CHAPTER -I

INTRODUCTION

1.1 Background of the study:

Despite the emphasis being given to the development of agriculture sector since the fifth plan, a radical change is yet to be seen in this sector. There is a need of good efforts to transfer the increased labor force to the non- agriculture sector. There is a need of good efforts to transfer the increased labor to the non-agriculture sectors like industry, trade, tourism, communication etc. The average per capita income of Nepalese is just $ 210, which is too much lower than in developed countries. This has resulted into lower savings or negative savings in most of the cases. So capital formation is either very slow or negative. Therefore, several efforts have been made from concerned sectors to diversify the economic contributors from solely agro-based towards industry based. To increase the pace of industrialization huge amount of capital is needed and at this threshold, actual need of bank or financial institution occurs. The banking and financial infrastructure is inadequate and insufficient and needs to be expanded to finance to growth of industrialization and service sector in the country. Finance is the lifeblood and the role of banks to the development of Nepal is paramount.

In simple language, bank can be defined as a place where the transactions of money take place. In other words, bank is such an institution that collets scattered deposits and paid advances, loans. Banks collect deposits from different individuals and institutions. These collected deposits are mobilized by giving loans to different industries, commercial enterprises, individuals, households etc. A bank does not only perform the activity of receiving deposits and advancing loans but at the same time it performs payment or remittance and other credit activities as well. Therefore, bank plays a significant role in the economic development of the country; bank fills the gap between the searcher and provider of fund. It also provides sufficient back support for the growth and expansion of trade and industry of the country, which eventually aids to its economic condition.

Earlier banks were different from modern commercial banks in many respects. The banks, which operated in the past, combined central banking functions, such as issue of currency with commercial banking functions like accepting deposits and financing business. In course of time this practice was abandoned and specialized institutions for the central banking functions were created. Now a central bank can be easily distinguished from a commercial bank due to their objectives and unique functions.

Commercials banks are the supplier of finance for trade and industry and play a vital role in the economic and financial life of the country. By investing the saving in the productive areas, they help in the formation of capital. The qualitative credit policy ensures certain portion of the credit of bank invested in the productive and priority areas so that there may not be shortage of resources in such areas. Moreover, flexible monetary and credit policy improve the prevailing slow down in the economic activities to alleviate sluggish credit expansion to the private sector from the banking sectors. People living in rural areas of the underdeveloped countries like Nepal need various banking facilities. In most of the countries, the banks are generally concentrated in the urban and semi-urban areas and the rural areas are neglected due to risk and low return. But in fact, the rural development is the key to the economic development without which the economy of the country cannot be flourished.

In the developing countries like Nepal the propensity to save is quite low. This hinders the capital formation and which is major cause of poor economic condition of the developing countries. That's why the basic problem of the developing countries is raising the level of saving. Nowadays in Nepal, several banks such as development banks, joint venture banks, commercial banks, agricultural banks, co-operative etc are coming into existence in quite a few numbers with the purpose to collect the scattered saving and put them into productive channels so that the saving will be safely and properly utilized for the all round development of the country.

Every business needs capital for two purposes. The first require for long term purposes which is called fixed capital. Investment in plants, machinery, land, building etc. comes

under production activity. Investment in these assets represents that part of firm's capital which is huge amount of money blocked in the fixed basis. These assets are not purchased for resale.

We need another type of capital is short term capital or working capital. The funds required for purchase of raw material, payment of wages and other day to day expenses etc. is called as working capital. Working capital is invested into the work-in-progress, raw material, finished goods, sundry debtors, bills receivable etc. also comes under working capital.

The capital required for running day-to-day operation of a business is called working capital. It is concerned with current assets and current liabilities. Assets of an essential short term nature are known as current assets. It is a short term investment. Current assets are expected to be converted into cash within a short period. This asset which is either readily available cash or is convertible into cash within a short time relatively during the normal course of business is known as current assets. Liability is another part concerned with working capital. Those liabilities which are expected to have been paid within a short period are known as current liability (Pradhan, 1986: 86).

1.2 Brief Introduction of Sample Banks

Nepal Investment Bank, one of the leading commercial banks of the country, was earlier known as the Nepal Indosuez Bank. **Nepal Investment Bank** Limited was established in 1986. Nepal Investment Bank was a joint commercial enterprise between the Credit Agricole Indosuez (one of the largest banking group in the world) and the Nepalese. The Head office of the Nepal Investment Bank Limited is located at Durbar Marg- Kathmandu, which remains open all round the year. This bank has 15 branches and 78 remittance centers across Nepal. The CEO of the Nepal Investment Bank Limited is Mr. Prithivi Bahabur Pande.

Nepal Investment Bank Limited (NIBL) functions on the thumb rule given by the Nepal Government and the Nepal Rastra Bank or the Central Bank of Nepal. Besides

all the function that Nepal Investment Bank Limited (NIBL) performs, it is generally known for its remittance services. It boasts of being one of the most dependable and the strongest center of money transfer to Nepal. Money can be sent to NIBL via their exchange houses, correspondent banks and the Middle-East banks using NIBL's in-house remittance software and the Prithivi Express by the remitters across the globe.

The various modes of money transfers are:

- Demand Draft: This facility is available worldwide through correspondent banks.
- Swift Transfers: This service ensures quick money transfer by the NIBL from any part of the globe. Beneficiary details and the swift address NIBLNPKT is asked for.
- Cash Management Services: If one is engaged into exporting goods to India, NIBL helps the exporter to collect receivables and bills properly. Also one can get the details of the Indian buyer with the help of NIBL
- Travelers Cheque: "American Express Traveler's Cheque", accepted globally is issued here.
- Remittance from the Middle- East: NIBL authorizes worldwide agents of large remitting companies like Instant Cash, UAE Exchange, Wall Street Exchange and Doha Bank.

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore,U K.

Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

The bank has been conferred with "Bank of the Year 2006, Nepal" by the banker, a publication of financial times, London. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector

Recognizing the value of offerings a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal.

EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society.EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet. The total number of commercials banks are as given below.

List of Commercials Banks

S.N	Name of the Banks	Operation Date(A.D.)	Head Office
1	Nepal Bank Limited	1937/11/15	Dharmapath,Kathmandu
2	Rastriya Banijya Bank	1966/01/23	SinghDarbar,kathmandu
3	Nabil Bank Limited	1984/07/16	Kantipath, Kathmandu
4	Nepal Investment Bank Limited	1986/02/07	Durbarmarg , Kathmandu
5	Standard Chartered Bank Nepal Limited	1987/01/30	NayaBaneshwor, Kathmandu
6	Himalayan Bank Limited	1993/01/18	Thamel ,Kathmandu
7	Nepal SBI Bank Limited	1993/07/07	Hattishar,Kathmandu
8	Nepal Bangladesh Bank Limited	1993/06/05	NayaBaneshwor , Kathmandu
9	Everest Bank Limited	1994/10/18	Lazimpat, Kathmandu
10	Bank Of Kathmandu Limited	1995/03/12	Kamaladi, Kathmandu
11	Nepal Credit and Commerce Bank limited	1996/10/14	Siddhartha nagar, Rupandehi
12	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitwan
13	Nepal Industrial &Commercial Bank limited	1998/07/21	Biratnagar, Morang
14	Machhapuchhre Bank Limited	2000/10/03	Prithivichowk , Pokhara
15	Kumari Bank limited	2001/04/03	Putalisadak ,Kathmandu
16	Laxmi Bank limited	2002/04/03	Adarshanagar,Birgung
17	Siddhartha Bank limited	2002/12/24	Kamaladi,Kathmandu
18	Agriculture Development Bank limited	2006/03/16	Ramshapath, Kathmandu
19	Global Bank limited	2007/01/02	Birgung,Parsa
20	Citizens Bank International Limited	2007/06/21	Kamaladi, Kathmandu
21	Prime Commercial Bank Limited	2007/09/24	New road, Kathmandu
22	Sunrise Bank Limited	2007/10/12	Gairidhara crossing, Kathmandu
23	Bank Of Asia Nepal Limited	2007/10/12	Tripureswor, Kathmandu
24	Development Credit Bank Limited	2001/01/23	Kamaladi,Kathmandu
25	NMB Bank Limited	1996/11/26	Babarmahal, Kathmandu
26	Kist Bank Limited	2003/02/21	Anamnagar, Kathmandu
27	Janata Bank Nepal limited	2010	New Baneshwor, Kathmandu
28	Mega Bank Limited	2010	Kantipath, Kathmandu
29	Commerz and Trust Bank Limited.	2010	Kamaladi, Kathmandu
30	Civil Bank Limited	2010	Kamaladi, Kathmandu
31	Century Commercial Bank Limited	2011	Putalisadak ,Kathmandu
32	Sanima Bank	2012	Kathmandu

1.3 Focus of the Study:

This study focuses on how the Nepalese commercial joint venture banks utilized the available working capital funds very well. This study also focuses on the relationship between current assets and current liabilities and relationship of other variables, which affect the working capital management. This study also only focuses the working capital management and its significance during past three years up to 2009 A.D. Working capital is the life-blood of every business activities. It is a controlling nerve center of business the success and failure of any business organization is heavily dependent upon the sort of efficiency in its working capital management . it is the process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. Specially, working capital management requires financial managers to decide what quantity of cash, other liquid assets, account receivables, and inventories. The firm will hold at any point of time.

Working capital management is concerned with the problem that arises in attempting to manage the current assets, current liabilities and, interrelationship between them. The basic total of working capital management is to manage the currency assets and current liabilities of firm. In such a way that the satisfactory working capital is maintained i.e. these are neither inadequate not excessive. No adequate of working capital may lead the firm to insolvency and excessive working capital implies idle fund, which earns no profit for the business.

1.4 Statement of the Problem:

There are many commercial banks in our country. These banks play important role in the economic development of the country. Wrong decisions on working capital management of commercial banks not only affect the liquidity and profitability of the bank but also economic condition of the country.

Working capital management of bank is difficult that of other manufacturing and non-manufacturing business organization. Commercial banks are great monetary institutions, which are playing important role to general welfare of the economy. The

responsibility of commercial banks is more than any other financial institutions. They must be ready to pay on demand without warning or notice, a good share of their liabilities. Banks collect funds from different types of deposits for providing loan and advances to different sector. To get higher return, banks must try to increase funds from deposits as well as their needy people. But commercial banks always face the problem for utilizing more deposits and disbursement of loans. Cash balance also decrease profitability of banks. Increase the cash balance on bank, which require paying its large amount of liabilities on its demand without depositors' notice. But large amount remain idle.

There are many problems but some of the major problems that have been identified for the purpose of this study are as follows:

- Which of the current assets are more problematic in commercial bank?
- Does current assets management plays significant role in working capital management of Nepalese commercial banks?
- Does working capital promotes the financial image of commercial bank?
- What is the size of investment in each types of current assets management?
- What are the components of working capital, which affect the operating income of commercial bank?

1.5 Objective of the Study:

Working capital plays a vital role behind the success or failure of the business. Working capital has to be adequate. The excess or the shortfall of the working capital is harmful for a business. The main objectives of the study are as follows:

- To analyze the liquidity, assets utilization, composition of working capital and profitability positions of the banks.
- To study the current assets and current liabilities and their impact on liquidity and profitability.
- To provide appropriate recommendation and suggestion for the improvement of the working capital management and enhancing the profitability scenario of commercial banks.

1.6 Limitations of the Study:

Limitation exists everywhere and this study is also not an exception of it. Following are some limitations.

- The study is mainly based on the secondary data.
- The study is limited time for working capital management.
- The study is confined to two selected banks.
- Due to time constraint, all the related areas are not possible to cover in depth but I will try my best.
- The analysis period of research covers only five years i.e. the fiscal years from 2006/07 to 2010/11 A.D.

1.7 Organization of the Study:

This study will consist of five chapters:

First chapter is named introduction, which deals with the basic of the study. This chapter covers General Background, Statement of Problem, Objectives of the study, Significance of the study, Limitations and Organization of the study.

Second chapter named review of literature deals with the study of available literatures already existed about the topic. This includes review of books, journal, article and related thesis.

Third chapter named research methodology deals with methodology, tools and techniques used for sources of data, hypothesis of the study, tools used for analysis of the collected data.

Fourth chapter named presentation and analysis of data is the main body of the study. It will analysis, interprets and scores the empirical findings of the study.

Fifth chapter named summary, conclusions and recommendation is the conclusive one. It summarizes the study, draws conclusions from the study and if necessary also recommends as per the conclusions. After this chapter there will be bibliography and appendices.

CHAPTER- II

REVIEW OF LITERATURE

Introductions:

The second chapter of this thesis throws light on the conceptual framework of commercial bank and working capital management. It also provides insight into the findings of earlier studies through the review of books, publications and previous studies related to the working capital management.

2.1 Conceptual Frameworks:

The concept evolved from the concept of commerce and bank. Commercial bank is the financial institution that deals in accepting deposits of individuals and institutions, and giving loans against securities. Commercial bank also provides technical and administrative assistance to industries, trades and businesses. There are different types of banks such as agriculture bank industrial bank, joint venture bank etc. this classification is done on the basis of their functions, which they render to their customer. With regard to the functions of banks, commercial bank performs their own functions, which are different from the functions performed by the other banks. Commercial bank serves the following functions:

- To accept deposit
- To provide loan
- To purchase bills
- To transfer money
- To foreign currency exchange
- To deals letter of credit
- To help in issuing share

2.2 Concept of Working Capital Management

Finance is the life blood for any organization, without which the operation of a business concern is not possible. But only the availability of funds is not enough, I requires the

proper management of those funds to drive a firm on the road to success. The management of the funds of a business can be described as financial management. Financial management is mainly concerned with two aspects. They are fixed assets & liabilities and current assets & liabilities. Fixed assets and fixed liabilities are long term investment and sources of funds. Current assets and current liabilities means current or the short term uses and sources of funds. Both of such funds play an important role in financial aspects of a business concern.

The term working capital management is associated with the short term financing and it is concerned with the collection and allocation of resources in the proper manner. Working capital management is the tool by which we can find solutions related to the problems that arise in attempting to manage the current assets, the current liabilities and the appropriate combination of these for the efficient operation of the business activities.

Working capital refers to the resources of the firm that are used to conduct operation of day to day activities that make the business successful. Without cash, bills cannot be paid. Without receivables and payables the firm cannot allow the timing difference between delivery of goods and services and collecting the money to pay for them. Without inventories the firm cannot engage the production and nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets the management of working capital is one of the most important areas in determining whether a firm will be successful. Working capital are those resources which can be converted into cash within a year and net working capital is defined as the difference between current assets and current liabilities.

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

The first one is insolvency, which is the condition that occurs when a firm can no longer pay its bills and must default on obligations and possibly declares bankruptcy. A firm without the adequate level of working capital may have to face this risk.

The second one is profitability of the assets. Different level of current assets will have varied bearings on profits. A high level of inventory will require high carrying cost. At the same time, the firm will have a wide range of goods to sell and may be able to generate higher sales and profit. Each decision on the level of cash, receivables and inventory should consider the effects to different levels.

The third one is the cost of financing. When interest rates are high, it costs more to carry inventory than when the rates are low. Large cash balances may not earn the return that is possible if the cash is converted into operating assets. The cost of debt and the opportunity cost of alternative investments are the items to consider when evaluating working capital level.

There are two concepts of working capital, Gross concept and net concept. The gross working capital, simply called as working capital, refers to the firm's investment in current assets. Current assets are the assets, which can be converted into cash within the accounting year and include cash,, short term securities, debtors, Bills receivables and stocks. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year and include creditors, bills payables, and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities and a negative net working capital arise when current liabilities are in excess of current assets.(Pandey; 1992:796).

After going through the above concepts of working capital, we can conclude that adequate working capital is the essential condition for any organization, whether it is private or public, manufacturing or non-manufacturing. When a firm holds excessive

working capital, it affects a firm's profitability just because an idle investment yields nothing. Likewise, inadequate investment on working capital affects the liquidity position of the company and leads to financial crisis and downfall of the company, so it is very clear that any mismanagement in working capital can hamper the overall efficiency of an organization.

2.3 Types of Working Capital:

There are two types of working capital, permanent and variable working capital. These working capitals are necessary for any organization for continuous production and sales without any interruption.

2.3.1 Permanent Working Capital

Permanent working capital refers to that level of current assets, which is required on 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. That is why a firm holds certain amount of working capital in order to ensure uninterrupted production and sales functions. It is directly related to the firm's expansion of operation capacity.

2.3.2 Variable Working Capital:

Variable working capital represents that portion of working capital which is required over permanent working capital. If the nature of production and sales of a firm is directly related to seasonal variations, it should stock extra raw material, work in progress and the inventory of finished goods. Hence, this portion of working capital depends on the nature of firm's production relation between labor and management. If a firm has sound management on this portion of working capital, it can easily win over other competitors (Pandey; 1992:808).

2.4Working Capital Policy:

Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. So, in working

capital management, a firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policies according to the financial manager's attitude towards the risk- return trade off. One of the most important decisions is the financing of current assets.

2.4.1 Current Assets Investment Policy:

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policies. Fat cat, Lean & Mean and Moderate.

2.4.1.1 Fat Cat Policy:

This is also known as relaxed current assets investment policy, under which relatively large amount of cash, marketable securities and inventories are carried while sales are stimulated by a liberal credit policy which results in a high level of receivables which also creates the longer receivables collection period. Thus this policy provides the lowest expected return on investment with lower risk (Weston & Brigham; 1996:344).

2.4.1.2 Lean and Mean Policy:

This is also known as restricted current assets investment policy, under which holdings of cash, marketable securities, inventories and receivables are minimized. This policy tends to reduce the receivable conversion cycle. Under I firm follow a tight credit policy and bear the risk of losing sales (Weston & Brigham; 1996:344).

2.4.1.3 Moderate Policy:

It is the policy that lies in between the relaxed and restrictive policies. Under it, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both the risk and return are moderate in this policy.

2.4.2 Current Assets Financing Policy:

Under this policy, permanent & temporary current assets are financed with funds raised from different sources. As cost & risk affect the financing of any assets, it should

clearly outline the sources of financing. Aggressive, conservative and matching are the three policies under current assets financing.

2.4.2.1 Aggressive Policy:

Under aggressive policy, all the fixed assets of the firm are financed with long term capital, yet some of the firm's permanent current assets are financed with short term, non spontaneous sources of fund (Weston & Brigham; 1996:348).

In other words, the firm not only finances temporary current assets but also a part of permanent current assets with short term financing. In general, Interest rate increases with time, i.e. shorter the time, lower the interest rate. It is because lenders are risk averse and risk generally increases with the length of lending period. Thus under normal circumstances, the firm borrows on a short term financing rather than long term financing. On the other hand, it the firm finances its permanent short term financing, then it runs the risk of renewing the borrowing again and again. This future interest expenses will fluctuate widely, and it may also be difficult for the firm to raise the funds during the stringent credit policy. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

2.4.2.2 Conservative Policy:

Under this policy, the firm uses long term financing not only to finance fixed assets and permanent current assets but also a part of temporary current assets (Weston & Brigham; 1996: 348).

It means that the firm depends upon the long term sources for financing needs. This policy leads to the high level of current assets, long conversion cycle, low level of current liabilities and higher interest cost. The risk and return are lower than that of aggressive one. The risk average management follows this policy.

2.4.2.3 Matching Policy:

It is self-liquidity approach, in which the firm finances the per assets with long term financing and temporary current assets with short term financing. It means that the firm matches the maturity of financing source with an assets useful life. It lies in between the aggressive and conservative policies. It leads to neither high nor low, Level of current assets and current liabilities. It lies in between a low profitability.

2.4.3 Determinants of Working Capital:

All the firms; whether public or private, manufacturing or non-manufacturing, must have adequate working capital to survive in competitive market. It should have neither too excess nor too inadequate working capital. But there are no sets of rules or formulae to determine the working capital requirement of a firm. It is because a large number of factors that influence the working capital requirement of a firm. A number of factors affect different firm. In different way, internal policies and changes in environment also affect the working capital requirement. Generally the following factors affect the working capital requirement of the firm (pandey; 1999: 816).

Nature and Size of Business:

Working capital requirement depends on the nature and size of the business. Bigger firm requires more working capital while a small firm needs less working capital. Trading and financial firm require larger amount of working capital to public utilities, while manufacturing concern lies between these two extremes.

2.4.3.1 Growth and Expansion:

A growing firm needs more working capital than those of static ones. However it is difficult to precisely determine the relationship between the growth and expansion of the firm and working capital requirements.

2.4.3.2 Credit Policy:

Working capital requirement depends on terms of sales. Different terms may be followed to different customers according to their credit worthiness. If a firm follows

the liberal credit policy them it requires more working capital. Conversely, if it follows the stringent credit policy, it requires less working capital.

2.4.3.3 Production Policy:

If a firm produces seasonal goods, then it sells its products in a certain month of the year. In such circumstances, it can either confine its production to only that period when goods are sold or follow a steady production policy throughout the year and produce goods at that level to meet the peak demand. The former policy does not need more working capital than the latter does.

2.4.3.4 Availability of Credit:

It is another factor that affects the working capital requirement. If the creditors avail a liberal credit terms them the firm will need less working capital and vice versa. In other words, if the firm can get credit facility easily on favorable conditions, it requires less working capital to run the firm smoothly otherwise more working capital will be required to operate the firm smoothly.

2.4.3.5 Manufacturing Cycle:

Working capital requirement of a firm is also influenced by the manufacturing or production cycle. Production cycle refer to the time involved to make the finished goods from raw materials. During the process of production cycle, the larger will be the working capital requirement and vice versa.

2.4.3.6 Profit Margin:

The level of profit differs from firm to firm. It depends upon the nature and quality of a product, marketing management and monopoly power in the market. It a firm deals with the high quality product, has a sound marketing management and has enjoyed monopoly power in the market then it earns quite high profit and vice versa. Profit is a source of working capital pool by generating more internal funds.

2.4.3.7 Price Level Changes:

Generally a firm is required to maintain the higher amount of working capital if the price level rises as the same level of current assets needs more funds to the increasing price. Hence, the implication of changing price level on working capital position will vary from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

2.4.3.8 Operating Efficiency:

Operating efficiency also has a big influence on the working capital requirement of the firm. Operating efficiency refers to the efficiency utilization of the available resources at minimum cost. Thus, financing manager can contribute to strong operating efficiency then it needs less amount of working capital otherwise it requires large amount of working capital (Pandey; 1999: 817).

2.4.3.9 Level of Taxes:

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

2.4.3.10 Need for Working Capital:

Working capital is the lifeblood and controlling nerve centre of every business organization as without the proper control upon working capital no business organization can operate smoothly, therefore, it plays a crucial role in the success & failure of the organization. The need for working capital to run the day to day business activities cannot be overemphasized. We can hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. As we know that business firms aim at maximizing the wealth of shareholders. In its endeavor to do so, a firm should earn sufficient return from its

operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among other thing. For the constant operation of business, every firm needs to hold the working capital components such as cash, receivables, inventory etc. hence, and every firm needs working capital to meet the following motives (Pandey; 1999: 809).

2.4.3.11 Transaction Motive:

Transaction motive require a firm to hold cash & inventories to facilitate smooth production and sales operations regularly. Thus, the firm needs working capital to meet the transaction motive.

2.4.3.12 Precautionary Motive:

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

2.4.3.13 Speculative Motive:

It refers to the desire of a firm to exploit opportunities as an opportunity of purchasing raw materials at reduced price on immediate payment, making investment on lucrative fields, to speculate on interest rates, to make purchase at favorable price and the like. Hence, the firm needs the working capital to meet the speculative motive (Horne & Wachowicz; 1999: 220).

2.4.3.14 Financing Of Working Capital:

Every manufacturing concern or industry requires additional assets whether they are in stable or growing state. When the growing firm wants to generate sustained profit, it normally requires fixed as well as working capital. Additional portion of the working capital is approximately dominated by the same rate of sales. However, this portion of

capital requirement depends upon the nature of the firm. So, the most important function of a finance manager is to determine the level of working capital and to device 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 finance manager. He can present generally three kinds of financing:

2.4.4 Long Term Financing:

Long term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earnings and long term debts are the major sources of long term financing.

2.4.5 Short Term Financing:

Business firm must arrange short term credit in advance. The sources of short term financing of working capital are trade credit and bank credit.

2.4.5.1Trade Credit:

It refers to the credit that a customer gets from supplies of goods in the normal course of business. The buying firms does not have to pay cash immediately for the purchase, is trade credit. It is mostly an informal arrangement and granted on an open account basis. Another form of trade credit is bills payable. It depends upon the term of trade credit.

2.4.5.2 Bank Credit:

Bank credit is a primary institutional source for working capital financing. For the purpose of bank credit, amount of working capital requirement has to be estimated by the borrowers and banks are approached with the necessary supporting data. Bank determines the maximum credit based on the margin requirements of the security. The following types of loan are provided by commercial banks.

Loan Arrangement:

Under this arrangement the entire amount of loan is given credit by the bank to the borrowers account, and the loan is repaid in installments and the interest is payable on actual outstanding balance.

Overdraft Arrangement:

Under this arrangement the borrower is allowed to over draw on his current account with the bank up to the stipulated limit. Within this limit, a numbers of drawing are permitted and repayment should be made in short period.

Commercial Papers:

It is used only by well-established high quality business houses. The evidence of debts is an unsecured short term promissory note sold in the money market. It sold either through dealers or directly to investors. Besides the above form of credit, bank provides loan against the warehouse receipt, inventory receivables. In our context, most popular sources of short term financing are short term loan from public deposit, which is also a major source of working capital financing.

Spontaneous Financing:

Spontaneous financing arises from the normal operation of the firm. The two major sources of such financing are trade credit and accruals. Whether trade credit is free of cost or not actually depends on the term of trade credit. Finance manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of current assets financing is either short term or long term sources. Thus, the finance manager concentrates his power in short term versus long term financing. Hence, the financing of working capital depends on the working capital policy, which is perfectly dominated by the management's attitude towards the risk & return. (Pandey; 1999: 827)

Significance of Working Capital Management:

The management of working capital is important for several reasons. For one thing, the current assets of a typical manufacturing firm account for over half of its total assets. For a trading firm, the account for even more excessive levels of current assets can easily result in a firm realizing a substandard return on investment. However, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations.

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

Determinants of Working Capital

The importance of efficient working capital management is an aspect of overall financial management. Thus a firm plans its operation with adequate working capital requirement or it should neither too excess nor too inadequate working capital. But there are no sets of rules or formulae 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 affect different firm in different ways.

Internal policies and environment change also affect the working capital. Generally, the following factors affect the working capital requirements of the firm.

I **Nature And Size Of Business**

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

ii Manufacturing Cycle

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

iii Production Policy

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

iv Credit Policy

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

v Availability Of Credit

Availability of credit facility is another factor that affects the working capital requirements. If the creditors avail a liberal credit terms, the firm will need less working

capital and vice- versa. In other words, the firm can get credit facility easily on favorable conditions. Thus, it requires less working capital to run the firm otherwise more working capital is required to operate the firm smoothly.

vi Growth And Expansion

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

vii Price- Level Change

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

viii Operating Efficiency

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

ix Profit Margin

The level of profit margin differs from firm to firm. It depends upon the nature and quality of products, marketing management and monopoly power in the market. If the firm deals with the monopoly power in the market then it earns quite high profit and vice-versa. Profit is the source of working capital, because it contributes towards the working capital as a pool by generating more internal funds.

x Level of taxes

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

xi Cash Requirements

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

xii Business Fluctuations

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

xiii Change In Technology

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

Reviews of Related Studies

This section is also important for literature review of working capital. For the study of this section many latest information can be derived about related field. This part is mainly focused on the review of journals and research studies published by different management experts about working capital management.

Pradhan and Koirala (1983) had jointly published an article on "*some reflections of working capital management in Nepalese corporations".* This article aims to find out the difficulty, problems and importance of current assets management and also aims to

find out the motive for holding cash and inventory, the study use only primary data to find out the basic constraints and distributed 200 questionnaires. For the purpose of study, they use both manufacturing public corporation as a sample companies. After analyzing the collected data the major findings of this study are as follows:

- To provide a reserve for routine net outflows of cash is the major motive for holding cash in Nepalese corporation.
- The major reason for holding inventories is to facilitate smooth operation of production and sales.
- The major factor affection the large investment in receivable is found to be the liberal credit policy followed by Nepalese corporation. The large paying practice of customer is also responsible for larger investment in receivable. However, corporations are reluctant to take inefficient collection of trade credit as one of the major factor affecting receivables.
- Public enterprises should take care of negatively affecting policies directives from HMG Nepal itself.
- Public enterprises should avoid fictitious holding of assets immediately.
- Finance staff must be adequate with the modern scientific tools used for the presentation and analysis of data.
- Lastly, this study has suggested optimizing its level of investment because both of these situations will erode the efficiency of concern.

Pradhan (1988), in his article, *"the demand for working capital by Nepalese corporations",* selected nine manufacturing public corporations for the analysis with 12 years data 1973 to 1984. Regression equation had been adopted for the analysis. From his study, he concluded that:

Earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exist with respect to the presence of economies of scale, role of capital cost, capacity utilization rates, and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The pooled regression results strongly suggested that the demand for

working capital and its components is a function of both sales and their capital costs. The estimated results revealed that the inclusion of capacity utilization variable in the model seemed to have contributed to the demand functions of cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivables and gross working capital was doubtful.

Mahat (2004), has published article relating to *"spontaneous resources working capital Management".* The article has defined the three major sources of working capital i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing includes short term, bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. whereas spontaneous sources of working capital include trade credit, provisions and accursed expenses.

The articles has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such as environment should be enough to cope with the possible worst happening in future for working capital management.

The study has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by the way of debt financing, the company should have to bear interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profit. Therefore, spontaneous sources of working capital will better to working capital in order to improve its performance.

Consequently in a changed economic scenario, ever company should realize that inability to manage working capital might land them in a vicious circle that can be hard

to get out form. It is indeed essential for industries to tighten their belts and check their financial stability to face and stand in forth coming competitive day.

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Review of Unpublished Dissertation

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

Pathak, (2007) has done a research on *"An Evaluation of Working Capital Management of Nepal Lube Oil Limited".*

His Main Objectives

- To appraise the working capital management of NLO Ltd.
- To study the relationship between sales and different variables of working capital.

His Research Methodologies are as follows:

Research methodology is the focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data will be done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, coefficient of correlation, regression analysis and the technique of least square are adopted in this study. Financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

His Major Findings

The growing tendency of investment over current assets could have adverse effects in NLO Ltd's wealth maximization goals in long run. The study has suggested that NLO Ltd should determine certain rate of return on investment and sales target should be set.

- The company should always concern about the current assets and current liabilities and regular check should make. It will control the excess and shortage of working capital of the company.
- The company should give attention to manpower planning and should avoid both under staffing and over staffing.

Sharma, (2008), has done a research on *"A study on working capital Management of Nepal Battery Co. Limited".* Considering five year financial statement (i.e. balance sheet, profit and loss a/c and income statement, etc.), from 2001/02 to 2006/07. This study has used ration analysis as tools for the purpose of analyze working capital management in NBC Ltd.

His Main Objectives

- To analysis the liquidity composition of working capital, assets utilizations and profitability position of NBC Ltd.
- To analysis the relationship between sales and different variables of working capital of NBC Ltd.

His Research Methodologies are as follows:

In this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Loans and advances to Total Risk Weighted Assets Ratio, non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing Loan, Arithmetic Mean Standard Deviation and Hypothesis Test.

His Major Findings

- The major component of working capital of NBC Ltd. are cash and bank balance, account receivable, inventory, miscellaneous current assets and inventory holds large portion of current assets. The proportion of current assets on total assets and fixed assets is increasing, it indicates that inventory in current assets is high with respect to its total assets and fixed assets.
- Inventory to total assets ration shows fluctuating trend and receivable to total asset position show increasing trend. The turnover position is in fluctuating trend and receivable conversion period and inventory conversation period is long which is unfavorable for the company.
- Values of current and quick ratios are found nearly equal to standard inefficiency in operation can be seen through wide different between gross profit margin and net profit margin and high level of operating ratio. This study has suggested the company to reduce the inventory level. This study recommends about receivable conversion period, which is necessary to reduce with concerning sales volume because reduction of this period may affect on sales volume. Lastly, this study mentions about operating cost, which must be reduced in proper way so that can maximize its profitability and shareholders return.

Kunwar, (2009), has carried out a research on *"working capital management of Pharmaceutical Industry of Nepal with Reference to Royal Drugs Limited".* The study has used statistical as well as financial tools to analyze the statement of 2002/03 to 2007/08.

His Main Objectives

- To analyze empirical testing affecting working capital of Royal Drugs Limited as well as to know whether adequacy of working capital depends upon the nature of financing current assets or not.
- To examine the position of working capital is selected companies.
- To assets than turnover of working capital and analyze

His Research Methodologies are as follows:

In his thesis the data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Debt to Equity ratio, Debt Ratio Interest Coverage Ratio, Earnings per Share, Price Earnings Ratio, Return on Total Assets, Return on Share Holder's Fund or Equity, Arithmetic means, Standard Deviation and Correlation Coefficient.

His Major Findings

- It has used more long term sources of financing than short term sources and followed conservative working capital policy.
- The major components of current assets in Royal Drugs Limited are cash and bank balance, receivable, inventory. Among these current assets inventory holds largest portion of current assets.
- Company cannot efficiency utilize current assets and there is also inefficient management of receivable policy.
- Liquidity position is satisfactory whereas return position is not satisfactory due to negative return. This study has suggested that the company should determine appropriate financing sources. Company should reduce inventory and receivable level for adjusting with sales and .production level. To balance them company should improve marketing and credit policy.

Amatya, (2010) carried out a research on the topic *"An Appraisal of Financial Position of Nepal Bank Ltd".*

His Main Objectives

- To examine, analyze and to interpret the financial position of the bank.
- To analysis the relationship between different financial Ratio.
- To give suggestions and recommendations for the betterment of the selected commercials banks.

His Research Methodologies are as follows:

The research, data are analyzed by using different types of tools. For this study following statistical tools Arithmetic mean, Standard Deviation, Correlation Coefficient, Probable Error and Regression Analysis and financial tools Earnings per Share, Price Earnings Ratio, Return on Total Assets and Return on Share are also use.

His Major Findings

- Regarding the liquidity management, the bank was in a better position. However, the bank had been following a uniform policy to finance current assets and current liabilities.
- The bank was successful in deposit collection but it had always adopted conservative and traditional credit policy.
- The trade and commerce advances were playing a major role in the credit composition of the bank. Although the reserve of the bank was increasing gradually, the reserve played a nominal role in credit expansion control.
- The major portion of investment of the bank was in government's securities. The volume of transaction was high in all respects but the bank did not show higher ratio of profit, rather it showed a decreasing trend of profit.

Shrestha, (2011) has done a research on *"A study on working capital management of Nepal lube oil limited."*

Major Objectives

- To examine the working capital position of NLOL.
- To examine the structure of working capital.
- To assess the financial liquidity position of the NLOL.

His Research Methodologies are as follows:

The research is analyzed by using different types of tools such as statistical tools and financial tools ie. Earnings per Share, Price Earnings Ratio, Return on Total Assets Return on Share, Holder's Fund or Equity, Arithmetic mean, Standard Deviation Correlation Coefficient, Probable Error and Regression Analysis.

Major Findings

- The company had lesser participation of fixed assets in total assets. cash holds of the company was relatively a small proportion total assets and inventory held largest portion indicating un sounded inventory management.
- The company has insufficient in collecting receivable.

Karki, (2012) has conducted a study on *Working capital Management of Himalayan Bank Ltd. "A Case Study of Himalayan Bank Ltd.*

Major Objectives

- To analyze the level of different types of working capital faced by Himalayan Bank Ltd.
- To assess the financial performance of HBL through the help of financial ratios and standards.

His Research Methodologies are as follows:

The research is analyzed by using different types of tools. For this study following statistical tools and financial tools are use such as Loans and advances to Total Risk, Weighted Assets Ratio, Non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing, Loan Ratio Loan Loss Provision to Total Loans and Advances, Arithmetic mean, standard Deviation, Correlation Coefficient, Probable Error, Regression Analysis and Test of Hypothesis.

Major Findings

- Proper policies, procedures, guidelines and tools have been developed with appropriate triggers.
- That forms the guiding pillars for its operations.
- The banks believe in corporate culture that emanates from the think Customers" philosophy at all levels of the banks.
- Teamwork, camaraderie, sincerity, dedication, trust, respect, equality, dignity and valuing each contribution are key pillars on which the corporate culture of the banks thrives on.

2.5 Research Gap

All the above studies are conducted with the research title "working capital management of commercials banks". Some researchers have selected various companies for the research and some have concentrated in only one or two companies. As to research gap is concerned, there are many changes taken place in the working capital management process as compared to the last few years. So, fresh study related to Everest bank Limited and Nepal Investment Bank Limited has been done in this research. The most of the studies has been considered many more objectives which made their study more complicated but in this research report only three objectives are taken into study. Secondary data are considered in this research. Both financial as well as statistical tools like ratio analysis, correlation analysis; regression analysis are the specific tools used in this research and also used the latest data to show the overall working capital of NIBL and EBL. This research can help the person who wants to know about overall working capital management of NIBL and EBL. Almost all the ratios have been applied to cover the analytical part and fulfill the objective of this study. It involves more recent data of NIBL and EBL for five years (2006/07 to 2010/11).

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction:

This chapter describes the methodology employed in the study. It consists of research design, population and sample study, sources of data, data processing procedure and technique of analysis of data. This study is more analytical and empirical. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of concerned banks, especially from profit and loss account, balance sheet and other publications published by the bank.

This is the third chapter of the thesis, named as Research Methodology. Research methodology is the way to solve the research problems systematically. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It also highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated etc. (Joshi, P.R.; 2002: 19).

3.2 Research Design:

Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. It is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. It means an overall framework or plan for the collection and analysis of data. The study aims to portraying accurately upon the working capital and its impact on overall financial performance of these two banks. The research design followed for this study is basically a historical, empirical and descriptive cum analytical research method is followed.

3.3 Population and Sample:

In Nepal, there are 32 commercial banks in existence till the date. Among them few are government owned banks, few are joint venture banks and the others are private banks. To carry out the study, Nepal Investment Bank and Everest Bank Ltd. have been taken as a sample for the study. Financial statements of five years from 2006/07 to 2010/011 have been taken as sample data.

3.4 Nature and Sources of Data:

Data collection is considered as an integral part of the research activity. The sources of information are generally classified as primary and secondary.

Secondary Data: Data collected by someone else, used already and are made available to others in the form of published statistics are known as secondary data.

Different types of data from several sources are necessary for this study. Therefore, both quantitative and qualitative data have been collected.

3.5 Data Processing Procedure:

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

3.6 Data Collection Technique:

The study is based upon secondary data; the data relative to financial performance and directly obtained from concerned banks. The supplementary data performance records of concerned banks, booklets, journals and other organization. Data are collected through annual report, minutes and memorandum of association relative websites and several organizations. Concept paper made by few organizations, newsletters, bulletin and brochures also helped in collection of data for the study. Similarly methods like

surfing in website and personal visit to bookshops is also used for the collection of data and information.

3.7 Method of Data Analysis and Interpretation:

The collected data through various instruments and sources have been edited, coded, processed, analyzed and tabulated using simple financial and statistical methods. Major findings were based on the analysis and interpretation of data. The major data analysis tools used for the analysis and presentation of data are as follows:

3.7.1 Financial Analysis Tools:

Financial ratios are useful indicators of a firm's performance and financial situation. Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statement. Most ratios can be calculated from information provided by the financial statements. Most ratios can be calculated from information provided by the financial statements. Financial ratios can be used to analyze trends and to compare the firm's financials to those of other firms. In some cases, ratio analysis can predict future bankruptcy. It helps the related parties to spot out the financial strength and weakness of the firm. The related parties may be creditors, long term debt suppliers, investors and the company's management. it is the process of summarizing large quantity of financial data and making qualitative judgment about the firm's financial data and making qualitative judgment about the firm's financial performance. In the research study various financial tools are employed for the analysis. There are various ratios but in this study some selected ratios among them are used.

A. Liquidity Ratios:

One of the main objectives of working capital management is keeping sound liquidity position. Cash is a main liquid asset and other assets which can be easily converted into cash are also called near cash or liquid assets. So managing or maintaining liquid assets is termed as liquidity. In banking sector liquidity is very essential for smooth operation

of day to day activities. Thus liquidity is concerned with maintaining adequate liquid assets. The followings are the liquidity ratios:-

a. Current Ratio

Current assets divided by current liabilities from the most recent quarter. The current ratio is a measure of the firm's immediate financial health and it's ability to meet current obligations. Generally, the current ratio should be 2:1 or higher; the higher the current ratio, the more conservative the firm, although a high current ratio can mean less profitability than a competing firm with a leaner current ratio. Also, like so many ratios, this one can vary by industry. Restaurant companies, for example, often have current ratios of less than 1:1, but since there is usually a delay between payment for services (which is immediate) and payments to vendors, who typically grant credit, this low ratio raises few eyebrows.

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

b. Quick Ratio

The sum of cash and receivables are from the most recent quarter divided by the total current liabilities from the most recent quarter. This assessment of a company's ability to meet short-term obligations is also known as the acid test. In general, the quick ratio should be 1 or better. A high quick ratio is usually a sign of a solid, conservatively run company in no danger if imminent demise even if for some awful reason sales immediately ceased. A firm's quick ratio might be of special interest to investors anticipating some kind of downturn in the firm, business or the economy at large.

$$\text{Quick Ratio} = \frac{\text{current assets} - \text{inventory} - \text{Prepaid expenses}}{\text{Current Liabilities}}$$

C Cash and Bank balance to Deposits (Excluding fixed Deposits)

This ratio shows the ability of banks immediate funds to cover their (Current, margin, call and saving) deposits. It can be calculated by dividing cash and bank balance by deposits (excluding fixed deposits). The ratio can be expressed as:

$$\text{Cash \& bank balance to Deposit} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

D Saving Deposit to total Deposit

Saving deposit is a bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short term in nature. It is calculated by dividing the total amount of the saving deposit by the amount of total deposit that can be expressed as follows:

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

E. Absolute Liquidity Ratio

Although current assets like receivable, marketable securities etc. can be changed into cash as required. It takes time to be changed. It means it is not absolute liquid. The absolute liquidity ratio measures the liquidity of a firm in absolute term. It is calculate by dividing cash by current liabilities.

$$\text{Absolute liquid ratio} = \frac{\text{Cash}}{\text{Current Liabilities}}$$

C Activity Ratio/ Turnover Ratio:

Activity Ratios are intended to measure the effectiveness regarding the employment of the resources in a business concern. These ratios reveal whether the funds employed have been used effectively in the business activities or not. The following are the ratios employed to analyze the activeness of the concerned joint ventures.

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

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

High ratio is the symptom of higher or proper utilization of funds whereas low ratio is the signal of underutilized or idle funds.

Ii Loan and advances to Fixed Deposit Ratio

The ratio indicates what proportion of fixed deposits has been used for loans and advances. Loans and advances are the major sources of investment to generate income by the commercial banks. Fixed deposits are long-term interest-bearing obligation. It carries high rate of interest. Funds collected are needed to invest in such sectors, which yield at least sufficient return to meet the obligations. The ratio measures the extent to which the fixed deposits are utilized for the income generating purpose. High ratio means utilization of fixed deposit in form of loans. The ratio is calculated by dividing loans and advances by fixed deposits.

$$\text{Loans and Advances to Fixed Deposits Ratio} = \frac{\text{Loans \& Advances}}{\text{Fixed Deposit}}$$

Iii Loan and advance to saving deposit ratio

The ratio indicates how many times the short-term interest bearing deposits are utilized for generating the income. Saving deposits are the short-term interest bearing liabilities. Loans and advances are the major sources of investment to generate income in commercial banks. Loans and advances to saving deposits ratio is measured to find out how many time of fund is used in loan and advances against saving deposit. High ratio indicates greater utilization of the saving deposits in advancing loans. The ration is calculated dividing the amount of loan and advances by total deposit in saving account. The following formula is used to calculate this ratio as:

$$\text{Loans and advances to saving deposit ratio} = \frac{\text{Loans \& Advances}}{\text{saving deposits}}$$

Iv Investment to Total Deposit Ratio

The ratio shows how efficiency the major resources of the bank have been mobilized. High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds. The ratio is obtained by dividing investment by total deposits collected in the bank.

$$\text{Investment to Total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposit}}$$

Investment comprises investment its HMG treasury bills, development bonds, company shares and other type of investment.

D Profitability Ratio

Profitability ratios offer several different measures of the success of the firm at generating profits. It indicates of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used is as follows:

i Interest Earned to Total Assets Ratio

Interest Earned to Total Assets Ratio formed to find out the percentage of the interest earned investing total assets. This ratio can be calculated by dividing the amount of interest earned by the total assets of the firms. It can be expressed as:

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

ii Net Profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets. It can be calculated by dividing the net profit after tax by total assets. It can be expressed as:

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

iii Net Profit to Total Deposit ratio

This ratio is used for measuring the internal rate of return from deposits. It is computed by dividing the net profit by total deposits. This can be expressed as:

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

Higher ratio indicates the return from investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing.

E Total interest expenses to Total Interest income Ratio

The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view. The ratio is obtained by dividing total interest expenses by total interest income.

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Total interest expenses}}{\text{Total Intrest Income}}$$

Total interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total interest income includes interest income received from loans, advances, cash credit, overdrafts and government securities, inter- bank and other investments.

Statistical Tool Used

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured form groups of individuals or groups of observations from a single individual. In this research study some statistical tools are also used for analysis. Those tools are as follows:

B Correlation

Correlation is the statistical tool that refers the closeness of the relationship between two or more variables. We can use correlation to describe the degree to which one variable is linearly related to other variables. The coefficient of correlation deals to determine the degree of relationship between two or more sets of figures. Among the various method of finding out coefficient practice for calculating correlation coefficient, the most widely used in practice for calculating correlation coefficient is Karls Pearson's correlation coefficient. So, Karls Pearson's correlation coefficient method is applied in the study. Correlation coefficient always lies between +1 to -1. When r= +1, there is perfect positive correlation between two variables and when r= -1, there is

perfect negative correlation. And when r=0, there is no correlation. We can calculate correlation of variables with the formula. That is:

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

r = Coefficient of correlation between variable X and Y.

N = Number of pairs in observation

$\sum XY$ = Sum of product of the variables X and Y.

$\sum X$ = Sum of the X

$\sum Y$ = Sum of the Y

$\sum X^2$ = Sum of the square of X

$\sum Y^2$ = Sum of the square of Y

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

The data collection from the various sources have been presented and analyzed in this chapter. Since the conclusion to be drawn and the recommendation to be made from this study are based on the presentation and interpretation of data analyzed here. This chapter constitutes the main part of this study. The presentation and analysis of data measures the various dimensions of the problems of the study.

The entire figure presented here are Rs. in million. The data presented herein are pertained to 2006/07 to 2010/011 of each year and the data presented herein are based on the amount mentioned in the annual report of respective years of concerned banks and journals of NRB.

4.1Introduction

The major objective of the study is a comparative study of working capital management of Nepal Investment Bank Ltd and Everest Bank Ltd commercial Banks. The major variables of the study are cash and bank balance, loans and advances and investment in government securities. In this chapter, relevant data and information of working capital as well as financial performance of Nepal Investment Bank Ltd and Everest Bank Ltd. commercial banks are presented, compared and analyzed accordingly. It covers to analyze the ratio as well as trend (the least square method) and composition of current assets. Liquidity turnover, leverage and profitability of these banks. It also uses correlation analysis and hypothesis test.

4.2 Composition of Current Assets

To operate the business, different kinds of assets are required. The composition of the current assets differs from organization to organization. According to nature of the business and the attitude of the management towards risk. The firm, which has risk advert management, maintains the high liquidity, assets in total working capital. It the

organization has aims to maximize return on shareholder investment should earn sufficient return from its operation. So every firm has to maintain the appropriate level of current assets according to their nature of business and attitude of management to run the business smoothly.

4.3 Percentage of Current Assets on Total Assets

Current assets are generally required to meet working capital, which are to fulfill the need of daily business requirement. The ratio can be analyzed to study the composition of working capital of the company. Higher percentage of current assets in total assets shows the greater liquidity position of the firm, the lower risk of technical insolvency and vice-versa. The table below represents the percentage of current assets on total assets of Nepal Investment Bank Ltd and Everest Bank Ltd.

The following table shows the composition of current assets used by Nepal Investment Bank Ltd and Everest Bank Ltd of the study period.

Table: 4.1

Composition of Current Assets of Everest Bank Ltd.

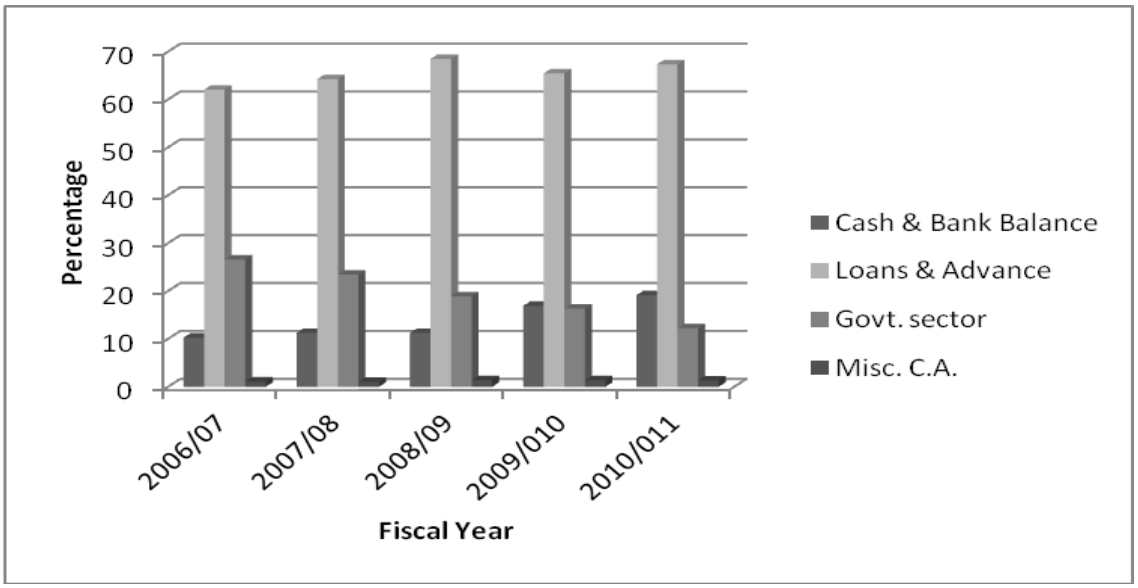
(In Million)

Year	Cash & Bank Balance	%	Loans & Advance	%	Govt. sector	%	Misc. C.A.	%	TCA
2006/07	1,619,927,494	10.25	9,801,307,676	62.03	4,200,515,220	26.59	178,007,850	1.13	15,799,758,240
2007/08	2,391,420,594	11.25	13,664,081,664	64.26	4,984,314,586	23.44	222,660,004	1.05	21,262,476,848
2008/09	3,013,971,830	11.25	18,339,085,562	68.46	5,059,557,544	18.89	376,215,468	1.40	26,788,830,404
2009/010	6,164,371,163	16.89	23,884,673,616	65.46	5,948,480,273	16.30	492,166,151	1.35	36,489,691,203
2010/011	7,818,815,003	19.11	27,556,356,032	67.34	5,008,307,589	12.24	536,187,696	1.31	40,919,666,320
Mean		13.75		65.51		19.49		1.25	

Source: Annual Report of Everest Bank Ltd

Figure: 4.1

Percentage Composition of CA of Everest Bank Ltd.



Source: Table 4.1

The table 4.1 and figure 4.1 shows that the Cash and bank balance percentage of Everest Bank Ltd is gradually increased over the study period. First three year, slightly increasing then highly increased after two years. It is higher in the fifth year. i.e., 19.11% and lowest in first year of the study period, I,e, 10.25 %. The average cash and bank balance percentage of Everest bank ltd is 13.75%.

In the case of Everest Bank ltd, loan and advances percentage are increasing till third year and after third year decreasing fourth year and increasing fifth year of the study period. It is highest in the year 2008/09 i.e., 68.46 % and lowest in the year 2006/07 i.e., 62.03 %. The average loans and advances percentage is 65.51%. the loans and advances percentage of Everest Bank Ltd, in the year 2006/07, 2007/08 and 2009/010 are less than the average i.e., 65.51%. But in the year 2008/09 and 2010/011 the loans and advances percentage are higher than the average, 68.46%, 67.34%.

The percentage of Government Securities of Everest Bank ltd is in decreasing trend. It is decreasing till fifth year, i.e., 2010/011. The average percentage of government

securities of the bank is 19.81%. it is higher than its average government securities percentage of initial two years i.e. 26.70%, 24.58% and it is lower than its average government securities percentage of last three years of the study period. i.e., 18.14%, 14.24% and 15.37%.

From the table 4.1, we know that Everest Bank ltd is investing lesser amount in miscellaneous current assets in comparison to other components of current assets over the study period. It is in range between 1.05% & 1.40% . The average miscellaneous current asset is 1.25%. The yearly percentage of miscellaneous current assets is higher than its average percentage in the year 2008/09,2009/010& 2010/011 i.e. 1.40%,1.35% & 1.31% and it is lower than its average percentage in the year 2006/07 & 2007/08 i.e, 1.13% & 1.05% . the investment in miscellaneous current assets is stable in comparison to other components of current assets.

Table: 4.2

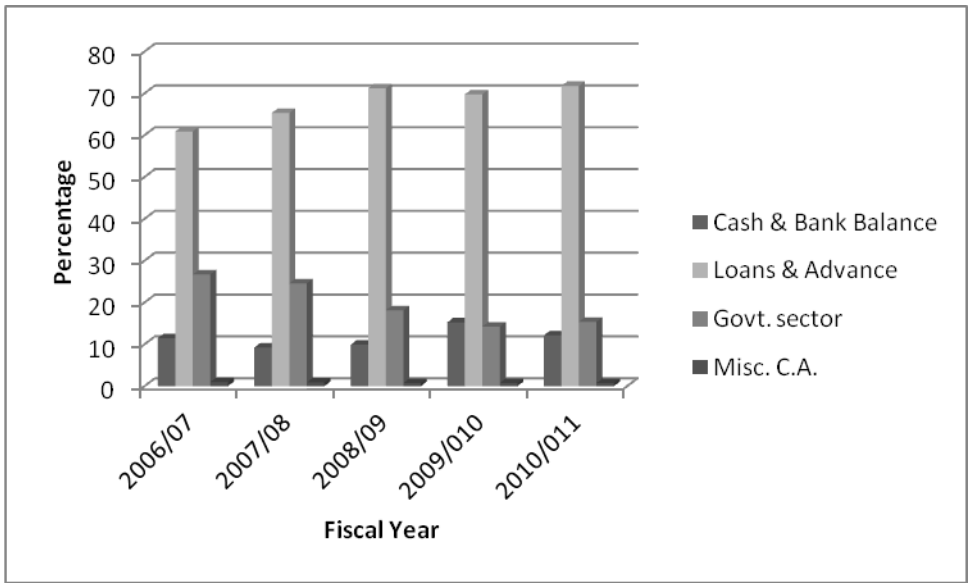
Composition of Current Assets of Nepal Investment Bank Ltd.

Year	Cash & Bank Balance	%	Loans & Advance	%	Govt. sector	%	Misc. C.A.	%	TCA
2006/07	2,406,521,396	11.47	12,776,208,037	60.88	5,602,868,649	26.70	201,089,825	0.96	20,986,687,907
2007/08	2,441,514,200	9.22	17,286,427,389	65.31	6,505,679,987	24.58	233,671,849	0.88	26,467,293,425
2008/09	3,754,941,568	9.91	26,996,652,258	71.23	6,874,023,625	18.14	276,846,874	0.73	37,902,464,325
2009/010	7,918,003,890	15.24	36,241,206,558	69.76	7,399,811,700	14.24	390,653,496	0.75	51,949,675,644
2010/011	6,815,889,833	12.13	40,318,308,062	71.78	8,635,530,125	15.37	399,438,143	0.71	56,169,166,163
Mean		11.59		67.79		19.81		0.81	
(r)									

Source: Annual Report of Investment Bank Ltd

Figure: 4.2

Composition of CA of Nepal Investment Bank Ltd.



Source: Table 4.2

In the table 4.2 and figure 4.2 shows that the total amount of current assets components of Nepal Investment bank Ltd. total amount of current assets components of Nepal Investment bank Ltd. total amount of current assets component of Everest bank Ltd has increased continuously. Bank has increased huge from 2006/07 to 2010/011 period. The percentage composition of current assets to total current assets(cash and bank balance, loans and advances, investment in government securities and miscellaneous current assets) of bank are presented in above table and chart.

The yearly cash and bank balance of Nepal Investment bank ltd is also in fluctuating over the study period. If has decreased in second and third year then increased in high in forth year then decreased in last or fifth period over the study period. It is highest in the year 2009/010 where it is 15.24% and lowest in the second year of the study period i.e, 9.22%. the average cash and bank balance percentage higher than NIBL bank.

In the case of NIBL bank, loan and advances percentage are fluctuating till last year of the study period. It is highest in the year 2010/011 i.e, 71.78 and lowest in the year

2006/07,.i.e, 60.88. The average loan and advances percentage of NIBL bank is 67.79. In the first and second year i.e, 2006/07 & 2007/08, the yearly loan and advances percentage is lesser than the average loan and advances percentage. They are 60.88% and 65.31% respectively. But the last three year of the study period the loan and advances percentage is i.e, 71.23%, 69.76% and 71.78%.

Government securities percentage of NIBL is fluctuating over the study period. It is highest in the year 2006/07, ie.26.70%. and the lowest government securities percentage is in the year 2009/010, i.e. 14.24%. The average government securities percentage is 19.81%. the yearly percentage of government securities of the bank is higher than its average percentage in first two years of the study period, i.e.26.70% & 24.58%. and it is lower in the last three years of the study period, i.e. 18.14%,14.24% & 15.37%.

Miscellaneous current assets percentage of NIBL is also more stable than its other components of current assets just like Everest Bank ltd. It is in the range between 0.71% & 0.96 % . the average miscellaneous current asset of the bank is 0.81%. It is highest in the year 2006/07 i.e. 0.96%. and lowest in the year 2010/011 i.e. 0.71%. the yearly percentage of miscellaneous current assets of the bank is higher than its average percentage In the year 2006/07 & 2007/08 i.e. 0.96%& 0.88%. Whereas in the year 2008/09, 2009/010 & 2010/011, the yearly percentage is lower than its average percentage, i.e 0.73%,0.75% & 0.71%. miscellaneous current assets percentage of Everest Bank Ltd. is always higher than NIBL and its average miscellaneous current assets percentage is higher than NIBL as well . from the above analysis, we can conclude that NIBL is investing lower amount in miscellaneous current assets than Everest Bank ltd. It maynot be good for liquidation position of the bank but may harm for the profitability position of the bank because it is keeping higher idle amount in comparison to NIBL.

4.3 Composition of Current Liabilities

Current liabilities are those liabilities that the firm should pay within short time period. Current liabilities include loan and advances, sundry creditors, provision for taxation, miscellaneous current liabilities, etc. A firm should maintain an optimum level of liquidity in order to enable the organization to meet the current obligation of the firm. A firm has to raise funds from short term obligation. Short term sources of funds are raised through different components of current liabilities according to requirement. But the proportion of different components of current liabilities depends upon the financial policy of the firm. Thus, the composition of current liabilities must be analyzed for proper management of working capital.

Table: 4.3

Composition of Current Liabilities of Everest Bank Ltd.

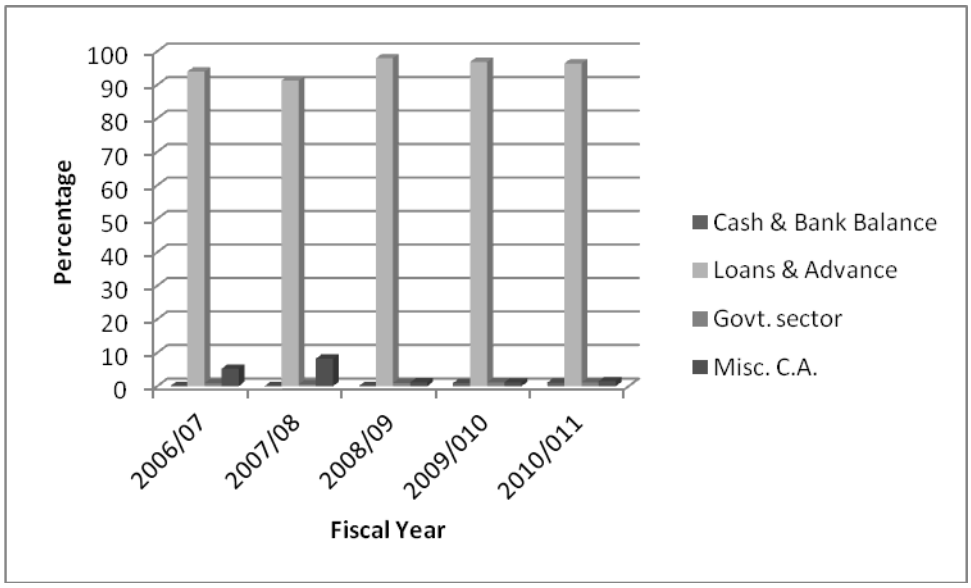
(In Million)

Year	Borrowings	%	Deposit(Excl. FD)	%	Bills Payable	%	Misc. C.L.	%	TCA
2006/07	-	0	13,802,444,988	93.92	130,472,753	0.89	763,558,645	5.20	14,696,476,386
2007/08	-	0	18,186,253,541	91.25	110,200,913	0.55	1,634,604,580	8.20	19,931,059,034
2008/09	-	0	23,976,298,535	97.92	231,363,177	0.94	276,846,874	1.13	24,484,508,586
2009/010	312,000,000	0.91	33,322,946,246	96.83	399,702,638	1.16	378,574,715	1.10	34,413,223,599
2010/011	404,600,000	1.06	36,932,310,008	96.37	420,631,053	1.10	566,081,795	1.48	38,323,622,856
Mean		0.39		95.26		4.64		3.42	

Source: Annual Report of Everest Bank Ltd

Figure: 4.3

Composition of CL of Everest Bank Ltd.



Source: Table 4.3

In the table 4.3 and figure 4.3 we can see total amount of current liabilities components of Everest bank ltd. Total amount of current liabilities components of Everest bank has increased from beginning till last year of the study period.

The borrowing percentage of Everest Bank is increased over the study period. In the year 2006/07, 2007/08 and 2008/09, the Everest Bank did not borrow any money and then after it increased till the last year of the study period. It is highest in the last year, i.e.1.06% and lowest in the year 2009/010, i.e.0.91%. the average borrowing percentage of Everest Bank ltd, is 0.98%.

The deposit (excluding fixed deposit) percentage of Everest Bank Ltd is fluctuating. It has increased in the year 2006/07, 2007/08 and 2008/09 and then it has decreased till the last year of the study period. It is highest in the year 2008/09 i.e, 97.92%. and lowest in the year 2006/07, i.e.93.92%. The average deposit (excluding fixed deposit) percentage of Everest Bank Ltd is 95.26%.

The bills payable percentage of Everest Bank is decreased up to the second year and then, increased till the fourth year and decreased in fifth year of the study period. The highest bills payable percentage is 1.16% in the year 2009/010. And it is lowest in the year 2006/07 i.e.0.89% the average bills payable percentage of Everest Bank Ltd is 0.93%.

The above table shows that the miscellaneous current liabilities percentage of the Everest Bank Ltd is fluctuating all over the study period. It is increased in up to second year and decreased in fourth year, then increased in fifth year of the study period. It is highest in the year 2007/08 i.e.8.20% and lowest in the year 2009/010, i.e. 1.10% the average miscellaneous current liabilities percentage of Everest Bank Ltd is 3.42%.

Table: 4.4
Composition of Current Liabilities of Nepal Investment Bank Ltd.

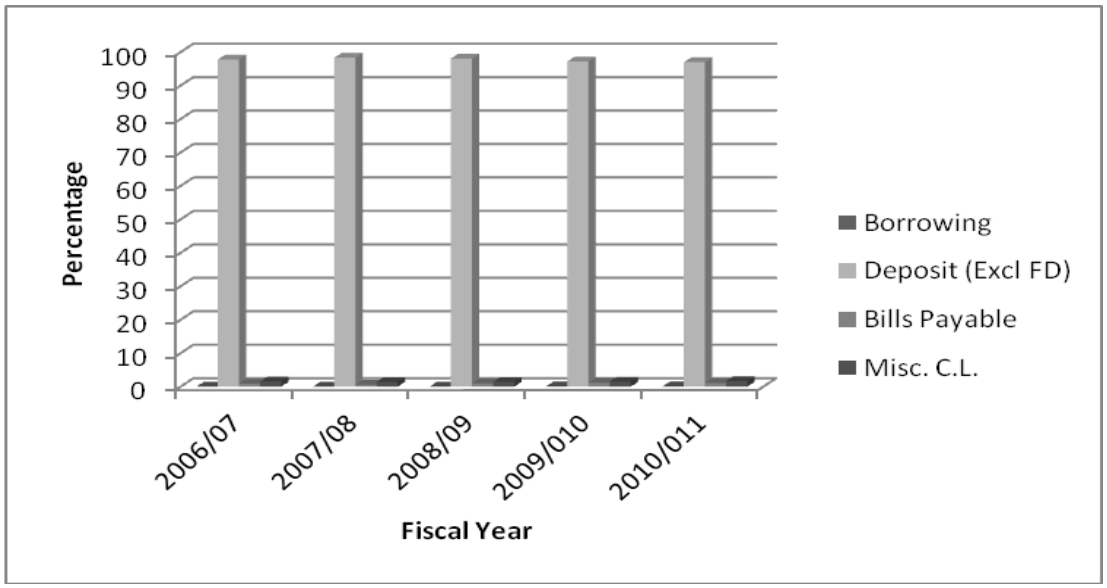
(In Millions)

Year	Borrowings	%	Deposit(Excl. FD)	%	Bills Payable	%	Misc. C.L.	%	TCA
2006/07	-	0	18,927,305,974	97.74	49,765,639	0.77	287,626,214	1.49	19,364,697,827
2007/08	-	0	24,488,855,696	98.30	76,346,863	0.31	347,518,664	1.39	24,912,721,223
2008/09	-	0	34,451,726,191	98.05	196,389,557	0.56	488,404,288	1.39	35,136,520,036
2009/010	38,800,000	0.08	46,698,100,065	97.18	606,088,261	1.26	709,975,092	1.48	48,052,963,418
2010/011	37,314,826	0.07	50,094,725,497	96.95	677,613,516	1.31	860,366,551	1.67	51,670,020,390
Mean		0.03		97.64		4.21		1.48	

Source: Annual Report of Investment Bank Ltd

Figure: 4.4

Composition of CL of Nepal Investment Bank Ltd



Source: Table 4.4

In the table 4.4 and figure 4.4 we can see total amount of current liabilities components of NIBL. Total amount of current liabilities components of NIBL has increased from beginning till last year of the study period.

The yearly borrowing percentage of NIBL is decreased over the study period . In the year 2006/07, 2007/08 and 2008/09, the NIBL did not borrow any money and then after it took money and decreased till the last year of the study period. It is highest in the year 2009/010, i.e.0.08% and lowest in the year 2010/011, i.e 0.07%. the average borrowing percentage of NIBL is 0.075%.

In NIBL, the deposit (excluding fixed deposit) percentage is increased in up to second year. And gradually decreased in up to fifth year of the study period. It is highest in the year 2007/08 i.e, 98.30% and lowest in the year 2010/011 i.e. 96.95%. the average deposit (excluding fixed deposit) percentage of NIBL is 97.64%.

The deposit (excluding fixed deposit) percentage of both banks is fluctuating all over the study period. The average deposit (excluding fixed deposit) percentage of NIBL is higher than that of EBL.

In NIBL, the bills payable percentage is in fluctuating trend. It decreased till the second year and started increasing in the fifth year. It is highest in the year2010/011, i.e. 1.31% and lowest in the year 2007/08, i.e, 0.31% the average bills payable percentage of NIBL is 0.84%. NIBL average bills payable percentage is lower than that of Everest Bank Ltd.

In NIBL, the miscellaneous current liabilities percentage is decreasing till third year of the study period. Then it started to increase till the last year of the study period. It is highest in the year 2010/011, i.e. 1.67% and lowest in the year 2007/08 & 2008/09, i.e. 1.39% the average miscellaneous current liabilities percentage is 1.48%.

In both the banks, the yearly percentage of miscellaneous current liabilities is fluctuating. The average miscellaneous current liabilities percentage of Everest bank ltd is higher than that of NIBL.

4.4 Ratio Analysis

Ratio analysis is the powerful financial tool to measure the financial performance of banks and finance companies comparatively. As mentioned in research methodology, liquidity, activity, profitability and leverage ratios are calculated. To find the overall performance as well as general movement of important ratios, trend analysis is also used.

Liquidity Ratio

Liquid assets are one that can be easily converted into cash without significant loss of its original value. Converting assets, especially current assets such as inventory and receivables, to cash is the primary means by which a firm obtains the funds needed to pay its current bills. Therefore a firm's liquid position deals with the question of how well the firm is able to meet its current obligations. Short term assets or current assets

are more easily converted to cash than long term assets. So, in general, one firm would be considered more liquid than another firm if it has a greater proportion of its total assets in the form of current assets. Liquidity ratio measures the short term solvency position of the firm. Liquidity ratio that shows the relationship of a firm's cash and other current assets to its current liabilities. Under this there are two types of ratios.

Liquidity of any business organizations is directly related with working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Banks and finance companies are different organizations which are engaged in mobilizations of funds. So, without sound liquidity position, these institutions are not able to operate their functions. To measure the solvency position or ability to meet its short term obligations, various liquidity ratios are calculated and to know the trend of liquidity, trend analysis of major liquidity ratios has been considered.

As per Nepal Rastra bank's rule, minimum 1% of total deposit and borrowing should be deposited into Nepal Rastra Bank in current account. Out of total deposit and borrowing, 2% should be deposited into other commercial banks in current or call account. Similarly, 5% of its deposit should be invested in government securities and if pledged to borrower fund, should be deducted while calculating the percentage of investment in government securities.

4.4.1 Current Ratio

Current assets are divided by current liabilities from the most recent quarter. The current ratio is a measure of the firm's immediate financial health and its ability to meet current obligations in other words, current ratio represents a margin of safety, i.e. a "cushion" of protection for creditors and the higher the current ratio. Greater the margin of safety, larger the amount of current assets, in relation to current liabilities. Generally, the current ratio should be 2:1 or higher, the higher the current ratio, the more conservative the firm, although a high current ratio can mean less profitability than a

competing firm with a leaner current ratio. Also like so many ratios. This one varies by industry. It is calculated as follows:

Current Ratio= Current Assets/ Current Liabilities

The following table and chart show the current ratio to compare the working capital management of these financial institutions.

Table: 4.5

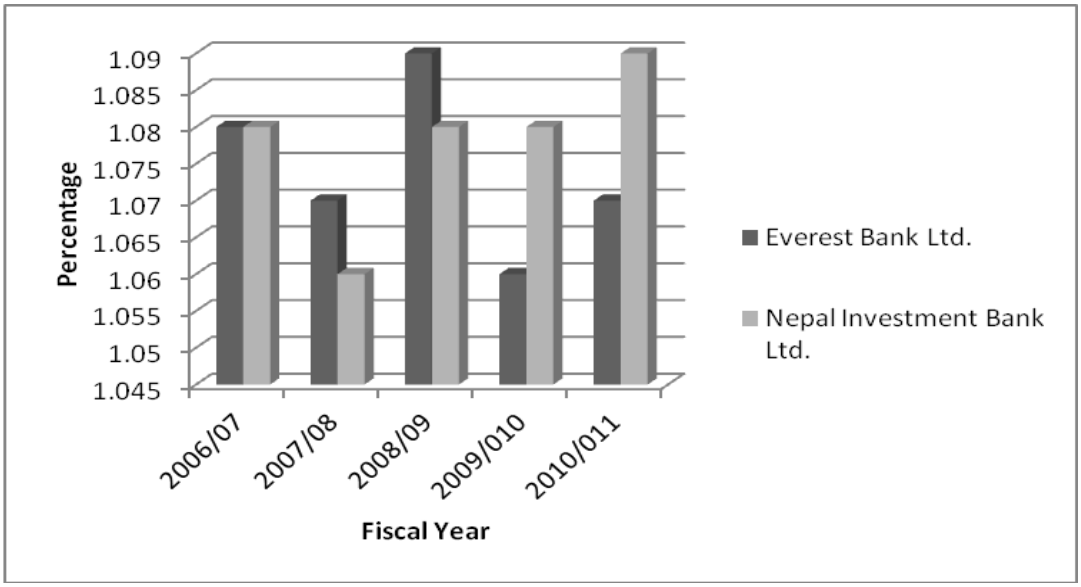
Calculation of Current Ratio

Year	Everest Bank Ltd.			Nepal Investment Bank Ltd.		
	C.A.	C.L.	C.R	C.A.	C.L.	C.R
2006/07	15,799,758,240	14,696,476,386	1.08	20986687907	19,364,697,827	1.08
2007/08	21,262,476,848	19,931,059,034	1.07	26467293425	24,912,721,223	1.06
2008/09	26,788,830,404	24,484,508,586	1.09	37902464325	35,136,520,036	1.08
2009/010	36,489,691,203	34,413,223,599	1.06	51949675644	48,052,963,418	1.08
2010/011	40,919,666,320	38,323,622,856	1.07	56169166163	51,670,020,390	1.09

Source: Annual Report of EBL and NIBL

Figure: 4.5

Current Ratio



Source: Table 4.5

The table 4.5 and figure 4.5 depicts that the current assets of Everest Bank is in increasing trend from 2006/07 to the last year of the study period. And the current liabilities of Everest bank Ltd, is also increasing till last year of the study period. The current ratios of Everest Banks are fluctuating. It decreased in up to second year and then. the current ratio highest in the year 2008/09 i.e.1.09%. Lowest in the year 2009/010 i.e.1.6%. The average current ratio of the Everest bank is 1.1.

In NIBL, the current assets are in increasing trend from starting to end of the study period. And, the current liabilities of NIBL are also in increasing trend from starting to end of the study period. But the current ratio of NIBL is in fluctuating trend. It has decreased up to second year, and then increased till the last year of the study period. The current ratio is highest in the year 2010/011, i.e.1.09 And lowest in the year 2007/08, i.e. 1.06 the average current ratio of NIBL is 1.1.

The average current ratio of NIBL is higher than that of Everest bank. It helps to conclude that the liquidity position of NIBL is better than that of Everest Bank. NIBL has more ability to meet its current obligation that Everest Bank Ltd.

- **Quick Ratio of The Total Quick Assets**

The assessment of a company's ability to meet short term obligations is also known as the acid test. 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 without a loss of value of cash. Cash is the most liquid asset. Other assets, which are considered to be relatively liquid, are booked debts and marketable securities. In general, quick ratio should be 1 or higher. A high quick ratio is usually a sign of solid, conservatively run company which is no danger of imminent demise even if for some awful reasons, sales immediately ceased. A firm's quick ratio might be of special interest to investors anticipating some kind of downturn in the firm's business or the economy at large. The quick ratio can be found out by dividing total quick assets by total current liabilities.

Quick Ratio = Quick Assets/ Current Liabilities

For this study, cash and bank balance, government securities are included in quick assets. The following table and chart show the quick ratio of Everest Bank and NIBL.

Table: 4.6

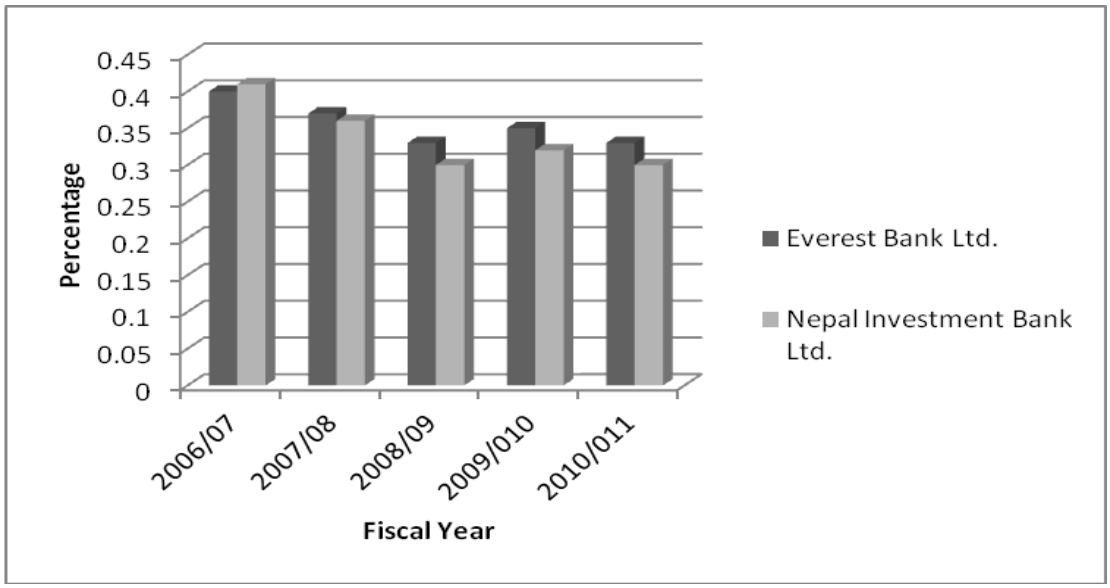
Calculation of Quick Ratio

Year	Everest Bank Ltd.			Nepal Investment Bank Ltd.		
	C.A.	C.L.	Q.R	C.A.	C.L.	Q.R
2006/07	5,820,442,714	14,696,476,386	0.40	8,009,390,045	19,364,697,827	0.41
2007/08	7,375,735,180	19,931,059,034	0.37	8,947,194,187	24,912,721,223	0.36
2008/09	8,073,529,374	24,484,508,586	0.33	10,628,965,193	35,136,520,036	0.30
2009/010	12,112,851,436	34,413,223,599	0.35	15,317,815,590	48,052,963,418	0.32
2010/011	12,827,122,592	38,323,622,856	0.33	15,451,419,958	51,670,020,390	0.30

Source: Annual Report of EBL and NIBL

Table: 4.6

Calculation of Quick Ratio



Source: Table 4.6

The table 4.6 and figure 4.6 depict that the quick ratios of Everest bank are always fluctuating over the study period. The quick ratio of Everest Bank is decreased up to third year, then increased in year 2009/010 and decreased in fifth year of the study period. It is highest in the year 2006/07 i.e., 0.40 and lowest at the year 2008/09 & 2010/011 i.e.0.33. The average quick ratio in Everest is 0.36.

The quick ratios of NIBL are also fluctuating. The quick ratio of NIBL is decreased up to third year, then increased third year then declined till the last year of the study period. It is highest in the year 2006/07, i.e0.41 and lowest in the year 2008/09 & 2010/011, i.e. 0.30. The average of quick ratio in NIBL is 0.34. The yearly quick ratios of EBL are higher than that of NIBL except in the year 2006/07 the average quick ratio of EBL is higher than that of NIBL. (i.e. 0.36>0.34)

4.4.2 Cash and Bank Balance To Total Deposit Ratio (Without Fixed Deposit)

This ratio shows the ability of banks' immediate funds to cover their (current, margin, call and saving) deposits. It is employed to measure whether the bank and cash balance is sufficient to cover its current calls margin including deposit. It can be calculated dividing cash and bank balance by deposits (excluding fixed deposit). It can be expressed as:

Table: 4.7

Calculation of Cash & Bank Balance to Deposit Ratio (Fixed Deposit)

	Everest Bank Ltd.			Nepal Investment Bank Ltd.		
Year	Cash & Bank Balance	Deposit (exc. Fixed deposit)		Cash & Bank Balance	Deposit (exc. Fixed deposit)	
2006/07	1,619,927,494	9,560,093,219	2006/07	1,619,927,494	9,560,093,219	2006/07
2007/08	2,391,420,594	12,559,591,824	2007/08	2,391,420,594	12,559,591,824	2007/08
2008/09	3,013,971,830	17,530,117,246	2008/09	3,013,971,830	17,530,117,246	2008/09
2009/010	6,164,371,163	26,272,968,016	2009/010	6,164,371,163	26,272,968,016	2009/010
2010/011	7,818,815,003	26,492,031,414	2010/011	7,818,815,003	26,492,031,414	2010/011

Source: Annual Report of EBL and NIBL

Figure: 4.7

Calculation of Cash & Bank Balance to Deposit Ratio (Fixed Deposit)

Source: Table 4.7

The table 4.7 and figure 4.7 depicts that the cash and bank balance to deposit (excluding fixed deposit) ratios of Everest bank are increasing till the first two years, decreasing in third year and again increasing in the last year of the study period. The ratio is higher in the year 2010/011, I.e. 0.30 and lower in the year 2006/07 & 2008/09, i.e.0.17 the average cash and bank balance to deposit (excluding fixed deposit) ratio of Everest Bank is 0.21.

The table shows that the cash and bank balance to deposit (excluding fixed deposit) ratios of NIBL is fluctuating over the study period. The highest cash and bank balance to deposit (excluding fixed deposit) ratio is 0.23 in the year 2009/010 and lowest is 0.14 in the year 2007/08 & 2008/09. The average cash and bank balance to deposit (excluding fixed deposit) ratio of NIBL is 0.18. it is higher than the yearly ratio of the year 2007/08, 2008/09 i.e. 0.14

The average cash and bank balance to total deposit (excluding fixed deposit) ratio of Everest bank, i.e. 0.21 Is lesser than cash and bank balance to deposit (excluding fixed deposit) ratio of NIBL i.e. 0.18 the above analysis helps to conclude that NIBL holds more cash balance than Everest Bank ltd. the higher cash and bank balance to deposit

(excluding fixed deposit) ratio of NIBL shows that ability of banks immediate funds to cover its current , margin call and saving deposit better than the same of Everest bank. In another word, the liquidity position of NIBL is better than Everest bank, but the large amount of idle cash and bank balance badly affect the profitability of the bank. From the point of view of utilizing Everest bank has better position than NIBL.

4.4.3 Activity Ratio (Turnover Ratio)

Activity ratio is needed to measure the effectiveness of employed of the resources in a business concern. Activity ratio measures the effectiveness of the firm. Through these ratios, it is known whether the funds employed have been utilized effectively in the business activities or not. The following are the ratios, employed to analyze the activities of the concerned joint ventures.

- **Loan and Advances to Total Deposit Ratio**

This ratio assesses to what extent, the banks and finance companies are able to utilize the depositor's funds to earn profit by providing loans and advance. It is computed dividing the total amounts of loans and advances by total deposited funds. The formula used to compute this ratio is as follows:

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

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

Table: 4.8

Calculation of Loan and Advances to Deposit Ratio

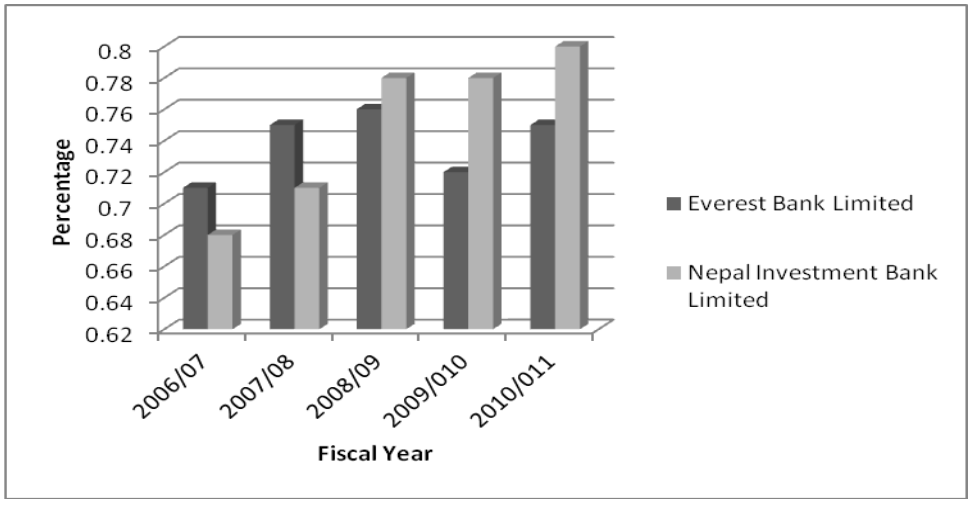
(In Rs)

Year	Everest Bank Ltd.			Nepal Investment Bank Ltd.		
	Loan and advances	Deposit	C.R.	Loan and advances	Deposit	C.R.
2006/07	9801307676.00	13,802,444,988.00	0.71	12,776,208,037.00	18,927,305,974.00	0.68
2007/08	13664081664.00	18,186,253,541.00	0.75	17,286,427,389.00	24,488,855,696.00	0.71
2008/09	18339085562.00	23,976,298,535.00	0.76	26,996,652,258.00	34,451,726,191.00	0.78
2009/010	23884673616.00	33,322,946,246.00	0.72	36,241,206,558.00	46,698,100,065.00	0.78
2010/011	27556356032.00	36,932,310,008.00	0.75	40,318,308,062.00	50,094,725,497.00	0.80
Average			0.74			0.75

Source: Annual Report of EBL and NIBL

Figure: 4.8

Calculation of Loan and Advances to Deposit Ratio



Source: Table 4.8

The table 4.8 and figure 4.8 depicts that loan and advances to total deposit ratios of EBL are fluctuating during the study period. It is increasing in second and third year, decreasing in forth year and again increasing in last year of the study period. The bank has the highest loan and advances to total deposit ratio in third year, i.e. 0.76 and the

least in first year, i.e.0.71 But, the yearly amount of loan and advances to total deposit ratios are not much difference during the period of study. The average loan and advances to total deposit ratio of EBL, is 0.74

For NIBL, loan and advances to total deposit ratios are fluctuating than EBL. The range of ratio is 0.68 to 0.80. The average loan and advance to total deposit ratio is 0.75. The loan and advances to total deposit ratios are increasing of the study period. The yearly ratio is higher, i.e.0.80 In the year 2010/011 and lower, i.e.0.68 in the year 2006/07.
The average loan and advances to total deposit ratio of EBL is lesser than the NIBL by 0.01. The above analysis helps to conclude that loan and advances to total deposit ratio or total turnover ratio of EBL is employing the funds more efficiently for the profit generating purpose on loan and advances than NIBL.

- **Loan and Advances To Fixed Deposit Ratio**

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. For commercial banks, fixed deposit are long term interests bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is compared dividing loans and advances by fixed deposit as under:

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed Deposit}}$$

A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio examines to what extend the fixed deposits are utilized for income earning purpose.

Table: 4.9

Calculation of Loan and Advances to Fixed Deposit Ratio

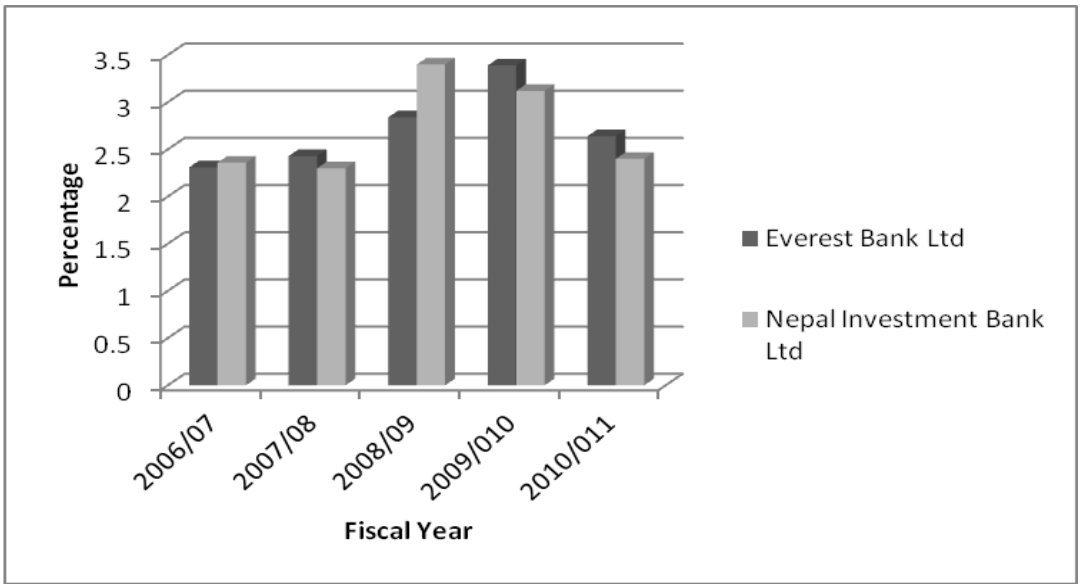
In Rs

Year	Everest Bank Ltd.			Nepal Investment Bank Ltd.		
	Loan and advances	Fixed Deposit	C.R.	Loan and advances	Fixed Deposit	C.R.
2006/07	9801307676.00	4,242,351,769.00	2.31	12,776,208,037.00	5,412,969,595.00	2.36
2007/08	13664081664.00	5,626,661,717.00	2.43	17,286,427,389.00	7,516,686,866.00	2.30
2008/09	18339085562.00	6,446,181,289.00	2.84	26,996,652,258.00	7,944,232,558.00	3.40
2009/010	23884673616.00	7,049,978,230.00	3.39	36,241,206,558.00	11,633,380,218.00	3.12
2010/011	27556356032.00	10,440,278,594.00	2.64	40,318,308,062.00	16,825,148,284.00	2.40
Average			2.72			2.71

Source: Annual Report of EBL and NIBL

Figure: 4.9

Calculation of Loan and Advances to Fixed Deposit Ratio



Source: Table 4.9

The table 4.9 and 4.9 depicts that fixed deposits are in rising and falling form. Fixed deposit of EBL, has increased in up to fifth year of the study period, it has gradually increased. Loan and advances to fixed deposit ratios are gradually increasing except in last year and 2.64, the average ratio of EBL is 2.72, which is greater than its yearly ratios of the year 2006/07, 2007/08 and 2010/011 i.e. 2.31, 2.43 and 2.64 respectively. But the average ratio of EBL is lower than its yearly ratio of the year 2008/09 and 2009/010, i.e.2.84 & 3.39.

For NIBL, the fixed deposits are in rising form. Fixed deposit of NIBL has increased highly from beginning to fifth year of the study period. The loan and advances to fixed deposits are fluctuating. The ratio has decreased in second year and increasing third year then decreasing gradually up to fifth year. EBL has highest loan and advance to fixed deposit. The average ratio of NIBL is 2.71 which is greater than the yearly ratio of the year 2006/07, 2007/08 and 2010/011 i.e. 2.36, 2.30 and 2.40. but it is lesser than the yearly ratio of the year 2008/09 and 2009/010 i.e. 3.40 and 3.12. EBL has higher yearly ratios than NIBL in the whole study period. EBL also has higher ratio of loan and advances to fixed deposit ratio than NIBL i.e.2.72>2.71. The above analysis helps to conclude that loan and advances to fixed deposit ratio of EBL is better than that of NIBL. The ratio implies that EBL is utilizing its fixed deposit in loan and advances more efficiently.

- **Loan and Advances to Saving Deposit Ratio**

This ratio assesses how many times the fund is used to loans and advances against saving deposit. Saving deposits are interests bearing short term obligation and the major sources of investment in loan and advances for income generating purpose by CBs. This ratio indicates how many times the short term interest bearing deposits are utilized for generating income. It is calculated by dividing the amount of loan and advances by total deposit in saving account. The following formula is used to calculate the ratio:

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

Table: 4.10

Calculation of Loan and Advances to Deposit Ratio

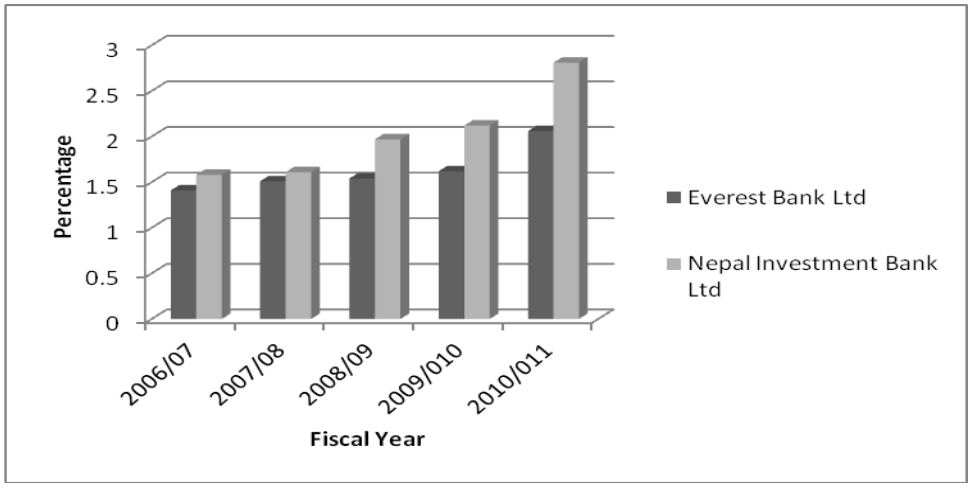
In Rs

Year	Everest Bank Ltd.			Nepal Investment Bank Ltd.		
	Loan and advances	Saving Deposit	Ratio	Loan and advances	Saving Deposit	Ratio
2006/07	9801307676.00	6,929,216,891.00	1.41	12,776,208,037.00	8,081,980,502.00	1.58
2007/08	13664081664.00	9,029,255,366.00	1.51	17,286,427,389.00	10,742,331,625.00	1.61
2008/09	18339085562.00	11,883,857,171.00	1.54	26,996,652,258.00	13,688,766,549.00	1.97
2009/010	23884673616.00	14,782,330,769.00	1.62	36,241,206,558.00	17,066,252,467.00	2.12
2010/011	27556356032.00	13,360,037,013.00	2.06	40,318,308,062.00	14,324,255,897.00	2.81
Average			1.63			2.02

Source: Annual Report of EBL and NIBL

Figure: 4.10

Calculation of Loan and Advances to Saving Deposit Ratio



Source: Table 4.10

The table 4.10 and figure 4.10 depicts that the loan and advances to saving deposit ratios of EBL are increasing gradually of the study period. The ratio is highest in the last year, i.e.2.06, and lowest in the first year, i.e.1.41. The average ratio of EBL is 1.63.

It is higher than the yearly ratio of first to fourth year and lower than the yearly ratio of the year 2010/011.

Loan and advances to saving deposit ratio of NIBL is increasing up to last year of the study period. For the NIBL, the ratio is highest in the year 2010/011, i.e.2.81 and lowest in the year 2006/07 i.e. 1.58. The average ratio is 2.02, which is lower than its yearly ratios in the year 2009/010 & 2010/011 and higher than its yearly ratios in the year 2006/07, 2007/08 & 2007/2010.

The yearly ratios of NIBL are always exceeding than EBL in the study period. So, the average loan and advances to saving deposit of NIBL is higher than that of EBL from the above analysis,

4.4.4 Leverage Ratio or Capital Structure

Financial leverage ratios provide an indication of the long term solvency of the firm. Unlike liquidity ratios which are concerned with short term assets and liabilities, financial leverage ratios measure the extent to which the firm is using long term debt. Debt and equity are long term obligation and remaining parts in the liability side of the balance sheet are termed as short term obligations. Both types of obligation are required in forming the capital structure of the firm. The long term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsider's fund and owner's capital used by the firm. Following ratios fall under leverage ratios.

- **Long Term Debt To Shareholders Equity Ratio**

It is used to test the long term solvency of a firm. The ratio indicates the relationship between debt and equity. It is related to shareholder's fund indicating the degree of protection against long term creditors. Here, long term debt refers to the amount of fixed deposit. It is calculated by dividing the fixed obligation of the banks by owner's claim.

$$\text{Long term debt to Net Worth Ratio} = \frac{\text{Loan Term Debt}}{\text{Share holders Equity}}$$

The following table and chart shows the long term debt to net worth ratio of the two sample banks.

Table:4.11

Calculation Of Long Term Debt To Share Holders Equity

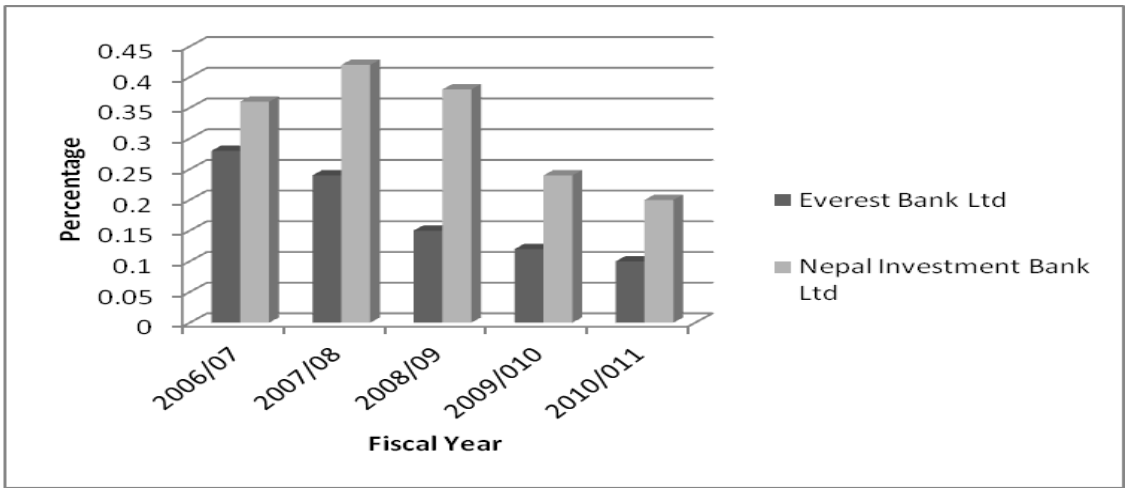
In Rs.

Year	Everest Bank Ltd.			Nepal Investment Bank Ltd.		
	Long term debt	Shareholders' Equity	Ratio	Long term debt	Shareholders' Equity	Ratio
2006/07	300,000,000.00	1,077,475,059.00	0.28	550,000,000.00	1,537,066,712.00	0.36
2007/08	300,000,000.00	1,269,661,589.00	0.24	800,000,000.00	1,921,773,789.00	0.42
2008/09	300,000,000.00	1,936,027,950.00	0.15	1,050,000,000.00	2,780,254,293.00	0.38
2009/010	300,000,000.00	2,421,705,400.00	0.12	1,050,000,000.00	4,393,293,215.00	0.24
2010/011	300,000,000.00	3,035,390,687.00	0.10	1,050,000,000.00	5,187,667,517.00	0.20
Average			0.18			0.32

Source: Annual Report of EBL and NIBL

Figure: 4.11

Calculation of Long Term Debt to Share Holders Equity



Source: Table 4.11

The table 4.11 and figure 4.11 depicts that the long term debt of EBL are constant and shareholders equity are gradually increasing till the fifth year of the study period. So, the yearly ratios of EBL are decreasing of the study period. The long term debt is constant from starting to end of the study period. Highest long term debt to Shareholders Equity ratio is 0.28 and lowest is 0.10 in the year 2006/07 and 2010/011 respectively. The average ratio of EBL is 0.18.

For NIBL, long term debt is in increasing trend all over the study period. The highest ratio is 0.42 in the year2007/08 and lowest ratio is 0.20 in the year2010/011. The average ratio is 0.32.

The table 4.11 shows that the average ratio of NIBL is very much higher than that of EBL. From this analysis, it can be conducted that the long term debt to shareholders equity ratio of EBL are lesser than NIBL, which implies that the proportion of outsiders' claim in total capitalization is higher in EBL.

Long Term Debt to Total Capital

It is a test of long term solvency of a firm. The ratio indicates the relationship between long term debt and total capital. It shows the degree of relationship and protection of total capital against long term or total debt. It is calculated as follows:

$$\text{Debt to Total Capital Ratio} = \frac{\text{Loan Term Debt}}{\text{Total Capital}}$$

Table: 4.12

Calculation Of Long Term Debt To Total Capital Ratio

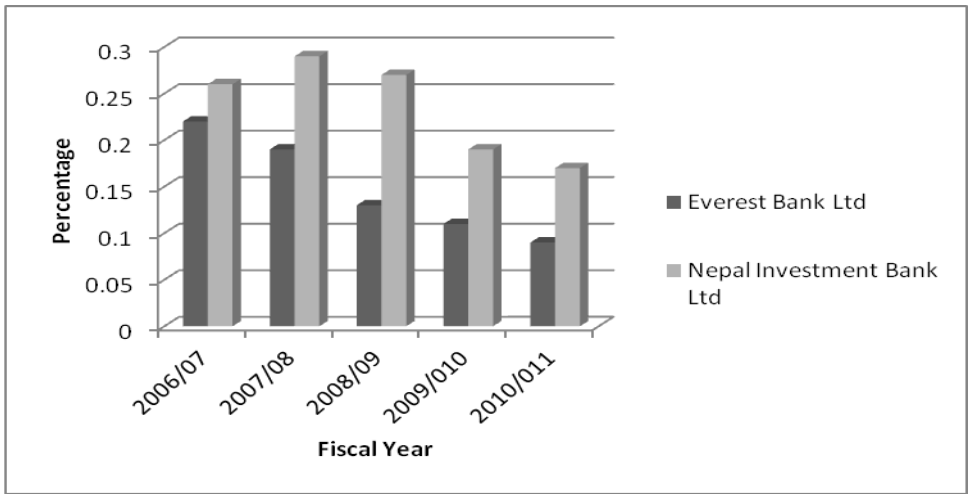
In Rs

Year	Everest Bank Ltd.			Nepal Investment Bank Ltd.		
	Long term debt	Total Capital	Ratio	Long term debt	Total Capital	Ratio
2006/07	300000000.00	1,377,475,059.00	0.22	550,000,000.00	2,087,066,712.00	0.26
2007/08	300000000.00	1,569,661,589.00	0.19	800,000,000.00	2,721,773,789.00	0.29
2008/09	300000000.00	2,236,027,950.00	0.13	1,050,000,000.00	3,830,254,293.00	0.27
2009/010	300000000.00	2,721,705,400.00	0.11	1,050,000,000.00	5,443,293,215.00	0.19
2010/011	300000000.00	3,335,390,687.00	0.09	1,050,000,000.00	6,237,667,517.00	0.17
Average			0.15			0.24

Source: Annual Report of EBL and NIBL

Figure: 4.12

Calculation of Long Term Debt to Total Capital Ratio



Source: Table 4.12

The table 4.12 and figure 4.12 clearly depicts that long term debt is constant. the yearly long term debt to total capital ratio of EBL are decreasing and total capital is increased till last year of the study period. The ratio is highest in the year2006/07 i.e.0.22 and lowest in the year 2010/011 i.e. 0.22. The average long term debt to total capital ratio of EBL is 0.15.

For NIBL, the yearly long term debt to total capital ratio are in fluctuating trend. It has increased till 2nd year, and decreasing up to fifth year of the study period. The ratio is in range of 0.17 to 0.29. The average long term debt to total ratio of NIBL is 0.24.The yearly ratios as well as the average ratio of NIBL bank are higher than that of EBL. From the above analysis, it can be concluded that total capital covers low portion of long term debt in both banks. In other language, we can say that both banks use high short term liabilities to cover total capital. Due to large amount of long term debt in EBL, long term debt to total capital is higher in NIBL than EBL.

4.4.5 Profitability Ratio

Profitability ratio offers several different measures of the success of the firm at generating profits. It indicates succession achieving the desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used is as follow.

Interest Earned to Total Assets Ratio

Interest earned to total assets ratio formed to find out the percentage of the interest earned investing total assets. This ratio can be calculated by dividing the amount of interest earned by the total assets of the firms. It can be expressed as follows:

$$\text{Interest Earned to total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

Table:4.13

Calculation of Interest Earned to Total Assets Ratio

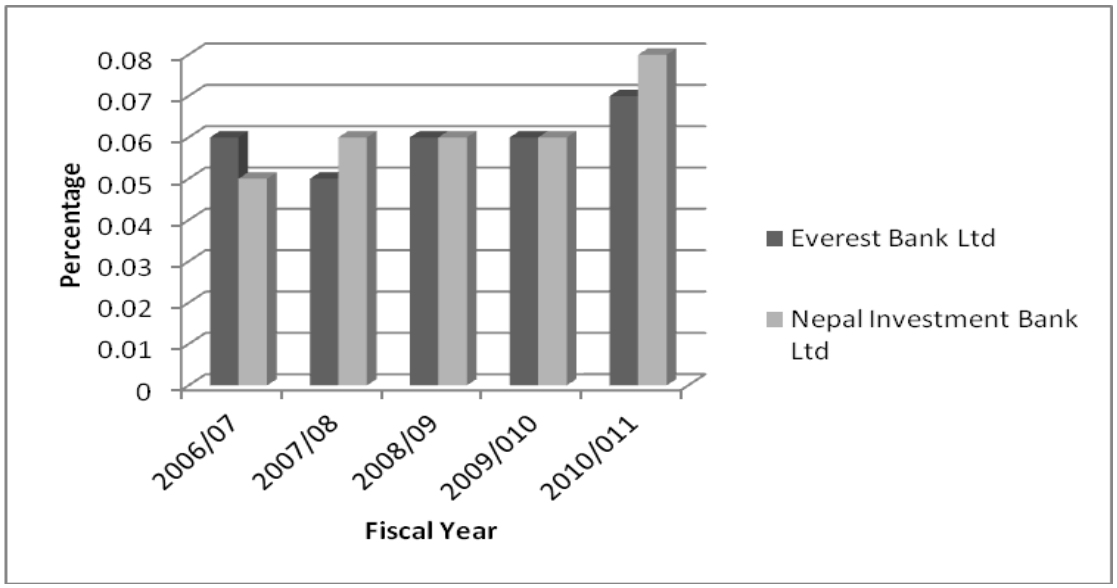
In Rs

Year	Everest Bank Ltd.			Nepal Investment Bank Ltd.		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
2006/07	903,411,137.00	15,959,284,687.00	0.06	1,172,742,193.00	21,330,137,542.00	0.05
2007/08	1,144,408,308.00	21,432,574,300.00	0.05	1,584,987,354.00	27,590,844,761.00	0.06
2008/09	1,548,657,132.00	27,149,342,884.00	0.06	2,194,275,722.00	38,873,306,084.00	0.06
2009/010	2,186,814,992.00	36,916,848,654.00	0.06	3,267,941,142.00	53,010,803,126.00	0.06
2010/011	3,102,451,484.00	41,382,760,711.00	0.07	4,653,521,338.00	57,305,413,482.00	0.08
Average			0.06			0.06

Source: Annual Report of EBL and NIBL

Figure: 4.13

Calculation of Interest Earned to Total Assets Ratio



Source: Table 4.13

The Table 4.13 and figure 4.13 depicts that interest earned by EBL is increasing in the year first then it has begun to increase till the last year of the study period. The interest earned total assets ratio of EBL is in fluctuate of the study period. The average interest

earned to total assets ratio of EBL is 0.06. Which is lower than the yearly ratio of 2010/011 i.e 0.07. And constant to the other years of the study period.

For NIBL, the interest earned is increasing till the last year of the study period. The interest earned to total assets ratio of NIBL is fluctuating. The ratio has increased in the year first to last. Constant in the year from 2007/08, 2008/09 & 2009/010 and then increased in the last year of the study period. NIBL has equal ratio in the year 2007/08,2008/09 & 2009/010 i.e. 0.06. And lowest in the year 2006/07 i.e.0.05. The average ratio of NIBL is 0.06.

The average ratio of EBL is equal to that of NIBL, i.e. 0.06. From the above analysis, we can conclude that the interest earned to total ratio of EBL and NIBL is equal. So, it implies that both banks are efficiently utilizing their total assets to earn interest income.

4.5 Correlation

Correlation in statistical tool that refers to the closeness of the relationship between two or more variables. We can use correlation to describe the degree to which one variable is linearly related to other variables. The coefficient of correlation deals with determining the degree of relationship between two or more sets of figures. Among the various methods of finding out coefficient practice for calculating correlation coefficient, the most widely used in practice for calculating correlation is karlperson's correlation coefficient. So, karlpersons's correlation coefficient method is applied in the study. Correlation coefficient always lies between +1 to _1. When r= +1, there is perfect positive correlation between two variables and when r= -1, there is perfect negative correlation and, when r=0, there is no correlation.

4.5.1 Coefficient Of Correlation between Cash and Bank Balance and Current Liabilities

Cash and bank balance is most liquid components of current assets. This is required to meet the unexpected short term obligation, i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is to measure the

degree of relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are done. The following table shows the coefficient of correlating between cash and bank balance and current liabilities, i.e. r, PEr and 6PEr.

Table: 4.15

Coefficient of Correlation Between Cash & Bank Balance and Current Liabilities

Bank	r	PEr	6 PEr	Significant/ Insignificant
EBL	0.9825389	0.0152	0.0912	Significant
NIBL	0.0946	0.01875	0.1125	Significant

Source: Appendix

From the table 4.15 we can find that coefficient of correlation between cash and bank balance and current liabilities (r) in case of EBL, is 0.9825389 it shows positive relationship between these two variables. By considering the probable error, since the value of 'r' is 0.0912, which is greater than its 0.0152 PEr, we can say that the value of 'r' is significant in EBL.

On the other hand, when we observe coefficient of correlation between cash and bank balance and current liabilities (r) in case of NIBL, it has found that the value is 0.0946, which shows the positive relationship between these two variables. On the base of value of PEr, i.e. 0.01875. Which is higher than the value of 'r' we can further concluding that the relationship between coefficient of correlation between cash and bank balance and current liabilities is not significant?

From the above analysis, it can be concluded that there is no significant relationship between cash and bank balance and current liabilities in NIBL, but it is highly significant in EBL.

4.5.2 Coefficient of Correlation between loan and advances and Net Profit

The basic function of commercial banks is to collect deposit and invest these funds on loan and advance to generate higher profit. Large amount of loan and advances generate higher profit. The coefficient of correlation between loan and advances and net profit is to measure the degree of relationship between loan and advances and net profit is to measure the degree of relationship between loan and advances and net profit. In correlation analysis, loan and advance is independent variable (Y) and net profit is dependent variable (X). The purpose of computing the correlation of the coefficient is to justify whether the loan and advance are significant to generate profit or not and whether there is any relationship between these two variables. The following table

Table: 4.16

Coefficient of Correlation Between Loan and Advance & Net Profit

Bank	r	PEr	6 PEr	Significant/ Insignificant
EBL	0.01359	0.0136	0.0816	Significant
NIBL	0.96566	0.0041	0.0246	Significant

Source: Appendix

From the table 4.16, we can find that coefficient of correlation between loan and advances and net profit (r) of EBL is 0.01359 and same as NIBL is 0.96566, which shows highly positive relationship between these variables in both banks. By considering the probable error, since the value of 'r', i.e., and 0.0816 is greater than its 6 Per, i.e. 0.0136 in EBL and the value of 'r', is significant in both banks. From the above analysis, it can be concluded that there is highly significant relationship between loan and advances and net profit in EBL and NIBL.

4.5.3 Coefficient of Correlation between Net Working Capital and Net Profit

The main objective of any firm is to achieve its profit goal. Banks and finance companies are also not exemption from that current asset minus current liabilities is equal to net working capital. Working capital management is very crucial function of

management team of any type of organization. Its management fails to keep adequate current assets, it can effect liquidation position of the firm but if it keeps more than its need, it can affect the profitability position of the firm. The coefficient of correlation between net working capital and net profit is to measure the degree of relationship between net working capital and net profit in these companies. In the correlation analysis, net working capital is independent variable (Y) and net profit is dependent variable (X). The purpose of computing the correlation coefficient is to justify whether the net working capital generates profit or not and whether there is any relationship between these two variable the following table shows the r, PEr and 6 Per of concern companies during the study period.

4.6 Major Findings of the Study

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of working capital management of the selected banks with comparatively applying five year data from 2006/07 to 2010/ 011.

The major findings of the study derived from the analysis of financial tools of the selected banks are as follows:

- The average current ratio of NIBL is higher than that of Everest bank. It helps to conclude that the liquidity position of NIBL is better than that of Everest Bank. NIBL has more ability to meet its current obligation that Everest Bank Ltd.
- Deposit (excluding fixed deposit) percentage of both banks is fluctuating all over the study period. The average deposit (excluding fixed deposit) percentage of NIBL is higher than that of EBL.
- The yearly quick ratios of EBL are higher than that of NIBL except in the year 2006/07 the average quick ratio of EBL is higher than that of NIBL. (i.e. 0.36>0.34)
- The average cash and bank balance to total deposit (excluding fixed deposit) ratio of Everest bank, i.e. 0.21 is more than cash and bank balance to deposit

(excluding fixed deposit) ratio of NIBL i.e. 0.18 the above analysis helps to conclude that EBL holds more cash balance than NIBL. The higher cash and bank balance to deposit (excluding fixed deposit) ratio of EBL shows that ability of banks immediate funds to cover its current, margin call and saving deposit better than the same of NIBL. In another word, the liquidity position of EBL is better than NIBL, but the large amount of idle cash and bank balance badly affect the profitability of the bank. From the point of view of utilizing NIBL has better position than EBL.

- The average loan and advances to total deposit ratio of EBL is lesser than the NIBL by 0.01. The above analysis helps to conclude that loan and advances to total deposit ratio or total turnover ratio of EBL is employing the funds more efficiently for the profit generating purpose on loan and advances than NIBL.
- EBL has higher yearly ratios than NIBL in the whole study period. EBL also has higher ratio of loan and advances to fixed deposit ratio than NIBL i.e.2.72>2.71. The above analysis helps to conclude that loan and advances to fixed deposit ratio of EBL is better than that of NIBL. The ratio implies that EBL is utilizing its fixed deposit in loan and advances more efficiently.
- The yearly ratios of NIBL are always exceeding than EBL in the study period. So, the average loan and advances to saving deposit of NIBL is higher than that of EBL from the above analysis,
- The table 4.11 shows that the average ratio of NIBL is very much higher than that of EBL. From this analysis, it can be conducted that the long term debt to shareholders equity ratio of EBL are lesser than NIBL, which implies that the proportion of outsiders' claim in total capitalization is higher in NIBL.
- Table 4.13 the average ratio of EBL is equal to that of NIBL, i.e. 0.06. From the above analysis, we can conclude that the interest earned to total ratio of EBL and NIBL is equal. So, it implies that both banks are efficiently utilizing their total assets to earn interest income.

CHAPTER–V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The final and most important task of the researcher is to enlist finding issues and gaps of the study and give suggestions for the further improvement. This chapter contains summary, conclusions and recommendations. Summary gives the brief introduction of all chapters, Conclusion are based on the consequence of the study of the analysis of relevant data and recommendation are presented in terms of suggestions that are prepared on the basis of the findings.

5.1 Summary

Financial institutions are currently viewed as catalyst in the process of economic growth of a country. A key factor in the development of an economy is the mobilization of the domestic resources. The financial institution helps the process of resources mobilization. However, Nepal has been late recognizing this true fact. Nepal, being the developing country cannot ignore the important of finance for its economic development. After restoration of democracy in 1989 A.D and announcement of government liberalization policy, private sector investors are attracted to invest in different organized commercial ventures. As a result, numbers of public and private limited companies were established in a short span of time to reap the benefit of economic liberalization policy of the nation.

In general a bank refers to a commercial bank. The activities of commercial bank are synonyms to banking. Bank is such a place where money is transacted. It is hard to define banking exactly because the concept of banking has been arrived from century to century at least in the legal sense. Bank mainly relates to the collection of deposits and granting loans and advances and performing other activities. A bank generally collects deposits from different individuals and institutions and the collected deposits are

utilized for giving loans to different individuals, industries and commercial enterprises. Bank performs payment or remittance and other activities also.

For many developing countries, banking sector has become the medium of developing economic situation, as banks help in capital formation in the country. Bank fills the gap between the searcher and the provider of the fund. Bank provides sufficient back support for the growth and expansion of trade and industry of the country, which eventually helps to develop the economic condition of the country. In this process, JVBs are putting their best effort. Such banks help to transfer foreign investment and advance technology from one country to the other. Nepal has adopted different liberal and free economic policy to encourage such foreign investments in banking sector.

The main purpose of this study is to make the comparative analysis of the working capital as well as financial performance of EBL and NIBL. To make this thesis more understandable to the readers, available data and information are presented in different suitable tables and diagrams with appropriate analysis and interpretations.

This thesis work has been divided into five chapters. They are – introduction, review of literature, research methodology, presentation, data analysis and findings and finally summary and recommendations.
To carry out the thesis work secondary data have been utilized. The necessary data are derived from the balance sheet and profit and loss account of NIBL and EBL for the period of five years from the fiscal year 2006/07 to 2010/011.

To fulfill the objectives mentioned in the chapter one, a suitable research methodology has been developed, which includes the ratio analysis as a financial tool and trend analysis & correlation coefficient as statistical tools. The major ratio analysis consists of the composition of working capital position, liquidity position, turnover position, capital structure position and profitability position. Under these main ratios, their trend values are also studied in the chapter four. In order to test the relationship between various components of working capital, Karl Pearson's correlation coefficient 'r' has been

calculated and analyzed in the fourth chapter. And at last in this very chapter findings of the whole study with some suggestions and recommendations which might be useful for the concerned banks to improve the performance, have been presented. From this research what we can conclude is that though both the banks are competent players in the Nepalese banking industry, EBL has been in the better side as compared to NIBL.

5.2 Conclusions

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Nepalese banking industry, EBL has been in the better side as compared to NIBL. Every business needs capital for two purposes. The first require for long term purposes which is called fixed capital. Investment in plants, machinery, land, building etc. comes under production activity. Investment in these assets represents that part of firm's capital which is huge amount of money blocked in the fixed basis. These assets are not purchased

5.3 Recommendations:

On the basis of the above study, following recommendations have been made which might be useful for concerned banks.

- The loans and advance percentage as a part of current assets of EBL was in the increasing trend. So, it should review, its policy are to reverse the trend, as they are the most productive assets. On the other hand, the average loans and advances percentage as a part of current assets of NIBL was just above EBL. so, it should increase the percentage by adopting new policies.
- The low liquidity ratios of both the banks suggest that they should enhance their liquidity position by keeping optimum current assets.
- Both the banks had low average turnover on total deposits which is less than one. Due to low turnover non earning idle funds might be high on these banks. So, these banks should give proper attention on the utilization of idle funds in more productive sectors.
- By adopting the matching working capital management policy instead of adopting conservative policy these banks can improve their profitability in the short as well as in the long run.
- Low return on assets of EBL Suggests that it should cut down its operating cost in order to maximize its profitability.
- Both the banks need to utilize the outsiders' as well as insiders' fund effectively and efficiently in order to keep all the stakeholders happy.
- As the services of these banks have been limited to urban and semi urban regions of the nation, they should initiate some measures to widen their reach to the people of rural areas.

- These banks should also focus on research and development activities in order to retain and keep their position up, as more and more players are entering into the limited market of banking industry of Nepal.
- In my observation, both bank could not reached the rural areas because of peace so I strongly recommend that both bank should be established.