan, EBL property plus (future lease rental), Home equity loan, vehicles loan, Loan against share, loan against life insurance policy and loan for professional.

Everest Bank Limited was the first bank to introduce Any Branch Banking System (ABBS) in Nepal. All the branches of the bank are connected with ABBS which enables the customers to do all their transactions from any branches other than where they have their account. Everest Bank has introduced the Mobile Vehicle Banking System to see the segment deprives of proper banking facilities through Birtamod branch, which is the first of its kind.

Present Capital Structure of EBL

Present Capital structure of Everest Bank Limited

Share Capital & Reserves	Amount in NRs.
Authorized Capital	1,00,00,00,000
Issued Capital	72,98,00,000
Paid up capital	51,80,00,000

Source: Annual Report of Everest Bank Ltd., 2007

Promoters/Shareholders

Share Holding Pattern [In Percent]

Subscription	% Holding
Promoter share holders	50 %
Punjab National bank	20 %
General public	30 %
Total	100 %

Source: Annual Report of Everest Bank Ltd., 2007

1.1.3 Profile of Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited (earlier known as Nepal Grindlays Bank Ltd.) came into existence in 2043(1987) as a joint venture between ANZ Grindlays and Nepal Bank Ltd. After acquiring of the Grindlays operation in the region by standard chartered in July 2001, it has become a subsidiary of Standard Chartered London, which holds 75% of shareholdings in the company with remaining 25% held by the public shareholders.

The bank has successfully completed 20yrs of its operation in Nepal in January 2007. The global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking in Nepal. With 15 points of representation and 16ATMs across the kingdom and with around 350 local staffs, SCBNL is in a position to serve its customers through a large domestic network.

The Bank believes- “A satisfied customer is our most valuable Award”. The Bank has been the pioneer in introducing ‘customer focused’ products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the ‘Know Your Customer’ procedure on all customer accounts.

Present Capital Structure of SCBNL

Present Capital Structure of SCBNL

Share Capital & Reserves	Amount in NRs.
Authorized Capital	1,000,000,000
Issued equity capital	500,000,000
Paid up equity Capital	413,254,800

Source: Annual Report of SCBNL., 2007

Promoters/Shareholders

Share Holding Pattern [In Percent]

Standard chartered Gridley's bank Australia	50%
Standard Chartered Gridley's bank UK	25%
General Public	25%
Total	100%

Source: Annual Report of SCBNL., 2007

1.2 Statement of the Problem

A sound management of working capital with wide spread of branches throughout the country, investment of assets, capital and liabilities to fulfill the commerce trade and business. Industry and agriculture needs of the country are of crucial importance for Nepal. It can be visualized that the banking development in Nepal is got in its impact stage. So we have to go still a long way to make the country rich with a sound and modern banking system.

In the light of the very facts commercial banks are the backbone of the country. It is highly useful to make the present study on Everest Bank Limited and Standard Chartered Bank Limited.

Working capital management can be evaluated by how to manage the assets and capital fund, which is the best sector to invest and how to run the banking sector. The present study will try to analyze and examine the liquidity, profitability, debt management with financial performance in these banks. Without proper working capital management of any business cannot run in right way. They cannot achieve their objectives.

In this study, following issues are to be dealt for the purpose of this study:-

1. How are the sources of funds created and mobilized?
2. What is the comparative (year-wise) working capital position of Selected Bank?

3. Whether the size, liquidity, efficiency and profitability of working capital in selected banks is adequate or not?
4. Whether the banks have developed and applied short term and long-term objectives?
5. Do they have specific goals to develop to nation?

1.3 Objective of the Study

The basic objectives of the present study are to highlight the working capital management and its effectiveness in Nepalese Commercial Banks especially in both selected banks. The present research will try to fulfill the following specific objectives.

- a) To evaluate working capital of the banks and analyze their assets structure and their implications.
- b) To analyze of working capital trend position of selected Bank.
- c) To analyze the financial position of these selected banks by using different tools and techniques.
- d) To shed light on creation and mobilization of fund in EBL and SCBNL.
- e) To find out suggestions and recommendations on the basis of their applied system and financial position.

1.4 Significance of the Study

Working capital is regarded as the life blood for any enterprise because it is needed for sustaining the enterprise in day operation. If the business cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even push into bankruptcy. So the goal of working capital management is likely to become management is to manage the firm's current's assets and current liabilities in such a way that a satisfactory level of working is maintained. "Survey indicates that the largest portion of most financial

managers' time is devoted to the day to day internal operations of the firm which fall under the heading of working capital management." Very few studies have been performed on the financial performance of EBL and SCBL but no one has studied typically on its working capital management. Different researchers have written their dissertations on working capital management, however almost all of them are related to financial sectors and does not address the real situation of service sector public enterprises like EBL and SCBL. It is thus clear that no full-fledged academic research study on working capital management in selected banks i.e. Everest Bank Limited and Standard Chartered Bank Limited have been carried out. The present study, therefore, bridges this long felt gap in the field or research. This is only a beginning and it could be further developed continued research in this field.

1.5 Limitations of the Study

Although there are several joint venture commercial banks in Nepal but the study has been confined to Nepal investment bank Ltd. and Himalayan Bank Ltd. Only the main limitation of the study is as follows.

- i. The study concerns the analysis of only 5 years data.
- ii. The study is only concentrated in working capital management and their financial performance of the selected banks.
- iii. The study is based on primary and secondary data. Therefore, the accuracy of the result depends on the accuracy of the data provided by the selected banks.
- iv. Time and resource constrains may limit the areas covered by the study.
- v. The limit time available to submit the thesis for the partial fulfillment of MBS in the main constraints of the study.

1.6. Organization of the Study

The whole study is divided into five main chapters. The first chapter presents of introduction, statement of the problems, and objective of the study, scope of the study and limitation of the study.

The second chapter presents of review of literature. Review of related material like previous thesis, browser booklets, journals, articles and report, magazines etc will be done

The third chapter presents of research design, nature and source of data, method of data collection and method of analysis under research methodology.

The fourth chapter presents the collected data will be tabulated and analyzed by using various financial tools, mathematical and statistical tools under data presentation and analysis.

The fifth chapter presents of the brief summary of whole research report and conclusions. Its also provides some useful suggestion and recommendations to concerned parties.

CHAPTER-II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the topic **“Working Capital Management of Commercial Banks in Nepal.”** Every study is very much based on past knowledge. The previous study cannot be ignored because they provide the foundation to the present study. There must be continuity in research. This continuity in research is ensured by linking the present study with past research studies. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously.

2.1 Conceptual Review

2.1.1 Concept of Working Capital

Working capital is refers to the firm, short-term current assets and liabilities working capital is defined as all short-term asset used in daily operation. They consist primarily of cash, marketable securities, account receivable and inventories. Working capital is characterized by asset with a life span that is less than one year. Cash, marketable securities, account receivables and inventory have a life span of less than one year. It is also characterized by its nearness to cash or liquidity the finished good, inventory when sold is converted in to account receivable. Receivable on collection are transferred into cash the level of investment in working capital is affected by sales volume, production policies and collection polices.

Working capital is a controlling nerve of center of every business organization because no business can run smoothly without the proper control upon it. Thus, it plays the crucial role in the success and failure of the organization. As the management of current assets and current liabilities of the business organization is necessary for day-to-day operations, it plays the key

role in the success and failure of the organization not only in the short run, in the long run also. In the concern of the management of working capital there have been made number of studies from different management experts and students in various enterprises.

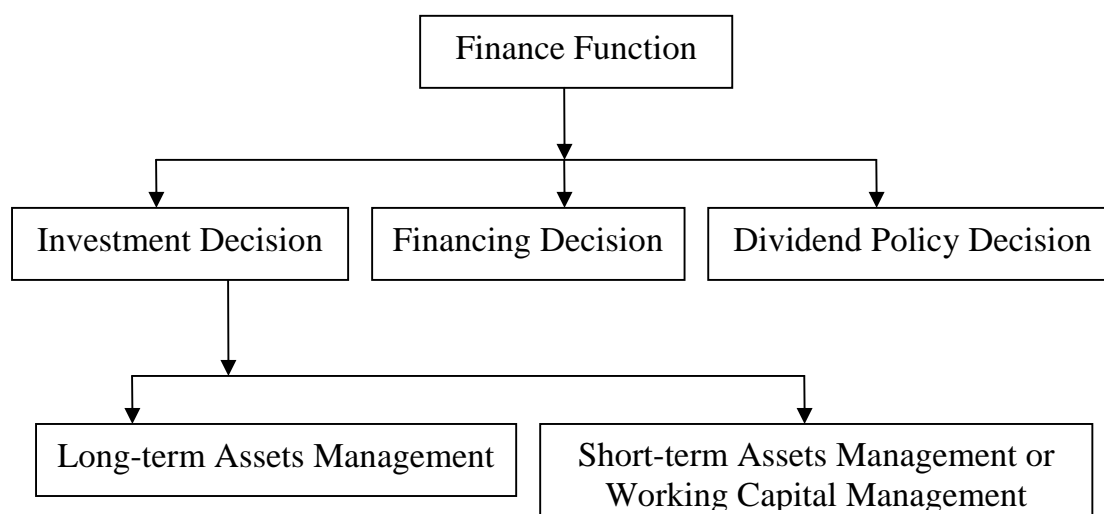
Every commercial bank needs various types of assets in order to carry out its function without any interruption. They are fixed and current assets. Some fixed assets have physical existences and are required to producing goods and services over long period. This type of fixed assets is called tangible fixed assets. It includes land, building, plant, machinery, furniture, and so on. But some other fixed assets do not generate goods and services directly. However, it reflects the right of the firm. It is called intangible fixed assets. It represents patents, copyrights, trademarks, and goodwill. Both fixed assets are written off over a period off time. Current assets are those resources of the firm, which are either held in the form of case or expect to be converted into cash with in an operating cycle of the business. It includes, cash, marketable securities, account receivable, stock of raw materials, work-in-progress, and finished goods. Among these, some assets are required to meet the need of regular production and some for day-to-day expenses and short-term obligations. Current liabilities are those claims of outsiders, which are expecting to be matured with in an accounting year. it includes; creditors, bill payable and outstanding expenses.

2.1.2 Working Capital Management

The management of the funds of business can be described as financial management. Financial management is mainly concerned wit two aspects. Firstly, fixed assets and fixed liabilities, in other words, long-term investment and sources of funds, secondly, current uses and sources of funds. Both of these types of funds play a vital role in business finance. Normally, the finance function can be divided policy decision. But the must important decision for business is investment decision it include the long-term assets management and short term assets management i.e. working capital management.

Figure 1

Working Capital Management as a Finance Function



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

Working capital refers to the resources of the firm that are used to conduct operations of day to day work that makes the business successful. Without cash, bills cannot be paid, without receivable the firm can not allow timing different between delivering goods to services and collecting the money to pay for them, without inventories the firm cannot engage in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets the management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of the firm's those items that can be converted into cash with in the year. Net working capital is defined as the difference between current assets and current liabilities. (Hampton & Wagner, 1989:3-4)

The goal of working capital management is to support the long-term operation and financial goals of the business. In effect, this involves recognizing the relationship between risk and return. Three elements must have included in analyzing the trade off between risk and return when managing

working capital. (i) Insolvency: this condition occurs when a firm can no longer pay its bills and must default on obligations and possibility declares bankruptcy. A firm without adequate level of working capital may have to face this risk. (ii) Profitability of assets: Different level of current assets will have varied effects on profits. A high level of inventory will require high carrying cost. At the same time, the firm will have a wide range of goods to sell and may be able to generate higher sales and profit. Each decision on the level of cash, receivables and inventory should consider the effects to different level. (iii) Cost of financing: When interest rates are high, its costs more to carry inventory than when rates are low. Large cash balance may not earn the return that is possible if the cash is converted into operating assets. The cost of debt and the opportunity costs of alternative investments are items to consider when evaluating working capital level. (Hampton & Wagner, 1989:10)

According to I.M. Pandey, there are two concepts of working capital gross concept and net concept. The gross working capital, simply called as working capital refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within accounting year (or operating cycle) and include cash, short-term securities, debtors, bill receivable and stocks. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year and include creditors, bills payable and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities and a negative net working capital occurs when current liabilities are in excess of current assets. He also added that net working capital concept also covers the question of judicious mix of long-term and short term funds for financing current assets. (Pandey, 1991: 796-797)

$$\text{Net working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

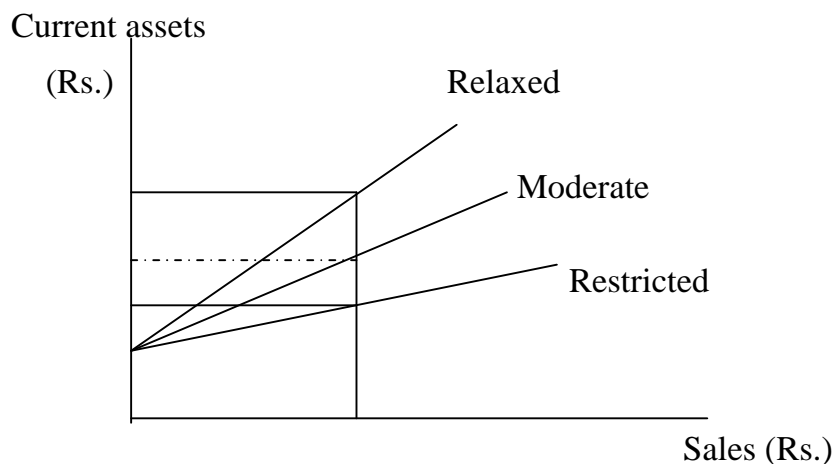
By analyzing the above concept about working capital, we concluded that, all the corporations, whether public or private, manufacturing or non-manufacturing have just adequate working capital to serve in competitive market. It is because excessive or inadequate working capital is dangerous from the firm's point of view. Excessive investment on working capital affects a

firm's profitability just as idle investment, yields nothing. In the same way, inadequate investment on working capital affects the liquidity position of the company and leads to financial embarrassment and failure of the company.

It is therefore, a recognized fact any mistake made in management of working capital can lead to adverse effects in business and reduces the liquidity, turnover and profitability and increases the cost of financing of the enterprises.

2.1.3 Working Capital Investment and Financing Policies

- a) **Conservative policy / Relaxed policy:** Conservative current assets policy carry high levels of current assets to sales, conservative current assets financing invest lower on short-term financing and higher on long-term financing therefore conservative policy lower risk and lower profitability.
- b) **Aggressive policy / Tight policy:** Aggressive current assets policies carry a low level of current assets to sales. Aggressive policies invest more on short term financing and less on long term financing therefore aggressive policy increase the risk and increase the profitability.
- c) **Moderate policy / Average policy:** Moderate current assets policy carries a moderate level of current assets to sales. Moderate policy invests average on short term financing and long term financing. Therefore the moderate policy results in mid rang risk and return.



2.2 Scenario of Commercial Bank

2.2.1 Concept of Commercial Banks

A bank is an institution, which deals in money, receiving it on deposit from customers, honoring customer's drawing against such deposit on demand, collecting cheque for customers and lending or investing surplus deposit until they are required for repayment.

Simply, commercial bank means the bank, which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions. According to Black's Law Dictionary "Commercial bank means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time deposit boxes, and to provide similar services."

According to commercial bank Act 2031 B.S.; "Commercial bank means a bank which operates currency exchange transactions, accepts deposits, provides loan: performs, dealing, relating to commerce except are banks which have been specified for the co-operative, agricultural, industry of similar other specific objectives".

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy with major thrust in industrial development.

Commercial bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing and overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy, intermediation maturity transformation, facilitating payments, flows, credit allocation and maintaining financial discipline among borrowers.

A bank is a business organization that receives and holds deposits of funds from others make loan or extents credits and transfer funds by written order of deposits. (The Encyclopedia America; 1984:302)

Commercial bank is a financial institution which transfers monetary sources to users. In the process of such intermediation, commercial bank deploys funds raised from different sources into different assets with a prime objective of profit generation and administrative assistance.

“The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people.” (Grywinski, Ronald, 1991:87)

These banks are established to improve people’s economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people and the country. It provides internal resources for developing countries economy. It collects diversified capital from different parts of country through its own branches.

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services. (American Institute of Banking, 1972 :345)

Hence, we can conclude from the above that the commercial banks are established under the rules and legislation of the central bank of the country. It has to move as per the directives given by the central banks. Though banks are established for the mobilization of the saved fund, central bank makes certain rules so that the public or the customer of the bank may not undergo loss of their hard-earned money by the disinvestment procedure of the bank.

2.2.2 Activities of Commercial Banks.

Commercial Banks are those financial institutions which deal in accepting deposits of persons and institutions and in giving loans against securities. They provide working capital, which is needed by trade, industry and even to agricultural sectors. Moreover, Commercial Banks also provide technical and administrative assistance to industries, trade and business enterprises. The main purpose of the priority sector investment scheme is to uplift the backward sectors of the economy.

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy with major thrust in industrial development.

Commercial bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing and overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy, intermediation maturity transformation, facilitating payments, flows, credit allocation and maintaining financial discipline among borrowers.

The main activities of commercial bank are as follows:

- i) Accepting various types of deposits from people, institution or company.
- ii) Providing loan to various productive sectors to earn a lot of profit from it.
- ii) Acting as agency functions.
- iv) Providing general utility functions.
- v) Providing overseas trending services.
- vi) Providing information and other services.

2.3 Review of Related Studies

In this section an attempt has been made to review some books on financial management, which deal with the management of working capital.

According to I M Pandey: (1999) “There are specially two concepts of working capital: Gross concept and net concept. The gross working capital simply called as working capital refers to the firm’s investment on current assets. Current assets are those assets which can be converted in to cash with in an according year and included cash, short term securities, debtors, bill

receivable, stock, inventories and pre-paid expenses. The term net working capital refers to the differences between current assets and current liabilities. Current liabilities are those claims of outsiders which can be expected to mature for payment within an accounting year and includes creditors, bills payable, Bank overdraft and outstanding expenses or accrued income. Net working capital can be negative or positive. A negative net working capital occurs when current liabilities are in excess of current assets.”

As per the theoretical concepts of the working capital from James C Van Horne: (2000) “Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivables, inventory and the administration with the problem that arises in attempting to manage the current assets. The current liabilities and the inter-relationship that exist between them.”

In the view of NK Agrawal: (1998) “Working capital management is the effective life blood of any business. Hence the management of working capital plays a vital role for exiting of any public enterprises successfully while studies it. It is centered on the routine day-to-day administration of current assets and current liabilities. Therefore working capital management in public enterprises is very important mainly for four reasons. Firstly, public enterprises must need to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidity base. Secondly, they must select the type of current assets, suitable for investment so as to raise their operational efficiency. Thirdly they are required to ascertain the turnover of current assets, which determine profitability of the concerns. Lastly, they must find out the appropriate source of funds of finance current assets.”

Weston and Brigham (1997) have given some theoretical insights into working capital management after their various research studies on it. The broad conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management working capital in any enterprises and naturally to this study as well. They explain in the beginning, the importance of working capital, the use of short term versus long-term debt, relationship between current assets to fixed assets. The components of working capital they

have deal with current assets, which are, cash, marketable securities, receivable and inventory. For the efficient management of cash, they have explained the different cash management model. They have also explained the major sources and form of short-term financing. Such as trade credit, loan from commercial banks and commercial paper.

According to NK Agrawal: (1998) “proper management of working capital must ensure, adequate amount of working capital as per need of business firms. It should be in good health and efficiency circulated. To have adequate healthy and efficient circulation of working capital it is necessary that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed.”

In the view SC Kuchal: (1996) there are two concepts of thoughts working capital. One school of thought says that working capital is meant for the current assets only. Another school thought argued that working capital is the excess of current assets over current liabilities.

The first school of thought under the sponsorship of mead, baker, malts and field, relates with gross working capital and the second school of thought under the leadership of Lincoln , Doris, Stevens and Sailors, relates with net working capital. The gross working capital refers to the firms’ investment in current assets which includes to the management of cash, inventories and account receivable of the firm while, net working capital refers to difference between current assets and current liabilities.

From the management point of view, gross working capital deals with the problem of managing individual current assets in the day-to-day operation. But having long run view of working capital, we have to concentrate on the net value of current assets, i.e. the operation of current assets, which is constant in short run analysis and decision making but variable and manageable in long run operation. The net concepts of working capital helps the management to look for permanent source for it’s financing since working capital under this approach does not increase with increase in short term borrowing.

According to NK Agrawal: (1998) “Working capital consists broadly at the portion of the assets of the business used in, or related to, current

operational and represented at any one time of the operating cycle by such items as account receivables, inventories of raw materials, stores, work-in-progress and finished goods, bill receivables and cash. Assets of this type are relatively temporary nature, since the invested names are normally capable of being recovered or of being change in form with in a short period of time, and the time element of ultimate recovery depends on the manufacturing cycle as well as sales and collection cycle.”

According to KV Smith: (2001) “Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivable and inventories and the administration of current liabilities. It means the working capital management is concerned with the problems that arise in attempting to manage the assets, current liabilities and the inter-relationship that exist between them.”

Working capital management is the process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. Specially, working capital management requires financial manager to decide what quantities of cash, other liquid assets account receivables and inventory the firm will hold at nay point in time. In additional, financial managers must decide now there current assets are to be financed.

In this section the review of journal/ articles, various published articles by different management expert relating to Working Capital Management.

In this regards, Monohar K. Shrestha, (2047) in an articles has considered ten selected PEs and studied the working capital management in those PEs. He has focused on the liquidity, turnover and profitability position of those enterprises. In this analysis he found that four PEs had maintained adequate liquidity position. Two had excessive and the remaining four had failed to maintain desirable liquidity position. On the turnover side, two PEs had negative working capital, four adequate turnover, one had high turnover and remaining three had not satisfactory turnover on net working capital. He had also found that out of ten PEs six Public Enterprises were operating at losses while only four were getting some percentage of profits. With reference to those finding he had bought certain policy issues such a lack of suitable

financial planning negligence of working capital management, deviation between liquidity and turnover and return on net working capital. To end he had made some suggestive measures to overcome from the above policy issues, identification of needs funds, regular checks of accounts, development of management information system, positive attitude towards risk and profit and determination of right combination of short-term and long term sources of funds to finance working capital needs.

Another observation of twelve selected PEs have been conducted by Monahar K. Shrestha. (2047) In this article he has described the conceptual setting sources of working capital and types of working capital and types of working capital. From the analysis he found that the liquidity position of the selected PEs differ widely in view of the differences is their nature of business. These were also above normal acid-test ratio. While analyzing the turnover of those selected PEs showed wide deviation. Based on the sales value four out of seven PEs had normal inventory turnover, the other three had not been satisfactorily maintained and in some of them inventory had exceeded sales. The collection period relating to the selected PEs exhibited market difference ranging from 32 days to 755 days, the profitability position was analyzed through return on net working capital was positive for eight PEs, negative for two PEs, and rest two had not any return, since they were in establishment phase.

During the analysis the observed some problem like the lack of far sighted liquidity adjustment strategy in most of the PEs no guiding criteria to ascertain the satisfactory malignances of acid-test ratio and working capital needs. Large blocking of capital in inventories and low capacity utilization. All these were due to efficient management of working capital in those PEs.

The next article relating to working capital management published by K. Acharya. He has described the two major problems operational problems and organizational problems regards the working capital management in Nepalese PEs. The operational problem he found listed in the first part are: increase of current liabilities than current assets, not allowing the current ratio relation 2:1 and slow turnover of inventory. Similarly, change in working capital in relation

to fixed capital had very low impacts over the profitability, thin transmutation of capital employed to sales, absent to 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 had never been considered a managerial job.

In the second part he has listed the organizational problems in the PEs. In most of the PEs there is lack of regular internal and external audit system as well as evaluation of financial results. Similarly very few PEs have been able to present their capital requirement, functioning of finance department is not satisfactory and some PEs are even facing the under utilization of capacity.

To make an efficient use of funds for minimizing the risk of the loss to attain profit objectives, he has made some suggestion. The PEs should avoid the system of crisis decision which prevailed frequently in their operation, avoid fictitious holding of assets, the finance staff should be acquainted with the modern scientific tools for the presentation analysis of data and lastly. He has suggested optimizing its level of investment as a point of time. The management of an enterprise desires neither over nor under investment in working capital because both of these situation will erode the efficiency of the concern.

An article relating to working capital is by R.S. Pradhan (2060). He studied on “The Demand for Working Capital by Nepalese Corporations.” For the analysis nine manufacturing public corporations were selected with the 12 years data from 1973-1984 for the analysis the regression equation has been adopted. From the study he concluded that: The earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exists with respect to the presence of economics of scale, rate of capital cost, and capacity utilization rates, and the speed with which actual cash and inventories are adjusted rates to describe cash and inventories respectively. The pooled regression result shows the presence of economics of scale with respect to the demand for working capital and its various components. The regression results, suggests strongly that the demand

for working capital and its components is a function of both sales and their capital costs. The estimated results shows that the inclusion of capacity utilization variable in the modern seems to have contributed to the demand functions of cash and net working capital only. The effects of capacity utilization on the demand for inventories, receivables and gross working capital are doubtful.

The basic goal of working capital management is to manage the firms current assets and current liabilities in such in away that a satisfactory level of working capital is maintained. Neither over nor under investment in working capital is desire by the management of on enterprise because both of these situations on will erode the efficiency of the concern.

2.3.1 Review of Research Paper and Previous Thesis

Rajendra Giri (Giri, 1986: 91-94) in his study has attempted to evaluate “*Working Capital Management of Balaju Textile Industry Limited.*” The major findings of his study are no significant improvement in working capital during study period. Increased working capital was financed by sales of fixed assets or sources of shares capital; Current assets was financed by long-term financing and high level of sluggish inventory’s amount to unnecessary tied-up of funds, impairment of profit and increased costs.

He has suggested for efficient working capital management of BTIL. It is better to fix a minimum target rate of return, make regular check to identify both excess and deficient current assets to avoid risk in management of working capital , financing current assets from the appropriate combination of short term and long term sourc3es to preserve liquidity and maintain stability; take necessary actions for disposing a huge inventory with tied up working capital, involved huge carrying cost risk of losses; sick position and working inefficiency or corporation should improve.

He set only three research questions to analyze working capital management of BTIL, which is insufficient. He has used ratio analysis as a research tools. But he has not done analysis to evaluate the relationship of current asset components with total current assets. Similarly, he has set null

hypothesis but has not tested it through appropriate tools to find out whether null hypothesis is accepted or rejected. So we can say it is not fully analytical type of research.

Arjun Lal Joshi (Joshi, 1986) in his study seeks to have true insight into “*The working capital management in Biratnagar Jute Mill*”. The study is concerned with management of current assets and covers five years period (2036/37 to 2040/41). The study has embodied various financial ratios for measuring Biratnagar Jute Mill’s financial viability. The study is based on secondary data with opinion survey method and limited to gross concept of working capital. The study has indicted mismanagement of inventory, no proper policy of cash holding and heavy dependence on short term bank credit. He has recommended for effective working capital management of the mill by planning realistic turnover target specimen, designing effective inventory management program. Following productive investments approach preparing effective sales plan and exhaustive market research program, using short-term bank credit up to certain reasonable limit, maintaining optimum cash balance and making proper utilization of accumulated collection debts.

Susil Chandra Shrestha (Shrestha, 1988), in his study has attempted “*An Analytical Study of Working Capital Management in Public Sector Brick Factory*”. He tried to make a comparative assessment of working capital management of public sector brick factories in Nepal. He has analyzed various components of working capital like cash, inventory, receivable and current liabilities. The study is based on two government brick factories. Harisiddhi and Bhaktapur brick factory. He found that there is no proper relation between liquidity turnover and profitability of two brick factories. There is no combination between fixed capital and working capital. The analysis indicates that the working capital portion is totally neglected. He has suggested using financing tools to forecast the working capital. The factories have to keep the record up to date according to stand format. The management must have to be serious regarding working capital management.

His study is basically comparative type. He has analyzed various working capital components through ratio analysis to compare between two bricks factories. He has no used hypothesis test to verify the significance of working capital components between two factors.

Anir Raj Bhandari (Bhandari, 1990) in his thesis entitled “*Working Capital Management (A Case Study of Nepal Bank Limited)*” has done research work for the ten years period, 2034 to 2043 B.S. He has drawn some major findings from his study were as follows: the bank has heavy liquid assets that reflect the improper utilization of the banks fund due to heavy growth in deposit and other borrowed capital; the volume of share capital became insufficient. Rate of return on shareholders investment is considered insufficient; the bank could not fully utilize its fund and not paid attention to the portfolio management in investment.

Shrestha Dr. Sunity (1993) has conducted in her research study on “*Investment Planning of Commercial Bank in Nepal*”

The research findings of the study are summarized as :

-) The general trend of commercial banks assets holdings ids growing. Deposits has been a major of fund. The excess reserve level of the banks allows ideal money and loss of opportunity. Debt equality ratios are high, greater than 100%.
-) The return ratios are on the average higher for foreign JVBS that for Nepalese bank but return are on the statistically some. Risk taking attitude is higher in foreign JBVS. The total management achievement index is higher in case of for foreign banks in comparison the Nepalese bank.
-) The hypothesis that the commercial banks have nonprofessional style of decision making in investment has been acted. The investment of commercial banks in shares and securities are normal and not found to

have strategic decision towards investment in shares and securities. Yield from the securities has been found to be satisfactory.

-) Investment in various economic sectors shows industrial and commercial sector taking higher share of loan till 1990.
-) Investment in various sectors has a positive impact on the national from their respective sectors.
-) Lending in priority sector showed cottage and small industry sector sharing higher loans.

The major findings of her study were as follows:

-) All the selected firms have not successfully been mobilization their deposits but the finance companies have mobilize their deposits smoothly in comparison with JVBS .
-) The profitability position of all finance companies was betty than of JVBS.
-) The liquidity position of JVBS is comparatively better than that of finance companies.
-) There is significant relationship between deposit and loan and advances of BOKL. Similarly, there is significant relationship between deposit and total investment, total assets and net profit of Kathmandu finance company.
-) The trend value of total deposit, loan and advances, net profit and total investment were in increasing trend.
-) The JVBs have less interest risk and capital risk in comparison to finance companies.

Prem Kumar Shrestha (Shrestha, 1994) in his study on “*Working Capital Management in Bhrikuti Paper Mills Ltd.*”, considered the financial statement of this organization for the five fiscal years from 2044/45 to 2048/49 B.S. He has drawn some conclusion from the study. The major components of currents

are cash and bank balance, inventories and receivables. Among them cash and bank balance holds the largest portion and has fluctuating trend. Due to the lack of definite credit and collection policy the receivables are increasing year after year. Various turnovers are decreasing which indicate that current assets are not properly utilized in the mill. The liquidity position of mill is not bad; it is due to decrease trend of current liabilities. Although, mill is earning profits, its profitability position is not encouraging one because its return on total assets is not high enough.

Niraj K.C. (K.C., 2000) in his thesis entitled “*Comparative Study of Working Capital Management of NBL and NABIL Ltd.*” He has examined the management of working capital in NBL and NABIL. The specific objectives undertaken in his study are:

-) To study the current assets and current liabilities and their impact and relationship to each other of NBL and NABIL.
-) To analyze the comparative study of working capital management of NBL and NABIL.
-) Recommendation and suggestions for the improvement of working capital management NBL & NABIL in the future.

Study has mentioned the following findings:

-) The average cash and bank balance and loans and advances are higher on NABIL than NBL. Management of loans and advances is more problematic in NBL than NABIL
-) Interest income of NBL is better than NABIL.
-) Liquidity management policies of these two banks are significantly different.
-) NABIL has the better utilization of deposits in income generating activity than NBL. It also shows that NABIL has better investment efficiency in loan and advances.

-) Due to more conservative working capital policy risk of insolvency is lesser but cost of fund is higher on NBL than NABIL.
-) Profitability position of NABIL is far better although NBL earned higher interest than NABIL.

Rana Sajana (2004) has conducted thesis research on "*An Investment Policy of Joint Venture Banks in Nepal*"

The major findings are as follows :

-) The mean ratio of investment of government securities to current assets of NB has been found lower than that of the other banks. Whereas, SCBNL has highest mean ratio in comparison with other banks. Likewise, NB's ratios are less homogenous.
-) The mean ratio of total investment to total deposit/ ratio of SBI has lowest than other on the other hand SCBNL has the highest mean ratio. Moreover Everest bank ratios are more consistent.
-) Investment on government securities to total financial investment ratios of NB has lowest mean ratio and SBNL has highest meant ratio. SBI'S ratios are homogenous and NB has less homogenous.
-) The mean ratio of investment on shares/debentures to total investment ratios of SCBNL has quite lowest ratio and NB highest. NB less n/homogenous ratio and NABIL has more homogenous ratio.
-) The trend value of all JVBS has an increasing trend. It means if other things remaining same, JVBS will increase their investment in future.

Sthapit Sushma (2005) has conducted the study on "*Financial Performance of Nepalese Commercial Banks in Nepal*".

The research findings of the study are as follows:

- ◆ The liquidity position of SCBL has better than other five banks NABIL, BOK, Nepal SBI Bank, NIBL and HBL in respect of current ratio

standard should be 2:1. Although, this standard can not be maintained by all commercial banks. HBL has lower current ratio than other five banks.

- ◆ Nepal SBI Bank has better position than other five banks in the case of cash and bank balance with respect to total deposits. In contrast, a high ratio of cash and bank balance may indicate the bank's inability. Thus, in case of NABIL, HBL, NSBI, NIBL and BOK have invested their deposits fund in more productive sector like short-term investment, marketable securities etc. for improving their profitability.
- ◆ Cash and bank balance position with respect to deposits (excluding fixed deposit) in the case of NSBI has better performance against the readiness to serve its customer deposits than other five banks.
- ◆ NSBI has a high ratio of cash and bank balance percentage in respect of current assets. But other remaining five banks have low ratio than NSBI. NSBI's yearly average (19.44%) is higher than composite average (11.11%). Although, yearly average of BOK and NIBL have also covered more than composite average. In contrast, it is clearly seen that cash and bank balance percentage is lowest in case of SCBNL in comparison with other banks.
- ◆ Investment on government securities percentage in respect to current assets, in the case of SCBNL has certainly registered better than other five banks. In the case of NABIL, it has very low ratio with respect of current assets among the six banks.
- ◆ Net profit to total assets ratio in the case of SCBNL has registered better performance by utilizing its overall resources than other five banks. NSBI has low percentage ratio than the other five banks.
- ◆ In the case of SCBNL, it has registered more percentage in respect of net profit to total deposits ratio than other banks i.e. NABIL, BOK, NIBL, NSBI and HBL. Comparatively, SCBNL could earn more profit over the deposit amount than other five banks.

- ◆ SCBNL has appeared better achievement by mobilizing on resources of shareholders' equity than other five banks. This ratio reflects the profitability of the owner's investment of commercial banks. NSBI is not able to mobilizing shareholders equity than other five banks.
- ◆ Return on loan and advances in the case of SCBNL have appeared better achievement by mobilizing their loan and advances.
- ◆ Market price per share of SCBNL has occupied better performance in the competitive open market of investor expectation than other five banks, i.e. NABIL, HBL, NSBI, NIBL and BOK.
- ◆ In case of EPS, SCBNL has earned more profit to its shareholders last fifth year than other five banks. It has registered increasing trend of EPS during the study period.
- ◆ Price-earning ratio of commercial banks is generally fluctuating trend over the different fiscal years. NSBI has occupied better position with the respect to higher P/E ratio over the study period than other five banks. Therefore, NSBI reflects to the investors for confidence to their investment.
- ◆ Market prices to book value ratio of commercial banks are fluctuating trend over the last five different fiscal years. In the case of SCBNL has recorded highest position by securing high yearly average in the comparison of other five banks.
- ◆ Market rate of return of BOK is better than other five banks i.e. NABIL, SCBNL, HBL, NSBI and NIBL.
- ◆ The degree of relationship between deposits and loan and advances of the commercial banks are positive. Moreover, the coefficient of determination of BOK has registered higher value than other five banks.
- ◆ The degree of relationship between loan and advances and net profit of the all commercial banks are positive. Moreover, by considering the coefficient of determination of SCBNL has registered higher value than other five banks.

2.4 Research Gap

Based on the review of related studies, it can be concluded that financial ratio and accounting ratio analysis is very important tool, perhaps the most important one in examining the financial ratio of any enterprises. Similar is the case with banks, income generating assets possessed by a bank, the components of the current assets, the deposit collected by it and the soundness with which it extends its credits and investments are the most important aspects of the banks. Liquidity maintained by the banks to meet its daily operation is another important aspect.

The quest to extend knowledge of banking operations led to the undertaking of the current research work. The current research work will definitely extend the hitherto available knowledge on the implications of working capital management of commercial banks in Nepal with measuring the financial constitution of banks. It will explain the trends of current assets, ratio analysis, and relation between two variables more explicitly than the previous studies. Furthermore, previous studies were based on the NRB directives to commercial bank during those studies periods. NRB directives have changed since then.

CHAPTER-II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the topic **“Working Capital Management of Commercial Banks in Nepal.”** Every study is very much based on past knowledge. The previous study cannot be ignored because they provide the foundation to the present study. There must be continuity in research. This continuity in research is ensured by linking the present study with past research studies. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously.

2.1 Conceptual Review

2.1.1 Concept of Working Capital

Working capital is refers to the firm, short-term current assets and liabilities working capital is defined as all short-term asset used in daily operation. They consist primarily of cash, marketable securities, account receivable and inventories. Working capital is characterized by asset with a life span that is less than one year. Cash, marketable securities, account receivables and inventory have a life span of less than one year. It is also characterized by its nearness to cash or liquidity the finished good, inventory when sold is converted in to account receivable. Receivable on collection are transferred into cash the level of investment in working capital is affected by sales volume, production policies and collection polices.

Working capital is a controlling nerve of center of every business organization because no business can run smoothly without the proper control upon it. Thus, it plays the crucial role in the success and failure of the organization. As the management of current assets and current liabilities of the

business organization is necessary for day-to-day operations, it plays the key role in the success and failure of the organization not only in the short run, in the long run also. In the concern of the management of working capital there have been made number of studies from different management experts and students in various enterprises.

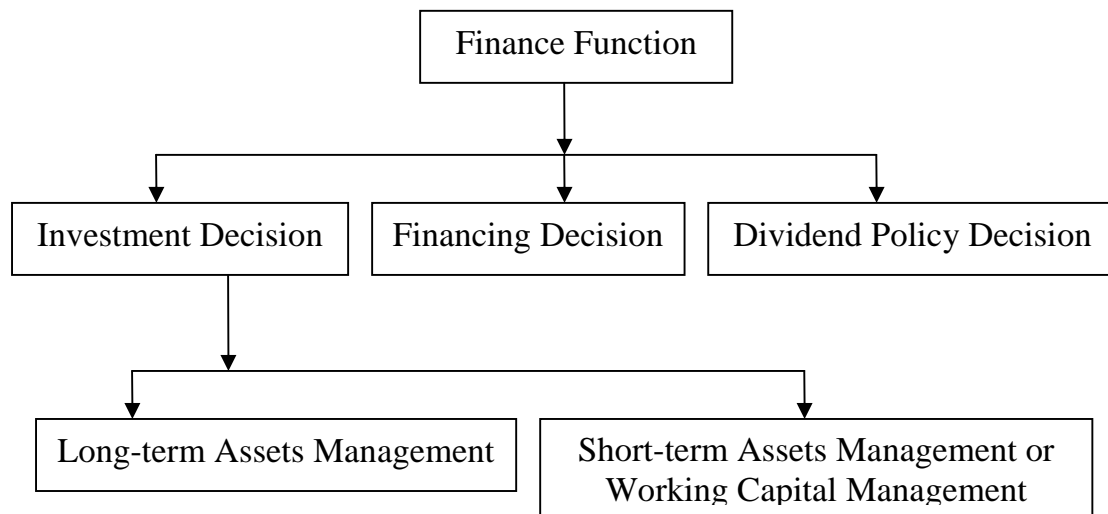
Every commercial bank needs various types of assets in order to carry out its function without any interruption. They are fixed and current assets. Some fixed assets have physical existences and are required to producing goods and services over long period. This type of fixed assets is called tangible fixed assets. It includes land, building, plant, machinery, furniture, and so on. But some other fixed assets do not generate goods and services directly. However, it reflects the right of the firm. It is called intangible fixed assets. It represents patents, copyrights, trademarks, and goodwill. Both fixed assets are written off over a period off time. Current assets are those resources of the firm, which are either held in the form of case or expect to be converted into cash with in an operating cycle of the business. It includes, cash, marketable securities, account receivable, stock of raw materials, work-in-progress, and finished goods. Among these, some assets are required to meet the need of regular production and some for day-to-day expenses and short-term obligations. Current liabilities are those claims of outsiders, which are expecting to be matured with in an accounting year. it includes; creditors, bill payable and outstanding expenses.

2.1.2 Working Capital Management

The management of the funds of business can be described as financial management. Financial management is mainly concerned wit two aspects. Firstly, fixed assets and fixed liabilities, in other words, long-term investment and sources of funds, secondly, current uses and sources of funds. Both of these types of funds play a vital role in business finance. Normally, the finance function can be divided policy decision. But the must important decision for business is investment decision it include the long-term assets management and short term assets management i.e. working capital management.

Figure 1

Working Capital Management as a Finance Function



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

Working capital refers to the resources of the firm that are used to conduct operations of day to day work that makes the business successful. Without cash, bills cannot be paid, without receivable the firm can not allow timing different between delivering goods to services and collecting the money to pay for them, without inventories the firm cannot engage in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets the management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of the firm's those items that can be converted into cash with in the year. Net working capital is defined as the difference between current assets and current liabilities. (Hampton & Wagner, 1989:3-4)

The goal of working capital management is to support the long-term operation and financial goals of the business. In effect, this involves recognizing the relationship between risk and return. Three elements must have included in analyzing the trade off between risk and return when managing

working capital. (i) Insolvency: this condition occurs when a firm can no longer pay its bills and must default on obligations and possibility declares bankruptcy. A firm without adequate level of working capital may have to face this risk. (ii) Profitability of assets: Different level of current assets will have varied effects on profits. A high level of inventory will require high carrying cost. At the same time, the firm will have a wide range of goods to sell and may be able to generate higher sales and profit. Each decision on the level of cash, receivables and inventory should consider the effects to different level. (iii) Cost of financing: When interest rates are high, its costs more to carry inventory than when rates are low. Large cash balance may not earn the return that is possible if the cash is converted into operating assets. The cost of debt and the opportunity costs of alternative investments are items to consider when evaluating working capital level. (Hampton & Wagner, 1989:10)

According to I.M. Pandey, there are two concepts of working capital gross concept and net concept. The gross working capital, simply called as working capital refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within accounting year (or operating cycle) and include cash, short-term securities, debtors, bill receivable and stocks. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year and include creditors, bills payable and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities and a negative net working capital occurs when current liabilities are in excess of current assets. He also added that net working capital concept also covers the question of judicious mix of long-term and short term funds for financing current assets. (Pandey, 1991: 796-797)

$$\text{Net working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

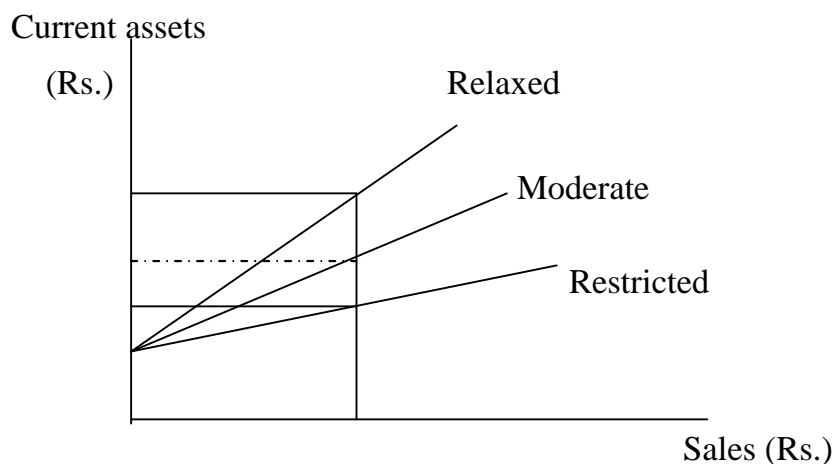
By analyzing the above concept about working capital, we concluded that, all the corporations, whether public or private, manufacturing or non-manufacturing have just adequate working capital to serve in competitive market. It is because excessive or inadequate working capital is dangerous from the firm's point of view. Excessive investment on working capital affects a

firm's profitability just as idle investment, yields nothing. In the same way, inadequate investment on working capital affects the liquidity position of the company and leads to financial embarrassment and failure of the company.

It is therefore, a recognized fact any mistake made in management of working capital can lead to adverse effects in business and reduces the liquidity, turnover and profitability and increases the cost of financing of the enterprises.

2.1.3 Working Capital Investment and Financing Polices

- a) **Conservative policy / Relaxed policy:** Conservative current assets policy carry high levels of current assets to sales, conservative current assets financing invest lower on short-term financing and higher on long-term financing therefore conservative policy lower risk and lower profitability.
- b) **Aggressive policy / Tight policy:** Aggressive current assets policies carry a low level of current assets to sales. Aggressive policies invest more on short term financing and less on long term financing therefore aggressive policy increase the risk and increase the profitability.
- c) **Moderate policy / Average policy:** Moderate current assets policy carries a moderate level of current assets to sales. Moderate policy invests average on short term financing and long term financing. Therefore the moderate policy results in mid rang risk and return.



2.2 Scenario of Commercial Bank

2.2.1 Concept of Commercial Banks

A bank is an institution, which deals in money, receiving it on deposit from customers, honoring customer's drawing against such deposit on demand, collecting cheque for customers and lending or investing surplus deposit until they are required for repayment.

Simply, commercial bank means the bank, which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions. According to Black's Law Dictionary "Commercial bank means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time deposit boxes, and to provide similar services."

According to commercial bank Act 2031 B.S.; "Commercial bank means a bank which operates currency exchange transactions, accepts deposits, provides loan: performs, dealing, relating to commerce except are banks which have been specified for the co-operative, agricultural, industry of similar other specific objectives".

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy with major thrust in industrial development.

Commercial bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing and overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy, intermediation maturity transformation, facilitating payments, flows, credit allocation and maintaining financial discipline among borrowers.

A bank is a business organization that receives and holds deposits of funds from others make loan or extents credits and transfer funds by written order of deposits. (The Encyclopedia America; 1984:302)

Commercial bank is a financial institution which transfers monetary sources to users. In the process of such intermediation, commercial bank deploys funds raised from different sources into different assets with a prime objective of profit generation and administrative assistance.

“The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people.” (Grywinski, Ronald, 1991:87)

These banks are established to improve people’s economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people and the country. It provides internal resources for developing countries economy. It collects diversified capital from different parts of country through its own branches.

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services. (American Institute of Banking, 1972 :345)

Hence, we can conclude from the above that the commercial banks are established under the rules and legislation of the central bank of the country. It has to move as per the directives given by the central banks. Though banks are established for the mobilization of the saved fund, central bank makes certain rules so that the public or the customer of the bank may not undergo loss of their hard-earned money by the disinvestment procedure of the bank.

2.2.2 Activities of Commercial Banks.

Commercial Banks are those financial institutions which deal in accepting deposits of persons and institutions and in giving loans against securities. They provide working capital, which is needed by trade, industry and even to agricultural sectors. Moreover, Commercial Banks also provide technical and administrative assistance to industries, trade and business enterprises. The main purpose of the priority sector investment scheme is to uplift the backward sectors of the economy.

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The main activities of commercial bank are as follows:

- i) Accepting various types of deposits from people, institution or company.
- ii) Providing loan to various productive sectors to earn a lot of profit from it.
- ii) Acting as agency functions.
- iv) Providing general utility functions.
- v) Providing overseas trending services.
- vi) Providing information and other services.

2.3 Review of Related Studies

In this section an attempt has been made to review some books on financial management, which deal with the management of working capital.

According to I M Pandey: (1999) “There are specially two concepts of working capital: Gross concept and net concept. The gross working capital simply called as working capital refers to the firm’s investment on current assets. Current assets are those assets which can be converted in to cash with in an according year and included cash, short term securities, debtors, bill

receivable, stock, inventories and pre-paid expenses. The term net working capital refers to the differences between current assets and current liabilities. Current liabilities are those claims of outsiders which can be expected to mature for payment within an accounting year and includes creditors, bills payable, Bank overdraft and outstanding expenses or accrued income. Net working capital can be negative or positive. A negative net working capital occurs when current liabilities are in excess of current assets.”

As per the theoretical concepts of the working capital from James C Van Horne: (2000) “Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivables, inventory and the administration with the problem that arises in attempting to manage the current assets. The current liabilities and the inter-relationship that exist between them.”

In the view of NK Agrawal: (1998) “Working capital management is the effective life blood of any business. Hence the management of working capital plays a vital role for exiting of any public enterprises successfully while studies it. It is centered on the routine day-to-day administration of current assets and current liabilities. Therefore working capital management in public enterprises is very important mainly for four reasons. Firstly, public enterprises must need to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidity base. Secondly, they must select the type of current assets, suitable for investment so as to raise their operational efficiency. Thirdly they are required to ascertain the turnover of current assets, which determine profitability of the concerns. Lastly, they must find out the appropriate source of funds of finance current assets.”

Weston and Brigham (1997) have given some theoretical insights into working capital management after their various research studies on it. The broad conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management working capital in any enterprises and naturally to this study as well. They explain in the beginning, the importance of working capital, the use of short term versus long-term debt, relationship between current assets to fixed assets. The components of working capital they

have deal with current assets, which are, cash, marketable securities, receivable and inventory. For the efficient management of cash, they have explained the different cash management model. They have also explained the major sources and form of short-term financing. Such as trade credit, loan from commercial banks and commercial paper.

According to NK Agrawal: (1998) “proper management of working capital must ensure, adequate amount of working capital as per need of business firms. It should be in good health and efficiency circulated. To have adequate healthy and efficient circulation of working capital it is necessary that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed.”

In the view SC Kuchal: (1996) there are two concepts of thoughts working capital. One school of thought says that working capital is meant for the current assets only. Another school thought argued that working capital is the excess of current assets over current liabilities.

The first school of thought under the sponsorship of mead, baker, malts and field, relates with gross working capital and the second school of thought under the leadership of Lincoln , Doris, Stevens and Sailors, relates with net working capital. The gross working capital refers to the firms’ investment in current assets which includes to the management of cash, inventories and account receivable of the firm while, net working capital refers to difference between current assets and current liabilities.

From the management point of view, gross working capital deals with the problem of managing individual current assets in the day-to-day operation. But having long run view of working capital, we have to concentrate on the net value of current assets, i.e. the operation of current assets, which is constant in short run analysis and decision making but variable and manageable in long run operation. The net concepts of working capital helps the management to look for permanent source for it’s financing since working capital under this approach does not increase with increase in short term borrowing.

According to NK Agrawal: (1998) “Working capital consists broadly at the portion of the assets of the business used in, or related to, current

operational and represented at any one time of the operating cycle by such items as account receivables, inventories of raw materials, stores, work-in-progress and finished goods, bill receivables and cash. Assets of this type are relatively temporary nature, since the invested names are normally capable of being recovered or of being change in form with in a short period of time, and the time element of ultimate recovery depends on the manufacturing cycle as well as sales and collection cycle.”

According to KV Smith: (2001) “Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivable and inventories and the administration of current liabilities. It means the working capital management is concerned with the problems that arise in attempting to manage the assets, current liabilities and the inter-relationship that exist between them.”

Working capital management is the process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. Specially, working capital management requires financial manager to decide what quantities of cash, other liquid assets account receivables and inventory the firm will hold at nay point in time. In additional, financial managers must decide now there current assets are to be financed.

In this section the review of journal/ articles, various published articles by different management expert relating to Working Capital Management.

In this regards, Monohar K. Shrestha, (2047) in an articles has considered ten selected PEs and studied the working capital management in those PEs. He has focused on the liquidity, turnover and profitability position of those enterprises. In this analysis he found that four PEs had maintained adequate liquidity position. Two had excessive and the remaining four had failed to maintain desirable liquidity position. On the turnover side, two PEs had negative working capital, four adequate turnover, one had high turnover and remaining three had not satisfactory turnover on net working capital. He had also found that out of ten PEs six Public Enterprises were operating at losses while only four were getting some percentage of profits. With reference to those finding he had bought certain policy issues such a lack of suitable

financial planning negligence of working capital management, deviation between liquidity and turnover and return on net working capital. To end he had made some suggestive measures to overcome from the above policy issues, identification of needs funds, regular checks of accounts, development of management information system, positive attitude towards risk and profit and determination of right combination of short-term and long term sources of funds to finance working capital needs.

Another observation of twelve selected PEs have been conducted by Monahar K. Shrestha. (2047) In this article he has described the conceptual setting sources of working capital and types of working capital and types of working capital. From the analysis he found that the liquidity position of the selected PEs differ widely in view of the differences is their nature of business. These were also above normal acid-test ratio. While analyzing the turnover of those selected PEs showed wide deviation. Based on the sales value four out of seven PEs had normal inventory turnover, the other three had not been satisfactorily maintained and in some of them inventory had exceeded sales. The collection period relating to the selected PEs exhibited market difference ranging from 32 days to 755 days, the profitability position was analyzed through return on net working capital was positive for eight PEs, negative for two PEs, and rest two had not any return, since they were in establishment phase.

During the analysis the observed some problem like the lack of far sighted liquidity adjustment strategy in most of the PEs no guiding criteria to ascertain the satisfactory malignances of acid-test ratio and working capital needs. Large blocking of capital in inventories and low capacity utilization. All these were due to efficient management of working capital in those PEs.

The next article relating to working capital management published by K. Acharya. He has described the two major problems operational problems and organizational problems regards the working capital management in Nepalese PEs. The operational problem he found listed in the first part are: increase of current liabilities than current assets, not allowing the current ratio relation 2:1 and slow turnover of inventory. Similarly, change in working capital in relation

to fixed capital had very low impacts over the profitability, thin transmutation of capital employed to sales, absent to 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 had never been considered a managerial job.

In the second part he has listed the organizational problems in the PEs. In most of the PEs there is lack of regular internal and external audit system as well as evaluation of financial results. Similarly very few PEs have been able to present their capital requirement, functioning of finance department is not satisfactory and some PEs are even facing the under utilization of capacity.

To make an efficient use of funds for minimizing the risk of the loss to attain profit objectives, he has made some suggestion. The PEs should avoid the system of crisis decision which prevailed frequently in their operation, avoid fictitious holding of assets, the finance staff should be acquainted with the modern scientific tools for the presentation analysis of data and lastly. He has suggested optimizing its level of investment as a point of time. The management of an enterprise desires neither over nor under investment in working capital because both of these situation will erode the efficiency of the concern.

An article relating to working capital is by R.S. Pradhan (2060). He studied on “The Demand for Working Capital by Nepalese Corporations.” For the analysis nine manufacturing public corporations were selected with the 12 years data from 1973-1984 for the analysis the regression equation has been adopted. From the study he concluded that: The earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exists with respect to the presence of economics of scale, rate of capital cost, and capacity utilization rates, and the speed with which actual cash and inventories are adjusted rates to describe cash and inventories respectively. The pooled regression result show the presence of economics of scale with respect to the demand for working capital and its various components. The regression results, suggests strongly that the demand

for working capital and its components is a function of both sales and their capital costs. The estimated results shows that the inclusion of capacity utilization variable in the modern seems to have contributed to the demand functions of cash and net working capital only. The effects of capacity utilization on the demand for inventories, receivables and gross working capital are doubtful.

The basic goal of working capital management is to manage the firms current assets and current liabilities in such in away that a satisfactory level of working capital is maintained. Neither over nor under investment in working capital is desire by the management of on enterprise because both of these situations on will erode the efficiency of the concern.

2.3.1 Review of Research Paper and Previous Thesis

Rajendra Giri (Giri, 1986: 91-94) in his study has attempted to evaluate “*Working Capital Management of Balaju Textile Industry Limited.*” The major findings of his study are no significant improvement in working capital during study period. Increased working capital was financed by sales of fixed assets or sources of shares capital; Current assets was financed by long-term financing and high level of sluggish inventory’s amount to unnecessary tied-up of funds, impairment of profit and increased costs.

He has suggested for efficient working capital management of BTIL. It is better to fix a minimum target rate of return, make regular check to identify both excess and deficient current assets to avoid risk in management of working capital , financing current assets from the appropriate combination of short term and long term sourc3es to preserve liquidity and maintain stability; take necessary actions for disposing a huge inventory with tied up working capital, involved huge carrying cost risk of losses; sick position and working inefficiency or corporation should improve.

He set only three research questions to analyze working capital management of BTIL, which is insufficient. He has used ratio analysis as a research tools. But he has not done analysis to evaluate the relationship of current asset components with total current assets. Similarly, he has set null hypothesis but has not tested it through appropriate tools to finds out whether null hypothesis is accepted or rejected. So we can say it is not fully analytical type of research.

Arjun Lal Joshi (Joshi, 1986) in his study seeks to have true insight into “*The working capital management in Biratnagar Jute Mill*”. The study is concerned with management of current assets and covers five years period (2036/37 to 2040/41). The study has embodied various financial ratios for measuring Biratnagar Jute Mill’s financial viability. The study is based on secondary data with opinion survey method and limited to gross concept of working capital. The study has indicted mismanagement of inventory, no proper policy of cash holding and heavy dependence on short term bank credit. He has recommended for effective working capital management of the mill by planning realistic turnover target specimen, designing effective inventory management program. Following productive investments approach preparing effective sales plan and exhaustive market research program, using short-term bank credit up to certain reasonable limit, maintaining optimum cash balance and making proper utilization of accumulated collection debts.

Susil Chandra Shrestha (Shrestha, 1988), in his study has attempted “*An Analytical Study of Working Capital Management in Public Sector Brick Factory*”. He tried to make a comparative assessment of working capital management of public sector brick factories in Nepal. He has analyzed various components of working capital like cash, inventory, receivable and current liabilities. The study is based on two government brick factories. Harisiddhi and Bhaktapur brick factory. He found that there is no proper relation between liquidity turnover and profitability of two brick factories. There is no combination between fixed capital and working capital. The analysis indicates that the working capital portion is totally neglected. He has suggested using financing tools to forecast the working capital. The factories have to keep the record up to date according to stand format. The management must have to be serious regarding working capital management.

His study is basically comparative type. He has analyzed various working capital components through ratio analysis to compare between two bricks factories. He has no used hypothesis test to verify the significance of working capital components between two factors.

Anir Raj Bhandari (Bhandari, 1990) in his thesis entitled “*Working Capital Management (A Case Study of Nepal Bank Limited)*” has done research work for the ten years period, 2034 to 2043 B.S. He has drawn some major findings from his study were as follows: the bank has heavy liquid assets that reflect the improper utilization of the banks fund due to heavy growth in deposit and other borrowed capital; the volume of share capital became insufficient. Rate of return on shareholders investment is considered insufficient; the bank could not fully utilize its fund and not paid attention to the portfolio management in investment.

Shrestha Dr. Sunity (1993) has conducted in her research study on "*Investment Planning of Commercial Bank in Nepal*"

The research findings of the study are summarized as :

-) The general trend of commercial banks assets holdings is growing. Deposits has been a major of fund. The excess reserve level of the banks allows ideal money and loss of opportunity. Debt equality ratios are high, greater than 100%.
-) The return ratios are on the average higher for foreign JVBS than for Nepalese bank but return are on the statistically some. Risk taking attitude is higher in foreign JBVS. The total management achievement index is higher in case of for foreign banks in comparison the Nepalese bank.
-) The hypothesis that the commercial banks have nonprofessional style of decision making in investment has been acted. The investment of commercial banks in shares and securities are normal and not found to have strategic decision towards investment in shares and securities. Yield from the securities has been found to be satisfactory.
-) Investment in various economic sectors shows industrial and commercial sector taking higher share of loan till 1990.
-) Investment in various sectors has a positive impact on the national from their respective sectors.
-) Lending in priority sector showed cottage and small industry sector sharing higher loans.

The major findings of her study were as follows:

-) All the selected firms have not successfully been mobilization their deposits but the finance companies have mobilize their deposits smoothly in comparison with JVBS .
-) The profitability position of all finance companies was better than of JVBS.
-) The liquidity position of JVBS is comparatively better than that of finance companies.
-) There is significant relationship between deposit and loan and advances of BOKL. Similarly, there is significant relationship between deposit and total investment, total assets and net profit of Kathmandu finance company.
-) The trend value of total deposit, loan and advances, net profit and total investment were in increasing trend.
-) The JVBs have less interest risk and capital risk in comparison to finance companies.

Prem Kumar Shrestha (Shrestha, 1994) in his study on “*Working Capital Management in Bhrikuti Paper Mills Ltd.*”, considered the financial statement of this organization for the five fiscal years from 2044/45 to 2048/49 B.S. He has drawn some conclusion from the study. The major components of currents are cash and bank balance, inventories and receivables. Among them cash and bank balance holds the largest portion and has fluctuating trend. Due to the lack of definite credit and collection policy the receivables are increasing year after year. Various turnovers are decreasing which indicate that current assets are not properly utilized in the mill. The liquidity position of mill is not bad; it is due to decrease trend of current liabilities. Although, mill is earning profits, its profitability position is not encouraging one because its return on total assets is not high enough.

Niraj K.C. (K.C., 2000) in his thesis entitled “*Comparative Study of Working Capital Management of NBL and NABIL Ltd.*” He has examined the management of working capital in NBL and NABIL. The specific objectives undertaken in his study are:

-) To study the current assets and current liabilities and their impact and relationship to each other of NBL and NABIL.
-) To analyze the comparative study of working capital management of NBL and NABIL.
-) Recommendation and suggestions for the improvement of working capital management NBL & NABIL in the future.

Study has mentioned the following findings:

-) The average cash and bank balance and loans and advances are higher on NABIL than NBL. Management of loans and advances is more problematic in NBL than NABIL.
-) Interest income of NBL is better than NABIL.
-) Liquidity management policies of these two banks are significantly different.
-) NABIL has the better utilization of deposits in income generating activity than NBL. It also shows that NABIL has better investment efficiency in loan and advances.
-) Due to more conservative working capital policy risk of insolvency is lesser but cost of fund is higher on NBL than NABIL.

) Profitability position of NABIL is far better although NBL earned higher interest than NABIL.

Rana Sajana (2004) has conducted thesis research on "*An Investment Policy of Joint Venture Banks in Nepal*"

The major findings are as follows :

) The mean ratio of investment of government securities to current assets of NB has been found lower than that of the other banks. Whereas, SCBNL has highest mean ratio in comparison with other banks. Likewise, NB's ratios are less homogenous.

) The mean ratio of total investment to total deposit/ ratio of SBI has lowest than other on the other hand SCBNL has the highest mean ratio. Moreover Everest bank ratios are more consistent.

) Investment on government securities to total financial investment ratios of NB has lowest mean ratio and SBNL has highest meant ratio. SBI'S ratios are homogenous and NB has less homogenous.

) The mean ratio of investment on shares/debentures to total investment ratios of SCBNL has quite lowest ratio and NB highest. NB less n/homogenous ratio and NABIL has more homogenous ratio.

) The trend value of all JVBs has an increasing trend. It means if other things remaining same, JVBs will increase their investment in future.

Sthapit Sushma (2005) has conducted the study on "*Financial Performance of Nepalese Commercial Banks in Nepal*".

The research findings of the study are as follows:

- ◆ The liquidity position of SCBL has better than other five banks NABIL, BOK, Nepal SBI Bank, NIBL and HBL in respect of current ratio standard should be 2:1. Although, this standard can not be maintained

by all commercial banks. HBL has lower current ratio than other five banks.

- ◆ Nepal SBI Bank has better position than other five banks in the case of cash and bank balance with respect to total deposits. In contrast, a high ratio of cash and bank balance may indicate the bank's inability. Thus, in case of NABIL, HBL, NSBI, NIBL and BOK have invested their deposits fund in more productive sector like short-term investment, marketable securities etc. for improving their profitability.
- ◆ Cash and bank balance position with respect to deposits (excluding fixed deposit) in the case of NSBI has better performance against the readiness to serve its customer deposits than other five banks.
- ◆ NSBI has a high ratio of cash and bank balance percentage in respect of current assets. But other remaining five banks have low ratio than NSBI. NSBI's yearly average (19.44%) is higher than composite average (11.11%). Although, yearly average of BOK and NIBL have also covered more than composite average. In contrast, it is clearly seen that cash and bank balance percentage is lowest in case of SCBNL in comparison with other banks.
- ◆ Investment on government securities percentage in respect to current assets, in the case of SCBNL has certainly registered better than other five banks. In the case of NABIL, it has very low ratio with respect of current assets among the six banks.
- ◆ Net profit to total assets ratio in the case of SCBNL has registered better performance by utilizing its overall resources than other five banks. NSBI has low percentage ratio than the other five banks.
- ◆ In the case of SCBNL, it has registered more percentage in respect of net profit to total deposits ratio than other banks i.e. NABIL, BOK, NIBL, NSBI and HBL. Comparatively, SCBNL could earn more profit over the deposit amount than other five banks.
- ◆ SCBNL has appeared better achievement by mobilizing on resources of shareholders' equity than other five banks. This ratio reflects the

profitability of the owner's investment of commercial banks. NSBI is not able to mobilizing shareholders equity than other five banks.

- ◆ Return on loan and advances in the case of SCBNL have appeared better achievement by mobilizing their loan and advances.
- ◆ Market price per share of SCBNL has occupied better performance in the competitive open market of investor expectation than other five banks, i.e. NABIL, HBL, NSBI, NIBL and BOK.
- ◆ In case of EPS, SCBNL has earned more profit to its shareholders last fifth year than other five banks. It has registered increasing trend of EPS during the study period.
- ◆ Price-earning ratio of commercial banks is generally fluctuating trend over the different fiscal years. NSBI has occupied better position with the respect to higher P/E ratio over the study period than other five banks. Therefore, NSBI reflects to the investors for confidence to their investment.
- ◆ Market prices to book value ratio of commercial banks are fluctuating trend over the last five different fiscal years. In the case of SCBNL has recorded highest position by securing high yearly average in the comparison of other five banks.
- ◆ Market rate of return of BOK is better than other five banks i.e. NABIL, SCBNL, HBL, NSBI and NIBL.
- ◆ The degree of relationship between deposits and loan and advances of the commercial banks are positive. Moreover, the coefficient of determination of BOK has registered higher value than other five banks.
- ◆ The degree of relationship between loan and advances and net profit of the all commercial banks are positive. Moreover, by considering the coefficient of determination of SCBNL has registered higher value than other five banks.

2.4 Research Gap

Based on the review of related studies, it can be concluded that financial ratio and accounting ratio analysis is very important tool, perhaps the most important one in examining the financial ratio of any enterprises. Similar is the case with banks, income generating assets possessed by a bank, the components of the current assets, the deposit collected by it and the soundness with which it extends its credits and investments are the most important aspects of the banks. Liquidity maintained by the banks to meet its daily operation is another important aspect.

The quest to extend knowledge of banking operations led to the undertaking of the current research work. The current research work will definitely extend the hitherto available knowledge on the implications of working capital management of commercial banks in Nepal with measuring the financial constitution of banks. It will explain the trends of current assets, ratio analysis, and relation between two variables more explicitly than the previous studies. Furthermore, previous studies were based on the NRB directives to commercial bank during those studies periods. NRB directives have changed since then.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research in common parlance refers to a search for knowledge is composed by 're' and 'search' where 're' means repeatedly or again and again and 'search' means to investigate or find. Research methodology is a way to systematically solve the research problem.

Research methodology may be defined as "a systematic process that is adopted by the researcher in studying problem with certain objective and view". In other word, research methodology describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. It is really a method of critical thinking by defined and redefining the problems, formulating hypothesis or suggested solution and collecting and organizing and evaluating data, making deduction and making conclusions.

Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. It consists of a brief explanation of research design, nature and sources of data, method of data collection and methods of tools used for analyzing data.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design in the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive and analytical research design has been used.

It is the process which gives us an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study. This study is carried out by using

both quantitative and qualitative analysis methods. Mostly, secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of the selected banks are also used for qualitative analysis. Hence, research design of this study is based on descriptive and analytical method.

3.3 Population and Sample

The population refers to the industries of the same nature and its services and product in general. Thus, total of 25 commercial banks operating in Nepal constitute the population of the data and the bank under study constitutes the sample for the study. Among them only three banks are selected as the sample banks to carry out the study. The sample size represents almost 10% of the total population.

- a) Everest Bank Ltd.
- b) Standard Chartered Bank Nepal Ltd.

3.4 Nature and Source of Data

For the purpose of this study, data are collected mainly from the secondary as well as primary sources. In the study two types of data are collected which are:

Primary Data

This is the first hand information bearing on any research which has been collected by the researcher or his agents or assistant. These are original observation collected for the first time. Such data facilitate original investigation and observation leading to useful and valuable result.

Secondary Data

The next method of collecting the data is secondary source. The secondary data are based on the second hand information. Secondary data were gathered much more quickly than primary. Secondary source were bulletins

and newspapers of selected banks, annual reports, official document, reference material collected from library.

3.5 Method of Data Collection

It indicates the sources of data and how they collected. In this study data are collected through published sources. They were collected from the correspondent offices and their respective websites.

The annual reports of EBL for the period of five years were obtained from the field visit of its Human Resources Department at its head office located at Lazimpat and the annual reports of SCBNL for the period of five years were obtained from the field visit of its head office at New Baneshwor. NRB publications have been collected by the personal visit of concerned Departments of NRB at Baluwatar. The data regarding the profile of NABIL, SCBL and EBL and other related documents were collected from internet websites. Unpublished master's thesis, books, research papers, articles, journals have been collected mainly from Centre Library of Tribhuvan University, library of Shanker Dev Campus and NRB Magazines and newspapers were from concerned authorities.

After collecting data, as necessarily required, they were separated and analyzed presentation and analysis of the collected data is the main theme of the research work. Collected raw data were first presented in systematic manner in tabular forms and then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph, charts and tables have been presented to analyze and interpret the finding of the study. Hypothesis is also made and tested.

3.6 Method of Data Analysis

Various financial and statistical tools will be used to complete the research study such as ratio analysis, standard deviation, coefficient of variance, coefficient of correlation, t-statistics etc. For presentation purpose, different types of tables, charts, figures and graphs are used as per necessary.

3.6.1 Financial Tools

Financial analysis is the process of identifying the financial strengths and weaknesses of the organization by properly establishing relationships between the items of the balance sheet and the profit and loss account.

Ratio analysis is a powerful tool of financial analysis. A ratio is designed as “the indicated quotient of two mathematical expressions” and as “the relationship between two or more things”. In financial analysis, ratio is used as a benchmark for evaluating the financial position and performance of a firm.

Several ratios, calculated from the accounting data, can be grouped into various classes according to the financial activity and function to be evaluated.

3.6.1.1 Liquidity Ratios

Liquidity ratios are used to judge the ability of banks to meet its short term liabilities those are likely to mature in the short period. With the help of liquidity ratios much insight can be obtained into present cash solvency of the banks and its ability to remain solvent in the event of adversities, it is the measurement of speed with which a bank’s assets can be converted into cash to meet deposit withdrawal and other current obligations.

The following ratios are evaluated under liquidity ratios:

a) Current Ratio

This ratio indicates the ability of the bank to meet its current obligation. This is the main important tool to measures the liquidity position of the financial institution.

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

b) Cash Reserve Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to take immediate payment to the depositor. It is computed as follows:

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total deposit}}$$

3.6.1.2 Capital Structure Ratios

Capital structure ratio shows the long-term solvency or liquidity position of a firm. It indicates whether the firm is financially sound or solvent as far its long-term obligations are concerned. These ratios measure the firm's ability to pay the interest regularly and to repay the principal on the due date. These ratios are also known as solvency ratios or capital structure ratios.

Long-term solvency of a firm can be measured by the following ratio:

a) Debt to Capital Employed Ratio

Debt to capital employed ratio shows the quantitative relationship between debt and capital employed of a company. This ratio helps to establish a link between funded debt and total long-term funds available in the firm. This ratio is computed by dividing the total debts by the capital employed.

$$\text{Debt to total capital ratio} = \frac{\text{Total debts}}{\text{Capital employed}}$$

b) Loan and Advances to Current Asset Ratio

Loans and advances to current assets ratio measure the extent to which the banks are successful in utilizing the outsiders' funds for the profit generating purpose. The following formula is used to determine the loans and advances to current asset ratio.

$$\text{Loan and advances to Current asset ratio} = \frac{\text{Loan and advances}}{\text{Current Asset}}$$

3.6.1.3 Activity Ratios

For smooth operations, a firm needs to invest in both short-term and long-term assets. Activity ratios describe the relationship between the firm's level of operations and assets needed to sustain the activity. Activity ratios can also be used to forecast a firm's capital requirements. Activity ratios enable the analysis to forecast these requirements and to assess the firm's ability to acquire the assets needed to sustain the forecasted growth. The following ratios can be calculated as the activity ratios.

a) **Total Assets Turnover Ratios**

The total assets turnover ratio reflects the efficiency of management for investments in each of the individual assets items. It shows the effective utilization of assets in the generation of income. It can be calculated as:

$$\text{Total Assets Turnover Ratios} = \frac{\text{Total Income}}{\text{Total Assets}}$$

b) **Capital Employed Turnover Ratios**

This ratio shows the relationship between total income and capital employed. It determines the efficiency in the utilization of total permanent capital in the revenue generation. Higher the capital employed turnover ratios, the better and efficient utilization of the capital employed. It can be calculated as:

$$\text{Capital Employed Turnover Ratios} = \frac{\text{Total Income}}{\text{Capital Employed}}$$

c) **Cash & Bank Balance Turnover Ratio**

This ratio shows the relationship between total income and cash & bank balances. It is the efficiency ratio of the banks in managing and utilizing its cash and bank balances. It can be calculated as:

$$\text{Cash & Bank Balance Turnover Ratios} = \frac{\text{Total Income}}{\text{Cash & Bank Balance}}$$

d) Loan and Advances to Total Deposit Ratio

Loans and advances to total deposits ratio measures the extent to which the banks are successful in utilizing the outsiders' funds for the profit generating purpose. It can be calculated as:

$$\text{Loan and advances to total deposit ratio} = \frac{\text{Loan and advances}}{\text{Total deposits}}$$

3.6.1.4 Profitability Ratios

"A company should earn profit to survive and grow over a long period of time Profits are essential, but it would be wrong to assume that every action initiated by management to company should be aimed at maximizing profits."

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratio the lenders and investors want to decide whether to invest in a particular business or not.

a) Return on Loans & Advances

This ratio shows that return on loans and advances during the year. Higher ratio of net income to loans & advance is better. It ratio is calculated as follows:

$$\text{Return on Loans and Advances} = \frac{\text{Net profit after tax}}{\text{Loan and Advance}}$$

b) Return on Total Deposit

The ratio of return on Total deposit measures the capacity of bank to generate profit from its investment on total deposit. In other words, return on total deposit is the contribution of total deposit to net profit after tax. So this ratio is the proportion of return from total deposit and it is calculated as follows.

$$\text{Return on total deposit} = \frac{\text{Net profit after tax}}{\text{Total Deposit}}$$

c) Return on Total Assets

This ratio is measured the rate of return earned by the firm as a whole for all its investors. It is calculated by dividing net profit by total assets. A higher ratio indicates the efficiency of overall financial resources to invest. So that, the higher ratio, the better will be the performance. Return on total assets in computed by using the following formula.

$$\text{Return on Total Assets} = \frac{\text{Net profit after tax}}{\text{Total Assets}}$$

d) Return on Capital Employed

This ratio establishes a relationship between the total earnings available to all the investors and permanent capital. It shows how well the firm has used the economic resources received from all the investors to earn profit. This ratio is calculated as:

$$\text{Return on Capital Employed} = \frac{\text{NPAT}}{\text{Capital Employed}}$$

3.6.2 Statistical Tools

3.6.2.1 Mean

$$\text{Mean } (\bar{X}) = \frac{X}{n}$$

n = Number of Year

X = Sum of X series

3.6.2.2 Standard Deviation

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\phi d^2}{n} - \frac{\phi d}{n}^2}$$

Where, d = X - \bar{X}

3.6.2.3 Coefficient of Variance

$$\text{Coefficient of Variance (CV)} = \frac{\sum}{\sum X}$$

3.6.2.4 Coefficient of Correlation

$$\text{Coefficient of Correlation (r)} = \frac{d_1 \cdot d_2}{\sqrt{\phi d_1^2 \cdot \phi d_2^2}}$$

Where, $d_1 = X_1 - \sum X_1$

$d_2 = X_2 - \sum X_3$

Under this topic, Karl Pearson's correlation coefficient is used to measure the degree of relationship between the following variables:

- a) Coefficient of correlation between Current assets and Current Liabilities
- b) Coefficient of correlation between Total Deposit and Net Profit
- c) Coefficient of correlation between Total Deposit and Loan & Advances

3.6.2.5 Probable Error (P.E)

.Probable error is measured for testing the reliability of an observed value of correlation coefficient. It is computed to find the extent to which it is dependable. If correlation coefficient is greater than 6 times P.E the observed value of r is said to be significant, otherwise nothing can be concluded with certainty. But if the calculated (r) is less than the P.E correlation is not at all significant. It is calculated by using following formula:

$$\text{P.E} = \frac{0.6745(1 - r^2)}{\sqrt{n}}$$

Where,

P.E. = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observations

3.6.2.5 Hypothesis (t-statistics)

$$t = \frac{\bar{X}_1 - \bar{X}_2}{S} \sqrt{\frac{(n_1 n_2)}{(n_1 + n_2)}}$$

$$\text{Where, } S = \frac{\phi d_1^2 + \phi d_2^2}{n_1 + n_2 - 2}$$

Where,

\bar{X}_1 = Mean of the X_1

\bar{X}_2 = Mean of the X_2

n_1 = No. of the year X_1

n_2 = No. of the year X_2

S = Combined standard deviation

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The main objective of the study is to present data and analyze them with the helps of various financial and statistical tools. This chapter consists of analysis and presentation of empirical data. The important variables are very sensitive and taken into consideration. So this chapter will present the analysis of components of working capital of selected commercial banks listed in Nepal Stock Exchange. The major ratios for the study are liquidity ratios, turnover ratios, profitability ratios and composition of working capital. The variables of the ratios indicated above are also tried to study in details. Firstly it is attempted to deal about the working capital policies followed by listed commercial banks and then financial position of success/failure companies has been analyzed applying various methods.

4.2 Working Capital Policy and Trend Analysis

Working capital policy can be categorized into three categories viz. aggressive, moderate and conservative policy. Nepalese commercial banks listed in NEPSE have also followed the above mentioned types of working capital policies. The firms use to adopt different working capital policies according to the financial managers' attitude towards the risk return trade off. One of the most important decisions of financial manager is how much current liabilities should be used to finance current assets. Hence, it is tried to analyze on the basis of various variables and ratios of the selected commercial banks taking five years data to indicate working capital policy followed by them. The analysis is done bank wise as well as period wise.

4.2.1 Analysis of Composition of Current Assets

Every bank has to maintain the appropriate level of current assets to run the business smoothly because the success/failure of any bank depends upon the proper management of current assets. The level of current assets is analyzed as bank-wise and year-wise respectively.

The main components of current assets at SCBNL and EBL are cash and bank balance, loan and advances and investment in Government securities. Miscellaneous current assets are also the components of it. Prepaid expenses, outstanding incomes, for example, interest receivable, and other current assets are included on miscellaneous current assets.

Table 4.1

Components of Current Assets of SCBNL (Rs. in million)

Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2059/60	3170.21	5695.82	6722.83	5208.74	20797.60
2060/61	2023.16	6410.24	7948.22	1937.21	23494.63
2061/62	1041.12	8143.21	7203.06	2865.29	19322.67
2062/63	1276.24	8935.42	8635.86	2615.83	21463.35
2063/64	2021.02	10502.64	7107.93	2394.21	22025.79
Average	1906.35	7937.466	7523.58	3004.256	21420.808

Source: Annual Reports of SCBNL, 2007

Above table 4.1 shows that SCBNL has the highest level of current assets of Rs. 23494.63 million in the year 2060/61 and the lowest level of current assets of Rs. 19322.67 million in the year 2061/62. On average it holds the level of current assets of Rs. 21420.80 million.

The components of currents of the bank are Cash & Bank Balance, Loan & Advances, Government Securities and Misc. Current Assets. The amounts of these items are Rs. 3170.21 million, Rs. 5695.82 million, Rs. 6722.83 million, and Rs. 5208.74 million respectively in the fiscal year 2059/60. Where as these amounts are Rs. 2021.02 million, Rs. 10502.64 million, Rs. 7107.93 million and Rs. 2394.21 million respectively in the fiscal year 2063/64.

The bank has the highest level of Cash & Bank Balance in 2059/60 and lowest level in 2061/62. Similarly it has highest level of Loan & Advances, Government Securities and Misc. Current Assets in 2063/64, 2062/63 and 2059/60 respectively but it has lowest level of Loan & Advances, Government Securities and Misc. Current Assets in 2059/60, 2059/60 and 2060/61 respectively.

Table 4.2

Components of Current Assets of EBL (Rs. in million)

Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2059/60	1139.00	4908.50	1599.30	240.60	7887.40
2060/61	632.00	5884.10	2466.40	251.20	9233.70
2061/62	1050.00	7618.70	2100.30	290.50	11059.50
2062/63	1553.00	9801.30	3322.40	178.00	14854.70
2063/64	2391.40	13664.40	3614.50	222.60	19892.90
Average	1353.08	8375.40	2620.58	236.58	12585.64

Source: Annual Reports of EBL,2007

Above table 4.2 shows that EBL has the highest level of current assets of Rs. 19892.90 million in the year 2063/64 and the lowest level of current assets of Rs. 7887.40 million in the year 2059/60. On average it holds the level of current assets of Rs. 12585.64 million.

The components of currents of the bank are Cash & Bank Balance, Loan & Advances, Government Securities and Misc. Current Assets. The amounts of these items are Rs. 1139.00 million, Rs. 4908.50 million, Rs. 1599.30 million and Rs. 240.60 million respectively in the fiscal year 2059/60. Where as these amounts are Rs. 2391.40 million, Rs. 13664.40 million, Rs. 3614.50 million and Rs. 222.60 million respectively in the fiscal year 2063/64.

The bank has the highest level of Cash & Bank Balance in 2063/64 and lowest level in 2060/61. Similarly it has highest level of Loan & Advances, Government Securities and Misc. Current Assets in 2063/64, 2063/64 and 2061/62 respectively but it has lowest level of Loan & Advances, Government Securities and Misc. Current Assets in 2059/60, 2061/62 and 2062/63 respectively.

Table 4.3

Components of Current Assets of SCBNL (Percentage)

Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2059/60	15.24	27.39	32.33	25.04	100
2060/61	8.61	27.28	33.83	8.25	100
2061/62	5.39	42.14	37.28	14.83	100
2062/63	5.95	41.63	40.24	12.19	100
2063/64	9.18	47.68	32.27	10.87	100
Average	8.87	37.23	35.19	14.24	100

Above table 4.3 and the below graph 4.1 shows that SCBNL has the highest level of Cash & Bank Balance in current assets of 15.24 percentages in the year 2059/60 and the lowest level of it in current assets of 5.39 percentages in the year 2061/62. On average it holds the level of it in current assets of 8.87 percentages. The level of Loan & Advances is highest in 2063/64 and that of

lowest in 2060/61. On average the bank holds the level of it in current assets of 37.23 percentages.

The level of Government Securities is highest in 2062/63 and that of lowest in 2063/64. On average the bank holds the level of it in current assets of 35.19 percentages. Similarly the level of Misc. Current Assets is highest in 2059/60 and that of lowest in 2060/61. On average the bank holds the level of it in current assets of 14.24 percentages

Graph 4.1

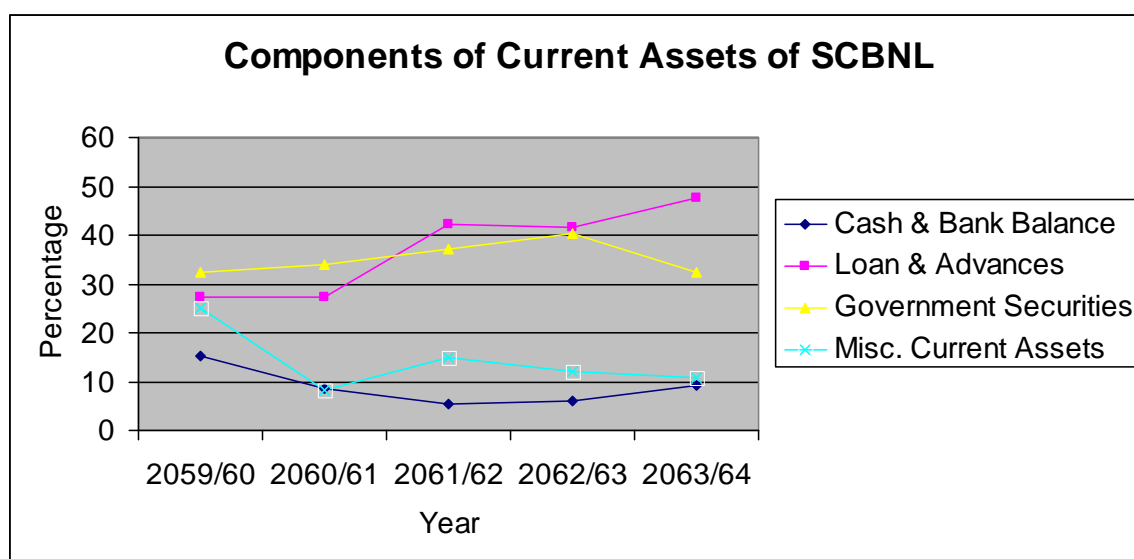


Table 4.4

Components of Current Assets of EBL (Percentage)

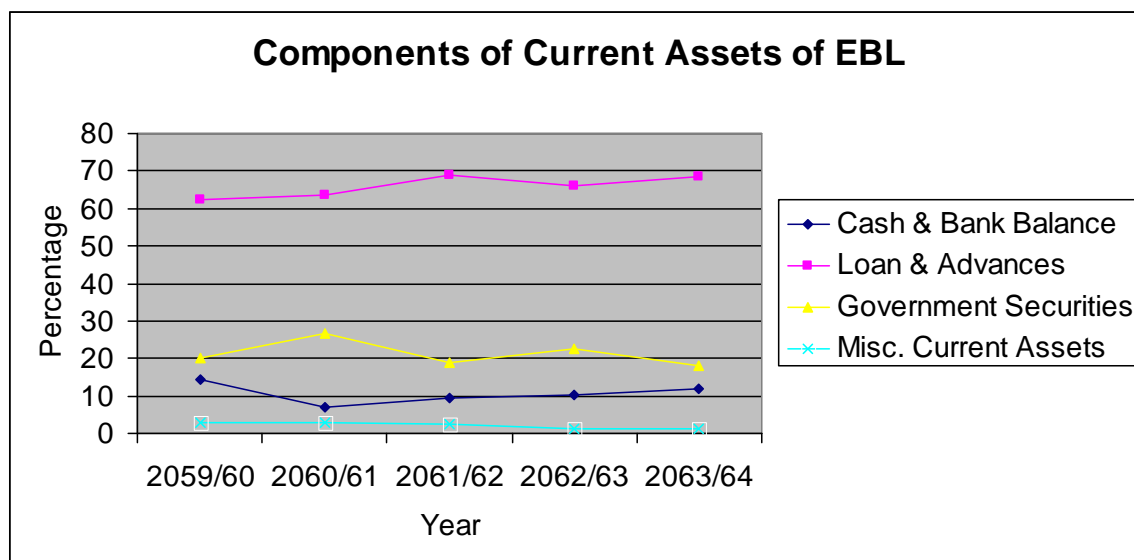
Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2059/60	14.44	62.23	20.28	3.05	100
2060/61	6.84	63.72	26.71	2.72	100
2061/62	9.49	68.89	18.99	2.62	100
2062/63	10.45	65.98	22.37	1.19	100

2063/64	12.02	68.69	18.17	1.12	100
Average	10.65	65.90	21.30	2.14	100

Above table 4.4 and the below graph 4.2 shows that EBL has the highest level of Cash & Bank Balance in current assets of 14.44 percentages in the year 2059/60 and the lowest level of it in current assets of 6.84 percentages in the year 2060/61. On average it holds the level of it in current assets of 10.65 percentages. The level of Loan & Advances is highest in 2061/62 and that of lowest in 2059/60. On average the bank holds the level of it in current assets of 65.90 percentages.

The level of Government Securities is highest in 2060/61 and that of lowest in 2063/64. On average the bank holds the level of it in current assets of 21.30 percentages. Similarly the level of Misc. Current Assets is highest in 2059/60 and that of lowest in 2063/64. On average the bank holds the level of it in current assets of 2.14 percentages

Graph 4.2



4.2.2 Trend of Cash and Bank Balance

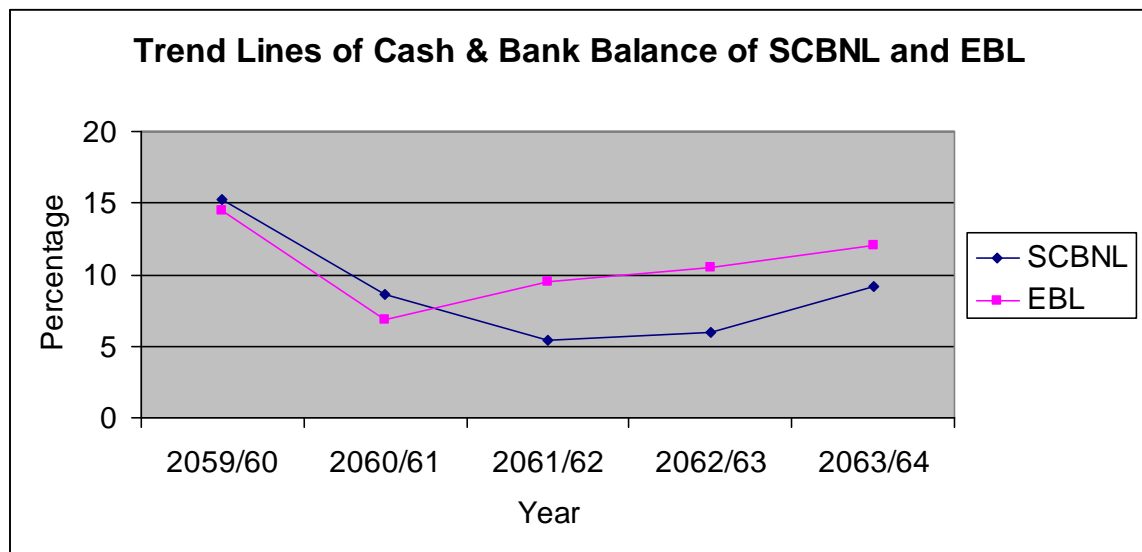
Cash and bank balance is one of the major components of current assets of the companies. Cash and bank balance of SCBNL is fluctuated over the

study period. The level of it is highest with 15.24 percentages in the current assets of the bank in the first year of the period where as its weight is lowest with 5.39 percentages in the third year of the study period. The average level of cash and bank balance of the bank in current assets is 8.87 percentages.

Similarly, cash and bank balance of EBL has also fluctuated over the study period. The level of it is highest with 14.44 percentages in the current assets of the bank in the first year of the period where as its weight is lowest with 6.84 percentages in the second year of the study period. The average level of cash and bank balance of the bank in current assets is 10.65 percentages.

The study shows that the average level of cash and bank balance i.e. 10.65 percentages of EBL are higher than that of SCBNL i.e. 8.87 percentages during the study period.

Graph 4.3



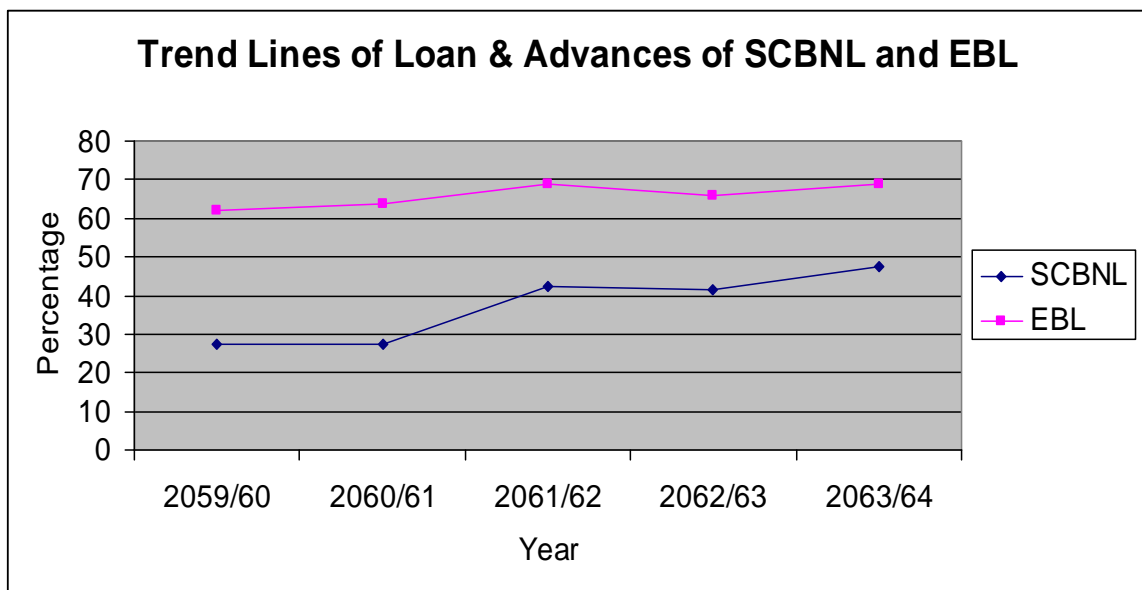
4.2.3 Trend of Loan and Advances

Loan and advances is another major component of current assets of the companies. Loan and advances of SCBNL is fluctuated over the study period. The level of it is highest with 47.68 percentages in the current assets of the bank in the last year of the period where as its weight is lowest with 27.28 percentages in the second year of the study period. The average level of loan and advances of the bank in current assets is 37.23 percentages.

Similarly, loan and advances of EBL has also fluctuated over the study period. The level of it is highest with 68.89 percentages in the current assets of the bank in the third year of the period where as its weight is lowest with 62.23 percentages in the first year of the study period. The average level of loan and advances of the bank in current assets is 65.90 percentages.

The study shows that the average level of loan and advances i.e. 65.90 percentages of EBL are higher than that of SCBNL i.e.37.23 percentages during the study period.

Graph 4.4



4.2.4 Trend of Government Securities

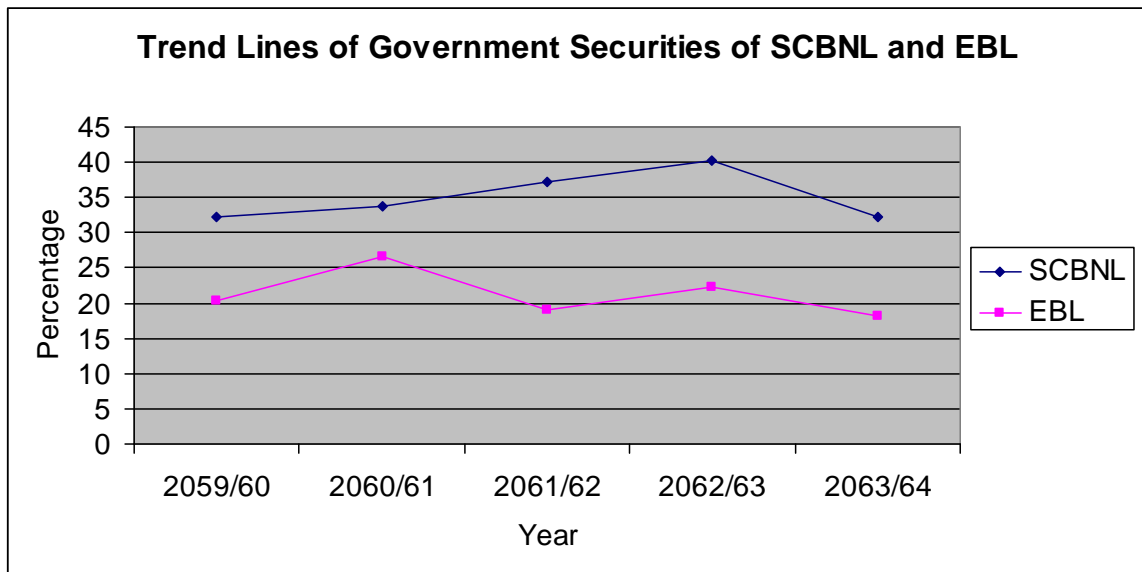
Government Securities is also another major component of current assets of the companies. Government securities of SCBNL are fluctuated over the study period. The level of it is highest with 40.24 percentages in the current assets of the bank in the fourth year of the period where as its weight is lowest with 32.27 percentages in the last year of the study period. The average level of Government securities of the bank in current assets is 35.19 percentages.

Similarly, Government securities of EBL have also fluctuated over the study period. The level of it is highest with 26.71 percentages in the current assets of the bank in the second year of the period where as its weight is lowest

with 18.17 percentages in the last year of the study period. The average level of Government securities of the bank in current assets is 21.30 percentages.

The study shows that the average level of Government securities i.e. 35.19 percentages of SCBNL are higher than that of EBL i.e. 21.30 percentages during the study period.

Graph 4.5



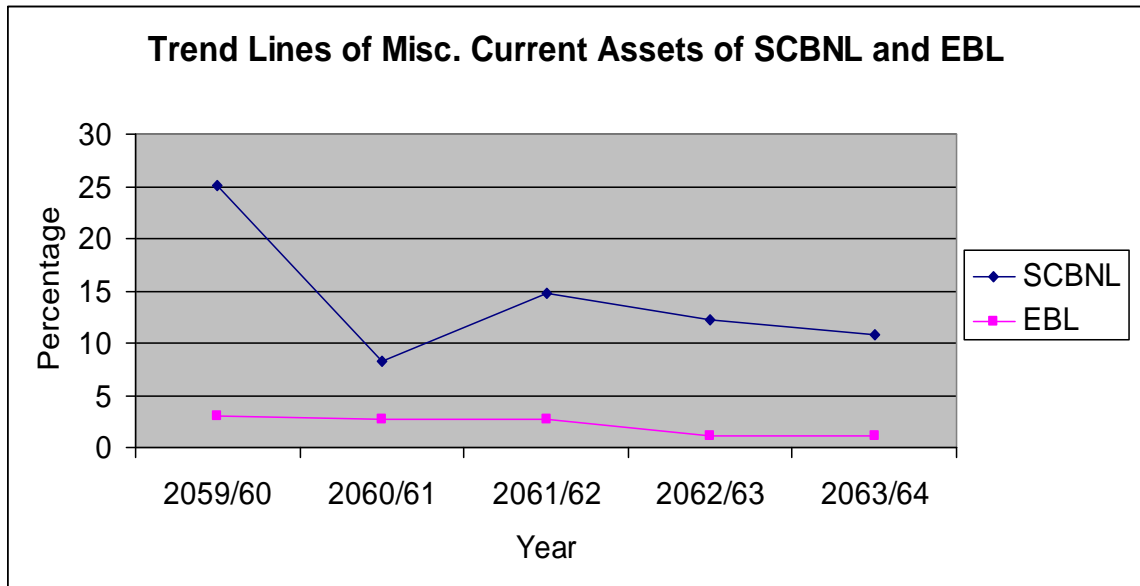
4.2.5 Trend of Miscellaneous Current Assets

Miscellaneous current assets are also another component of current assets of the companies. Miscellaneous current assets of SCBNL are fluctuated over the study period. The level of it is highest with 25.04 percentages in the current assets of the bank in the first year of the period where as its weight is lowest with 8.25 percentages in the second year of the study period. The average level of miscellaneous current assets of the bank in current assets is 14.24 percentages.

Similarly, miscellaneous current assets of EBL have also fluctuated over the study period. The level of it is highest with 3.05 percentages in the current assets of the bank in the first year of the period where as its weight is lowest with 1.12 percentages in the last year of the study period. The average level of miscellaneous current assets of the bank in current assets is 2.14 percentages.

The study shows that the average level of miscellaneous current assets i.e. 14.24 percentages of SCBNL are higher than that of EBL i.e. 2.14 percentages during the study period.

Graph 4.6



4.3 Net Working Capital

Net Working Capital refers to the difference between current assets and current liabilities. The need for this concept arises because the gross concept fails to consider current liabilities. The current liabilities are those liabilities, which can be claimed by outsiders /suppliers with in a year. It includes account payable, bills payable and outstanding expenses. The concept of net working capital helps the management to look for permanent sources for its financing since working capital under this approach, does not increase with increases in short term borrowing. Net working capital can be positive and negative. A negative net working capital occurs when current liabilities are in excess of current assets.

$$\text{Net Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Net working capital is that portion of firms' current assets, which is financed with long term fund. NWC is the difference between the current assets and current liabilities. This positive difference in the amount of working capital

is financed by long term fund. This concept is also known as qualitative concept of working capital; it shows liquidity of business enterprises this concept helps to determine optimum mixture of short term and long term capital of business enterprises. This concept is useful to running business, which is running in the present. It can analyze profitability, liquidity position, and risk return position of business enterprise.

Table 4.5

Net Working Capital of SCBNL (Rs. in million)

Year	Current Assets	Current Liabilities	Net Working Capital	% change in NWC
2059/60	20797.60	17620.78	3176.82	-
2060/61	23494.63	22146.32	1348.31	-57.56
2061/62	19322.67	20311.16	-988.49	-173.31
2062/63	21463.35	24013.21	-2549.86	157.96
2063/64	22025.79	26480.34	-4454.55	74.69
Average	21420.81	22114.36	-693.55	0.36

Source: Annual Reports of SCBNL, 2007

The above table 4.5 and below graph 4.7 shows that the level of net working capital of SCBNL is fluctuated over the period of time. During the study period of 5 years from 2059/60 to 2063/64, the highest amount of net working capital is Rs. 3176.82 million in 2059/60 and that of lowest amount is - Rs. 4454.55 million in 2063/64.

The average level of current assets of the bank is Rs 21420.81 million and that of current liabilities is Rs 22114.36 million. The bank has the average of net working capital of -Rs 693.55 million.

The highest level of change in net working capital is by 157.96 percentages in 2062/63 and that of lowest level of change in net working

capital is by -173.31 percentages in 2061/62. On average the level of net working capital is changed by 0.36 percentages.

Graph 4.7

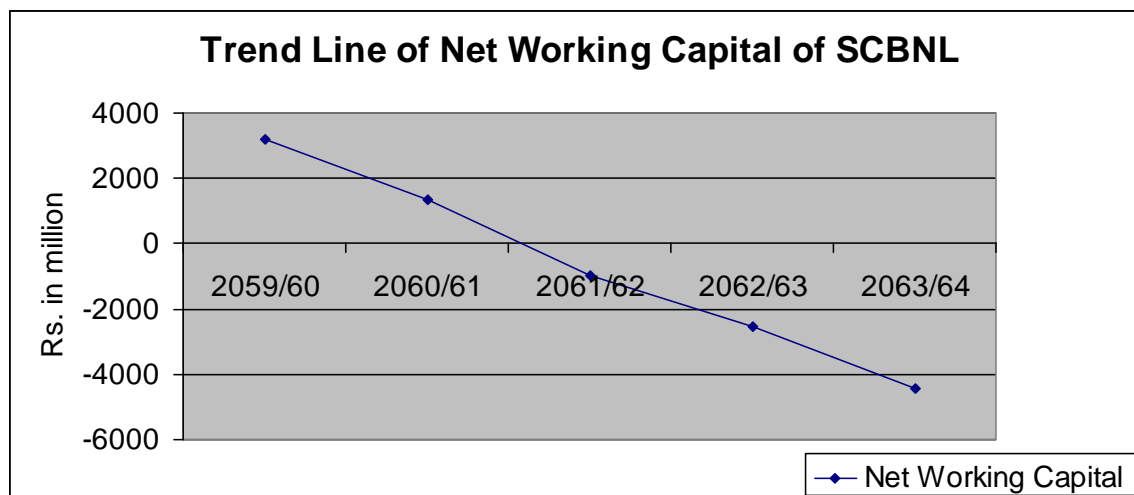


Table 4.6

Net Working Capital of EBL (Rs. in million)

Year	Current Assets	Current Liabilities	Net Working Capital	% change in NWC
2059/60	7887.40	7439.40	448.00	-
2060/61	9233.70	8928.20	305.50	-31.81
2061/62	11059.50	10599.90	459.60	50.44
2062/63	14854.70	14696.50	158.20	-65.58
2063/64	19892.90	19931.10	-38.20	-124.15
Average	12585.64	12319.02	266.62	-34.22

Source: Annual Reports of EBL,2007

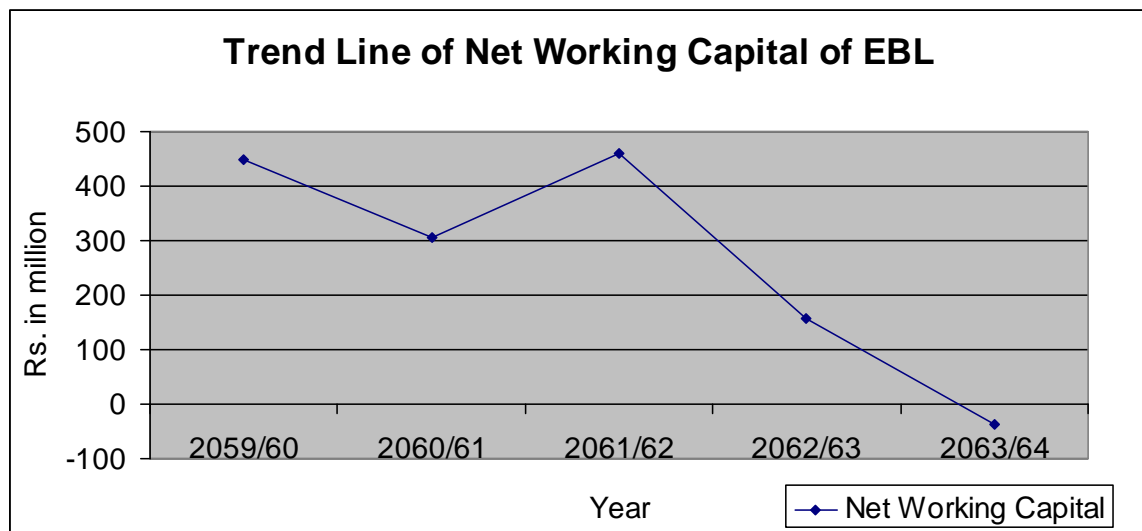
The above table 4.6 and below graph 4.8 shows that the level of net working capital of EBL is fluctuated over the period of time. During the study period of 5 years from 2059/60 to 2063/64, the highest amount of net working

capital is Rs. 459.60 million in 2061/62 and that of lowest amount is - Rs. 38.20 million in 2063/64.

The average level of current assets of the bank is Rs 12585.64 million and that of current liabilities is Rs 12319.02 million. The bank has the average of net working capital of Rs 266.62 million.

The highest level of change in net working capital is by 50.44 percentages in 2061/62 and that of lowest level of change in net working capital is by -124.15 percentages in 2063/64. On average the level of net working capital is changed by -34.22 percentages.

Graph 4.8



4.4 Ratio Analysis

Ratio is the numerical or and arithmetical relationship between two variables. It is expressed when one variable is divided by another. Ratio analysis is the process of determining and interpreting numerical relationship between variables of financial statements. Ratio is used as an index or yardstick for evaluating the financial position and performance. It helps analysts to make quantitative judgment about the financial position and performance of the banks.

A ratio is the relationship of one amount to another expressed as the ratio of or as a simple, fraction, integer, decimal fraction or percentage.

It is clear that ratio is a relation of one amount to another amount and is a simple fraction or integer or percentage. Ratio analysis is developed to show the numerical relationship between the data presented in the financial statements. It helps to measure profitability, solvency and performance of any business firm. It facilitates the decision makers to take the appropriate decisions basing on the different ratios.

Ratio analysis stands for the process of determining and presenting the relationship of items and groups of items in the financial statements. It is an important technique of financial analysis. It is a way by which financial stability and health of a concern can be judged. The following are the main points to highlight the importance of ratio analysis.

4.4.1 Liquidity Ratio

It is very important for firm to be meeting its obligations as they become due. Liquidity ratio measures the ability of the firm to meet its current obligations. A firm should ensure that it doesn't suffer from the liquidity crunch, and also that it is not too much highly liquid. The failure of a company to meet its obligation, due to lack of very high degree of liquidity is also bad; idle or non-performing assets earn nothing. The firm's funds will be unnecessarily tied up in the current assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity.

A commercial bank must maintain satisfactory liquidity position to satisfy the credit needs of the community, meet demands for deposits withdrawal, pay maturity obligation in time and convert to cash assets into cash to satisfy immediate needs without loss to the bank and without consequent impact on long run profitability of the bank. To measure the liquidity position of the bank, the following measures of liquidity ratio has been calculated and a brief analysis of the same has been done as below.

4.4.1.1 Current Ratio

Current assets are those assets which can be converted into cash within one accounting period. And the current liabilities are those liabilities, which should be paid within the one accounting period. Current ratio shows the relationship between current assets and current liabilities. It is calculated by dividing current assets by current liabilities. The objective of computing this ratio is to measure the ability of the firm to meet its short-term financial obligations.

Current ratios of EBL and SCBNL are presented below in the table (Detail in Appendix – I)

Table 4.7
Current Ratio (in times)

Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	1.05	1.06
2060/61	1.06	1.06
2061/62	1.06	1.07
2062/63	1.03	1.07
2063/64	1.05	1.08
Mean (\bar{X})	1.05	1.068
S.D.	0.011	0.0075
C.V. (%)	1.048	0.700

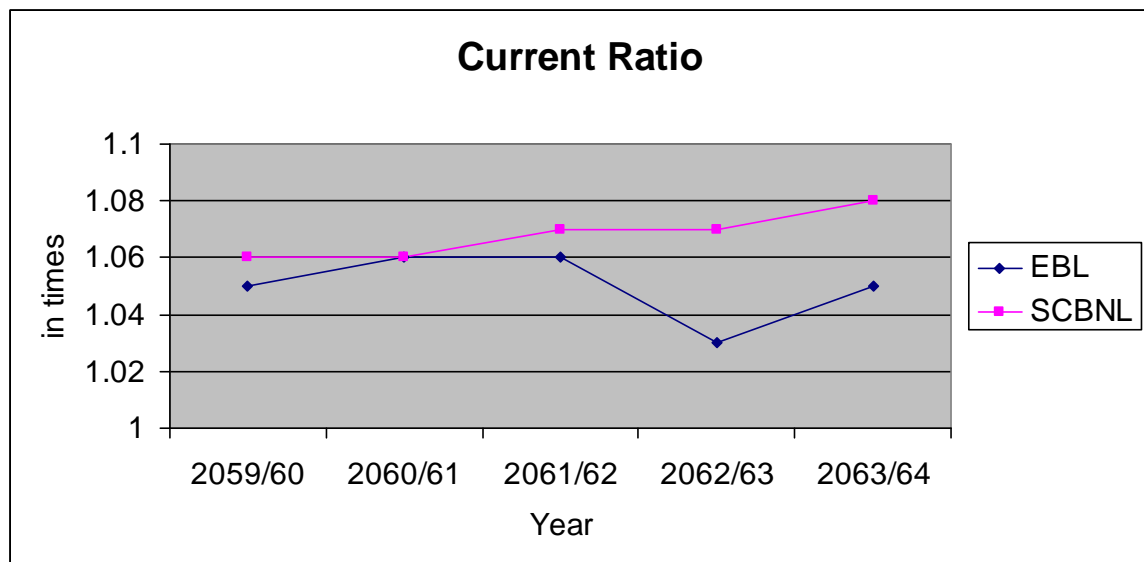
Above table 4.13 depicts the current ratio of the selected commercial banks. The mean (\bar{X}) of current ratio of EBL is 1.05:1 as well as SCBNL is

1.068:1. This is lesser than the standard current ratio 2:1. The banks are unable to maintain the current ratio in accordance with standard.

The current ratio of the banks are in fluctuating order with lower than the standard ratio. The SCBNL has maintained the ratio is not lesser than 1.06 but EBL has not meet that ratio in the overall five fiscal years.

Standard deviation of current ratio of EBL and SCBNL are 0.011 and 0.0075 respectively. Coefficient of variation of EBL is 1.048% and SCBNL is 0.70%. It seems that current ratio of EBL is less homogenous but SCBNL is more homogenous. This ratio can be presented in the following graph.

Figure – 4.9



4.4.1.2 Cash Reserve Ratio

Cash and bank balance are the most liquid current assets. The ratio between cash and bank balance to total deposit measure the ability of the bank to meet the unanticipated cash and all types of deposits. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. Higher the ratio the greater will be the ability to meet sudden demand of deposit. But very high ratio is not desirable since bank is to pay interest on deposits.

Cash reserve ratios of EBL and SCBNL are presented below in the table (Detail in Appendix - II)

Table 4.8
Cash Reserve Ratio (in %)

Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	17.02	8.06
2060/61	7.83	9.56
2061/62	10.40	5.75
2062/63	11.25	5.53
2063/64	13.15	8.20
Mean (\bar{X})	11.93	7.42
S.D.	3.066	1.546
C.V. (%)	25.70	20.84

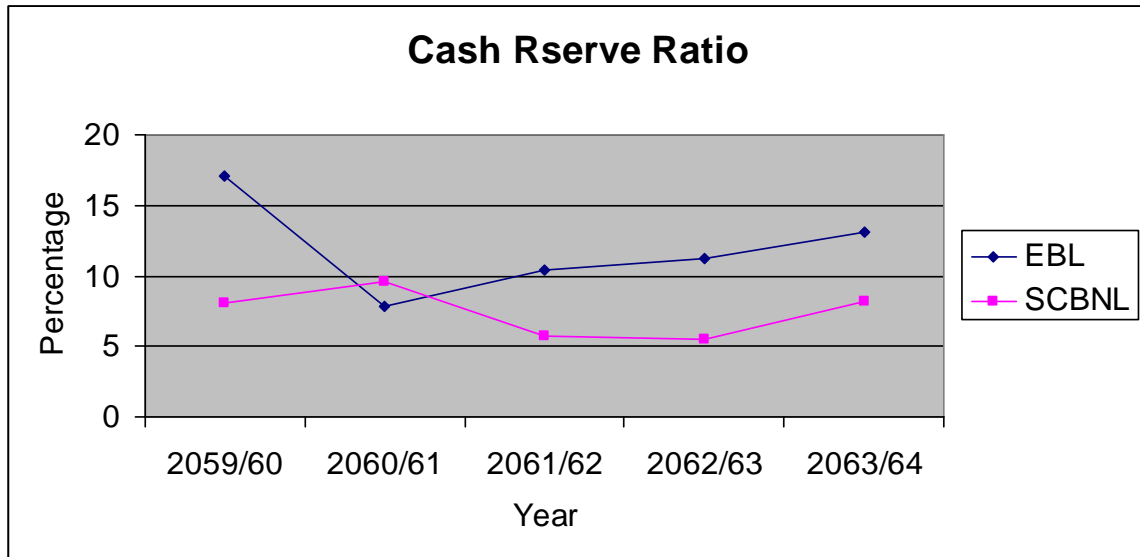
Above table 4.14 depicts the cash reserve ratio of the selected commercial banks. The mean (\bar{X}) of cash reserve ratio of EBL and SCBNL are 11.93 and 7.42 respectively.

The cash reserve ratio of the banks is fluctuating. The highest cash reserve ratio of EBL is 17.02 and lowest ratio is 7.83 in the fiscal year 2059/60 and 2060/61 respectively as well as SCBNL's highest cash reserve ratio is 9.56 and lowest ratio is 5.53 in the fiscal year 2060/61 and 2062/63 respectively.

Standard deviation of cash reserve ratio of EBL and SCBNL are 3.066 and 1.546 respectively. Coefficient of variation of EBL is 25.70% and SCBNL is 20.84%.

It shows that SCBNL is maintaining adequate liquidity position regarding cash reserve ratio than EBL. Too low ratios are also not preferable bank should meet its obligations any time when necessary. This ratio can be presented in the following graph.

Figure – 4.10



4.4.2 Capital Structure Ratios

These ratios are calculated to judge the long-term financial position of the bank as well as to measure the financial risk and the bank’s ability of using debt to shareholder’s advantage.

4.4.2.1 Debt to Total Asset Ratio

This ratio shows the proportion of total assets financed by long-term debt. A high ratio indicates a banks success in exploiting debts to be more profitable as well as its riskier capital structure. From creditor’s point of view its represents security for them.

Debt to total assets ratio of EBL and SCBNL are presented below in the table (Detail in Appendix - III)

Table 4.9
Debt to Total Assets Ratio (in %)

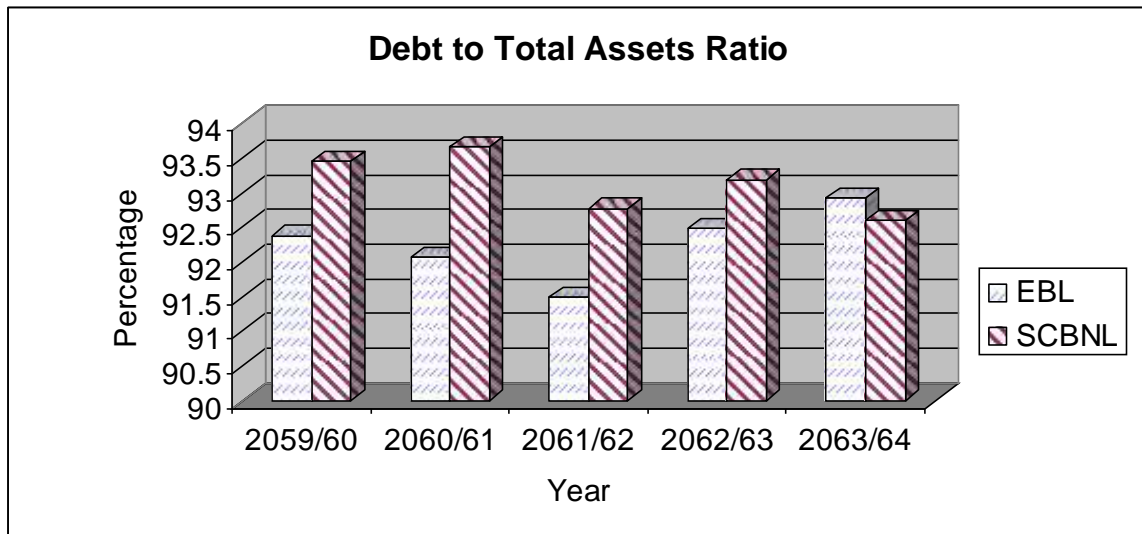
Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	92.38	93.45
2060/61	92.07	93.67
2061/62	91.49	92.77
2062/63	92.49	93.19
2063/64	92.93	92.60
Mean (€X)	92.272	93.136
S.D.	0.478	0.402
C.V. (%)	0.52	0.43

Above table 4.17 depicts the debt to total assets ratio of the selected commercial banks. The mean (€X) of debt to total assets ratio of EBL and SCBNL are 92.272 and 93.136 respectively.

The debt to total assets ratio of the banks are fluctuating. The highest debt to total assets ratio of EBL is 92.93% and lowest ratio is 91.49% in the fiscal year 2063/64 and 2061/62 respectively as well as SCBNL's highest debt to total assets ratio is 93.67% and lowest ratio is 92.60% in the fiscal year 2060/61 and 2063/64 respectively.

Standard deviation of debt to total assets ratio of NABIL, EBL and SCBNL are 0.732, 0.478 and 0.402 respectively. Coefficient of variation of EBL is 0.52% and SCBNL is 0.43%. Comparatively, SCBNL is more at riskier position of debt financing than EBL because of higher average (mean). This ratio can be presented in the following graph.

Figure – 4.11



4.4.2.2 Loan and Advances to Current Asset Ratio

Loan and advances are also included in the current assets of commercial banks because generally it provides short-term loans, advances, overdrafts, cash-credit and foreign bill purchased and discounted.

All commercial banks mobilize their collected funds as loan and advances to the customers. The banks must maintain its loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances.

Loans and advances to current assets ratio of EBL and SCBNL are presented below in the table (Detail in Appendix - IV)

Table 4.10

Loan and Advances to Current Assets Ratio (in %)

Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	62.63	27.49
2060/61	62.46	27.27

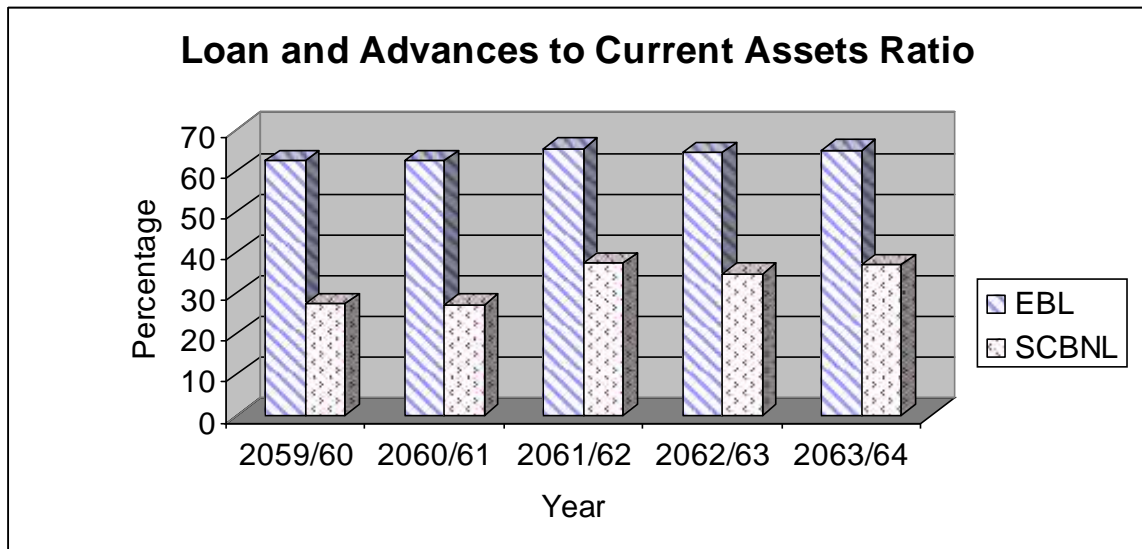
2061/62	65.51	37.32
2062/63	64.67	34.81
2063/64	65.12	36.89
Mean (€X)	64.078	32.756
S.D.	1.281	4.471
C.V. (%)	2.00	13.65

Above table 4.21 depicts the loans and advances to current assets ratio of the selected commercial banks. The mean (€X) of loans and advances to current assets ratio of EBL and SCBNL are 55.414, 64.078 and 32.756 respectively.

The loans and advances to current assets ratio of EBL and SCBNL is fluctuated. The highest loans and advances to current assets ratio of EBL is 65.51 and lowest ratio is 62.46 in the fiscal year 2061/62 and 2060/61 respectively as well as SCBNL's highest loans and advances to current assets ratio is 37.32 and lowest ratio is 27.27 in the fiscal year 2061/62 and 2060/61 respectively.

Standard deviation of loans and advances to current assets ratio of EBL and SCBNL are 1.281 and 4.471 respectively. Coefficient of variation of EBL is 2.00% and SCBNL is 13.65%. This ratio can be presented in the following graph.

Figure – 4.12



4.4.3 Activity Ratios

Activity ratios are intended to measure the effectiveness to employment of the resources in a business concern.

4.4.3.1 Total Assets Turnover Ratios

Total assets turnover ratio measured the turnover of all firm assets. A high total assets turnover ratio indicates efficient utilization of total assets in income generation while a low ratio indicates inefficient management utilization of total assets.

Total assets turnover ratio of EBL and SCBNL are presented below in the table (Detail in Appendix - V)

Table 4.11**Total Assets Turnover Ratio (in times)**

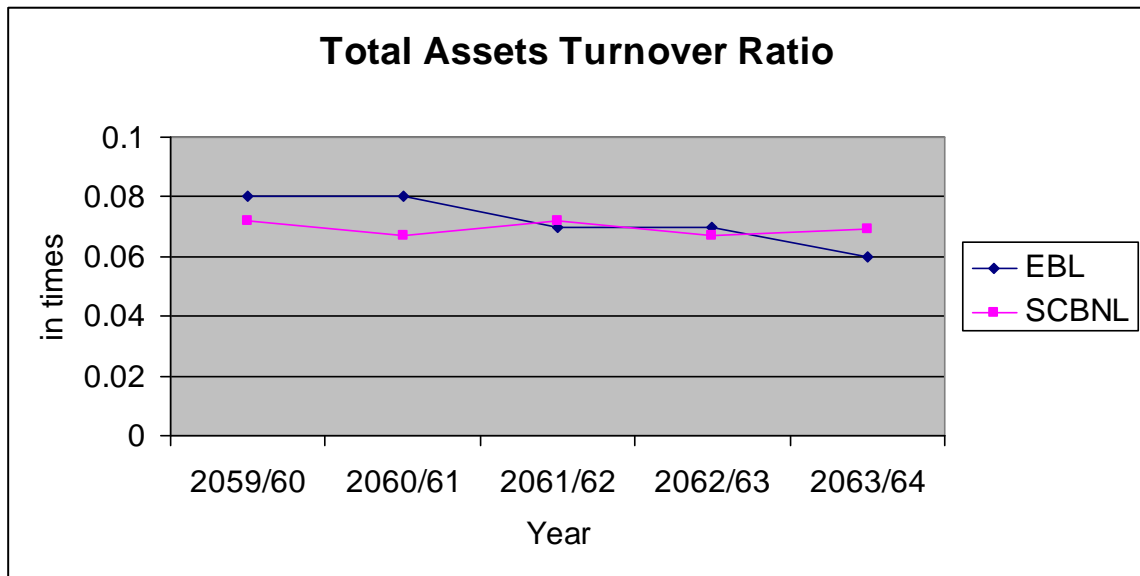
Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	0.08	0.072
2060/61	0.08	0.067
2061/62	0.07	0.072
2062/63	0.07	0.067
2063/64	0.06	0.069
Mean (\bar{X})	0.072	0.069
S.D.	0.0075	0.0022
C.V. (%)	10.42	3.17

Above table 4.23 depicts the total assets turnover ratio of the selected commercial banks. The mean (\bar{X}) of total assets turnover ratio of EBL and SCBNL are 0.072 and 0.069 respectively.

The total assets turnover ratio of the banks is decreasing with fluctuated. The highest total assets turnover ratio of SCBNL is 0.072 and the lowest ratio is 0.067. Similarly, the highest total assets turnover ratio of EBL is 0.08 and lowest ratio is 0.06.

Standard deviation of total assets turnover ratio of NABIL, EBL and SCBNL are 0.008, 0.0075 and 0.0022 respectively. Coefficient of variation of EBL is 10.42% and SCBNL is 3.17%. This ratio can be presented in the following graph.

Figure – 4.13



4.4.3.2 Net Working Capital to Total Assets

Working capital management is the management of all short term assets used in daily operations. Investing in raw materials, inventories, work-in-progress, account receivables are all known as working capital investment. The proper management of a firm's working capital is very much crucial to the financial manager in the competitive scenario. Furthermore, the total investment in the current assets that can be converted into cash within one year is called gross working capital but the difference between current assets and current liabilities is known as net working capital. The percentage of NWC to total assets of different companies has been analyzed with the help of cross section analysis are presented below in the table (Detail in Appendix - VI)

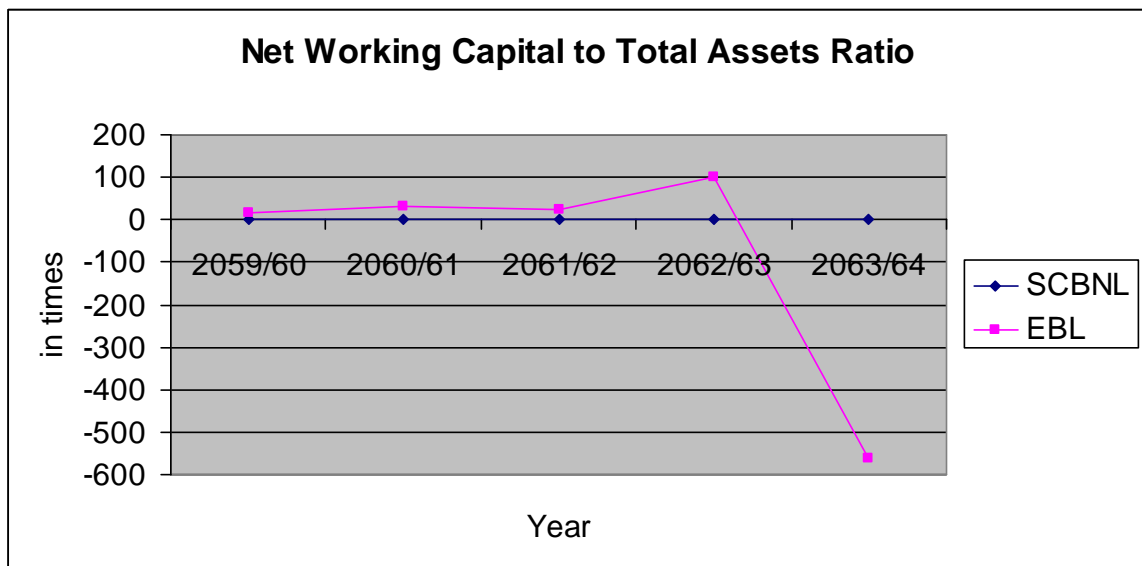
Table 4.12

Net working capital to total assets ratio (In times)

Year		
	SCBNL	EBL
2059/60	0.15	17.97
2060/61	0.06	31.45
2061/62	-0.05	25.53
2062/63	-0.099	100.88
2063/64	-0.16	-561.06
Mean	-0.02	-77.05

The trend of net working capital to total assets ratio of both banks is in fluctuating order with lower than the standard ratio which shows that the companies are using aggressive policy regarding the working capital in the recent years.

Graph 4.14



4.4.3.3 Capital Employed Turnover Ratios

Capital employed represent the long term sources of fund availed and used to finance fixed assets and net current assets. This ratio measures the efficiency of the banks in the utilization of permanent source of capital. Usually, greater ratio serves as an indicator of better utilization of long term funds provided by owners and creditors.

Capital employed turnover ratio of EBL and SCBNL are presented below in the table (Detail in Appendix - XII)

Table 4.24

Capital Employed Turnover Ratio (in times)

Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	1.25	1.10
2060/61	1.28	1.06
2061/62	1.16	1.00
2062/63	1.75	0.98
2063/64	1.12	0.94
Mean (€X)	1.312	1.016
S.D.	0.2266	0.057
C.V. (%)	17.27	5.61

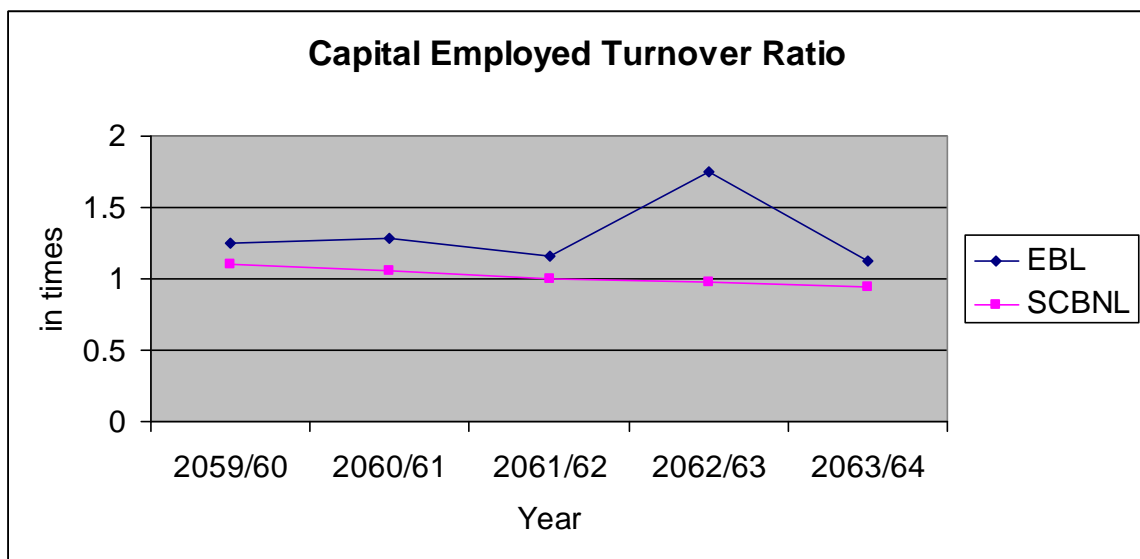
Above table 4.24 depicts the capital employed turnover ratio of the selected commercial banks. The mean (€X) of capital employed turnover ratio of EBL and SCBNL are 0.974, 1.312 and 1.016 respectively.

The capital employed turnover ratio of EBL is fluctuating over the study period but SCBNL is slowly decreased during the study period. The highest

capital employed turnover ratio of EBL is 1.75 and lowest ratio is 1.12 in the fiscal year 2062/63 and 2063/64 respectively as well as SCBNL's highest capital employed turnover ratio is 1.10 and lowest ratio is 0.94 in the fiscal year 2059/60 and 2063/64 respectively.

Standard deviation of capital employed turnover ratio of EBL and SCBNL are 0.2266 and 0.057 respectively. Coefficient of variation of EBL is 17.27% and SCBNL is 5.61%. This ratio can be presented in the following graph.

Figure – 4.17



4.4.3.4 Cash & Bank Balance Turnover ratio

Cash and bank balance are the most liquid current assets. This ratio measures the efficiency of the banks in utilization of the cash and bank balance to generate income. A high cash and bank balance turnover ratio indicates efficient utilization of current assets in income generation while a low ratio indicates inefficient management utilization of current assets under cash and bank balance.

Cash & bank balance turnover ratio of EBL and SCBNL are presented below in the table (Detail in Appendix - XIV)

Table 4.26**Cash & Bank Balance Turnover Ratio (in times)**

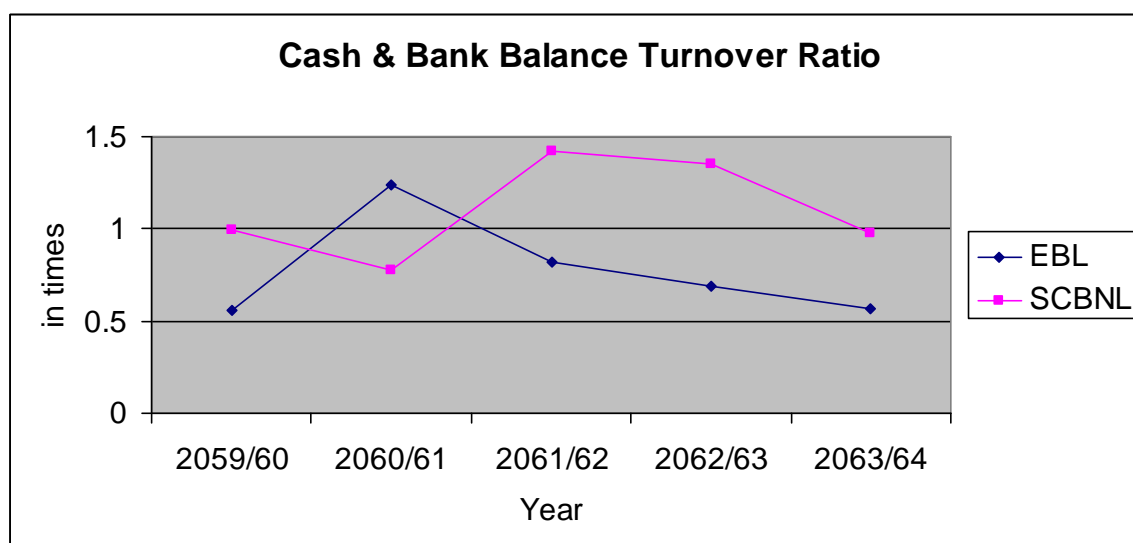
Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	0.56	0.99
2060/61	1.24	0.78
2061/62	0.82	1.42
2062/63	0.69	1.35
2063/64	0.57	0.98
Mean (\bar{X})	0.776	1.104
S.D.	0.25	0.242
C.V. (%)	32.22	21.92

Above table 4.26 depicts the cash and bank balance turnover ratio of the selected commercial banks. The mean (\bar{X}) of cash and bank balance turnover ratio of EBL and SCBNL are 0.776 and 1.104 respectively.

The cash and bank balance turnover ratio of the banks is fluctuating over the study period. The highest cash and bank balance turnover ratio of EBL is 1.24 and lowest ratio is 0.56 in the fiscal year 2061/62 and 2059/60 respectively as well as SCBNL's highest cash and bank balance turnover ratio is 1.42 and lowest ratio is 0.78 in the fiscal year 2061/62 and 2060/61 respectively.

Standard deviation of cash and bank balance turnover ratio of EBL and SCBNL are 0.25 and 0.242 respectively. Coefficient of variation of EBL is 32.22% and SCBNL is 21.92%. This ratio can be presented in the following graph.

Figure – 4.19



4.4.3.5 Fixed Assets Turnover Ratio

The rate of utilization of fixed assets is significant because investments in plant and equipment, machinery, furniture are large and of long duration. This ratio measures the extent to which banks are able to invest in fixed assets and how effectively and efficiently the fixed assets are used.

Fixed assets turnover ratio of EBL and SCBNL are presented below in the table (Detail in Appendix -X)

Table 4.22

Fixed Assets Turnover Ratio (in times)

Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	5.80	7.85
2060/61	6.63	11.63
2061/62	6.41	22.07
2062/63	7.01	17.01

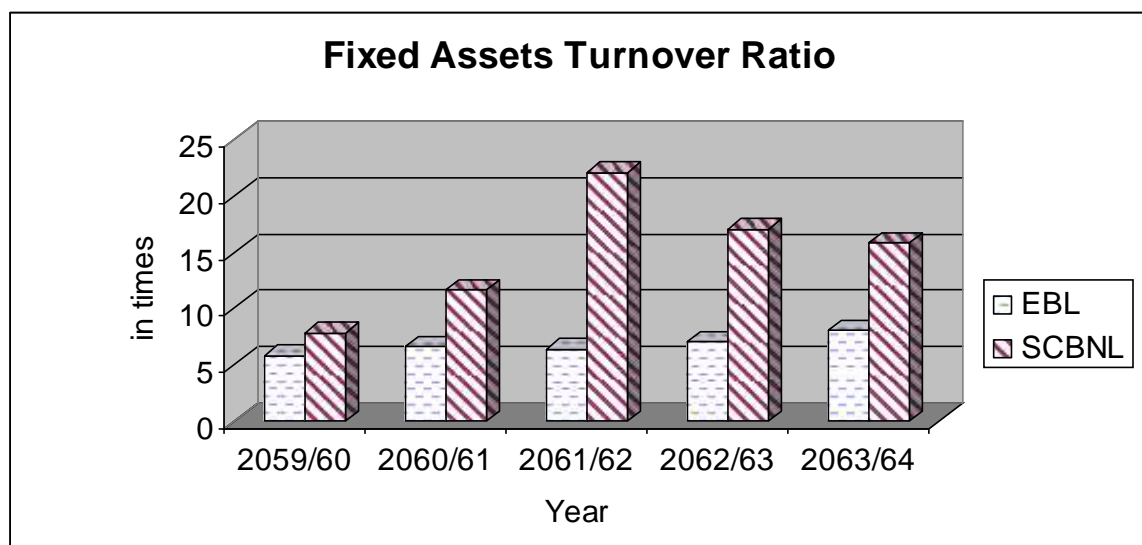
2063/64	8.06	15.77
Mean (€X)	6.782	14.866
S.D.	0.75	4.837
C.V. (%)	11.06	32.54

Above table 4.22 depicts the fixed assets turnover ratio of the selected commercial banks. The mean (€X) of fixed assets turnover ratio of EBL and SCBNL are 6.782 and 14.866 respectively.

The fixed assets turnover ratio of the SCBNL is increased till the fiscal year 2061/62 and then decreased but the fixed assets turnover ratio of EBL is fluctuated. The highest fixed assets turnover ratio of EBL is 8.06 and lowest ratio is 5.80 in the fiscal year 2063/64 and 2059/60 respectively as well as SCBNL's highest fixed assets turnover ratio is 22.07 and lowest ratio is 7.85 in the fiscal year 2061/62 and 2059/60 respectively.

The mean of fixed assets turnover ratio of SCBNL is the highest i.e. 14.866 than that of EBL. Standard deviation of fixed assets turnover ratio of EBL and SCBNL are 0.75 and 4.837 respectively. Coefficient of variation of EBL is 11.06% and SCBNL is 32.54%. This ratio can be presented in the following graph.

Figure – 4.15



4.4.3.6 Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which banks are able to extend loans and advances from the total deposits collected by the banks from the public. A high ratio indicates the better mobilization of collection deposit and vice versa. But it is known that high ratio may not be better from the liquidity point of view.

Loan and advances to total deposit ratio of EBL and SCBNL are presented below in the table (Detail in Appendix - XV)

Table 4.27

Loan and Advances to Total Deposit Ratio (in %)

Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	73.32	30.37
2060/61	72.97	30.29
2061/62	75.45	42.12
2062/63	71.01	38.75
2063/64	75.14	42.61
Mean (€X)	73.578	36.828
S.D.	1.611	5.47
C.V. (%)	2.19	14.85

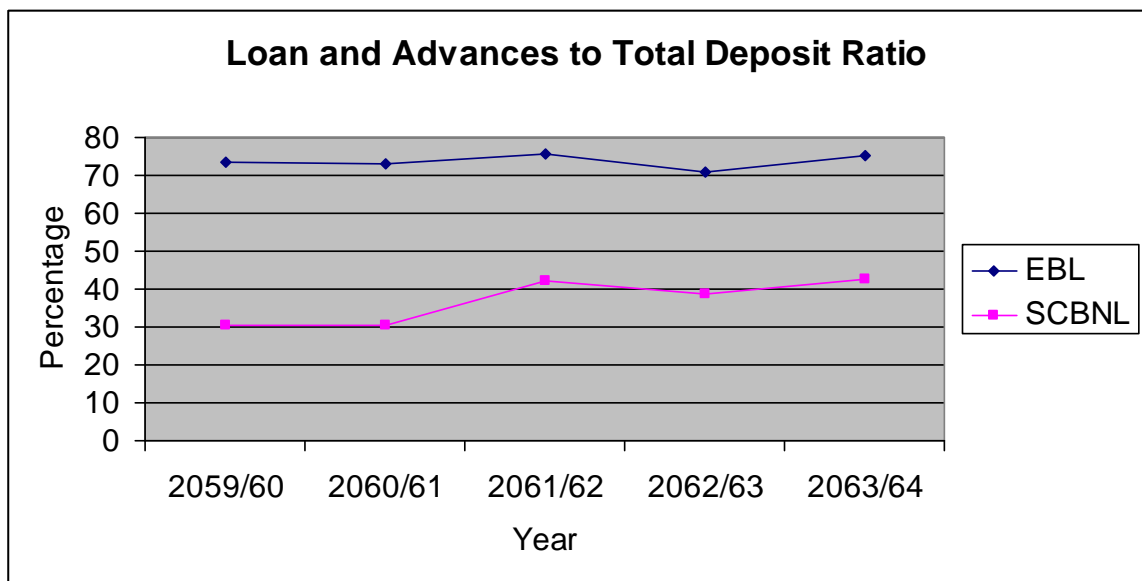
Above table 4.27 depicts the loans and advances to total deposit ratio of the selected commercial banks. The mean (€X) of loans and advances to total deposit ratio of EBL and SCBNL are 73.578 and 36.828 respectively.

The loans and advances to total deposit ratio of the banks is fluctuating over the study period. The highest loans and advances to total deposit ratio of

EBL is 75.45 and lowest ratio is 71.01 in the fiscal year 2061/62 and 2062/63 respectively as well as SCBNL's highest loans and advances to total deposit ratio is 42.61 and lowest ratio is 30.29 in the fiscal year 2061/62 and 2060/61 respectively.

Standard deviation of loans and advances to total deposit ratio of EBL and SCBNL are 1.611 and 5.47 respectively. Coefficient of variation of EBL is 2.19% and SCBNL is 14.85%. This ratio can be presented in the following graph.

Figure – 4.20



4.4.4 Profitability Ratios

Profitability ratios measure the overall performance of the bank by determining the effectiveness of the bank in generating profit and are calculating by establishing relationship between profit and assets.

Profitability ratio indicates the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the efficiency of the bank. Success and failure of the bank depends upon its profitability showing how efficiently it is utilizing its deposit. The various ratios to measure the efficiency of the bank are as follows.

4.4.4.1 Return on Loans & Advances

It measures the earning capacity of commercial banks on its deposits mobilized on loan and advances. Mostly loan and advances include loan, cash credit, overdrafts bills purchased and discounted.

Return on loans and advances ratio of EBL and SCBNL. are presented below in the table (Detail in Appendix -XVIII)

Table 4.30

Return on Loans & Advances (in %)

Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	1.92	8.90
2060/61	2.44	8.39
2061/62	2.24	6.62
2062/63	2.44	7.37
2063/64	2.19	6.59
Mean (€X)	2.246	7.574
S.D.	0.192	0.932
C.V. (%)	8.55	12.31

Above table 4.30 depicts the return on loans and advances ratio of the selected commercial banks. The mean (€X) of return on loans and advances ratio of EBL and SCBNL are 2.246 and 7.574 respectively.

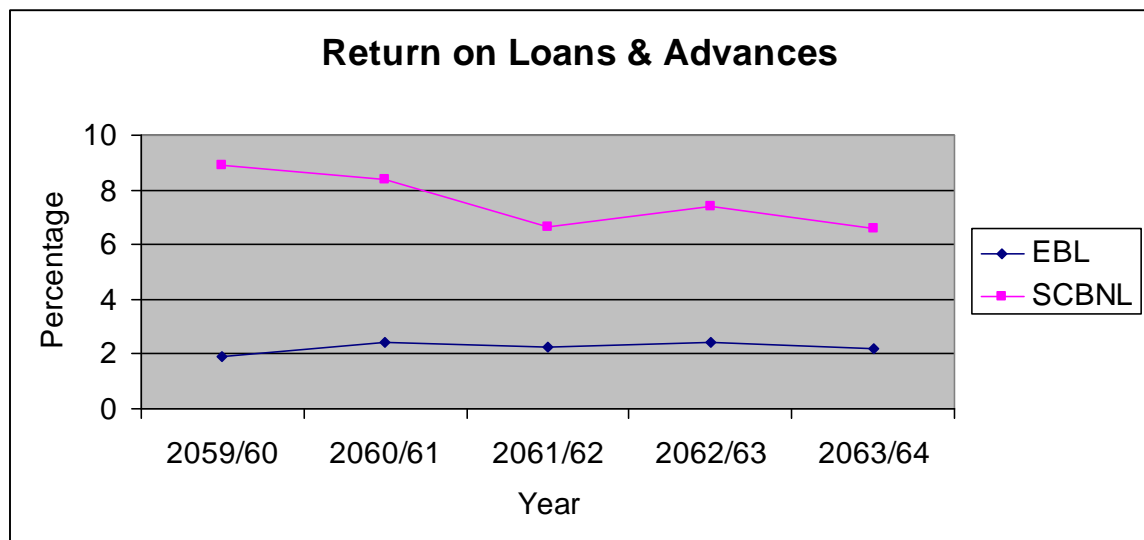
The return on loans and advances ratio of the banks is fluctuating over the study period. The highest return on loans and advances ratio of EBL is 2.44 and lowest ratio is 1.92 as well as SCBNL's highest return on loans and

advances ratio is 8.90 and lowest ratio is 6.59 in the fiscal year 2059/60 and 2063/64 respectively.

Standard deviation of return on loans and advances ratio of EBL and SCBNL are 0.418, 0.192 and 0.932 respectively. Coefficient of variation of EBL is 8.55% and SCBNL is 12.31%.

To make bank's profitability and return from loans and advances is satisfactory; the banks should really make an effort in loans and advances efficiently to generate adequate level of return. This ratio can be presented in the following graph.

Figure – 4.23



4.4.4.2 Return on Total Deposit

Total deposit of the bank is its creditorship. The prior objective of the bank is collected more deposit and utilization in various sectors i.e. to earn high profit there by maximizing return on its total deposits. This ratio reflects the extent to which the banks have been successful in mobilizing its total deposits.

Return on total deposit of NABIL, EBL and SCBNL. are presented below in the table (Detail in Appendix - XX)

Table 4.32**Return on Total Deposit (in %)**

Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	1.41	2.70
2060/61	1.78	2.54
2061/62	1.69	2.79
2062/63	1.73	2.86
2063/64	1.65	2.81
Mean (\bar{X})	1.652	2.74
S.D.	0.128	0.113
C.V. (%)	7.75	4.12

Above table 4.32 depicts the return on total deposit ratio of the selected commercial banks. The mean (\bar{X}) of return on total deposit ratio of EBL and SCBNL are 1.652 and 2.74 respectively.

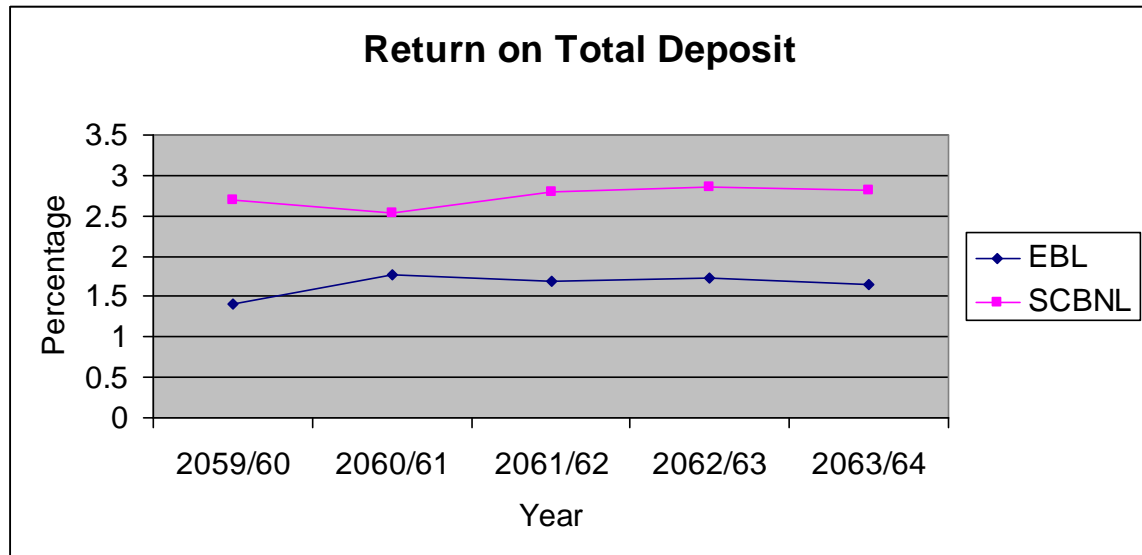
The return on total deposit ratio of the banks is fluctuating over the study period. The highest return on total deposit ratio of EBL is 1.78 and lowest ratio is 1.41 in the fiscal year 2060/61 and 2059/60 respectively as well as SCBNL's highest return on total deposit ratio is 2.86 and lowest ratio is 2.54 in the fiscal year 2062/63 and 2060/61 respectively.

Standard deviation of return on total deposit ratio of EBL and SCBNL are 0.128 and 0.113 respectively. Coefficient of variation of EBL is 7.75% and SCBNL is 4.12%.

To make bank's profitability and return from total deposit is satisfactory; the banks should really make an effort in total deposit, its collect

efficiently to generate adequate level of return. This ratio can be presented in the following graph.

Figure – 4.25



4.4.4.3 Return on Total Assets

This ratio is calculated to reveal the profitability of the banks with respect to total assets. It measures the profitability of all financial resources invested in the banks assets.

Return on total assets of EBL and SCBNL are presented below in the table (Detail in Appendix - XXI)

Table 4.33

Return on Total Assets (in %)

Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	1.17	2.42
2060/61	1.49	2.27

2061/62	1.46	2.46
2062/63	1.50	2.56
2063/64	1.40	2.42
Mean (\bar{X})	1.404	2.426
S.D.	0.122	0.093
C.V. (%)	8.69	3.83

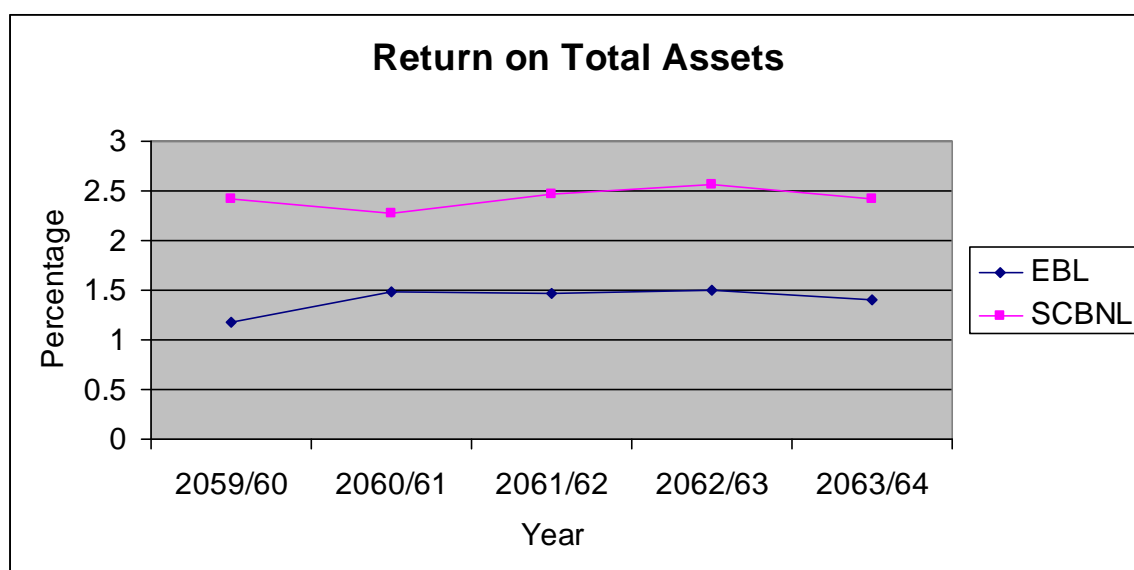
Above table 4.33 depicts the return on total assets ratio of the selected commercial banks. The mean (\bar{X}) of return on total assets ratio of EBL and SCBNL are 1.404 and 2.426 respectively.

The return on total assets ratio of the EBL and SCBNL is fluctuating over the study period. The highest return on total assets ratio of EBL is 1.50 and lowest ratio is 1.17 in the fiscal year 2062/63 and 2059/60 respectively as well as SCBNL's highest return on total assets ratio is 2.56 and lowest ratio is 2.27 in the fiscal year 2062/63 and 2060/61 respectively.

Standard deviation of return on total assets ratio of EBL and SCBNL are 0.122 and 0.093 respectively. Coefficient of variation of EBL is 8.69% and SCBNL is 3.83%.

The bank's return on asset is not satisfactory. The bank's should utilize the idle assets accumulate by the bank. This ratio can be presented in the following graph.

Figure – 4.26



4.4.4.4 Return on Capital Employed

The capital employed of the bank is its owned capital and long-term liabilities. The prior purpose of the bank is wealth maximization i.e. to earn high profit there by maximizing return on its capital. This ratio reflects the extent to which the banks have been successful in mobilizing its capital.

Return on capital employed of EBL and SCBNL are presented below in the table (Detail in Appendix - XXIV)

Table 4.36

Return on Capital Employed (in %)

Fiscal year	Selected Banks	
	EBL	SCBNL
2059/60	18.57	37.03
2060/61	23.49	35.96
2061/62	23.05	34.07

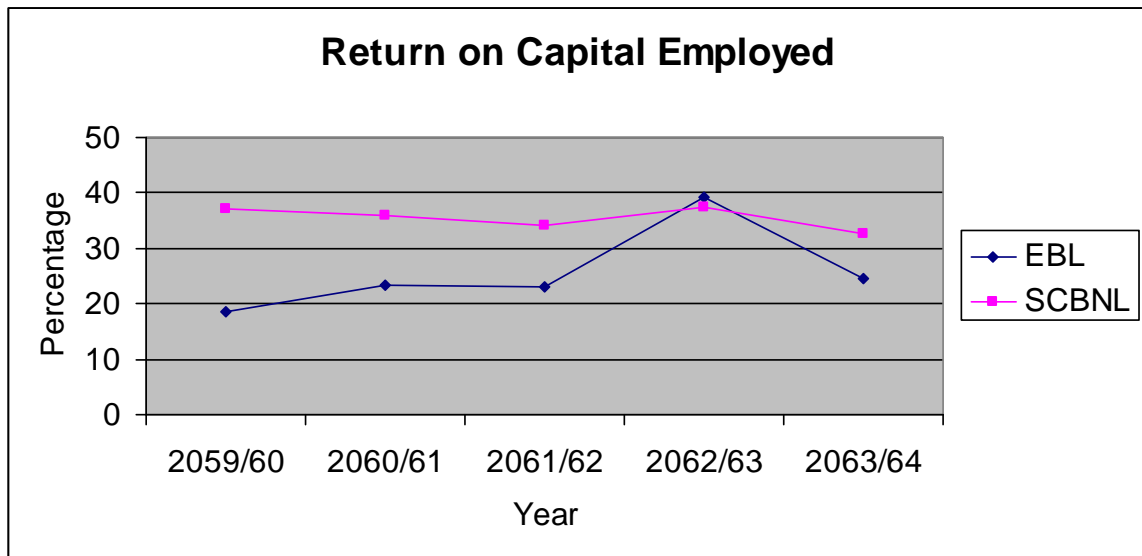
2062/63	39.10	37.55
2063/64	24.51	32.68
Mean (\bar{X})	25.744	35.458
S.D.	6.981	1.83
C.V. (%)	27.12	5.16

Above table 4.36 depicts the return on capital employed ratio of the selected commercial banks. The mean (\bar{X}) of return on capital employed ratio of EBL and SCBNL are 32.066, 25.744 and 35.458 respectively.

The return on capital employed ratio of the banks is fluctuating over the study period. The highest return on capital employed ratio of EBL is 39.10 and lowest ratio is 18.57 in the fiscal year 2062/63 and 2059/60 respectively as well as SCBNL's highest return on capital employed ratio is 37.55 and lowest ratio is 32.68 in the fiscal year 2062/63 and 2063/64 respectively.

The mean of return on capital employed ratio of SCBNL is the highest i.e. 35.458 than EBL. Standard deviation of return on capital employed ratio of EBL and SCBNL are 6.981 and 1.83 respectively. Coefficient of variation of EBL is 27.12% and SCBNL is 5.16%. To make bank's profitability and return from total capital is satisfactory, the banks should really make an effort in the capital efficiently to generate adequate level of return. This ratio can be presented in the following graph.

Figure – 4.29



4.5 Co-efficient of Correlation

This analysis interprets and identifies the relationship between two of more variables. In the case of highly correlated, the effects on none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

- a) Coefficient of correlation between Current assets and Current Liabilities
- b) Coefficient of correlation between Total Deposit and Net Profit
- c) Coefficient of correlation between Total Deposit and Loan & Advances

The above analysis tools analyze the relationship between these the relevant variables and helps the bank to make sound policies regarding deposit collection, fund utilization (loan and advances and investment) and profit maximization.

The following formula is used to find out the relationships:

$$\text{Coefficient of Correlation (r)} = \frac{d_1 \cdot d_2}{\sqrt{\phi d_1^2 \cdot \phi d_2^2}}$$

Where,

$$d_1 = X_1 - \bar{X}_1$$

$$d_2 = X_2 - \bar{X}_3$$

For the purpose of decision-making, interpretation is based on following term:

- When $r = 1$, there is perfect positive correlation.
- When $r = -1$, there is perfect negative correlation.
- When $r = 0$, there is no correlation.
- Nearer the value of r to $+1$, closer will be the relationship between two variables and nearer the value of r to 0 , lesser will be the relationship.

$$P.E = \frac{0.6745(1 - r^2)}{\sqrt{n}}$$

Where,

P.E. = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observations

4.5.1 Coefficient of Correlation between Current Assets and Current Liabilities

The following table describes the relationship between current assets and current liabilities of EBL and SCBNL with comparatively under five years study period. In the following case, current assets are independent variables (X_1) and current liabilities are dependent variables (X_2).

Table 4.44

Correlation Coefficient between current assets and current liabilities

Banks	EBL	SCBNL
Coefficient of correlation (r)	0.9996	0.9991
P.E.	0.00022	0.0011

6 P.E.	0.0013	0.0066
t-test	0.1855	0.519

Appendix:

From the above table, it is found that coefficient of correlation between current assets and current liabilities of EBL is 0.9996 i.e. there is high degree of positive correlation between two variables. It means correlation of coefficient between current assets and current liabilities of EBL is perfect correlation. Similarly, probable error (P.E.) is 0.00022 and 6P.E. is 0.0013 which shows that 'r' is greater than 6P.E. Therefore it reveals that relationship between current assets and current liabilities is significant. T-test of EBL is 0.1855, which is less than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is no significant.

Similarly, it is found that coefficient of correlation between current assets and current liabilities of SCBNL are 0.9991 i.e. high degree of positive correlation between these two variables. It also reveals that relationship between current assets and current liabilities is perfect correlation. Similarly, probable error (P.E.) is 0.0011 and 6P.E. is 0.0066 which shows that 'r' is greater than 6P.E. Therefore it reveals that relationship between current assets and current liabilities is significant. T-test of SCBNL is 0.519, which is less than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is no significant.

4.5.2 Coefficient of Correlation between Total Deposit and Net Profit

The following table describes the relationship between total deposits and net profit of EBL and SCBNL with comparative under five years study period. In the following case, total deposit is independent variables (X_1) and net profit is dependent variables (X_2).

Table 4.41

Correlation Coefficient between Total Deposits and Net Profit

Banks	EBL	SCBNL
Coefficient of correlation (r)	0.991	0.954
P.E.	0.006	0.027
6 P.E.	0.036	0.163
t-test	5.366	18.743

Appendix

From the above table, it is found that coefficient of correlation between total deposit and net profit of EBL is 0.991 i.e. there is high degree of positive correlation between two variables. It means correlation of coefficient between total deposit and net profit of EBL is perfect correlation. Similarly, probable error (P.E.) is 0.006 and 6P.E. is 0.036 which shows that 'r' is greater than 6P.E. Therefore it reveals that relationship between total deposit and net profit is significant. T-test of EBL is 5.366, which is greater than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is significant.

Similarly, it is found that coefficient of correlation between total deposit and net profit of SCBNL is 0.954 i.e. high degree of positive correlation between these two variables. It also reveals that relationship between total deposit and net profit is closer to perfect correlation. Similarly, probable error (P.E.) is 0.027 and 6P.E. is 0.163 which shows that 'r' is greater than 6P.E. Therefore it reveals that relationship between total deposit and net profit is significant. T-test of SCBNL is 18.743, which is greater than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is significant.

4.5.3 Coefficient of Correlation between Total Deposit and Loans & Advances

The following table describes the relationship between total deposits and loan and advances of EBL and SCBNL with comparatively under five years study period. In the following case, total deposit is independent variables (X_1) and loan and advances is dependent variables (X_2).

Table 4.43

Correlation Coefficient between Total Deposits and Loans & Advances

Banks	EBL	SCBNL
Coefficient of correlation (r)	0.998	0.826
P.E.	0.0012	0.096
6 P.E.	0.007	0.575
t-test	1.150	19.38

Appendix:

From the above table, it is found that coefficient of correlation between total deposit and loans & advances of EBL is 0.998 i.e. there is high degree of positive correlation between two variables. It means correlation of coefficient between total deposit and loans & advances of EBL is perfect correlation. Similarly, probable error (P.E.) is 0.0012 and 6P.E. is 0.007 which shows that 'r' is greater than 6P.E. Therefore it reveals that relationship between total deposit and loans and advance is significant. T-test of EBL is 1.150, which is less than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is no significant.

Similarly, it is found that coefficient of correlation between total deposit and loans & advances of SCBNL is 0.826 i.e. high degree of positive correlation between these two variables. It also reveals that relationship between total deposit and loans & advances is closer to perfect correlation. Similarly, probable error (P.E.) is 0.096 and 6P.E. is 0.575 which shows that 'r'

is greater than 6P.E. Therefore it reveals that relationship between total deposit and loans and advance is significant. T-test of SCBNL is 19.38, which is greater than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is significant.

4.6 Distribution of Assets for 2063/64

The total assets are the combination of various financial components. There should be a proper distribution of these components in the total assets. There are some different components that have constituted the total assets of the selected commercial banks, which are cash & bank balance, money at call and short notice, investment, loans and advances, fixed assets and other assets.

4.6.1 Distribution of Assets of EBL for 2063/64

The components of total assets of EBL are cash & bank balance, investment, loans and advances, fixed assets and other assets which is shown as table with figure in below:

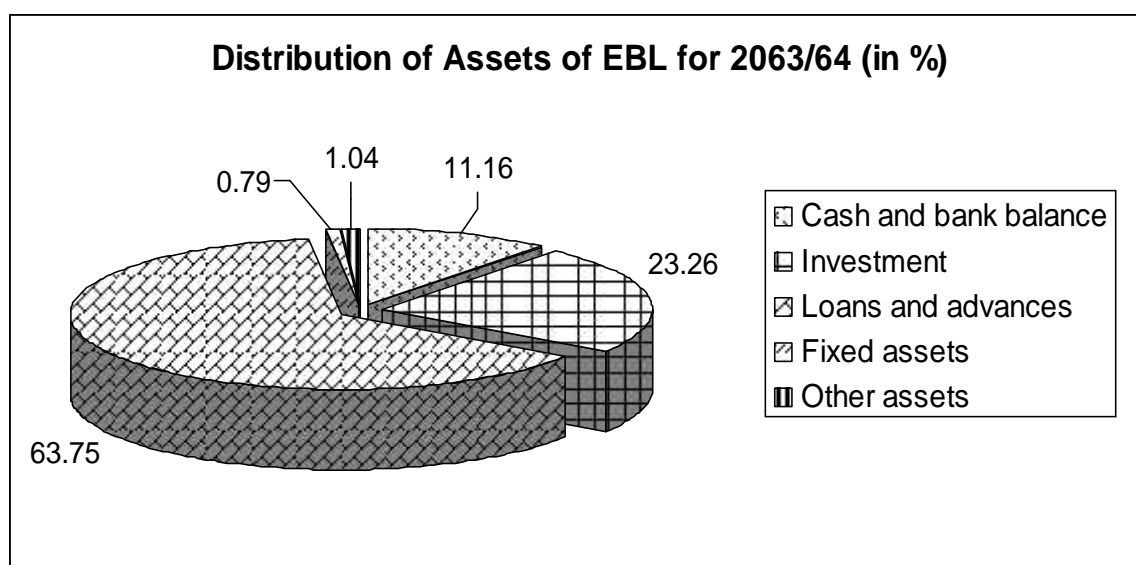
Table 4.39

Distribution of Assets of EBL for 2063/64 (Rs. in million)

S.N.	Components of Assets	Amount	Percentage
1	Cash and bank balance	2391.4	11.16
2	Investment	4984.31	23.26
3	Loans and advances	13664.08	63.75
4	Fixed assets	170.10	0.79
5	Other assets	222.66	1.04
	Total assets	21432.57	100.00

Source: Annual Report of EBL, 2007

Figure – 4.32



From the above table and figure depicts that distribution of assets of EBL for 2063/64. It reveals that the major portion of the total assets is occupied by loans and advances, which is 63.75% of the total assets. Investment is covered 23.26% of total assets. Cash & bank balance is occupied 11.16% of the total assets. Similarly, other assets and fixed assets are occupied 1.04% and 0.79% of the total assets respectively.

4.6.2 Distribution of Assets of SCBNL for 2063/64

The components of total assets of SCBNL are cash & bank balance, money at call and short notice, investment, loans and advances, fixed assets and other assets which is shown as table with figure in below:

Table 4.40

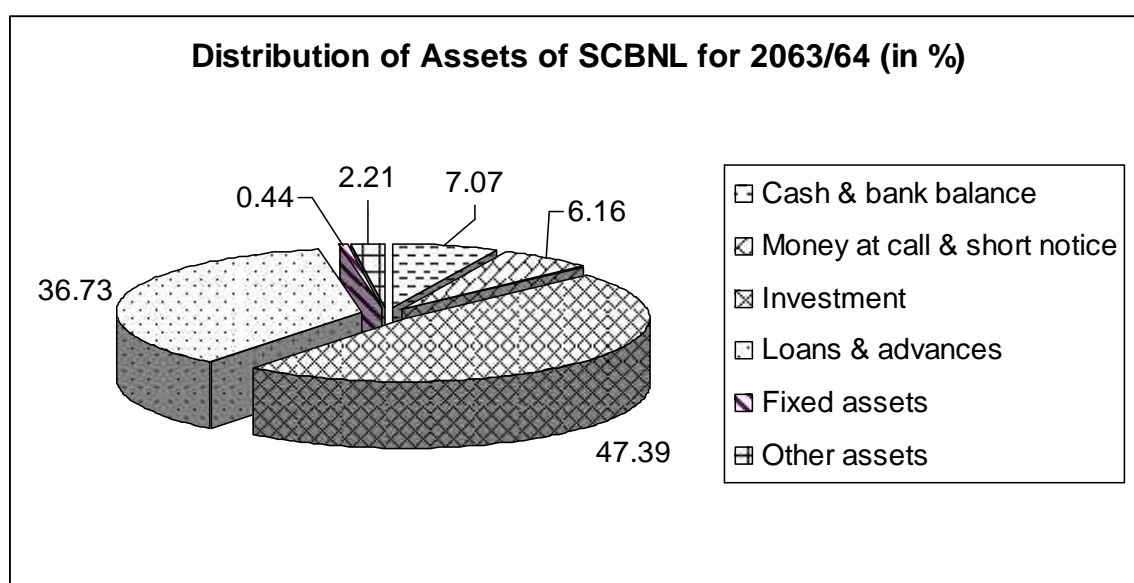
Distribution of Assets of SCBNL for 2063/64 (Rs. in million)

S.N.	Components of Assets	Amount	Percentage
1	Cash and bank balance	2021.02	7.07
2	Money at call and short notice	1761.15	6.16
3	Investment	13553.23	47.39

4	Loans and advances	10502.64	36.73
5	Fixed assets	125.59	0.44
6	Other assets	633.05	2.21
	Total assets	28596.69	100

Source: Annual Report of SCBNL, 2007

Figure – 4.33



From the above table and figure depicts that distribution of assets of SCBNL for 2063/64. It reveals that the major portion of the total assets is occupied by loans and advances, which is 36.73% of the total assets. Investment is covered 47.39% of total assets. Cash & bank balance is occupied 7.07% of the total assets. Similarly, money at call and short notice, other assets and fixed assets are occupied 6.16%, 2.21% and 0.44% of the total assets respectively.

4.7 Major Findings of the Study

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from

the analysis of working capital management of the selected banks with comparatively applying five years data from 2059/60 to 2063/64.

The major findings of the study derived from the analysis of financial tools of the selected banks are given below:

- i) The liquidity positions of commercial banks aren't very poor though the rule of thumb the standard ratio should be 2:1. The banks are unable to maintain the current ratio in accordance with standard.
- ii) EBL has the highest level of current assets of Rs.19892.90 million in the year 2063/64 and the lowest level of current assets of Rs.7887.40 million in the year 2059/60. On average it holds the level of current assets of Rs.12585.64 million.
- iii) SCBNL has the highest level of current assets of Rs.23494.63 million in the year 2060/61 and the lowest level of current assets of Rs.19322.67 million in the year 2061/62. On average it holds the level of current assets of Rs.21420.80 million.
- iv) The level of net working capital of SCBNL is fluctuated over the period of time. During the study period of 5 years from 2059/60 to 2063/64, the highest amount of net working capital is Rs.3176.82 million in 2059/60 and that of lowest amount is - Rs.4454.55 million in 2063/64.
- v) The level of net working capital of EBL is fluctuated over the period of time. During the study period of 5 years from 2059/60 to 2063/64, the highest amount of net working capital is Rs.459.60 million in 2061/62 and that of lowest amount is - Rs.38.20 million in 2063/64.
- vi) The current ratio of the banks are in fluctuating order with lower than the standard ratio. The SCBNL has maintained the ratio is not lesser than 1.06 but EBL has not meet that ratio in the overall five fiscal years.
- vii) The cash reserve ratio of the banks is fluctuating. The highest cash reserve ratio of EBL is 17.02 and lowest ratio is 7.83 in the fiscal year 2059/60 and 2060/61 respectively as well as SCBNL's highest cash reserve ratio is 9.56 and lowest ratio is 5.53 in the fiscal year 2060/61 and 2062/63 respectively.

- viii) The debt to total assets ratio of the banks are fluctuating. The highest debt to total assets ratio of EBL is 92.93% and lowest ratio is 91.49% in the fiscal year 2063/64 and 2061/62 respectively as well as SCBNL's highest debt to total assets ratio is 93.67% and lowest ratio is 92.60% in the fiscal year 2060/61 and 2063/64 respectively.
- ix) The loans and advances to current assets ratio of EBL and SCBNL is fluctuated. The highest loans and advances to current assets ratio of EBL is 65.51 and lowest ratio is 62.46 in the fiscal year 2061/62 and 2060/61 respectively as well as SCBNL's highest loans and advances to current assets ratio is 37.32 and lowest ratio is 27.27 in the fiscal year 2061/62 and 2060/61 respectively.
- x) The total assets turnover ratio of the banks is decreasing with fluctuated. The highest total assets turnover ratio of SCBNL is 0.072 and lowest ratio is 0.067. Similarly, the highest total assets turnover ratio of EBL is 0.08 and lowest ratio is 0.06.
- xi) The capital employed turnover ratio of EBL is fluctuating over the study period but SCBNL is slowly decreased during the study period. The highest capital employed turnover ratio of EBL is 1.75 and lowest ratio is 1.12 in the fiscal year 2062/63 and 2063/64 respectively as well as SCBNL's highest capital employed turnover ratio is 1.10 and lowest ratio is 0.94 in the fiscal year 2059/60 and 2063/64 respectively.
- xii) The cash and bank balance turnover ratio of the banks is fluctuating over the study period. The highest cash and bank balance turnover ratio of EBL is 1.24 and lowest ratio is 0.56 in the fiscal year 2061/62 and 2059/60 respectively as well as SCBNL's highest cash and bank balance turnover ratio is 1.42 and lowest ratio is 0.78 in the fiscal year 2061/62 and 2060/61 respectively.
- xiii) The fixed assets turnover ratio of the SCBNL is increased till the fiscal year 2061/62 and than decreased but the fixed assets turnover ratio of EBL is fluctuated. The highest fixed assets turnover ratio of EBL is 8.06 and lowest ratio is 5.80 in the fiscal year 2063/64 and 2059/60 respectively as well as SCBNL's highest fixed assets turnover ratio is

22.07 and lowest ratio is 7.85 in the fiscal year 2061/62 and 2059/60 respectively.

- xiv) The loans and advances to total deposit ratio of the banks is fluctuating over the study period. The highest loans and advances to total deposit ratio of EBL is 75.45 and lowest ratio is 71.01 in the fiscal year 2061/62 and 2062/63 respectively as well as SCBNL's highest loans and advances to total deposit ratio is 42.61 and lowest ratio is 30.29 in the fiscal year 2061/62 and 2060/61 respectively.
- xv) The return on loans and advances ratio of the banks is fluctuating over the study period. The highest return on loans and advances ratio of EBL is 2.44 and lowest ratio is 1.92 as well as SCBNL's highest return on loans and advances ratio is 8.90 and lowest ratio is 6.59 in the fiscal year 2059/60 and 2063/64 respectively.
- xvi) The return on total deposit ratio of the banks is fluctuating over the study period. The highest return on total deposit ratio of EBL is 1.78 and lowest ratio is 1.41 in the fiscal year 2060/61 and 2059/60 respectively as well as SCBNL's highest return on total deposit ratio is 2.86 and lowest ratio is 2.54 in the fiscal year 2062/63 and 2060/61 respectively.
- xvii) The return on total assets ratio of the EBL and SCBNL is fluctuating over the study period. The highest return on total assets ratio of EBL is 1.50 and lowest ratio is 1.17 in the fiscal year 2062/63 and 2059/60 respectively as well as SCBNL's highest return on total assets ratio is 2.56 and lowest ratio is 2.27 in the fiscal year 2062/63 and 2060/61 respectively.
- xviii) The return on capital employed ratio of the banks is fluctuating over the study period. The highest return on capital employed ratio of EBL is 39.10 and lowest ratio is 18.57 in the fiscal year 2062/63 and 2059/60 respectively as well as SCBNL's highest return on capital employed ratio is 37.55 and lowest ratio is 32.68 in the fiscal year 2062/63 and 2063/64 respectively.

- xix) The coefficient of correlation between current assets and current liabilities is almost 1, so that there is high degree of positive correlation between two variables of the selected banks. It means correlation of coefficient between current assets and current liabilities of the selected banks has perfect correlation. Correlation of coefficient (r) is greater than 6P.E. Therefore it reveals that relationship between current assets and current liabilities is significant.
- xx) The coefficient of correlation between total deposit and net profit is almost 1, so that there is high degree of positive correlation between two variables of the selected banks. It means correlation of coefficient between net profit and total deposit of the selected banks has perfect correlation. Correlation of coefficient (r) is greater than 6P.E. Therefore it reveals that relationship between total deposit and net profit is significant.
- xxi) The coefficient of correlation between total deposit and loans & advances of the selected banks is nearly 1 so, high degree of positive correlation between these two variables. It also reveals that relationship between net profit and total deposit of the selected banks are closer to perfect correlation. Correlation of coefficient (r) is greater than 6P.E. Therefore it reveals that relationship between total deposit and loans & advances is significant.
- xxii) T-test between current assets and current liabilities of EBL is 0.1855, which is less than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is no significant.
- xxiii) T-test between current assets and current liabilities of SCBNL is 0.519, which is less than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is no significant.
- xxiv) T-test between total deposit and net profit of EBL is 5.366, which is greater than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is significant.

- xxv) T-test between total deposit and net profit of SCBNL is 18.743, which is greater than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is significant.
- xxvi) T-test between total deposit and loans & advances of EBL is 1.150, which is less than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is no significant.
- xxvii) T-test between total deposit and loans & advances of SCBNL is 19.38, which is greater than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test is 2.306 so that, it is significant.
- xxiii) The components of total assets of the selected banks are cash & bank balance, money at call and short notice, investment, loans and advances, fixed assets and other assets. Among the total assets, loans and advances has occupied maximum percentage of total assets.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter includes summary conclusion & recommendation of the study. The final and most important task of the researchers is to enlist fact findings of the study and give suggestion for further improvement. The analysis is performed with the help of financial tools and statistical tools. The analysis is associated with comparison and interpretation. Under financial analysis, various financial ratios related to the working capital management are used and under statistical analysis some relevant statistical tools are used.

5.1 Summary

The development of any country largely depends upon its economic development. Economic development demands transformation of savings or resources into the actual investment. Capital formation is the prerequisite in setting the overall pace of the economic development of a country. It is the financial institution that transfers funds from surplus spending units to deficit units.

Banking sector plays a vital role for the country's economic development. Bank is a resource mobilizing institution, which aspect deposits from various sources, and invests such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism etc. Banks help to mobilize the small saving collectively to huge capital markets. Commercial banks basically help to promote the money market by providing expert managerial skills and by using advanced and often state of the art technologies to serve the customers in an efficient and effective manner.

In financial sector, there are various commercial banks established as joint venture. After implementation of the open market policy, joint venture commercial banks are opened as private banks. In competitive financial market performance of joint venture banks are very good. The main objective of the

study was to study the comparative analysis of the working capital as well as ratio analysis of commercial banks, i.e. Everest Bank Ltd. and Standard Chartered Bank Nepal Ltd. To fulfill this objective and other specific objective as described in chapter one, an appropriate research methodology has development, which include the ratio analysis as a financial tools and statistical tools with t-test (hypothesis) tools. The major ratio analysis consists of the composition of working capital position, liquidity ratio, activity ratio, capital structure ratio and profitability ratio. Under these, main ratios and their trend position are studied in the chapter four. In order to test the relationship between the various components of working capital, Karl Pearson's correlation coefficient 'r' is calculated and analyzed.

Now-a-days, many commercial banks are rapidly opened in Nepal as commercial banks with higher technology and efficient methods in banking sector especially after the political reform of the country. At present, 25 commercial banks are operating in Nepal. But in this study, only two commercial banks has been undertaken i.e. Everest Bank Ltd. and Standard Chartered Bank Nepal Ltd. This study has been completed on the basis of secondary data.

Periodical review and analysis of financial aspects of the banks are very necessary to see the clear financial pictures; working capital's components of Nepalese commercial banks in Nepal i.e. EBL and SCBNL has been carried out to fulfill this requirement.

Studied of selected banks are introduced. Problems are stated to set the objectives of the study. The objectives are to evaluate the working capital management and financial analysis of EBL and SCBNL banks and to identity their strengths and weaknesses. Theoretical framework of ratio analysis, correlation between two variables, its importance and limitations, research methodology and limitations of the study are mentioned.

The findings of liquidity ratios, capital structure ratios, activity ratios and profitability ratios are presented on a comparative basis. Besides, statistical analysis i.e. mean, standard deviation, coefficient of variance of all ratios and correlation of coefficient of current assets with current liabilities, the total

deposit with net profit and loans & advances, and test of hypothesis made is also done of the selected banks. This analysis gives clear picture of the performance of the bank with regard to its operation. All of the information and data are collected from related banks i.e. websites, annual reports.

The operating efficiencies of the selected banks and their abilities to ensure adequate returns to the shareholders have been measured.

5.2 Conclusions

On the basis of entire research study some conclusions have been deduced. This study particularly deals about the working capital position with financial analysis of commercial banks in Nepal. The present study is mainly an attempt to give account of comparative study about commercial banks in different aspects such as liquidity position, profitability position, and market position and other related ratios and indicators of the basis of financial statement.

After conducting the working capital management of EBL and SCBNL, covering the study period of 2059/60 to 2063/64, the following conclusions can be drawn from the study:

- a) The mean (\bar{X}) of current ratio of EBL is 1.05:1 as well as SCBNL is 1.068:1. This is lesser than the standard current ratio 2:1. The banks are unable to maintain the current ratio in accordance with standard.
- b) The mean (\bar{X}) of cash reserve ratio of EBL and SCBNL are 11.93 and 7.42 respectively. Standard deviation of cash reserve ratio of EBL and SCBNL are 3.066 and 1.546 respectively. Coefficient of variation of EBL is 25.70% and SCBNL is 20.84%.
- c) SCBNL is maintaining adequate liquidity position regarding cash reserve ratio than EBL. Too low ratios are also not preferable bank should meet its obligations any time when necessary.
- d) The mean (\bar{X}) of loans and advances to current assets ratio of EBL and SCBNL are 55.414, 64.078 and 32.756 respectively The loans and advances to current assets ratio of EBL and SCBNL is fluctuated.

- e) The total assets turnover ratio of the selected banks is decreasing with fluctuated. The mean (\bar{X}) of total assets turnover ratio of EBL and SCBNL are 0.072 and 0.069 respectively
- f) The debt to total assets ratio of the banks are fluctuating. Comparatively, SCBNL is more at riskier position of debt financing than other two banks because of higher average (mean).
- g) EBL has emerged as having a large volume of banking operations, mainly its deposits and lending in the light of its greater deposits and greater credits compared to SCBNL.
- h) The profitability ratios of the selected banks are fluctuating over the study period. To make bank's profitability and return from loans and advances is satisfactory; the banks should really make an effort in loans and advances efficiently to generate adequate level of return.
- i) The coefficient of correlation between two variables (i.e. current assets and current liabilities, total deposit and net profit and total deposit and loans & advances) of the selected banks is nearly 1 so, high degree of positive correlation between these two variables. It also reveals that relationship between two variables of the selected banks is closer to perfect correlation. Correlation of coefficient (r) is greater than 6P.E. Therefore it reveals that relationship between two variables is significant.
- j) T-test between two variables of EBL and SCBNL is greater than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables test so that, it is significant.

5.3 Recommendations

On the basis of major finding of the study, some important recommendations have been forwarded. Although these banks have more than 12 years of commercial experiences in the Nepalese commercial banking sector, with a competent managerial team, some weaknesses have come into light through the study. The sampled banks may use it as a remedial measure. The recommendations have been the following.

- i) The banks, especially the SCBNL and EBL has to maintain adequate cash & bank balance to total deposits ratio, as prescribed by NRB, which is 5% of total deposits.
- ii) EBL is suggested to improve its profitability position, and to improve its overall efficiency and returns to its shareholders.
- iii) The debt to equity ratio of the EBL is decreased till 2061/62 and than increased but the debt to equity ratio of SCBNL is fluctuating so that fluctuations should try to be controlled.
- iv) Although the loans and advances to total deposit ratio of the banks is fluctuating over the study period, the banks performance have good, don't loose the level.
- v) SEBNL has been suggested to improve its deposits and credits to increase its volume of banking operations.
- vi) The banks are suggested to improve its deposits and credits to increase its volume of banking operations.
- vii) The banks should finance superior quality of assets for greater profits, especially for SCBNL.
- viii) The studied banks are suggested to invest in deprived sector as directed by NRB in order to contribute to the overall development of the country.
- ix) The banks should maintain positive relationship between loans and advances and deposits in coming years also, to maximize benefits.
- x) Since the economy of the country has become weaker since the last decade, the studied banks are advised to concentrate more on risk free securities and low risk loans.
- xi) Last, but not the least the banks should keep in peace with the changing banking technologies, improve organizational structure, provide quality services to its customers and actively participate in social welfare programmes. Organizational culture that acquires, develops, utilizes and maintains the employees in a high morale is preferred.

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