CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The term business denotes activities related to trade, commerce, profession, occupation, and industry carried out to make profit. A business is an organization. It is engaged in the production and marketing of products to make through customer satisfaction. The primary beneficiaries of a business are its owners. Products are the focus of all business activities. A product is anything that satisfies the needs of customers. Products can be of Goods, services, ideas, event information, Properties, Places, and Person etc.

Industrialization is the pre-requisite for economic development as the history of advanced country now. For the development, the share of industrial sector rise and then an economy moves towards prosperity. Manufacturing is physical or chemical transformation of material or component in to new product by power driven hands and machines Mfg. industries plays vital role for economy. The development of industrialization in Nepal is very slow. It is completely new phenomenon. Biratnagar Jute Mill in 1936 marked up beginning of organized mfg. industry in Nepal. By then Morang Cotton Mills, Raghupati Jute Mills and Juddha Match Factory were established till 1946 in Biratnagar. On the period of Second World War, the promoters of industries were able to reap wind fall profit with in a very short period because of extreme shortage of essential customer goods in the world market. This made the automation attraction for establishment of new industries. In Nepalese planned development govt. made direct investment in many industries. After emergence of democracy in 2047 Nepalese government have put step in economic liberalization and foreign investment policy to attract foreign investment in Nepal. Many establishments are made through direct and indirect (partial) foreign investment. Many banks, insurance companies, hotels, casinos construction companies etc. are established in Nepal. Government is trying to support many establishment through one umbrella policy.

1.2 Profile of Dabur Nepal Pvt. Ltd.

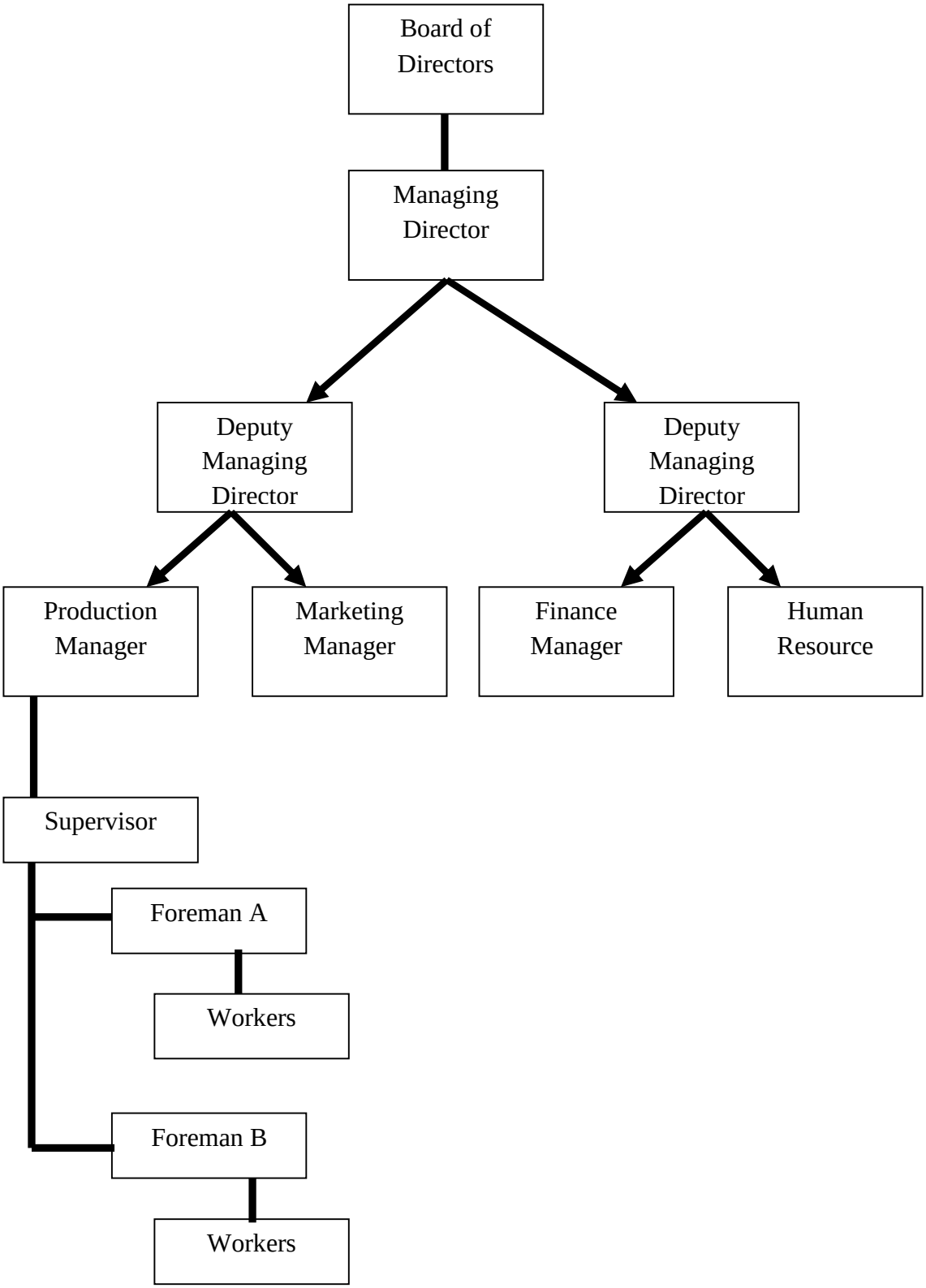
Dabur Nepal Pvt. Ltd. was established in 1989 as joint venture company agreement in Nepal with Dabur India Ltd. for the production of ayurvedic-based personal care, health care and food products and started manufacturing Dabur products in 1992. The Company's factory registered office is in Rampur Tokani at Bara District and the corporate office is in TNT building at Teenkune, Koteshwor. Permanent employees working at Tokani Bara are 25. 125 employees are working under daily wages basis. At TNT building corporate office 33 employee are permanent. Security guards working at TNT are provided by (Group4). Salary is given by (Group 4). 4 security staff are working at corporate office.

The company is the first of its kind in the country to harness ecological resources and manufacture commercially viable and value added top of line products locally, to be sold at prevalent rates for domestic use and export to India, Bangaldesh and other neighboring countries. In the span of twelve years, there has been vertical growth in all shares of business and operation s in addition to lateral expansion in the area of research and development. In order to enable effective utilization of resources, company has set up "Plant for Life" 90 million green house projects at Banepa in 1996. The application of this project has spurred a steady supply rare, endangered medicinal herb spring in a state of the art green house equipped with modern climate controls. The saplings are sold at cost to farmers in remote areas to grow and harvest with "buy back" guarantee. Steps have been taken to subsidize the cost of saplings in order to enable broader participation of the local people. The company's various community initiatives; generations of employment and income for the local people have resulted in improved socio-economic condition. Besides, it has earned several accolades including the Highest Exporter Award from the Ministry of Commerce, NICCI Award for Excellence., DNPL is a leading company operating on a private sector of Nepal. It produces various types of products that are related to health and personal care. Today, DNPL produces and sales 33products(see appendix-1)

Organizational Structure of DNPL:

Organizing is the process of creating structure. It is deciding how best to group organizational activities and resources. It is an important function of management. It

is essential for performing staffing, directing and controlling functions. Organizing is establishing working relationships among employees to achieve goals.



1.3 Focus of the study

Industrialization is an integral part of a national plan to accelerate the rate of economic development in Nepal. It is imperative therefore to create situation in which industrial investment is encourage and the private sectors can be persuaded to play an important role. A nation can undertake development works through a sound economic development, which is possible with the establishments of different industries are established, they can provide various services and products at fair price and create more employment to skilled as well as unskilled workface of the country. Therefore an establishment of different industries helps to solve unemployment problems as well as better use of available resources and can earn foreign currency.

Every business firm needs various types of assets to run the business without any interruption. Some assets are required to meet the needs of regular production and some to meet the expenses and short-term obligation of a firm. Therefore, management has to manage properly different types of assets especially required to run the operation of the firm smoothly. To run daily production activities of the company besides the manpower, equipment etc., one of the major components of working capital without which other things are useless. Therefore, this study mainly focuses on how DNPL is managing its working capital.

1.4 Statements of the Problems

Nepalese Manufacturing Companies is using traditional approach in cash management, Receivable management. A more serious aspect of working capital management has been absence of any formalized system of planning and budgeting. Main objective in managing working capital should be trade of liquidity its profit. Thus the basic problem of study is to examine the working capital management system as practices by company.

Working capital is essential for transaction motive to every business organization. The company needs working capital primarily to pay its obligation. Secondly, the holding of cash to precautionary motive to meet any contingency in future, the holding of cash to speculative motive to a desire, a firm to take advantage of opportunities and lastly it is balanced for compensative. Holding of cash has been found to be unplanned but generally for transaction motive. The strategy on collection and disbursement in organizations has been considerable liquidity position. They are not able to meet current obligation at a stated period of time.

This study is primarily focused on working capital management of DNPL or how they are managing their working capital and is the management policy appropriate? Therefore, the specific problems that will be analyzed during this study are as follows:

i. What is the size of the investment in each type of current assets?

ii. Is there appropriate investment in current assets to the total assets?

iii. What is the position of liquidity in DNPL?

iv. Is overall profitability of DNPL satisfactory?

1.5 Objectives of the Study

Working capital plays the crucial role of success or failure of any enterprises. The success of working capital as well as indianite working capital is harmful for business. The aspect of working capital concerned with short term financial decision. The aspect of financial management is concerned both short term and long term management of funds. The basic objective of this study is concerned with how Dabur Nepal Private Limited is managing its short term financial position.

The study is focused how the company is practicing its working capital management. Current assets policy and current liability management is satisfactory or not. The general objective of the study is to examine the management of working capital in Dabur Nepal Private Limited.

The main objective of this study is to examine the working capital policy of DNPL.

The following are the specific objectives of the study:

i. To study the working capital practices of DNPL.

ii. To analyze the current assets and current liabilities of DNPL.

iii. To suggest and recommend for the improvement of working

capital management of DNPL.

1.6 Significance of the Study

An organization needs not only fixed capital but also the current assets.

Working capital is nothing but the capital needed to run day-to-day

operation of the business, such as wages, freight, raw materials, etc. This

study provides information about working capital management of DNPL.

This study is important for:

i. BOD and Management of DNPL.

ii. Further Researcher

iii Prospective Investors

1.7 Limitations of the Study

Every research has its own limitation the main focus of the study is to analyze and examine the financial position of Dabur Nepal Private Limited. Most of private business companies does not provide actual financial data. Financial data are manipulated which brings great limitation for the research work. Financial statement may not disclose the true financial information.

In the case of companies of private sector internal information for outsiders is not easy. Due to the competition in the market company tries to make outsiders unknown about the different types of strategy and policies. So the decision is fully based on the available financial statement and annual report of the company. Therefore, due to

time constraint and area of study covered by this research, it has certain limitations. These are as follows:

a. This study is only done for the study of working capital management of DNPL.

b. This study has covered only secondary data.

c. Data from F/Y 2004/05 to the F/Y 2008/09 is tabulated and processed for drawing conclusions.

d. Most of the data are collected from financial statements. Therefore, the accuracy of the research work solely depends on the data provided by the concerned company.

1.8 Plan of Study

Chapter I: Introduction

This chapter describes the general background, profile of the company, focus of the study, statement of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter II: Review of literature

This chapter contains the theoretical analysis and brief review of related literature available. It also includes a discussion on the conceptual reviews as well as review of major studies in general.

Chapter III: Research methodology

This chapter deals with the research methodology, which consist of research design, sources of data, and information along with different analytical as well as statistical tools and techniques.

Chapter IV: Presentation & analysis of data

Chapter 4 deals with data collection procedure, presentation and analysis of data by using different financial and statistical tools and techniques.

Chapter V: Summary, conclusions & recommendations

The last chapter five includes summary, conclusions and recommendations. The bibliography and appendices have been incorporated at the end of the study.

CHAPTER - II
REVIEW OF LITERATURE

The study about Dabur Nepal Pvt. Ltd. has been streamlined to some extend in the first chapter regarding growth, objectives, statement of problem and working capital practices in general. The main objective of this chapter is to clarify the need of the study rationally and systematically. Moreover, in order to make the study more comprehensive it is important to go through relevant literature. This chapter covers the following aspects.

2.1 Conceptual Framework

The term "Working Capital Management" is concerned only with the management of current assets and current liabilities of the organization which is necessary for day to day operation. Every company has variable and permanent working capital. Hence, the success and failure of any organization depend on it. So far as the management of working capital in Nepalese organization, concerned a number of studies have been undertaken by different management experts and students of MBS/MBA.

Working capital is the amount of fund that id needed to finance the current assets of the firm. Since the current assets are normally converted into cash within one year. Working capital helps revolving within one year or less through different current assets. One the fund is converted into current assets, it is constantly converted into cash and cash outflow in exchange for other current assets (Weston, 1981:137). Working capital is a furnish investment in short term assets (Poudel, Gautam, Dhahal, Rana, 2062: 322). Working capital is a firm's investment in short term assets, cash, short term securities, account receivables and inventories (Weston, 1984:266). Working capital involves deciding upon the account and composition of current assets and to finance these assets. The decision involves trade of between risk and profitability (Kuchhal, 1988:156).

The goal of working capital management is to manage the current assets and liabilities of the firm to keep at satisfactory level. It helps the organization to operate day to day transaction and operation without any interruption. If the firm cannot maintain the satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy.

2.2 Concept of Working Capital

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

In the view of SC Kuchhal there are two concepts of thoughts on working capital. One school of thought says that working capital is meant for the current assets only. Another school of thought argued that working capital is the excess of current assets over current liabilities. In other words, it is that portion of current asserts financed with long term funds. It is the liquidity position of the firm and suggests extending which working needs to be financed by permanent source of funds. It is very successful for comparing the performance of different firms as a measuring of liquidity, but it is quite useful for internal control. This concept helps to compare the liquidity of the same firm under a particular time period.

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

There are specially two concepts of working capital: Gross concept and net concept. The gross working capital simply called as working capital refers to the firm's investment on current assets. Current assets are those assets which can be converted in to cash with in an accounting year and includes cash, short term securities, debtors, bill receivable, stock, inventories and pre-paid expenses. The term net working capital refers to the differences between current assets and current liabilities. Current liabilities are those claims of outsiders which can expected to mature for payment with in an accounting year and includes creditors, bills payable, Bank overdraft and outstanding expenses or accrued income. Net working capital can be negative or positive. A negative net working capital occurs when current liabilities are in excess

of current assets (Pandey, 1992: 800).

The management of working capital plays a vital role run any public enterprises successfully. It focuses on the routine administration of current assets and current liabilities. Therefore working capital management in public enterprises is very important mainly for four reasons.

- Firstly, public enterprises must need to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidity base.
- Secondly, they must select the type of current assets, suitable for investment so as to raise their operational efficiency.
- Thirdly they are required to ascertain the turnover of current assets, which determine profitability of the concerns.
- Lastly, they must find out the appropriate source of funds to finance current assets (Agrawal, 1996:8).

Weston and Brigham have given some theoretical insights into working capital management after their various research studies on it. The best conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management of working capital in any firm. At the beginning, they explain the importance of working capital, the use of short term versus long-term debt, relationship between current assets to fixed assets. The components of working capital they have dealt with current assets which are cash, marketable securities, receivable and inventory. For the efficient management of cash, they have explained the different cash management model. They have also explained the major sources and form of short-term financing. Such as trade credit, loan from commercial banks and commercial paper.

Proper management of working capital must ensure, adequate amount of working capital as per need of a business firm. It should be in good health and efficient circulated. To have adequate and efficient circulation of working capital it is necessary that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed.

From the management point of view, gross working capital deals with the problem of managing individual current assets in the day-to-day operation. But having along run view of working capital, we have to concentrate on the net value of current assets, i.e.

the operation of current assets, which is constant in short run analysis and decision making but variable and manageable in long run operation. The net concepts of working capital helps the management to look for permanent source for its financing since working capital under this approach does not increase with increase in short term borrowing.

Working capital management is the process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. Specially, working capital management requires financial manager to decide what quantities of cash, other liquid assets account receivables and inventory of the firm should hold at any point of time. In addition, financial managers must decide how the current assets are to be financed according to need of the firm.

2.3 Classification of Working Capital

Working capital can be classified into two parts: Permanent (Fixed) working capital and temporary (Fluctuating) working capital. These two types of working capital are necessary for continuous production and sales.

(i) Permanent (Fixed) Working Capital

Permanent working capital refers to that level of current assets, which is required on a continuous basis over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital. Therefore, a manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted reduction and sales function. This portion of working capital is directly related to the firm's expansion of operation capacity. This minimum working capital of a firm has to provide out of long – term sources are such as,

- Issue of share
- Issue of debenture
- Retention in various forms (i.e., plugging back of profits, general reserves etc.)

(ii) Variable (Fluctuating) Working Capital

Variable working capital represents the portion of working capital, which is required over permanent working capital. Therefore, this portion of working capital depends upon the nature of firm's production, relation between labor and management. The

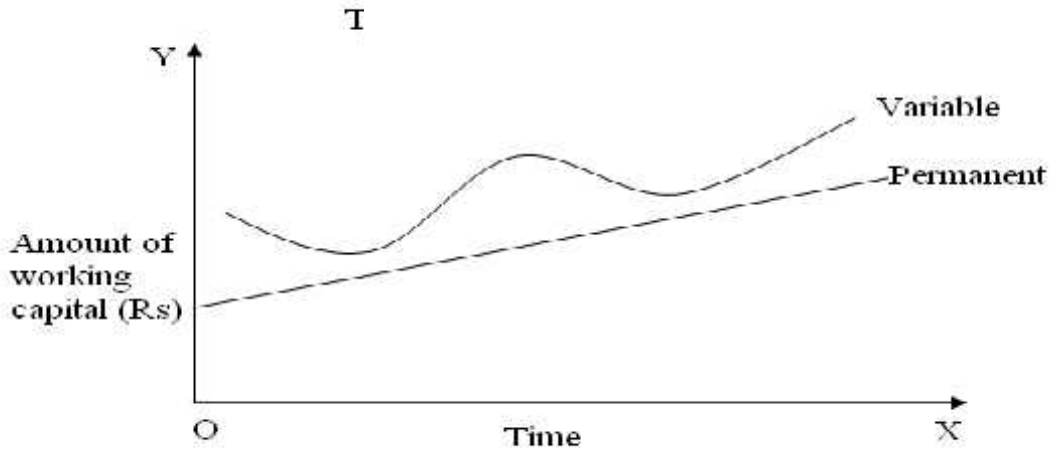
firms, which are seasonal in character in their business, need a large amount of capital for holding inventory during the peak period. But, as soon as the peak period is over, their working capital becomes idle. Therefore, firm's having seasonality in their business find it convenient to meet their working capital requirements by resorting to short – term sources, such as:

- Bank loan
- Public deposits
- Trade credit and other payables
- Provision for taxation
- Depreciation provision etc.

Fig No. 1 shows clearly about this portion of working capital. If a firm has sound management of this portion of working capital, it can easily win the other competitors in the cutthroat of the market.

Figure 1

Type of Working Capital



Source: I.M Pandey, 1995: Eight Edition

2.4 Need and Importance of Working Capital

Most of firms aim at maximizing 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 sale among the other things. For constant operation of business, every firm needs to hold the working capital components cash receivable, inventory etc. therefore every firm needs working capital to meet the following motives:

(i) The Transaction Motive

(ii) The Precautionary Motive

.(iii) The Speculative Motive

Some of the more significant reasons why working capital management is important are as follows:

1. The size and volatility of working capital make it major managerial concern managers spend much of their time on the day to day activities that revolve around working capital management.
2. The relationship between sales growth and working capital is both close and direct. As sales increase, firm must increase inventory and accounts payable. Increase sales generate a higher level of account receivable. So working capital must be managed as firms increase or decrease their scale of operation and sales. At the same time, some of the current liabilities especially account payable; tend to increase and decrease spontaneously. This spontaneously short term financing (due to use of trade credit) must be kept in mind as we consider both the CA and then financing (by both current and long term sources).
3. WC has direct relationship with the inflows and outflows of cash. WCM ensures the right timing and right amount of cash inflows and outflows. This makes the firm able to meet the obligation in right time and there will not be idle cash in hand. This is done by calculating inventory conversion period, receivables collection period and payable deferred period.
4. Size of CAs and CLs, in most of the manufacturing firms CA comprise of about 50% of the total assets. Similarly, CL supply 30% of total finance of the firm in general. WCM is very important because it helps to manage each of the CAs and CLs properly.

2.5 Financing of Working Capital

Every manufacturing concern or industry requires additional assets whether they are in stable or growing conditions. The most important function of financial manager is to determine the level of working capital and to decide how it is to be financed. Financing of any assets is 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.

(i) Long – term financing

(ii) Short – term financing

(iii) Spontaneous financing

(i) Long – Term Financing

Long – term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earnings and long – term debt from financial institution are the major source of long – term financing.

(ii) Short – Term Financing

Firm must arrange short –term credit in advance. The sources of short term financing of working capital are trade credit and bank borrowing.

- Trade credit: It refers to the credit that a customer gets from suppliers of goods in the normal course of business. The buying firms have not to pay cash immediately for the purchase is called trade credit. It is mostly and informal arrangement and is granted on an open account basis. Another form of trade credit is a bill payable. It depends upon the term of trade credit.
- Bank credit: Bank credit is the primary institutional sources for working capital financing. For the purpose of bank credit, amount of working capital requirement has to be estimate by borrows and banks are approached with the necessary supporting data. After available of this data, bank determines the maximum credit based on the margin requirement of the security. The types of loan provide by commercial banks are loan arrangement. Overdraft arrangement, commercial papers etc.

(iii) Spontaneous Financing

Spontaneous financing arises firm the normal operation of the firms. The two major sources of such financing are trade credit (i.e. creditor and bill payable) and accruals. Whether trade credit is free 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 source 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 financing. Hence, the financing of working capital depends upon the working capital policy, which is perfectly dominated by management attitude towards the risk and return.

2.6 Cash Conversion Cycle

Cash conversion cycle, which nets out the three periods: inventory conversion period, receivable period, payable deferral period equals the length of time between inventory convert into cash, the firm's actual and expenditures to pay for productive resources (materials and labor) and the cash receipts from the sale of products (that is, the length of time between paying for labor and materials and collecting on receivables). Cash conversion cycle is the length of time between the firm's payment for its purchases and labor and its own collection of payment from the customers. A cash conversion cycle refers to the period between the payments to its creditors and receipts from its suppliers (Poudel and Dahal, 2062:329). The cash conversion cycle thus equals the average length of time a rupee is tied up in current assets.

Cash conversion cycle is calculated by deducting the average payable deferral period and average receivable period. So, it can be calculated through the following equation.

Cash Conversion Cycle (CCC) = Inventory Conversion Period (ICP) + Receivable Conversion Period (RCP) - Payables Deferral Period (PDF)

- **Inventory Conversion Period (ICP)**

Inventory conversion period refers to the average length of time required to convert

raw materials into finished goods and then to sell those finished goods. The inventory may remain in the form of raw materials or semi-finished goods or finished goods during the inventory conversion period. The inventory conversion period can be calculated with the help of following equation:

$$\text{Inventory Conversion Period} = \frac{\text{Days in Year}}{\text{Cost of Goods Sold / Average Inventory}}$$

- **Receivable Conversion Period (RCP)**

Receivable conversion period refers to the average length of time required to convert the firm's receivables into cash. It is known as average collection period.

Receivable conversion period can be calculated from the following equation:

$$\text{Receivable Conversion Period} = \frac{\text{Days in Year}}{\text{Net Credit Sales / Average Receivable}}$$

Payable Deferral Period (PDF)

It is defined as the average length of time between the purchase of raw material and labor and the payment of cash for them. It shows the average length of time required to make the cash payment of credit payment of credit purchase and outstanding wages. Generally, it is 30 days long. It can be calculated using the following equation.

$$\text{Payable Deferral Period} = \frac{\text{Payable} \times 360}{\text{Purchase}}$$

2.7 Determinants of Working Capital

The efficient working capital management is an important aspect of overall financial management. Thus, a firm plans its operations with adequate working capital requirement or it should have neither too excess nor too inadequate working capital. But there are no sets of rules or formula to determine the working capital requirements of the firm. It's because of a large number of factors that influence the working capital requirement of the firm. A number of factors affects different firm in different ways. Internal policies and environmental changes also affect the working capital. Generally, the following factors affect the working capital requirements of the firms:

- **Nature and Size of Business**

The working capital requirements of firm are basically related to size and nature of

the business. If the size of the firm is bigger, then it requires more working capital. While small firm needs less working capital. Trading and financial firms require larger amount of working capital relatively to public utilities.

- **Manufacturing Cycle**

Working capital requirements of enterprises 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 manufacturing cycle, working capital requirement larger and vice – versa.

- **Production Policy**

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

- **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.

- **Availability of Credit**

Availability of credit facility is another factor that affects the working capital requirements. If the creditors benefit open-minded credit terms, then the firm will need less working capital. 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.

- **Growth and Expansion**

Growth and expansion also affect the working capital requirement of a firm. However, it is difficult to exactly 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 these static ones.

- **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 it the price level raises. 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 differ from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firm.

⁾ Operating Efficient

Operating efficient 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 efficient then it needs lesser amount of working capital and vice – versa.

⁾ Profit Margin

The level of profit margin differs firm to firm. It depends upon the nature and quality of product, 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. Profit is sources of working capital, because it contributes towards the working capital as a pool by generating more internal funds.

⁾ 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 regulation. 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 foe tax amount is one of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capital.

Besides these factors the Working Capital also determines by the following factors:

- Technological Development
- Transportation and communication facilities
- Companies' dividend policy etc.

2.8 Review of Related Studies

2.8.1 Review of Journals

It is not possible to estimate working capital needs accurately the firm must decide about level of current assets to be carried. The current assets holding of the firm will depend upon working capital policy. It may follow a conservative or aggressive policy. This policy has different risk return implication (Van Horne, 1970:71-88). The financial manager should determine the optimum level of current assets, so that the wealth of shareholders will be maximized. In fact optimum level of each type of current assets should be fixed (Walker, 1964:21-35). To find out corporate bankruptcy, Zeta model was developed by Altman and others (Edward, Altman, Haldmand and Narayan, 1997: 29-54).

The authors extended the 2 score model to include among other things. The capitalization of leases, and they updated its application. A sample of 53 bankrupt firms and 58 non bankrupt firms were employed. Manufacturing and for the first time in any study retailing companies were included on the thesis of discriminatory ability, 27 original variables were reduced to 7, the retained earnings to total assets ratio, the current ratio, the company equity to total capital ratios and size of total assets using the linear discriminate model, the authors were successful classification ranges from 96 percent 1 year before failure to of percentage 5 year before to failure, a better performance than the 2 score mode, both quadratic and linear models were tested, wit linear function winning out.

2.9.2 Review of Articles

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

In this regards, Monohar K. Shrestha, in an articles has considered ten selected PEs and studied the working capital management in those PEs. He has focused on the liquidity, turnover and profitability position of those enterprises. In this analysis he found that four PES had maintained adequate liquidity position. Two had excessive and the remaining four had failed to maintain desirable liquidity position. On the turnover side, two PES had negative working capital, four adequate turnovers, one had high turnover and remaining three had not satisfactory turnover on net working

capital. He had also found that out of ten PEs six Public Enterprises were operating at losses while only four were getting some percentage of profits. With reference to those finding he had bought certain policy issues such a lack of suitable financial planning, negligence of working capital management, deviation between liquidity and turnover and return on net working capital. To the end he had made some suggestive measures to overcome from the above policy issues, identification of needs funds, regular checks of accounts, development of management information system, positive attitude towards risk and profit and determination of right combination of short-term and long term sources of funds to finance working capital needs (Shrestha, 1982: 83).

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

The next article relating to working capital management published by K. Acharya, he has described the two major problems operational problems and organizational problems regarding the working capital management in Nepalese PEs. The operational problem he listed in the first part is: increase of current liabilities than current assets, not allowing the current ratio relation 2:1 and slow turnover of inventory. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, thin transmutation of capital employed to sales, absent to apathetic management information system, break even analysis, funds flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally monitoring of the proper functioning of working capital management had never been considered as managerial job.

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

To make an efficient use of funds for minimizing the risk of the loss to attain profit objectives, he has made some suggestion. The PEs should avoid the system of crisis

decision which prevailed frequently in their operation, avoid fictitious holding of assets, the finance staff should be acquainted with the modern scientific tools for the presentation analysis of data and lastly. He has suggested optimizing its level of investment at a point of time. The management of an enterprise desires neither over nor under investment in working capital because both of these situation will erode the efficiency of the concern.

An article relating to working capital is (Pradhan,1988). He studied on "The Demand for Working Capital by Nepalese Corporations." For the analysis nine manufacturing public corporations were selected with the 12 years data from 1973-1984. For the analysis the regression equation has been adopted. From the study he concluded that: The earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exits with respect to the presence of economics of scale, rate of capital cost, and capacity utilization rates, and the speed with which actual cash and inventories are adjusted rates to describe cash and inventories respectively. The pooled regression result shows the presence of economics of scale with respect to the demand for working capital and its various components. The regression results, suggests strongly that the demand for working capital and its components is a function of both sales and their capital costs. The estimated results shows that the inclusion of capacity utilization variable in the modern seems to have contributed to the demand functions of cash and net working capital only. The effects of capacity utilization on the demand for inventories, receivables and gross working capital are doubtful.

The specific objectives undertaken in his study area are:

1) To conduct risk analysis of liquidity of working capital position.
2) To access the short term financial liquidity position of the enterprises.
3) To access the structure and utilization of WC.
4) To estimate the transaction demand function of WC and its various components (Pradhan, 1986: 10).

His study has mentioned the following findings:

1. It has showed a poor liquidity portion of most of the enterprises. This poor liquidity position has been noticed as the enterprises here either negative cash follows or negative earnings before tax or they have excessive current debts

which cannot be paid within a year.

2. It has found that most of the selected enterprises have been activating a tradeoff between risk and return.
3. The Nepalese manufacturing PEs have an average half of their total assets in the form of current asset of all the different components of CAs, the share of inventories in total assets, and an average is largest followed by receivable, and cash in most of the selected enterprise.
4. The economic scale has been highest for inventories followed by cash and gross WC receivable and net WC.
5. This regression results also shows that the level of WC and its components and enterprises desire to hold depends not only a sales but on holding costs also.

His study is concerned with inter relationship that exists between managing CAs and CLs. This study manages to focus on net working capital concept. The study has employed ratio analysis, discriminates analysis and economic model for the analysis. This study does not cover all the PEs in manufacturing sectors. Each selected enterprises does not represent the entire industry which it falls. The manufacturing PEs selected for the study differs in its working and nature. This study period covers ten years period for 1973 to 1982. He has mentioned only finding and conclusion in his study but not recommended suggestions to solve the finding problems.

A study was conducted by the management consultant and company on the performance of PEs of Nepal in the study: it was conducted that the assets management in general and current asset management in particular was the weakest point in Nepal.

Pradhan and Koirala jointly have conducted a study on working capital management in Nepalese Corporation (Pradhan and Koirala, 1982). They have focused on evaluation of the working capital position of selected manufacturing and non manufacturing Corporation of Nepal. They have sampled five manufacturing and six non-manufacturing public enterprises. This study is concentrated in the size of investment, trend of investment and need to control the investment in current assets, significance of current assets management. Major findings of this study are as follows:

1. Investment in total assets had declined over the period of time in both manufacturing and Non-manufacturing Corporation.
2. Management of working capital was more different than that of fixed capital. They found the high level of inventory in manufacturing ones.
3. Inventory management was a great significance in manufacturing-corporation and management of cash and receivables was a great significance in non-manufacturing corporations.

2.9.3 Review of Previous Thesis

A number of studies have been done by students of MBS, relating to working capital management in Nepal. This section is focused to review some of those dissertations.

Shrestha (1994) has study on "Working Capital Management of Bhrikuti Paper Mills Limited". He used ratio analysis as a tools analysis the working capital management of mills. From the analysis he found that the cash and bank balance holds the largest portion followed by inventory and receivables respectively. He also found that the current assets level with total assets is in increasing trend. The credit and collection policy of BPML was not sound during the study period. So, the receivables were increasing year after year. The decreasing and fluctuating trend of various turnovers indicates that current assets are not properly utilized in BPML. He also concluded that though BPML was earning profit, its profitability position was not encouraging one because of its return on total assets was not high enough.

The various turnover ratio of his analysis indicates the increasing and fluctuating trend. Gross working capital, Net working capital turnover is in decreasing trend in the study period. He has mentioned the receivable turnover. Besides this condition, there is no consistency in inventory turnover but it does not fluctuate largely. Liquidity position of the company shows increasing trend. Net working capital of the company is found positive and increasing year after year. The current ratio is also increasing during study period. He has analyzed the profitability position from various angles. Gross profit margin and Net profit margin are found in increasing trend in the first three year of the study period and then decreasing in subsequent year and increasing in next year. He has also defined that company has earning profit but it is not enough to return on total assets.

Kunwar (2000) has carried out a research on "A Study on Working Capital

Management of Pharmaceutical Industry of Nepal with special reference to Royal Drugs Limited". His main objects of the study were to analyze empirical testing affective working capital of RDL as well as to know whether adequacy of working capital depends upon the nature of financing current assets or not. He analyzed six years published data of RDL from 2049/50 to 2054/55 and used statistical and financial tools that help to achieve their objectives.

He has found that long-term sources are used more than short-term sources in its total amount of working capital. It has followed conservative working capital policy. The major components of current assets in RDL are cash and bank balance, receivable, inventory. Among these current assets, inventory holds largest portion of CAs and cash holds smallest portion of CAs. The overall proportion of current assets on total assets and current assets to net fixed assets are found in increasing trend in the study period. The calculation of cash and bank balance with respect to current assets and total assets shows decreasing trend inventory and receivable position of RDL was fluctuating during the study period. This is due to the fluctuation in sales volume of the company. He has found that company cannot efficiently utilize current assets because it can't create sales as investment in CAs. The average collection period of RDL was found 57 days, which indicates inefficient management of receivable collection policy. The average inventory holding period was found 8 month, which increased liquidity capacity. He has analyzed liquidity position and found satisfactory that means the company has enough current assets to meet obligation of current liabilities.

He has measured the profitability position by analyzing various angles and found loss during his first four-year study period and showed operational inefficiency of the company. Further, he has found negative ratio of the return on total assets and return on net worth. He has mentioned that the overall return position is negative and is not in favorable condition because of inefficient utilization of current assets, total assets and shareholder's wealth.

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 (2002) has carried out “A study on Working Capital Management of selected Manufacturing Companies Listed in Nepal Stock Exchange Limited”. He has used data from 1997-2001. he has selected Nepal Lever Limited (NL), Bottler Nepal, (Balaju)(BNK), Bottler Nepal (Terai)(BNT), Arun Vanaspati Udghyog (AVU), Jyoti Spinning Mills (JSM), Raghupati Jute Mills(RJM), Nepal Lube oil(NL). He ahs used ratio analysis, working capital approached, cash conversion cycle, du-pont analysis, correlation coefficient, and simple regression analysis as per tools.

The findings of this study were as follows:

1. Most of the selected manufacturing companies have followed a moderate working capital policy.
2. NLO, BNK, BNT, RJM and NL have followed the Moderate approach where as other two companies such as JSM and AVU have followed the aggressive working capital policy.
3. Risk and return trade off is not matched in Nepalese manufacturing companies.
4. Out of seven companies only two companies have higher conversion period than average. NLO has highest & JSM has lowest conversion period.

5. He has found that Nepalese manufacturing company has inefficiency, Missing working capital policy, less encouraging attitude towards the working capital, high levels cost, excessive borrowing weak liquidity position, managerial ineffectiveness, high conversion cycle.
6. He has also found that Nepalese manufacturing company in present context are facing certain policy issues, like deficient financial planning, neglect of working capital management, deviation between liquidity and turnover etc.

Subedi (2003) has done a research on "A Working Capital Management Manufacturing Companies Listed in NEPSE". His objectives of the study are to examine working capital management of the Nepalese manufacturing companies, to study te impact of working capital of profitability, to analyze the current assets and current liabilities policy of manufacturing companies and to examine the relationship between liquidity and profitability of manufacturing companies. He analyzes five years data from 1997 to 2001. He used statistical and financial tools to achieve these objectives.

His analysis shows that the management has not seriously examined the working capital policy so that most of the manufacturing companies are following aggressive policy but opposite impact in revenue. The theory of high risk and high return is not applied here. By taking high risk company has negative return. Similarly, liquidity, profitability and turnover position are found unfavorable. The study shows that Arun Vanaspati Udhyog limited and Nepal lube Oil limited are following aggressive policy where as Bottlers Nepal Limited, Jyoti Spinning Mills Limited and Nepal Lever Limited are following conservative policy.

The overall cash conversion cycle is 114.40 days. Three companies such as Arun Vanaspati Udhyog Limited, Bottlers Nepal Limited and Nepal Lever Limited have very less conversion period then overall average cash conversion period. Whereas Nepal Lube Oil Limited has much higher than overall average. Higher and lower cash conversion period is not good for the companies. Such volatile cash conversion period shows that there is no consistent working capital policy in Nepalese manufacturing company.

The liquidity position of Nepalese manufacturing companies is not similar among different companies. The liquidity position of Nepal Lube Oil Limited is good. The

current ratio of Bottlers Nepal lever, Arun Vanaspati Udhyog and Jyoti Spinning Mills Ltd. has lower than standard ratios.

Shrestha (2003) has carried out her research on "A study on Working Capital Management with respect to National Trading Limited and Salt Trading Limited". Her main objectives of the study are to present overall picture of working capital of National Trading Limited and Salt Trading Limited, to examine the relationship between liquidity and profitability and to know whether the companies have maintained optimum level of working capital or not. She has analyzed 11 years data from the fiscal year 2047 to 2057 and used financial tools and statistical tools to achieve these objectives.

Her analysis shows that the various profitability ratios, it can be conclude that there is operating inefficiency in both sample companies and overall return position of the company is also not in favorable condition because of inefficient utilization of current assets, total assets and shareholders wealth. The outcome of cash conversion cycle of these companies are not in satisfied condition for long run because analysis shows that there is long payable deferral period, short inventory collection period and short receivable conversion period in both companies which is favorable only for short run and it will cause negative impact from its trade creditors in upcoming days of the companies. This study shows that the receivable portion of National Trading Limited are found in decreasing trend except the fiscal year 2050 and the receivable portion of Salt Trading Corporation Limited is fluctuating year after year. These both trading companies follow aggressive financing policy which comprises higher risk and higher return and low liquidity position are not in condition of following the policy (Shrestha, 2003).

Lohani (2004) has done a research on "A study on Working Capital Management of Nepal Lube Oil Limited". His main objectives of study are to analyze the structure of the different components of working capital of Nepal Lube Oil Ltd, to analyze composition of working capital liquidity ratio, profitability ratio and turnover ratio of the company and to evaluate the financial performance and to examine the relationship between the various components of working capital and overall profitability and their impact.

He analyzes five years published data of Nepal Lube Oil Ltd. from 2055/056 to

2059/060 and used statistical and financial tools to achieve these all objectives.

After analyzing the data, Mr. Lohani found that current assets to fixed assets were increasing. Current assets to fixed assets ratios are in increasing trend. It means that Nepal Lube Oil Ltd has applied aggressive current assets policy. Furthermore; he has calculated liquidity position, turnover position, conversion cycle and profitability position for financial performance analysis. Annual current ratios are higher than standard, which might cause to decrease profitability. Quick ratios are also higher than standard which might cause to decrease profitability. The receivable turnover ratios showed that the company had better management in 2059/060 because there is higher the sales and lesser the debtors. The annual cash conversion cycle are said to be more fluctuating. The company had poor cash management in 2057/058 having highest conversion cycle. There is low degree of positive correlation between sales and current assets. That can be concluded that increase in sales may increase in current assets and vice-versa.

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.

2.10 Research Gap

The above mentioned studies in the context of Nepalese manufacturing companies were done in the last few years in respect to WCM. Many changes have taken place in and outside Nepal after these studies. Nepal also has followed the policy of liberalization, privatization and globalization. Many more companies have also come up after these studies.

A very few studies have been performed on the financial performance of DNPL but no one has studied typically on its WCM. Different researcher have written their desertions on its WCM; however almost all of them are related to the manufacturing sector and do not addresses the real situation of service sector public enterprises like DNPL. It is thus clear that no full-fledged academic research study on WCM in NT

has been carried out. The present study, therefore, bridge this ling felt gap in the field of research. This is only a beginning and it could be further developed through continued research in this field.

CHAPTER - III
RESEARCH METHODOLOGY

This chapter consists of the methodology of studying working capital management of Dabur Nepal Pvt. Ltd. The proper analysis of this study can be meaningful only on the right choice of research tools. Hence, the focus has been made on research design, nature and sources of data, sample and population, data processing procedure and tools analysis.

3.1 Research Design

Research design is highlighted for ascertaining the basic objectives of the study. Research design includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study. This study is carried out by using both quantitative and qualitative analysis methods. Mostly the secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of DNPL are also used for qualitative analysis. Hence, research design or undertaking this study is based on descriptive and analytical method. Attempts have been made to explore working capital management of DNPL.

3.2 Nature and Sources of Data

Secondary data have been used to fulfill the objectives of this study. The secondary sources of data include the published documents of DNPL, annual reports of DNPL, similar previous dissertations and other publications.

3.3 Data Processing

The balance sheet, income statement and profit & loss a/c of the company for the five fiscal years period from 2004/05 to 2008/09 are collected for the convenience of the study. Then all the raw data are processed and presented in tabular form with the help of simple arithmetic rules. Entire raw data are converted into approximate and condensed in the form of consolidated balance sheet and income statement. Most of the data have been compiled in one form and processed and interpreted as per the need of the study. The secondary types of data are presented for the analytical purpose after the tabulation of the data. These types of data processing will help to present the clear situation of WC in DNPL.

3.4 Population and Sample

This research work was related with the analysis of working capital management of private company in Nepal. So, the total present number of private company in Nepal are the population of this study. However, due to various constraints of mine like time, resource, etc., selected only one representative private company for my research work and the representative private company is Dabur Nepal Pvt.Ltd.

3.5 Tools for Analysis

The data collected from various sources were managed, analyzed and presented in proper tables and formats and were interpreted and explained wherever necessary. Financial and statistical tools were used to analyze the collected data.

3.6 Financial Tools

Financial tools are defined as the systematic use of ratio to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

"The most useful tools of financial analysis are ratio analysis. In order to bargain more effectively for outside funds, the management of a firm should be interested in all aspects of financial analysis that outside supplier of capital use it in evaluating the firm" (Van Horn, 2000:205). With the help of financial ratio analysis, we can understand the financial condition and performance of the firm and they would obtain from analysis of the financial data alone. There are following selected financial ratios, which can be analyzed to determine the financial position of an organization.

a) Liquidity Ratio

Liquidity ratio is employed to measure the company's ability to meet short-term obligations. These ratios provide insight into the present cash solvency in the event of adverse financial condition. This ratio is used to measure the company's short-term obligations with short-term resources available at a given point of time.

i) Current Ratio

This ratio measures the short-term solvency, i.e. its ability to meet short-term obligation. As a measure of creditors versus current assets, it indicates each rupee of current assets available by dividing current assets by current liabilities.

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

ii) Quick Ratio

Quick Ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid assets. Other assets, which are considered to be relatively liquid and included in quick assets, are book debts and marketable securities. This quick ratio can be found out by dividing the total of quick assets by total current liabilities.

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

iii) Cash to Current Assets Ratio

This ratio is employed to measure whether total cash balance is sufficient to cover its current assets. It is calculated by dividing total cash balance by current assets.

$$\text{Cash Balance to Current Assets Ratio} = \frac{\text{Cash Balance}}{\text{Current Assets}}$$

b) Turnover Ratio

In a business concern, through these ratios, it is known whether the funds employed have been used effectively in the business activities or not. The following are the ratio employed to analyze the activeness of the concerned company.

i) Inventory Turnover Ratio

Inventory turnover ratio shows the efficiency of the business concern in an inventory management. It established the relationship between cost of goods sold during the given period and average amount of inventory and lower stock ratio suggests that management should manage its inventory properly. It is calculated as follows:

$$\text{Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Inventory}}$$

ii) Debtors / Receivables Turnover Ratio:

Although there is no measurement, higher turnover of current assets is always desirable as it indicates the maximum utilization of current assets during the year. Therefore, lower ratio indicates greater volume of working capital and vice versa.

$$\text{Debtors Turnover Ratio} = \frac{\text{Net Sales}}{\text{Debtors Receivable}}$$

iii) Cash Turnover Ratio

Cash turnover ratio shows the number of times the average cash balance is turned over during the year. It measures the speed with which cash moves through the organization operations. The ratio is computed by dividing sales by cash and bank balance.

$$\text{Cash Turnover Ratio} = \frac{\text{Sales}}{\text{Cash Balance}}$$

iv) Net Working Capital Turnover Ratio

The ratio shows the number of times the working capital turned over during the year. The higher ratio indicates the utilization of the working capital and vice versa. The ratios can be defined as,

$$\text{Net Working Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Net Working Capital}}$$

Where,

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

c) Profitability Position

Profitability measures the efficiency of the organization; profitability of the firm can be measured by its profitability ratio. So, it plays significant role in any organization. Generally, the profitability positions of the companies are analyzed with the help of following ratios.

i) Net Profit Margin Ratio

The ratio measures the relationship between net profit and sales of the company. It measures the overall profitability or company's ability to earn net profit. It is

computed as net profit by sales.

$$\text{Net Profit Margin Ratio} = \frac{\text{Net profit}}{\text{Sales}}$$

ii) Operating Ratio

The overall ratio is an important ratio, which is calculated to ascertain the relationship between operating expenses and volume of sales. The ratio is computed as follows:

$$\text{Operating Ratio} = \frac{\text{Cost of Goods Sold} + \text{Operating Expenses}}{\text{Sales}} \times 100$$

Operating Expenses = Administrative Expenses + Selling & Distribution Expenses + Financial Expenses

Higher ratio indicates the lower efficiency of the company and vice versa. Higher operating ratio means small amount of operating income to meet interest and dividends. So, it is not seems to be favorable for company while there is higher rate of operating ratio.

iii) Return on Total Assets Ratio

Return on total assets ratio measures the profitability of the company by established relationship between net profit after taxes and total assets. It also helps to understand the utilization of assets of the company. The ratio is computed as follows:

$$\text{Return on Total Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100$$

iv) Return on Net Worth Ratio

The ratio indicates the return to the shareholders. It shows whether the firm has earned satisfactory return for its shareholders or not. Higher return on net worth ratio indicates higher return to the shareholders and vice-versa. The ratio is computed as follows:

$$\text{Return on Net Worth Ratio} = \frac{\text{Net Profit After tax}}{\text{Net Worth}} \times 100$$

v) Return on Working Capital / Return on Current Assets Ratio

The ratio measures the profitability position of the company with respect to current

assets. Higher ratio indicates higher utilization of current assets to earn profit and vice-versa. The ratio is computed by dividing net profit after tax by current assets or working capital.

$$\text{Return on Current Assets} = \frac{\text{Net Profit After Tax}}{\text{Current Assets}} \times 100$$

d) Working Capital Cash Flow Cycle

The continuous flow from cash to supplier, to inventory, to account receivable and back into cash is known as working capital cash flow cycle. It continuously repeats. The cycle demonstrates the conversion of raw materials and labor to cash. Hence this concept is also called cash conversion cycle model.

Cash conversion cycle model has been applied to more complex business and it is useful when analyzing the effectiveness of a firm's working capital management. There are following four factors of cash conversion cycle model.

i. Inventory Conversion Period (ICP)

The length of time required converting raw material into finished goods and then to sell these goods can be defined as inventory conversion period. This period indicates its product. Inventory turnover is calculated by dividing the cost of goods sold by average inventory. It can be said as time required for conversion inventory into cash. It can be calculated as follows:

$$\text{Inventory Conversion Period} = \frac{360 \text{ Day}}{\text{Inventory Turnover}}$$

$$\text{Inventory Turnover} = \frac{\text{Costofgood Sold}}{\text{Averageinv Entory}}$$

ii. Receivable Conversion Period (RCP)

Receivable conversion period indicates the number of day's debtor's turnover into cash. It analyses to determine collection of debtors and also efficiency of collection effects. It is one of the important financial tools for the measurement of cash

conversion cycle. Generally, the longer the collection period, the more efficient is the management of credit receivable collection period is also known as average collection period or days sales outstanding (DSO) RCP be calculated s follows:

$$\text{Receivable Conversion Period} = \frac{\text{Sales}}{\text{Receivalestu Mover}}$$

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

iii. Payable Deferral Period (PDP)

Time required purchasing raw material and labor and the payment of cash for them is called payable deferral period. It indicates the speed of creditor payable conversion period is favorable for the creditor too much higher period also can hamper the credit worthiness of the company. The payable deferral period can be calculated using following formula:

$$\text{Payable Deferral Period} = \frac{\text{Account Payable}}{\text{Purchase Perday}}$$

iv. Cash Conversion Cycle (CCC)

Cash conversion cycle is an important financial tool and also a quick and convenient way to analyze the ongoing liquidity of the firm over time. It generally measures the length of time that funds tied up in working capital. Cash conversion cycle can be calculated by using following formula:

Cash Conversion Cycle (CCC) = Inventory Conversion Period (ICP) +Receivable Conversion Period – Payable Deferral Period (PDF)

As we know that inventory and receivables are cash inflow of business and PDP is cash outflow of business. So for the calculation of conversion cycle RCP and ICP should be added and PDP should be deducted.

3.7 Statistical Tools used

The research hold varies statistical tools, which are defined as follows:

i. Mean

The most popular and widely used measure of representing the entire data by one value is known as average or mean. The value is obtained by adding together all the items and by dividing this total by the number of items. It represents the entire data, which lies almost between the two extremes. Mean can be calculated as;

$$\text{Mean} = \frac{\sum X}{n}$$

ii. Standard Deviation (S.D)

The standard deviation is an important and widely used measure of dispersion. The measurement of the scatters of the mass of figures in a series about in average is known as dispersion. The standard deviation (SD) is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. It is calculated for selected dependent and independent variables specified. It is the positive square root of the arithmetic mean of the standard deviation from arithmetic mean. It is usually denoted by (small sigma).

$$\text{SD}(\sigma) = \sqrt{\frac{\sum(X - X)}{n}}$$

iii. Coefficient of Variation

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviations known as coefficient of variation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the CV. It is used for comparing variability of two distributions; the CV is defined as,

$$CV = \frac{\sigma}{\bar{X}} \mid 100$$

Greater the CV, the more variable or conversely less consistent, less uniform, less stainable and homogenous than the consistent more uniform, more stable and homogenous. This nature of CV uses that actual size of working capital.

iii. Simple Correlation Coefficient

The relationship between two variables (one dependent and one independent) is called simple correlation. The most important method of measuring the correlation between the two variables is "Karl Pearson's coefficient of Correlation". This method of measuring correlation is also called "Pearsonian coefficient of Correlation". This is the mathematical method of measuring the degree of association between the two variables.

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linear related to another. Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figure whether positive or negative. Its values lie somewhere ranging between - 1 to +1. If the both variables are constantly changing in the similar direction, the value of coefficient will be –1, two variables take place in opposite defection. The correlation is said to be perfect negative. In this study, simple correlation is use to examine the relationship of different factors with working capital and other variable.

$$\text{Coefficient of Correlation (r)} = \frac{\text{CoVariance of X \& Y}}{\sigma_X \quad \sigma_Y}$$

Where,

Cov (X,Y) = Covariance of X and Y

σx = Standard deviation of X

σy = Standard deviation of Y

v. Probable Error (PE)

Probable error of the correlation coefficient denoted by PE is measure of testing reliability of the calculated value of ‘r’

$$P.E. = 0.6745\frac{1 Zr^2}{\sqrt{n}}$$

a) If r<6PE, it is not significant. So there is no evidence of correlation.

b) If r>6PE, it is highly significant.

The PE of correlation coefficient may be used to determine the limits within the population correlation lies limits for population correlation coefficient are r ± PE. It the correlation c(r) is greater than 6 times of PE ratio the observed value of r is said to be significant. Otherwise nothing can be concluded with certainly. But if the calculated (r) is less than the PE (r) correlation is not at all significant.

CHAPTER –IV

PRESENTATION AND ANALYSIS OF DATA

4.1. Introduction

The main objective of this chapter is to fulfill the objective of the study by presenting data and analyzing them with the help of various tools followed by methodology. This chapter will present the analysis of components of working capital of DNPL. It will present composition of current assets and current liabilities, relationship between current assets and fixed assets, turnover position, liquidity position, profitability position and financing policies of DNPL etc.

4.2. Working Capital Policy

Working capital policy refers to the firm's basic polices regarding the target level for each category of current assets and liabilities. Working capital management refers to the administration of all current assets and current liabilities in proper way.

Every firm wants to maximize the wealth of its shareholders. In order to achieve this target, 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 sales, and finance the current assets with short-term as well long-term sources. Thus, the better performance of current assets is the integral part of working capital management.

4.2.1. Current Assets Investment Policy

Every firm needs current assets as well as fixed assets to operate its activities effectively. Current assets policy refers to the policy regarding the total amount of current assets required to support the given level of sales. Firm may follow the different investment policy according to their attitude towards he risk and the nature of the business. The current assets policy of the DNPL has been analyzed here in the terrns relationship between current assets with fixed assets and currents with sales.

4.2.1.1. Ratio of Current Assets to Fixed Assets (VAFA)

For the purpose of success of any manufacturing concerns, firms should invest in current assets as well as fixed assets to support a particular level of output. Therefore, the firm should determine the proper portion of current assets with fixed assets. The level of current assets can be measured by relating current assets (VA) to fixed assets (FA). Dividing current assets by fixed assets gives CAFA ration. Assuming a constant level of fixed assets, a higher CAFA ration indicated a conservative current assets policy and lower CAFA ration means an aggressive policy. Conservative policy indicates a greater liquidity and lower risk, while an aggressive policy indicates higher risk and poor liquidity.

Table no. 1

Ratio of Current Assets to Fixed Assets

Fiscal Years	Current (Rs. In lakhs)	Fixed assets (Rs. In Lakhs)	CAFA (in times)
2004/05	14341.66	8358.79	1.72
2005/06	14608.52	7758.36	1.88
2006/07	14342.91	9099.66	1.58
2007/08	15233.93	10250.32	1.49
2008/09	15397.28	9799.53	1.57
Average	14784.86	9053.33	1.63

Based on appendix (2-3).

The average current assets and fixed assets of DNPL during the study period are Rs. 14784.86 lakhs and Rs. 9053.33 lakhs respectively. Although company's investment in current assets is decrease.

Investment in fixed assets is fluctuated. Investment in fixed asset in F/Y 2005/06 is decreased and increased in F/Y 2007/08 again decreased in F/Y 2008/09. The ratio of current assets to fixed assets of DNPL is presented in above table 1. This table shows that the ratio of current assets fixed assets is fluctuating during the study period. It varies from 1.49 to 1.88 times during the study period and the average CAFA ration is 1.63 times. In the table, the trend of current to assets is fluctuating year by year.

Figure 2

Current Assets and Fixed Assets

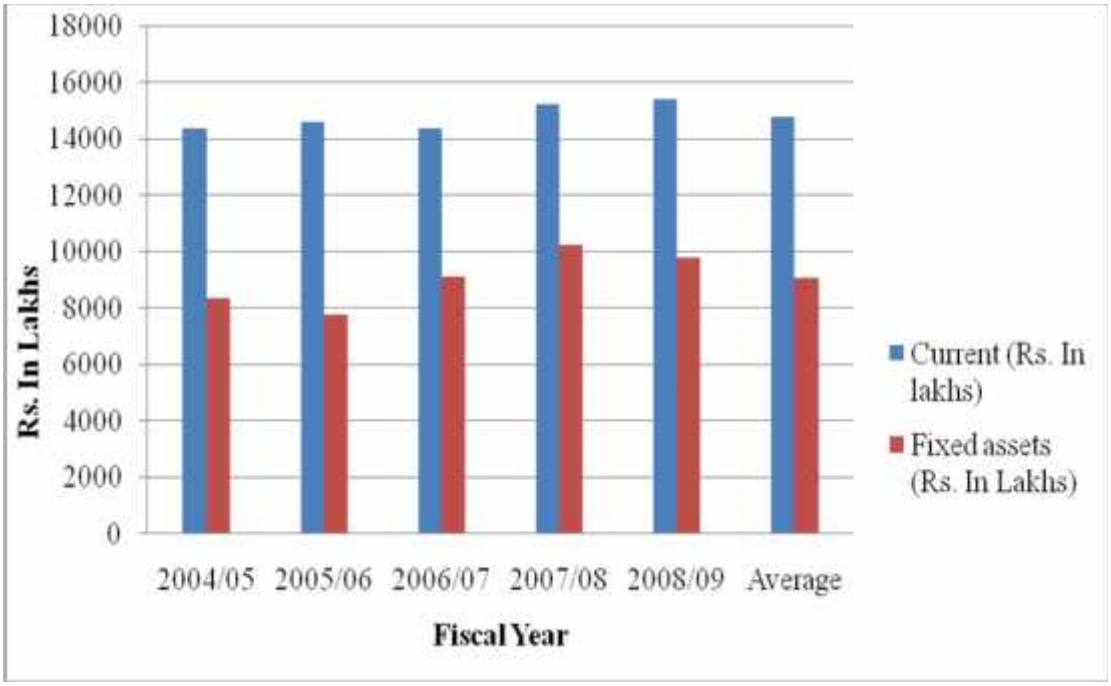


Figure 1 shows the current assets and fixes assets of DNPL. From this figure, it is clear that the investment in current assets is higher than fixed assets. Thus diagram clearly shows that the company's current assets policy changing aggressive from conservative one.

4.2.1. Percentage of Current Assets to Sales

Sales are only that activity like DNPL. The survival and growth of every manufacturing firm depend on the proportion of sale of the product which they produce. The company's sales policy depends upon the available of resources and demand for the product. It is greatly affected by the financial policy and their strategic planning. Therefore, the coordination between these elements of the company is the most important. Thus, the company invests in current assets is to support the given level of sales, which depends upon the current assets investment policy and the attitude of management. When a firm holds relatively large amount of current assets to support a given level of sales then it is called fat cat (relaxed policy) policy. When a firm holds relatively minimum amount of current assets to support sales then it is called lead and mean policy or restricted policy) and between these two policies is

called a moderate policy. For the purpose of analysis of investment policy of current assets, percentage of current assets to sales has been used.

Table No. 2

Ratio of Current Assets to Sales

Fiscal Years	Current Assets (Rs. In lakhs)	Sales (Rs. In Lakhs)	CA to sales %
2004/05	14341.68	26995.05	53.13
2005/06	14608.52	30177.02	48.41
2006/07	1434.91	27287.90	52
2007/08	15233.93	32270.23	47.21
2008/09	15397.28	36608.41	42.01
Average	14784.86	30667.72	48.55

Based on appendix (2-3).

The percentage of current assets to sales of DNPL is presented in tale 2 The percentage of current assets to sales is also fluctuating during the study period. It varies from 42.01% to 53.13% more than 50% of assets are invested in current assets in the F/Y 2004/05 and 2006/07 and the average investment in current assets to sales is 48.55% which shows that in order to maximize the sales the company is investing moderate amount in current assets. There facts suggests that the company is following moderate policy

Figure No. 3

Current Assets and Sales

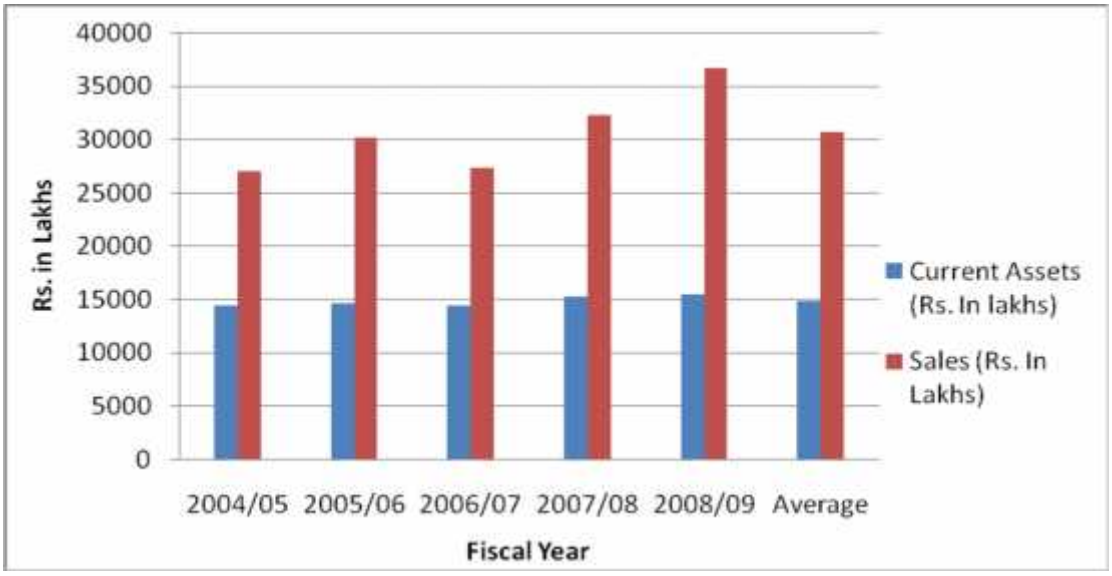


Figure 2: Show the proportion of current assets and sales of DNPL. It is clear form the figure that the company is investment is investing more in current assets in order to maximize the sales. Although current assets and sales except in F/Y (2006/07) is decreasing and increasing every year during the observed period but the percentage of current assets to sales is fluctuating. Thus the diagram clea4rly shows that the company is using a moderate current assets investment policy.

4.2.2. Current Assets financing Policy

Every manufacturing concern needs the working capital for its regular operation. Working capital is divided into two parts; permanent and temporary. The operation of permanent and temporary working capital depends on the nature and size of the firm and it is also affected by the attitude of the management towards the risk and return. The access of the firm in sources of fund also affects the working capital management. The firm should find out the required amount of working capital. Firm has to raise funds required for working capital from different sources like short-term, long-term and spontaneous financing. However the firm uses different financing sources according to their financing policy i.e. aggressive, conservative and moderate. Firm should maintain the proper level of working capital by financing ther current assets form appropriate sources.

Table No. 3

Financing of Current Assets

Fiscal Years	Current Assets (Rs. In lakhs)	Short-term Financing		Long-term	
		(Rs . In lakhs)	%	(Rs. In lakhs)	%
2004/05	14341.66	4678.68	32.61	9664.99	67.39
2005/06	14608.52	8806.19	60.28	5802.33	39.72
2006/07	14342.91	9578.19	66.78	4764.62	33.22
2007/08	15233.93	11749.61	77.13	3484.26	22.78
2008/09	15397.28	7313.25	47.50	8084.03	52.50
Average	14784.86	8424.82	56.99	6360.04	43.01

Based on appendix (2-3).

The above table 3 shows that the DNPL has financed its working capital both with short-term and long-term financing. The amount of short-term financing is greater than long-term financing except in F/Y 2004/05 and F/Y 2008/09. The average percentage of short-term and long term financing to currently assets of DNPL for five years are 56.99% and 43.01% respectively. The higher percentage of short-term financing used by company to finance its current assets clearly suggests that the company is following a Aggressive policy.

Figure No. 4

Financing of Current Assets

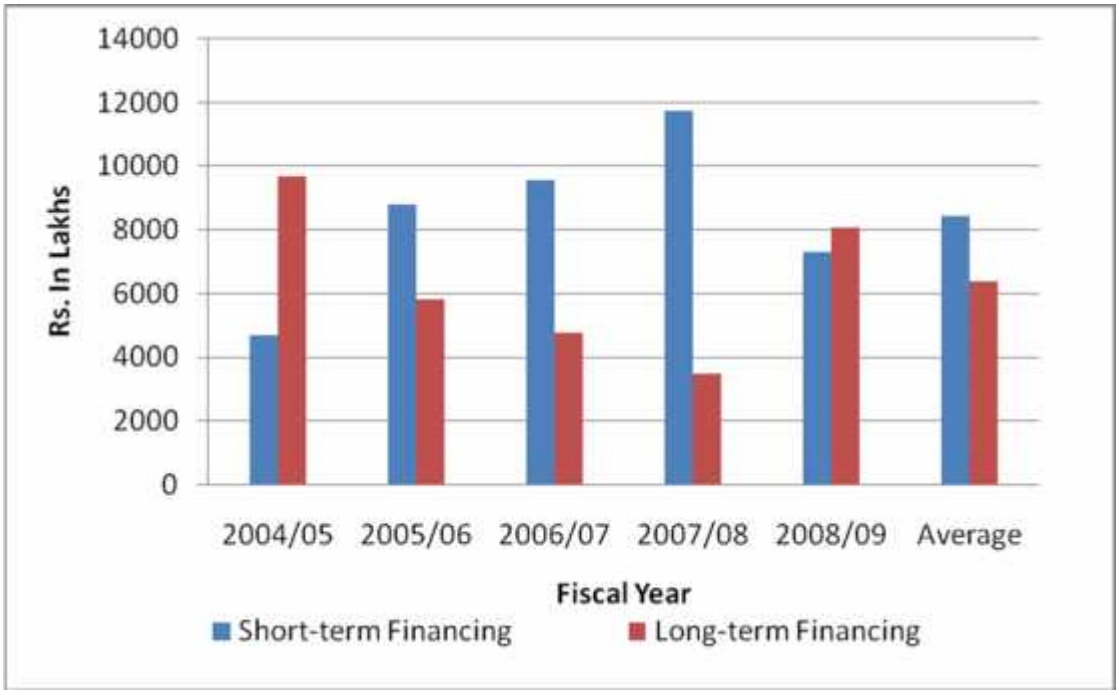


Figure 3 Shows that the amount of short-term and long-term financing used by DNPL to finance its current assets. It is clear from the figure that the company is using more short-term source to finance its current assets except in F /Y 2004/05 and F/Y 2008/09.

4.3. Turnover Position

The behavior of working capital utilization and improvement can be analyzed with the help of turnover ratio. These ratios measure the effectiveness with which a firm uses its available resources. These ratios are called turnover rations since they indicate the efficiency with which the resources are being converted into sales (turnover).

The turnover ration and conversion period depends on the firm's working capital policy/ It the firm follows a conservative policy, it will have low inventory turnover ration and high conversion period and vice-versa.

4.3.1. Inventory Turnover Ratio (ITR) and Inventory Conversion Period (ICP)

Inventories are the stock of the product, a company manufactures for the sales and inventories are the components that make up a product. Inventory is the major part of the current assets. The shortage of required inventory results irregular production and

hamper the production process. In other hand the excess inventory cause unnecessary holding of capital which increase the cost. These ratios measure the effeteness with which a firm utilizes its inventory.

Table No. 4

Inventory Turnover Ration and Inventory Conversion Period

Fiscal Years	Sales (Rs. In lakhs)	Inventory (Rs. In lakhs)	ITR (In times) %	ICP (in days)
2004/05	26995.05	5368.78	5.03	72.59⎮73
2005/06	30177.02	6403.04	4.71	77.54⎮78
2006/07	27287.90	7939.92	1.44	106.20⎮107
2007/08	32270.23	8557.15	3.77	96.78⎮97
2008/09	36608.41	8829.26	4.15	88.03⎮89
Average	30667.72	7419.63	4.13	88.30⎮89

Based on appendix (2-3).

The above table shows the ITR and IVP of DNPL. The inventory turnover is fluctuating between 3.44 to 5.03 times during the study period. The average inventory turnover is 4.13 times and the average sales and inventory of DNLP during the five years study period are Rs. 30667.72 lakhs and Rs= 7419.63 lakhs respectively. The inventory conversion period of DNPL is increasing up to F/Y 2006/07. In F/Y 2007/08 study observes that the inventory conversion period is decreasing in 97 days. On average it will take DNPL 89 days to convert its inventory into sales which is very high. Thus there is a poor utilization of inventory.

4.3.1. Receivable or Debtors Turnover Ration (RTR) and Average Collection Period (ACP)

Receivable is the major components of current assets. It indicates the efficiency of the firm with the collection of book debts. The higher the ratio, the better it is, since it would indicates the debts are being collected more promptly.

Table No. 5

Debtors Turnover Ratio and Average Collection Period

Fiscal Years	Sales (Rs. In lakhs)	Sundry Debtors (Rs. In lakhs)	RTR (In times)	ACP (in days)
2004/05	26995.05	2471.57	10.92	33.42⌋34
2005/06	30177.20	2217.45	13.61	26.82⌋27
2006/07	27287.90	1564.92	17.44	20.93⌋21
2007/08	32270.23	2302.81	14.01	26.05⌋27
2008/09	36608.4	188.3	19.44	18.78⌋19
Average	30667.72	2088.03	14.769	24.85⌋25

Based on appendix (2-3).

The above table 5 shows the RTR and ACP of DNPL during the study period. The RTR during the observed periods is fluctuation between 10.92 to 19.44 times and the ACP of DNPL is fluctuating between 21 to 34 days. ON average the firm rules 25 days to collect in book debts.

4.3.2. Total Assets Turnover Ratio (TATR)

The ration shows the relationship between sales and total assets. He main objective of this ration is to determine the efficiency with which the total assets are utilized.

Table No. 6

Total Assets Turnover Ratio (TATR)

Fiscal Years	Sales (Rs. In lakhs)	Total Assets (Rs. In lakhs)	TATR (In times)
2004/05	26995.05	22700.45	1.19
2005/06	30177.02	22366.88	1.35

2006/07	27287.90	23442.57	1.16
2007/08	32270.23	25484.25	1.27
2008/09	36608.41	25196.81	1.45
Average	30667.72	23838.19	1.29

Based on appendix (2-3).

The above table 5 show the TATR of DNPL during the five years study Period. The TATR is fluctuating below 1.16 to 1.45 times. The average sales and total assets are Rs. 30667.72 lakhs and Rs. 23838.16 lakhs respectively. The sales are in increasing trend except in F/Y 2006/07 Total assets are is fluctuating during the study period. The company's average TATR during the observed period is 1.29 times which indicates that the firm has to invest Rs. 1 in its total assets in order to generate sales of Rs. 1.29.

4.4. Liquidity Position

Liquidity is crucial for firm's daily operation. The first and foremost objective of adopting working capital policy is to maintain appropriate and optimum level of liquidity in order to enable the enterprises to meet and optimum lev el of liquidity in order to enable the enterprises to meet current short-term obligation when they become due for the payment. Liquidity is a prerequisite for the avoidance of technical insolvency and ultimately for the survival of the enterprises. However, is is a very crucial problem in maintaining he appropriate liquidity in any company as it indicates risk return trade off with higher or lower liquidity level. Higher liquidity reduces the risk but decreases the profitability and vice-verse.

4.4.1. Current Ratio (CR)

Current ratio measures the short-term solvency of the firm. This ratio is the crude measurement of liquidity polition of a firm. In this study also, this ratio has been calculated by dividing the current assets by current liabilities. Current assets includes:

sundry debtors, inventory cash etc. which can be converted into cash within an accounting year. Current liabilities includes; sundry creditors and provisions.

Table No. 7

Current Ratio

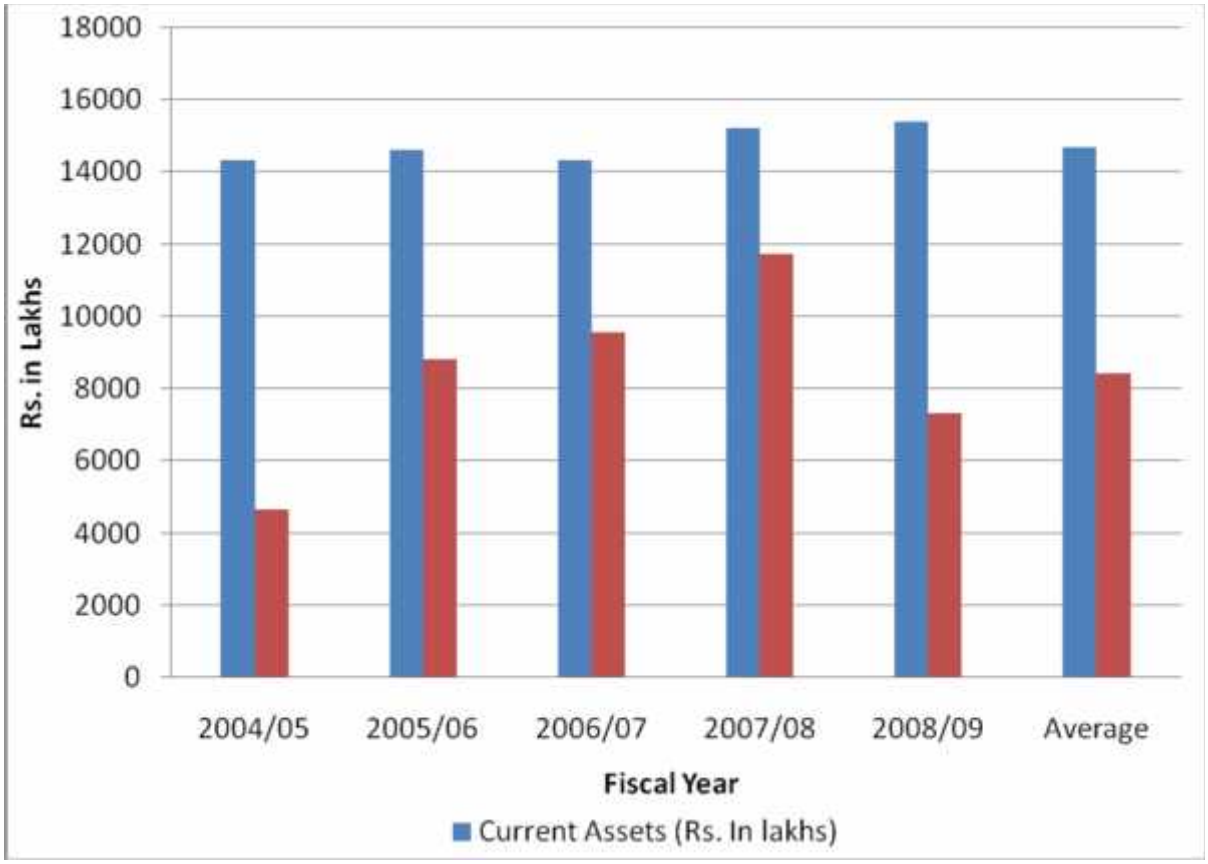
Current Ratio Fiscal Years	**Current Assets (Rs. In lakhs)**	**Current Liabilities (Rs. In lakhs)**	**Current Ratio (In times)**
2004/05	14341.66	4676.68	3.07
2005/06	14608.52	8806.19	1.66
2006/07	14342.91	9578.29	1.50
2007/08	15233.93	11749.61	1.30
2008/09	15397.12	7313.25	2.10
Average	14674.86	8424.82	1.75

Based on appendix (2-3).

.The above table shows the current ration of DNPL during the study period. The CR during the observed period was fluctuating throughout the period. The average CR is 1.75 less than the standard 2.1. The CR is highest in F/Y 2004/05 and lowest in F/Y 2007/08. It indicates that current liabilities are fully unsecured with the current assets and the company is not in a position to pay its obligation as and when they will mature.

Figure No. 5

Current Assets and Current Liabilities



The above figure shows the current assets and current liabilities position of DNPL during the five years study period. Firm has more current assets then current liabilities but does not meet the ratio 2:1. Thus the company has poor liquidity position.

4.4.2. Quick Ratio (QR)

Current ratio measures the short-term solvency in gross term. It include inventory too. Thus it does not measure the actual liquidity position of the firm. Therefore, QR has been used to measure the liquidity position of DNPL. For the purpose of calculation of this ratio. Inventories are excluded from total current assets.

Table No. 8

Quick Ratio

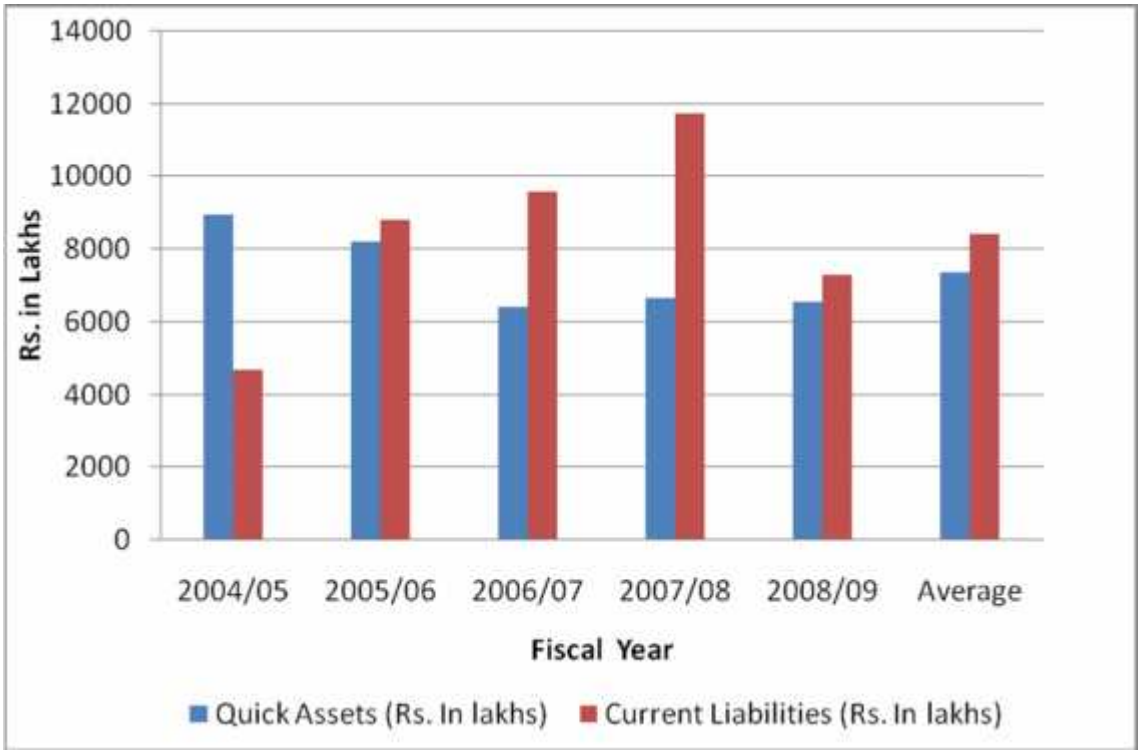
Fiscal Years	Quick Assets (Rs. In lakhs)	Current Liabilities (Rs. In lakhs)	Quick Ratio (In times)
2004/05	8972.89	4676.69	1.92
2005/06	8205.48	8806.19	0.93
2006/07	6402.99	9578.29	0.67
2007/08	6676.79	11749.68	0.57
2008/09	6568.02	7313.25	0.90
Average	7365.23	8424.82	0.87

Based on appendix (2-3).

Table 8 Shows the liquidity polition of DNPL in net term. The average quick assets are Rs. 7365.23 lands and average current liabilities are Rs. 8424.82 lakhs. The Q .R. is in fluctuating order during the observed period. Average Q.R. of company is 0.87 times which is less than standard 1:1. The Q .R. is less then average. The low Q.R. of the firm suggests that the company has poor liquidity position.

Figure No. 6

Quick Ratio



The above figure 5 shows the relation of quick assets and current liabilities of the firm during the five year period. Quick assets are fluctuating and current liabilities is in increasing trend during the first four years. The amount of quick assets is less than current liabilities except in F/Y 2004/05. The low ratio of Q.R. proves that the liquidity position of DNPL is poor.

4.5. Profitability Position

A company should earn profits to survive and grow over a period. Profit is a basic objective of commercial enterprises. Profitability is a measure of operating efficiency and the search for it provides incentives to achieve efficiency. The firm also depends on the working capital policy. The firm applying a conservative working capital policy has a low profitability ratio and the firm with an aggressive policy has a high profitability ratio. The profitability of a firm can measured with the help of the following ratio.

4.5.1. Gross Profit Margin (GMP)

Earning the profit is the main objective of every business. The objective of calculating this ratio is to determine the efficiency with which production or purchase operations is carried on. The gross profit is the excess of sales over cost of goods sold. The GPM of DNPL is presented below:

Table No. 9

Gross Profit Margin

Fiscal Years	Gross Profit (Rs. In lakhs)	Sales lakhs (Rs. In lakhs)	GPM (%)
2004/05	6206.46	26995.05	23.0
2005/06	6508.17	30177.02	21.6
2006/07	5127.18	27287.90	18.8
2007/08	6001.08	32270.23	18.6
2008/09	6257.65	36608.41	17.1
Average	6020.11	30667.72	19.63

Based on appendix (2-3).

The above table shows the percentage of gross profit to sales. The average gross profit, sales and gross profit margin of DNPL during the study periods are RS. 6020.11 lakhs and 30667.72 lakhs and 19.63% respectively. The GPM is in decreasing trend. The highest GPM is 23.0% in F/Y 2004/05 and lowest is 17.1% in F/Y 2008/09. The average GPM is greater than the final three years of study periods. Thus the efficiency of purchase operations or production is decline.

4.5.2. Net Profit Margin (NPM)

As stated earlier, earning the profit is the main objective of every business firm. So, the analysis of net profit margin can be meaningful. The NPM is also known as net profit margin. It shows the relationship between net profit and sales. It indicates the

efficiency of management in overall management function of the firm. It also indicates the firm's capacity to wish stand adverse economic condition. The ratio has been calculated and presented below:

Table No. 10

Net Profit Margin

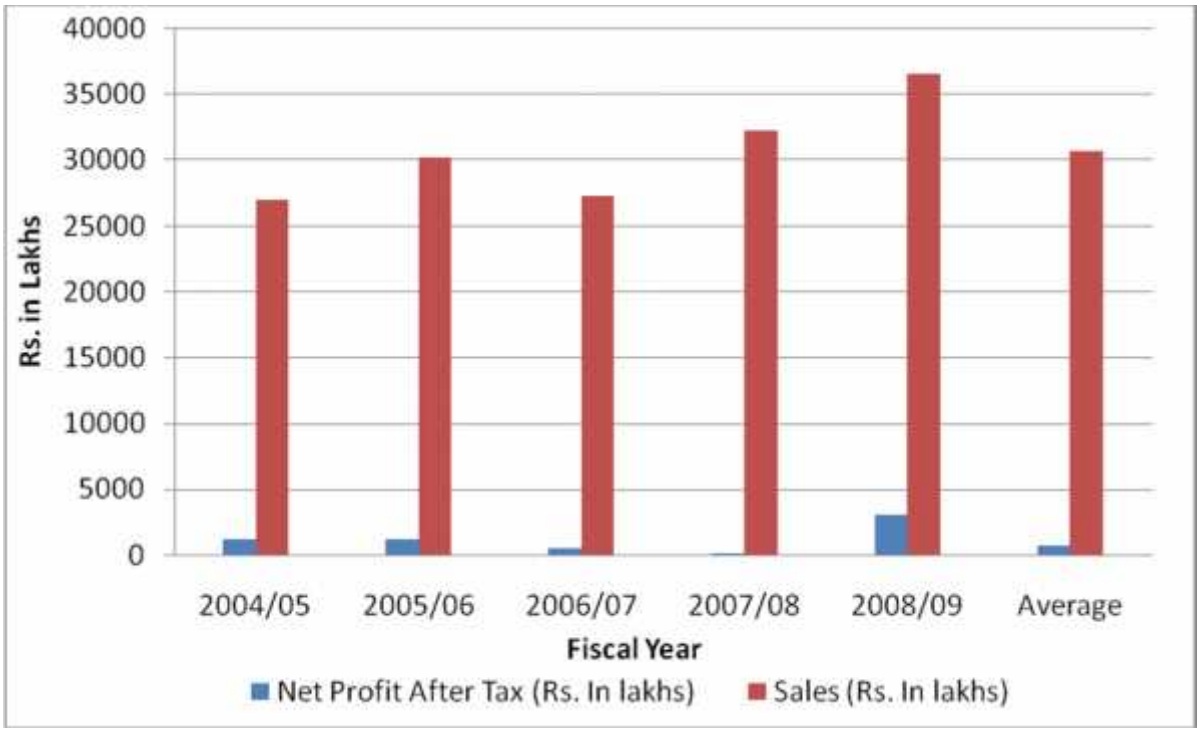
Fiscal Years	Net Profit After Tax (Rs. In lakhs)	Sales (Rs. In lakhs)	NPM (%)
2004/05	1151.84	26995.05	4.26
2005/06	1212.73	30177.02	4.02
2006/07	453.43	27287.90	1.67
2007/08	121.28	32270.23	0.4
2008/09	3033.75	36608.41	0.83
Average	648.41	30667.72	2.11

Based on appendix (2-3).

The above mentioned table shows the percentage of net profit after tax to sales. NPM is decreasing during the first four years. It varies from 4.26% to 0.4%. The NPM is least in F/Y 2007/08 and highest in F/Y 2004/05. Over all average of the DNPL's NPM is 2.11%. It means that there is a profit of 2.11 paisa per rupees sales of DNPL. Although the NPM is greater than the overall average NPM during the first two years ort the study but it is less than the overall average in the final three years. The company's overall average net profit after tax and sales are Rs. 684.41 lakhs and Rs. 30667.72 Lakhs respectively. The net profit after tax is greater than its overall average only in F/Y. 2004/05 and 2005/06 and the sales are less than the average sales in F/Y first three years. The relationship between sales and net profit after tax is greater than its overall average only in F/Y 2004/05 and 2005/06 and the sales are less than the average in F/Y first three years. The relationship between sales and net profit after tax is presented below.

Figure No. 7

Net profit After tax and Sales



The figure no. 6 shows the amount of net profit after tax and sales during the five years period in a graphical form. Sales is in fluctuating trend during the observed period but the net profit after tax is decrease tread except if F/Y 2008/09, Which shows that the company's profitability position is decling.

4.5.3. Return on Total Assets (ROA)

Return on total assets ratio shows the relationship between the total assets and net profit after tax. The ratio helps to understand the utilization of assets of the firm it measures the profitability of all financial resources invested in the firm's assets. It gives the earning power to the firm form utilizing total investment.

Table No. 11

Return on Total Assets

Fiscal Years	Net Profit After Tax (Rs. In lakhs)	Total Assets (Rs. In lakhs)	ROA (%)
2004/05	1150.84	22700.46	5.07
2005/06	1212.73	22366.88	5.42
2006/07	453.43	23442.57	1.93
2007/08	121.28	25484.26	0.47
2008/09	303.75	25196.81	1.20
Average	648.41	23838.20	2.72

Based on appendix (2-3).

The above mentioned table show the ROA of DBPL. The overall average of NPAT is Rs. 648.4. Total assets and ROA are Rs/ 2383.20 lakhs and 2.72% respectively. The ROA is decreasing up the first four years increasing in the F/Y 2008/09. It various from 5.07% to 0.47. The average ROA is less than first two F/Y greater than the final three F/Y's.

4.6. Analysis of Current Assets and Current Liabilities

To operate the business, different kinds of assets are needed. For the day-to-day business operation various kinds of current assets are required. Current assets are those assts which can be converted into cash within an accounting year. During the operation of business various liabilities are created. Current liabilities are those liabilities which are expected to mature within the accounting year. Therefore, the current assets and current liabilities of DNPL are analyzed below:

4.6.1. Composition of Current Assets

The success and failure of any business depends on its effective utilization of resources which depends on the daily business activities. For smooth running of a

business, appropriate level of current assets i.e. gross working capital should be maintained by the company.

A high ration of current ration in total assets does not always convey a high liquidity position because current assets consists of cash and bank balance, inventories, sundry debtors and miscellaneous current assets (load and advance, deposits and other receivable, prepaid expenses etc.) Moreover, except cash, receivables and inventories have to wait for conversion into cash. Therefore they are less liquid. Hence, for qualitative consideration of the current assets and its composition should be seriously examined. The quality of current assets can be judged with the individual holding of inventories, sundry debtors, cash and bank balance and miscellaneous current assets to total current assets holding. The relationship has been established by computing the ration of sundry debtors, inventories, cash and bank balance and miscellaneous current assets to total current assets as below:

Table No. 12

Net Profit Margin

Fiscal Years	Inventory		Sundry Debtors		Cash & Bank Balance		Miscellaneous Current Assets		Total CA
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.
2004/05	5368.78	37.43	2471.57	17.23	42.34	0.3	6458.98	45.02	14341.67
2005/06	6403.04	43.83	2217.45	15.18	106.86	0.73	58811.17	40.26	14608.52
2006/07	7939.92	55.36	1504.92	10.91	74.84	0.52	4763.23	33.21	14342.91
2007/08	8557.15	56.17	2308.81	15.12	19.04	0.12	4354.93	28.59	15233.93
2008/09	8829.26	75.34	1883.38	12.23	104.79	0.68	4579.84	29.75	15397.28
Average	7419.63	50.18	20888.03	14.12	69.58	0.47	5207.83	25.23	14784.86

Based on appendix (2-3).

Table 12 show the composition of current assets of DNPL. In the table percentage indicates the proportion of individual current assets to total current assets. In this table all the components of current assets are fluctuating during the study period.

The overall average of current assets in Rs. 14784.86 lakhs which is less than final two years of current assets.

4.6.1.1. Inventory to Current Assets (ICA)

The company's average inventory to current assets is 50.18% and the overall average inventory during the study period is Rs. 7419.63 lakhs. The inventory holds largest proportion in the observed period. The proportion of inventory to current assets is between 37.43% and 57.34%. Company's inventory includes stores and spares, raw materials, packing materials, stocks in process, finished goods and material in transit.

4.6.1.2. Sundry Debtors to Current Assets (SDCA)

According to table 12, the average amount of receivable or sundry debtors during the five years observed period is Rs. 2088.03 lakhs. The ratio of SDCA is fluctuating below 10.91% to 17.23%. The overall average SDCA of DNPL is 14.22%

4.6.1.3. Cash and Bank Balance to Current Assets (CBCA)

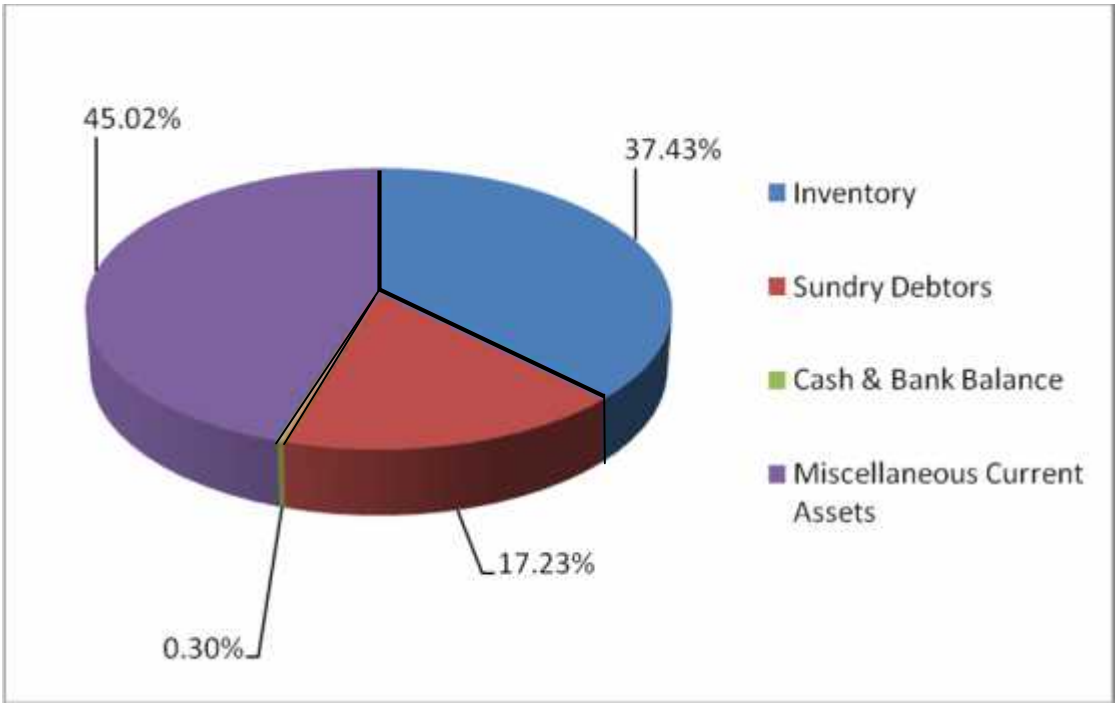
The table 12 shows the percentage of CBCA. The CBCA holds the least portion in total current assets of DNPL. The average CBCA is 0.47% which is less than the F/Y 2005/06, F/Y 2006/07 and F/Y 2008/09. In the table cash and bank balance is also fluctuating during the observed period. The overall average cash and bank balance is Rs. 69.58 lakhs. The CBCA is notably higher in F/Y 2005/06 and F/Y 2008/09.

2.6.1.4. Miscellaneous Current Assets to Current Assets (MCACA)

Miscellaneous current assets are other major components of current assets. It includes the amount of prepaid expenses, advance to employees, and advance to suppliers, deposits and loans. The average MCACA is 35.23% which is less than the MCACA calculated in F/Y's 2004/05 to 2005/06. The proportion of MCACA is in decreasing trend except in F/Y 2008/09. The highest percentage of MCACA is in F/Y 2007/08.

Figure No. 8

Composition of Current Assets



4.6.2. Composition of Current Liabilities

Current liabilities are the integral part of the working capital policy. Current liabilities are defined as all the payment that has to be paid by the company within an accounting period. It includes sundry creditor and provisions like provision of taxation, provision for housing, provision for bonus, provision for earned level salary etc. Firm should maintain the optimum level of liquidity in order to enable the organization to meet the current obligations.

Table No. 13

Net Profit Margin

Fiscal Years	Sundry Creditors (Rs. In Lakhs)		Provisions (Rs. In Lakhs)		Total Current Liabilities (Rs. In Lakhs)
	Rs.	%	Rs.	%	Rs.
2004/05	3388.86	72.46	1286.82	27.54	4676.68
2005/06	7032.13	79.85	1774.06	2015	8808.19
2006/07	7686.35	80.25	1891.94	19.75	9578.29
2007/08	10067.14	85.68	1682.54	14.32	11749.68
2008/09	6408.09	87.62	905.17	12.238	7313.25
Average	6916.51	81.17	1508.31	18.83	8424.82

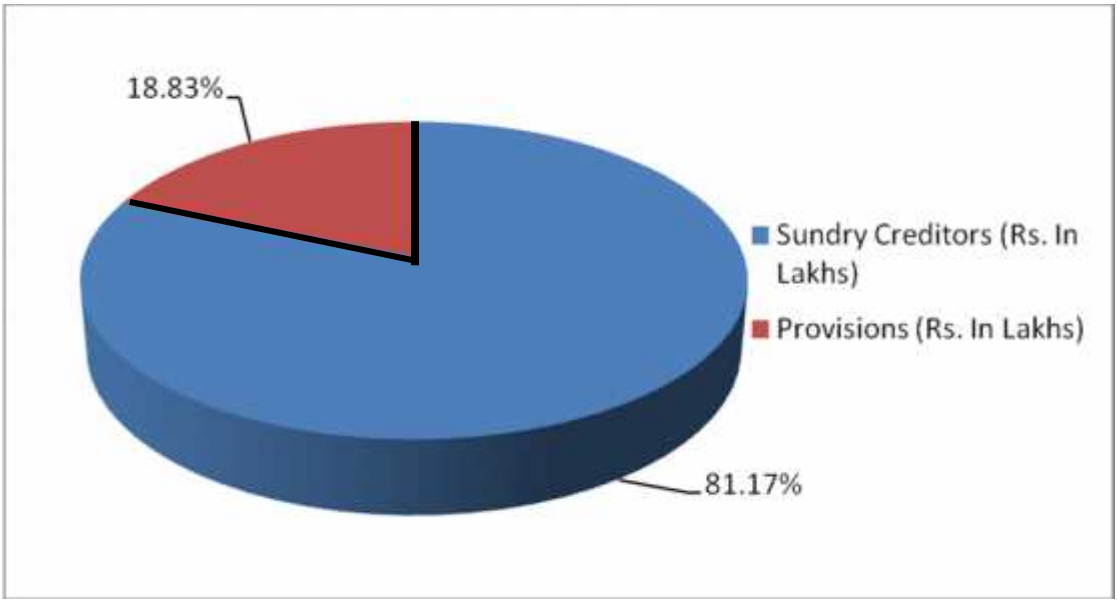
Based on appendix (2-3).

The above table shows the composition of current liabilities. The average total current liabilities of the company are Rs. 8424.82 lakhs. In the table, current liabilities of sundry creditors and provisions. The sundry creditors mainly consist of acceptance, advance against supplies and express creditors for goods, creditors for expansions and other liabilities and interest accrued hot due. The average sundry creditors of DNPL during the five years study period is Rs 6916.51 lakhs and the average sundry creditors to total current liabilities is 81.17%. The company's sundry creditor to total current liabilities rations in increasing trend and the highest ration is in F/Y 2008/09 i.e. 87.62 and the lowest ratio is F/Y 2004/05 which is 72.46%. However the proportion of sundry creditor to total current liabilities to in increasing trend.

Another component of current liabilities is provisions. Provisions includes provision includes provision for taxation, provision for housing, provision for bonus, provision for earned leave salary. The overall average of provisions of DNPL during the study period is Rs. 1508.31 lakhs. The ration of provision to current liabilities is in decreasing trend. The average provision to total current liabilities is 18.83%.

Figure No. 9

Composition of Current Liabilities



4.7. Statistical Analysis of Working Capital

The financial performance of a manufacturing company is directly related to their ability to manage working capital efficiently and effectively. The working capital used in this is of gross concept i.e. total current assets. The use of financial tools has already given adequate trust in the analysis of various variables to determine the working capital management. To make the analysis more fruitful and weighty certain statica tools have been used. Here, Karl person's coefficient of correlation (r) and probable error (PE) are used to show the relationship between the gross profit, sales, fixed assets and current liabilities) and their result are presented below.

Tale no. 14

Relationship between Gross Working Capital and other Variables

Variables	Correlation(r)	Probable Error (P.E.)	Remarks
CA to NPAT	-0.43	0.25	Not significant
CA to FA	0.74	0.14	Not Significant
CA to Sales	0.95	0.03	Highly Significant
CA to GP	0.34	0.27	Not Significant
CA to CL	0.34	0.27	Not significant

Based on appendix (2-3).

There is adverse relationship between current assets and net profit after tax. It's 'r' is -0.43 but P.E. is 0.25 However 'r' is not greater than six times of its not significant. Hence there is no significant impact on net profit after tax due to increase or decrease in working capital.

The Karl Person's coefficient of correlation 'r' between current assets and fixed assets is +0.74, although r is greater than PE but is less than six times of its P.E., therefore is no significant relationship between gross working capital and fixed assets increase or decrease in working capital does not affect the fixed assets of DNPL.

There is positive relationship between current assets and sales i.e. increase the sales. The correlation coefficient 'r' between current assets and sales is +0.95 and its P.E. is 0.03. The correlation coefficient 'r' between current assets and sales is +0.95 and it's P.E. which shows that there is a very high degree of positive correlation exist between current assets and sales of DNPL. Hence there is a significant relationship between gross working capital and sales of DNPL i.e. income in gross working capital will leads to income in sales and vice-versa.

According to table 14 'r' between current assets and gross profit +0.34 and the PE is 0.27. Although 'r' is greater than its P.E. but it is less than the six times of its P.E. therefore there is no significant relationship between current assets and gross profit.

But there is a positive and moderate degree of relationship exists between gross working capital and gross profit.

The Karl Person's coefficient of correlation between current assets and current liabilities is +0.34 which is less than the six times of its P.E. therefore there is no significant relationship between current assets and current liabilities.

4.8. Major Findings of the study

The major findings of this study are concluded in the following points:

I. The proportion of current assets to fixed assets is fluctuating during the observed period. It has varied from 1.49 to 1.88% during the study period. The overall average of current assets to fixed assets is 1.63%, Hence, the current assets investment policy of the company is shifting towards the aggressive policy.

II. The current assets to sales are also fluctuating during the study period. It is increasing and decreasing each year. The maximum ration is 53.13% in F/Y 2004/05 and minimum ratio is 42.0% in F/Y 2008/09 and the overall average percentage of current assets to sales is 48.55% which shows that the company is investing moderate amount of current assets in order to maximize its sales. Thus, a company is practicing a moderate asset investment policy.

III. The company is financing its current assets mostly from short term financing except in F/Y 2004/05 and F/Y 2008/09 and overall average percentage of short-term and long-term financing to current assets of DNPL for five years are 56.99% and 43.01% repetitively. Since the company is financing more than 55% of its working capital through the short-term sources, it is following a aggressive working capital policy.

IV. The inventory turnover is fluctuating during the study period. It has varied from 3.44 to 5.03 times during the study period. It is highest is F/Y 2004/05 & lowest is F/Y 2006/07 and overall average is 4.13 times. Normally DNPL takes 89 Days to convert the inventory into sales, which is very high thus the inventory turnover is not satisfactory.

V. The inventory turnover is fluctuating during the study period. It has varied fro 3.44 r to 5.03 times during the study period. It is highest in F/Y 2004/05 and the

overall average is 4.13 times. Normally DNPL takes 89 days to convert the inventory info sales, which is very high thus the inventory turnover is not satisfactory.

VI. The total assets turnover of the company is in fluctuating trend. It is increasing & decreasing each year during the study period. It is highest in F/Y 2008/09. & lowest in F/Y 2006/07 and the overall average is 1.29 to times which means that the firm's has to invest Rs. 1 in its total assets in order to generate sales of Rs. 1.29.

VII. The liquidity position of the DNPL is analyzed with the help of current ratio & quick ratio of the company is ranging between 1.3 to 3.07 times during the study period in fluctuating trends. The overall average current ratio is 1/75 times which less than the norm of 2:1 is. The quick ratio of the company range from 1/92 to 0.57 times. The quick ratio of the company is in decreasing trend except in F/Y 2008/09. It is maximum is F/Y 2007/08 and the overall average quick ration is 0.87 times, which is also less than the standard ration of 1:1. Hence, the company has poor liquidity position.

VIII. The major components of current assets in DNPL are inventories, sundry debtors, cash & bank balance and miscellaneous current assets. Among them inventory holds the major portion of current assets. The average proportions of inventories, debtors, cash & bank and miscellaneous current assets are 50.18%, 14.22%, 0.47% & 35.23% respectively during the study period. It is found that of total currents assets, inventory, holds the largest portion followed by miscellaneous current assets, sundry debtors and cash & bank balance respectively. The overall average of the current assets of DNPL during the study period is Rs. 14784.86. The current assets seem to be fluctuating.

IX. Sundry creditors have held the major portion of current liabilities of DNPL. The average percentage of sundry creditors and provisions to total current liabilities are 81.17% and 18.83% respectively. The minimum percentage of sundry creditors to total current liabilities is 72.46% in F/Y 2004/05 and maximum is 87.62% in F/Y 2008/09. Proportions of sundry creditors are in increasing and proportion of provision is in decreasing every year. The provision current liabilities very form 27.54% to 12.38%. The overall average of total current

liabilities of DNPL during the study period is Rs. 842.82 lakhs and is increasing every year except in F/Y 2008/09.

X. Karl Pearson's efficient of correlation between net profit after tax fixed assets, sales gross profit and current liabilities to current assets are -0.43, +0.74, +0.95, +0.34, +0.34 respectively. There is highly significant and positive relation correlation between CA and sales. Positive correlation but not significant relationship between CA and FA, CA and GP and CA and CL and negative correlation but not significant relationship exists between CA and NPAT of DNPL during the study period.

CHAPTER- V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The first chapter focuses on the brief introduction of the study, industrialization and its role in Nepal. It attempts to introduce DNPL. Some of the questions have been raised regarding the working capital management of DNPL. It has also attempted to set the objectives, significance and limitations of the study. Finally it presents plan of study. The second chapter deals with the review of literature which includes the conceptual framework, different views of different writers regarding the working capital management, books and journals/articles. Review of literature section has also attempted to review the studies done so far on the same topic on different organizations. Research Methodology is studied in the third chapter. It has included the research design. It presents the nature and sources of data, data collection and processing techniques and. financial & statistical tools used.

Financial ratios like current ratio, current assets to fixed assets, cash & bank, inventory, miscellaneous current assets and debtors to current assets, turnover ratio and profitability ratios have been used. Karl Pearson's coefficient of correlation and probable error have been used to analyze the tradeoff between working capital and other variables (net profit after tax, sales, gross profit, current liabilities and fixed assets)

The fourth chapter includes the presentation and analysis of data derived from DNPL. To analyze the working capital policy proportion of current assets to fixed assets, current assets to sales and proportion of current assets to short-term sources & long-term sources are used. It has also analyzed impact of working capital on the liquidity, turnover and profitability position and the composition of current assets and current liabilities are analyzed. Finally, the relationship between working capital and other variables (net profit after tax, sales, fixed assets, gross profit & current liabilities) are analyzed with help of Karl Pearson's coefficient of correlation and probable error.

According to study, the trend of current assets to fixed assets is fluctuating. The

average ratio is 1.63 and the CAFA ratio is in fluctuating trend. The average proportion of current assets to sales is 48.55% which show that the company is financing its sales by investing large amount in current assets. The company is financing its current assets by using long-term as well as short-term source but the proportion of short-term is greater than the long-term source. The average proportion of short-term as well as long- term source to current assets is 56.99% and 43.01%. These data shows that the DNPL is following a aggressive policy.

The inventory turnover of the company is fluctuating between 3.44 to 5.03 times during the study period with overall average of 4.13 times and the average ICP is 89 days. The receivables turnover is fluctuating between10.92 to 19.44 times and the ACP is fluctuating between 21 to 34 days. The average total assets turnover is 1.29 times with the highest ratio in F/Y 2008/09 and the lowest ratio in F/Y 2004/05. Liquidity is crucial for the daily operation of a business. The DNPL current ratio and quick ratio are less than standard. Both the current as well as quick ratio is in decreasing trend except in the F/Y 2008/09 with the overall average of 1.75 and 0.87 times respectively. Profit is basic objectives of any commercial firm. A company should earn the profit to survive. The profitability position of DNPL is analyzed with the help of GMP, NPM and ROA. The GPM is in decreasing trend are NPM and ROA is also decreasing up to F/Y 2007/08 and increasing in F/Y 2008/09. The GPM, NPM and ROA with the overall average of 19.63%, 2.11% and 2.72% respectively. Current assets DNPL consists of inventory, sundry debtors, cash and bank balance and miscellaneous current assets. An inventory and miscellaneous current assets holds the major portion of current assets. The overall average of current assets during the observed period is Rs.14784.86 lakhs and the average percentage of inventory, sundry debtors cash and bank and miscellaneous current assets to total current assets are 50.18%, 14.12%, 0.47% and 35.23% respectively.

In the analysis of relationship between gross working capital and other variables, there is a very low degree of correlation exist between CA or NPAT and moderate correlation exist between CA and FA, CA and GP, CA and CL but not significant and a highly positive correlation and significant relationship between CA and sales.

5.2 Conclusion

For a smooth operation of a business a sound management of working capital is required. Gross working capital management is the management of currents assets of the firm. Different firm can adopt different working capital policy according to the

management attitude towards risk-return trade off.

The fluctuating trend of CAFA ratio, large investment in current assets to improve the sales and the greater use of short-term source to finance the current assets proves that the DNPL is practicing the aggressive working capital policy.

The current ratio & quick ratio of the DNPL is less than the standard. The average CR & QR during the study period is 1.75 and 0.87 times both the ratio are in decreasing trend except in the F/Y 2008/09. Hence, the company has poor liquidity position.
The company is posting a profit but the profitability ratios are in decreasing trend except in F/Y 2008/09 during the study period. Profitability position of DNPL in deterioration.

All the components of current assets except inventory are fluctuating during the study period. But the inventory is in increasing trend in every year. Inventory holds the major portion of current assets which is understandable because DNPL is a manufacturing company which also sales its products in the foreign market. Sundry creditors hold the 81.17% of total current liabilities and there is a highly significant relationship between CA and sales of DNPL.

The statistical analysis gives the mixed results regarding the various factors of working capital. Correlation between current assets and sales shows the highly significant relation where as between current assets and net profit after tax current assets and fixed assets, current asses to gross profit and current assets to current liabilities shows insignificant relation.

5.3 Recommendation

On the basis of findings of the study following recommendations for the overall improvement of the working capital management are forwarded to the management of DNPL.

a) Inventory turnover position of DNPL is very low with high conversion period.

Thus, the management is advised to reduce its conversion period and increase the turnover ratio. For this the management should improve the inventory turnover position, for inventory turnover management should reduce the inventory or the optimum level should be adjusted according to the sales and production. An effective inventory turnover should be introduced in order to control inventory in accordance with their value and importance and thus maintain good inventory position.

b) DNPL has low liquidity position. The low liquidity makes the current liabilities fully unsecured with current assets and company is not able to pay its obligation as and when they will mature but the unnecessary capital is not tied up in maintaining low liquidity which can be used in other factors. Therefore the management is advised to increase the liquidity ratio to the standard 2.1.

c) The profitability position of DNPL is decreasing every year except in F/Y 2008/09, which is not a good sign. The decline in profit because poor liquidity position and poor assets management. The decline in profit is due to aggressive policy adopted by the management. Thus, the management adopted the short-term financing policy. Management advised the short-term as well as long-term so as to increase the profit.

d) The current assets and current liabilities of DNPL are not good position CR. & QR shows there are less current assets and current liabilities. But in F/Y 2004/05, and CR. & QR ratio match the standard 2.1. But in rest of the years CR and Q.R. ratio have been lower during the study period shows that the percentage of current liabilities has increased more than percentage of current assets which is serious one. Thus, company should reduce the amount of current liabilities in the near future.

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Appendix-1

Products of Dabur Nepal Pvt.Ltd.

1. Lal Dant Manjan
2. Binaca Tooth Powder
3. Vatika Hair Oil
4. Vatika Shampoo
5. Amla Hair Oil
6. Special Hair Oil
7. Baby Olive Oil
8. Hajmola Tablet
9. Hajmola Candy
10. Real Fruit Juice
11. Gulcose D Power
12. Kshudhavardhak Churan/ Pachan Churan
13. Chywanprash Parkshep/ DCP Mishran
14. Dantmukta
15. Plastic Containers/ Bottles
16. Taxin Resi
17. Honey
18. Dabur Lal Tooth Paste
19. Babool Tooth Paste
20. Meswak Tooth Paste

21.Vatika Hair Oil (Bulk)

22.SLES 30%

23.Vatika Face Pack

24.Vatika Honey Saffron Soap

25.Anmol Coconut Oil

26.Anmol Shampoo

27.Anmol Sarson Oil

28.Dabur Gulabari

29.Plastic Containers / Bottles / Caps/ plugs**

30.Bee Frames/ Hives/Thermocol Sheet

31.Sanifresh

32.Chirayita – Plant

33.Stevia Powder/Sappling

(Source: Annual Report 2006-07)

Appendix-2

Comparative income statement of Dabur Nepal Pvt.Ltd.

Unints (Rs. in Lakhs)

For the period of ending	2004/05	2005/06	2006/07	2007/08	2008/09
Sales income	26995.05	30177.02	27287.90	32270.23	36608.41
Cost of sales	20788.60	23668.85	22160.72	26269.15	30350.75
Gross Profit	**6206.45**	**6508.17**	**5127.18**	**6001.08**	**6257.65**
Other incomes	91.37	135.35	255.51	141.89	206.57
Total income	**6297.82**	**6643.52**	**5372.69**	**6142.97**	**6464.22**
Adm.& selling expenses	2139.60	2595.48	2953.65	3849.37	4260.8
Financial expenses.	1215.33	854.75	631.69	734.06	572.78
Depreciation	1077.88	1024.95	1041.76	1259.79	1289.13
Total expenses.	**4432.81**	**4475.18**	**4627.10**	**4843.22**	**6122.71**
Profit before extra ordinary Items	1865.01	2168.34	745.59	299.75	341.51
Write off &extra ordinary items	196.18	300.29	38.22	-	-
Net profit before provisions	1668.82	18680.5	707.37	299.75	341.51
Provisions for housing &bonus	241.98	270.86	102.57	43.47	13.02
Provision for tax	276.00	384.46	151.37	135.00	24.74
Net Profit After Tax	**1150.85**	**1212.73**	**453.43**	**121.28**	**303.75**

Source: Annual Report

Appendix-3

Comparative Balance Sheet of Dabur Nepal Pvt.Ltd.

Units (Rs. in Lashes)

Fiscal years	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Sources of fund:					
Share capital	798.52	798.52	798.52	798.52	798.52
Share premium	600.00	600.00	600.00	600.00	600.00
Reserve &Surplus	659.30	759.30	859.30	859.30	859.30
Profit &loss a/c	4663055	5419.19	5439.04	5496.08	5555.35
Working Capital loan	7312.38	5848.45	6004.84	5534.67	9763.66
Long term loans	4077.00	214.92	207.89	496.20	221.86
Total	**18110.75**	**13640.38**	**13909.59**	**13784.77**	**17898.69**
Application of funds:					
Fixed Assets(net)	8358.79	7758.36	9099.66	10250.32	9699.53
Investment	86.98	19.30	-	19.98	-
Current assets:					
Inventories	5368.78	6403.04	7939.92	8557.15	8829.26
Sundry Debtors	2471.57	2217.45	1564.92	2302.81	1883.38
Cash &Bank balances	42.34	160.86	47.84	19.05	104.79
Advances deposits & other receivables	6458.98	5881.17	4763.23	4354.93	4579.84
Total current assets	14341.67	14608.52	14342.91	15233.94	15397.28
Current liabilities &provisions	4676.68	8806.19	9578.29	11749.68	7313.25
Net current assets	9664.99	5802.33	4764.62	3484.26	8084.03
Preliminary & P.O. Expenses	-	60.39	45.31	30.22	15.13
Total	**18110.75**	**13640.38**	**13909.59**	**13784.77**	**17898.69**

Source: Annual Report