

## CHAPTER-I

### INTRODUCTION

#### 1.1 General Background

Simply, Working capital management means excess of current assets over current liabilities. It refers to the administration of all aspect of the current assets and current liabilities. To run day – to – day operations on the business, amount invested in the firm of raw material, cash, semi-finished goods, receivable etc put together is called working capital.

There are two concept of working capital, net concept and gross concept. Net concept of working capital is the excess of current assets over current liabilities. Gross concept is the total of current assets. It is particularly useful for new companies in deciding size of the investment in each type of current assets. Inadequate investment effects firms' profitability as idle investment yields nothing. So, with the increase or decrease in business activities, working capital needs also fluctuate from time to time. This aspect of working capital management is equally applicable to the small as well as large scale enterprises. The main difference of working capital between small and large firm is that working capital management may be the factor which decides success or failure of the small firm, where as in large firms, efficient working capital management significantly affects the firms risk return and share price.

Every company has variable working capital and permanent working capital. Certain portion of working capital always remains permanent working capital. Cash receivables and inventory level in the business would never decline to zero. The working capital other than permanent is called variable working capital. It keeps on changing in course of business operation.

An organization needs to determine the size of working capital as accurately as possible. Neither under-investment nor over investment in working capital is preferred. A firm therefore should pay proper attention to determinants of working capital, which differs from organization to organization. Some of the important determinants of working capital are nature and size of business, cost and time involved in manufacturing process, turnover of circulating capital growth and

expansion phase, change in business cycles, terms and conditions of sales and purchases, nature of dividend policy and so on. Coordination between production and distribution, developed transport and communication systems etc. could also play an important role in determining investment in working capital.

Working capital is therefore the size of investment in each type of current assets e.g. cash, receivables and inventory. Decision regarding working capital affects the profitability of the firm in the short run but it affects the very survival in the long run. Faster the turnover of cash into raw material, raw materials into semi-finished goods, semi-finished goods into finished goods, and finished goods into receivable and cash, greater would be the efficiency of the firm's.

Working capital management study is focused on the theoretical and empirical study in relation to working capital management of ULNL. By employing statistical and financial tools, this study will try to give valuable recommendations and measures for correcting deviations.

### **A Brief Introduction of Unilever Nepal Limited**

Unilever Nepal Limited Company was formed as subsidiary company of Hindustan Lever Limited. The factory's registered office is situated at Basamadi, VDC – 5 of Makawanpur District which is about six kilometers far from Hetauda Municipality and its corporate office is situated at Heritage Plaza, Kamaladi, Kathmandu, Nepal. Unilever Nepal Limited was established in 1994 as joint-venture company between Hindustan Lever Limited, India and Nepali Promoters under the company Act 2021 B.S. It is the subsidiary company of foreign investment and technology transformation. The main purpose of the company is to meet the everyday needs of people everywhere to anticipate the aspirations of consumers and customers and respond creatively and completely with branded products and services, which raise the quality of life.

The main products of the company are soaps, detergents, cosmetics toiletries, oleaginous, saponaceous, unguents and other chemical products. They are marketed in and outside the country under the brand name of the products of Hindustan Lever Limited. The success of this industry will attract the foreign investment and

technology transformation in this country and also encourage the private sector in the country.

ULNL is the first subsidiary company of Hindustan Lever Ltd outside of India with holding 80% ownership and invested Rs 73.7 million in equity. The authorized capital of the company is Rs 30,00,00,000/- (Thirty Crores) and Issued and Paid-Up-Capital of Rs. 9,20,70,000/-, Percentage of share holding as follows (www.nepalstock.com).

<b>Name of Shareholders</b>	<b>% of share</b>
Hindustan Lever Ltd.	80%
Sibkrim Land and Ind. Co.Pvt.Ltd.	5%
Public Shareholders	15%

Hindustan Lever Ltd. holds the 80% share of ULNL. which was formed as a subsidiary company of Unilever Group of Company of England, with 51% share. It was started nearly 1940 in India. The head office is situated in Mumbai, India.

There are various types of assets and liabilities in every enterprise to run smoothly. One of the most important assets is current assets, which is required to meet the daily or short-term obligation. Like equipment, manpower, etc. working capital is the major component for daily operation. In the absence of working capital other things are useless. Working capital is that portion of total assets, which circulates from one to another in the ordinary conduct of business. Working capital management is a crucial aspect of financial management including the administration of all aspects of the current asset and current liabilities, which plays vital role for success or failure of organization.

This study focuses on the various aspects of the working capital management of Unilever Nepal Limited (ULNL). This study covers the current assets management policy, current assets utilization and current assets structure. Moreover, this study focuses on the finding of this enterprise for achieving goals. Following are focuses points of the study.

1. Profitability and liquidity position of Unilever Nepal Limited (ULNL).
2. Cash conversion cycle of ULNL
3. Analysis of working capital structure and working capital utilization of Unilever Nepal Limited.

## **1.2 Statement of the Problems**

Working capital is a crucial capital, which is compared as lifeblood of the human beings for the organization. In most enterprises, the management of working capital have been misunderstood as the management of money rather than its efficient utilization. Regarding the management of working capital sources, most of public enterprises have never thought of seriously. They are usually found to depend on HMG even for overcoming the shortages of working capital in spite of some public enterprises have used depreciation funded surplus to overcome the poverty of working capital. If a firm wants to maintain sound financial position, it should maintain optimal level of working capital. Determining the optimal level of working capital is the crux of the problem of every business organization. It is strongly related to the trade off between risk and return.

In the context of Nepal, enterprises face various problems to manage the working capital due to unproductive manpower, unclear financial market, unclear government policies etc. Managers still focus their attention on their procurement aspect of working capital but, there is not on the efficient utilization of funds. Defined information on working capital, there is no budgeting in enterprise for the next year, clear market research and other scenarios for future planning. In the unclear vision every business decision puzzles the management of working capital decision and other business decision, every enterprise wants to earn on their investment. The working capital management not only attacks profitability position in the short run but it also affects the survival in the long run of the organization. So every firm must maintain the sound working capital components for the effective and efficient utilization of funds in business organizations. Nepalese business industrialization process is a very slow process. In spite of various attractive policies of government in respect to industrialization, new investment on industrial sector is not satisfactory.

There are several indicators of working capital management. So, basically this study has tried to find out the issues of working capital management of ULNL. In this study, the following research will be analyzed.

1. What are the major factors affecting the management of working capital in ULNL?
2. Is there proper investment in each type of working capital in ULNL?

3. Are there sound liquidity positions in manufacturing companies like ULNL?
4. How working capital is being financed in ULNL?
5. How far is the company being able to utilize its current assets properly?

### **1.3 Objectives of the Study**

The main objective of this study is to examine the working capital management of ULNL. The specific objectives of this study are as follows:-

- ) To assess the liquidity and profitability position of ULNL.
- ) To analyze the structure and utilization of working capital of ULNL.
- ) To analyze the working capital policy of ULNL.
- ) To identify the factor affecting working capital management of manufacturing companies like ULNL.

### **1.4 Significance of the Study**

Working capital is related with the short term assets (I.e. current asset). More than half of total assets are invested in current assets. So, it is necessary to study about the working capital management in organization.

This study will be great references:

1. It will be useful for government to formulate appropriate economic policy for their enterprises.
2. It will help other similar nature of manufacturing enterprises to determine and manage working capital.
3. This study helps to evaluate impact of working capital on profitability business enterprises.
4. It will help for new financial manager of new business to take decision on efficient working capital management deciding its component strategies.

### **1.5 Limitations of the Study**

This study is mainly based on secondary data, which have been collected from annual reports of the relevant companies. The full required data of Nepalese Organizations are beyond the reach of researcher. Even the financial statements of the companies published are not readily available. Nepal Stock exchange Ltd. Publishes financial

statement and other information of some listed companies. It is on its websites. It only provides data of eight year period.

There are 41 listed manufacturing public enterprises but out of which only one company i.e. Unilever Nepal Limited (ULNLtd) has been selected the study period.

Every study is conducted under certain limitation. So, the present study as a partial requirement of Master of Business Studies program has been done under some limitation. But the researcher has tried to include all the required information for the conduct of the study as far as possible. Followings are some limitation under which this study has been conducted:

1. The analysis has been based upon the primary as well as secondary data, which are provided from the Unilever Nepal Limited Company and the reliability and validity of these data.
2. The study covers the time period of eight fiscal years from 2059/060 to 2066/67.
3. The analysis is based on data extracted from balance sheet P\L account maintained by Unilever Nepal Limited.
4. This study has done for the practical fulfillment of M.B.S. (Degree) so; it is not as comprehensive study.

## **1.6 Organization of the Study**

The study has been divided into five major chapters. These are as follows:

**Introduction:** The first chapter 'Introduction' deals with background, a brief overview of Unilever Nepal Limited, focus of the study, significance of the study, statement of the problem, objectives of the study and limitations of the study.

**Review of Literatures:** The second chapter 'Review of Literatures' deals with the review of related literatures and conducted by different experts and researchers in the field by working capital.

**Research Methodology:** The third chapter presents the methodology used in this study. It deals with research design, population and sample, financial and statistical tools used for the study.

**Presentation and analysis of data:** The fourth chapter fulfils the objective of the study by presenting the data and analyzing them with the help of various statistical tools followed by methodology.

**Summary, Conclusion and Recommendation:** The fifth chapter will summarize the whole study. Moreover, it draws the conclusions and forwards the recommendation for the improvement of working capital management of ULNL

At last, the bibliography and appendix have been incorporated at the end of the study.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

This chapter deals with the conceptual framework of working capital management. It also provides insight into the findings of earlier studies through the review of books, journals, publications and previous studies. This process of studying different materials, which are concerned with the selected topics of the research is known as review of literature. P.V. Young argues "Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research".

#### **2.1 Conceptual Framework**

##### **2.1.1 Working Capital Management**

Working capital is furnishing investment in short-term assets. The term "Working capital management" is consistent only with the management of current assets and current liabilities of the business which is necessary for day to day operations. It is a controlling nerve of the business. Every company has variable working capital and permanent working capital. Hence the success and failure of any organization depends on it. So far as the management of working capital in Nepalese manufacturing companies concerned a number of different management experts and students of MBS/MBA have undertaken studies. They have been describing the working capital management of various enterprises.

There are two concepts of working capital: gross and net. 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 years (or operating cycle) and cash, short-term securities, debtors, bills receivables and stocks (inventory) are included in current assets. 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 working capital will arise when current

assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets (Pandey; 1994:665)

The two concept of working capital-gross and net are not exclusive: rather they have equal significance from management view. The gross working capital concept focuses attention on two aspect of current assets management: (a) Optimum investment in current assets and (b) Financing of current assets. The consideration of the level of investment in current assets should avoid two-danger points-excessive and inadequate investment in current assets. Excessive investment in current assets should be avoided because it impairs firm's profitability, as idle investment earns nothing. On the other hand, inadequate amount of working capital can threaten, solvency of the firm, if it fails to meet its current obligations the firms may be realized that the working capital needs of the firms may be fluctuating with changing the business activity. This may be cause excess or shortage of WC frequently. It should be realized that the working capital needs of the management should be prompt to initiate an action and correct imbalance (Pandey; 1994:665).

The definition described above convey in some way or other, the same meaning. They virtually represent the characteristics of the WC. It seems that there is consensus on the following special characteristics of the working capital (Mathur; 1997:96-97).

#### **2.1.1.1 Short Life**

Working Capital is characterized by assets with a life span of less than 1 year. Such as cash, marketable securities, accounts receivable, and inventories etc. This short life span leads to high volatility in the level of investment require two financing working capital.

#### **2.1.1.2 Nearness of Cash or Liquidity**

This basic characteristic constitutes the first line of defense against technical insolvency. Cash is the most liquid assets having zero conversion period time and 100 percent conversion rate. But for inventory and marketable securities two factors i.e. (i) nearness to cash or amount of time required to convert assets in to cash and (ii) price realized on conversion must be considered.

### **2.1.1.3 Lack of Synchronization**

Since the enterprises cannot produce on order only and cannot insist on cash payments, there is always the problem of synchronization in cash receipt and disbursement. It is also due to the level of investment in working capital that is affected by the sales volume, production policies and collection policies.

The basic characteristics of working capital as mentioned above indicate that it is a term of capital intended to be kept moving or circulating and its potential for earning comes from movements. Though the expenditures controlled and planned its income is usually subject to random variation and is not controllable (Gallagher; 1987:35).

The purpose of this chapter is to provide an insight into working capital management and to give a bird eye view of different experts' thoughts regarding theory of working capital and its implications. While making review of related literature of working capital management, the researcher has gone through different financial books, bulletin documents, reports and journals.

Thus, this chapter has aimed at reviewing an available literature on working capital management in the context of Nepalese manufacturing companies.

Working capital is a furnish investment in short-term assets (Weston; 1981:137). Working capital is a firm's investment in short term assets cash, short term securities, account receivables and inventories (Weston & Brigham; 1984:266).

The term working capital is often used to refer to the firm's current assets like primarily cash, marketable securities, account receivables and inventories: Working capital refers to the fact that most of its components have their impact over weeks and months rather than year. For this reason, working capital management is often referred to as short-term finance (Soloman & Pringle; 1978:51).

The term working capital is closely related to the term fund has two common meanings. It is used to mean current assets or current assets minus current liabilities (Hampton; 1983:86).

Gross working capital is the firm's total current assets. Net working capital is current assets minus current liabilities (Weston & Brigham, 1984:267). The gross working

capital is simply called as working capital, refers to the firms investment in current assets (Pandey; 1994:666).

Working capital may be defined more particularly as the assets held for current use within a business less the amount due to those who await settlement in the short term in whatever form (Brown & Howard; 1982:78).

Working capital management is an important aspect of the manufacturing compares that have so far developed country. Among all available options proper management of working capital is the only best possible options proper management of working capital is the only best possible option to improve their operational viability. Working capital management is the crucial aspect of financial management practice in manufacturing enterprises. Working capital represents portion that circulates from one from to another in the ordinary conduct of business.

This idea embraces the recurring transaction from cash to inventories to receivable to cash that forms the conventional chain of business operations. Funds deployed for short-term are mainly for working capital or operational purpose. Towards the day-to-day operation, a firm will have to provide money towards the purchase of raw materials, payment of wage and salaries to extend credit to buyers of goods as well as to meet other day-to-day operations (Besant & Rai; 1978:53).

Working capital management is concerned with the problems that arise in attempting to manage the current assets. The term current assets refers to those assets which in the ordinary course of business can be or will be turned into cash with in one year without undergoing a diminution in value and with out disrupting the operation of the firm. The major current assets are cash, marketable securities, account receivables and inventory. Current liabilities are those liabilities, which are intended at their inception to be paid in the ordinary course of business with in a year, out of the current assets or earnings of the concern. The basic current liabilities are accounts payable, bills payable, bank overdraft and outstanding expenses. The goal of working capital management is to manage the firm's current assets and current liabilities in such a way that a satisfactory level of working capital is maintained.

This is so because if the firm cannot maintain to satisfactory level of working capital, it is likely to become insolvent and may be forced into bankruptcy. The current assets

should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the current assets must manage efficiently in order to maintain the liquidity of the firm while not keeping too high level of any one of them. Each of the short-term sources of financing must be continuously managed to ensure that they are obtained and used in the best possible way. The interaction between current assets and current liabilities is, therefore, the main theme of the theory of working capital management (Khan & Jain; 1993:603).

The need for net concept of working capital arises due to the fact that short-term creditors want an enterprise to maintain current assets at a higher level as compared to current liabilities. It shows the extent of protection provided to short-term liabilities. The current ratio of 2:1 and quick ratio of 1:1 are considered being the appropriate standards but they are simply the conventional rules or thumb. The quality of current assets is more important than the current ratio of 2:1. The illiquid firm finds it difficult to borrow from outside.

In fact, the choice of a particular concept will depend upon purpose. Of the two concepts, the net is more useful, if the purpose is to find out the liquidity position an enterprise. If, on the other hand, the interest lies in finding out whether the total current assets of an enterprise are being put to maximum use, the gross concept is more preferable.

The gross concept is more relevant for a new company because it has to decide how much money should be invested in the form of cash, receivables and inventories so as to being (and continue) its operation. The net concept is more relevant for a going concern. Even when working capital is taken to mean current assets, there is no agreed list of such assets. And it is often difficult to draw a distinction between current assets or current liabilities from non current liabilities, generally a period of one year is used as a line of demarcation, which is somewhat arbitrary. It suggests that the investment in any assets or liabilities with a life of less than a year falls into realm of working capital management (Pradhan; 2004:292-294).

Mostly there are two schools of thoughts or concepts regarding the meaning of working capital. According to one school of thought, working capital is meant for the current assets only. It is not concerned with the liabilities side. According to other

school of thought working capital is the excess of current assets over current liabilities. The former concept which can be termed as gross concept is important to newly established companies where liabilities have not been acquired immediately, but the latter one which can be termed as net concept is important for both newly established and been maintained for payment of different creditors, income taxes, bills payable, secured and unsecured loan etc.

Therefore, the role of working capital management is more significant for every business organization irrespective of their nature. There have been done a number of studies on working capital management from different experts in various enterprises.

### **2.1.2 Terminologies of Working Capital**

There are two terminologies of working capital viz. Gross working capital and net working capital.

1. Gross working capital: - It refers to the firm investment in current assets i.e. cash, inventory, marketable securities and account receivable.
2. Net working capital:- It can be defined in two ways,
  - Most common definition of working capital is the difference between current assets and current liabilities.
  - Alternative definition is that," the portion of firm's current assets which is financed with long-term funds" (Gitman; 1988:473).
  - According to gross working concept, working capital refers to total current assets of a firm. It emphasizes only the optimum investment on current assets and financing of current assets. It includes cash inventory, short-term securities and account receivables. The level of current assets may be fluctuating with the changing business activity. Thus, this concept can help earning more profit though maximum utilization of current assets. This concept is called quantitative concept (Pradhan; 1986: 19).
  - According to the net concept, working capital represents to the difference between current assets and current liabilities. In other words, it is the part of the current assets which are financed with long-

term financing. It focuses on the liquidity position of the firm and suggests extending which working capital need to the financed by permanent sources of funds. It is not very useful to compare the performance of different firm as measure of liquidity, but it is quite useful for internal control. This concept helps to compare the liquidity of the same firm over a time (Khan, and Jain; 1981: 607-608).

- In option of Nanda Kumar Adhakari (2004), the total current assets are considered as gross working capital. So, it covers the whole of the current assets irrespective of the e sources of the short term fund used to finance the current assets. Similarly, the excess of current assets over current liabilities is considered as net working capital. In other words, the proportions of current assets which are financed by using long term source are considered as net working capital.
- Similarly, according to the well-known Indian professor I.M.Pandey, specially, there are two concepts of working capital: net concept and gross concept. 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: bills payable, bank overdraft, creditors and outstanding expenses or accrued income. Net working capital arises when current asses exceed current liabilities. A negative working capital occurs when current liabilities are in excess of current assets. On the other hand, gross working capital is simply called as working capital to refer the firm's investment in the current assets. Current assets are those assets, which can be converted into tax amount is one of the important aspects capital and vice-versa (Pandey; 1995: 738-742).

### **2.1.3 Determinants of Working Capital**

A number of factors affect different firm in different ways. Internal policies and environment changes also affect the working capital. Generally the following factors affect the working capital requirements of the firm (Hampton, 1986:222)

#### **(i) Nature & Size of Business**

The working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is larger, then it requires more working capital. While small firm needs less working capital. Trading and financial require larger amount of working capital relatively to public utilizes.

#### **(ii) Manufacturing Cycle**

Working capital requirement of an enterprise is also influenced by the manufacturing or production cycle. It refers to the time involved to make the finished goods from the raw materials. During the process of manufacturing cycle funds are tied-up. The longer the manufacturing cycle, the larger will be the working capital requirement and vice-versa.

#### **(iii) Production Policy**

Working capital requirement is also determined by its production policy. If a firm produces seasonal goods, then its production and sales volume fluctuates with different seasons. This type of fluctuating production policy affects the working capital policy of the firm.

#### **(iv) Credit Policy**

Credit policy also affects the working capital of a firm. Working capital requirement depends on term of sales. Different term may be followed to different customers according to their credit worthiness. If the firm follows the liberal credit policy, then it requires more working capital. Conversely, if a firm follows the stringent credit policy, it requires less working capital.

#### **(v) Availability of Credit**

Availability of credit facility is another factor that affects the working capital requirements. If the creditors avail a liberal credit terms, then the firm will need less working capital and vice-versa. In other words, the firm can get credit facility easily on favorable conditions. Thus, it requires less working capital to run the firm otherwise more working capital is required to operate the firm smoothly.

#### **(vi) Growth and Expansion**

Growth and expansion also affect the working capital requirement of a firm. However, it is difficult to precisely determine the relationship between the growth and expansion of the firm and working capital needs. But the other things being the same growing firm needs more working capital than those static ones.

#### **(vii) Price-level Change**

Price-level change also affects the working capital requirement of a firm. Generally, a firm requires maintaining the higher amount of working capital if the price level rises. Because the same level of current assets needs more funds due to the increasing price. In conclusion, the implications of changing price level on working capital position will vary from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

#### **(viii) Operating Efficiency**

Operating efficiency is also important factor, which influences the working capital requirement of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus, financial manager can contribute to strong working capital position through operating efficiency. If a firm has strong operating efficiency then it needs fewer amounts of working capital and vice-versa.

#### **(ix) Profit Margin**

The level of profit margin differs from firm to firm .It depends upon the nature and quality of products, marketing management and monopoly power in the market .If the firm deals with the high quality product and has a sound marketing management and

enjoyed the monopoly power in the market then it earns quite high profit & vice-versa. Profit is the source of working capital, because it contributes towards the working capital as a pool by generating more internal funds.

**(x) Level of Taxes**

The level of taxes also influences working capital requirement. The amount of taxes to be paid in advance is determined by the prevailing tax regulations. But the firm's profit is not constant, or can't be predetermined. Tax liability in a sense of short-term liquidity is payable in cash. Therefore, the provision for tax amount is one of the important aspects of working capital planning. If tax liability increases; it needs to increase the working capital & vice-versa.

**(xi) Cash Requirements**

Cash is one of the current assets, which is essential for the successful operations of the production cycle. Cash should be adequate and properly utilized. Adequate cash is also required to maintain good credit relation.

**(xii) Business Fluctuations**

This situation whether an organization operating is boom or recession or depression period also determine the working capital needs of the organization.

**(xiii) Change in Technology**

Technology developments related to the production process have a sharp impact on the need for working capital. Change in technology will need additional amount of working capital due to fresh investment in new fixed assets.

**2.1.4 Types of Working Capital**

There are two type of working capital finding in manufacturing company. Those two types of working capital are Permanent Working Capital and Variable Working Capital

#### **2.1.4.1 Permanent Working Capital**

The amount of working capital required for the business to maintain a minimum level of current assets for the whole period is called permanent working capital. Permanent working capital is also known as fixed working capital. It comprises of minimum cash balance, minimum level of inventory etc. The nature of this capital is similar to the capital invested in the fixed assets. Both these capital cannot be withdrawn from the business. Financing of this working capital by using short-term sources needs to renew the loan respectively. If the suppliers of fund disagree to renew the loans, firm has to go for fresh loan to repay the existing short-term debt. The compulsion of taking loan within a short period may cause an increase in the rate of interest. Much of the time of financial manager will be spent on the renewal and management of loan. Therefore, it is desirable to finance the permanent working capital by using long-term sources like long-term debt or equity. Requirement of permanent working capital may increase due to inflation or growth in sales. This incremental requirement of permanent working capital can be financed by using internal sources.

#### **2.1.4.2 Variable Working Capital**

In most business the required of working capital may be high during a particular season and it comes down during other periods. This additional portion of working capital which is required during peak business season is known as variable or temporary or seasonal working capital. Variable working capital is required during peak season only. This portion of working capital can be withdrawn from the business after end of such season. Therefore, it is desirable to finance the temporary working capital from short-term external sources like trade credit, commercial paper, arrangement of other short-term loan from the bank because such short-term loans can be easily repaid after the peak business season. If this portion of this working capital is financed through permanent or long-term sources, this fund will either remain idle or be invested in marketable securities earning at a lower rate. As a result the earning of the company will be adversely affected.

#### **2.1.5 Working Capital Policies**

Working capital policy refers to the firm's basic policies regarding target level of each category of current assets and how current assets will be financed. So first of all, the

firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing police according to the financial manager's 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. Every firm has to find out the different sources of funds for working capital.

Working capital policy is to maintain optimality on (a) the level or investment in current assets. (b) The financing of current assets.

There should be optimum investment in level of current assets because excessive or idle investment in current assets earns nothing to the enterprise and consequently impairs the profitability. On the other hand, inadequate level of investment in current assets threatens the solvency of the enterprise, if it fails to meet obligation when they become due. So working capital policy should be designed to overcome such imbalance, when then arise. Basically, there are three level of working capital investment Viz. Fat Cat, learn of mean and moderate policy.

In the same way the financing aspect of current assets should not be over looked in its management. Because whether to use long term or short term fund to finance current assets have significant impact on an enterprise risk or return, liquidity and profitability. As it is known funds long term as well as short term-involve cost. Generally, short-term funds have lower cost of finance and are preferred to be used in current assets. Cost of financing is a deciding factor in the use of type of funds in any enterprise. Aggressive, conservatives and Hedging or matching policy are the main approaches of financing the working capital need of the enterprise.

#### **2.1.5.1 Current Assets Investment Policy**

Current asset investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policy which are follows (Weston, Basley and Brigham; 1996).

**(i) Fat Cat Policy**

It is the policy under which relatively large amount of cash, marketable securities, inventories and receivables are carried. It follows liberal credit policy and increases receivable collection period. Thus this policy provides the lower expected return in investment with lower expected return in investment with lower expected current assets investment policy.

**(ii) Learn and Mean Policy**

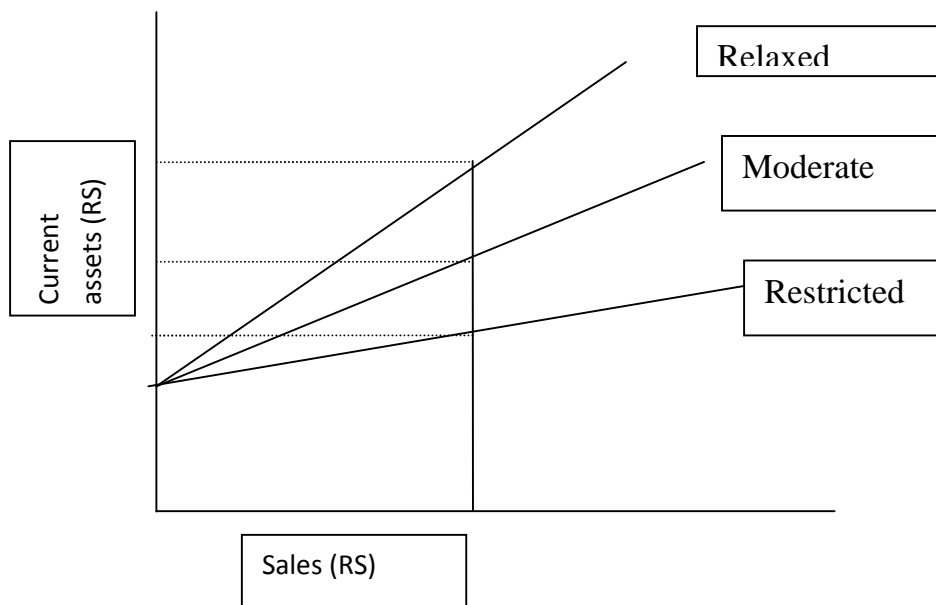
It is the policy under which amount of cash, marketable securities, inventories and receivables are minimize. (Weston & Brigham 1996:334)

It follows a tight credit policy and reduces the policy conversion and receivable conversion cycle. It is also called and restricted current assets investment policy.

**(iii) Moderate Current Assets Investment Policy**

In this policy, a firm holds the amount of current assets in between the relaxed and restrictive policy .Both risk and return are moderate in this policy.

**Figure 2.1: Current Assets Investment Policy**



*Sources Weston, Basley and Brigham, Essential of Managerial Finance; 1996*

**2.1.5.2 Current Assets Financing Policy**

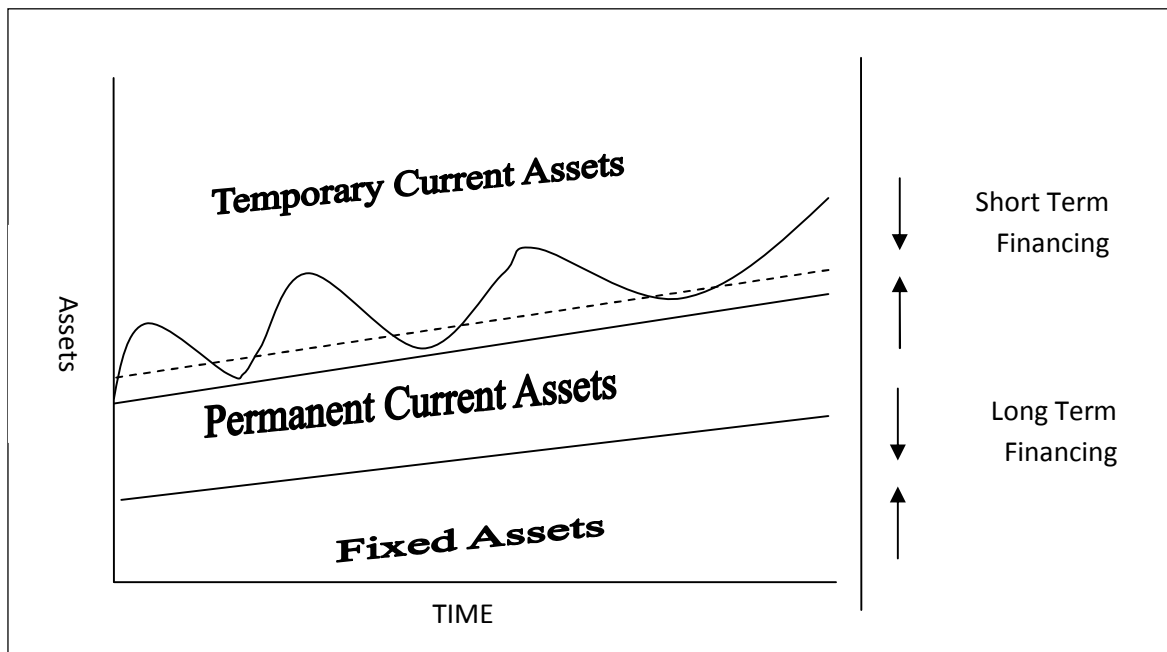
Financing the long term or short term funds to current assets has significant impact on an enterprises risk or return, liquidity and profitability. “Deciding how should current

liabilities be used to finance current assets is one of the most important decisions concerning working capital management” (Pradhan; 1986). Long term as well as short term funds involves cost and cost of financing is a deciding factor in the use of different type of funds. Financing policy deals with the optimum financing mix of short term and long term liabilities. Depending upon attitude towards risk, liquidity and profitability, the management can follow following three alternative working capital financing approaches.

**(i) Aggressive or Tight Working Capital Financing Approach**

In this policy, the firm finances not only temporary current assets but also a part of the permanent current assets with short-term financing sources and rest with long term financing sources. In other word, the firm finances not only temporary current asset but also a portion of permanent current asset with short term financing. Some aggressive firms may even finance a part of their fixed asset with short-term financing. Hence, this sort of mix financing increases the profitability and expense toward risk by financing relatively larger position of its assets through lower cost short term borrowing. Under this policy, higher the risk, higher the return and low liquidity position.

**Figure 2.2: Aggressive Financing Policies**

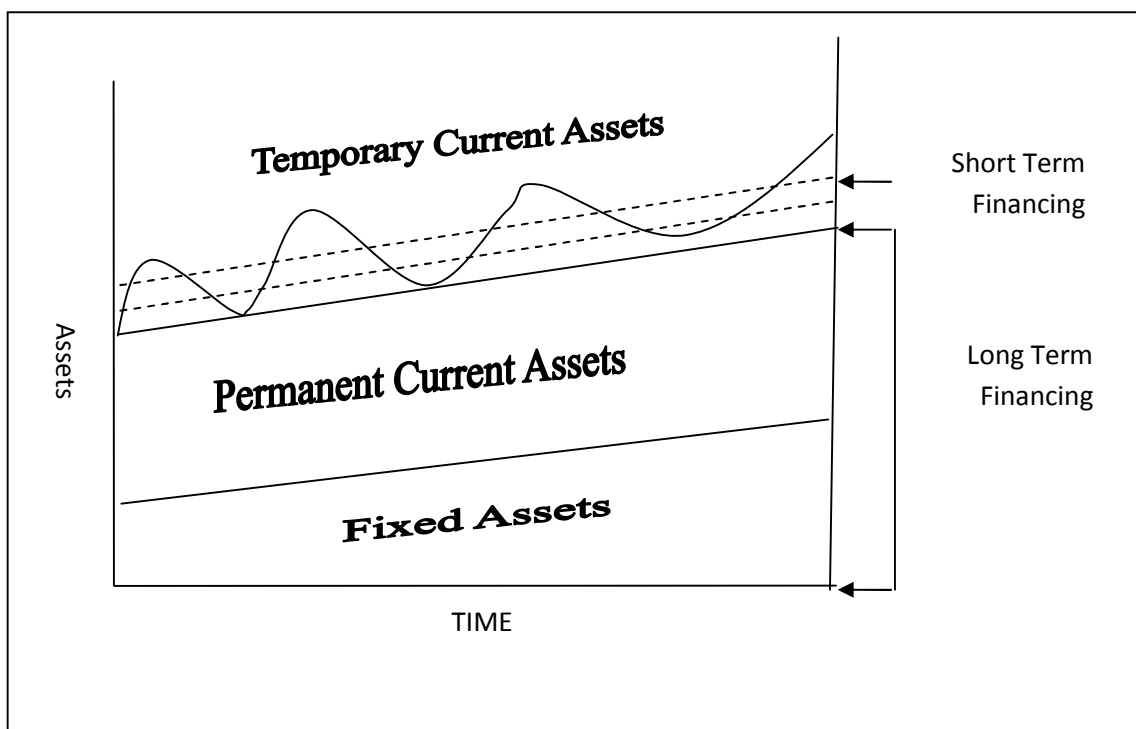


Sources Weston, Basley and Brigham, *Essential of Managerial Finance*; 1996

## (ii) Conservative Policy

Conservative approach “refers to a financing mix which is less risky leading to low profitability and high liquidity, the approach would be to finance all funds required from long term funds”(Pradhan; 1986). The financing policy of firm is said to conservative when it depend more on long term funds for financing needs. “Under this financing policy, the firm finances its permanent assets and a part of temporary current assets with long term financing” (Pandey; 1999). This policy leads to high level of current assets, with long term conversion cycle, low level of current liabilities and higher interest cost. The risk and return are lower than that of aggressive one. The risk adverse management follows this policy.

**Figure 2.3: Conservative Policy**



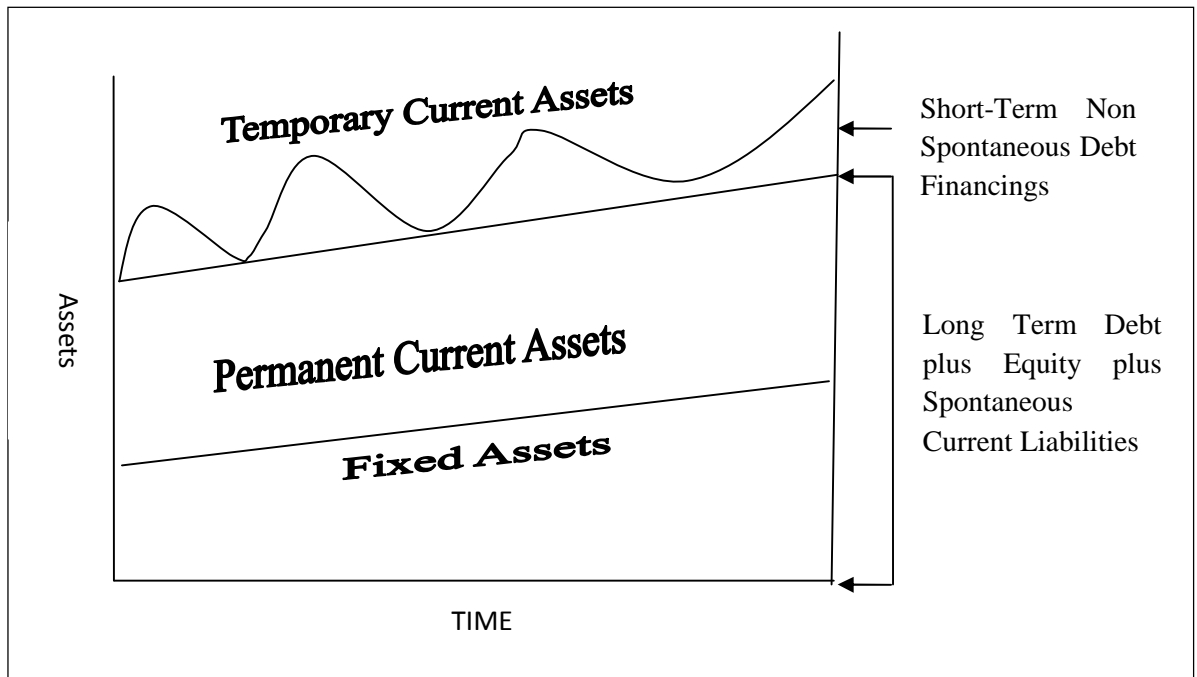
*Sources Weston, Basley and Brigham, Essential of Managerial Finance; 1996*

## (iii) Maturity Matching/Hedging/Self Liquidity/Moderate Approach

This approach of working capital policy entails moderate risk with moderate returns. This firm can adopt a financial plan which involves the matching of the expected life of assets with the expected life of the sources of funds raised to finance assets. When the firm follows matching approach, long term financing will be used to finance fixed

assets and permanent current assets and short-term financing to finance temporary or variable current assets (Pandey; 1999). This approach tries to achieve trade off between profitability and liquidity with neither too risky nor least risky by financing mix. “It lies in between a low-liquidity, high profitability case and a high –liquidity low profitability case” (Pradhan; 1986).

**Figure 2.4: Moderate Policy**



*Sources Weston, Basley and Brigham, Essential of Managerial Finance; 1996*

In conclusion, conservative or loose working capital policy refers to that policy under which a firm keeps high level of investment in working capital variables like high level of receivable throughout liberal policy, high inventory and cash/bank balance while aggressive or tight working capital policy just follows the reverse policy that of former policy. But moderate policy follows the medium way between aggressive and conservative working capital policy.

### **2.1.6 Needs of working capital**

Most of firms want to maximize the wealth of shareholders. The firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among the other things. For constant operation

of business, every firm needs to hold the working capital components cash receivable, inventory etc. The need for working capital to run the day-to-day business activities cannot be overemphasized (Pandey; 1999:809). Therefore every firm needs working capital to meet the following motives.

#### **2.1.6.1 The Transaction Motive**

According to transaction motive a firm holds cash and inventories to facilitate smooth production and sales operation in regular. Thus, the firms need the working capital to meet the transaction motive.

#### **2.1.6.2 The precautionary Motive**

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

#### **2.1.6.3 The Speculative Motive**

- a. Opportunities of profit making investment,
- b. An opportunity of purchasing raw materials at a reduced price on payment of immediate cash,
- c. To speculate on interest rate and
- d. To make purchase at favorable price etc. Thus the firms need the working capital to meet the speculative motive.

#### **2.1.6.4 Compensation Balance Motive**

The commercial bank performs many functions for business firms. Sometimes, firm pays service charge by direct fee and sometimes by maintaining compensation balance. Compensation balance is the advance deduction bank on loan. It represents that the firm agrees to maintain in its checking account with the bank. With this assurance, the bank can provide such funds as long term loan.

### **2.1.7 Goals of Working Capital Policies**

Working capital policies are the basis guidelines or strategies to achieve target financial performance in relation to working capital. Following are the firm's goals of working capital (Hampton; 1998).

#### **2.1.7.1 Adequate Liquidity**

The most important goal of working capital policy is to achieve adequate liquidity for the conduct of day-today operation .With the lack of sufficient cash to pay their bills when due, they will experience continuing problems.

#### **2.1.7.2 Maximization of Risk**

In selecting its source of financing, payables and other short-term liabilities may involve relatively low cost. The firm must ensure that these near-term obligation do not become expensive compared to the current assets on hand to pay them. The matching of assets and liabilities among current accounts is a task of minimizing the risk of being unable to pay bills and other obligations.

#### **2.1.7.3 Contribute to Maximum Firm's Value**

The firm retains working capital for the some purpose as it holds any other assets to maximize the present value of common stock and value of the firm. The investment of excess cash, minimization of inventories, speedy collection of receivables, and elimination of unnecessary and costly short-term financing all contribute to maximizing the value of the firm.

### **2.1.8 Financing of Working Capital**

Every manufacturing concern or industry requires additional assets whether they are in stable or growing conditions. When the firm wants to generate sustained profit, normally it requires fixed capital as well as working capital. Additional portion of working capital is approximately dominated by the same rate as sales. But this portion of capital requirement depends upon the nature of the firm (Pandey; 2000:823).

Therefore the most important function of financial manager is to determine the level of WC and to decide how it is financed. Financing of any assets concerned with two major factors: cost and risk. Therefore, the financial manager must determine an

appropriate financing mix, or decide how current liabilities should be used to finance current assets. However, a number of financing mixes are available to the financial manager. He can resort generally three kinds of financing.

1. Long term financing
2. Short term financing
3. Spontaneous financing

#### **2.1.8.1 Long term Financing**

Long term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earning and long term dept from financial institution are e the major sources of long term financing.

#### **2.1.8.2 Short term Financing**

A firm must arrange its short term credit in advance. The sources of short-term financing of working capital are trade credit and bank borrowing. The sources of short term financing refer to the working capital funds from bank, public deposits, commercial papers etc. The short term financing is obtained for a period less than one year (Pandey; 1999:827).

**Trade Credit:** Trade credit refers to the credit that a customer gets from suppliers of goods in a normal course of business. If the buying firm does not pay cash immediately for the purchase is called trade credit. It is mostly an informal arrangement and is granted on an open account basis. Another form of trade credit is bills payable. It depends upon the term of trade credit (Van Horn; 1996:248).

**Bank Credit:** Bank credit is the primary institutional source of working capital financing. For the purpose of bank credit, amount of working capital requirement has to be estimated by the borrowers and banks are approached with the necessary supporting data. After availability of this data, bank determines the maximum credit based on the margin requirement of security. The types of loan provided by commercial banks are loan arrangement, overdraft arrangement, commercial papers etc.

### **2.1.8.3 Spontaneous Financing**

Spontaneous financing arise from the normal operation of the firm. The two major sources of such financing are trade credit and accruals. Whether trade credit is free of cost or not actually depends upon the terms of trade credit. Financial manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of current assets financing is either short term or long term sources. Thus, the financial manager concentrates his power in short term versus long term financing. Hence, the financing of working capital depends upon the working capital policy which is perfectly dominated by the management attitude towards the risk-return (Pradhan; 1992:153).

### **2.1.9 Approaches to Estimating Working Capital Needs**

To determine working capital needs, some useful methods are applied in practices. Some appropriate methods of calculating working capital needs of a firm are as follows (Pandey; 1999).

#### **2.1.9.1 Current Assets Holding Period**

It is to estimate working capital requirement on the basis of average holding period of current assets and relating them to costs based on the company's experience in the previous years. This method is essential based on the operating cycle concept.

#### **2.1.9.2 Ratio of Sales**

It is to estimate working capital requirement as a ratio of sales on the assumption that current asset with sales.

#### **2.1.9.3 Ratio of Fixed Investment**

It is to estimate working capital requirement as a percentage of fixed investment

### **2.1.10 Liquidity Vs Profitability: Risk-Return Trade Off**

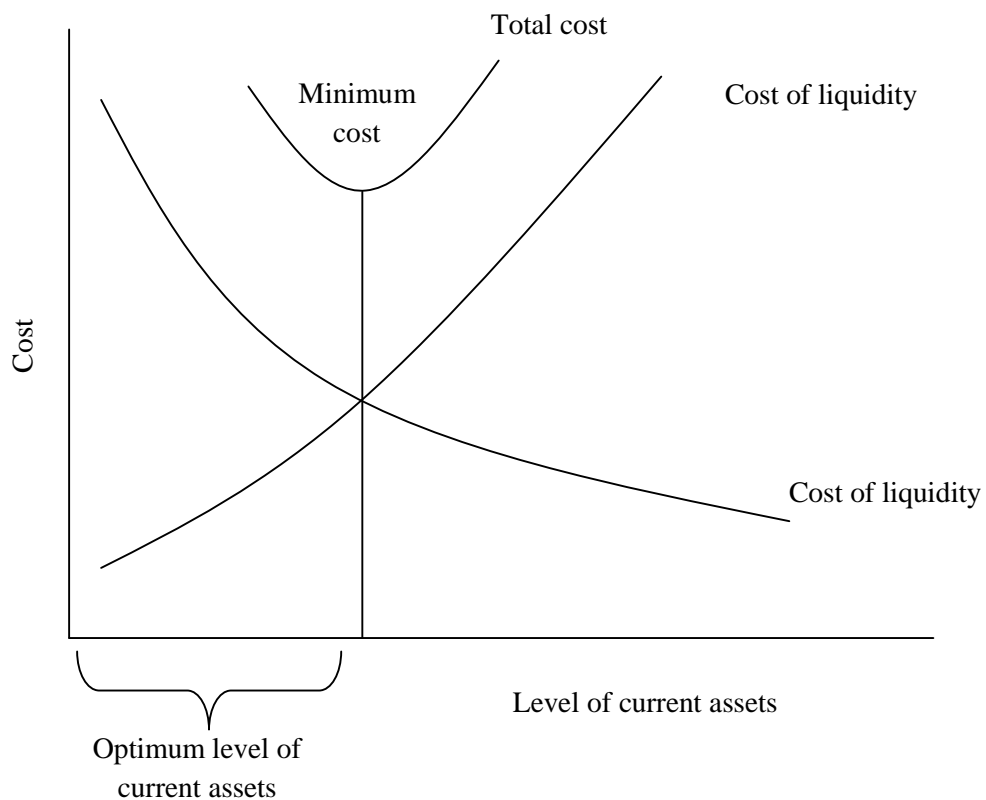
The firm may follow a conservative or an aggressive policy which involves risk-return trade off. "Determination of the appropriate level of investment in the different components of current assets and the size of current liabilities involves decision concerning the trade off between liquidity, profitability and risks."(Gopal, 1996). The objective of conducting risk-return analysis is to know whether the firms are following an aggressive, a conservative or a moderate approach. When a firm has followed an aggressive approach, the current liabilities are used to finance a position of fixed asset. In the conservative approach the firm uses only long-term funds to

finance all kind of current assets and fixed assets without making use of any of the current liabilities .On the moderate approach firm uses long-term funds to finance a portion of current assets. When current assets holding at the minimum level would mean interrupted production, sales and solvency. “Its current assets holding will depend on its working capital policy. These policies involve risk return trade-offs” (Pandey; 1999).

### 2.1.11 The Cost of Trade-Off

Working capital management involves decision upon the amount and composition of current assets and how to finance these assets .This decision involves trade-off between risk and reputability, cost of maintaining a particular level of current assets. These costs are: the cost of liquidity and the cost of illiquidity. “The cost of liquidity increased with the level of current assets. The cost of illiquidity is the cost of holding insufficient current asset” (Pandey; 1992). The greater the relative proportion of liquid assets, the lesser the risk of running out of cash if all thing s are equal, result will be less profitability. “In determining the optimum level of current assets, the firm should balance the profitability-solvency tangent by minimizing total cost –cost of liquidity and cost of illiquidity” (Pandey; 1999).

**Figure 2.5: The Cost of Trade Off**



Sources: Pandey I.M. Financial Management 1999

The figure shows the level of current assets and cost of liquidity .In the figure when the cost of liquidity increases, cost of liquidity decrease and vice-versa. The firm should maintain its current assets at the level where the sum of cost of liquidity and cost of illiquidity are minimum.

### **2.1.12 Working Capital Cycle**

The working capital cycle can be defined as

The period of time, which chapses between the points at which, cash begins to be expended on the production of a product and the collection of from customers.

Cash flows with cycle into, around out of business. It is the business life blood, every manager's primary task is to help keep it flowing, and to use the cash flow to generate profits. If a business is operating profitability, then it should, in theory, generate cash surpluses. If it does not generate surpluses, the business will eventually run out of cash and expire.

The faster a business expends the more cash it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within business. Good management of working capital will generate cash will help improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits.

There are two element in the business cycle that absorb cash-inventory (stocks and work-in progress) and receivables (debtors owing money). The main sources of cash are payables (our creditors) and equity loans.

Each component of working capital (namely inventory, receivables and payables) has two dimensions TIME..... and MONEY.....When it comes to managing working capital TIME IS MONEY .If you get money to move faster around the cycle (e.g. collect monies due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales),the business will generate more cash or it will need to borrow less money to fund working capital .Consequently ,you could reduce the cost of bank interest or you have additional free money available to support

additional sales growth or investment .Similarly ,if you can negotiate improved terms with suppliers e.g. .get longer credit or an increased credit limit; you effectively create free finance to help fund future sales.

If You	Then...
) Collect receivables (debtors ) Faster.	You release the cash from the cycle.
) Collect receivables (debtors ) Slower.	Your receivables soak up cash.
) Get better credit (in terms of duration or amount) from suppliers.	You increase your cash resources.
) Shift inventory (stocks) faster.	You free up cash.
) Move inventory (stocks) slower.	You consume more cash.

It can be tempting to pay cash, if available ,for fixed assets e.g. computers ,plants, vehicles etc., if you do pay cash, remember that this is now larger available for working capital .Therefore ,if cash is tight ,consider other ways of financing capital investment ,loans ,equity, leasing, etc. Similarly ,if you pay dividends or increase drawings, these are cash outflows and ,like water flowing downs a plughole, they remove liquidity from the business.

## 2.2 Review of Journals and Articles

This section reviews some of the journals and articles published by management experts in Working Capital.

### **Radhe Shyam Pradhan and Kundan Datta Koirala’s Study**

Pradhan and Koirala (1983) had jointly published an article on “Some Reflection on Working Capital Management in Nepalese Corporations.” The article basically aims to find out the difficulty, importance and problem of current assets management and also aims to find out the motive for holding cash and inventory. The study uses only primary data to find out the basic constraints and distributed 200 questionnaires. For the purpose of the study, they use both manufacturing public corporations as a sample

companies. After analyzing the collected data the major finding of the study were as follows:

- ) To provide a reserve for routine net outflows of cash is the major motive for holding cash in Nepalese corporations.
- ) The major reason for holding inventories is to facilitate smooth operation of production and sales.
- ) The major factor affecting the larger investment in receivable is found to be the liberal credit policy followed by Nepalese Corporations. The late paying practice of customers is also responsible for larger investment in receivables. However, corporations are reluctant to take inefficient collection of trade credits as one of the major factors affecting receivables.
- ) This section is focused to review journals\articles and the different management expert relating to working capital management.

#### **Manohar K. Shrestha's Study**

Shrestha (1982) had carried out his article on, "Working Capital Management in public Enterprises: A Study on Financial Result and Constraints." In this article he had considered ten-selection PEs to measure their working capital needs in those PEs. He had mainly focus on the liquidity, turnover and profitability position of that PEs. In the analysis, he had focused that four PEs had maintained adequate liquidity position: two PEs had excessive liquidity position and rest four enterprises had failed to maintain desirable liquidity position. About turnover: four had sum to achieve satisfactory turnover of net working capital. He also found that six PEs are operating at losses and four of them are being able to achieve some percentage of profit. After analyzing these constraints, he had bought certain policy issues. They are as follows:

- ) There is a lack of suitable financial planning for determining their working capital needs in PEs.
- ) The managers of PEs were being unable to give attention to working capital management.
- ) There exists no proper consistency between liquidity position and turnover of assets.

- ) PEs being unable to show positive relationship between turnover and return on net working capital.

He had made some suggestive measures to overcome from the above policy issues i.e. identification of needed funds, regular checks, 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.

### **Dr. K. Acharya's Study**

Acharya (1985) has published an article on "Problems and Impediment in The Management of Working Capital in Nepalese Enterprises". This article has presented that working capital management; especially in public sector, has been a relatively weak area. The study has described operational problems as well as organizational problems faced by the Nepalese public enterprises regarding the working capital management. Some of these problems are:

The operational problems are as follows:

- ) Public enterprises has slow inventory turnover.
- ) Change in working capital has low impact on profitability.
- ) Current liabilities are increasing largely than current assets.
- ) They have not followed the conventional proportion of debt and equity as 1:1.
- ) Absent and apathetic information management system.
- ) The performance evolution tools and techniques like break even analysis, fund flow analysis, ratio analysis, are either undone or inefficient in most public enterprises.
- ) Monitoring the proper functioning of working capital management has never considered as managerial job.
- ) Secondly, the organizational problems are:
  - ) Lack of regular evaluation of financial as well as regular internal and external audit system.
  - ) Most of public enterprises being unable to present their capital requirements with proper justifications.

- ) Functioning of finance department was not satisfactory.
- ) Some of public enterprises are facing the problem of under utilization of capital.

This study is not satisfied with the performance of enterprises to make an efficient use of funds for minimizing the risk of loss to attain the profit objectives. This study has made some suggestion and recommendation.

- ) Public enterprises should take care of negatively affecting policies directives from HMG Nepal itself.
- ) Public enterprises should avoid fictitious holding of assets immediately.
- ) Finance staff must be adequainted with the modern scientific tools used for the presentation and analysis of data.
- ) Lastly, this study has suggested optimizing its level of investment because both of these situations will erode the efficiency of concern.

Zeng (2002) made an empirical study on the working capital channel and cross-sector co-movement. The paper studied cross-sector co-movement, one of the defining characteristic of business cycle, in a monetary framework. The study argues that monetary factors might be important for understanding this phenomenon through a working capital channel. The study showed that in a strictly portfolio adjustment model where firm borrow to finance working capital, appositive money supply shock drives the nominal interest rate down, thereby stimulating firm's borrowing and causing employment to rise in different sectors. A positive aggressive technology shock can also drive the nominal interest rate down upon impact and reduce co-movement when the elasticity of labour supply is large.

**Mahat, L.D. (2004, May 26)**

Mahat (2004) has published article relating to "Spontaneous Resources Working Capital Management". The article has defined the three major sources of working capital i.e. equity financing, debt financing and Spontaneous sources of financing, regarding the working capital management. Debt financing include short term, bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of

credit etc. where as spontaneous sources of working capital include trade credit, provisions and accrued expenses.

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

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

### **2.3 Review of Previous Theses**

Besides the review of available books and research studies, a number of studies have been made by student of MBA and MBS relating to working capital management in different PEs and private companies of Nepal. This section will review some of those dissertations.

Sharma (1999) has done a research on “A Study on Working Capital Management of Nepal Battery Co. Limited”. Considering five years financial statement (i.e. balance sheet, profit and loss A/C and income statements, etc.) from 1994 to1998. This study has used ratio analysis as tools for the purpose of analyze working capital management in NBC Ltd. The major objectives of this study are to analysis the liquidity composition of working capital, assets utilizations and profitability position of NBC Ltd. This study also focuses on relationship between sales and different variables of working capital of NBCLtd. The findings of this study are as follows:

- ) The major component of working capital of NBCLtd are cash and bank balance, account receivable, inventory, miscellaneous current assets and inventory holds large portion of current assets. The proportion of current assets on total assets and fixed assets is increasing, it indicates that inventory in current assets is high with respect to its total assets and fixed assets.
- ) Inventory to total assets ratio shows fluctuating trend and receivable to total asset position show increasing trend. The turnover position is in fluctuating trend and receivable conversion period and inventory conversation period is long which is unfavorable for the company.
- ) Values of current and quick ratios are found nearly equal to standard inefficiency in operation can be seen through wide different between gross profit margin and net profit margin and high level of operating ratio.

This study has suggested the company to reduce the inventory level. This study recommends about receivable conversion period, which is necessary to reduce with concerning sales volume because reduction of this period may affect on sales volume. Lastly, this study mentions about operating cost, which must be reduced in proper way so that can maximize its profitability and shareholders return.

The study has selected only one company (NBCLtd) out of thirty two manufacturing companies for this study as a first listed manufacturing company in Nepal stock exchange. This study can not provide overall picture of all manufacturing companies. The study has basically used the secondary data and only ratio analysis has used to study the working capital management of NBCLtd. This study has missing the use of correlation coefficient in order to test the relationship on significance in between component of working capital.

Om Bikram Gurung (2002) has done the research on the title "A study on Working Capital Management of Nepal Lever Limited ". His main objectives of this study are to analyze liquidity composition of working capital, assets utilization and profitability position of Nepal lever limited as well as to examine the relationship between liquidity and profitability of Nepal lever limited. He analyzed five year published data of Nepal lever limited from the fiscal year 2053.54 to 2057/58 and used statistical and financial tools to analyze the secondary data to achieve set objectives.

He has found that major components of current assets are inventories, receivables, prepaid expenses and advanced. Among these inventory holds major portion of current assets. He has mentioned that all the components of current assets are fluctuating during observed period. It indicates that the company has not had clear vision about the investment policy. Similarly, the current ratio contains high amount of inventory and receivable but they don't show any significant relationship between current assets and current liabilities. The liquidity position of the NL Ltd. has been analyzed by calculating current ratio and quick ratio. It is below the standard value. So, it indicates that the company has preferred short term financing rather than long-term financing. It applies moderate policy. Inventory turnover and receivable turnover isn't found at satisfactory level. It was fluctuating during the study period. It can be concluded that the company has high risk. Even though the profitability position of the company is in increasing trend.

Ghimire (2003) has done a research on “Working Capital Management of Selected Manufacturing Company-Listed in Nepal Stock Exchange”. The study covers five years historical data from 1997 to 2001 of seven manufacturing companies. This study has focused on the issue of working capital management in relation to selected manufacturing companies. The main objectives of this study are to study working capital practices of listed Nepalese manufacturing companies, to analysis the variable affecting working capital management in Nepalese manufacturing companies and to determine the issue and gaps in working capital management of these companies.

For finding the solution to above problem, the study has employed quantitative and qualitative methods. In quantitative method, this study has used financial tools (ratio analysis, cash conversion cycle, predicting power of ratio of success/failure and DU point) and statistical tool (Karl Pearson's correlation coefficient and simple linear regression). In the qualitative method, this study has used opinion survey method.

From the comparative analysis, this study has found that:

- ) Out of seven, five companies have followed a moderate working capital policy.
- ) The overall average inventory, receivable, payable and cash conversion period are high.

- ) Correlation coefficients between various components of working capital with sales are moderate
- ) Overall profitability of these selected manufacturing companies is positive, on other hand he has found some issues and gaps i.e. inefficient current assets management, missing working capital policy, high level cost, excessive borrowing, weak liquidity position, high conversion cycle and management inefficiencies.

At last the study has suggested that manufacturing companies should make a quarterly working capital plan with effective working capital management. Further they should improve liquidity position, adopt appropriate financing policy, prepare effective sales plan, develop efficiency of personal and staff, and develop appropriate information system.

Anil Kumar Agrawal (2005) a student of management finished his research study about working capital management. That study was conducted on “Working Capital Management of Cigarette Industry in Nepal with Special Reference to Janakpur Cigarette Factory.” He has used date from 2050/051 to 2059/060. The main objectives of his study were to evaluate the performance of management of working capital of JCF, to measure the efficiency of management in utilization of inventory, appraising the efficiency of management in utilization of account receivable, measuring the efficiency of management in the use of cash and evaluating the financial pattern of working capital of the factory.

The major findings of his study were as follows:

- ) Short term financial position of the factory is sound from the creditor’s point of view.
- ) The factory’s liquid financial position is weak from the creditor’s points of view.
- ) Inventory of the factory has not been managed efficiently.
- ) Receivable, cash has not been managed efficiently.
- ) Working capital turnover ratio of the factory marked a fluctuating trend during the period of analysis

- ) The current assets of the factory marked an irregular tendency while the current liabilities and net working capital recorded mixed trend.
- ) On the whole, the performance of working capital management is not satisfactory.

Yadav (2006) has conducted the research on “Working Capital Management of Listed in Nepal Stock Exchange”. The study has used financial as well as statistical tools to analysis the financial data of 2000 to 2005. The study has also used primary and secondary sources of data. The main objective of this study is to apprise the working capital management of listed hotels and to find out the relationship between the different variables of working capital. The major findings of this study are:

- ) Yak and Yeti, Oriental and Soaltee Crown Plaza are suffering from excess of current assets over the current liabilities.
- ) Yak and Yeti has followed conservative financing policy whereas Soaltee and Oriented have followed aggressive financing policy.
- ) The relationship between current assets and current liabilities, current assets and net sales, and net working capital, are found negative and receivables and net sales are positive of all selected hotels.
- ) From the primary information, it has also found that Oriental and Yak and Yeti are not implying any credit standard policy and credit payable policy.
- ) The liquidity and profitability position of all selected hotels is satisfactory.

This study has suggested that in the view of Oriental and Yak and Yeti, good financing planning is important to make better working capital management system. These three hotels should manage receivable and inventory conversion period by applying suitable credit policy. Lastly, this study mention about operating cost, which must be reduced in proper way so that the hotels can maximize their profitability and shareholder’s return.

This study has taken only three hotels out of four hotels listed in Nepal stock exchange. Although this study has used questionnaire method to collect the primary information about related field, which one is not able to collect more information from listed hotels because it is only distributed in only one or two hotels i.e. Yak and Yeti and Oriental. If this study has directly collect primary information from related

respondent not from the Human Resources Department then this study would be far better than others.

- ) The current liabilities and net working capital recorded mixed trend.
- ) On the whole, the performance of working capital management is not satisfactory.

Pandey (2007) has done the research on the title "A study on Working Capital Management in Hotel Industry with reference to Hotel Radisson, Hotel Soaltee and Hotel Hyatt". His main objectives of this study are to analyze composition of working capital, liquidity and profitability position of Hotel Radisson, Hotel Soaltee and Hotel Hyatt as well as to examine the relationship between sales and different variables of working capital position. He analyzed five year published data of selected hotels from the fiscal year 2057/58 to 2061/62 and used statistical and financial tools to analyze the secondary data to achieve set objectives.

He has found that major components of Current Assets are Inventories, Debtors, Cash & Bank Balance (CB Balance) and Loans, Advances and Deposit (LAD). Among these, Hotel Soaltee has held high portion of working capital in its daily operation of business. He has mentioned that investing in FA doesn't seem good practice due to requirement of high fund. Hotel Soaltee has maintained high portion of current assets in terms of sales the other two hotels have low ratio. Debtor turnover ratio and Cash & Bank turnover ratio of Hotel Soaltee is quite higher than the rest of the two hotels. Similarly, Hotel Radisson has followed highly aggressive financing policy and used short term fund in permanent working capital as well as fixed assets. At last, Hotel Hyatt has given high priority in liquid assets rather than no liquid assets due to the hotel held high amount of debtors in composition of current assets. The turnover ratio and loan, advances and deposit turnover ratio of Hotel Hyatt is greater in comparison to Hotel Radisson and Hotel Soaltee. The cash conversion cycle of Hotel Soaltee seemed favorable as compared to other hotels due to its conversion period within the time period of 365days.

He found that the poor liquidity position of all three hotels because they can't meet the current obligation in very short period. The gross profit margin of the Hotel Soaltee was in decreasing trend where as the Hotel Hyatt was in increasing trend. The

average return on total assets and return on capital employed of Hotel Radisson was higher in comparison to other two hotels.

Since the all hotels have negative working capital, it indicates that all the hotels have higher portion of current liabilities as compare to current assets which means all the hotels kept high amount of loan in capital structure. None of the hotels have solid view on the management of working capital due to highly depend upon short term loan. Current assets ratio as well as quick assets ratio of the selected hotel was below the standard level, which show the inability position to meet the current obligation. The turnover of Hotel Soaltee was higher in comparison to other two hotels. The performance of the hotels are highly depends upon the location and political condition of the country. Among various industries, hotels sectors are mainly victimized by the Moist Insurgency and bad political situation of the country.

Miss Payal Bansal (2009) had carried out a research entitled "A Study on Working Capital Management of Commercial Bank". During the study, she had used secondary data & used many financial tools analyzing the working capital management. The major findings of the study are as follows.

- ) The net working capital of both banks is positive.
- ) In case of profitability position, both banks have constant level of growth in profitability during the study period.
- ) The liquidity position of both bank are increasing trend. It shows the satisfactory level of working capital
- ) The major components of current assets of both banks are cash and bank balance, loan & advance and government securities.

Gautam (2010) has conducted the research on "Working Capital Management of Soaltee Crown Plaza". This study has covered the period of five years (1998/99 - 2002/2003). For the analysis of working capital this study has used different financial and statistical tools like ratio analysis, trend analysis, standard deviation and regression analysis. The main objective of this study is to examine working capital practices and profitability position of Soaltee Crown Plaza. The major findings of this study are as given below:

- ) The current ratio of Soaltee Crowne Plaza is in very poor condition because the current asset is than the current liabilities in each year of the study period. Comparing with standard ratio the calculated current ratio become too small. Therefore, the liquidity position of the company is not satisfactory. Quick assets are pure liquid in nature, but the calculated ratio shows the liquid is insufficient to pay its current payable as its ratio is below standard.
- ) Company is loosing its ability in respect with investment policy because in the proceeding year it has positive return whereas in the later year it has negative return.
- ) The fluctuation cash turnover implies that the Soaltee Crown Plaza is inefficient in cash management.
- ) The proportion of current assets to total assets is nearly consistent. The company has low investment in current assets.
- ) Company has followed conservative policy of financing. The receivable turnover is more consistent. The utilization of current assets becomes unsatisfactory.

The study has suggested that the company should make the effective plan, which helps for immediate marketability and certainly decrease the problem of overstocking. Management should set proper credit policy and avoid unnecessary increase in the volume of receivable, determine appropriate sources of financing and give proper attention toward the manpower. Hence, to service in present competitive marketing the industry has to improve overall working capital policy.

This study has taken only one hotel (Soaltee Crown Plaza) out of four listed hotels. There are various aspects of financial management but this study is concerned with only the working capital aspect of related hotel. This study recommend that government should make sound policy towards tourism but without increasing hotel's capacity and making good plan to attract the tourist, the government alone cannot do anything.

Sharma (2011), has carried out a study entitled "A Study on Working Capital Management of UNLN Company." The specific objectives of the study were to analyze the current assets and current liabilities and its profitability and liquidity

position. This study has calculated various financial ratios by taking ten years (2055-56 to 2064/65) data from UNLN.

The major findings of the study were given as follows:

- ) The volume of the sales should be increase and the proportion of current assets should be mentioned according to its sales volume.
- ) The company has not made the suitable financing policy.
- ) The company should not manage working capital properly.

This study has suggested that the company to reduce the inventory level. This study recommends about receivable conversion period, which is necessary to reduce with concerning sales volume because reduction of this period may affect on sales volume.

#### **2.4 Research Gap**

All the above studies are conducted with the research title “Working Capital Management”. Some researchers have selected various manufacturing companies for the research and some have concentrated in only one or two companies. As to research gap is concerned, there are many changes taken place in the working capital environment and production process as compared to the last few years. So, fresh study related to working capital management of ULNLtd has been done in this research. During the period of gap, the company has renamed to Uni-Lever Nepal Ltd .from Nepal Lever Limited. The most of the studies has been considered many more objectives which made their study more complicated but in this research report only four objectives are taken into study. Some researcher uses secondary data considered in this research. Both financial as well as statistical tools like ratio analysis, turnover, cash conversion cycle, mean, standard deviation, coefficient of correlation and probable error are used in this research. Almost all the ratios have been applied to cover the analytical part and fulfill the objective of this study. It involves more recent data of ULNLtd for eight years (2059/060-2066/067).

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

Research methodology is a process of arriving to the solution of problem through planned & systematic dealing with collection, analysis & interpretation of the facts & figures. It is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives.

This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also use the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantitative and qualitative and qualitative research in a very clear and direct way using both financial and statistical tools.

#### **3.1 Research Design**

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. Research design means a definite procedure and technique which guides the study and propounds ways for doing research.

For the study of working capital management in Unilever Nepal Limited, research design followed is exploratory research approach. This study is based on data from secondary sources. So, in analyzing the data is a descriptive research design has been used to make the study prescriptive to its users.

#### **3.2 Population and Sample**

There are 41 listed manufacturing companies in Security Board. Out of them only one has been selected for the study i.e. UniLever Nepal Limited, a multinational company and has been providing quality goods and services as well as creating employment opportunities to the Nepalese people. It has also brought sophisticated technology of producing goods and services with it. From this enterprise, data and information have been taken only related to working capital and its management has been taken for the research purpose.

### **3.3 Nature and Sources of Data**

This study is mainly based on secondary data. The main secondary sources of data are annual reports and audited financial statements (P\L A\C and balance sheet) of the company submitted to NEPSE. The secondary data and information have been collected from the various publications and the data available in the record of Unilever Nepal Limited. The major sources of secondary data are as follows:

- Various documents (i.e. accounting and financial reports) of Unilever Nepal Ltd.
- Different bulletin and annual reports of UNLtd.
- Related act and regulation published by government and the company.
- Statistical Year Book of Nepal (CBS), various institution's annual reports, related government and non- government publications about working capital management, books, journals articles, various research studies, web site of the company and SEBON.

### **3.4 Collection of Data**

Required financial data have been collected from the corporate office of ULNL Data used for the research have been collected through audited annual reports, face to face interview with related officials, published books and journals, bulletins and magazines.

### **3.5 Data processing procedure**

This study is mainly based on secondary data. The collected financial statements and necessary data have been tabulated as per the need of this study. In order to process the data, financial statement and other available information were reviewed. These data were grouped in different tables and charts according to their nature.

### **3.6 Method of Data Analysis**

The collected data are analyzed by using various financial tools and statistical tools which are given below.

### **3.6.1 Financial tools**

Financial tools are used to find the financial indicators, which basically represent ratio analysis, which indicates mathematical relationship between two figures that are used for establishing the qualitative relationship between two variables of financial statement for rational decision making on financial viability.

In this study liquidity ratios, profitability ratios, leverage ratio and turnover ratios are used. They are explained below:

#### **3.6.1.1 Liquidity Ratio**

It is the most important part for the company. It shows the company to pay its current obligation. The liquidity position of the company is determined on the basis of current ratio and quick ratio.

##### **(i) Current Ratio (CR)**

This ratio is computed as dividing current assets by current liabilities.

$$CR = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

The high current ratio indicates good liquidity position of company i.e. it is able to pay its current obligation or bills. Generally, the current ratio of 2:1 is considered to be satisfactory. More ratios indicate the greater amount of working capital and vice-versa.

##### **(ii) Quick Ratio(QR)**

This is computed as dividing quick assets by current liabilities.

$$QR = \frac{\text{Quick Assets}}{\text{Current liabilities}}$$

As the quick assets does not include the amount invested in the inventories. It is reliable to measure the company's liquidity. Generally, quick ratio of 1:1 of the company is considered to be sound position.

### 3.6.1.2 Activity or Turnover Ratio

Activity ratios are employed to evaluate efficiency which the firm manages and utilizes its assets. Turnover ratio indicates the speed of assets which are being converted or turned into sales. Activity ratio indicates the relationship between sales and assets. Activity ratios help to judge the effectiveness of asset utilization. They are as follows.

#### (i) Inventory Turnover Ratio (ITR)

The inventory turnover ratio shows how rapidly the inventory is turning into receivable through sales. It means the ratio shows the efficiency of the business concern in an inventory management. Inventory turnover ratio equals cost of goods sold or sales divided by average inventory or closing inventory.

$$\text{ITR} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$\text{Or,} = \frac{\text{Sales}}{\text{Closing inventory}}$$

This ratio shows the number of times inventory is replaced during the year. Higher the inventory turnover indicates the good inventory management and lower turnover suggests the management should manage its inventory properly.

#### (ii) Debtor (Receivable) Turnover Ratio (DTR)

DTR shows the relationship between sales and account receivable of the enterprises indicates the velocity of debt of collection of the firm. DTR is a test of liquidity position and collecting efficiency of a firm.

$$\text{DTR} = \frac{\text{Sales}}{\text{Debtors}}$$

#### (iii) Current Asset Turnover Ratio (CATR)

CATR indicates the number of times the CA is turned over during the year. The ratio shows the requirement of working capital for one rupee of sales. It analyses how firm efficiency can utilize its CA.

$$\text{CATR} = \frac{\text{Sales}}{\text{Current Assets}}$$

As the CATR increase, it is utilization of CA. If the ratio is low, a greater volume of working capital is there. Low ratio indicates greater working capital and high ratio indicates lower working capital.

**(iv) Net Working Capital Turnover (NWCT)**

NWCT refers to the ratio between sales and NWC. NWC is the difference between TCA and TCL.

$$\text{NWCT} = \frac{\text{Sales}}{\text{Net Working Capital}}$$

More ratios show the more utilization of net working capital and less ratio vice-verse.

**(v) Cash and Bank Turnover Ratio (CBBTR)**

CBBTR measures how rapidly cash can convert in to sales of the company. It shows the effectiveness of management in case of application of each in ordinary course of business.

$$\text{CBBTR} = \frac{\text{Sales}}{\text{Cash and Bank Balance}}$$

The higher ratio indicates cash is rapidly converted into sales and efficient cash management. Low ratio indicates slow, weak and inefficient cash management.

**3.6.1.3 Profitability Ratio**

The main objective of each and every business concern is to earn maximum profit. The position of the profitability of the company is analyzed with the help of this ratio. The profitability ratio is used to measure the operating performance of the company.

**(i) Gross Profit Margin (GPM)**

Gross profit margin ratio indicates the percentage of profit after cost of production. This ratio is a measure of productive efficiency. A high gross profit margin reflects the higher cost of production. Gross margin ratio is given by:

$$\text{GPM} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$$

$$\text{Or,} = \frac{(\text{Sales} - \text{Cost of Goods Sold})}{\text{Sales}} \times 100\%$$

**(ii) Net Profit Margin (NPM)**

Net profit margin is estimated after deducting all operating expenses and income tax from gross profit. It shows the percentage of net profit out of total sales. This ratio shows as overall measurement of the company's ability to earn net profit. It computed by dividing net profit by sales and given by:

$$\text{NPM} = \frac{\text{Net Profit After Tax}}{\text{Sales}} \times 100\%$$

**(iii) Operating Expenses Ratio (OER)**

This ratio is calculated to ascertain the relationship between operating expenses and volume of sales. The higher percentage of operating expenses ratio shows higher operating cost and vice-versa. It is given by:

$$\text{OER} = \frac{\text{Cost of goods sold} + \text{operating expenses}}{\text{Sales}} \times 100\%$$

$$\text{Or,} = \frac{\text{Expenses (Administrative+Selling)}}{\text{Net sales}} \times 100\%$$

**(iv) Return on Working capital (RWC)**

It measures the profitability position with respect to current asset. Working capital and current assets are synonyms.

$$\text{RWC} = \frac{\text{Net Profit After Tax}}{\text{Current asset}} \times 100\%$$

$$\text{Or,} = \frac{(\text{Net Profit After Tax} + \text{Interest})}{\text{Current asset}} \times 100\%$$

Higher the ratio higher the utilization of current assets to earn profit and vice –versa

**Return on Total Assets (RTA)**

RTA can be expressed as the relationship between net profit after taxes plus interest and total assets. RTA measures the profitability of total fund or investment of the firm. But RTA is not sufficient for the analysis of profitability of different source of fund for financing the total assets.

$$\text{RTA} = \frac{\text{Net Profit After Tax}}{\text{Total assets}} \times 100\%$$

$$\text{Or, } \frac{(\text{Net Profit After Tax} + \text{Interest})}{\text{Total assets}} \times 100\%$$

#### **3.6.1.4 Structure of Working Capital Ratio**

The analysis of structure of working capital enables management of an enterprise to know as to how the working capital is being administered. It also furnishes valuable information to short- term creditors and other regarding the strength of working capital of the undertaking.

The structure of working capital can be analyzed by measuring the change of proportion of cash, receivable, inventory and other to the total current assets in course of time.

The structure of working capital has been studied by analyzing the following ratios.

##### **(a) Working Capital Structure on Total Assets**

It shows the portion of working capital on total assets. It can be also classified under as:

##### **(i) Current Assets to Total Assets (CATA)**

The ratio of current assets to total assets indicates what percentages of the company's total assets are invested in the form of current assets. It is calculated as:

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

As the ratio increase, the risk and profitability of the company would decrease. The low ratio indicates the small amount of working capital.

##### **(ii) Current Assets to Fixed Assets Ratio (CAFA)**

This ratio shows the relationship between the CA and FA. It can be calculated as:

$$\text{CAFA} = \frac{\text{Current assets}}{\text{Fixed Assets}} \times 100\%$$

If the ratio is large, it indicates higher the working capital and sound liquidity position.

**(iii) Cash and Bank Balance to Total Assets (CBTA)**

It measures what portion of cash and bank balance on total assets.

$$CBTA = \frac{\text{Cash and Bank Balance}}{\text{Total assets}} \times 100\%$$

The small ratio indicates the small size of cash and higher ratio indicates the high size of cash and bank balance on total assets.

**(iv) Inventory to Total Assets (ITA)**

It measures the ratio of inventory on total assets. It can be calculate as:

$$ITR = \frac{\text{Inventory}}{\text{Total Assets}} \times 100\%$$

Higher the ratio, higher the inventory and vice versa.

**(v) Receivable to Total Assets (RTA)**

It measures the ratio of receivable on total assets.

$$RTA = \frac{\text{Receivable}}{\text{Total Assets}} \times 100\%$$

Higher the ratio, higher level of receivable on total assets.

**(vi) Pre-paid Advance Loans and Deposit to Total Assets Ratio(PAL &D to TA)**

It means the level of investment on pre-paid, advance, loan and deposit from the total assets.

$$PAL \ \&D \ \text{to} \ TA = \frac{\text{Pr epaid, advance, loan \ \& deposit}}{\text{Total current assets}}$$

High ratio indicates high level of PAL &D to TA and vice versa.

**(b) Working Capital Component Structure on Total Current Assets**

The aim of this ratio is to find out the portion of every working capital component on gross working capital. Which are classified as under:

**(i) Inventory to Total Current Assets (ITCA)**

It measures the level of inventory on total current assets.

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

Higher ratio indicates the high level of inventory on total current assets.

**(ii) Receivable to Total Current Assets Ratio (RTCA)**

It is the level of receivable on total current assets.

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

Higher the RTCA ratio high level of sale on credit portion and vice-versa.

**(iii) Cash and Bank Balance to Total Current Assets Ratio (CBTCA)**

It measures the relationship between cash and total current assets composition.

$$\text{CBTCA} = \frac{\text{Cash and Bank Balance}}{\text{Total Current Assets}} \times 100\%$$

**(iv) Pre-paid Advance Loans and Deposit to Total Current Assets (PAL &D to TCA)**

It is the level of investment on pre-paid, advance, loan and deposit from the total current assets.

$$\text{PAL \&D to TA} = \frac{\text{Prepaid, Advance, Loan \& Deposit}}{\text{Total Current Assets}}$$

High ratio indicates the investment of current assets on unproductive sector and vice-versa.

**3.6.1.5 Cash Conversion Cycle**

Cash conversion cycle measures the length of time the firm has funds tied up in WC. It is the length of time between paying for raw materials and receiving cash from the sale of finished foods. The cycle consists of the following periods.

Cash conversion cycle = inventory conversion period + Receivables conversion period – Payables deferral period.

**(i) Inventory Conversion Cycle(ICP)**

It defined as the length of time required to convert raw material into finished goods and then sell these goods. This period indicates the efficiency of the firm since it includes period from purchase of raw material to selling its product during a year.

$$ICP = \frac{360days}{\text{Inventory Turnover}}$$

$$\text{Or, } = \frac{\text{Average Inventory}}{\text{Cost of Goods sold}} \times 360days$$

Lesser the ICP, better the inventory management means quick conversion inventory to sales.

**(ii) Receivable Conversion Period (RCP)**

RCP is also known as average collection period, (ACP) or days sales outstanding (DSO). It shows the length of time to convert account receivable to cash, means that the period between credit sales and receipt of cash of these sales.

$$RCP = \frac{360days}{\text{Receivable Turnover}}$$

$$\text{Receivable Turnover} = \frac{\text{Sales}}{\text{Debtor}}$$

$$\text{Or, RCP} = \frac{\text{Debtors(Receivable)}}{\text{Sales}}$$

**(iii) Payables Deferral Period (PDP)**

It is also known as payable conversion period. It is defined as the average length of time between the purchase of raw materials and labour and payment of cash for them.

$$PDP = \frac{\text{Account Payable}}{\text{Cost of Goods Sold}} \times 360days$$

$$\text{Or, PDP} = \frac{\text{Account Payable}}{\text{Purchase}} \times 360 \text{ days}$$

Higher PDP indicates the slow payment to creditors and vice-versa.

### 3.6.2 Statistical Tools

The help of statistical tools is essential to measure the relationship of two or more variables. In this study, the following statistical tools are used.

#### 3.6.2.1 Standard Deviation

“Standard deviation is the most popular and most useful measures of dispersion and gives uniform, correct and stable result” (Joshi; 2001). The chief characteristic of standard deviation is based on mean. Mean doesn't give the clear picture about two distributions with same average because scattered ness may differ in those distributions. Different formulae can be used to calculated standard deviation, among them following formulae has been used here.

$$\sigma = \sqrt{\frac{\sum (x - \bar{x})^2}{N}}$$

#### 3.6.2.2 Co- efficient of Variation (CV)

Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the co-efficient of standard deviation. “The co-efficient of dispersion based on standard deviation multiplied by 100 is known as the co-efficient of variation”. (Bajracharya; 2061).

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

#### 3.6.2.3 Correlation Coefficient (r)

Correlation coefficient is defined as the association between the dependent variable and independent variable. It is a method of determining the relationship between these two variables. It can be calculated by using the method of Karl Pearson's Correlation Coefficient, which is a widely used mathematical method of correlation coefficient between two variables.

$$r = \frac{\sum dx \cdot dy}{\sqrt{\sum dx^2} \sqrt{\sum dy^2}}$$

### 3.6.2.4 Probable Error (PE)

The probable error of the correlation co-efficient is applicable for the measurement of reliability of the computed value of the correlation co-efficient 'r'. it is also denote by P.E. it is calculated by the following formula.

$$\text{Probable Error (PE)} = \frac{0.6745 (1-r^2)}{\sqrt{N}}$$

Where,

r= Correlation Co-efficient.

N= number of pairs of observation.

P.E. is used to interpret whether the calculated value of r is significant or not.

- (i) If  $r < \text{P.E.}$ , it is insignificant, i.e. there is no evidence of correlation.
- (iii) If  $r > 6\text{P.E.}$ , it is significant.
- (iv) If  $\text{P.E.} < r < 6\text{P.E.}$  nothing can concluded.

## **CHAPTER-IV**

### **DATA PRESENTATION AND ANALYSIS**

The major objective of this study is to evaluate the working capital management of UNL. In this chapter relevant data and information of working capital as well as financial performance of UNL are presented and analyzed accordingly. On the whole, this chapter is related to quantitative analysis of various ratios. Some quality-oriented analysis has also been done in order to make the result realistic and complete to the possible extent. This chapter includes working capital structure, utilization of working capital, liquidity position working capital, cash conversion cycle, profitability position of working capital components and working capital policy.

#### **4.1 Structure of Working Capital**

For the day to day business operation, different types of current assets are required. There are various types of current assets that have been used in business organization. Some of them have held high amount in current assets and some of them have occupied low amount, which affects the profitability and liquidity positions. The major components of working capital of ULNLtd are inventory, debtors, cash and bank balance, loan, advance and deposit. In this study section, analysis of working capital compositions in relation to current assets, fixed assets and total assets as ratios have been made.

##### **4.1.1 Structure of Total Current Assets on Total Assets and Fixed Assets**

This structure expresses the gross working capital portion that is held in total assets and similarly in fixed assets, which shows the how many percentage of total assets and fixed assets has been invested on gross working capital. Following table presented the working capital structure on total assets and fixed assets of ULNL

**Table 1**  
**Structure of Current Assets on Total Assets**

<i>F/Y</i>	<i>CA</i>	<i>TA</i>	<i>Ratio (%)</i>
2059/060	589.89	784.89	75.16
2060/061	724.24	939.71	77.07
2061/062	891.41	1098.94	81.12
2062/063	557.96	967.15	57.69
2063/064	639.97	1002.55	63.83
2064/065	761.39	1085.26	70.16
2065/066	792.19	1184.99	66.85
2066/067	758.97	1368.47	55.46
<i>Average</i>			68.42
<i>C.V.</i>			12.56

*Source: Annual Reports of Uni-Lever Limited*

According to table-1, CA and TA have adopted an increasing trend during the study period. The ranges of CA and TA are 557.96 to 891.41 and 784.89 to 1368.47 respectively. During the study period, the percentage of current assets to total assets ratio of ULN Ltd is in a fluctuating trend with an average of 68.42%. The ratio has ranged between 55.46% (F/Y 2066/067) and 81.12% (F/Y 2061/062). C.V. (i.e. 12.56%) clearly indicates that the ratio over the years has been more consistent.

**Table 2**  
**Structure of Current Assets on Fixed Assets**

<i>F/Y</i>	<i>CA</i>	<i>FA</i>	<i>Ratio (%)</i>
2059/060	589.89	146.16	403.59
2060/061	724.24	135.71	533.67
2061/062	891.41	127.77	697.67
2062/063	557.96	145.78	382.74
2063/064	639.97	148.93	429.71
2064/065	761.39	140.22	542.99
2065/066	792.19	144.15	549.56
2066/067	758.97	160.85	471.85
<i>Average</i>			501.47
<i>C.V.</i>			19.08

*Source: Annual Reports of Uni-Lever Limited*

According to table-2, CA and FA have adopted an increasing trend during the study period. The ranges of CA and FA are 557.96 to 891.41 and 127.77 to 160.85 respectively. During the study period percentage of current assets to fixed assets of ULNLtd is in fluctuating trend with on average of 501.47%. The ratio has ranged between 382.74% (F/Y 2062/063) and 697.67% (F/Y 2061/062).The C.V. is 19.08% of ULNL Which indicates that the ratio over the years has been more consistent.

#### 4.1.2 Structure of Net working capital on Total Assets and Fixed Assets

Net working capital total assets ratio, measures the net working capital portion of total assets and similarly net working capital to fixed assets ratio measures how much net working capital has been invested with respected to fixed assets. Net working capital is different between current assets and Current liabilities. Following table presents the structure of net working capital on total assets and fixed assets.

**Table 3**  
**Structure of Net Working Capital on Total Assets**  
(RS in Million)

<i>F/Y</i>	<i>NWC</i>	<i>TA</i>	<i>Ratio (%)</i>
<i>2059/060</i>	<i>163.44</i>	<i>784.89</i>	<i>20.82</i>
<i>2060/061</i>	<i>180.53</i>	<i>939.71</i>	<i>19.21</i>
<i>2061/062</i>	<i>9.39</i>	<i>1098.94</i>	<i>0.85</i>
<i>2062/063</i>	<i>(184.27)</i>	<i>967.15</i>	<i>(19.05)</i>
<i>2063/064</i>	<i>(127.80)</i>	<i>1002.55</i>	<i>(12.75)</i>
<i>2064/065</i>	<i>(53.12)</i>	<i>1085.26</i>	<i>(4.89)</i>
<i>2065/066</i>	<i>283.40</i>	<i>1184.99</i>	<i>23.92</i>
<i>2066/067</i>	<i>206.85</i>	<i>1368.47</i>	<i>15.12</i>
<i>Average</i>			<i>5.40</i>
<i>C.V.</i>			<i>286.87</i>

*Source: Annual Reports of Uni-Lever Limited*

From the table-3, it shows that NWC is in fluctuating trend. Also it shows that the range of NWC is (184.27) to 283.40. The trend of TA is increasing order. Similarly, range of TA is 939.71 to 1368.47. The study period percentage of net working capital to total assets ratio of ULNLtd is in fluctuating trend with on average of 5.40%. The

range of ratio raised between -19.05% (F/Y 2062/063) and 23.92% (F/Y 2065/066). C.V. (i.e.286.87%) clearly indicates that the ratio over the years has less consistent.

**Table 4**  
**Structure of Net Working Capital on Fixed Assets**  
(RS in Million)

<i>F/Y</i>	<i>NWC</i>	<i>FA</i>	<i>Ratio (%)</i>
2059/060	163.44	146.16	111.82
2060/061	180.53	135.71	133.03
2061/062	9.39	127.77	7.35
2062/063	(184.27)	145.78	(126.40)
2063/064	(127.80)	148.93	(85.81)
2064/065	(53.12)	140.22	(37.88)
2065/066	283.40	144.15	196.60
2066/067	206.85	160.85	128.60
<i>Average</i>			40.91
<i>C.V.</i>			268.28

*Source: Annual Reports of Uni-Lever Limited*

Above table-4 shows that NWC is in fluctuating trend. The range of NWC is -184.27 to 283.40. The overall trend of FA is increasing order. Similarly, range of TA is 127.77 to 160.85. During the study period percentage of net working capital to fixed assets ratio of ULNLtd is in fluctuating trend with on average of 40.91%. The range of ratio ranged between -126.40% (F/Y 2062/063) and 196.60% (F/Y 2065/066). C.V. (i.e.268.28%) clearly indicates that the ratio over the years has less consistent.

#### **4.1.3 Structure of Inventory on Total Assets and Current Assets**

Inventory is one of the major components to total assets and current assets respectively. Inventory structure of ULNLtd is presented in the table below.

**Table 5**  
**Structure of Inventory (I) on Total Assets**  
(RS in Million)

<i>F/Y</i>	<i>I</i>	<i>TA</i>	<i>Ratio (%)</i>
2059/060	126.11	784.89	16.07
2060/061	184.22	939.71	19.60
2061/062	229.76	1098.94	20.91
2062/063	256.17	967.15	26.49
2063/064	321.62	1002.55	32.08
2064/065	410.12	1085.26	37.79
2065/066	247.31	1184.99	20.87
2066/067	443.18	1368.47	32.39
<i>Average</i>			25.78
<i>C.V.</i>			27.71

*Source: Annual Reports of Uni-Lever Limited*

According to table-5, inventory and total asset have adopted an increasing trend during the study period. The ranges of inventory and total assets are 126.11 to 443.18 and 784.89 to 1368.47 respectively. During the study period, the percentage of inventory to total assets ratio of ULNLtd is in increasing trend with an average of 25.78%. The ratio has ranged between 16.07% (F/Y 2059/060) and 37.79% (F/Y 2064/065). The C.V for inventories to total assets is 27.71%, which depicts less variation than inventory to total assets.

**Table 6**  
**Structure of Inventory (I) on Current Assets**  
(RS in Million)

<i>F/Y</i>	<i>I</i>	<i>CA</i>	<i>Ratio (%)</i>
2059/060	126.11	589.89	21.38
2060/061	184.22	724.24	25.44
2061/062	229.76	891.41	25.77
2062/063	256.17	557.96	45.91
2063/064	321.62	639.97	50.26
2064/065	410.12	761.39	53.86
2065/066	247.31	792.19	31.22
2066/067	443.18	758.97	58.39
<i>Average</i>			39.03
<i>C.V.</i>			35.10

*Source: Annual Reports of Uni-Lever Limited*

According to table-6, inventory and current asset have adopted an increasing trend during the study period. The ranges of inventory and current assets are 126.11 to 443.18 and 557.96 to 891.41 respectively. During the study period, the percentage of inventory to current assets ratio of ULNLtd is in increasing trend with an average of 39.03%. The ratio has ranged between 21.38% (F/Y 2059/060) and 58.39% (F/Y 2066/067). The C.V for inventories to current assets is 35.10%, which depicts more variation than inventory to current assets.

#### 4.1.4 Structure of Debtors on Total Assets and Current Assets.

This ratio is related to receivable management or sales policy. Debtors to total assets and debtors to current assets ratio measure the portion of debtor on total assets and current assets. This ratios show the arrangement of debtors on Total assets and current assets. Following table presents the debtors on total assets and current assets of ULNLtd .company

**Table 7**  
**Structure of Debtors on Total Assets**

(RS in Million)

<i>F/Y</i>	<i>Debtors</i>	<i>TA</i>	<i>Ratio (%)</i>
2059/060	64.78	784.89	8.25
2060/061	97.60	939.71	10.33
2061/062	157.72	1098.94	14.35
2062/063	138.32	967.15	14.30
2063/064	136.45	1002.55	13.61
2064/065	148.13	1085.26	13.65
2065/066	106.50	1184.99	8.99
2066/067	127.98	1368.47	9.35
<i>Average</i>			<i>11.60</i>
<i>C.V.</i>			<i>21.03</i>

*Source: Annual Reports of Uni-Lever Limited*

The above table-7 shows that the trend of debtors is in fluctuating trend during the study period. The range of debtors is 64.78 to 157.72. The overall trend of TA is in increasing order. Range of TA is 784.89 to 1368.47. During the study period, the

percentage of debtors to total assets ratio of ULNLtd is in fluctuating trend 8.25% and 14.35%. The C.V. is 21.03 which indicate that the ratio over the years has less constant.

**Table 8**  
**Structure of Debtors on Current Assets**  
(RS in Million)

<i>F/Y</i>	<i>Debtors</i>	<i>CA</i>	<i>Ratio (%)</i>
2059/060	64.78	589.89	10.98
2060/061	97.60	724.24	13.40
2061/062	157.72	891.41	17.69
2062/063	138.32	557.96	24.79
2063/064	136.45	639.97	21.32
2064/065	148.13	761.39	19.46
2065/066	106.50	792.19	13.44
2066/067	127.98	758.97	16.86
<i>Average</i>			17.24
<i>C.V.</i>			24.89

*Source: Annual Reports of Uni-Lever Limited*

The above table-8 shows that the trend of debtors is in fluctuating trend. The range of debtors is 64.78 to 157.72. The overall trend of CA is in increasing order. Range of CA is 557.96 to 891.41. During the study period, the percentage of debtors to current assets ratio of ULNLtd is in fluctuating trend with an average of 17.24%. The ratio has ranged between 10.98% (F/Y 2059/060) and 24.79% (F/Y 2062/063). C.V. (i.e.24.89%) clearly indicates that the ratio over the years has been less consistent.

#### **4.1.5 Structure of Cash and Bank Balance on Total Assets and Current Assets**

Structure of CBB on TA and CBB on CA ratio is the portion of CBB on TA and CA of enterprise has been shown in the following table.

**Table 9**  
**Structure of Cash & Bank Balance on Total Assets**  
(RS in Million)

<i>F/Y</i>	<i>CBB</i>	<i>TA</i>	<i>Ratio (%)</i>
2059/060	317.41	784.89	40.44
2060/061	391.53	939.71	41.66
2061/062	443.31	1098.94	40.34
2062/063	59.02	967.15	6.10
2063/064	101.60	1002.55	10.13
2064/065	98.99	1085.26	9.12
2065/066	382.05	1184.99	32.24
2066/067	163.27	1368.47	11.93
<i>Average</i>			24.00
<i>C.V.</i>			62.45

*Source: Annual Reports of Uni-Lever Limited*

From table-9, it shows that CBB is in fluctuating order. The range of CBB is 59.02 to 443.31. The trend of TA is increasing order in F/Y 2059/060 to 2066/067 except in F/Y 2062/063. Similarly, range of TA is 784.89 to 1368.47. The average cash and bank balance portion on total assets of ULN Ltd is 24.00%. In the F/Y 2062/063, 2063/064, 2064/065 and 2066/067; they are below the average ratio. Out of them 41.66 is the highest ratio or portion during the study period. The C.V for cash and bank balance to total assets ratios is 62.45% which depicts highest variation due to fluctuation trends on ratios of cash and bank balance to total assets.

**Table 10**  
**Structure of Cash & Bank Balance on Current Assets**  
(RS in Million)

<i>F/Y</i>	<i>CBB</i>	<i>CA</i>	<i>Ratio (%)</i>
2059/060	317.41	589.89	53.81
2060/061	391.53	724.24	54.06
2061/062	443.31	891.41	49.73
2062/063	59.02	557.96	10.58
2063/064	101.60	639.97	15.88
2064/065	98.99	761.39	13.00
2065/066	382.05	792.19	48.23
2066/067	163.27	758.97	21.51
<i>Average</i>			33.35
<i>C.V.</i>			55.24

*Source: Annual Reports of Uni-Lever Limited*

From the table-10, it shows that CBB is in fluctuating order. Also it shows that the range of CBB is 59.02 to 443.31. The overall trend of CA is increasing order. Similarly, range of CA is 557.96 to 891.41. The cash bank and Balance to Current Assets ratio is fluctuating trend. The smallest portion cash and bank balance of on current assets is 10.58% in F/Y 2062/063. Similarly high portion of cash and portion of 54.06% in F/Y 2060/061. The average ratio of current assets to cash and bank balance of ULN Ltd is 33.35%. The C.V for cash and bank balance on current assets is 55.24%, which depicts highest variation due to fluctuation trend on cash and bank balance to current assets.

#### **4.1.6 Structure of Loan, Advance and Deposit and Total assets and Current assets**

The ratio of loan, advance and deposit to total assets indicates the portion of current assets which occupies the total assets and similarly loan, advance and deposit to current assets ratio indicates that portion of current assets component which occupies on total current assets.

Following table presents the loan, advance and deposit ratio of total assets and current assets.

**Table 11**  
**Structure of Loan, Advance & Deposit on Total Assets**  
(RS in Million)

<i>F/Y</i>	<i>LAD</i>	<i>TA</i>	<i>Ratio (%)</i>
<i>2059/060</i>	<i>81.60</i>	<i>784.89</i>	<i>10.40</i>
<i>2060/061</i>	<i>51.43</i>	<i>939.71</i>	<i>5.47</i>
<i>2061/062</i>	<i>60.62</i>	<i>1098.94</i>	<i>5.52</i>
<i>2062/063</i>	<i>104.45</i>	<i>967.15</i>	<i>10.80</i>
<i>2063/064</i>	<i>80.29</i>	<i>1002.55</i>	<i>8.01</i>
<i>2064/065</i>	<i>104.15</i>	<i>1085.26</i>	<i>9.60</i>
<i>2065/066</i>	<i>56.33</i>	<i>1184.99</i>	<i>4.75</i>
<i>2066/067</i>	<i>24.54</i>	<i>1368.47</i>	<i>1.79</i>
<i>Average</i>			<i>7.04</i>
<i>C.V.</i>			<i>42.17</i>

*Source: Annual Reports of Uni-Lever Limited*

From table-11, it shows that the trend of LAD is in fluctuating order. The range of LAD is 24.54 to 104.45. Similarly, the trend of TA is increasing order. The Loans, advance and deposits to total assets ratio is in fluctuating trend. The value has adopted fluctuation trend. It has ranged between 1.79% and 10.80%. The average loan, advance and deposit portion on total assets of ULNLtd is 7.04%. The C.V for loan, advance and deposit to total assets is 42.17 % ,which depicts variation due to fluctuations trend of loan, advance and deposit to total assets ratios.

**Table 12**  
**Structure of Loan, Advance & Deposit on Current Assets**  
(RS in Million)

<i>F/Y</i>	<i>LAD</i>	<i>CA</i>	<i>Ratio (%)</i>
<i>2059/060</i>	<i>81.60</i>	<i>589.89</i>	<i>13.83</i>
<i>2060/061</i>	<i>51.43</i>	<i>724.24</i>	<i>7.10</i>
<i>2061/062</i>	<i>60.62</i>	<i>891.41</i>	<i>6.80</i>
<i>2062/063</i>	<i>104.45</i>	<i>557.96</i>	<i>18.72</i>
<i>2063/064</i>	<i>80.29</i>	<i>639.97</i>	<i>12.55</i>
<i>2064/065</i>	<i>104.15</i>	<i>761.39</i>	<i>13.68</i>
<i>2065/066</i>	<i>56.33</i>	<i>792.19</i>	<i>7.11</i>
<i>2066/067</i>	<i>24.54</i>	<i>758.97</i>	<i>3.23</i>
<i>Average</i>			<i>10.38</i>
<i>C.V.</i>			<i>46.10</i>

*Source: Annual Reports of Uni-Lever Limited*

Table-12, it shows that LAD has adopted fluctuating trend. It has ranged between 24.54to104.45. Similarly, CA has also adopted increasing trend. It has ranged between 557.96to891.41. The ratio value has adopted fluctuating trend. It has raged between 3.23 and 18.72.The average loan, advance and deposit to current assets ratio of ULNLtd is 10.38%. The C.V for loan, advance and deposit to current assets is 46.10%, which indicates that the ratio over the years has been less consistent.

#### **4.1.7 Analysis of the Average Structure of WC Components on TA and CA.**

This analysis represents the average from during the study period .The average structure of WC and its components are presented in the following table.

**Table 13**

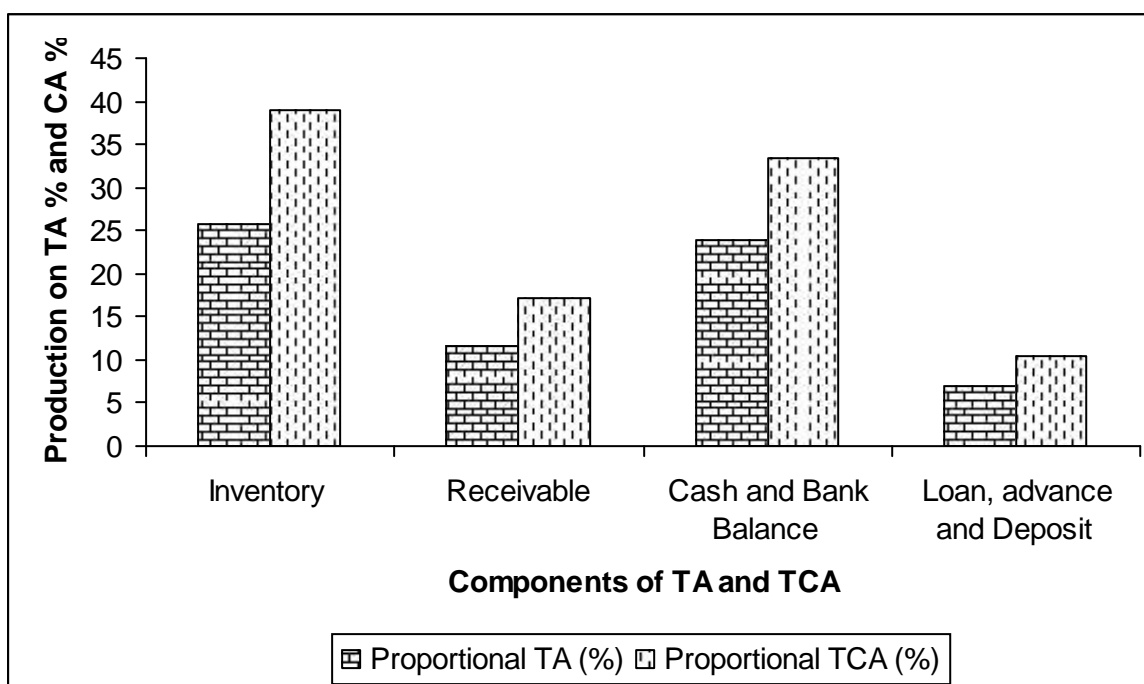
**Average Proportion of Components on Total Assets and Current Assets**

Component of WC (Types of WC)	Proportional TA (%)	Proportional TCA (%)
Inventory	25.78	39.03
Receivable	11.60	17.24
Cash and Bank Balance	24.00	33.35
Loan, advance and Deposit	7.04	10.38
Total (%)	68.42	100

The above table represents the working capital structure as a whole in average form during the study period with all the components. The company has inventory, debtors, cash and bank balance and loan, advance and deposit ratios are 25.78%, 11.60%, 24.00% & 7.04% of TA respectively, in aggregate 68.42% of Total Assets. Similarly, the above table also shows the structure of WC and the various proportions of the components on total current assets.

**Figure 4.1**

**Average Proportion of Components on TA and TCA**



## **4.2 Utilization of Working Capital**

Only investing in working capital is not sufficient to get good results and return, it should efficiently be utilized. The behavior of WC utilization and improvement can be analyzed with the help of activity or turnover ratios. This reflects the speed and rapidity with which assets are converted into sales there by resulting in the efficiency of the enterprises. Though there is no standard or ideal measurement, generally a great turnover is regarded as efficient utilization of the assets. For this purpose, the advantage turnover of the factory itself may provide a standard measurement for comparison with the means of measurement, and this section examines the turnover position of the ULNL.

### **4.2.1 Current Assets Turnover Ratio (CATR)**

Every business firm's main objective is to sell of products and services. So, the sale is most important activity. The survival and growth of company depends on the sales of the product. The company should make their sales policy as per the resources availability and market demand. The sales policy directly affects the production policy, i.e. the requirement of total assets and working capital by the company to run it as per plan. Increase in sales certainly cause increase in production, which requires more inputs. To keep the stock of material, there should be adequate amount of working capital. The amount of working capital is also affected by sales policy. If the credit sales are increased more working capital will be required to meet the daily requirement. In other hand, if tight credit sales policy is applied the amount of working capital to replace the amount held by credit sales will be decreased. The ultimate effect will be decrease in working capital need.

The Table 14 represents the current assets or gross working capital turnover during the study period in ULNL.

**Table 14**  
**Current Assets Turnover Ratio (CATR)**

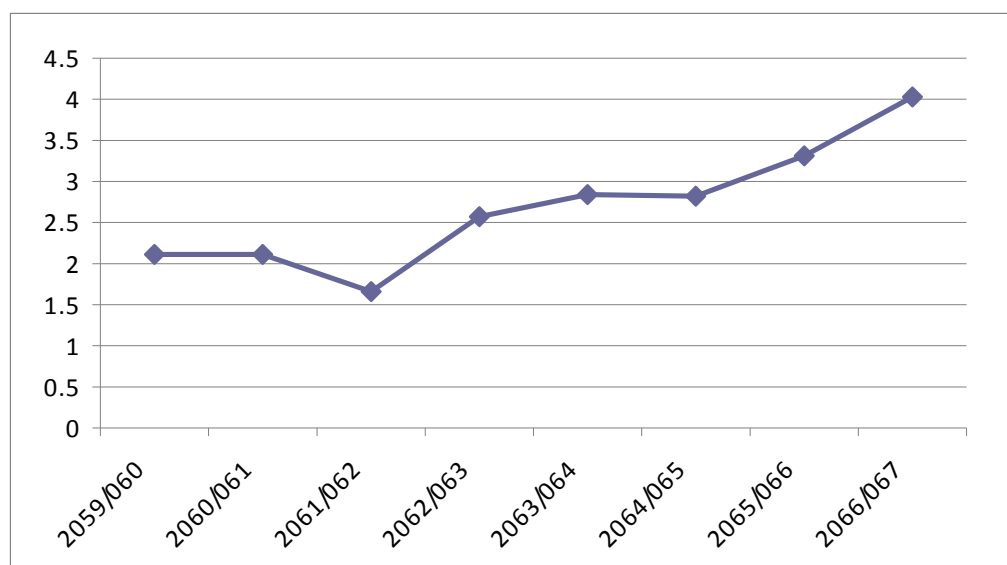
(RS in Million)

<i>F/Y</i>	Sales	CA	Ratio(Times)	Change
<i>2059/060</i>	1244.73	589.89	2.11	-
<i>2060/061</i>	1524.90	724.24	2.11	-
<i>2061/062</i>	1481.56	891.41	1.66	-0.45
<i>2062/063</i>	1434.94	557.96	2.57	0.91
<i>2063/064</i>	1818.53	639.97	2.84	0.27
<i>2064/065</i>	2144.59	761.39	2.82	-0.02
<i>2065/066</i>	2625.83	792.19	3.31	0.49
<i>2066/067</i>	3055.07	758.97	4.03	0.72
<i>Average</i>			2.68	
<i>C.V.</i>			26.28	

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2063/064*

According to table-14, sales and current asset have adopted an increasing trend during the study period. The range of sales is 1244.73 and 3055.07. Similarly current asset is 557.96 to 891.41. Current assets turnover ratios for the F/Y 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 are 2.11, 2.11, 1.66, 2.57, 2.84, 2.82, 3.31 and 4.03 times respectively. It is in increasing trend except in F/Y 2061/062 and 2064/065. In fiscal year 2061/062 and 2064/065 current assets turnover ratio is reduced by 0.45 and 0.02 times respectively. In other F/Y current assets turnover ratio is increased with the comparisons of respective last years. The average of the study period the current assets turnover position of the company is 2.68 times. The C.V for sales on current assets is 26.28%, which depicts variation due to fluctuation trend in sales to CA ratio.

**Figure 4.2**  
**Current Assets Turnover Ratio**



#### 4.2.2 Inventory Turnover Ratio (ITR)

It has already been stated that the working capital, production and sales are correlated in general cases. The production should be increased to meet the high level of target sales. To produce more, more raw materials will be required. The stock level of production is here to fulfill the requirement of the company. It has to increase its working capital. In this way the inventory is affected by sales volume. The proportion of inventories to sales has been presented below.

**Table 15**  
**Inventory Turnover Ratio (ITR)**

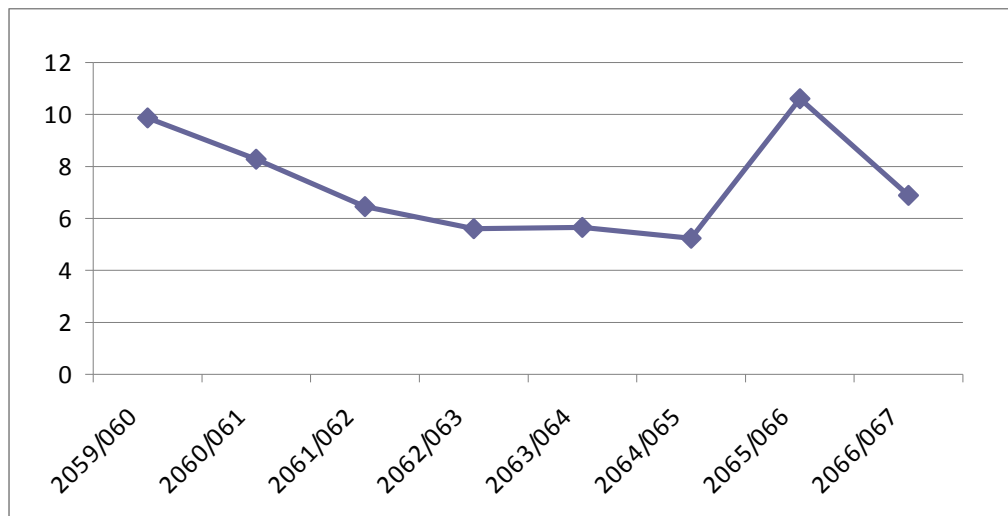
(RS in Million)

F/Y	Sales	Inventory	Ratio(Times)	Change
2059/060	1244.73	126.11	9.87	-
2060/061	1524.90	184.22	8.28	-1.59
2061/062	1481.56	229.76	6.45	-1.83
2062/063	1434.94	256.17	5.60	-0.85
2063/064	1818.53	321.62	5.65	0.05
2064/065	2144.59	410.12	5.23	-0.42
2065/066	2625.83	247.31	10.61	5.38
2066/067	3055.07	443.18	6.89	-3.72
Average			7.32	
C.V.			26.15	

Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067

From the table-15, it shows that sales are in increasing trend. Also it shows that the range of sales is 1244.73 to 3055.07. The trend of inventory is increasing order. Similarly, range of inventory is 126.11 to 443.18. The ratio of average inventory turnover during the study period has been 7.32 times. The inventory turnover period in F/Y 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 are 9.87, 8.28, 6.45, 5.60, 5.65, and 5.23, 10.61 and 6.89 times. It fluctuates from 5.23 to 10.61 times. It has decreased in five F/Y 2060/061, 2061/062, 2062/063, 2064/065 and 2066/067 by 1.59, 1.83, 0.85, 0.42 and 3.72 times. It has increased by 0.05 and 5.38 times in F/Y 2063/064 and 2065/066 respectively. The company has lowest and highest inventory turnover position in 5.23 times and 10.61 times in F/Y 2064/065 and 2065/066 respectively. The company's sales is in increasing pattern expect in F/Y 2061/062 and 2062/063 but inventory holding is in increasing trend for all fiscal years. The C.V of inventory turnover ration is 26.15%, which indicates less variation in figures of inventory turnover ratio in the given period.

**Figure 4.3**  
**Inventory Turnover Ratio (ITR)**



#### 4.2.3 Receivable Turnover Ratio (RTR)

Receivable is one of the components of working capital in order to increase the business an activity, the company has to increase the sales volume. The sales volume can be increased by given products in credit to customers the level of receivable goes up, because generally receivable in credited by credit sales. The credit sales policy is

applied to increase the sales level. Hence the increase in receivables should increase the sales volume. The proportion of receivable to sales presented here under.

**Table 16**  
**Receivables Turnover Ratio (RTR)**

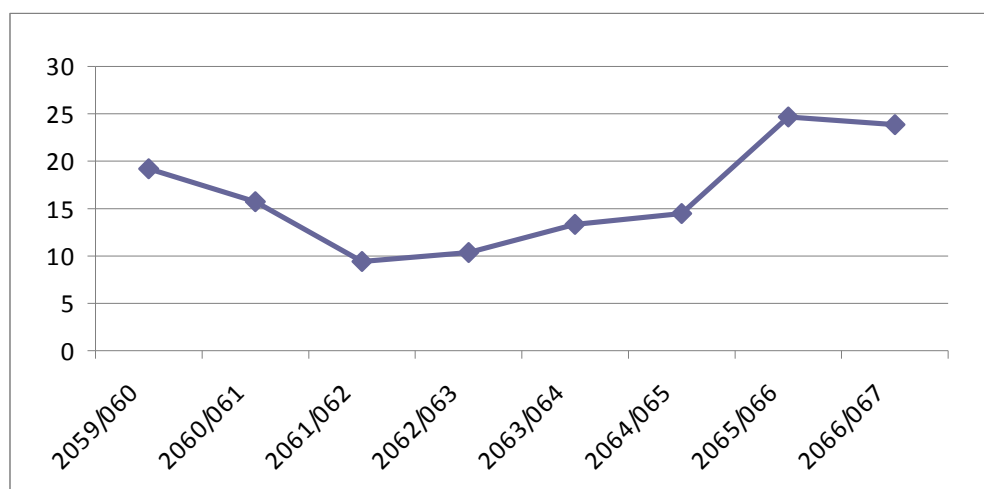
(RS in Million)

<i>F/Y</i>	Sales	Receivables	Ratio(Times)	Change
<i>2059/060</i>	1244.73	64.78	19.21	--
<i>2060/061</i>	1524.90	97.06	15.71	-3.5
<i>2061/062</i>	1481.56	157.72	9.40	-6.31
<i>2062/063</i>	1434.94	138.32	10.37	0.97
<i>2063/064</i>	1818.53	136.45	13.33	2.96
<i>2064/065</i>	2144.59	148.13	14.48	1.15
<i>2065/066</i>	2625.83	106.50	24.66	10.18
<i>2066/067</i>	3055.07	127.98	23.87	-0.79
<i>Average</i>			16.38	
<i>C.V.</i>			32.80	

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

From the table-16, it shows that sales are in increasing trend. Also it shows that the range of sales is 1244.73 to 3055.07. The trend of receivables is fluctuating trend. Similarly, range of receivables is 64.78 to 157.72. Receivable turnover ratio in eight F/Y 2059/060, 2060/61, 2061/62, 2062/63, 2063/64, 2064/065, 2065/066 and 2066/067 is 19.21, 15.71, 9.40, 10.37, 13.33, and 14.48, 24.66 and 23.87 times respectively. The highest receivable turnover in the study period is 24.66 times in the F/Y 2065/66. In the F/Y 2061/062 has the lowest receivable turnover during the study period. The average turnover ratio is 16.38%. The fluctuation ratio is some times very high and but sometimes it is very low. It shows the Receivable collection policy of ULNL is changing year by year. That means company follows some times hard collection policy and sometimes liberal collection policy.

**Figure 4.4**  
**Receivables Turnover Ratio (RTR)**



#### 4.2.4 Cash and Bank Balance Turnover Ratio (CBBTR)

It is one of the main parts of current assets which have greatest value to meet the current obligations occurred in business. It should be just adequate to run the business and excess cash no meaning as it earns nothing. So, the company always seeks the risk return trade off to maintain the just adequate cash and bank balance. The following table shows the cash and bank balance turnover ratio of the ULNLtd during the study period.

**Table 17**  
**Cash and Bank Balance Turnover Ratio (CBBTR)**

(RS in Million)

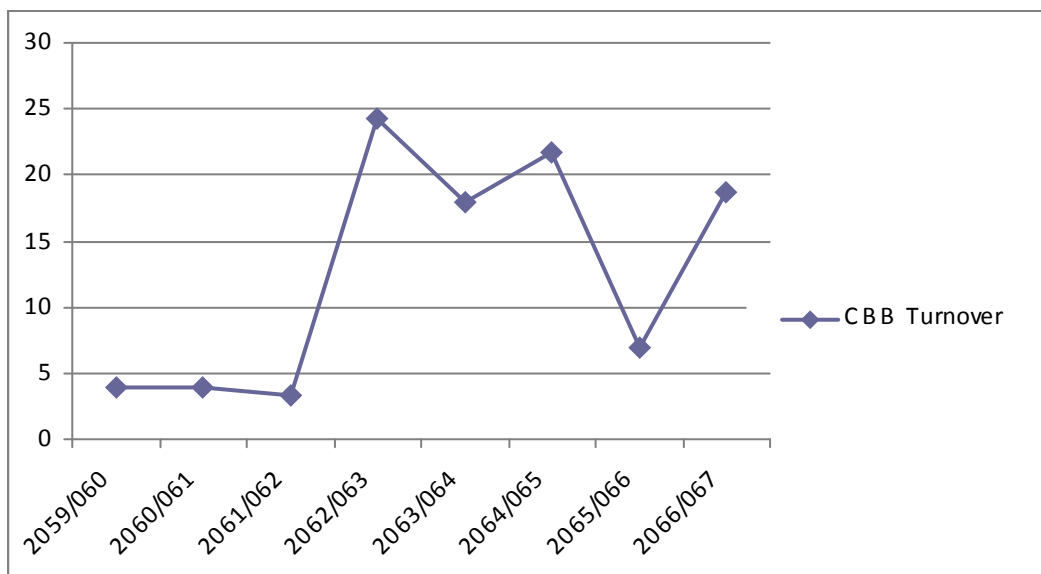
F/Y	Sales	CBB	Ratio (Times)	Change
2059/060	1244.73	317.41	3.92	-
2060/061	1524.90	391.53	3.89	-0.03
2061/062	1481.56	443.31	3.34	-0.55
2062/063	1434.94	59.02	24.31	20.97
2063/064	1818.53	101.60	17.90	-6.41
2064/065	2144.59	98.99	21.66	3.76
2065/066	2625.83	382.05	6.87	-14.79
2066/067	3055.07	163.27	18.71	11.84
<i>Average</i>			12.58	
<i>C.V.</i>			66.17	

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

According to table-17 shows the cash and bank balance turnover ratio in times of ULNL The ratio indicates that a rupee invested in cash and bank balance generate in times. Cash and bank balance turnover ratio for the F/Y 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 are 3.92, 3.89, 3.34, 24.31 17.90,21.66, 6.87 and 18.71 times respectively. It fluctuates from 3.34 times to 24.31 times. The highest times of cash and bank balance turnover ratio is 24.31 times in F/Y 2062/063 and lowest cash and bank balance turnover ratio is 3.34 times in F/Y 2061/062.In F/Y 2061/062 cash and bank balance turnover ratio is highly positive change by 20.97 times as comparison to previous years. The average cash and bank balance turnover ratio during the study period is 12.58 times and the C.V is 66.17 % which indicates more variation on cash and bank balance turnover ratio.

**Figure 4.5**

**Cash and Bank Balance Turnover Ratio (CBBTR)**



#### **4.2.5 Net Working Capital Turnover Ratio (NWCTR)**

The net working capital turnover ratio measures how many times net working capital is used in relation to sales and the efficiency of the company. The net working capital turnover ratio is presented in the following table.

**Table 18**  
**Net Working Capital Turnover Ratio (NWCTR)**

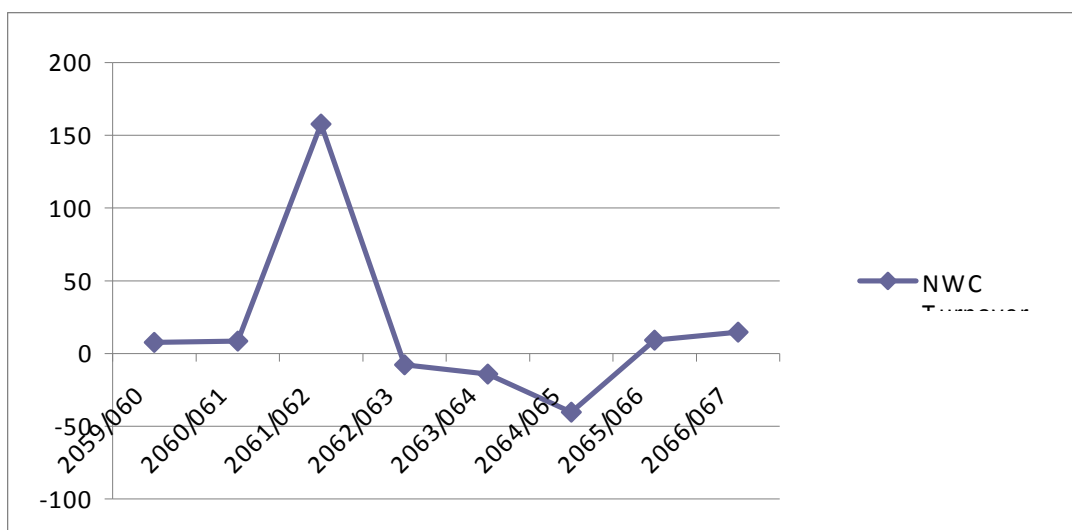
(RS in Million)

<i>F/Y</i>	Sales	NWC	Ratio(Times)	Change
2059/060	1244.73	163.43	7.62	-
2060/061	1524.90	180.54	8.45	0.83
2061/062	1481.56	9.39	157.78	149.33
2062/063	1434.94	(184.27)	-7.79	
2063/064	1818.53	(127.80)	-14.23	
2064/065	2144.59	(53.12)	-40.37	
2065/066	2625.83	283.40	9.27	
2066/067	3055.07	206.85	14.77	5.5
<i>Average</i>			16.94	
<i>C.V.</i>			329.51	

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

Table-18 shows that relevant that the net working capital turnover ratio in times of ULNL Net working capital turnover ratio for the F/Y 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 is 7.62, 8.45, 157.78, -7.79, -14.23,-40.37,9.27 and 14.77 times respectively. In three F/Y net working capital turnover ratio is in negative form which indicates that the financial position of the is poor for these years. In F/Y 2061/062 the net working capital turnover ratio is highest times i.e. 157.78 times. The average net working capital turnover ratio during the study period is 16.94 times the C.V for the above ratio is 329.51 which depict very more variation due to fluctuation trend in the ratios.

**Figure 4.6**  
**Net Working Capital Turnover Ratio (NWCTR)**



#### 4.2.6 Loan, Advance and Deposits turnover ratio (LADTR)

The loan advance and deposit turnover ratio measures the loan advance and deposit conversion period that has been contributed by different level of loan advance and deposit on sales. This is shown in the following table.

**Table 19**  
**Loan, Advance and Deposits Turnover Ratio (CATR)**

(RS in Million)

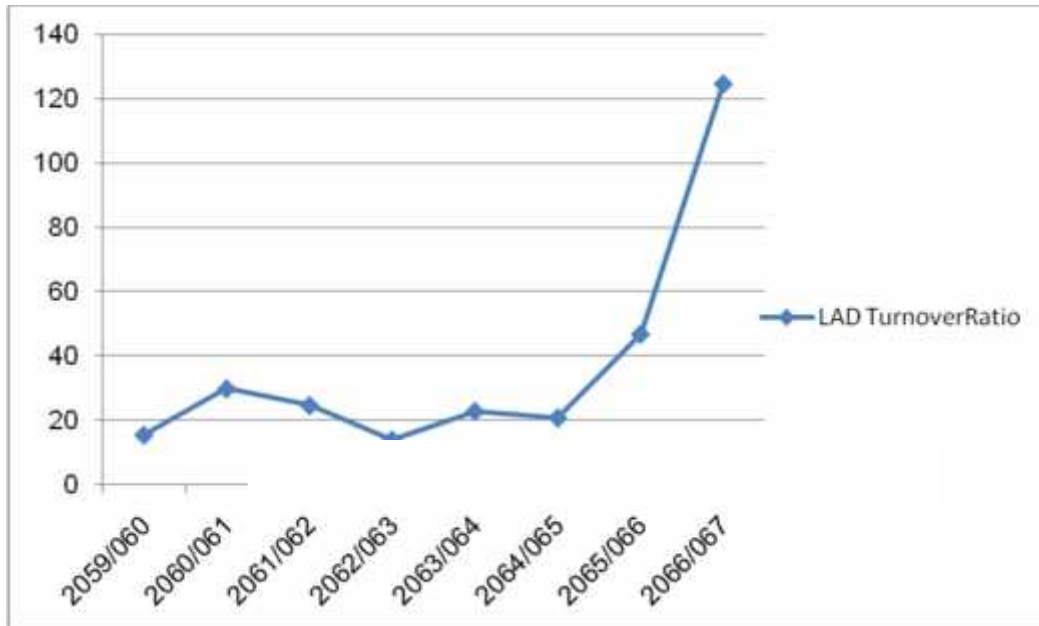
<i>F/Y</i>	Sales	LAD	Ratio(Times)	Change
<i>2059/060</i>	1244.73	81.60	15.25	-
<i>2060/061</i>	1524.90	51.43	29.65	14.40
<i>2061/062</i>	1481.56	60.62	24.44	-5.21
<i>2062/063</i>	1434.94	104.45	13.74	-10.7
<i>2063/064</i>	1818.53	80.29	22.65	8.91
<i>2064/065</i>	2144.59	104.15	20.59	-2.06
<i>2065/066</i>	2625.83	56.33	46.62	26.03
<i>2066/067</i>	3055.07	24.54	124.49	77.87
Average			37.18	
C.V.			92.43	

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

The above table-19 shows the loan, advance and deposit turnover ratio in times of company. The average loan, advance and deposits turnover ratio during the study period is 37.18 times. In the F/Y 2062/063 there is the largest decreasing ratio from just previous F/Y by 10.70 times. The highest and the lowest loan, advance and deposit turnover ratio are 124.49 times and 13.74 times in F/Y 2066/067 and 2062/063 respectively and the C.V is 92.43 % variation during the study period.

**Figure 4.7**

**Loan, Advance and Deposits Turnover Ratio (CATR)**



**4.3 Liquidity Position**

Liquidity position of the firm depends on its working capital policy. If the firm follows aggressive policy, it has low liquidity position, while conservative policy has to high liquidity position. So, to analysis of working capital policy of ULNLtd with measure the liquidity position indicates the ability to pay of its short-term obligation. Liquidity position indicates the how many times the current assets are available to meet the one time of current liabilities. In this section current ratio and quick ratio are comparatively analyzed.

**4.3.1 Current Ratio (CR)**

Current Ratio serves a similar purpose and it is frequently used. It is also called working capital ratio. It is considered as an index of solvency of company. It indicates the ability of the company to meet its current obligations. Change in current ratio can however, be misleading. If a company raises money through commercial paper & invests the amount in marketable securities net working capital is unattached but the current ratio changes. A current ratio of 2:1 in generally considered satisfactory for manufacturing company. It constitutes a rule of thumb for measuring liquidity .The ratios of ULNLtd for the period of study is calculated in Table 20 as under.

**Table 20**  
**Current Ratio (CR)**

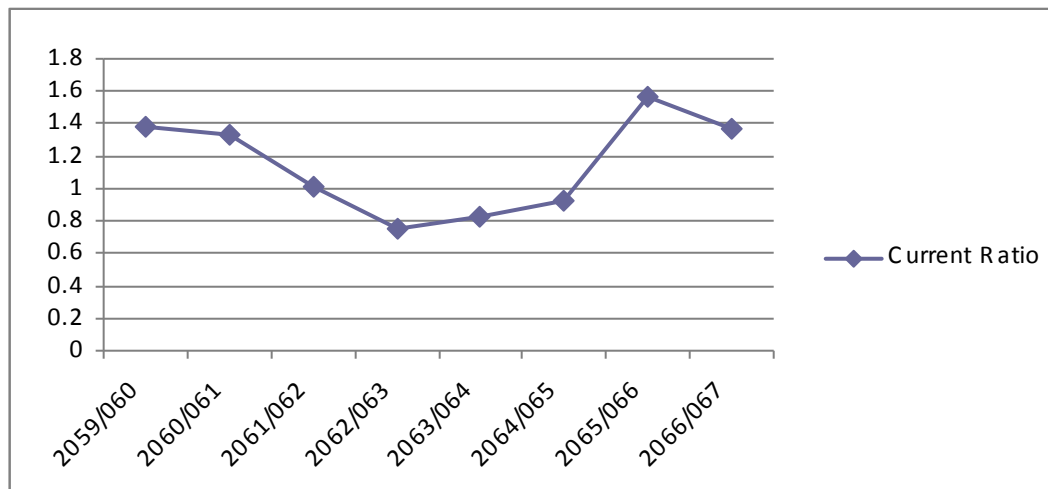
(RS in Million)

<i>F/Y</i>	<i>Current Assets(CA)</i>	<i>Current Liabilities(CL)</i>	<i>Ratio(Times)</i>	<i>Change</i>
<i>2059/060</i>	<i>589.89</i>	<i>426.45</i>	<i>1.38</i>	<i>-</i>
<i>2060/061</i>	<i>724.24</i>	<i>543.71</i>	<i>1.33</i>	<i>-0.05</i>
<i>2061/062</i>	<i>891.41</i>	<i>882.02</i>	<i>1.01</i>	<i>-0.32</i>
<i>2062/063</i>	<i>557.96</i>	<i>742.23</i>	<i>0.75</i>	<i>-0.26</i>
<i>2063/064</i>	<i>639.97</i>	<i>767.65</i>	<i>0.83</i>	<i>0.08</i>
<i>2064/065</i>	<i>761.39</i>	<i>814.57</i>	<i>0.93</i>	<i>0.1</i>
<i>2065/066</i>	<i>792.19</i>	<i>508.80</i>	<i>1.56</i>	<i>0.63</i>
<i>2066/067</i>	<i>758.97</i>	<i>552.12</i>	<i>1.37</i>	<i>-0.19</i>
<i>Average</i>			<i>1.15</i>	
<i>C.V.</i>			<i>24.40</i>	

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

The above table shows that the current ratio of ULNLtd in the F/Y 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 are 1.38:1 ,1.33:1 ,1.01:1 ,0.75:1, 0.83:1,0.93:1, 1.56:1 and 1.37:1 times respectively. In the F/Y 2063/064 and 2064/065 it is increased by 0.08 and 0.63 respectively. But in other four F/Y, it is in decreasing trend .The current ratio of 2:1 is generally, considered satisfactory for a manufacturing company. During the study period, the average current ratio of ULNLtd is found 1.15:1 which is below the current ratio standard .So the company's current ratio has found to be not satisfactory .The C.V of current ratio 24.40% which indicates less fluctuation on Current ratio.

**Figure 4.8**  
**Current Ratio (CR)**



#### 4.3.2 Quick Ratio (QR)

Quick ratio measures the liquidity position in net term. Current Ratio measures the short-term solvency in gross term which cannot measure the actual liquidity position due to inclusion of less liquid assets. Quick ratio indicates the availability of highly liquid assets which can be converted into cash within short-period as compared to current assets. The quick ratio is considered as perfect when the ratio come 1:1. Quick ratio does not consider inventories because they cannot be sold at anything above fire-sale price. The liquidity arises because finished goods cannot be sold for more than production cost.

**Table 21**  
**Quick Ratio (QR)**

(RS in Million)

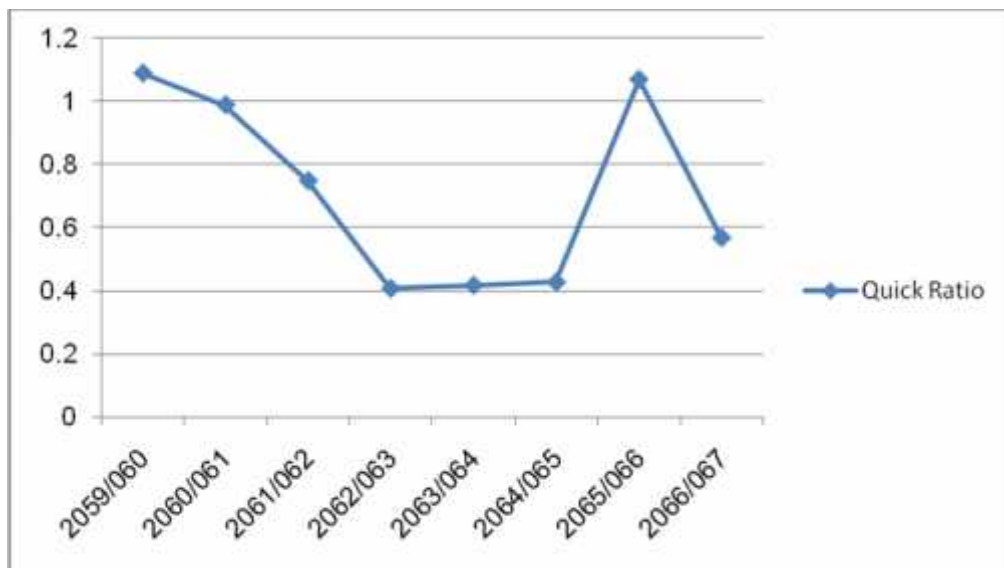
<i>F/Y</i>	<i>Quick Assets(QA)</i>	<i>Current Liabilities(CL)</i>	<i>Ratio(Times)</i>	<i>Change</i>
2059/060	463.78	426.45	1.09	-
2060/061	540.02	543.71	0.99	-0.1
2061/062	661.65	882.02	0.75	-0.24
2062/063	301.79	742.23	0.41	-0.34
2063/064	318.34	767.65	0.42	0.01
2064/065	351.27	814.57	0.43	0.01
2065/066	544.88	508.80	1.07	0.64
2066/067	315.79	552.12	0.57	-0.5
<i>Average</i>			0.72	
<i>C.V.</i>			38.69	

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

The table-21 shows that the quick ratio of ULNLtd where quick assets consist of cash & bank balance, sundry debtors, prepaid loan, advance and deposits. Quick ratio of the company is 1.09:1, 0.99:1, 0.75:1, 0.41:1, 0.42:1, 0.43:1, 1.07:1 and 0.57:1 for the F/Y 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 .During the study period ,quick ratio changing is in decreasing trend. Further the study shows that the highest quick ratio of the company is 1.09:1 in F/Y 2059/060.In the F/Y 2066/067,there is largest decreasing ratio by 0.5% as compared to previous fiscal year .The above table relevant that quick ratio of ULNLtd has not meet standard (1:1) except F/Y 2059/060 and 2065/066.The average quick ratio of the company is 0.72 times which is below the standard .So the quick ratio of ULNLtd is unfavorable .The C.V of the quick ratio is 38.89% during the study period .This indicate less fluctuation on quick ratio.

**Figure 4.9**

**Quick Ratio (QR)**



#### 4.4 Working Capital Cash Conversion Cycle

Working capital cash conversion cycle measures the total numbers of days from raw materials purchase to when cash is received from debtors. This shows the cash inflow and outflow period of company, inflow and outflow are repetitive process. Cash inflow and outflow period determines as available credit period. It can be analyzed by following aspects.

#### 4.4.1 Inventory Conversion Period (ICP)

Inventory conversion period refers, the time period for inventory to convert into sales. The short period indicates fast conversion of inventory to sales and long period indicates slow conversion period. Following table represents the ICP.

**Table 22**  
**Inventory Conversion Period (ICP)**

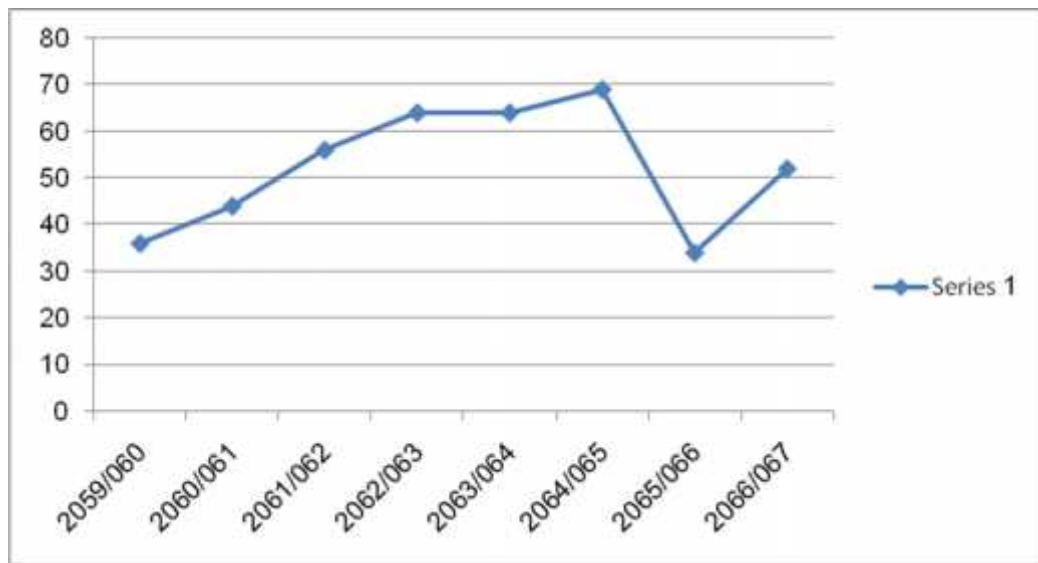
(RS in Million)

<i>F/Y</i>	Inventory	Sales	Inventory Turnover	C	Change
<i>2059/060</i>	126.11	1244.73	9.87	36.47=36	-
<i>2060/061</i>	184.22	1524.90	8.28	43.48=44	8
<i>2061/062</i>	229.76	1481.56	6.45	55.81=56	12
<i>2062/063</i>	256.17	1434.94	5.60	64.29=64	8
<i>2063/064</i>	321.62	1818.53	5.65	63.72=64	0
<i>2064/065</i>	410.12	2144.59	5.23	68.83=69	5
<i>2065/066</i>	247.31	2625.83	10.62	33.89=34	-35
<i>2066/067</i>	443.18	3055.07	6.89	52.25=52	18
Average				52.38=52	
C.V.				23.73	

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

Above table-22 shows that inventory conversion period in days. The inventory conversion period of the company in F/Y 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 are 36, 44, 56, 64, 64, 69, 34, and 52 days respectively. Inventory conversion period is in increasing trend for the 1<sup>st</sup> eight F/Y except in seven F/Y 2065/066 it is decreased by 35 days. The inventory conversion period in F/Y 2064/065 is 69 days which is highest conversion period during the study. The lowest inventory conversion period is 34 days in F/Y 2065/066. The average ICP is 52 days and co-efficient of variation is 23.73%, which indicates less fluctuation on ICP.

**Figure 4.10**  
**Inventory Conversion Period (ICP)**



#### 4.4.2 Receivable Collection Period (RCP)

Receivable collection period is the average length of time required to convert the times receivable into cash. The receivable collection period is also called the day's sales outstanding. The table shows the receivable collection period of Uni-Lever Nepal Limited in the five years study period.

**Table 23**  
**Receivables Collection Period (RCP)**

(RS in Million)

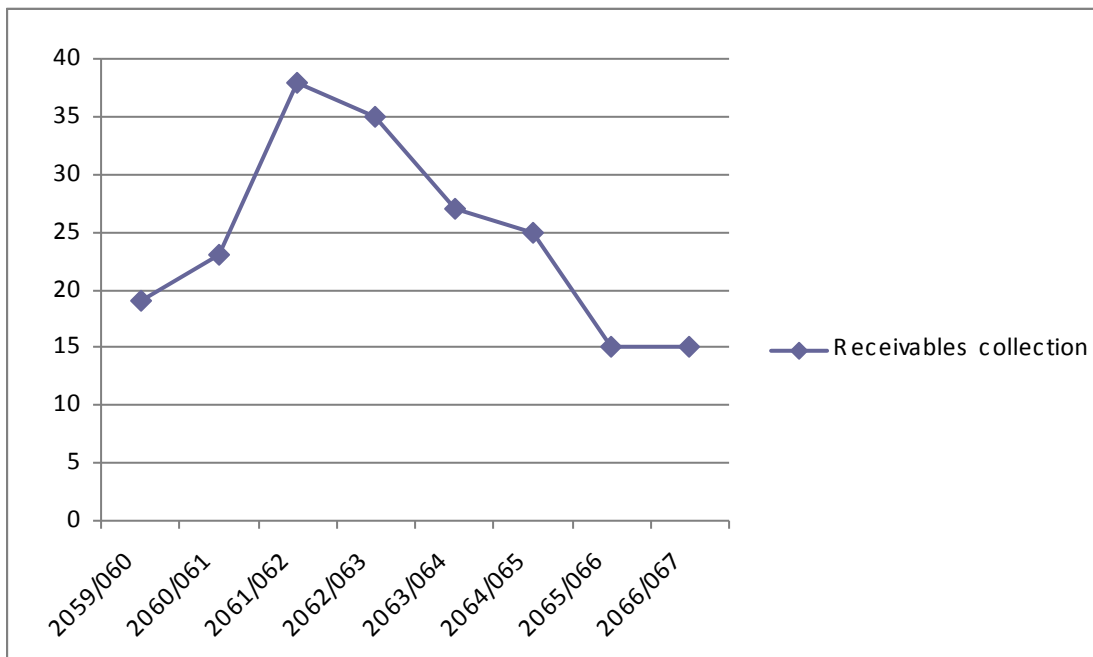
F/Y	Receivables	Sales	Receivables Turnover	RCP(Days)	Change
2059/060	64.78	1244.73	19.21	18.74=19	-
2060/061	97.06	1524.90	15.71	22.92=23	4
2061/062	157.72	1481.56	9.39	38.34=38	15
2062/063	138.32	1434.94	10.37	34.70=35	-3
2063/064	136.45	1818.53	13.33	27.01=27	-8
2064/065	148.13	2144.59	14.48	24.86=25	-2
2065/066	106.50	2625.83	24.66	14.60=15	-10
2066/067	127.98	3055.07	23.87	15.08=15	0
Average				24.63=25	
C.V.				32.03	

Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067

The table-23 shows the length of time of the receivable collection period in days. The receivable collection period in F/Y 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 is 19, 23, 38, 35, 27, and 25, 15 and 15 days. Receivable collection period during the study period is increasing trend except last four F/Y 2062/063, 2063/064, 2064/065 and 2065/066 .In these years receivable collection period is decreased by 3, 8, 2 and 10 days .The lowest days of receivable collection period is only 19 days in F/Y 2059/060 and the highest days of RCP is 38 days in F/Y 2061/062 .The average RCP of ULNLtd is 25 days. It indicates the collection policy of ULNLtd is adopted liberal collection policy but it is hardly to say that collection policy change by company. The C.V of company is 32.03, which indicates more fluctuation on RCP.

**Figure 4.11**

**Receivables Collection Period (RCP)**



**4.4.3 Payable Deferral Period (PDP)**

The payable Deferral period measures the period of payment to the trade creditor of the company. It indicates the average length of time between the purchase of raw materials and labour and payment of cash for them. The payable Deferral period of ULNLtd is presented in the following table.

**Table 24**  
**Payable Deferral Period (PDP)**

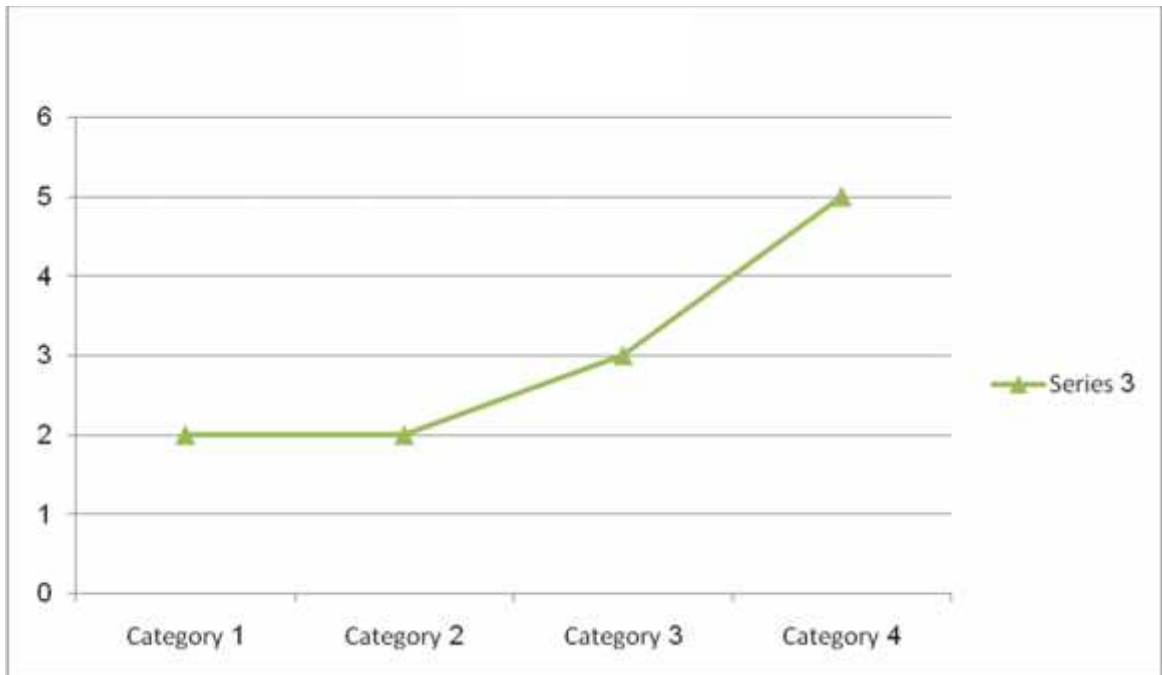
(RS in Million)

<i>F/Y</i>	Account Payable	Cost of Goods Sold	Days in Year	PDP(Days)	Change
2059/060	247.01	843.14	360	105.47=105	-
2060/061	335.72	969.11	360	124.71=125	20
2061/062	370.24	937.82	360	142.12=142	17
2062/063	353.31	901.12	360	141.15=141	-1
2063/064	385.78	1281.62	360	108.36=108	-33
2064/065	384.11	1370.21	360	100.92=101	-7
2065/066	266.70	1696.56	360	56.59=57	-44
2066/067	212.65	1812.85	360	42.23=42	-15
Average				102.63=103	
C.V.				33.14	

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

The table-24 shows the length of time of payable Deferral period in days. The payable deferral period in F/Y 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 is 105,125,142,141,108,101, 57 and 42 days respectively. Payable Deferral period during the study period is in increasing trend except last five F/Y 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 .In F/Y 2065/066 payable deferral period is largest change by 44 days .The lowest days of payable deferral period is only 42 days in F/Y 2066/067 and the highest days of PDP is 142 days in F/Y 2061/062. Payable Deferral Period is fluctuates from 42 days to 142 days over the study period .The average PDP is 103 days during the study period. The C.V of company is 33.14%, which indicates less fluctuation on PDP.

**Figure 4.12**  
**Payable Deferral Period (PDP)**



#### 4.4.4 Cash Conversion Cycle (CCC)

The cash conversion is net time interval in days between actual cash expenditure of the firm on productive resources and ultimate recovery of cash. Following table represents the cash conversion cycle of ULNL

**Table 25**  
**Cash Conversion Cycle (CCC)**

(Period in Days)

<i>F/Y</i>	ICP	RCP(Days)	PDP(Days)	CCC=ICP+RCP-PDP
2059/060	36.47=36	18.74=19	105.47=105	-50
2060/061	43.48=44	22.92=23	124.71=125	-58
2061/062	55.81=56	38.34=38	142.12=142	-48
2062/063	64.29=64	34.70=35	141.15=141	-42
2063/064	63.72=64	27.01=27	108.36=108	-17
2064/065	68.83=69	24.86=25	100.92=101	-7
2065/066	33.89=34	14.60=15	56.59=57	-8
2066/067	52.25=52	15.08=15	42.23=42	25
Average	52.38=52			-25.63=-26
C.V.	23.73			-102.73

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

According to table-25 shows that the average cash conversion cycle is -26 days. In all F/Y the cash conversion cycle of ULNLtd is in negative except last year is the positive. The cash conversion cycle in F/Y 2059/060,2060/061,2061/062,2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 are -50,-58,-48,-42, -17,-7, -8 and 25 days respectively. The average cash conversion cycle of company is -26 days which seems to be very satisfactory for short period but in long period it will deteriorate the credit worthiness of the company. Firm could not get credit due to the company delay in obligation. The C.V is -102.73 %. This indicates that variation of ULNLtd is very high with negative. ULNLtd hasn't been able to make consistency on cash conversion cycle.

#### 4.5 Profitability Position

An ability to earn maximum from the maximum use of available resources by the business organization is known as profitability. It is the measurers of efficiency. Working capital component has affected profitability position of the enterprises. The strong profitability position fulfills the aims of wealth maximization as well as profit maximization which motivate investor to invest. A study of profitability position is measured by net profit margin, gross profit margin, return on total assets, return on working capital and operating expenses ratio.

##### 4.5.1 Net Profit Margin (NPM)

Net profit margin shows the relationship between net profits and sales it indicates available ratio of profit margin for ownership capital. Following table shows the net profit margin of ULNL

**Table 26**  
**Net Profit Margin (NPM)**

(RS in Million)

<i>F/Y</i>	NPAT	Sales	Ratio (%)
<i>2059/060</i>	93.17	1244.73	7.49
<i>2060/061</i>	140.78	1524.90	9.23
<i>2061/062</i>	189.12	1481.56	12.76
<i>2062/063</i>	238.16	1434.94	16.50
<i>2063/064</i>	263.06	1818.53	14.47
<i>2064/065</i>	335.12	2144.59	15.63
<i>2065/066</i>	444.04	2625.83	16.91
<i>2066/067</i>	576.53	3055.07	18.87
Average			14.00
C.V.			26.30

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

According to table-26, NPAT and Sales have adopted an increasing trend during the study period. The ranges of NPAT are 93.17 to 576.53 and sales are 1244.73 to 3055.07. The percentage of net profit margin ratio of ULNLtd is in increasing trend with an average of 14.00%. The ratio has ranged between 7.49% (F/Y 2059/060) and 18.87% (F/Y 2066/067). C.V. (i.e.26.30%) clearly indicates that the ratio over the years has been less consistent.

#### 4.5.2 Gross Profit Margin (GPM)

Gross profit margin is the relationship between gross profit and sales. It measures the percentage return of gross profit out of total sales. Gross profit does not adjust operating and administrative expenses. Following table depicts the gross profit margin.

**Table 27**  
**Gross Profit Margin (GPM)**

(RS in Million)

<i>F/Y</i>	<b>GP</b>	<b>Sales</b>	<b>Ratio (%)</b>
<i>2059/060</i>	401.59	1244.73	32.26
<i>2060/061</i>	555.79	1524.90	36.45
<i>2061/062</i>	543.74	1481.56	36.70
<i>2062/063</i>	533.82	1434.94	37.20
<i>2063/064</i>	536.91	1818.53	29.52
<i>2064/065</i>	774.38	2144.59	36.11
<i>2065/066</i>	929.27	2625.83	35.39
<i>2066/067</i>	1242.22	3055.07	40.66
Average			35.54
C.V.			8.81

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

Table-27, GP and Sales have adopted an increasing trend during the study period. The ranges of GP are 401.59 to 1242.22 and sales are 1244.73 to 3055.07. The percentage of gross profit margin ratio of ULNLtd is in fluctuating trend with an average of 35.54%. The ratio has ranged between 29.52% (F/Y 2063/064) and 40.66% (F/Y

2066/067). The C.V. of gross profit margin is 8.81% which indicates less variation gross profit to sales ratio.

#### 4.5.3 Return on Total Assets (ROTA)

Return on total assets is the relationship of net profit after tax and total assets. It measures the percentage of return on the overall total assets employed for every activity of the enterprises. The return on total assets employed of ULNL is presented below in table.

**Table 28**  
**Return on Total Assets (ROTA)**

(RS in Million)

<i>F/Y</i>	NPAT	Total Assets	Ratio (%)
<i>2059/060</i>	93.17	784.89	11.87
<i>2060/061</i>	140.78	939.71	14.98
<i>2061/062</i>	189.12	1098.94	17.21
<i>2062/063</i>	238.16	967.15	24.62
<i>2063/064</i>	263.06	1002.55	26.24
<i>2064/065</i>	335.12	1085.26	30.88
<i>2065/066</i>	444.04	1184.99	37.47
<i>2066/067</i>	576.53	1368.47	42.13
Average			25.68
C.V.			39.30

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

The table-28 shows the return on total asset is increasing trend in F/Y 2059/060 to F/Y 2066/067. The highest and lowest return on total assets is 42.13% and 11.87% in F/Y 2066/067 and F/Y 2059/060 respectively. The average return on total assets during the overall study period is 25.68. The C.V of return on total assets is 39.30% which indicate less variation on return on total assets.

#### 4.5.4 Return on Working Capital (ROWC)

This is the rate of return on current assets or working capital employed. Return on working capital means the profit with respect to its total current assets; it shows the

effectiveness of utilization of current assets. The table presented below shows the return on working capital of ULNL

**Table 29**  
**Return on Working Capital (ROWC)**

(RS in Million)

<i>F/Y</i>	<i>NPAT</i>	<i>Current Assets(CA)</i>	<i>Ratio (%)</i>
2059/060	93.17	589.89	15.79
2060/061	140.78	724.24	19.44
2061/062	189.12	891.41	21.22
2062/063	238.16	557.96	42.68
2063/064	263.06	639.97	41.11
2064/065	335.12	761.39	44.01
2065/066	444.04	792.19	56.05
2066/067	576.53	758.97	75.96
Average			39.53
C.V.			48.45

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

Above table-29 shows the return on working capital in percentage of ULNL. The above table shows that the average return on working capital of ULNLtd is 39.53% during the study period. In F/Y 2066/067, the return on working capital of ULNLtd has 75.96% very higher than that of following fiscal year. Return on working capital has increasing trend with the C.V of return on working capital is 48.45%.

#### **4.5.5 Operating Expenses Ratio (OER)**

The operating ratio establishes the relationship in between total operating expenses and sales volume. It is an important ratio that explains the change in the net profit margin ratio. It also measures the efficiency of the company as regards to minimizing cost. The table presented below shows to operating ratio of ULNLtd during the study period.

**Table 30**  
**Operating Expense Ratio (OER)**

(RS in Million)

<i>F/Y</i>	Cost of Goods Sold	Operating Expenses	Sales	Ratio (%)
<i>2059/060</i>	843.14	268.04	1244.73	89.27
<i>2060/061</i>	969.11	365.48	1524.90	87.52
<i>2061/062</i>	937.82	295.47	1481.56	83.24
<i>2062/063</i>	901.12	267.92	1434.94	81.47
<i>2063/064</i>	1281.62	238.57	1818.53	83.59
<i>2064/065</i>	1370.21	352.21	2144.59	80.31
<i>2065/066</i>	1696.56	396.6	2625.83	79.71
<i>2066/067</i>	1812.85	602.36	3055.07	79.06
Average				83.02
C.V.				4.17

*Source: Annual Reports of Uni-Lever Limited, Fiscal Years 2059/060-2066/067*

The table-30 shows that the operating expenses ratio of ULNLtd in the F/Y from 2059/060 to 2066/067. The ratio of F/Y from 2059/060 to 2066/067 are 89.27%, 87.52%, 83.24%, 81.47%, 83.59%, 80.31%, 79.71% and 79.06% respectively. The ratio has decreasing trend. The ratio fluctuates between 79.06% to 89.27%. High ratio indicates the inefficiency of management and unable to manage the working capital of the company. In an average the company has 83.02% of operating ratio during the study period C.V of operating expenses ratio is 4.17% which indicates less fluctuation on operating expenses ratio.

#### **4.6 Analysis of Working Capital Relationship**

In order to study the significance of various working capital variables Karl Pearson's Correlation Coefficient 'r' is applied. This measures the degree and importance of relationship between the variables. Following table presents the relationship between working capital and other variables of ULNL

**Table 31**  
**Correlation between Working Capital Variable**

Correlation Coefficient between	ULNL			
	R	P.E	6P.E.	Remarks
i) CA and TA	0.61	0.90	5.4	Insignificant
ii) CA and CL	1.56	-0.34	-2.04	Significant
iii) CA and Its Components				
a. Inventory and CA	0.26	0.22	1.32	Nothing can be concluded
b. Debtors and CA	0.68	0.13	0.78	Nothing can be concluded
c. CBB and CA	0.31	0.22	1.32	Nothing can be concluded
d. LAD and CA	-0.28	0.22	1.32	Insignificant
iv) WC and Sales	0.63	0.14	0.86	Nothing can be concluded
v) WC Components and Sales				
a. Inventory and Sales	0.75	0.10	0.6	Significant
b. Debtors and Sales	0.32	0.21	1.26	Nothing can be concluded
c. CBB and Sales	-0.86	0.06	0.36	Insignificant
d. LAD and Sales	-0.63	0.14	0.84	Insignificant
vi) WC and Production	0.28	0.22	1.31	Nothing can be concluded
WC Components and Production				
a. Inventory and Production	0.79	0.09	0.54	Significant
b. Debtors and Production	0.33	0.21	1.26	Nothing can be concluded
c. CBB and Production	-0.99	0	0	Insignificant
d. LAD and Production	-0.61	0.15	0.9	Insignificant

Current Assets and Total Assets: The value of 'r' between current assets and total assets of ULNLtd is 0.61 that means they have high degree of positive relationship. P.E and 6P.E ratios are 0.90 and 5.4 respectively. Since here,  $r < P.E$  so, from the above calculation the relationship of Insignificant.

Current Assets and Current Liabilities: The 'r', P.E. and 6 P.E. between current assets and current liabilities are 1.56, -0.34 and -2.04 respectively. This means there is positive relationship between current assets and current liabilities. Since,  $6P.E < r$  so, significant.

Current Assets and Its Component: From the above correlation presentation table the study find that company has positive 'r' between inventory, debtors and current assets. It has negative relationship one working capital components and current assets. (I.e. LAD and CA). working capital components and current assets the value of 'r' is less than 6 P.E. in case of inventory, debtors, CBB and current assets that means the relationship of them nothing can be concluded. Similarly the value of 'r' is less than P.E. in case of LAD and current assets that means the relationship is said to be insignificant. The relationship between debtors and sales cannot be concluded because the value of 'r' is greater than P.E. and smaller than 6 P.E. (i.e.  $P.E. < r < 6 P.E.$ ).

Working Capital and Sales: the Value of 'r' between working capital and sales of ULNLtd is 0.63. This means there is positive relationship. P.E and 6P.E. ratios are 0.14 and 0.86 respectively. Since here,  $P.E. < r < 6 P.E.$  so, from the above calculation the relationship of them nothing can be concluded.

Working Capital Components and Sales: ULNLtd has positive 'r' between inventory and sales and debtors and sales. It has negative relationship two working capital components and sales. (I.e. CBB and LAD). In the above table, working capital components and sales the value of 'r' is greater than 6 P.E. in case of inventory and sales that means the relationship is said to be significant. Similarly the value of 'r' is less than P.E. in case of CBB and sales and LAD and sales that means the relationship is said to be insignificant. The relationship between debtors and sales cannot be concluded because the value of 'r' is greater than P.E. and smaller than 6 P.E. (i.e.  $P.E. < r < 6 P.E.$ ).

Working Capital and Production: The value of 'r', P.E and 6 P.E in between working capital and production are 0.28, 0.22 and 1.31 respectively. Since here,  $P.E. < r < 6 P.E.$  so, from the above calculation the relationship of them nothing can be concluded.

Working Capital Components and Productions: Except in case of CBB and LAD and Production, all the other relationship has positive value of 'r'. The value of r is greater than 6 P.E in case of inventory and production, this means that there is significant relationship between inventory and production .The value of 'r' is greater than P.E and smaller than 6 P.E (i.e.  $P.E < r < 6 P.E$ ) in case of debtors and production .So, nothing can be concluded between debtors and production .The value of 'r' is less

than respective value of P.E, it means that there is insignificant relationship between CBB and production and LAD and production.

#### **4.7 Working Capital Policy**

Working capital policy refers to the firm’s basic policies regarding the target level for each category of current assets and current liabilities. Working capital management refers to the administration of all assets and current liabilities policies, which affects the overall functional areas of the firm. Every firm wants to maximize its shareholders’ wealth. In order to achieve the targeted goals, it has to perform many functions. For this purpose, firm has to determine the suitable current assets investment policy, maintain proper relation of current assets with fixed and total assets ,and finance the current assets with short-term as well long-term sources. Thus, the better performance of current assets is the internal part of working capital management. There are two types of working capital policies.

##### **4.7.1 Working Capital Investment Policy**

It refers to the optimum level of working capital investment decision policy. It has three alternative policies. Fat-cat policy is that policy which has large amount of current assets and account receivable (credit sales), long ICP and RCP and lower return on investment. Its vice-versa is lean and means policy, between these two policies has moderate policy .Following table measures working capital investment policy of the company.

**Table 32**

**Analysis of Working Capital Investment Policy on Average Basis**

Average indicator of during the study period	ULNLtd
Average level of current assets on total assets (%)	68.42
Average level of credit sales on total sales (%)	16.38
Average return on working capital (%)	39.53
Average inventory conversion period (Days)	52
Average receivable collection period (Days)	25

From the above analytical table-32, ULNLtd has large portion of current assets on total assets but there is high return on working capital, less average inventory conversion period, short average receivable collection period and low amount of

credit sales which shows that ULNLtd has followed lean and mean working capital investment policy.

#### 4.7.2 Working Capital Financing Policy

There are three alternatives of financing mix policy. The aggressive financing mix policy is that policy where current liabilities is used to finance a portion of fixed assets in which total equities plus long term liabilities are more than total fixed assets or current liabilities is more than current assets(Negative NWC).The conservative policy is that policy which uses only long term fund to finance all kinds of current assets and fixed assets without making use of any current liabilities .In this the total of equity plus long term liabilities is equal to total of fixed assets plus current assets or current assets equal to zero(NWC is equal to total current assets) .Moderate policy has long-term funds to finance a portion of current assets .In this total of equity plus long-term liabilities is greater than fixed assets and current liabilities is greater than zero (positive NWC).Following table shows the financing mix of the company.

**Table 33**  
**Calculation of Current Assets Financing Mix Policy**

(RS in Million)

F/Y	E+LTL	FA	FA+CA	NWC
2059/060	358.43	146.16	736.05	163.43
2060/061	396.01	135.71	859.95	180.54
2061/062	216.93	127.77	1019.18	9.39
2062/063	224.91	145.78	703.74	(184.27)
2063/064	234.79	148.93	788.9	(127.80)
2064/065	270.68	140.22	901.61	(53.12)
2065/066	687.87	144.15	936.34	283.40
2066/067	830.37	160.85	919.82	206.85
Average	402.50	143.70	858.20	59.80

According to table-33 shows the working capital financing mix policy .ULNLhas equity plus long-term liabilities is greater than fixed assets in all fiscal year .Net working capital of company is positive except three F/Y 2062/063, 2063/064 and

2064/065 respectively .Average total of equity and long-term liabilities is also greater than fixed assets and average net working capital seems to be positive. Therefore, from the above analytical table it is found that ULNLtd has used moderate working capital financing mix policy.

#### **4.8 Major Findings**

- ) The CA portion on TA re ranged between 81.12% to 55.46% with the average portion 68.42% with fluctuating trend and similarly on FA ranged between 697.67% to 382.74% with average portion 501.47% and fluctuating trends. The average NWC on TA and FA portion are 5.40% and 40.91% respectively. It has been found that in the CA, cash and bank balance holds the largest portion followed by inventory, debtors and loans advance and deposits with 39.03%, 17.24%, 33.35% and 10.38% respectively. The highest fluctuations are in inventory and cash and bank balance corresponding.
- ) Current assets turnover ratio has found slightly increasing trend .The average of inventory turnover ratio to sales is 7.32 times and C.V is 26.15% which indicate that ULNLtd cannot efficiently utilize the inventories and less variation in figure of inventory turnover ratio. The average receivable turnover ratio is 16.38% .It is found that the receivable turnover ratio is changing year by year. Company followed sometime hard collection and liberal collection policy during the study period. The average turnover ratio is 12.58 times. Similarly it is found that the average of net working capital turnover ratio and loan advance and deposits turnover ratio is 16.94 times and 37.18 times.
- ) The liquidity position of ULNLtd is analyzed with the current ratio and quick ratio. Current ratio of ULNLtd is ranging in between 0.75:1 to 1.56:1 .The company's average current ratio is 1.15:1 time during the study period, which is below the standard 2:1.It indicates poor liquidity position of ULNLtd .The quick ratio of the company is ranging in between 0.41 times to 1.09 time and company's average 0.72:1, which is less than standard 1:1 .It show that company has not been able to convert current assets quickly in cash in order to meet current liabilities. Current ratio and quick ratio both revealed and unsatisfactory liquidity position of ULNLtd and thereafter to increase the financial position for working capital.

- ) The inventory conversion period of ULNLtd is ranging between 36 days in F/Y 2059/060 to 69days in F/Y 2064/065 .It has the average inventory conversion period of 52 days .The receivable collection period of ULNLtd decreasing trend .RCP varies from minimum of 15 days to maximum of 38 days. It has average RCP of 25 days .The payable deferred period varies from maximum of 142 days in F/Y 2061/062 to minimum 42 days in F/Y 2066/067.The average is 103 days.
- ) The average cash conversion cycle of the ULNLtd is in negative -26 days which seems satisfactory for short-run cash conversion cycle for all F/Y seems to be negative. The analysis of ULNLtd has shown that long PDP and short ICP and short PCP, which is favorable for the company but it, will cause negative impact from its trade creditors and firm could get credit due to the company delay in obligations.
- ) Profitability position of ULNLtd has been found that average NPM, GPM, ROTA, ROWC and OER are 14.00%, 35.54%, 25.68 %, 39.53% and 83.02% respectively. Net profit margin, gross profit margin, return on total assets and return on working capital are in increasing trend. It has been found that there is high gap between gross profit margin and net profit margin due to the high operating expenses 83.02% of sales.
- ) The correlation coefficient 'r' of current assets with total assets has found of positive relationship but the correlation coefficient 'r' of current assets with current liabilities has found also positive relationship. In component wise relationship between inventory and current assets is nothing can be concluded where as LAD has found negative correlation with current assets. CBB and current assets has found nothing can be concluded. In overall ULNLtd has nothing can be concluded relationship of working capital components with sales except inventory and sales. Values of 'r' between working capital components and production are pognatively correlated with nothing can be concluded relationship.
- ) Working capital components and production are mostly positive except CBB, LAD and production. There is significant relationship between inventory and production where as there is insignificant relationship between other

remaining working capital components and production. There has been nothing can be concluded between debtors and current assets, sales and production because is found that the values of 'r' is greater than P.E. and smaller than 6 P.E. (i.e.  $P.E < r < 6 P.E.$ )

) ULNLtd has been found that average return of working is 39.53%, high return on working capital which implies that the working capital investment policy of ULNLtd has followed lean and mean policy, ULNLtd has average total equity plus long-term liabilities is more than fixed assets (i.e. Rs 402.50>Rs 143.70) with Rs 59.80 million positive net working capital. Therefore, ULNLtd is following moderate working capital financing mix policy.

## CHAPTER- V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter consists of mainly three parts summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

#### 5.1 Summary

Working capital management relates to problems that arise in attempting to manage the current assets, current liabilities and interrelationship that exist between them. The main motive of this study is to determine the working capital management and working capital policy of Uni-lever's Nepal Ltd. In this study, working capital financing policy and working capital investment policy is studied. Elements of working capital are determined and various ratios are also calculated in this study to obtain result of this study. Various appropriate research methodology has been used which includes the various financial analysis as a financial tool with the help of various financial data available from the secondary data published by the company. The major ratio analysis consists of current ratio, quick ratio. Besides, every element of the current is also analyzed in reference to the total assets, fixed assets and current assets. The composition of working capital position, turnover position and liquidity position, current assets financing policy, investment policy have also been discussed and analyzed. The study has given focus on working capital analysis, percentage of working capital on cost of production and correlation coefficient between cost of production, sales and other variables. Giving equal importance and making the study more reliable, the study has focused on the percentage of current assets on sales determination and their analysis. Apart from this , Receivable collection period , inventory conversion period, Payable deferral period, cash conversion cycle, proportion of current assets to total assets, turnover position, margin analysis and profit and structure of working capital discussion have added a brick on making the study more reliable and significantly justifiable. Obviously, the study becomes

resourceful and important from study point of view with inclusion of the above discussion and analysis that aims at meeting the objectives of the study.

To fulfill the objective, an appropriate research methodology has been developed, which includes ratio analysis as financial tool and trend analysis and correlation coefficient as statistical tools. The major ratio analysis consists of the composition of working capital, liquidity position, turnover position and profitability position. 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.

The necessary data have been derived from the balance sheet and profit and loss account of UNL Ltd., for the periods of eight years from F/Y 2059/060 to F/Y 2066/067. The obtained data have been described and analyzed with the help of statistical methodology in chapter four. Now in this chapter, an attempt has been made to present the conclusions and some suggestions to the company.

## **5.2 Conclusions**

It can be said that working capital is the most important part of manufacturing companies and it should not be neglected. Manufacturing companies are not getting prosperous position due to their administrative negligence in day to day operation, unnecessary blockage of inventories and lack of specific working capital policy. While pinpointing the sample company, the study finds the investment in current assets is high with respect to net fixed assets. ULNLtd has excess level of current assets with 68.42 % in comparison to standard 30% to 60% of total assets. The current assets turnover ratio of ULNLtd is not in full satisfaction level. In comparison only cash and bank balance is more than other components of ULNLA huge amount of cash and bank balance is occupied as current assets of the company. Liquidity position of ULNLtd shows it is unable to meet standard or it is below the standard value, which remains unsuccessful to meet the current obligation, which specifically the liquidity position of ULNLtd is poor.

The outcome of cash conversion cycle of ULNLtd is not in satisfied condition for long run because analysis shows that there is long payable deferral period, short inventory conversion period and short receivable collection period, which is favorable

only for short run and it will cause negative impact from its trade creditors in upcoming days of the company. Similarly, after analyzing the various profitability ratios, it can be concluded that there is operating inefficiency in sample Company and overall return position of company is also not in favorable condition because of inefficient utilization of current assets, total assets and shareholder's wealth. ULNLtd has followed moderate financing policy with financing short- term loan current assets, remaining position of fixed assets with average minimum positive net working capital. Lean and mean policy is adopted by ULNLtd to invest current assets with strict credit policy and high return on working capital rate.

The correlation coefficients of the variables selected for the statistical analysis show that ULNLtd has insignificant relationship and negative correlation with each other except with CA and CL, Inventory and Sales and Inventory and Production. As we know that positive correlation means both of the variables are moving towards the same directions, the finding suggest that ULNLtd has strong relationship between each variables.

### **5.3 Recommendations**

Without practicable suggestions, the research would be a incomplete phenomenon. Therefore, the following recommendations have been made on the basis of foregoing analysis for further improvement of existing working capital management.

- ) Generally manufacturing company need an efficient liquidity position to operate its business but it has lower value than standard. Therefore, it should maintain the standard value of both current ratio and quick ratio to get the optimum solvency position.
- ) ULNLtd should set the standard for the ratio of current assets to fixed assets. It has not any clear vision about the management of current assets to fixed assets.
- ) The working capital should be arranged in such away that it should generate the maximum turnover. The working capital has not been fully utilized. The company should try to utilize its working capital to maintain sound turnover position.

- ) There is extremely high operating ratio in the company, which indicates inefficiency and mismanagement of the company. So, the company to the position should reduce the operating expenses.
- ) Liquidity handling of the company is not satisfactory because it's in the highly fluctuating trend. There is absence of limit at which the cash and bank balance should be maintained. Therefore, the company should adopt a proper managerial policy because holding of cash more than requirement gives no return to the company.
- ) The management of working capital highly depends upon the effective inventory management. The company should make the effective sales plan, which is for immediate marketability and it certainly decreasing the problem of overstocking. The management must given attention towards capacity utilization, carrying cost, ordering cost and lead-time for effective inventory management. At this same time, to manage inventory and minimize the wastage there e should be good storekeeping system, better materials handling system and timely inspection system.
- ) The optimum level of raw materials required for the targeted production. It should be determined in advance and maintain accordingly for ensuring economical and smooth running of production activities.
- ) Company should develop appropriate management information system by preparing timely reports. This aids in determining the amount of working needs. They should recognize the value of management system.
- ) The operating cycle of ULNLtd indicates that there is negative cash conversion cycle due to poor collection and payable policy. Longer cash conversion cycle and negative cash conversion period both are not good for the company. So, the company should manage inventory conversion period, receivable collection period and payable deferral period by applying suitable credit policy.
- ) The huge amount of receivables kept by the company should be reduces or the optimal level should be adjusted according to the sale and production. In this regard management is advised to improve its marketing policy and should be integrated with credit policy. The credit policy has highly influenced to the

sales. Certain target can be set for credit policy and avoid unnecessary increase in the volume of receivable.

) Manpower should be well versed in developed technologic and familiar to their applications. Not only technical personnel, but financial manager, account officer, inventory controllers, sales officers and other general employees must be given frequent training programmed, organized by different association.

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## ABBREVIATIONS

CA	:	Current Assets
CBB	:	Cash and Bank Balance
CCC	:	Cash Conversion Cycle
CL	:	Current Liabilities
E+LTL	:	Equity plus Long-Term Liabilities
FA	:	Fixed Assets
GWC	:	Gross Working Capital
ICP	:	Inventory Conversion Period
LAD	:	Loan, Advance and Deposits
LTL	:	Long-Term Liabilities
NBCLtd.	:	Nepal Battery Company Limited
NLOLtd.	:	Nepal Lube Oil Limited
NTC	:	Nepal Tele Communication Corporation
NWC	:	Net Working Capital
PDP	:	Payable Deferral Period
PEs.	:	Public Enterprises
QA	:	Quick Assets
r	:	Correlation Co-efficient
RCP	:	Receivable Collection Period
Rs.	:	Rupees
TA	:	Total Assets
TR	:	Turnover Ratio
ULNL	:	Uni-Lever Nepal Limited
WC	:	Working Capital
WCM	:	Working Capital Management