

CASH MANAGEMENT SYSTEM OF
NABIL BANK Ltd.
AND
EVEREST BANK Ltd.

A THESIS SUBMITTED BY

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General Background

Nepal is the least developed country of the world. Its average annual per capita income is & 260 and GDP growth rate at producers price is 3.7%. Average population growth rate of Nepal is 2.2 percent

The development of country is always measured by its economic indices. Therefore, every country has given emphasis on upliftment of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. The financial institutions act as the intermediaries by transferring the resources from the point of surplus to the point of deficit.

Well-organized financial institutions including finance companies, commercial banks and other financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial and the economic activities of the country. The economic activities of a country can hardly be carried forward without the assistance of the financial institutions. They are the indispensable part of the development process. It is the fact that an unorganized financial system leads the country nowhere.

Nowadays there is very much competition in banking market but less opportunity to make investment. In this situation joint venture banks can take initiation in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is a very risky job. For a purposeful safe profitable investment, bank must follow sound investment policy. Good investment to all sectors with proper utilization. There is high liquidity in the market but there is no profitable place to invest. The prosperous economic condition of a country is reprinted by the development of the industry, trade and business which is the main ground to the banks to conduct their activities and to fulfill the objective of profit making. The proper investment policy followed by the proper financial system of the country organized and help in the development of the country.

In Nepalese context the theory of cash management has not been must effectively applied in practices by banks. Terms such as cash as cash flow analysis, Cash budget, forecasting of cash requirement, credit discount policy, Cash discount policy etc. has not been seriously considered. Traditional approaches are still dominant and are reluctant to adopt modern techniques. However use of sophisticated forecasting techniques is not the basic requirement of cash budgeting. The inherent quality of cash budget prepared at the beginning of a fiscal year, if let untouched there after can be of no use, even if it was prepared with sophisticated forecasting tools.

The sustainable commercial development of a country depends upon a well equipped banking system. Proper banking system does demand evaluation and analysis of their cash management so that they can efficiently and effectively compete with their rivals and retain their customers and shareholders.

A bad management of cash of the organization means loss for the owners, less dividend for the shareholders, bad debts for creditors and unsatisfactory services to its customers. Cash management reduces our uncertainty in decision making, reduces our reliance on hunches, guesses and intuition. It establishes an effective and systematic basis for making business decisions. It is a screening tool in selecting investment or merger candidates and is an evaluation tool for managerial and other business decisions.

Cash consists of a legal tender, cheques, bank drafts, money orders and demand deposits in banks. In general, nothing should be considered unrestricted cost unless it is available to the management for disbursements of any where.

1.2 Brief profile on the sample of commercial Banks taken under study:

1.2.1 NABIL Bank Ltd.:

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Capital structure of Nabil Bank Ltd.

At the end of 2062/63

Particulars	Rs. In millions
Authorized capital	500
Issued capital	492
Paid up capital	492

Share subscription of Nabil Bank Ltd.

Nepal Industrial Development	10%
Rastriya Beema Sansthan	9.67%
Nepal Stock Exchange Ltd	0.33%
Nepales Public	30%

1.2.2 Everest Bank Ltd. (EBL)

Everest Bank Limited started its operation in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. EBL joined hands with Punjab National bank (P\B), India as its joint venture partner in 1997.

EBL has been steadily growing in its size and operations and established itself as a leading private sector bank. EBL is ranked as No2 bank by NRB as per CAMEL. The bank is providing its services through a wide network of 18 branches across the nation and Over 250 correspondents across the globe. All the major branches of bank are connected through Anywhere Branch Banking System (ABBS) a facility which enables customers to do banking transactions from any of the branches irrespective of having their accounts in other branch.

Despite fragil law and order situation especially during last 3-4 years the Bank has recorded spectacles performance. As per audited accounts of Fy 2004/05, The banks operating profit was NRs. 375.20 million registering of growth of 18.9% over the previous year. The banks credit reposted a growth of nearly 30% over the loat year reaching a figure of NRs. 7900.09 million. Similarly, the total deposit of the bank posted a growth of 25.22% amounting to NRs. 10097.69 million over the proceeding year.

Capital structure of Everest Bank Ltd.

At the end of 2061/62

Particulars	Rs. In millions
Authorized capital	750.00
Issued capital	466.00
Paid up capital	455.00

1.2 Focus of Study :

Nepal's entry into privately and publicly owned commercial joint venture bank is relatively new as compared to other country. It can be said that the pool performance of Nepalese commercial banks as well as the national banks owe to the lack of effective policies and measures taken by the government towards the collective improvement of the Nepalese banking sector.

This study focuses on the cash management system of two joint venture banks, Viz, NABIL Bank limited and Everest Bank Limited.

1.3 Statement of the Problem :

Banking institutions are inevitable for the resources mobilization and all round development of the country. It is the resource for economic development; it maintains economic condense of various regiments and

extends credit to people. In Nepal the profitability ratio, operating expense, dividend distribution among the shareholders etc. have been found to be inconsistent. The problem of the study will ultimately in out the reason behind the differences in these cash management.

The tendency to concentrate JVBs only in urban areas has raised the certain question. This state of affairs cannot contribute much to the socio- economic development of the country where 90% of the population lives in rural areas and 81% population depends upon agriculture. These JVBS are reluctant to extend their operation in rural areas. Despite the circular of NRB, the control bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas, there banks are inclined to pay fines rather than directing their resources to such less profitable sector. This problem remains to be solved, so that even the small investors in the rural areas will be benefited from the services of such banks moreover even the existing branches of the commercial banks in the rural areas do not seem to have been able to mobilize the local resources effectively.

The present study seeks to explore the efficiency and weakness of NABIL and EBL with the help of cash management. These banks are competing in the same economic environment and financial market and are operating fully under computerized system to meet the growing competition in banking system.

1.4 Objectives of the study :

The overriding objective of this dissertation is to study the cash management system of NABIL and EBL for the years from 2056-57 to 2060 – 61. To be more specific, this proposal study keeps the following objectives:

- (i) To examine and critically analyze the cash management practices in NABIL & EBL.
- (ii) To examine the liquidity position of banks.
- (iii) To assess the financial strengths and weakness of these banks.
- (iv) To statistically analyse or test whether the ratios of these banks significantly differ from each other or not.
- (v) To analyze the allocation and expenditure of cash of banks.
- (vi) To recommend viable suggestions to cope with short comings in banks.

1.5 Significance of the Study :

The significance of the study can be highlighted through the following points.

- (i) The study enlightens the shareholders about the cash management of these respective banks. This allows them to have a comparative retrospect whether their fund was better utilized or not.

- (ii) The study compels the management of respective banks for self assessment of what they have done in the past and guides them in their future plans and programs.
- (iii) The financial agencies, stock exchanges and stock trades are interested in the performance of the banks as well as the customers, depositors and debtors who can objectively identify the better bank to deal in terms of profitability, safety and liquidity.
- (iv) Policy makers at the macro level i.e. the government and NRB will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.6 Limitation of study

This study suffers from the following limitations:

- (i) The time is the major limitation of the study.
- (ii) The study is fully based the secondary date collected from various sources, their relevancy will depend upon the authenticity of the publishers.
- (iii) The study has been done covering five years data only/
- (iv) The scope of the study is limited within the framework of cash management only. The study doesn't cover other financial performance analysis techniques.

1.7 Research Methodology :

This chapter attempts to explain the methodology of the research undertaken. The chapter contains research design sources of date, population and sample, method of data collection and analysis,

1.8.1 Research design :

A research design is the arrangement of condition for collection and analysis of data in a manner that wins to combine relevance to the research purpose with economy in procedure

This research study attempts to examine and compare the cash management of two joint venture banks operating in Nepal. While financial tools, accounting tools, statistical tools have been used to compare the relative performance of the two banks under study. Evaluation and comparison has been done on the basis of secondary data.

1.8.2 Sources of Data :

Secondary sources of data have been used exclusively for the purpose of this study, Viz. the annual reports published by these banks at the end of each fiscal year. Similarly articles, journals related to the financial performance study, previous research reports, etc. are taken into account while collecting information. Bulletins and reports published periodically by various government bodies have also been helpful in undertaking this research study.

18.3 Population and sample :

All 9 joint venture banks currently operating in Nepal is the population on the basis of the researchers judgment , the study will cover only 2 samples out of all JVBS, Viz, NABIL Bank Ltd. and Everest Bank Ltd. The published statements of these banks for the years from 1998-99 to 2005-06 have been taken as sample data.

1.8.4 Data collection procedure :

As the study is analytical cum, descriptive in nature, research is based on the historical data of the banks available in the annual reports of the banks. The annual reports were collected from the respective banks as well as the website (www.nepalstock.com). Books, periodicals, journals, articles on the related subject were extensively reviewed pin the library. Quotations from various authors on the related topic have been placed throughout the chapters.

1.8.5 Method of Data analysis :

The study basically uses secondary data, which were firstly collected & tabulated into a separate form systematically. These are presented and analyzed in a descriptive way. Graphs, tables are presented where necessary. In order to make a clear presentation, calculations of the figures have been done separately and the resulting figures are then presented in tables simple statistical analysis are used to represent the resultant figures.

1.8.6 Review of Literature :

It is an essential part of all studies. It is a way to discover what other researches have done. Various related books, journals articles, periodical, reports and otter publications have been studied and revised in this part of dissertation.

1.8.7 Organization of the study :

This dissertation will be presented in the following order.

Chapter 1:- **Introduction:**

This is the very first segment of the dissertation that starts with the general background of the emerging of joint venture banks in Nepal. A brief concept of commercial and JVBS is given followed by the role they play in Nepal. Focus of study, statement of problem, objectives of the study limitation of the study is also presented in this chapter.

Chapter 2:- **Review of literature:**

Various related books, journals articles, periodical, reports and other publications have been studied and reviewed in this part of the dissertation. This chapter broadly consists of two segments; review of conceptual from work and

review of previous studies. Review of conceptual framework is done in order to make clear the concept of the study, cash management in this case. Likewise, several other related studies are reviewed in separate segment to show what types of studies were made in this fields and what conclusions the previous researchers drew.

Chapter 3:- **Research methodology:**

This segment of the study attempts to explain the methodology of the research undertaken. This chapter contains research design, sources of data, population and sample, method of data collection and analysis.

Chapter 4:- **Presentation and Analysis of Data:-**

The calculated results of each of the ratios are presented in a tabulated form in this segment of the dissertation. Along with the tabulated data, a graphical presentation is also made along with the findings and interpretation of the calculated figures.

Chapter 5:- **Summary, Conclusion and Recommendation:**

The whole study is summarized and concluded in this final chapter. A list of recommendations derived from the analysis is presented at the end of the chapter. A list of Bibliography is presented after that and the necessary supplements are presented in the final segment as the annexure.

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