A COMPREHENSIVE STUDY OF WOKING CAPITAL MANAGEMENT OF COMMERCIAL BANKS

(With References to Himalayan Bank Ltd, Nabil Bank Ltd and Kumari Bank Ltd)

A THESIS

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RECOMMENDATION

This is to certify that the thesis.

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Entitled:

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(With References to Himalayan Bank Ltd, Nabil Bank Ltd and Kumari Bank Ltd)

Has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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(With References to Himalayan Bank Ltd, Nabil Bank Ltd and Kumari Bank Ltd)

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DECLARATION

I affirm that, the research presented in this thesis titled **"A Comprehensive Study of Working Capital Management of Commercial Banks (With References to Himalayan Bank Ltd, Nabil Bank limited and Kumari Bank Ltd)"** submitted to the Office of the Dean, Faculty of Management, Tribhuvan University, is my original work carried out to partially fulfill the requirements for the degree of Master of Business Studies (MBS). This research was conducted under the supervision of **Associate Prof. DR. Kapil Khanal** at Shanker Dev Campus, T.U.

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ABBREVIATIONS

NRB	:	Nepal Rastra Bank
HBL	:	Himalayan Bank Limited
KBL	:	Kumari Bank Limited
NAB	:	Nabil Bank Limited
LTD	:	Limited
BS	:	Bikram Sambat
CA	:	Current Assets
CL	:	Current Liabilities
CR	:	Current Ratio
F/Y	:	Fiscal year
QA	:	Quick Assets
Std	:	Standard
SD	:	Standard Deviation
CV	:	Coefficient of variation
r	:	Coefficient of Correlation
WC	:	Working Capital
NWC	:	Net Working Capital
WCM	:	Working Capital Management
%	:	Percentage
&	:	And

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal, as a developing nation, focused on modernizing and advancing its economy in a manner that is both sensible and socially beneficial. However, the country's economy is predominantly agricultural, with minimal industrial presence. As a result, Nepal has adopted a mixed economic model, aiming to harmonize the roles of the state and private sectors in the development process from the outset of economic planning. The primary goals of developing nations like Nepal are rapid economic growth and improved social welfare.

To drive national economic growth, Nepal has recently embraced economic liberalization, integrating liberalization policies as guiding principles in state policies since the restoration of democracy. A fundamental requirement for achieving economic, political, and social objectives is the development of trade, commerce, and industry, with financial activities often taking precedence to meet planning goals. Despite possessing underutilized or untapped natural resources, underdeveloped economies like Nepal frequently face financial shortages, partly due to inadequate mobilization and underutilization of available resources for productive purposes.

Effective resource utilization is crucial for the rapid economic advancement of underdeveloped nations like Nepal. However, these resources have not been efficiently utilized due to various factors, including hoarding and public ignorance. Financial institutions play a vital role in promoting thrift and discouraging hoarding by mobilizing resources. They aim for rapid economic growth, foster banking habits among the populace, pool scarce resources for increased productivity, and provide other beneficial

services to the nation. This enables individuals to borrow against future earnings, potentially improving their financial circumstances. Banks play the most significant role in contemporary economic organization, primarily by accepting deposits, disbursing loans, and facilitating international trade.

The banking industry consists of commercial banking and central banking. Commercial banks deal in currency and its equivalents, such as checks and bills of exchange, and offer various financial services. They gather money from individuals and businesses and extend credit, purchase securities, and make loans using these resources and their own capital. Commercial banks are key players in the economic and financial landscape, providing financing to trade and industry and offering opportunities for the development of specific industries, trade, and business organizations.

Effective working capital management is crucial for any organization, as it ensures the availability of funds to meet obligations and maintain operational efficiency. Working capital management involves administering all aspects of current assets and liabilities to ensure the sufficiency of current assets and manage risks posed by current liabilities. Working capital, sometimes referred to as net working capital (NWC), is the difference between current obligations like debts and accounts payable and current assets like cash, raw materials and finished goods inventories, and accounts receivable/customers' unpaid bills. It is a widely used metric to assess an organization's immediate health. A company's current assets and liabilities should be monitored and used as efficiently as possible as part of working capital management, a business strategy.

Working capital management involves addressing the challenges that arise when managing a company's current assets and current liabilities, as well as understanding the interrelationships between them. Current assets are assets that can be converted into cash within one year without losing value or disrupting business operations. The primary current assets include cash, marketable securities, accounts receivable, and inventory. On

the other hand, current liabilities are obligations that are expected to be settled within a year using current assets or earnings. Key current liabilities include accounts payable, bills payable, bank overdrafts, and outstanding expenses.

1.2 Statement of the Problem

Making decisions involves a lot of thinking about working capital management. Short-term liquidity management and working capital management frequently used interchangeably. Any commercial endeavor to require working capital because it is essential to smooth operations and serves as the foundation of the company. To accomplish its main goals, a business must allocate its working capital properly. It is imperative to maintain the optimal level of working capital since it has a direct impact on how risk and return are balanced. It might be difficult to decide how much working capital is right for a given firm. If a business does not want to take on additional financial risk, it can choose to have more instant liquidity.

Increased current obligations suggest a greater need for short-term funding, which raises the requirement for short-term liquidity. To meet profit targets, it is crucial to recognize problems and find effective solutions for them, to use resources wisely, and to lower the risk of losses. While an excessive working capital investment yields no benefits, an inadequate working capital investment might compromise a company's solvency and impede its growth. Therefore, it is important to manage working capital in a way that minimizes all costs, including the costs associated with liquidity and non-liquidity. The ultimate objective of working capital management is effectively manage a company's current assets and liabilities in order to maintain a satisfactory level.

Compared to commercial organizations engaged in manufacturing and non-manufacturing, managing the working capital of banks involves more complexity. As important financial institutions, commercial banks are essential to the health of the

economy as a whole. Compared to other financial organizations, they are held to higher standard of accountability and are required to have a sizable amount of their liabilities available for immediate payment. Banks collect money from numerous deposit kinds to finance loans and advances across a range of sectors. To generate larger profits, banks seek to expand both their investments and deposit funds. The banking sector's main goal is to use public funds to fund loans to people who are in need. Commercial banks, on the other hand, find it difficult to handle an increase in deposits because lending raises their cash balance and forces them to pay out a large amount of their liabilities at the whim of depositors. Conversely, holding a sizable quantity of cash on hand may potentially hurt a bank's bottom line.

Nepal Investment Bank Limited (NIBL), Himalayan Bank Limited (HBL), Everest Bank Limited (EBL), NABIL Bank Limited (NABIL), and other commercial banks did not perform as well as these banks did in terms of profitability and performance. The primary inquiry of the study is whether there is a relationship between the financial success of these banks in terms of working capital management and their operational efficiency. The main issues that have been determined for the purposes of this investigation are as below:

- What is the position of Cash and Bank balance, Loan and Advance, Investment on security, miscellaneous assets, Total deposit, Current liabilities, Interest earned and net profit?

- Is there any relationship between components of working capital and net profit as well as with interest earned?

- How does the Cash and Bank balance, Loan and Advance, Investment on security, miscellaneous assets, Total deposit and Current liabilities impact the Interest earned and Net profit?

1.3 Objective of the Study

The main objective of this study is to examine the management of working capital in Kumari Bank Limited, Nabil Bank Limited and Himalayan Bank Limited. The specific objectives of this study are the following: -

- To assess the situation of current assets and current liabilities, their impact and relationship to each other.

- To analyze the comparative study of working capital management of Kumari Bank Ltd, Nabil Bank Ltd and Himalayan Bank Ltd.

- To analyze composition of working capital, asset utilization and profitability.

1.4 Significance of the Study

Commercial banks in Nepal have to contend with intense competition, and they need to use the right tactics to survive in this difficult climate. It is critical to strike a balance and efficiently coordinate different functional company interests. Any organization's strategy, which greatly affect by working capital management, determines whether it succeeds or fails.

From the perspective of shareholders, this study can provide a deeper understanding of the banks' working capital management, profitability, and liquidity. By comparing the performance of these three banks, shareholders can better evaluate the effectiveness of their investments and make decisions that are more informed.

On the other hand, from a management standpoint, this study may offer insights into why the working capital management of these banks is either superior or inferior to that of

their competitors, which can be invaluable for decision-making. Additionally, outsiders, such as clients, financial agencies, foreign exchange offices, stockbrokers, and clients, can benefit from this study. Stockbrokers and traders can assess the relative value of each bank's shares, while financial agencies can determine the safest stock markets. This comprehensive analysis can assist policymakers, including the government and the Nepal Rastra Bank, in formulating policies that support the stability and growth of the banking sector. Examining the working capital management practices of Kumari Bank, Nabil Bank, and Himalayan Bank is crucial in view of all of the above information.

1.5 Limitations of the Study

The study's scope has been restricted concerning the study timeframe, data types, and sources. The study covers a period of ten years, from 2069/70 to 2078/79 B.S. The data may have been available as late as 2078–2079 B.S. at the time of the investigation. The limitations of this study are as follows: The scope of this study is limited to Kumari Bank Ltd., Nabil Bank Ltd., and Himalayan Bank Ltd. While financial management encompasses various aspects, this study focuses on the working capital components of the selected banks.

The study relies primarily on secondary data, drawn from publicly available financial documents such as income statements, balance sheets, profit and loss accounts, and annual reports of the banks. These sources provide concise information crucial to the study. Various research tools, including ratio analysis, mean, coefficient of variation, correlation, and hypothesis testing, are used. The study is constrained by time and resources, with a specific focus on the financial means available to the researcher. The study period spans ten years, from 2069/70 to 2078/79, B.S. The analysis of working capital management primarily utilizes financial and statistical methods.

1.6 Organization of the Study

The study structured into five primary chapters, each serving a specific purpose to enhance its systematic approach. The first chapter acts as an introduction, encompassing the study's background, an overview of the organization, problem statement, study objectives, significance, limitations, and the study's structure. Following this, the second chapter delves into a review of the literature and an explanation of key terminologies, drawing upon books, journals, earlier research, research articles, and unpublished theses from various studies.

The third chapter of the study outlines the research approach employed, covering aspects such as data analysis, demographic and sample details, data sources, data gathering methods, and research design. Subsequently, the fourth chapter presents the study's analytical findings, including the analysis, interpretation, and primary study findings, which considered the most critical section of the study. Finally, the fifth chapter offers a comprehensive overview of the entire study, along with recommendations and a conclusion, effectively concluding the research report. The study also includes a Bibliography and Appendix to complement these chapters.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Conceptual Framework

A review of the literature is the process of looking over research papers or other pertinent propositions in a connected field of study to determine all earlier investigations, their conclusions, shortcomings, and possible remedies. The conceptual analysis of working capital management, the thesis review, and the reviews of journals and articles. This chapter explains the philosophical underpinnings of working capital management. It also clarifies the findings of earlier investigations by analyzing books, journals, and previous research.

2.2 Concept of Working Capital Management

The word "working capital" refers to the resources of the company that utilized to perform day-to-day operations that are critical to its success. Without cash, it is hard to pay invoices, and the company cannot continue to operate if products or services delivered before paid for. The company cannot manufacture anything or hold goods for prompt delivery without inventory. Managing working capital is one of the most important aspects in determining a company's performance because current assets are so important to that achievement. Current assets of the company that can converted into cash within a year referred to as working capital. Consequently, short-term management involves working capital management. It is the process of making decisions concerning existing assets and liabilities in the near term that will affect how an enterprise operates in the long run. Every business needs capital for two main purposes.

The first, referred to as fixed capital, is required over the long haul. Such funds are required to construct a manufacturing plant. Investments in machinery, plants, buildings, land, and other assets are all part of the production activity. The percentage of the business's capital that is fixed or permanent invested in these assets. The ability of a business to settle its current liabilities with its current assets reflected in its working capital. This number provides investors with a sense of the company's operating efficiency, ability to pay off debt within a year, and short-term financial health. The gap between a company's current assets and current liabilities is its working capital. In order to assess a company's general health and capacity to fulfill its short-term obligations, it might be difficult to categorize the wide range of assets and liabilities on a corporate balance sheet.

Any business's ultimate goal is to increase profits. However, keeping the company's liquidity intact is also a crucial goal. There must be a trade-off between the goals of profitability and liquidity because increasing earnings at the expense of liquidity can cause major issues for businesses. We will not be able to endure for very long if profit is not a priority. Conversely, if liquidity is neglected, a company may run into insolvency issues. The administration of this working capital should be properly considered, as it impacts the company's profitability. Since working capital management has a significant impact on both the risk and profitability of the company, the management of short-term assets and liabilities merited thorough examination. (Smith, 1980).

The difference between current assets and current liabilities known as working capital. It is a component of the business's total capital. A company now requires operating capital to pay for its immediate liabilities. Businesses that have the ideal amount of working capital typically manage their operations well. This makes it even easier for the company to cover its ongoing operating costs and short-term debts. Thus, working capital serves as a gauge for a company's liquidity, operational effectiveness, and short-term financial stability. Thus,

Working Capital = Current Assets – Current Liabilities

The part of an organization's assets that can utilized immediately is known as working capital. They work in the cycle of operations of the firm. It defined as the excess of current assets over current liabilities and provisions.

According to the books Managerial Finance (Written by Madav Raj Koirala, Ramji Gautam, Shanker Mishra, Pitri Raj adhikari and Surendra Mahato), there are two important concept of working capital-gross and net.

Gross working capital refer to the amounts invested in the various components of current assets. This concept has the following practical relevance.

Management of current assets is the crucial aspect of working capital management.

- It is an important component of operating capital. Therefore, for improving the probability on its investment a finance manager of a company must give top priority to efficient management of current assets.

- The need to plan and monitor the utilization of fund of a firm demands working capital management applied to current assets.

- It helps in the flexion of various areas of financial responsibility.

Net Working Capital is the excess of current assets over current liabilities and provisions, Net Working capital is positive when current assets exceed and negative when current liabilities and provision exceed the current assets. This concept have following practical relevance,

- It indicates the ability of the firm effectively use the spontaneous finance in managing the firm's working capital requirements.

- A firm short-term solvency is measure through the net working capital position it commands.

It is possible to have positive or negative net working capital based on the consideration above. There will be positive net working capital when current assets are greater than current liabilities. A negative net working capital arises when current assets are greater than current liabilities. Net working capital is negative when current obligations are greater than current assets.

2.3 Types of Working capital

Working capital has divided into two major categories based on concept and time.

1. Basis of Concept:

- Gross Working capital

- Net Working capital

2. Basis of Time:

- Permanent Working Capital

- Fluctuating Working capital

2.3.1 Gross Working Capital

This represents the entire sum of money invested in the current assets of the business. The total value of the company's current assets is its gross working capital. These consist of money on hand, inventory, marketable securities, cash, and short-term investments, among other things. Gross working capital is not a reliable indicator of short-term financial stability when used alone. Furthermore, it does not show how well the business operates. Current assets and current liabilities should contrasted in order to assess a company's operational efficiency. That is, the efficiency with which a business uses its short-term assets to cover its short-term financial requirements. When interpreting the fixed capital amount invested in fixed assets, consider the remaining amount invested in current assets as working capital. Daily operations rely heavily on current assets, which undergo frequent composition changes, regardless of the components acquired. Hence, always perceive them as integral to working capital.

Gross Working Capital = Total Current Assets.

2.3.2 Net Working Capital

Net working capital is the difference between a company's current assets and its current liabilities. A positive working capital suggests that the company is in a position to meet its financial obligations if its assets exceed its current liabilities. On the other hand, a negative working capital signals financial trouble for the company if its assets are smaller than its current liabilities. The main distinction between gross and net working capital is that the former is always positive. On the other hand, networking capital could have a positive or negative value.

The difference between the company's current assets and current liabilities is known as net working capital. If the company's assets surpass its current liabilities, a positive working capital indicates that it can satisfy its financial obligations. Conversely, if the company's assets are less than its current liabilities, a negative working capital indicates

financial difficulties. The primary contrast between net and gross working capital is that the former is never negative. Conversely, networking capital might be valued positively or negatively.

According to the concept given above, Net Working Capital = Current Assets – Current Liabilities

2.3.3 Permanent Working capital

The minimum amount that a company must always invest in current assets to sustain day-to-day operations is referred to as permanent working capital, also known as fixed working capital. It represents the minimum capital required to maintain uninterrupted operations.

Current assets are essential due to the operational cycle, which is a continuous process. They are always required because the operational cycle never stops. However, the amount of current assets needed fluctuates over time, increasing and decreasing. Nonetheless, the company must always maintain a minimum level of current assets to continue its operations. This minimal quantity of current assets referred to as permanent or fixed working capital, which is inflexible and resembles the company's assets. Apart from permanent working capital, the required working capital amount will vary based on changes in sales and production levels.

2.3.4 Fluctuating or Temporary Working Capital

The amount of working capital a company needs varies according to the cyclical and seasonal fluctuations in the demand for its products. Temporary working capital is the additional funds needed in response to a company's fluctuating sales and production levels. Variable working capital is the amount of working capital required over and beyond permanent working capital. If a company's production and sales directly affected

by seasonal fluctuations, it should maintain extra raw materials, work-in-progress, and finished goods in stock. Consequently, the structure of the labor-management relations in the company's production process determines this component of working capital. If a business handles this part of working capital efficiently, it can easily outperform competitors in today's competitive and hostile market.

2.4 Need and Importance of Working Capital

There is a connection between working capital and energy. In the course of company operations, the firm's resources utilized to accomplish the daily "work" that guarantees the enterprise's success. Without funds, bill payment is not feasible. The business cannot sustain delays between delivering the goods and services and getting the money to pay for them without receivables. In the absence of inventory, the business cannot produce or stock goods for prompt delivery. One of the most important aspects of a company's success is managing working capital because current assets are so important to it. Two factors make working capital necessary. One is to fund business operations in the interim between selling goods on credit and receiving payment from clients. The second goal is to raise money for current asset investments in order to meet the growth target for sales.

The following are the main benefits of having enough working capital in your business.

- Establishing an adequate amount of working capital will ensure uninterrupted output. A business can only run efficiently when it has enough working capital. It is feasible to settle the short-term debt in this situation. Therefore, it helps to strengthen a company's financial situation.

- A company may make timely payments to its workers, creditors, and employees if it has adequate operating capital. There have been no complaints filed against the

company in this instance. Consequently, it helps a business cultivate and maintain goodwill.

- A trustworthy company that has enough cash on hand will have no problem obtaining a loan. Getting loans from banks and other lenders to cover the costs of operating a business is easy.

- When a business has sufficient capital, handling the funds required to purchase things is easy. Making instant cash payments can help a firm save a lot of money by bringing down the cost of the acquisition.

- If a corporation has sufficient working capital, it will function efficiently. Because it has significant working capital, business can meet daily responsibilities like paying salaries and wages on schedule. Paying these bills on schedule and consistently improves staff morale and productivity.

- It is inevitable for a company concern to face a range of challenges, such as a natural disaster, a strike, or an economic slump. The availability of working capital in adequate volume enables the business concern to manage these kinds of crises.

- If a corporation want to pay dividends to investors on a regular and rapid basis, it can better manage its large working capital. Because it has enough operational capital, the business does not need to reinvest profits, which builds investor confidence and creates opportunities for more capital raising.

2.5 Working Capital Influencing Factors

The amount of working capital required by a business depends on several factors. These components are ever evolving and may vary depending on the kind of business. In certain situations, the working capital needed at one point could not be sufficient. Working capital also affected by modifications to internal rules and environmental conditions. Making sure a company has enough working capital for its operations neither too much nor too little is the main goal of working capital management. Heavily relying on current assets will hurt the company's liquidity and diminish its credibility. Consequently. One cannot overlook the necessity of finding a balance between profitability and liquidity. The working capital requirements of a firm determined by the following factors:

- **Nature of business:** Working capital needs are impact by the company's line of business. Trading companies are compelled to keep a sizable inventory of finished items. Public utilities' account payables and receivables require less operating capital for investment.

- **Size of business organization:** In terms of an operational scale, size is measured. A business with a large operational size needs more working capital than one with a small operating scale.

- **Manufacturing cycle:** Working capital requirements are higher in capital-intensive industries with drawn-out manufacturing processes because these businesses must maintain their complex and drawn-out production processes.

- **Product policy:** A company's production schedule affects the amount it invests in inventory. When adhering to a continuous production philosophy, a company that is subject to seasonal fluctuations in demand must contend with the expenses and hazards that come with building inventory during the off-season. A company with a changeable production policy, on the other hand, will have to deal with several aspects of working capital management. Under conditions of fluctuating volumes of

production of products of seasonal demand, such a corporation may have to handle the problem of production planning and control related with use of installed plant capacity.

- **Volume of sales:** The amount of working capital that a company has and its sales volume positively correlated.

- **Terms of purchase and sales**: A company with a loose credit policy will require more operating capital than one with a stringent credit policy. When compared to a company without one, one with generous credit facilities from suppliers requires less working capital.

- **Operating efficiency:** A company that operates efficiently can reduce its overall working capital investment to lower levels. Here, the company's efficient use of resources allows it to reduce its working capital investment.

- **Price level change:** A company's working capital levels are impact by inflation, so in order to preserve operating efficiency in an inflationary environment; the company should consider maintaining its working capital position at a constant price level. A company must maintain a greater level of working capital to keep up with the rising level of prices in order to sustain its financial capital. The same quantities of inventories will require higher investment under inflationary conditions. The additional investment required to keep working capital intact will depend on a company's capacity to adjust the prices of its products in response to growing pricing levels.

- **Business cycle:** Sales grow as business expands during a boom. A drop in sales indicates a depression. During booms, a company can only expand by increasing its investment in the different assets that make up its working capital. Inventory glut

compels a company to keep working capital considerably above what is necessary under normal circumstances when business declines due to economic slump.

- **Processing technology:** The investment in working capital increases with the length of the manufacturing cycle. Raw materials will experience a commensurate increase in work-in-process inventory as they go through different stages of the production process.

- **Fluctuations in the supply of raw material:** Businesses that rely solely on one source for their raw materials must keep buffer stock on hand in case the raw materials do not fulfill lead-time requirements.

- **Access to money market:** Strong connections to banks and other financial institutions increase a company's likelihood of getting a loan, which reduces the amount of working capital needed.

- **Transport and Communication Facilities:** Efficient transportation and communication infrastructure can expedite the process of distributing and announcing completed items, procuring necessary resources, and finalizing sales, all of which reduce the need for working capital. If these facilities are ineffective or not easily available, there will be a lengthier ordering period. Since the selling of finished items will take longer, a larger sum of money will be set aside for the purchase of raw materials and finished goods.

- **Taxes:** The first use of profits is to pay or make provisions for taxes. Tax debt is essentially an instantaneous financial commitment. Therefore, setting aside enough money for tax payments is an essential part of working capital planning. Working capital needs increase in tandem with an increase in tax liabilities and vice versa.

- **Position on Profit:** There are expenses related to the company for most funds. As a result, an excessive working capital inventory usually results in a decrease in overall profit. Some businesses are prepared to accept larger liquidity risks in exchange for bigger returns. Some businesses do not actively control their cash flow and do not place a high priority on maximizing earnings. These actions have an impact on working capital levels.

- **Attitude toward Risk:** The drawback of the profit-oriented strategy is risk. There is an inverse relationship between risk and working capital levels; higher levels correspond to lower risk. Using cash to pay bills provides security. Having inventory reduces the likelihood of running out of goods to sell. Companies that are risk averse could hang onto their present assets for a longer period than companies that are willing to take on more risk.

2.6 Objectives of Working Capital in Banks

Every day, a bank handles a lot of transactions from its patrons who make sizable deposits and withdrawals from their accounts. The several kinds of deposits that the bank receives from account holders support its investment funds. The bank needs to have enough money on hand to satisfy depositor demands for withdrawals. Additionally, a certain amount of working capital is required to support the bank's everyday operations and pay for administrative costs. In order for the bank to function smoothly and in accordance with its stated goals, working capital is essential. It is obvious that no business, not even a bank, can succeed in its endeavors without making appropriate use of working capital. The following are the goals of working capital in banks:

- **Liquidity Management:** To fulfill their responsibilities, including customer withdrawals, loan disbursements, and operational costs, banks must keep sufficient

liquidity. Banks with well-managed working capital have enough liquid assets to meet these demands quickly without endangering their financial stability.

- **Risk Mitigation:** Effective management of working capital mitigates the risk of failure or insolvency for banks. Banks can prevent liquidity crises and possible bankruptcy scenarios by maintaining proper levels of current assets (such as cash and marketable securities) and current liabilities (such as short-term borrowings and payables).

- **Funding Stability:** In order to ensure a consistent flow of money to support their operations, banks need to manage their working capital. Effective handling of current assets and liabilities lessens reliance on expensive short-term borrowing and contributes to the establishment of an adequate finance structure.

- **Profitability Enhancement:** Optimal working capital management can positively influence a bank's profitability. By managing current assets and liabilities efficiently, banks can minimize the cost of funding and maximize interest income, which leads to improved overall financial performance.

- **Asset Utilization:** Efficient working capital management enables banks to make the best use of their assets. By minimizing idle cash and optimizing inventory levels (in case of banks dealing with physical goods), banks can utilize their resources effectively, resulting in higher returns on assets.

- **Regulatory Compliance:** Banks are subject to various regulatory requirements that may specify minimum liquidity ratios and capital adequacy levels. Effective working capital management helps banks maintain compliance with these regulations and avoid penalties or other adverse consequences.

- **Customer Service:** Adequate working capital management ensures that banks can efficiently process customer transactions, provide timely loan approvals, and offer responsive customer service. This enhances customer satisfaction and loyalty, leading to improved business prospects.

- **Competitive Advantage:** In order to compete in the financial market, banks must manage their working capital well. They can offer competitive interest rates, attract deposits, and extend credit to customers at reasonable terms, giving them an edge over less efficient competitors.

  In summary, the objectives of working capital management in banks revolve around maintaining liquidity, managing risk, ensuring financial stability, enhancing profitability, and meeting regulatory requirements while providing efficient customer service and gaining a competitive advantage in the market.

2.7 Determinants of Working Capital of Banks

The determinants of working capital influenced by various factors that affect their day-to-day operations and financial stability. Some key determinants include:

- Customer Deposits: The primary source of funds for banks in Nepal comes from customer deposits. The level of working capital directly affected by the amount and type of deposits collected from individuals, businesses, and other entities.

- Loan Portfolio: The size and quality of the loan portfolio affect a bank's working capital. When banks disburse loans, they tie up funds in long-term assets, which affects their liquidity and working capital requirements.

- Regulatory Requirements: Banks in Nepal are subject to various regulatory guidelines, including liquidity ratios and capital adequacy norms. Compliance with these regulations affects the amount of working capital that banks need to maintain.

- Interest Rates: Fluctuations in interest rates can affect a bank's earnings from loans and investments, affecting its profitability and, in turn, its working capital position.

- Operating Expenses: The operational costs of running a bank, including salaries, rent, utilities, and administrative expenses, influence the amount of working capital required to meet daily operations.

- Economic Conditions: The overall economic situation in Nepal, including GDP growth, inflation rates, and unemployment levels, can influence the demand for loans and deposits, thereby affecting a bank's working capital needs.

- Technological Advancements: The adoption of new technologies and digital banking solutions can influence a bank's efficiency and operating costs, thereby influencing its working capital requirements.

- Cash Management: Efficient cash management practices, including cash reserves and cash flow forecasting, can influence a bank's ability to meet customer withdrawal demands and manage working capital effectively.

- Competition: The competitive landscape in the banking sector can influence a bank's pricing strategies, customer acquisition, and deposit levels, which, in turn, affect its working capital requirements.

- Government Policies: Fiscal and monetary policies set by the government can have a significant impact on interest rates, credit demand, and overall economic conditions, which in turn affect the working capital needs of banks.

  It is essential for banks to manage their working capital by considering these determinants to ensure they have adequate liquidity, meet customer demands, and maintain financial stability while operating within regulatory constraint.

2.8 Financing of Working Capital

Every manufacturing concern, whether in a stable or growing phase, requires additional assets. Growing firms aiming for sustained growth necessitate both fixed capital and working capital. The proportion of additional working capital typically corresponds to the sales rate. However, this capital requirement may vary based on the firm's nature. Hence, the finance manager's vital role involves determining the optimal level of working capital and how it be financed. Financing any assets involves assessing cost and risk factors. As a result, the financial manager has to decide on the right financing mix, taking into account the possibility of financing current assets with current liabilities. Various financing options are available to the financial manager, who can generally choose from available options of financing strategies.

a) **Long-term financing**: Long-term financing refers to the acquisition of funds or capital by a company for an extended period, typically exceeding one year, to finance its long-term investment projects, acquisitions, or other business activities. This type of financing is suitable for financing assets with longer useful lives, such as machinery, equipment, real estate, and other capital-intensive projects. Some Common sources of long-term financing are as below:

- Equity Financing: Companies can raise long-term capital by issuing shares of common or preferred stock to investors in exchange for ownership in the company. Equity financing does not involve repayment of the principal amount but may provide a return to investors through dividends or capital appreciation.

- Debt Financing: Businesses can raise long-term capital by offering investors or institutions long-term debt instruments like bonds or debentures. These debt securities are subject to periodical interest payments until the principal repaid at the pre-determined maturity date.

- Bank Loans: Long-term loans obtained from commercial banks or financial institutions are a common source of long-term financing. These loans typically have longer repayment periods and often used for major capital expenditures or expansion projects.

- Venture Capital: Start-up companies or businesses seeking significant growth may obtain long-term financing from venture capital firms in exchange for an equity stake. Venture capitalists provide funds to high-potential companies with the expectation of substantial returns in the future.

- Public Issuance: Companies can raise long-term funds by issuing securities to the public through initial public offerings (IPOs) or follow-on public offerings (FPOs). These offerings provide an opportunity for the company to raise significant capital from a broad investor base.

Long-term financing decisions are critical for businesses, as they affect the company's capital structure, financial stability, and cost of capital. It is essential for companies to assess their capital needs, risk tolerance, and projected cash flows when considering

various long-term financing options. The choice of long-term financing should align with the company's long-term growth strategy and financial objectives.

b) Short Term Financing: Short-term financing refers to the acquisition of funds or capital by a company for a brief period, typically up to one year, to fulfill its immediate operational needs or short-term obligations. This type of financing is suitable for covering temporary cash flow gaps, financing working capital requirements, and managing day-to-day operations. Common sources of short-term financing include:

- Trade Credit: Businesses can obtain short-term financing by purchasing goods or services on credit from suppliers. Trade credit allows the company to delay payment for a specific period, typically 30 to 90 days.

- Bank Overdrafts: A bank overdraft is a short-term credit facility offered by banks that allows a company to withdraw more funds from its current account than the available balance, up to a predetermined limit.

- Short-Term Loans: Companies can secure short-term loans from commercial banks or financial institutions to meet urgent funding needs. Compared to long-term loans, the repayment time for these loans is shorter.

- Commercial Paper: Large corporations with high credit ratings can issue commercial paper, which is a short-term debt instrument with maturities ranging from a few days to several months, to raise funds from the money market.

- Revolving Credit Lines: Companies can establish revolving credit lines with financial institutions, allowing them to borrow and repay funds as needed within the credit limit.

- Trade Finance: For international transactions, companies can utilize trade finance instruments, such as letters of credit and bank guarantees, to manage risks and facilitate trade.

Short-term financing decisions are crucial for maintaining liquidity, meeting immediate financial obligations, and ensuring smooth day-to-day operations. Businesses should carefully assess their short-term financing needs and select appropriate sources of funding based on cost, availability, and risk considerations. It is essential to strike a balance between short-term and long-term financing to maintain financial stability and support the company's growth and profitability.

2.9 Directives relating to Loan classification and Loan Loss Provision

Starting from fiscal year 2074/75, banks are required to classify outstanding loans and advances based on the aging of principal amounts. These loans and advances categorized into the following four categories:

a) Pass: Loans and advances whose principal amounts are not past due, and the past due period is up to 3 months, fall into the category of performing loans. These loans are consider as performing as they are up-to-date with no principal payment overdue beyond 3 months.

b) Sub-standard: All loans and advances that are past due for a period ranging from 3 months to 6 months shall be included in this category. These loans categorized as such because of the prolonged overdue period, which shows that more than three months but not more than six delayed the repayment.

c) Doubtful: These loans fall into this category because of the prolonged overdue time, which denotes a repayment delay that goes over the 3-month mark but does not go beyond six months.

d) Loss: All loans and advances that are past due for a period of more than 1 year, along with advances considered unrecoverable or having a slim possibility of even partial recovery in the future, are included in this category. Loans and advances falling under the sub-standard, doubtful, and loss categories are defined as non-performing loans

In this context, the bank management holds the discretion to reclassify loans and advances from one risk category to another, depending on their assessment of the situation. Furthermore, it is worth noting that the term "loans and advances" also encompasses bill purchased and discounted in addition to conventional loans. This broad definition ensures that various financial instruments and transactions appropriately considered and managed under the risk classification framework.

As per the guidelines set by Nepal Rastra Bank, the loan loss provisioning based on outstanding loans and advances, as well as bills purchased, should provide as follows:

Classification of loans and loan loss provision

- Pass-1.25%
- Watch list-5%
- Sub-standard- 25%
- Doubtful-50%

- Loss-100%

- Restructuring and Rescheduling

    - Pass Loan -12.5%
    - Sub-standard -25%
    - Doubtful -50%
    - Loss-100%

2.10 Demand of Working Capital in Banks

Banks maintain their working capital through the collection of current savings and fixed deposits. The demand for liquidity arises primarily from the necessity to grant loans, fulfill obligations to creditors, and account holders, including cheque payments. Liquidity is crucial for banks to achieve the following objectives:

a) Transaction Motive: Banks need liquidity to facilitate day-to-day transactions, such as processing customer withdrawals and meeting operational expenses promptly.

b) Security Motive: Maintaining sufficient working capital provides a sense of financial security for banks, ensuring they can meet unexpected cash demands and unforeseen events.

c) Speculative Motive: Banks may also hold a portion of their working capital in anticipation of profitable investment opportunities or capitalize on potential market fluctuations.

By balancing these motives and effectively managing their working capital, banks can ensure smooth operations, meet customer demands, and maintain stability in their financial activities.

2.11 Working Capital Policy

The combination of short-term assets and liabilities that a business uses to preserve liquidity, guarantee operational effectiveness, and boost profitability determined by its working capital policy. It entails evaluating the cash conversion cycle of the business and matching it to its growth goals and risk tolerance." - Authors of "Foundations of Finance: The Logic and Practice of Financial Management," J. Keown, John Martin, and J. Petty. A working capital policy is a structure and set of principles that an organization or corporation uses to strategically manage its current assets and liabilities. In order to guarantee seamless daily operations and meet financial goals, it describes how to maintain the proper balance between current assets (such as cash, accounts receivable, inventory and so on), and current liabilities (such as accounts payable, short-term borrowings). A working capital policy's principal objective is to maximize resource usage while keeping enough cash on hand to satisfy immediate obligations. Understanding the following fundamental policies can help us better understand working capital policy:

- Conservative Policy: The primary purpose for organizations adopt a conservative working capital policy to reduce risk. With this strategy, management keeps a careful eye on credit and tightens credit restrictions to guarantee reduced risk exposure. Furthermore, current assets regularly surpass current liabilities, guaranteeing a sufficient amount of available finances. The primary purpose of

long-term funding alternatives is to finance existing assets, both fixed and variable, while minimizing reliance on short-term sources to lower risk. Adopting a cautious approach to working capital finance, however, might lead to underutilization of funds, which would reduce returns and possibly jeopardize the organization's growth possibilities.

- Aggressive Policy: Aggressive programs, as their name suggests, are the riskiest but also have the greatest potential for significant growth. By restricting credit sales or decreasing the value of debtors through timely payments, businesses that use this strategy try to lower their current assets. Management simultaneously gives creditors as much time as feasible to make payments. This working capital policy is appropriate for businesses looking to grow quickly and significantly. However, because there's a lot of danger involved, it takes sound financial management and commercial sense.

- Hedging Policy: By using this approach, a business may make sure that its short-term liabilities and current assets are always in balance. The working capital finance program is essentially an attempt to find a middle ground between the two extreme approaches in terms of growth potential and risk. When adopting this strategy, businesses usually finance fixed current assets with long-term sources of funding and variable current assets with short-term funding choices. In order to reduce the risk brought on by excessive long-term commitments and short-term funding constraints, it is important to match the maturities of assets and liabilities. Organizations can efficiently capitalize on growth prospects while maintaining a stable and sustainable financial position thanks to this approach.

- Maturity Matching Policy: The primary goal of the matching policy is to match the maturity of an organization's assets and liabilities. For example, a business that owns long-term assets uses long-term liabilities to finance those assets. This

strategy reduces the possibility of cash flow problems and ensures that the business can pay its debts when they become due.

- Liberal Policy: This approach involves the use of short-term finance, which has inherent risks but also presents a considerable return opportunity, to fund long-term assets. Businesses who have a strong belief in their ability to create sufficient cash flows to pay their financial obligations are more likely to implement it.

2.12 An Overview of Working Capital Management

Working Capital Management involves overseeing various components of current assets, including cash, marketable securities, inventory, and current liabilities. It constitutes a significant aspect of finance that encompasses all the current accounts within the firm. The primary focus lies in ensuring the adequacy of current assets and evaluating the risk associated with current liabilities. This discipline aims to establish appropriate strategies for managing the balance between current assets and current liabilities while implementing practical techniques to optimize the advantages derived from effective working capital management.

The term working capital management closely relates with short-term financing; it is concerned with collection and allocation of resources. Working capital management relates to problems that arise in attempting to manage the current assets, the current liabilities and interrelationships that exist between them (Smith, 1974).

Working capital management holds utmost importance in financial management. It serves as the lifeblood and central controlling mechanism for all types of business organizations. Without proper control over working capital, no business can function smoothly. Managing current assets and liabilities is essential for the day-to-day operations of any organization. As a result, working capital management plays a vital role in determining

the success or failure of a business. It deals with the part of assets that undergo transformation from one form to another during the manufacturing cycle. Hence, the role of working capital management is equally significant for all business organizations, regardless of their nature.

According to various experts in working capital management, it is evident that all institutions, regardless of whether they are private or public, financial or non-financial, require sufficient working capital for effectively compete in the market. Maintaining the right balance is crucial for the firm's success since both excessive and insufficient working capital can pose significant risks.

An excess of working capital can negatively influence profitability, akin to idle investments. Conversely, inadequate working capital can lead to liquidity issues, hindering the firm's financial operations and potentially causing the company to fail. Thus, it is widely acknowledged that any mismanagement of working capital can have adverse effects on a business, resulting in reduced liquidity, turnover, and profitability, while also increasing the organization's financing costs.

2.13 Review of related studies

Review of books

Here, we have provided reviews for a selection of books on financial management, specifically focusing on working capital management.

Hampton & Wagner (1983): This book on working capital management is composed of eight main chapters, with the first two chapters delving into different aspects. Chapter one covers working capital policies, the nature of working capital, and working capital strategies. In the second chapter, the focus shifts to the banking system, encompassing

sub-topics such as money and its supply, features of U.S. commercial banking, measures of U.S. money supply, and money creation. Moving forward, chapter three addresses the management of disbursements and collections, presenting six sub-topics that include the cash management system, strategies for managing collections and disbursements, and case studies on Chicago National Bank & Olean National Corporation. In the fourth chapter, the authors present commercial bank packages tailored for cash management. In the third part of the book, they explore cash management in-depth, utilizing cash forecasting techniques, conducting cash flow analysis, and discussing the economics of short-term financing and sources of near-term financing within the context of working capital analysis. Chapter five focuses on credit and collections, covering aspects such as analyzing the credit capacity of customers, developing credit policies, addressing collection policies, and understanding government regulations. The sixth part introduces the concept of consumer loans, small business loans, and the credit scoring system. Finally, the last part of the book delves into inventory management and other essential planning implementations related to working capital strategies.

Weston and Brigham (1984), distinguished professors in the field, have contributed valuable theoretical insights into working capital management through their extensive research studies. The conceptual findings from their research offer profound knowledge and invaluable guidance for further exploration in the management of working capital, both within any enterprise and particularly relevant to this present study. In their work, they commence by elucidating the fundamental concepts of working capital, working capital policy, and the necessity for external financing to support working capital requirements. Moving forward, the subsequent chapter meticulously examines the various components of working capital and expounds on effective management techniques. Specifically, they delve into the management of cash, providing explanations on different cash management models for optimal efficiency. Additionally, their exploration includes a comprehensive understanding of the primary sources and forms of

short-term financing, encompassing trade credit, loans from commercial banks, and commercial paper.

Pradhan (1988) authored a book focusing on the management of working capital in Nepalese Public Enterprises (PEs). This book presents a study conducted on nine manufacturing public enterprises in Nepal, covering a period of ten years from 1973 to 1982 AD. The main objective of this study was to explore and analyze different aspects of working capital management in the selected manufacturing public enterprises in Nepal. The specific objectives of this study were twofold. Firstly, to conduct a risk-return analysis of the liquidity of the working capital position, evaluating the trade-off between risk and return in managing working capital. Secondly, to assess the short-term financial liquidity position of the enterprises, analyzing their ability to meet short-term obligations and financial stability. Additionally, the study aimed to assess the structure and utilization of working capital, examining how different components of working capital managed and utilized within the enterprises. It also sought to estimate the transaction demand functions of working capital and its various components, understanding the patterns of demand for working capital and its implications on the enterprises' operations and financial management.

Shrestha (1995) conducted a study titled "Portfolio Behavior of Commercial Banks in Nepal," focusing on two local commercial banks, three joint-venture banks, and one development bank as a representative sample. Several significant findings from her research are as total deposits emerged as the primary source of funds for all the banks under study, while the capital and reserve funds of these banks exhibited relatively stable trends over the years. The allocation of funds by commercial banks showed that the resources were primarily channel into liquid funds, investment in securities, loans and advances, and bills purchased and discounted. Among the portfolio components, loans and advances represented the highest proportion of resources for Nepalese banks, while bills purchased and discounted accounted for the lowest share over time.

Furthermore, the study revealed that commercial banks held excess reserves, indicating underutilization of resources. The cash reserves significantly exceeded the required cash reserve levels, suggesting a need for more efficient resource allocation strategies.

Horne (2000), a renowned expert in financial management and author of the book "Financial Management and Policy," introduced the concept of capital management. This concept involves the administration of specific assets, namely cash, marketable securities, receivables, and inventories, along with the management of current liabilities. Working capital management focuses on addressing the challenges that arise in managing these current assets, liabilities, and the inter-relationships that exist between them. Within his book, Van Horne elaborates on different methods for efficiently managing cash and marketable securities, as well as various models for balancing these assets. For receivable management, he discusses different credit and collection policies, and for inventory management and control, he examines various principles and techniques. This comprehensive approach in his book provides insights into effectively managing the essential components of working capital to enhance overall financial management.

Review of previous thesis

Pandey (2013) conducted research on Working Capital Management of the Hotel Industry in Nepal, focusing on Hotel Radisson, Hotel Soaltee, and Hotel Hyatt. The main objectives of the study were as follows: to analyze the composition of working capital, liquidity position, and profitability of the hotels; to evaluate the relationship between sales and different variables of working capital; and to examine the working capital cash flow cycle and cash conversion cycle of the specified hotels.

Pandey found that all three hotels followed an aggressive financing policy, resulting in negative working capital during the study period. None of the hotels seemed to have a solid grasp of effective working capital management. Hotel Hyatt exhibited a particularly

poor liquidity position compared to the other hotels, partly due to the impact of an unstable political situation over the past decade. Sales revenue decreased while operating expenses increased, leading to losses for the hotels. Additionally, Hotel Radisson and Hotel Hyatt incurred higher interest expenses compared to Hotel Soaltee. Pandey's major recommendations include increasing net working capital by reducing short-term loans, implementing inventory control and credit policies to collect receivables promptly, and minimizing internal controllable expenses to manage liquidity. Hotel Hyatt specifically advised to reduce loans, advances, and deposits while increasing Cash and Bank Balance. Additionally, hotels should focus on attracting local tourists to ensure a more stable and regular income stream, rather than relying solely on foreign tourists.

Implementing these recommendations could help the hotels improve their working capital management, enhance liquidity positions, and contribute to their overall financial stability and profitability.

Joshi (2013) conducted research on the working capital management of commercial banks in Nepal, focusing on several key objectives. Firstly, the study aimed to examine the major factors affecting the management of working capital in these banks. Secondly, it sought to evaluate the working capital financing policy adopted by the banks. Lastly, it aimed to analyze the liquidity maintenance and the efficiency in equity management to generate profit. Additionally, the study aimed to show the relationship of net profit with the working capital and debt of the banks, and to provide appropriate suggestions for improvement.

The major findings of the study revealed several key insights. Firstly, the analysis of primary data highlighted the critical role of working capital in the banks' performance, emphasizing its significance in financial management. Secondly, it found that top-level management should be responsible for effectively managing working capital. Thirdly, the study suggested that an aggressive working capital policy is appropriate for commercial

banks. Furthermore, it observed that working capital has a significant impact on the profitability and risk of the bank and that working capital policy affects the risks of the banks. However, the study also noted that the liquidity position of the bank was not satisfactory, indicating the adoption of a relaxed working capital investment policy. Ultimately, the nature and size of the business identified as the most influential factors in the working capital management of the banks.

Shrestha (2017) conducted research on the Working Capital Management of Everest Bank Limited, focusing on several main objectives. These objectives included analyzing the current assets and current liabilities of the bank, examining the effects of working capital on the bank's profitability, studying the financing policy of the bank, and evaluating the liquidity position of the bank.

The major findings of the study revealed several key insights into Everest Bank Limited's working capital management. The composition of current assets on total assets, Cash and Bank Balance to current assets, and net working capital on current assets of EBL showed a fluctuating trend over the study period. Additionally, the current ratio of the bank exhibited a fluctuating trend over the study period, indicating variations in its liquidity position. The absolute liquid ratio also showed fluctuations, reflecting changes in the bank's ability to meet its short-term obligations. Furthermore, the investment to total deposit ratio and loan and advances to total deposit ratio of EBL displayed a fluctuating trend over the study period, indicating variations in the bank's investment and lending activities relative to its total deposits.

Basnet (2019) conducted a study on the working capital management of Nabil Bank Limited, focusing on several main objectives. These objectives included examining the impact of current assets and current liabilities on liquidity and profitability, analyzing the working capital trend position of NABIL, and evaluating the financial position of NABIL using different tools and techniques.

The major findings of the study revealed several key insights into Nabil Bank Limited's working capital management. The major components of current assets of NABIL was identified as Cash and Bank Balance, loan, advance, government securities, and miscellaneous current assets, while current liabilities included deposit liabilities, bills payable, income tax liabilities, dividend liabilities, and other current liabilities. The levels of both current assets and current liabilities showed an increasing trend over the study period. However, the level of net working capital of NABIL fluctuated over the period of time.

Additionally, the study found that the maximum amount of working capital for NABIL was in year 2072/73 at 49708.2 million, while the minimum amount was 17291.2 million in year 69/70. The working capital changed largely in year 72/73 by 49.72%. The study also revealed that during the 5-year period, the maximum current ratio for the bank was 2.10 times in year 2072/73, while the maximum quick ratio was 0.62 in the same year 2071/72. The minimum figures for both these liquidity ratios were 1.57 times current ratio in year 2069/70 & 2070/71 and 0.28 quick ratio in the 2072/73. The mean, standard deviation, and coefficient of variation of current ratio for the 5-year period were 1.73 times, 0.197 times, and 11.39 percentages, respectively. Similarly, the mean, standard deviation, and C.V. of quick ratio were 0.48 times, 0.111 times, and 23.13 percentages, respectively, for the five-year period.

2.14 Research Gap

All the aforementioned studies have focused on researching working capital. Some researchers have selected various companies for their research, while others have concentrated solely on one company. However, this particular study opts to analyze the working capital of HBL, KBL, and NABIL, aiming to fulfill the study's objectives and

cover the analytical part comprehensively. This research covers a period of 10 years, whereas other previous theses only consider 5 years of data. By extending the data collection period, this study aims to provide a more comprehensive and detailed analysis of the selected banks' working capital.

Moreover, this study seeks to distinguish itself from previous theses in several ways. Firstly, it adopts a different sample size, focusing on three specific banks. Secondly, the nature of the sample banks is unique, being HBL, KBL, and NABIL. Thirdly, the research methodology and statistical tools employed in this study differ from previous works. The analysis of standard deviation, regression analysis and trend line analysis employed as the main models of study to obtain relevant and accurate results. This approach ensures a more robust and in-depth examination of the working capital dynamics in the selected banks.

Given these distinct characteristics, the researchers believe that this study will offer valuable insights and contribute to the existing body of knowledge on working capital management in the banking sector, setting it apart from earlier research works.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a systematic procedure comprising a series of scientific methods used in a structured study. Put simply, it delineates the methods and processes employed throughout the study. It systematically approaches resolving research problems and regarded as actively studying how research conducted. This involves examining the typical steps taken by a researcher in investigating their research problem, as well as the underlying rationale. Therefore, this chapter covers research design, data nature, data collection methods, population and sample considerations, and data processing approaches.

3.2 Research design

The selection of an appropriate research design is essential for achieving the study objectives of any research. Research design refers to the systematic plan, structure, and strategy of investigation that aims to address research questions and control variables effectively.

This study focuses on providing an accurate portrayal of the working capital (current assets and current liabilities) and its impact on the overall financial position of a sample of banks. The data used for analysis covers the most recent ten years, from FY 2069/070 to 2078/079. The primary goal is to evaluate the current state of working capital management in commercial banks and describe the prevailing situation and events. The research design employed for this study is primarily historical, empirical, descriptive, and analytical in nature.

3.3 Population and sample

Currently, there are 20 commercial banks are operating in Nepal. For this study, three prominent banks, namely Kumari Bank Limited, Himalayan Bank Limited, and NABIL Bank Limited, have selected as the sample banks. These banks are recognized as pioneers in deposit collection and loan disbursement within the Nepalese banking context. The study will use the financial statements from the last five fiscal years, spanning from FY 2069/070 to 2078/079, as sample data to assess their working capital management.

Table 1

List of Sample Commercial Banks

Name of Bank	Study Period
Kumari Bank Ltd	2069/70 to 2078/79
Himalayan Bank Ltd	2069/70 to 2078/79
Nabil Bank Ltd	2069/70 to 2078/79

3.4 Sources of Data

The primary source of the secondary data used in this study is the publicly available annual reports of the relevant banks. Data about financial performance that was acquired straight from these banks. Further information was also gathered from a variety of sources, including books, periodicals, journals, articles, reports, bulletins, data from the Nepal Rastra Bank and Stock Exchange, the Central Bureau of Statistics, pertinent

websites, and internal sources. In addition, a number of economic surveys and earlier research projects on the topic are regarded as important information sources.

3.5 Period Covered

As mentioned before, the study's ten-year time frame is from FY 2069/070 to FY 2078/079. These ten years' worth of data were analyzed in order to get insightful and important findings.

3.6 Tools used for data analysis

Both statistical and financial tools have been used in this study to assess the information and data that have been gathered. With the use of these tools, the data may be thoroughly evaluated, leading to a deeper comprehension of the variables influencing the sample banks' working capital management.

.3.6.1 Descriptive Statistics

To enumerate and summarize the key characteristics of a dataset, a collection of techniques known as descriptive statistics are utilized. Researchers can understand the essential features of the dataset and draw preliminary conclusions by employing these statistics to represent the data in a relevant way. Descriptive statistics can be used to characterize the central tendency, shape, and dispersion of a dataset. Metrics such as percentiles, variance, standard deviation, range, mean, median, and mode are included in them.

Descriptive statistics are commonly used in conjunction with graphical representations such as box plots or histograms to provide a more detailed picture of the data. Descriptive statistics are used to present numerical data in a more presentable and understandable

format for the years 2069/70 to 2078/79. This helps simplify large data sets in a meaningful way (such as mean, standard deviations, minimum and maximum values of variables which used to explain the characteristics of sample banks).

a). Mean or average: A single value that is used to represent every value in the series and falls inside the data range is called the mean or average value. It is called a measure of central value because it falls somewhere in the data range. The mean obtained by adding up all the words and dividing the result by the total number of items in the collection. The following formula can be used to find the mean (average) of a given set of numbers:

$$\textbf{Mean(X)} = \frac{\boldsymbol{\Sigma X}}{\boldsymbol{N}}$$

Where:

The total of all the numbers in the dataset is represented by **ΣX** and **N** is the dataset's total number of numbers.

b). Standard Deviation: The standard deviation is a commonly employed metric for characterizing the fluctuations within a data set. It gives an estimate of how much observations typically depart from the mean on either side. The standard deviation, denoted by the Greek letter σ, which is sometimes known as sigma, is an extremely useful tool for determining how representative the mean is. The standard deviation is represented by:

$$\textbf{\textit{Standard deviation (}}\sigma\textbf{\textit{)}} = \sqrt{\frac{\boldsymbol{\Sigma}\,(\boldsymbol{X}-\boldsymbol{X})^{\,2}}{(\boldsymbol{n}-\mathbf{1})}}$$

Where:

- Σ is the total of all the terms found in the sample.
- X is the sample's individual data points.
-The sample mean, or average, of the data collection is denoted by $\bar{X}$.
- n is the sample's total number of data points.
- The square root operation is shown by √.

3.6.2. Correlation Analysis

The coefficient of correlation, or simply "r," is the statistical measure used to express the direction and strength of the linear relationship between two variables. The correlation coefficient (r), which goes from -1 to +1, offers important information about the type of relationship that exists between variables.

Positive correlations, where "r" is closer to +1, show that when one variable rises, the other also tends to rise. On the other hand, when one variable rises, the other tends to fall, and vice versa, as indicated by a negative correlation, which is represented by a "r" value closer to -1.

When the value of "r" gets close to zero, there is little to no linear correlation between the variables, indicating that they are not linearly related to one another. Correlation analysis can be done by following formula.

$$\mathbf{r} = \frac{\boldsymbol{\Sigma}((\mathbf{X} - \mathbf{X})(\mathbf{Y} - \bar{\mathrm{Y}}))}{\sqrt{\boldsymbol{\Sigma}(\mathbf{X} - \mathbf{X})^2} \times \sqrt{\boldsymbol{\Sigma}(\mathbf{Y} - \bar{\mathrm{Y}})^2}}$$

Where:

- Σ represents the sum of all the terms in the sample.

- X and Y are the individual data points for the two variables being compared.

- $\bar{X}$ and $\bar{Y}$ are the sample means of variables X and Y, respectively.

Other forms of correlation coefficients are Kendall's tau and Spearman's rank correlation coefficient, which are applied to ranked or non-parametric data where a linear relationship cannot be assumed. When there is a roughly linear relationship between the variables, the Pearson correlation coefficient is the most often employed and suited for continuous numerical data.

3.6.3. Regression Analysis

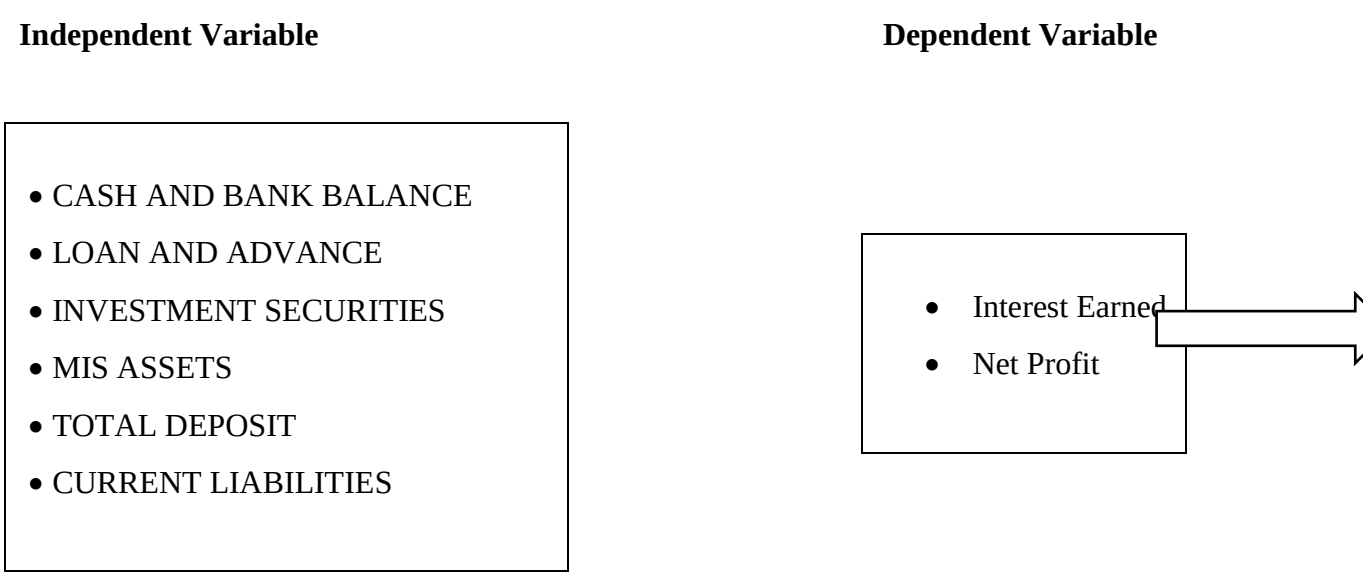
A statistical method for examining the relationship between one or more independent variables and one or more dependent variables is regression analysis. Based on the values of the independent variables, it is used to predict the value of the dependent variable. A statistical method for determining the correlations between one or more independent variables and a dependent variable is regression analysis. Estimating potential correlations and links between these variables is another area of its application. It is possible to quantify the average relationship between several variables using this analytical method. It also covers a number of statistical significance tests, such as the t-test, F-test, and linear regression analysis, that are used for model validation.

If the sample contains more than two groups, our assumption was tested using the ANOVA test. The ANOVA value must first be calculated and then compared to the tabular value for the designated degrees of freedom at a specific significance level, like 5%, in order to apply the ANOVA test to more than two groups. If the computed value is higher than the tabulated value, we reject the null hypothesis and demonstrate a significant difference at the 5% level of significance. Conversely, if the computed value is less than the tabular value, suggesting that the discrepancy is not deemed significant, the null hypothesis is accepted.

3.7 Research Framework and definition of variables

3.7.1 Research Framework

A conceptual framework is a basic structure made up of abstract elements that represent the experiential, analytical, and observational aspects of a process or system that is being thought of. Anticipated outcomes are based on the integration of these elements. The framework is used in research to outline possible directions or to express a preferred method of approaching a topic. It shows a graphical depiction of the study's variables and the relationships between the independent and dependent variables. Interest Earned and Net Profit were the dependent variables utilized in this study to assess a bank's performance.



Independent Variable

a. Cash and Bank Balance

The terms cash and bank balance relate to the total amount of money that a business has in its bank accounts as well as the amount of cash it has on hand (in actual currency). The ability of the business to pay short-term debts is reflected in this balance, which is its liquidity. One of the most crucial indicators of a company's financial health in financial analysis is its cash and bank balance. A company's ability to satisfy its obligations with ease and maybe have funds available for development or investment can be indicated by a large cash and bank balance. But a big cash balance can also indicate that the business is not making the most use of its resources and that it should invest the extra money to generate better returns.

b. Loan and Advance

Loans and advances, which signify the money loaned to clients, are an essential part of a commercial bank's activities. These loans can be used for a number of things, including real estate purchases, company ventures, and personal necessities. Individuals are served by personal loans, and businesses are supported by business loans. Overdrafts provide flexible credit limitations, whereas mortgages facilitate the purchase of real estate. Revolving credit is offered via credit cards for purchases. Interest income from these loans serves as banks' main source of income.

On a bank's balance sheet, loans and advances are shown as assets. They are handled according to variables such as terms, interest rates, and degree of risk. Banks are required to evaluate credit risk, keep an eye on repayments, and follow rules. In managing the loan portfolio, finding a balance between profitability and risk is essential.

c. Investment on Securities

One of the main functions of commercial banks is to purchase financial instruments like corporate and government bonds, among other assets. These assets manage liquidity,

diversify risk, and produce income, among other functions. Banks frequently utilize government securities to satisfy regulatory requirements for maintaining safe assets because they are regarded as low-risk investments. Although they come with greater risks, corporate bonds can provide bigger yields. Banks may also make stock market or other financial institution-issued securities investments. An essential component of a commercial bank's overall balance sheet is its investment portfolio. These investments are categorized according to the bank's plan to hold them and their maturity. Securities held for trading purposes, for instance, are categorized as trading securities, whereas securities maintained for a longer period of time are categorized as held-to-maturity or available-for-sale securities. Securities investments may have an effect on a bank's risk tolerance, liquidity, and profitability. In order to maintain a balance between these variables and adhere to regulatory standards, banks meticulously manage their investment portfolios.

d. Miscellaneous Assets

A commercial bank's miscellaneous assets are a variety of less well-defined assets that support the bank's overall financial position. Prepaid expenses, deferred tax assets, and intangible assets like patents and trademarks are examples of these assets. This category often includes other receivables, like unpaid interest or sums owed from employees. Miscellaneous assets also include other investments that do not fall into one of the established categories and deposits made with regulatory bodies in accordance with legal requirements. Although any one of these assets might not have a big effect on the bank's financial situation, taken as a whole, they complete the balance sheet, which is important for regulatory compliance and financial transparency.

e. Total Deposit

The total amount of money that clients have deposited into their accounts is represented by the total deposits that a commercial bank has received. These deposits represent the amount owing to customers and are listed as liabilities on the bank's balance sheet. They include savings, current/checking, fixed/term, and recurring deposits, among other forms of deposits. These deposits serve as the bank's main source of capital for lending operations as well as other investments.

To encourage consumers to deposit money, the bank offers interest on deposits. Interest rates on deposits are a key factor in drawing in new business and keeping existing ones, and they are impacted by market conditions. Keeping track of total deposits is crucial for both regulatory compliance and preserving liquidity. In order to generate revenue, banks need to make sure they have adequate funds to fulfill the withdrawal demands of their depositors. Effective management of total deposits involves the implementation of several strategies, including but not limited to competitive interest rates, convenient banking services, and diversification of deposit products.

f. Current Liabilities

Current liabilities are obligations a commercial bank must settle within a year, including deposits from customers, short-term borrowings, interest payable, accounts payable to suppliers, dividends payable to shareholders, income tax payable, and provisions for expected losses or expenses. Customers' deposits form a significant portion of these liabilities, as they can be withdrawn on demand. Managing current liabilities is crucial for a bank to ensure it has enough liquid assets to meet its short-term obligations. To maintain financial stability and liquidity, banks must use prudent lending practices, effective cash flow management, and adequate reserves. Proper management ensures the bank's continued operations and financial health.

Dependent Variable

a. Interest Earned

Interest earned is the income a commercial bank generates from its interest-bearing assets, such as loans, investments, and securities. It is a crucial revenue source for banks and their profitability. Interest earned is calculated based on the interest rate charged to borrowers and the outstanding balance of the loan, while for investments and securities, it is based on the interest rates associated with those instruments and the amount invested. Interest earned is reported on a bank's income statement and is a major component of its total operating income. Effective management of interest earned is crucial for maintaining profitability and financial stability.

b. Net Profit

Net profit, or net income, is a financial metric that represents the remaining money after all expenses are deducted from a company's revenue. For a commercial bank, it is calculated by subtracting operating expenses, interest expenses, loan losses provisions, and taxes from the total revenue generated from core banking activities. A higher net profit indicates that a bank generates more revenue than it spends on operating expenses and other costs. This is crucial for shareholders as it determines the amount of profit available for dividend distribution and reinvestment. Banks aim to maximize net profit through efficient operations, prudent risk management, and effective asset use. Monitoring net profit helps banks evaluate their financial performance, identify areas for improvement, and make strategic decisions to achieve their financial goals.

CHAPTER - IV

PRESENTATION AND DATA ANALYSIS

4.1 Introduction

The primary aim of this study is to conduct a comparative analysis of the working capital management between Kumari Bank Ltd, NabiL bank Limited and Himalayan Bank Limited. In pursuit of this objective, this chapter presents and examines the data. The focus is on quantitative analysis with some qualitative analysis incorporated to ensure the results are realistic and comprehensive. This section offers a structured presentation, interpretation, and analysis of secondary data concerning the determinants of working capital in Nepalese commercial banks. Its purpose is to analyze and interpret the data collected during the study, making the results clearer and more understandable. The analysis provides a systematic and organized presentation and analysis of data, shedding light on the impact of factors such as cash and bank balance, loans and advances, Investment, miscellaneous assets, total deposits, current liabilities, interest earned, and net profit on the working capital of Nepalese commercial banks. The chapter utilizes various statistical models described in Chapter three to extract output and interpret the information.

4.2 Descriptive Analysis

This section presents the descriptive statistics of the data, offering summaries of the variables included in the study. The table below provides a summary of the variables used in this study for the period FY2069/70 to 2078/79. It includes the structure of the independent variables (cash and bank balance, loans and advances, Investment, miscellaneous assets, total deposits, current liabilities) and dependent variables (interest earned and net profit).

Table 2

Descriptive Statistics

Variables	Mean	Standard Deviation	Minimum	Maximum
Cash And Bank Balance	7795.56	3900.11	3101.41	18651.73
Loan And Advance	97558.92	66401.02	20119.79	311440.02
Investment	20819.88	13502.15	3164.62	61681.08
Misc. Assets	14269.78	13764.33	767.76	45576.73
Total Deposit	108417.48	66413.56	25319.00	329576.00
Current Liabilities	124335.27	79495.79	25565.86	363586.54
Total Interest Earned	9286.37	5818.98	2410.78	23782.29
Net Profit	2162.45	1299.20	291.45	4972.75

Table 2 presents the descriptive statistics, including the mean, standard deviation, minimum, and maximum values of both dependent and independent variables, based on 30 observations for the period from FY 2069/70 to FY 2078/79.

Specifically, the Cash and Bank Balance of the three sample banks range from a minimum of 3101.41 Mio to a maximum of 18651.73 Mio, with an average of 7795.56 Mio and a standard deviation of 3900.11 Mio. The Loan and Advance of the sample

banks range from a minimum of 20119.79 Mio to a maximum of 311440.02 Mio, with an average of 97558.92 Mio and a standard deviation of 66401.02 Mio.

Similarly, the average investment is 20819.88 Mio, with a range from a minimum of 3164.62 Mio to a maximum of 61681.08 Mio. Additionally, miscellaneous assets range from a minimum of 767.76 Mio to a maximum of 45576.73 Mio, with an average of 14269.78 Mio. The current liabilities of the sample banks range from a minimum of 25565.86 Mio to a maximum of 363586.54 Mio, with an average of 124335.27 Mio.

The total deposit of the three sample banks ranges from a minimum of 25319.00 Mio to a maximum of 329576.00 Mio, with an average of 108417.48 Mio. Total interest earned ranges from a minimum of 2410.78 Mio to a maximum of 23782.29 Mio, with an average of 9286.37 Mio.

Finally, the net profit declared by the sample banks has an average of 2162.45 Mio, ranging from a minimum of 291.45 Mio to a maximum of 4972.75 Mio.

4.3 Correlation Analysis

A statistical method used to assess the degree of relationship between two or more variables is correlation. The variables are said to be co-related if changes in one have an impact on changes in the other. It is referred to as simple correlation when it is used to quantify the relationship between two variables. The degree of relationship between two sets of figures is measured by the coefficient of correlation. The link between the dependent variables (interest earned and net profit) and the independent variables (cash and bank balance, loans and advances, investment, miscellaneous assets, total deposits, and current liabilities) is investigated in this study using correlation analysis.

Pearson correlation coefficients have been calculated and are displayed in Table 4. Correlation is a statistical method used to assess the strength and direction of the relationship between two or more variables. This study employs correlation analysis to investigate the connections between dependent and independent variables.

Table 4 shows the bivariate Pearson correlation coefficients for various pairs of variables from FY 2069/70 to FY 2078/79. The findings are based on panel data from three commercial banks, comprising 50 observations over a 10-year period. The independent variables include cash and bank balance, loans and advances, Investment on securities, miscellaneous assets, total deposits, and current liabilities, while the dependent variables are interest earned and net profit.

Table 3

Correlation Analysis

Variables	Cash And Bank Balance	Loan And Advance	Investment On Securities	Misc. Assets	Total Deposit	Current Liabilities	Interest Earned	Net Profit
Cash And Bank Balance	1							
Loan And Advance	0.2653	1						
Investment	0.3883*****	0.8390*****	1					
Misc. Assets	0.0259	0.8334*****	0.6451*****	1				
Total Deposit	0.3060	0.9786*****	0.8344*****	0.8007*****	1			
Current Liabilities	0.2904	0.9924*****	0.8825*****	0.8572*****	0.9715*****	1		
Interest Earned	0.2698	0.9574*****	0.7567*****	0.8842*****	0.9442*****	0.9554*****	1	
Net Profit	0.3452	0.8555*****	0.8836*****	0.7615*****	0.8287*****	0.8913*****	0.8117*****	1

*** Correlation is significant at the 0.05 level (2-Tailed).**

The correlation table provides a comprehensive overview of the Pearson correlation coefficients, highlighting the strength and direction of relationships among different pairs of variables. Each cell in the table represents the correlation coefficient between the variables listed on the left and top of the cell.

Cash and Bank Balance demonstrate no significant correlation with any other variable, except for a weak positive correlation with Loan and Advance (0.2653). In contrast, Loan and Advance exhibit a weak positive correlation with Cash and Bank Balance (0.2653) and strong positive correlations with all other variables.

Investment on securities show a moderate positive correlation with Cash and Bank Balance (0.3883) and Total Deposit (0.3060), as well as strong positive correlations with Loan and Advance (0.8390), Total Deposit (0.8344), and Current Liabilities (0.8825). Additionally, Investment on securities exhibit moderate positive correlations with Interest Earned (0.7567) and Net Profit (0.8836).

Miscellaneous Assets (Misc. assets) display very weak positive correlations with all variables, indicating a minimal association. Total Deposit demonstrates a moderate positive correlation with Cash and Bank Balance (0.3060) and strong positive correlations with Loan and Advance (0.9786), Investment on securities (0.8344), and Current Liabilities (0.9715). It also exhibits a moderate positive correlation with Interest Earned (0.9442) and Net Profit (0.8287).

Current Liabilities exhibit a moderate positive correlation with Cash and Bank Balance (0.2904) and strong positive correlations with Loan and Advance (0.9924), Investment on securities (0.8825), and Total Deposit (0.9715). Furthermore, Current Liabilities show a moderate positive correlation with Interest Earned (0.9554) and Net Profit (0.8913).

Interest Earned demonstrates a moderate positive correlation with Cash and Bank Balance (0.2698), Loan and Advance (0.9574), Investment on securities (0.7567), Total Deposit (0.9442), Current Liabilities (0.9554), and Net Profit (0.8117). Lastly, Net Profit shows a moderate positive correlation with Cash and Bank Balance (0.3452), Loan and Advance (0.8555), Investment on securities (0.8836), Total Deposit (0.7615), Current Liabilities (0.8287), and Interest Earned (0.8913).

Overall, the correlations reveal varying degrees of association between the variables, indicating that some relationships are stronger than others. The asterisks (*) denote correlation coefficients that are statistically significant at the 0.05 level (2-Tailed), meaning that the p-value is less than 0.05. This indicates that there are likely to be strong correlations between the variables, meaning that changes in one are probably going to affect changes in another.

4.4 Regression Analysis

Regression analysis is a statistical technique that is employed to characterize, forecast, and calculate the correlation between independent and dependent variables. It provides a more detailed understanding of variable relationships compared to correlation analysis. By employing a linear regression model, regression analysis can identify the impact of independent variables on dependent variables, quantifying the extent to which independent variables influence the dependent ones.

This study utilizes SPSS version 25 software to conduct regression analysis under multiple regression models. Additionally, the validity of the model is tested through statistical significance tests such as the T-test, F-test, and adjusted coefficient of determination (Adj. R2). To test the statistical significance and robustness of the results, this study employs secondary data analysis based on a specified regression model. This approach allows for a detailed examination of the relationships between variables and

provides insights into the impact of independent variables on the dependent variable. By using regression analysis, the study aims to validate its findings and ensure the reliability of the results.

4.4.1 Regression Analysis for Interest Earned

Table 4

Regression Model Summary (Interest Earned)

Model	Multiple R	R Square	Adjusted R Square	Standard Error
1	0.978	0.957	0.945	1361.508

a) Dependent Variable : Interest Earned
b) Independent Variable (Constant / Predictors) : cash and bank balance, loans and advances, investment, miscellaneous assets, total deposits, and current liabilities

The table presents a multiple regression model that examines the relationship between the dependent variable Interest Earned and several independent variables, including cash and bank balance, loans and advances, investment miscellaneous assets, total deposits, and current liabilities. This model aims to understand how these independent variables collectively influence the interest earned by the entity.

In evaluating the model's performance, several key metrics are provided. The Multiple R value of 0.978 indicates a strong positive correlation between the dependent variable and the independent variables. This suggests that the independent variables, taken together, are highly correlated with the interest earned. The R Square value of 0.957 indicates that 95.7% of the variability in "Interest Earned" can be explained by the independent

variables, showing a strong explanatory power of the model. Additionally, the Adjusted R Square value of 0.945, which adjusts for the number of predictors, further confirms the model's goodness of fit.

The Standard Error, representing the standard deviation of the residuals, is 1361.508. A smaller standard error suggests that the dependent variable can be predicted more accurately by the model.

Overall, these metrics suggest that the model provides a strong fit and can be used to predict the interest earned based on the specified independent variables.

ANOVA Analysis

The suitability of the regression model assessed through ANOVA to ensure reliable outcomes. A model considered better when it achieves a confidence level of 95% or higher.

Table 5

ANOVA Table (Interest Earned)

Model	Df	Sum Of Squares	Mean Square	F	Significance F
Regression	6	939318455.7	156,553,075.95	84.454	0.0000000
Residual	23	42635223.45	1853705.368		
Total	29	981953679.1			

a) Dependent Variable : Interest Earned
b) Independent Variable (Constant / Predictors) : cash and bank balance, loans and advances, investment, miscellaneous assets, total deposits, and current liabilities

The F-statistic for the regression model is 84.454, indicating a good fit for the model. The model deemed suitable for the study as it has a significant p-value, which is less than the 5 percent level of significance. This suggests that the regression model is reliable, with a confidence level exceeding 95 percent. The F-test employed here helps ascertain the presence of a significant relationship between the dependent variable and the set of independent variables.

Regression Coefficient (Interest Earned)

While the independent variables X1, X2, X3, X4, X5, and X6 stand for cash and bank balance, loans and advances, investment, miscellaneous assets, total deposits, and current liabilities, respectively, the regression model uses Interest Earned as a metric to evaluate profitability.

The statistical analysis reveals that these variables are statistically significant at the 5% significance level, indicating a meaningful impact on the profitability measured by "Interest Earned."

In regression analysis, the t-value is utilized to gauge the disparity between the mean values of the populations under comparison. It aids in determining the significance of each independent variable in elucidating the variance in the dependent variable.

Table 6

Regression Coefficient (Interest Earned)

Variable	Coefficients	Standard Error	T Stat	P-Value(Sig.)
Intercept (Constant)	393.5866	700.5946	0.5618	0.5797
Cash And Bank Balance	0.1286	0.0983	1.3088	0.2035
Loan And Advance	0.0096	0.0930	0.1035	0.9185
Investment	-0.1203	0.1153	-1.0429	0.3078
Misc. Assets	0.1005	0.0953	1.0548	0.3025
Deposit	0.0212	0.0193	1.0971	0.2839
Current Liabilities	0.0460	0.1030	0.4471	0.6590

From the table 7, the estimated equation can be written by taking the values from the model **Interest Earned = $393.58+0.1286X_1+0.0096X_2+0.0096X_3-0.1203X_4+0.1005X_5+0.0212X_6+0.046X_7$**

The beta coefficient, with all other variables held constant, shows how the dependent variable changes for every unit change in the independent variable.In this context, it indicates the percentage change in Interest Earned for a 1% change in the independent variable. For Cash and Bank Balance, the beta coefficient is 0.1286, suggesting that a 1% increase in Cash and Bank Balance is associated with a 0.1286% increase in Interest Earned. However, this effect is not statistically significant (p-value = 0.2035 > 0.05), indicating that it could be due to random chance rather than a true relationship.

Similarly, for Loan and Advance, the beta coefficient is 0.0096, suggesting that a 1% increase in Loan and Advance leads to a 0.0096% increase in Interest Earned. Again, this effect is not statistically significant (p-value = 0.9185 > 0.05).On the other hand, Investment has a negative beta coefficient of -0.1203, indicating that a 1% increase in Investment is associated with a 0.1203% decrease in Interest Earned. However, like the previous variables, this effect is not statistically significant (p-value = 0.3078 > 0.05).

The beta coefficient for Misc. Assets is 0.1005, suggesting that a 1% increase in Miscellaneous Assets leads to a 0.1005% increase in Interest Earned. Again, this effect is not statistically significant (p-value > 0.05).The positive beta coefficient for Current Liabilities (0.046) implies that a 1% increase in Current Liabilities is associated with a 0.046% increase in Interest Earned. However, this effect is not statistically significant (p-value = 0.6590 > 0.05).Lastly, Total Deposit has a positive beta coefficient of 0.0212, indicating that a 1% increase in Total Deposits leads to a 0.0212% increase in Interest Earned. Like the other variables, this effect is not statistically significant (p-value = 0.2839 > 0.05).

In conclusion, while there are some observed relationships between the independent variables and Interest Earned, none of these relationships are statistically significant at the 5% significance level. This suggests that these effects could be due to random variation rather than true associations.

4.4.1 Regression Analysis for Net Profit

Table 7

Regression Model Summary (Net Profit)

Model	Multiple R	R Square	Adjusted R Square	Standard Error
1	0.928	0.861	0.824	544.715

a) Dependent Variable : Net Profit
b) Independent Variable (Constant / Predictors) : Cash and bank balance, loans and advances, investment, miscellaneous assets, total deposits, and current liabilities

Multiple R is the correlation coefficient between the observed values of the dependent variable and those predicted by the model. In this case, it is 0.928, indicating a strong positive linear relationship between the independent variables and the dependent variable. R Square, or the coefficient of determination, is 0.861. This value represents the proportion of the variance in the dependent variable that the independent variables can predict. An R-squared of 0.861 means that 86.1% of the variance in the dependent variable explained by the independent variables in the model. Adjusted R Square is similar to R-squared but considers the number of predictors in the model. Its value (0.824) suggests that about 82.4% of the variance in the dependent variable explained by the independent variables, adjusted for the number of predictors.

Standard Error, at 544.715, is the standard deviation of the residuals, which are the differences between the observed values of the dependent variable and those predicted by the model. It indicates the accuracy of the model's predictions.

In conclusion, the model appears to be highly explanatory, as indicated by the high R-squared value. However, it is crucial to assess the statistical significance of the coefficients and other diagnostics to ensure the model's reliability.

ANOVA Analysis

The suitability of the regression model assessed through ANOVA to ensure reliable outcomes. A model considered better when it achieves a confidence level of 95% or higher.

Table 8

ANOVA Table (Net Profit)

Model	Df	Sum Of Square	Mean Square	F	Significance F
Regression	6	42,125,276.307	7,020,879.384	23.662	0.000
Residual	23	6,824,429.439	296,714.323		
Total	29	48,949,705.746			

a) Dependent Variable : Net Profit
b) Independent Variable (Constant / Predictors) : Cash And Bank Balance, Loans And Advances, Investment, Miscellaneous Assets, Total Deposits, And Current Liabilities

Table 9 shows that the F-statistic for the regression model is 23.662. This value suggests that the regression model is a good fit for the data and can used in the study. The F-statistic also has a significant p-value, less than the 5% level of significance, further supporting the model's suitability. The F-test, which used to determine the presence of a significant relationship between the dependent variable and the set of independent variables, supports the validity of the regression model in this study.

Table 9

Regression Coefficient (Net Profit)

Variables	Coefficients	Standard Error	T Statistics	P-Value
Intercept (Constant)	174.178	280.295	0.621	0.540
Cash and Bank Balance	0.022	0.039	0.555	0.584
loan and advance	-0.013	0.037	-0.337	0.739
Investment on securities	0.029	0.046	0.625	0.538
Misc. Assets	0.008	0.038	0.215	0.832
Total Deposit	-0.007	0.008	-0.895	0.380
Current liabilities	0.025	0.041	0.600	0.554

Table 10 presents a multiple regression model that shows how different working capital variables affect overall profit. The cash and bank balance show a positive beta coefficient of 0.022 when individual factors examined. However, the corresponding p-value of 0.540 is more than the conventional significance threshold of 0.05; this coefficient is not statistically significant. Similarly, the loan and advance variable has a p-value of 0.739 and a negative beta coefficient of -0.013, but it is not statistically significant at the 0.05 level. Furthermore, the total deposit variable has a statistically insignificant negative beta coefficient of -0.007.

By comparison, investing exhibits a positive beta coefficient of 0.029. However, it is not statistically significant, as the p-value of 0.538 is greater than the significance level of 0.05. Comparably, Misc. Assets have a p-value of 0.832 and a positive beta coefficient of

0.008, although they are not statistically significant at the 0.05 level. Similarly, current liabilities have a positive beta coefficient of 0.025, but at the 0.05 level, their p-value of 0.554 makes them statistically inconsequential. These results imply that the working capital factors in this model might not have a substantial overall effect on net profit. Therefore, in order to get a more thorough understanding of the elements that determine net profit, extra analysis or consideration of other aspects could be required.

CHAPTER – V

SUMMARY AND CONCLUSION

This chapter is dedicated to drawing conclusions from a comprehensive analysis of the working capital management of three banks: Kumari Bank Limited (KBL), Himalayan Bank Limited (HBL), and Nabil Bank Limited (NABIL).

5.1 Summary

The objectives of the study were to determine the factors affecting the profitability of commercial banks, which included various independent Cash and Bank Balance, Loans and Advances, Investment, Miscellaneous Assets, Total Deposits, And Current Liabilities. The research used secondary data of three selected commercial banks of Nepal over the period of ten-years analyzing its descriptive statistics, correlation and regression. The study mainly focuses on the relationship between Interest Earned and Net Profit as a dependent variable as an affect from independent variables as Cash And Bank Balance, Loans And Advances, Investment, Miscellaneous Assets, Total Deposits, And Current Liabilities. The results of this study based on the descriptive and inferential statistics analysis of secondary data from the annual reports of commercial banks and Nepal Rastra Bank. Purposive sampling method has been administered to collect the data. Analysis of data collection and interpretation has been done with the help of various statistical techniques.

The correlation table shows the strength and direction of relationships among different variables. Cash and Bank Balance have no significant correlation with any other variable, except for a weak positive correlation with Loan and Advance. Investment on securities show moderate positive correlations with Cash and Bank Balance, Total Deposit, Current Liabilities, Interest Earned, and Net Profit. Miscellaneous Assets display very weak

positive correlations with all variables. Total Deposit has moderate positive correlations with Cash and Bank Balance, Current Liabilities, Interest Earned, and Net Profit. The asterisks indicate highly significant relationships between variables, suggesting changes in one variable are likely to be associated with changes in another.

From regression analysis, the significance of the beta coefficients in a regression analysis indicates whether the relationships between the independent variables and the dependent variable are likely to be due to true associations or if they could be explained by random chance. In this analysis, none of the independent variables (Cash and Bank Balance, Loan and Advance, Investment, Miscellaneous Assets, Current Liabilities, and Total Deposits) are found to have statistically significant effects on Interest Earned at the 5% significance level. This suggests that the observed relationships between these variables and Interest Earned could be due to random variation rather than meaningful associations. Therefore, from a statistical standpoint, these relationships are not considered significant in explaining the changes in Interest Earned.

Summerly, multiple regression model reveals that working capital variables affect overall profit. Cash and bank balance have a positive beta coefficient of 0.022, but this is not statistically significant. Loan and advance have a negative beta coefficient of -0.013, and total deposit has a negative beta coefficient of -0.007. Investing has a positive beta coefficient of 0.029, but it is not statistically significant. Misc. Assets and current liabilities have positive beta coefficients but are not statistically significant. These results suggest that working capital factors may not significantly impact net profit. Further analysis or consideration of other factors could provide a more comprehensive understanding.

5.2 Conclusion

The study attempted to answer the few question relating to the determinants of the working capital of commercial banks in Nepal. The first question was about identifying the position of Cash and Bank balance, Loan and Advance, Investment on security, miscellaneous assets, Total deposit, Current liabilities, Interest earned and net profit of commercial banks. In the same way, second question was to examine the relationship Cash and Bank balance, Loan and Advance, Investment on security, miscellaneous assets, Total deposit, Current liabilities, Interest earned and net profit of the commercial banks

Similarly, the last question was about identifying the impact of Cash and Bank balance, Loan and Advance, Investment on security, miscellaneous assets, Total deposit and Current liabilities impact the Interest earned and Net profit of the commercial banks. This section is about providing conclusion to the study undertaken with the aim of fulfilling the research.

Interest Earned and Net profit are taken as dependent variable and Cash and Bank balance, Loan and Advance, Investment on security, miscellaneous assets, Total deposit and Current liabilities are taken independent variable as a tool to analyze the working capital management of commercial banks.

The Cash and Bank Balance of the three sample banks vary widely, ranging from a minimum of 3101.41 Mio to a maximum of 18651.73 Mio, with an average of 7795.56 Mio and a standard deviation of 3900.11 Mio. The Loan and Advance amounts also show considerable variation, ranging from a minimum of 20119.79 Mio to a maximum of 311440.02 Mio, with an average of 97558.92 Mio and a standard deviation of 66401.02 Mio.

Similarly, the average investment among the sample banks is 20819.88 Mio, with individual investments ranging from a minimum of 3164.62 Mio to a maximum of

61681.08 Mio. Miscellaneous assets range from a minimum of 767.76 Mio to a maximum of 45576.73 Mio, with an average of 14269.78 Mio. The current liabilities of the sample banks vary widely, ranging from a minimum of 25565.86 Mio to a maximum of 363586.54 Mio, with an average of 124335.27 Mio.

The total deposit across the three sample banks ranges from a minimum of 25319.00 Mio to a maximum of 329576.00 Mio, with an average of 108417.48 Mio. Total interest earned ranges from a minimum of 2410.78 Mio to a maximum of 23782.29 Mio, with an average of 9286.37 Mio. Finally, the net profit declared by the sample banks has an average of 2162.45 Mio, ranging from a minimum of 291.45 Mio to a maximum of 4972.75 Mio.

The correlation table provides a detailed view of Pearson correlation coefficients, illustrating the strength and direction of relationships among different pairs of variables. Cash and Bank Balance show no significant correlation with any other variable, except for a weak positive correlation with Loan and Advance (0.2653). Loan and Advance display a weak positive correlation with Cash and Bank Balance and strong positive correlations with all other variables. Investment on securities exhibit a moderate positive correlation with Cash and Bank Balance and Total Deposit, as well as strong positive correlations with Loan and Advance, Total Deposit, Current Liabilities, Interest Earned, and Net Profit. Miscellaneous Assets show very weak positive correlations with all variables, indicating minimal association. Total Deposit demonstrates a moderate positive correlation with Cash and Bank Balance and strong positive correlations with Loan and Advance, Investment on securities, Current Liabilities, Interest Earned, and Net Profit. Current Liabilities display a moderate positive correlation with Cash and Bank Balance and strong positive correlations with Loan and Advance, Investment on securities, Total Deposit, Current Liabilities, Interest Earned, and Net Profit. The correlations reveal varying degrees of association between the variables, with asterisks denoting statistically

significant correlation coefficients at the 0.05 level (2-Tailed), suggesting highly significant relationships between the variables.

The study uses the beta coefficient to measure the change in interest earned for a 1% change in the independent variable. The beta coefficients for Cash and Bank Balance, Loan and Advance, Investment, Miscellaneous Assets, Current Liabilities, and Total Deposit are 0.1286, 0.0096, -0.1203, 0.1005, 0.046, and 0.0212, respectively. However, none of these coefficients are statistically significant, suggesting that the observed effects may be due to random variation rather than true relationships. In a multiple regression model analyzing the impact of working capital variables on overall profit, the beta coefficients for Cash and Bank Balance, Loan and Advance, Total Deposit, Investing, Miscellaneous Assets, and Current Liabilities are 0.022, -0.013, -0.007, 0.029, 0.008, and 0.025, respectively. Further analysis or consideration of additional factors may be necessary to understand the determinants of net profit more thoroughly.

In aggregate The study analyzes the working capital management of commercial banks using interest earned and net profit as dependent variables and cash and bank balance, loan and advance, investment on security, miscellaneous assets, total deposit, and current liabilities as independent variables. The cash and bank balance of the three sample banks range from 3101.41 Mio to 18651.73 Mio, with an average of 7795.56 Mio and a standard deviation of 3900.11 Mio. The average investment is 20819.88 Mio, with individual investments ranging from 3164.62 Mio to 61681.08 Mio. Miscellaneous assets range from 767.76 Mio to 45576.73 Mio, with an average of 14269.78 Mio. Current liabilities range from 25565.86 Mio to 363586.54 Mio. Total deposit demonstrates a moderate positive correlation with Cash and Bank Balance and strong positive correlations with Loan and Advance, Total Deposit, Current Liabilities, Interest Earned, and Net Profit. The beta coefficients for Cash and Bank Balance, Loan and Advance, Investment, Miscellaneous Assets, Current Liabilities, and Total Deposit are 0.022, -0.013, -0.007, 0.029, 0.008, and 0.025, respectively.

Overall, using interest earned and net profit as dependent factors and cash and bank balance, loan and advance, investment on security, miscellaneous assets, total deposit, and current liabilities as independent variables, the study examines how commercial banks manage their working capital. The three sample banks have cash and bank balances ranging from 3101.41 Mio to 18651.73 Mio, with a standard deviation of 3900.11 Mio and an average of 7795.56 Mio. Individual investments range from 3164.62 Mio to 61681.08 Mio, with an average investment of 20819.88 Mio. With an average of 14269.78 Mio, miscellaneous assets range from 767.76 Mio to 45576.73 Mio. The range of current liabilities is 363586.54 Mio to 25565.86 Mio. There is a significant positive association between total deposit, loan and advance, current liabilities, interest earned, net profit, and total deposit; there is also a moderate positive correlation between total deposit and cash and bank balance. The cash and bank balance, investment, loan and advance, miscellaneous assets, current liabilities, and total deposit have corresponding beta coefficients of 0.022, -0.013, -0.007, 0.029, 0.008, and 0.025.

5.3 Research Implication

The study shows that a number of working capital factors have a major effect on the dependent variables interest earned and net profit. These variables include cash and bank balance, loans and advances, investments, miscellaneous assets, total deposits, and current liabilities. It also draws attention to how significantly working capital management affects these factors. The results of this study have practical consequences for Nepalese commercial banks in terms of profitability, and they also open up new research areas. There were limitations to the study's execution. Subsequent investigations may increase the sample size to conduct a more thorough analysis of the factors influencing working capital in commercial banks. Adding more banks and lengthening the study period could increase generalizability. Beyond the variables this study looked at, researchers could look into other aspects that affect working capital.

The depth of future research could be improved by examining particular subsectors within the banking sector. Likewise, by looking at non-performing loans as an independent variable, researchers might investigate alternative profit metrics like net interest margin or operating profit and possibly get different results. To develop a more sophisticated understanding of the interactions between variables, researchers may also use further inferential analyses and investigate mediating factors.

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ANNEXURE

1. *Working Capital Composition of Sample Bank*

Fiscal Year	Name of Bank	Cash And Bank Balance	Loan And Advance	Investment Securities	Misc. Assets	Total Deposit	Current Liabilities	Interest Earned	Net Profit
2078/79	Kumari Bank Ltd.	17611.22	159216.07	22806.83	28774.64	182962.00	189611.37	18355.16	2835.23
2077/78		7580.24	143021.61	22697.94	16483.03	157178.00	170890.59	12776.38	1970.73
2076/77		9154.31	114513.47	12757.71	16916.14	124220.00	136073.46	10569.83	1158.51
2075/76		8821.14	76053.32	9121.57	11315.46	84403.00	93592.40	9098.57	1230.38
2074/75		8816.00	62740.97	8803.00	2197.95	69651.00	72183.77	6804.01	1041.89
2073/74		4734.75	45195.00	8039.52	3446.89	52037.00	53152.79	3736.88	793.14
2072/73		4511.20	29486.51	6142.96	2275.84	37951.00	38353.13	2692.48	716.06
2071/72		4990.97	26246.04	4862.59	1274.91	33422.00	34057.19	2433.13	394.79
2070/71		4895.68	22808.50	3164.62	1063.63	27579.00	28022.24	2410.78	314.65
2069/70		3199.88	20119.79	4135.14	767.76	25319.00	25565.86	2464.31	291.45
2078/79	Himalayan Bank Ltd.	11391.81	155844.98	31908.67	17146.41	171487.40	194179.70	16686.80	2482.14
2077/78		8910.94	132093.95	20433.63	17052.41	141021.07	158358.21	10370.84	2998.62
2076/77		7231.14	106726.54	18241.67	23685.57	125264.38	138295.67	12178.99	2586.72
2075/76		6968.06	97470.07	16466.20	12246.81	109387.06	117156.34	11625.42	2763.85
2074/75		4741.36	86160.21	11654.99	13905.74	98988.79	102323.40	9724.87	1875.61
2073/74		4734.34	77798.23	9648.80	16421.88	92334.45	95735.11	7106.68	2281.77
2072/7		7874.98	67745.98	19306.07	4935.97	87335.79	90439.25	5015.84	1935.9

3									1
2071/72		3101.41	53476.23	17113.39	9110.52	73538.20	69842.65	4627.75	1112.29
2070/71		5542.59	45320.36	19842.06	2884.84	64674.85	66406.43	4742.98	959.11
2069/70		3648.20	39723.81	12992.04	4749.45	53072.32	55113.79	4627.34	943.70
2078/79	Nabil Bank Ltd.	9319.81	311440.02	61681.08	33729.33	329576.00	363586.54	23782.29	4972.75
2077/78		7910.46	206622.98	40507.16	37525.46	223408.10	258310.00	17253.79	4668.48
2076/77		4837.39	153890.45	33870.62	45576.73	190806.47	212041.00	16493.15	3489.73
2075/76		7285.64	206622.98	39889.09	37268.52	162953.99	257208.00	17188.72	4527.55
2074/75		4799.63	153890.44	33633.40	45356.57	134810.67	211824.00	16462.91	3463.24
2073/74		13226.44	89877.13	32729.36	4864.34	99078.10	126223.85	8065.59	3613.20
2072/73		10492.53	76106.02	36539.26	4481.56	91237.52	115680.17	6155.66	2819.33
2071/72		18651.73	65501.93	30978.93	3563.41	89528.06	106200.11	5762.35	2093.81
2070/71		12953.43	54684.09	18283.59	4371.85	64141.18	79333.56	3656.58	2319.56
2069/70		5929.51	46369.83	16344.43	4699.83	55157.96	70297.54	5721.11	2219.18

2. Calculation of Descripted Statistics directly calculated in Microsoft Excel

Variables	Mean	Standard Deviation	Minimum	Maximum
Cash And Bank Balance	7795.56	3900.11	3101.41	18651.73
Loan And Advance	97558.92	66401.02	20119.79	311440.02
Investment Securities	20819.88	13502.15	3164.62	61681.08
Misc. Assets	14269.78	13764.33	767.76	45576.73
Deposit (In Mio)	108417.48	66413.56	25319.00	329576.00

Current Liabilities	124335.27	79495.79	25565.86	363586.54
Interest Earned	9286.37	5818.98	2410.78	23782.29
Net Profit	2162.45	1299.20	291.45	4972.75

3. Regression Coefficient (Interest Earned)

Variable	Coefficients	Standard Error	t Stat	P-value(Sig.)
Intercept	393.5866	700.5946	0.5618	0.5797
Cash And Bank Balance	0.1286	0.0983	1.3088	0.2035
Loan And Advance	0.0096	0.0930	0.1035	0.9185
Investment	-0.1203	0.1153	-1.0429	0.3078
Misc. Assets	0.1005	0.0953	1.0548	0.3025
Deposit	0.0212	0.0193	1.0971	0.2839
Current Liabilities	0.0460	0.1030	0.4471	0.6590

4. Regression Coefficient (Total Profit)

Variables	*Coefficients*	*Standard Error*	*t Statistics*	*P-value*
Intercept (Constant)	174.178	280.295	0.621	0.540
Cash And Bank Balance	0.022	0.039	0.555	0.584
Loan And Advance	(0.013)	0.037	(0.337)	0.739

Investment Securities	0.029	0.046	0.625	0.538
Misc. Assets	0.008	0.038	0.215	0.832
Total Deposit	(0.007)	0.008	(0.895)	0.380
Current Liabilities	0.025	0.041	0.600	0.554

5. *Calculation of Correlation coefficient directly calculated in Microsoft Excel using data analysis*

Variables	Cash And Bank Balance	Loan And Advance	Investment Securities	Misc. Assets	Total Deposit	Current Liabilities	INTEREST EARNED	NET PROFIT
Cash And Bank Balance	1							
Loan And Advance	0.2653	1						
Investme	0.3883	0.8390	1					

nt Securities								
Misc. Assets	0.0259	0.8334	0.6451	1				
Deposit	0.3060	0.9786	0.8344	0.8007	1			
Current Liabilities	0.2904	0.9924	0.8825	0.8572	0.9715	1		
Interest Earned	0.2698	0.9574	0.7567	0.8842	0.9442	0.9554	1	
Net Profit	0.3452	0.8555	0.8836	0.7615	0.8287	0.8913	0.8117	1

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