CHAPTER-I
INTRODUCTION

1.1 Background of the Study

Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern which is mainly confined to finance for the development of the trade, commerce and industry. Bank is a financial institution which primarily deals in borrowing and lending. Banking is a vital part of national economy and vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterpriser.

Financial institutions are currently viewed as catalyst in the process of economic growth of a country. A key factor in the development of an economy is the mobilization of the domestic resources. As intermediaries the financial institution helps the process of resources mobilization. The importance of financial institution in the economy has of late grown to an enormous extent. Policies such as lending to the priority sector lending to the educated unemployed people creation of entrepreneurship in the society are certain examples. Which the governments in developing economics try to implement with the help of financial institutions. Commercial banks are the heart of the financial system. They hold the deposits of individual's government establishment and business unit. They make funds available through their lending and investing activities to borrower. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a nation is very important to the functioning of its economy.

The concept of financial institutions in Nepal was introduced when the first commercial bank, Nepal bank limited was established in Kartik 30. In

Baisakh 14 2013 B.S the first central bank named as Nepal Rastra Bank was established with an objective of supervising protecting and directing the functions of commercial banking activities with the growing activities in the country the necessity of an additional commercial bank was realized in the country. Consequently, another commercial bank fully owned by the government named as Rastriya Banijya Bank was established in 2022 B.S. In the fiscal year 2039/40 new Banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. Its objective was to create healthy competitive banking system and to provide cheap banking facilities to the people. The establishment of joint-venture banks gave a new horizon to the financial sector of the country. Nepal Arab Bank limited is first joint venture commercial bank incorporating in 2041 B.S.2043 B.S the second JVBS, Nepal investment Bank Ltd was established in the same year.

In global prospective joint ventures are the mode of trading through partnership between nation and also a form of negotiations between various group and services for sharing comparative advantages. A Joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a special operator industrial or commercial investment production and trade. Proper financial decision making is extremely important in banking transaction for its efficiency and profitability. Most of the financial decision of a bank is concerned with current assets and current liabilities. The working capital management of a bank is different from other types of business enterprises. A bank plays a significant role to fulfill the requirement of working capital of other type of business enterprise.

Investment in working capital of other business enterprises is a part of current assets of bank's working and we can consider deposits and short term of current liabilities.

1.2 Focus of Study

Bank is a business organization where monitory transaction occurs. It create funds from it's clients. Saving and lends the same to needy person or business companies in term of loans, advances and investment. The concept of financial institution in Nepal is introduced when the first commercial bank, the Nepal bank ltd was established in Kartik 30, 1994 B.S as a semi government organization.

Commercial banks are the head of the financial system. They hold the deposits of many persons, government establishment and business units. They make funds available through their lending and investing activities to borrower's individuals, business firms and government establishment. In doing so, they assist both the flow of goods and services from the procedures to consumers and financial activities of the government. They provide large portion of medium of exchange and they are the media through which monitory policy is affected. These facts show that the commercial banking system of the nation is important to the functioning of the economy. In the fiscal year 2039/2040, New banking policy is introduced for the establishment of new banks by the joint investment of foreign nations. The establishment of joint venture banks gave a new horizon to the financial sector of the country proper financial decision making is more important in banking transition for its efficiency and profitability. Most of the financial decisions of bank are concerned with current assets and current liabilities. The working capital management of a bank is different from other types of business enterprises. A bank plays significant role to fulfill the requirement of working capital of any other type of business enterprise. It also needs efficient management. Investment in working capital other business enterprises is a part of current assets of bank is working capital and we can consider deposit and short term borrowing as a part of current liabilities. So, this study is a reference regarding the working capital management.

1.3 Statement of Problem

Working capital is a crucial capital which is compared as life blood of the human beings for any organization. The management of working capital is synonymous to the management of short-term liquidity. It is no doubt, very difficult to point out as to how much working capital is needed by a particular business organization. An organization which is not willing to take more financial risk can go for more short liquidity. The more of short term liquidity means move of current assets and less of current liabilities. So, it is very essential analyze and find out problem and its solution to make efficient use of funds for minimizing the risk of loss to attain profit objective. As the management of current liabilities of the business organization is necessary for day to day operations, it plays the key role in the success or failure of an organization.

Joint venture bank like Nepal Bangladesh Bank limited and Everest Bank Limited are playing an important role in the economic development of the country.

The working capital has to be regarded as one of the conditioning factors in the long range analysis and decision making. To achieve the goal of overall business, the determinants of working capital management should be as accurate as possible. The investment decision should be made on any type of current assets by considering their role in corporation and determining which one is move beneficial to the corporation and which not.

Working capital of the organization can not be managed in an easy way and it should not be neglected. Further the banker's problem in this regard is more difficult than of manufacturing and non-Manu fact business organization.

Institutions important to the general welfare of the economy more than any other financial institution. They have a vastly sobering exacting responsibility. They must be ready to pay "on demand" without working or notice a good share of their liabilities. Different Types of deposits are the main source of fund which they can use of giving loans and advance to different sectors. Hence in order to have a higher return from their transaction bank must try to increases their deposit as well as their investment.

To fix the level of deposit and capacity of mobilizing these deposits is main problem of working capital management of bank.

The some issues to be investigated are as under:

- What are the major factors affecting the management of working capital in NBBL and EBL?
- Is the composition of working capital of NBBL and EBL appropriate?
- What are the components of working capital which affect the operating income of NBBL and EBL most significantly?

1.4 Objectives of the Study

The major objectives of this study are to examine of the mgmt of working capital in Nepal Bangladesh Bank Limited and Everest bank Limited. The Specific objectives of this study are as follows:

- To study the working capital management of NBBL and EBL.
- To study the position of current assets and current liabilities and their impact.
- To examine the liquidly and profitability position of NBBL and EBL.
- To provide appropriate suggestions.

1.5 Significance of the Study

Working capital is the size of investment in each type of current assets. Each of the current assets should be managed efficiently and effectively. It is because decision regarding working capital affects not only the profitability of the firm in the short-term but also it's very survival in the long-rein. Working capital is regarded as the life blood and nature of a business concern and is essential to accommodate the smooth operations of any organization. The success or failure of any organization depends on it strategy on its favor. If the working capital management financial viability and the company could not able to sustain itself in long run. Therefore it is felt significant to the management to be more concentrated in the area of working capital management.

The need of the study like this arises from the real nature of the banking business and also forms the impact that it has in the economy of the country. Therefore it has been felt very necessary to evaluate the position of working capital management and to focus on the importance the working capital management in NBBL and EBL.

1.6 Limitation of the Study

This study is simply a partial requirement of master of business study program, so this study will be limited by following factors:

- There are many factors that affect working capital management of the bank,
- The study is limited to information available for last five year data from 2063/2064 to 2067/2068 for secondary data analysis.
- The study is mostly based on secondary data which may or may not provide exam-vision of the tiled.

1.7 Organization of the Study

This thesis has been divided in to five chapters. They are:

- Introduction
- Review of Literature
- Research Methodology
- Data Presentation and Analysis
- Summary, Conclusions and Recommendations

The introduction chapter covers general background statement of the problem, objectives of the study, focus of study and limitation of the study.

The second chapter focuses on review of literature. It contains the conceptual framework and past research literature on working capital management of various book and research works.

The third chapter deals with the research methodology to be adopted for the study consisting research design, sources of data, data processing procedure, tools and techniques of analysis and period covered.

The fourth chapter contains presentation and analysis of data. In this chapter data are collected through balance sheet and profit and loss account and one presented in tables. Analysis and interpretation of data have been performed there after.

The fifth or last chapter covers summary and conclusion. Finally on extensive bibliography and appendices are presented at the end of the study.

CHAPTER-II

REVIEW OF LITERRATURE

Introduction

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

2.1 Conceptual frameworks

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

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

2.2 Concept of working capital Management

Finance is the life blood for any organization, without which the operation of a business concern is not possible. But only the availability of funds is not enough, I require the proper management of those funds to drive a firm on the road to success. The management of the funds of a business can be described as financial management. Financial management is mainly concerned with two aspects. They are fixed assets & liabilities and current assets & liabilities. Fixed assets and fixed liabilities are long term investment and sources of funds. Current assets and current liabilities means current or the short term uses and sources of funds. Both of such funds play an important role in financial aspects of a business concern.

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

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

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

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

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

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

There are two concepts of working capital, Gross concept and net concept. The gross working capital, simply called as working capital, refers to the firm's investment in current assets. Current assets are the assets, which can be converted into cash within the accounting year and include cash,, short term securities, debtors, Bills receivables and stocks. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year and include creditors, bills payables, and

outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities and a negative net working capital arise when current liabilities are in excess of current assets (Pandey, 1992: 796).

After going through the above concepts of working capital, we can conclude that adequate working capital is the essential condition for any organization, whether it is private or public, manufacturing or non-manufacturing. When a firm holds excessive working capital, it affects a firm's profitability just because an idle investment yields nothing. Likewise, inadequate investment on working capital affects the liquidity position of the company and leads to financial crisis and downfall of the company, so it is very clear that any mismanagement in working capital can hamper the overall efficiency of an organization.

2.3 Types of working capital

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

2.3.1 Permanent working capital

Permanent working capital refers to that level of current assets, which is required on continuous basis over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital. That is why a firm holds certain amount of working capital in order to ensure uninterrupted production and sales functions. It is directly related to the firm's expansion of operation capacity.

2.3.2 Variable working capital

Variable working capital represents that portion of working capital which is required over permanent working capital. If the nature of production and sales

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

2.4 Working capital policy

Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. So, in working capital management, a firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policies according to the financial manager's attitude towards the risk- return trade off. One of the most important decisions is the financing of current assets.

2.4.1 Current assets investment policy

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

2.4.1.1 Fat Cat Policy

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

2.4.1.2 Lean and Mean policy

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

2.4.1.3 Moderate policy

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

2.4.2 Current Assets Financing Policy

Under this policy, permanent & temporary current assets are financed with funds raised from different sources. As cost & risk affect the financing of any assets, it should clearly outline the sources of financing. Aggressive, conservative and matching are the three policies under current assets financing.

2.4.2.1 Aggressive policy

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

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

stringent credit policy. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

2.4.2.2 Conservative policy

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

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

2.4.2.3 Matching policy

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

2.4.3 Determinants of working capital

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

Nature and size of business

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

2.4.3.1 Growth and expansion

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

2.4.3.2 Credit policy

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

2.4.3.3 Production policy

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

2.4.3.4 Availability of credit

It is another factor that affects the working capital requirement. If the creditors avail a liberal credit terms them the firm will need less working capital and vice versa. In other words, if the firm can get credit facility easily on favorable

conditions, it requires less working capital to run the firm smoothly otherwise more working capital will be required to operate the firm smoothly.

2.4.3.5 Manufacturing cycle

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

2.4.3.6 Profit margin

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

2.4.3.7 Price level changes

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

2.4.3.8 Operating efficiency

Operating efficiency also has a big influence on the working capital requirement of the firm. Operating efficiency refers to the efficiency utilization of the available resources at minimum cost. Thus, financing manager can contribute to strong operating efficiency then it needs less amount of working capital otherwise it requires large amount of working capital (Pandey, 1999: 817–819).

2.4.3.9 Level of Taxes

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

2.4.3.10 Need for working capital

Working capital is the lifeblood and controlling nerve centre of every business organization as without the proper control upon working capital no business organization can operate smoothly, therefore, it plays a crucial role in the success & failure of the organization. The need for working capital to run the day to day business activities cannot be overemphasized. We can hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. As we know that business firms aim at maximizing the wealth of shareholders. In its endeavor to do so, a firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among other thing. For the constant operation of business, every firm needs to hold the working capital components such as cash, receivables, inventory etc. hence, and every firm needs working capital to meet the following motives (Pandey, 1999: 809).

2.4.3.11 Transaction motive

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

2.4.3.12 Precautionary motive

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

2.4.3.13 Speculative motive

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

2.4.3.14 Financing of working capital

Every manufacturing concern or industry requires additional assets whether they are in stable or growing state. When the growing firm wants to generate sustained profit, it normally requires fixed as well as working capital. Additional portion of the working capital is approximately dominated by the same rate of sales. However, this portion of capital requirement depends upon the nature of the firm. So, the most important function of a finance manager is to determine the level of working capital and to device how it is to be financed. Financing of any assets is concerned with two major factors- cost and risk. Therefore, the financial manager must determine an appropriate financing mix or decide how current liabilities should be used to finance current assets. However, a number of financing mixes are available to the finance manager. He can present generally three kinds of financing:

2.4.4 Long term financing

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

2.4.5 Short term financing

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

2.4.5.1 Trade credit

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

2.4.5.2 Bank credit

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

Loan arrangement

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

Overdraft arrangement

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

Commercial papers

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

Spontaneous Financing

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

Significance of working capital management

The management of working capital is important for several reasons. For one thing, the current assets of a typical manufacturing firm account for over half of its total assets. For a trading firm, the account for even more excessive levels of current assets can easily result in a firm realizing a substandard return on

investment. However, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations.

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

Determinants of working capital

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

I Nature and size of business

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

Ii Manufacturing cycle

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

Iii Production policy

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

IV Credit policy

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

V Availability of credit

Availability of credit facility is another factor that affects the working capital requirements. If the creditors avail a liberal credit terms, the firm will need less working capital and vice- versa. In other words, the firm can get credit facility

easily on favorable conditions. Thus, it requires less working capital to run the firm otherwise more working capital is required to operate the firm smoothly.

Vi Growth and expansion

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

Vii Price- level change

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

Viii Operating efficiency

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

Ix Profit Margin

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

it contributes towards the working capital as a pool by generating more internal funds.

X Level of taxes

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

Xi Cash requirements

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

Xii Business fluctuations

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

Xiii Change in technology

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

2.5 Review of Related Studies

2.5.1 Reviews of Journals/ Articles

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

published by different management experts about working capital management Joseph (1962) has presented the article on "working capital concept". This article looks a fresh at the problem of determining working capital, and purposes a simple yet comprehensive restatement of principle with respect to current assets and current liabilities. The working capital measures the liquidity, the fluidity of capital and serves as an indicator of balance sheet in the assets and liability structure of the company. Bank and the other short-term creditor are vitally interested in the amount of working capital from the stand point of evaluating the prospect of repayment of their claim against the company. Why firms have different level of working capital. The paper dealt with the strategic determinant of working capital (cash, short-term securities, account receivable and inventory) on a product line basis. The factors analysis is to test 1666 variables against the working capital policies of over 1700 business, or product lines, from 1971 to 1978. His final multiple regression models contained 19 variables pertaining to productions, sales, accounting, competitive position and industry factors.

Working capital model= Sales +Production+ Accounting + Competitive Position+ Industry Factor.

This model was used to explain why working capital levels differ between firms both within and across industries.

Working capital management in public enterprises and study the financial results and constraints has considered ten- selected public enterprises and studied the working capital management of those public enterprises. The study states the managers often lack basic knowledge of working capital and its overall impact on the operative efficiency and financial viability of public enterprises. This study has focused on liquidity, turnover and profitability position of sampled enterprise. Based on those factors, the study has brought certain policy issues of Nepalese public enterprises.

Such as lack of suitable financial planning, negligence toward working capital management, deviation liquidity and turnover of assets and inability to show positive relationship between turnover and return on net working capital. This study has suggested the measures to overcome such policy issues like identifications of needed funds, regular checks and development of management information system, positive attitude towards risk and profit and determination of right combination of short-term and long-term sources to finance working capital requirements.

Pradhan and Koirala, (1983), had jointly published an article on *"some reflections of working capital management in Nepalese corporations".* This article aims to find out the difficulty, problems and importance of current assets management and also aims to find out the motive for holding cash and inventory, the study use only primary data to find out the basic constraints and distributed 200 questionnaires. For the purpose of study, they use both manufacturing public corporation as a sample companies. After analyzing the collected data the major findings of this study are as follows:

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

- Lastly, this study has suggested optimizing its level of investment because both of these situations will erode the efficiency of concern.

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

Earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exist with respect to the presence of economies of scale, role of capital cost, capacity utilization rates, and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The pooled regression results strongly suggested that the demand for working capital and its components is a function of both sales and their capital costs. The estimated results revealed that the inclusion of capacity utilization variable in the model seemed to have contributed to the demand functions of cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivables and gross working capital was doubtful.

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

The articles has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing

difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such as environment should be enough to cope with the possible worst happening in future for working capital management.

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

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

2.5.2 Review of Previous Research Work

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

Pathak, (2005), has done a research on *An Evaluation of Working Capital Management of Nepal Lube Oil Limited.*

His Main Objectives:

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

His Major Findings:

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

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

Sharma, (2006), has done a research on *A study on working capital Management of Nepal Battery Co. Limited.* Considering five year financial statement (i.e. balance sheet, profit and loss a/c and income statement, etc.), from 2000 to 2005. This study has used ration analysis as tools for the purpose of analyze working capital management in NBC Ltd.

His Main Objectives:

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

His Major Findings:

- The major component of working capital of NBC Ltd. are cash and bank balance, account receivable, inventory, miscellaneous current assets and inventory holds large portion of current assets. The proportion of current assets on total assets and fixed assets is increasing, it indicates that inventory in current assets is high with respect to its total assets and fixed assets.
- Inventory to total assets ration shows fluctuating trend and receivable to total asset position show increasing trend. The turnover position is in

fluctuating trend and receivable conversion period and inventory conversation period is long which is unfavorable for the company.

- Values of current and quick ratios are found nearly equal to standard inefficiency in operation can be seen through wide different between gross profit margin and net profit margin and high level of operating ratio. This study has suggested the company to reduce the inventory level. This study recommends about receivable conversion period, which is necessary to reduce with concerning sales volume because reduction of this period may affect on sales volume. Lastly, this study mentions about operating cost, which must be reduced in proper way so that can maximize its profitability and shareholders return.

Kunwar, (2006), has carried out a research on *working capital management of Pharmaceutical Industry of Nepal with Reference to Royal Drugs Limited.* The study has used statistical as well as financial tools to analyze the statement of 2001 to 2005.

His Main Objectives:

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

His Major Findings:

- It has used more long term sources of financing than short term sources and followed conservative working capital policy.
- The major components of current assets in Royal Drugs Limited are cash and bank balance, receivable, inventory. Among these current assets inventory holds largest portion of current assets.
- Company cannot efficiency utilize current assets and there is also inefficient management of receivable policy.

- Liquidity position is satisfactory whereas return position is not satisfactory due to negative return. This study has suggested that the company should determine appropriate financing sources. Company should reduce inventory and receivable level for adjusting with sales and .production level. To balance them company should improve marketing and credit policy.

Amatya, (2007) carried out a research on the topic *An Appraisal of Financial Position of Nepal Bank Ltd.*

His Main Objectives:

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

His Major Findings:

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

Shrestha, (2010), has done a research on *A study on working capital management of Nepal lube oil limited.*

His Main Objectives:

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

His Major Findings:

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

Karki, (2011) has conducted a study on *Working capital Management of Himalayan Bank Ltd. (A Case Study of Himalayan Bank Ltd.)*

His Main Objectives:

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

His Major Findings:

- Proper policies, procedures, guidelines and tools have been developed with appropriate triggers.
- That forms the guiding pillars for its operations.
- The banks believe in corporate culture that emanates from the think Customers philosophy at all levels of the banks.

- Teamwork, camaraderie, sincerity, dedication, trust, respect, equality, dignity and valuing each contribution are key pillars on which the corporate culture of the banks thrives on.

2.6 Research Gap

Many researchers have been conducted in working capital management. In the previous research different statistical tools such as correlation analysis, ration analysis and trend analysis has been used to identify the relationship between various components, which affect the working capital. In the present research researcher has used the statistical tools such as ratio analysis, correlation analysis, composition of working capital its trend analysis has been used to find out the impact of working capital with various variables such as profit, current assets, component of current assets, components of current liabilities. Apart from this, the secondary data has also been used to analyze the impact of working capital management and its effect on organizational efficiency, which may be a new concept for present research. My research study is based on different variables and tolls using new data (2063/64-2067/68).

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a sequential procedure and collection of scientific method to be adopted in a systematic study. In other, word, research methodology describes the method and process applied in the entire aspect of the study. It is a way to systematically solve the research problem. It may be understood as a scientifically. In it we study the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them 22 thus, this chapter deals with the research design nature of data, data gathering procedure, population and samples, and data processing procedures.

3.2 Research Design

Research Design means a definite procedure and technique, which guides the study and propounds way for doing research. Its impact on overall financial position of these two banks. In this study a descriptive and analytical survey is done. The justifications for the choice of this method i.e. preferred because it includes reliable data and information covering a long time and avoid numerous complex variables operating into formulation and adoption of credit and investment policies " Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances "(Kothari)

3.3 Nature and Sources of Data

The data used in this study are basically secondary in nature. Published annual report of the concerned banks is taken basic source of data. The data relating to financial performance are directly obtained from the concerned banks. Similarly, related books, magazines, journals, articles,

report from Nepal stork exchange related website etc. As well as other supplementary data and various economic surveys are also used. Previous related studies to the subject are also counted assure of information.

3.4 Data Processing Procedure

Since the data have been obtained form secondary sources, after collection of financial statement master sheet of financial data have been extracted and tabulated as per the need of this study. In order to process the data, financial statement and other available information are reviewed. These data are grouped in different tables and charts according to their nature. Most of the data have been compiled in one from and processed and interpreted as required.

3.5 Tools of Data Analysis

Financial as well as the statistical tools are used to make the analysis move convenient, reliable and authentic for data analysis, different items from the balance sheet and other statement are tabulated. Their ratios, percentage mean standard deviation and coefficients of variations are then calculated and presented in the tables. To study the relationship between two or more variable, correlation coefficients are also calculated. In order to know about the sources and applications of the fund, funds flow statement is prepared. Likewise, trend analysis is also used to know the trend of various ratio following are the brief introductions of the financial and statistical tools used in this study.

3.5.1 Financial Tools

Financial ratios are calculated to as certain the financial condition of the firm. It is the relationship between financial variables contained in the financial statements (i.e. balance sheet, profit and loss account and income statements).

It helps the related parties to spot out the financial strength and weakness of the firm. There are several financial tools which can be applied in order to analyze the performance of commercial bank. The tools financial tools used in this study are as follows: Liquidity Ratio, Activity Ratio and profitability Ratio. Likewise, net working capital and composition of working capital is terms of cash and bank balance percentage, loan and advance percentage government sanities percentage and miscellaneous current assets percentage are calculated.

1. Liquidity Ratio

This ratio measures the liquidity position and short-term solvency of the firm indicating the company's ability to meet short-term obligation. The current ratio and quick ratio measure the liquidity position of the company. These ratios are calculated to judge the long term as well as short-term financial position of concerned firm.

Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. One of the main objectives of working capital management is keeping good liquidity position. Commercial banks need liquidity to met loan demand and deposit with drawer without good liquidity bank is not able to operate its function. To measure the bank is solvency position or ability to meet its short term obligation, various liquidity ratio are calculated.

The liquidity ratios calculated in this study are as follows:

2. Current Ratio

Current ratio measures the short-term solvency i.e. its ability to measure short-term obligation. In other words current ratio measures the ability to pay debts. As a measure of creditors various current assets. It indicates each rupee of current assets available by dividing current assets by current liabilities.

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

Current assets include cash and those assets which can be converted into cash within a year. Such as debtor receivable, cash and bank balance, prepaid expresses inventory etc. Current liabilities mean all obligations maturing within a year. Under the current liabilities include secondary creditor provision for taxation bank loan, miscellaneous current liabilities and provision.

3. Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An assets is liquid if it can be converted into cash immediately or reasonably soon with out a loss of value. Cash is the most liquid assets. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. Thus, QA includes the all or current assets except inventory or short. Inventory can not be converted into cash immediately. This quick ratio can be found out by dividing the total of quick by total current liabilities.

$$\text{Quick Ratio (QR)} = \frac{\text{Quick Assets (QA)}}{\text{Current liabilities (CL)}}$$

Cash and Bank Balance to Deposit Ratio (Excluding fixed Deposit)

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

$$\text{Balance to Deposit Ratio} \quad \frac{\text{Cash and Bank Balance}}{\text{Total Deposit (excluding fixed Deposit)}}$$

4. Fixed Deposit Total Deposit Ratio

Fixed deposit is a long term and high intent change bearing deposit. Although a high cost liability, increasing fixed deposit is subject to an additional advantage if Utilized properly sufficient fixed deposits enable banks to grant long-term loan to their clients at higher interest rate. This ratio is calculated in order to find out the proportion of total deposit that has higher intent change bearing. The higher the ratio the more the intent bearing deposits as well as better liquidity and lower preparation of current or short-term deposits. it is computed by dividing the amount of fixed deposits by the total deposits amount which is expressed as follows:

$$\text{Fixed Deposit to total Deposits Ratio} = \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

5. Saving Deposit to total Deposit Ratio

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

$$\text{Saving Deposit to Total Deposit ratio} = \frac{\text{Saving Deposits}}{\text{Total Deposits}}$$

a. Activity or Turnover Ratio

The funds of creditors and owners are invested in various assets to generate sales and profit activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio indicates how quickly certain current assets are converted into cash from this ratio it can be known whether or not the business activities are efficient. These ratios are also called turnover ratio because they indicate speed with which assets are converted or turnover into profit generating assets. These ratios,

moreover, help in measuring the banks ability to utilize their available resources. Following ratio are used under the activity ratios.

b) Loan and Advances to Total Deposit Ratio

These ratio assets to what extent, the banks are able to utilize the depositor's funds to earn profit by providing loans and advances. It is computed dividing the total amount of looms and advances by total deposited funds. The formula used to compute this ratio is as:

$$\text{Loan and advance to total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

6. Loan and Advance to Fixed Deposit Ratio

This ratio differs slightly from the former one because it includes the fixed Deposits only. The ratio measures how many much amount is used in loans and advance in comparison to fixed deposits. Fixed deposits are insert bearing long term obligations where as loan and advances are the major sources of investment in generating income for commercial it is calculated as follows;

$$\text{Loan and advance to total Deposit Ratio} = \frac{\text{Loans and advance}}{\text{Fixed deposit}}$$

7. Loan and Advances to Savings Deposit Ratio

This ratio is also employed for the purpose of measuring utilization of saving deposits in generating revenue by giving loan and advance to the client i.e. to determine to what extent collected saving deposit amount is being deployed in providing loan and advances to generate income. Saving deposits are interest bearing obligation for short term purpose where as loan and advances are the short term investment for revenue comes. This ratio indicates how much short term intent bearing deposits are utilized for income generating purpose. The formula for this ratio is as follows:

$$\text{Loans and advances to saving Deposit Ratio} = \frac{\text{Loans and advance}}{\text{Saving Deposit}}$$

a. Profitability Ratio

The profitability ratio, as the name suggests measures the operating profitability in terms of profit margin return on equity and return on total investment, and reflects the overall efficiency and effectiveness of management.

Shareholders, bankers, government, tax collectors, employees are concerned with profit ability of the company, the share holders are interested with their rate of return, employees in the future prospect of the company government in companies' tax payment capacity and bankers in the perspective of the company. A required level of profit is necessary for survival and growth of a firm in a competitive environment.

Profitability can be measured in terms of a relationship between net profit and asset. This ratio is also known as profit-t- asset ratio. It measures the profitability of investment.

Various ratio can be developed based upon the profit under different ratios are called profit ability ratios, which are required to support the purpose of the study. The profitability ratios calculated in this study are:

b. Interest Earned to total Assets Ratio

This ratio is used to determine total interest earned form investments over the total assets of a firm. It can be computed as follows:

$$\text{Intent Earned to total assets ratio} = \frac{\text{Intent earned}}{\text{Total assets}}$$

c. Net Profit to Total Assets Ratio

Profit to total assets ratio is useful in measuring the profitability of all financial resources invested compared to total assets of a firm. this ratio is

calculated by dividing the amount of net profit by the amount of total assets employed. Hence,

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

d. Cost of Services to Total Assets Ratio

A sound management always tries to utilize its larger amount of assets with minimum cost. Cost of services to total assets ratio is useful in measuring the utilization of assets with cost of services. The ratio can be expressed as:

$$\text{Cost of services to Total Assets Ratio} = \frac{\text{Cost of services}}{\text{Total Assets}}$$

e) Composition of Working Capital

To operate a business different kinds of assets are needed. For the day today business operation, different types of current asset are utilized. In case of NBBL and EBL, the main components of current assets are cash and bank balance loan and advance and government securities. Miscellaneous current assets are also a component of current assets prepaid expenses outstanding income like intent receivable and other current assets are included in miscellaneous current assets.

In this study composition percentage of following components:

- Cash and bank balance percentage
- Loan and advances percentage.
- Government securities percentage
- Miscellaneous current assets percentage.

f) Net Working Capital

Net working capital is the difference between current assets and current liabilities. Net working capital can be positive or negative a positive net working capital will arise when current assets exceed current liabilities. A

negative net working capital occurs when current liabilities are in excess of current assets.

3.5.2 Statistical Tools

Various financial tools mentioned above are used to analyze the working capital management of NBBL and EBL. Similarly the relationships between different variables related to the stud y topics are also drawn out using statistical tools.

a. Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. Average value is obtained by adding together all the terms and by dividing this total by the number of terms. The formula is given below:

$\bar{x} = \frac{\Sigma x}{N}$, where

$\bar{x}$ = Arithmetic average

Σx = Sum of values of all terms and

N =Number of terms

b. Standard Deviation

The standard deviation is the measure that is most often use to describe variability in data distributions. IT can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter σ (read as sigma) standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is represented as:

$$\sigma = \sqrt{\frac{\Sigma d^2}{n-1}}$$

σ = standard deviation,

Σd^2 = Sum of the squares of the deviations measured for the arithmetic average and

n =Number of items

c. Coefficient of Variation

The coefficient of variation of the ratio of standard deviation to the mean for a given sample used to measure spared. It can also be of as the measure of relative risk. The large the coefficient of variation, the greater the risk relative to the average. Mathematically,

CV = $\frac{\sigma}{\bar{x}}$, where

CV = Coefficient of variation,

σ = Standard deviation and

$\bar{x}$ = Arithmetic average

d. Coefficient of Correlations

Correlation is a statistical tool which is used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between to sets of figures. Among the various methods of findings out confident of correlation, Karl Pearson's methods applied in the study. The coefficient of correlation is +1, there is perfect relationship between two variable and vice-versa. When r is), there is no relationship between two variables. The formula for the calculation of coefficient of correlation between X and Y is given below;

$$r = \frac{\Sigma XY}{\sqrt{\Sigma X^2 \Sigma Y^2}}$$

e) **Test of Hypothesis**

A Hypothesis is a conjectural statement of the relationship between two or more variables (Kerlinger: 1964). Hypothesis statement should be also to show

the relationship between variables. At the same time, they should carry clear implication for testing the stated relation. The research on this thesis topic strongly holds that the hypothesis formulated, meet the above mentioned criteria. The hypothesis of this study is as follows.

T-statistic

To test the validity of assumption if sample size is less than 30 t-test is used. For applying t-test in the context of small, the t- value is calculated at first and compared with the table values off 't' at a certain level of significance for given degree of freedom. If calculated t-value exceeds the table value (say 0.05) we infer that he difference is not treated as significant. In this research work, t-value is cash and bank balance loan and advance government security current ratio and quick ratio.

1. Hypothesis

a. H_0: There is no significant difference inc composition of working capital between NBBL and EBL

   H_1: There is significant difference in composition of working capital between NBBL and EBL

b. H_0: There is no significant difference in liquidity position between NBBL and EBL.

   H_1: There is significant difference in liquidity position between NBBL and EBL.

c. H_0: There is no significant difference in profitability position between NBBL and EBL.

   H_1: There is significant difference in profitability position between NBBL and EBL.

3.6 Limitations of the Methodology

Each methodology suffers from some kind of limitations. Therefore, the methodology used in this research cannot be different from the common

limitations of same type of researches. However, in analyzing working capital management of the selected sample, the tools applied cannot best describe the relationship between the variables under study since working capital management tools are based on variable assumptions. Hence, the reliability, accuracy and validity of the research findings depend on this sample.

CHAPTER-IV
PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

To achieve objective set in this study data are presented and analyzed in this chapter on the whole, this chapter is related to quantity analysis of various ratio. Some quality oriented analysis has also been done in order to make the result realistic and complete to the possible extent. The major variable of the study are cash bank balance, loan and advances and investment of government securities relevant data and information of working capital as well as financial performance of NBBL and EBL are presented compared and analyzed accordingly. Analysis is performed using various financial and statistical tools. In financial tools it uses ratio analysis in which various related ratio have been compared and analyze such as liquidity ratios, turnover ratio, profitability ratio and composition of working capital. In statistical tools, it uses trend analysis.

4.2 Composition of Working Capital and Trend Analysis

To operate the business, different kind of assets are needed for day to-day business operation, different types of current assets are required. The main components of current assets at NBBL and EBL are cash and bank balance, loan and advances and investment on government securities. Miscellaneous current assets are also a component of current assets, prepaid expenses, outstanding income for example interest receivable and other current assets are included on miscellaneous current assets Table 4.1 and 4.2 shows the amount of cash and bank balance lone and advances government securities and miscellaneous current assets of NBBL and EBL respectively for the study period.

Table: 4.1

Current Assets Components of NBBL (Rs in million)

Fiscal Year	Cash & Bank Balance	Loan & Advance	Government Securities	Misc. Current Assets	Total Current Asset
063/64	1694.68	6460.25	2661.833	720.19	11536.953
064/65	1164.053	4409.01	1034.56	560.11	7167.733
065/66	1922.85	5457.808	1389.90	472.72	9243.278
066/67	2571.417	6704.94	2222.43	326.56	11825.347
067/68	1714.20	7527.72	2647.239	1547.01	13436.169

Source: Annual Report of NBBL

Figure: 4.1

Current Assets Components of NBBL (Rs in million)

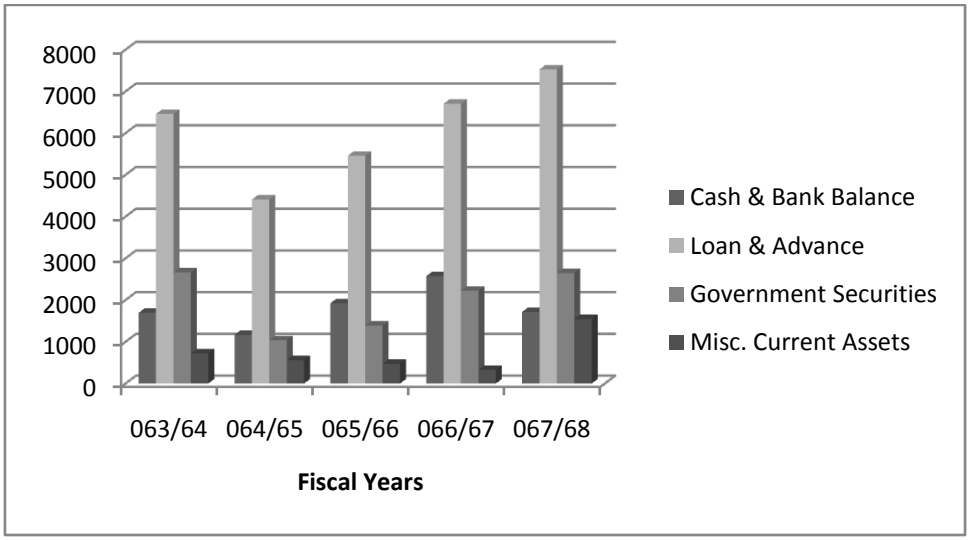


Table: 4.2

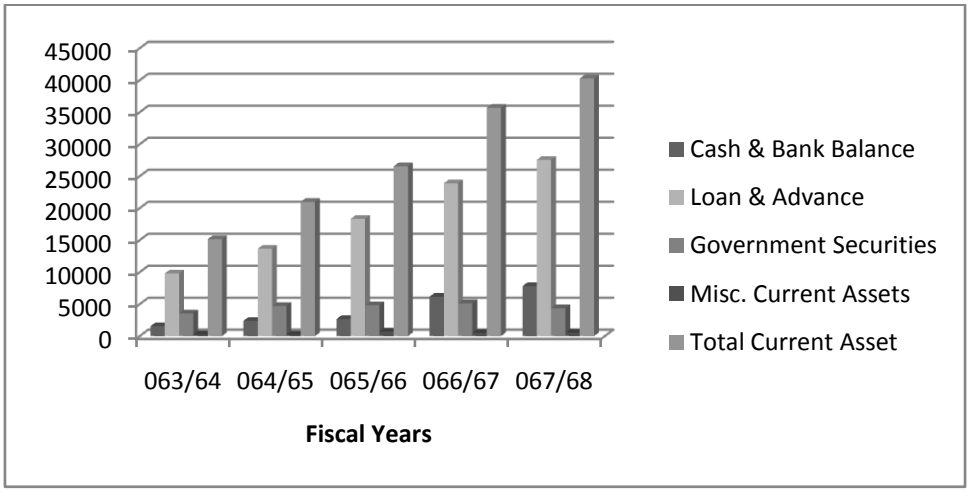
Current Assets Components of EBL (Rs in million)

Fiscal Year	Cash & Bank Balance	Loan & Advance	Government Securities	Misc. Current Assets	Total Current Asset
063/64	1552.97	9801.31	3548.62	254.40	15155.3
064/65	2391.42	13664.08	4704.63	222.67	20982.8
065/66	2667.97	18339.09	4821.61	722.215	26550.88
066/67	6164.37	23884.67	5146.046	492.17	35687.25
067/68	7818.82	27556.35	4354.35	536.19	40265.71

Source: Annual Report of EBL

Figure: 4.2

Current Assets Components of EBL (Rs in million)



From the above tables and figure show that the total amount of current assets components of EBL is seen higher than NBBL. Due to unequal volume of the components, percentage of components of current assets is required for comparative analysis. The percentage composition of current assets to total current assets i.e. cash and bank balance, loan and advances, investment in government securities and miscellaneous current assets are as follows:

4.3 Percentage Components of Current Assets of NBBL and EBL

Table: 4.3

Percentage Components of Current Assets of NBBL

Fiscal Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
063/64	14.68	55.99	23.07	6.24	100.00
064/65	16.24	61.51	24.3	7.81	100.00
065/66	20.80	59.04	15.03	5.11	100.00
066/67	21.74	56.69	18.75	2.76	100.00
067/68	12.758	56.02	19.70	11.51	100.00
Average	17.24	57.85	18.204	6.686	100.00
S.D (σ)	3.89	2.39	3.56	3.26	
C.V.	0.23	0.041	0.195	0.48	

Source: Appendix-5,6,7 & 8

Figure: 4.3

Percentage Components of Current Assets of NBBL

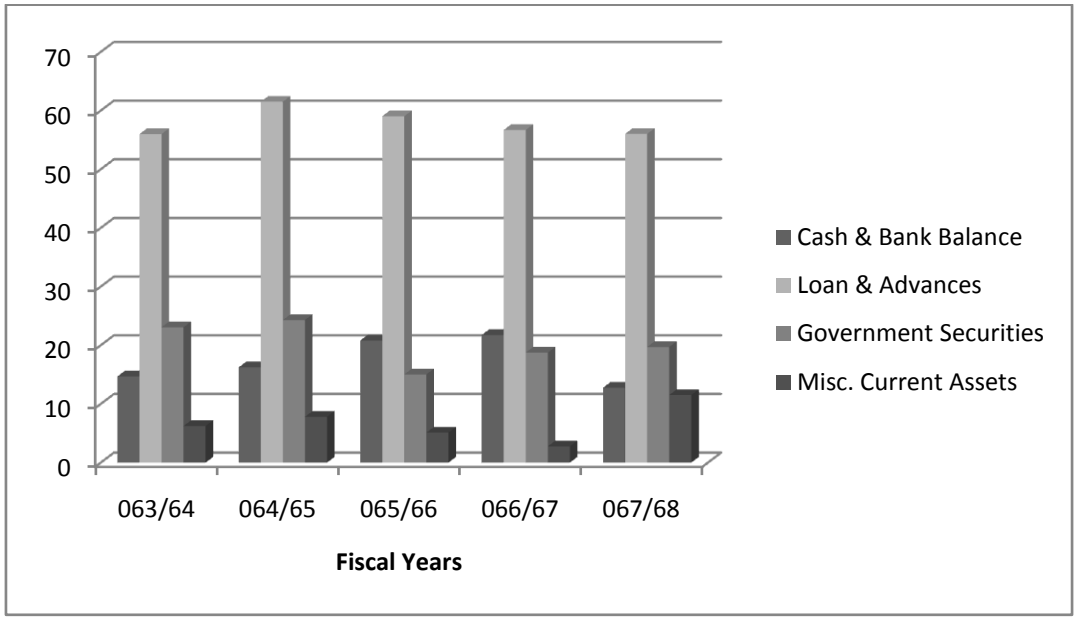


Table: 4.4

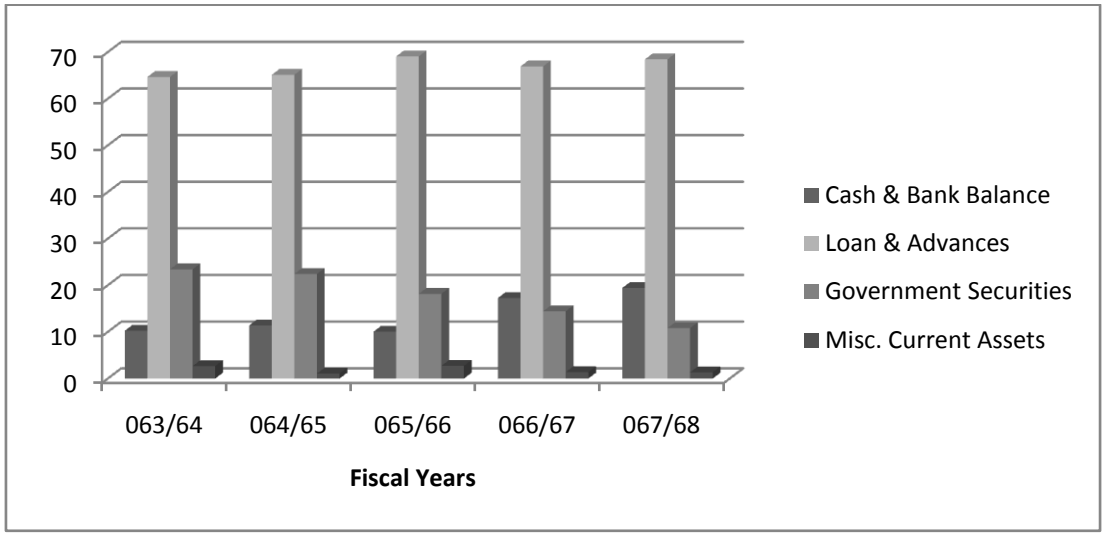
Percentage Components of Current Assets of EBL

Fiscal Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
063/64	10.25	64.67	23.42	2.67	100.00
064/65	11.39	65.12	22.42	1.06	100.00
065/66	10.05	69.07	18.16	2.72	100.00
066/67	17.27	66.93	14.41	1.37	100.00
067/68	19.42	68.44	10.81	1.33	100.00
Average	13.67	66.84	17.84	1.63	100.00
σ	4.36	1.94	5.32	0.64	
C.V.	0.32	0.029	0.29	0.39	

Source: Appendix-5,6,7 & 8

Figure: 4.4

Percentage Components of Current Assets of EBL



Above the table and figure show that the Cash and bank balance percentage of NBBL and EBL are fluctuations over the study period. It is highest (12.758%) in the fourth year and Lowest (12.758%) in the fifth year of the study period. The average cash and bank balance percentage of NBBL is (17.24%). The yearly cash and Bank balance percentage of EBL also fluctuated over the study period. It is highest (19.42%) in the fifth year and Lowest (10.05%) in the third year of the study period. The average cash and Bank balance percentage of EBL is (13.676%). The study shown that average cash and bank balance percentage of NBBL (17.24%) is higher than that of EBL (13.676). Similarly, the standard deviation is (3.89%) in NBBL whereas it is (4.36%) in EBL. Hence it shows EBL has higher risk factors then that of NBBL. Likewise, coefficient of variation is 0.23 for NBBL and 0.32 for EBL, indicating more variation is 0.23 for NBBL and 0.32, indicating more variation in cash and Bank balance maintained in EBL compared to NBBL.

Loan and advances percentage of NBBL above table 4.3 fluctuate over the study. It is in year 2064/065 i.e. 61.51% and lowest in the year 2063/064 i.e. 55.99%.The average loan and advances percentage of NBBL in 57.85%

The yearly loan and advance percentage of EBL is also fluctuation over the study period. It is highest (68.44%) in the fifth year and lowest (64.97%) in the first year of the study period. The average loan and Advance percentage of EBL is (66.846%). The study shown that average loan and advance percentage of EBL (66.846%) is higher than that of NBBL (57.85%). The standard deviation is (2.39%) in NBBL whereas it is (1.94%) in EBL. Hence it shows NBBL has higher risk factor then that of EBL. Similarly coefficient of variation is 0.0413 in NBBL and 0.029 in EBL. Hence more variation in loan and advance is maintained in NBBL compared to EBL.

Government securities percentage of NBBL above table 4.3 is fluctuation over the study period. It is highest (23.07%) in the first year and lowest (14.43%) in the second year of the study period. The average government securities percentage of NBBL is (18.204%). The yearly government securities percentage of EBL also fluctuated over the study period. It is highest (23.42%) in the first year and lowest (10.81%) in the last year of the study period. The average government securities percentage of EBL is (17.84%). The study shown that average government securities percentage of NBBL (18.204%) is higher than that of EBL (17.84%).The standard deviation is (3.56%) in NBBL whereas it is (5.32%) in EBL. Hence it shows EBL has higher risk factor than that of EBL. Similarly coefficient of variation is 0.195 NBBL and 0.298 in EBL. Hence more variation in government securities is maintained in NBBL compared to EBL.

Miscellaneous current assets percentage of NBBL above table 4.3 is fluctuating all over the period of study. It is highest (11.51%) in the year 2067/068 and lowest (2.76%) in the year 2066/067. The average miscellaneous current assets percentage for NBBL is (6.686%). The year miscellaneous current assets percentage of EBL also fluctuated over the study period. It is highest (2.72%) in the year 065/066 and lowest (1.06%) in the year 2063/2064. The average miscellaneous current assets

percentage of NBBL (6.686%) is higher than that of EBL (1.6318%). The standard deviation is (3.26%) in NBBL where as it is (0.645%) in EBL. Coefficient of variation is 0.487 in NBBL and 0.396 in EBL. Hence more variation in miscellaneous current assets is maintained in EBL compared to NBBL.

4.4 Net Working Capital

Net working capital is the different between current assets and current liabilities. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets. All the organization should have just adequate working capital to serve in competitive market. Excessive investment working capital is dangerous from the firm's point of view. Excessive investment working capital affects firm's profitability just as idle investment yields nothing. In the same way inadequate or negative working capital may be harmful to the organization. So networking capital can be more useful for the analysis of trade-off between profitability and risk. It enables a firm to determine how much amount is left for operational requirement.

Table: 4.5

Net Working Capital and NBBL (Rs. in million)

Fiscal Year	Current Assets	Current Liabilities	Net Working Capital	% change in NWC
063/64	11536.953	13271.86	-1734.907	-
064/65	7167.733	9878.7	-2710.97	56.26%
065/66	9243.278	11582.47	-2339.19	-13.71%
066/67	11825.347	10852.3	973.047	141.59%
067/68	13436.169	11931.11	1505.059	54.67%
Average			-861.39	
C.V.			-2.27	

Source: Appendix-1&10

Figure: 4.5

Net Working Capital and NBBL (Rs. in million)

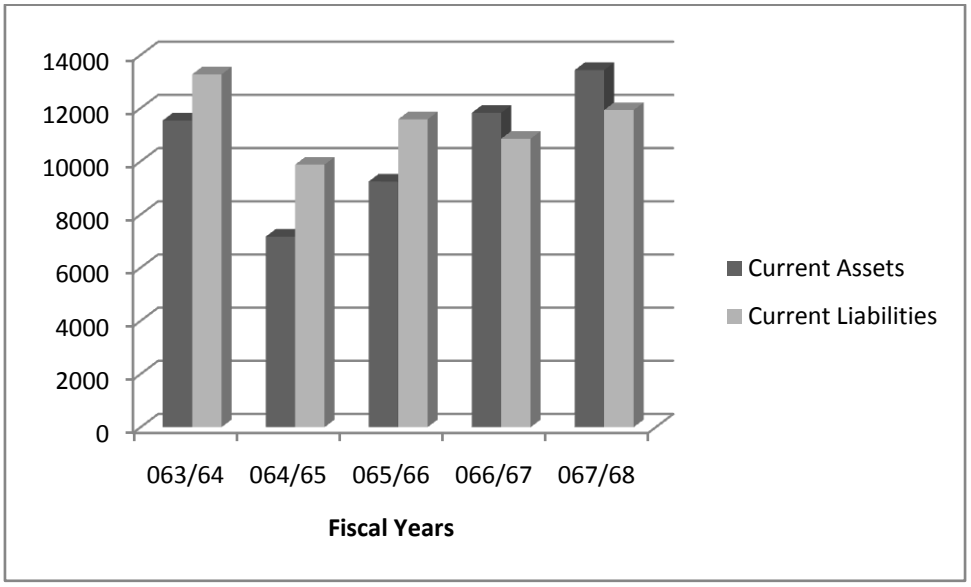


Table: 4.6

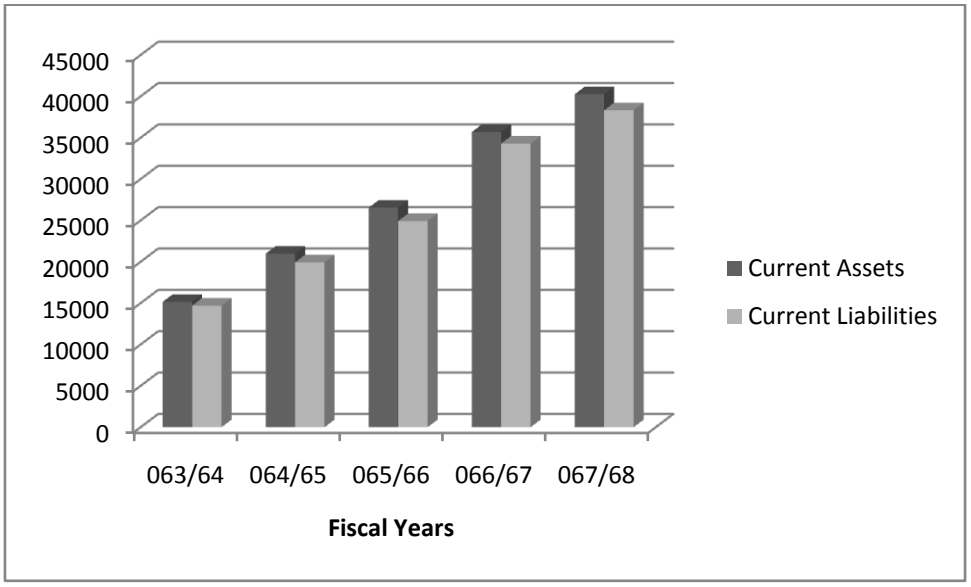
Net Working Capital and EBL (Rs. in million)

Fiscal Year	Current Assets	Current Liabilities	Net Working Capital	% change in NWC
063/64	15155.3	14696.46	458.87	-
064/65	20982.8	19931.04	1051.46	129.14
065/66	26550.88	24928.08	1622.8	54.34
066/67	35687.25	34297.37	1389.88	-14.35
067/68	40265.71	38325.89	1939.82	39.57
Average			1292.566	
C.V.			0.44	

Source: Appendix-2&10

Figure: 4.6

Net Working Capital and EBL (Rs. in million)



Above the table and figure show that the net working capital of NBBL is decreasing every year except for the in the second last and last year .It has increased by more than previous year. The average net working capital of NBBL ranges from Rs. 2339.19 million to Rs.1505.059 million.

In case of EBL, table 4.6 shows that the net working capital is fluctuation all the year. The average net working is fluctuation all the year. The average net working of EBL is 1292.566 million. The net working capital in range from Rs 458.87 million to Rs 1939.82 million.

Both the banks have negative working capital in the first year of study period which implies that there is insufficient amount required for operational requirement in that year.

4.5 Ratio Analysis

Ratio analysis is a powerful financial tools to measure the financial performance of banks comparatively. As mentioned in research methodology liquidity turnover and profitability ratio are calculated. As a

mathematical tools the method of least square is used to analyze performance.

4.5.1 Liquidity Ratio

To measure the banks solvency position or ability to meet its short term obligation various liquidity ratio are calculated and to know the trend of liquidity, trend analysis of major liquidity ratio have been considered.

4.5.1.1 Current Ratio

The current ratio has been calculated as shown:

$$\text{Current Assets} = \frac{\text{Current Assets}}{\text{Current Liabilites}}$$

The following table shows the current ratio to compare the working capital management of NBBL and EBL.

Table: 4.7

Current Ratio (Rs in million)

Fiscal Year	NBBL			EBL		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
063/64	11536.953	13271.86	0.87	15155.3	14696.46	1.03
064/65	7167.733	9878.7	0.73	20982.8	19931.04	1.05
065/66	9243.278	11582.47	0.79	26550.88	24928.08	1.065
066/67	11825.347	10852.3	1.08	35687.25	34297.37	1.04
067/68	13436.169	11931.11	1.13	40265.71	38325.89	1.05
Average			0.92			1.047
S.D.			0.176			0.013
C.V.			0.19			0.0124

Source: Appendix-1,2&11

Figure: 4.7

Current Ratio (Rs in million)

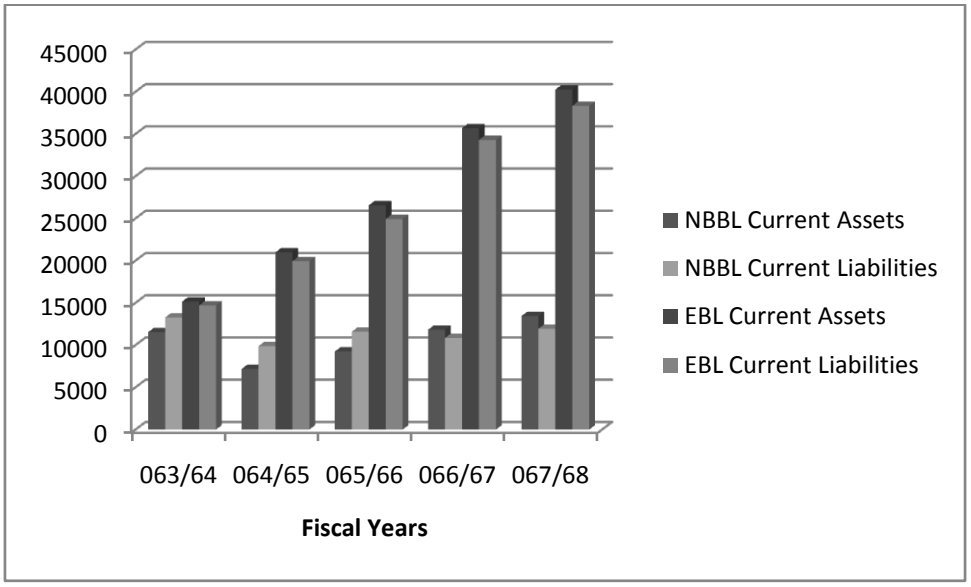


Table and figure depicts that the current assets and current liabilities of NBBL are fluctuating for all the times during the study period. Similarly in case of EBL too, the current assets and current liabilities are increasing for all the times. The current ratio of NBBL is decreasing in 2064/065 year and is increasing in the rest of the year. In EBL, the current ratio is gradually increasing for all the times except for the year 2066/067 in which it decreases throughout the year. The highest ratio of NBBL is 1.13 in year 2067/068 and lowest in 0.73 in year 064/065. In EBL, the highest current ratio is 1.065 in year 2064/2065 and lowest 1.03 in year 2063/064. The average current ratio of NBBL is 0.92. In EBL the average ratio is 1.047. The yearly ratios of EBL are always higher than that of NBBL. Therefore the average ratio of EBL is higher than the average ratio of NBBL. The standard deviation is 0.176 in NBBL whereas it is 0.013 in EBL. Similarly coefficients of variation are 0.19 in NBBL and 0.012 in EBL. Hence it shows there is more variation in current ratio maintained by NBBL compared to EBL.

The above analysis helps to conclude that both banks are unable to maintain the standard current ratio 2:1 hence they have poor. Liquidity position according to norms but they have sufficient current assets to discharge the current liabilities position of EBL is better than of NBBL. In other words, EBL has more ability to meet its current obligation then NBBL.

4.5.1.2 Quick Ratio

For the study, cash and bank balance and government securities are include in quick assets .It is calculated as below.

$$\text{Quick Ratio} = \frac{\text{Quick or Liquid Assets}}{\text{Current Liabilites}}$$

The following table shows the quick ratio of NBBL and EBL

Table: 4.8

Quick Ratio (RS in million)

Fiscal Year	NBBL			EBL		
	Quick Assets	Current Liabilities	Ratio	Quick Assets	Current Liabilities	Ratio
063/64	4356.513	13271.86	0.33	5101.59	15155.3	0.35
064/65	2198.613	9878.7	0.22	7096.05	20982.8	0.36
065/66	3312.75	11582.47	0.29	7489.58	26550.88	0.30
066/67	4793.84	10852.3	0.44	11310.41	35687.25	0.33
067/68	4361.439	11931.11	0.37	12173.17	40265.71	0.32
Average			0.33			0.332
S.D.			0.083			0.024
C.V.			0.25			0.07228

Source: Appendix-1,2&12

Figure: 4.8

Quick Ratio (RS in million)

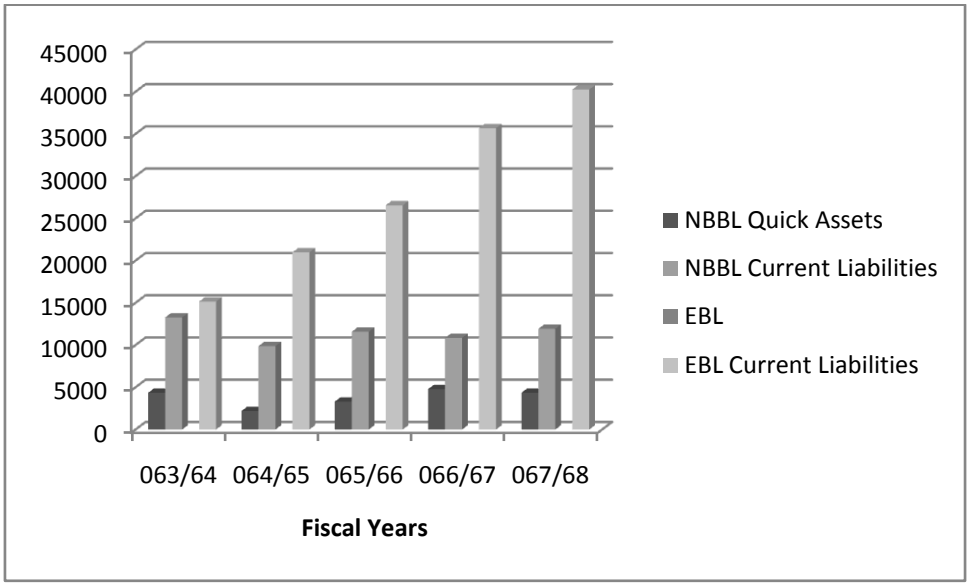


Table and figure depicts that the quick ratio of NBBL are increasing over the study period except for the year 2064/065 and 066/067. The ratio is highest 0.44 in year 2066/067. The yearly quick ratios are lower than the average in the beginning of the years 064/065, 065/066.

In case of EBL too, the yearly quick ratio are fluctuating over the year of the study. It is highest (0.36) in the year 064/065 and lowest (0.30) in the year 2065/066. The average quick ratio of EBL is 0.332. In the 065/066, 066/067, 067/068 year of study, the yearly quick ratio are lower than the average ratio. However, the ratios are higher than the average ratio in the 063/064,064/065, years.

The yearly quick ratios of EBL are always higher that of NBBL. So the average quick ratio of EBL is higher than that of NBBL. The standard deviation is 0.083 in NBBL whereas it is 0.024 in EBL. Similarly coefficient of variation are 0.25 in NBBL and 0.072 in EBL which shows that there is more variation in quick ratio of NBBL compared to EBL.

4.5.1.3 Cash and Bank Balance to Deposit Ratio

This ratio is calculated as below:

$$\text{Balance to Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

The following table shows the cash and bank balance to deposit ratio of NBBL and EBL.

Table: 4.9

Cash and Bank Balance to Deposit Ratio

Fiscal Year	NBBL			EBL		
	Cash & Bank Balance	Deposit	Ratio	Cash & Bank Balance	Deposit	Ratio
063/64	1694.68	13015.13	0.13	1552.97	13802.44	0.11
064/65	1164.053	9385.95	0.12	2391.42	18186.25	0.13
065/66	1922.85	10883.65	0.18	2667.97	23976.29	0.11
066/67	2571.417	9997.69	0.25	6164.37	33322.95	0.18
067/68	1714.20	9785.19	0.18	7818.82	36932.31	0.21
Average			0.172			0.148
S.D.			0.0516			0.045
C.V.			0.30			0.304

Source: Appendix-1,2&13

Figure: 4.9

Cash and Bank Balance to Deposit Ratio

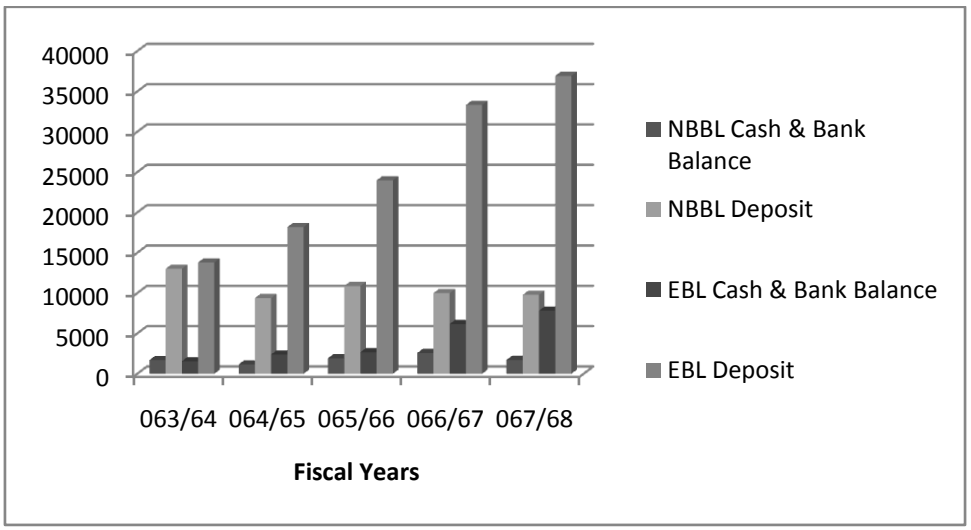


Table and figure depict that the ratio of NBBL are fluctuating over the year of study period. The ratios are decreasing for all the year of study period expect fourth year. It is highest in the year 066/067 and lowest in the year 064/065. The average ratio of NBBL is 0.172.The ratio is lower than average only in the second and the first year and rest of the three year of study period has higher than average value.

In case of EBL the ratio are fluctuating as well. It is increasing in the fourth year and the year and is decreasing in the rest of the year of the study period. It is highest in 067/068 and lowest in 063/064 and 065/066. The average ratio of EBL is 0.148 only in the fourth and fifth year i.e. 066/067 and 067/068 the ratios are higher than the average ratio. The average ratio of NBBL greater than EBL. The standard deviation is 0.0516 in NBBL whereas it is 0.045 in EBL. Thus CV of NBBL is 0.3 whereas it is 0.304 in EBL has high risk or the variability of the ratio is lower in NBBL then EBL.

4.5.2 Activity or Turnover Ratio

This ratio is examine the efficiency with which the firm manages and utilizes it s assets. These ratio help in measuring the bank ability to utilize their available resources. The activity turnover ratios calculated are as follows:

4.5.2.1 Loan and Advance to Total Deposit Ratio

This ratio is calculated as below:

$$\text{Loan and Advance to total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

The following table shows the effectiveness in utilization of total deposits of NBBL and EBL.

Table: 4.10

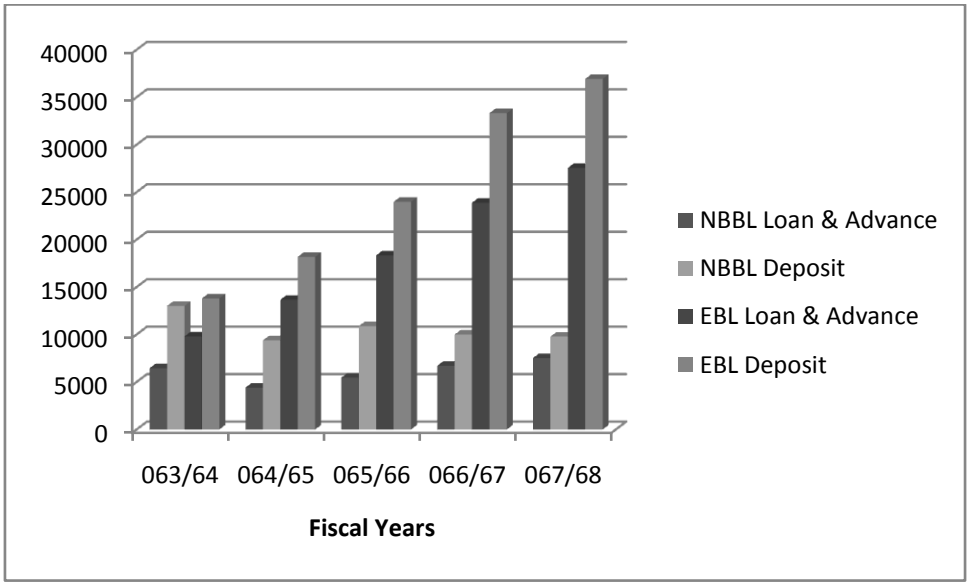
Loan and Advance to Total Deposits Ratio (in millions)

Fiscal Year	NBBL			EBL		
	Loan & Advance	Deposit	Ratio	Loan & Advance	Deposit	Ratio
063/64	6460.25	13015.13	0.49	9801.31	13802.44	0.71
064/65	4409.01	9385.95	0.47	13664.08	18186.25	0.75
065/66	5457.808	10883.65	0.50	18339.09	23976.29	0.76
066/67	6704.94	9997.69	0.67	23884.67	33322.95	0.72
067/68	7527.72	9785.19	0.76	27556.35	36932.31	0.75
Average			0.578			0.738
S.D.			0.13			0.0216
C.V.			0.22			0.029

Source: Appendix-1,2&14

Figure: 4.10

Loan and Advance to Total Deposits Ratio (in millions)



Above table and figure depict that loan and advance of NBBL and EBL are fluctuating every year except the last year of study period. However the loan and advance to total deposit ratio of NBBL are fluctuating every year.

It is decreasing for the first, second and third years, for NBBL. The ratio is highest in year 067/068 i.e. 0.76 and lowest in year 064/065 i.e. 0.47. The average ratio of NBBL is 0.578 which is lower than its yearly ratio in 066/067 and 067/068 and higher than its yearly ratio in 063/064and 064/065 and 065/066. For EBL as well the loan and advance are gradually increasing every year. The ratio of EBL is highest in year 065/066 i.e. 0.76 and lowest in year 063/064, i.e. 0.71. The average ratio of EBL is 0.738 which is higher than its yearly ratio in 063/064 and 066/067 but lower than it s yearly ratio in 064/065, 065/066, 067/068.

The yearly ratios of EBL are mostly higher than that of NBBL. The average loan and advance to total deposit ratio of EBL (0.738) is also higher than that of NBBL (0.578).

The standard deviation is 0.13 in NBBL whereas it is 0.0216 in EBL. Similarly, coefficients of variation are 0.22 in NBBL and 0.029 in EBL. Thus CV of EBL is lower than NBBL. EBL has low risk. The above analysis helps to conclude, that loan and advances to total deposit ratio or total deposit turnover ratio of EBL is better than NBBL. It is the indicated of better performance of EBL. Thus EBL is utilizing the funds more efficiently for the profit generating purpose on lone and advances then NBBL.

4.5.2.2 Profitability Ratio

Profitability ratio is the measurement of efficiency. It provides the degree of success in achieving desired profit. Here, profitability is measured in terms of various ratios as follows:

4.5.2.3 Interest Earned to Total Assets Ratio

This ratio can be calculated as follows:

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

The following table shows the interest earned to total assets ratio of NBBL and EBL:

Table: 4.11

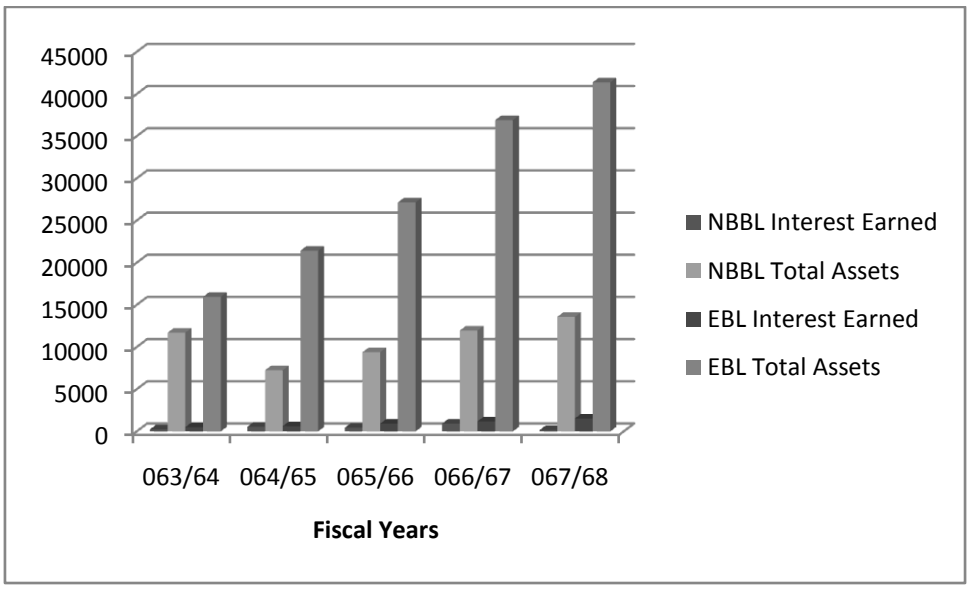
Interest Earned to Total Assets Ratio

Fiscal Year	NBBL			EBL		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
063/64	240.037	11709.28	0.020	502.013	15959.28	0.031
064/65	549.977	7254.55	0.075	627.24	21432.57	0.029
065/66	430.28	9391.026	0.045	916.047	27149.34	0.034
066/67	927.33	11964.55	0.076	1193.94	36916.85	0.032
067/68	149.61	13575.65	0.011	1529.66	41382.76	0.037
Average			0.0454			0.0326
S.D.			0.030			0.00304
C.V.			0.66			0.093

Source: Appendix-3,4&15

Figure: 4.11

Interest Earned to Total Assets Ratio



Above table and figure show that interest are fluctuating during the study period in NBBL. The interest earned to total assets ratio of NBBL seemed to be quite fluctuating. It is highest in the year 066/067 and lowest in the year 067/068. The average ratio of NBBL is 0.045 in EBI interest earned is always increasing but the ratio are fluctuating during the study period. The ratios are decreasing from the year 064/065. It is higher in year 067/068 and lowest in year 064/065. The average ratio of EBL is 0.0326. The yearly ratios of NBBL are always higher than EBL. So the average ratio of NBBL is higher than EBL. The Coefficient of variation are 0.66 in NBBL and 0.093 in EBL. Thus CV of NBBL is higher than EBL. This shows that there is more variation in interest earned to total assets ratio maintained by NBBL, compared to EBL. In other words EBL has lower risk in it.

4.5.2.4 Net Profit to Total Assets Ratio

This ratio can be calculated as:

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

The following table shows the net profit to total assets ratio of NBBL and EBL.

Table: 4.12

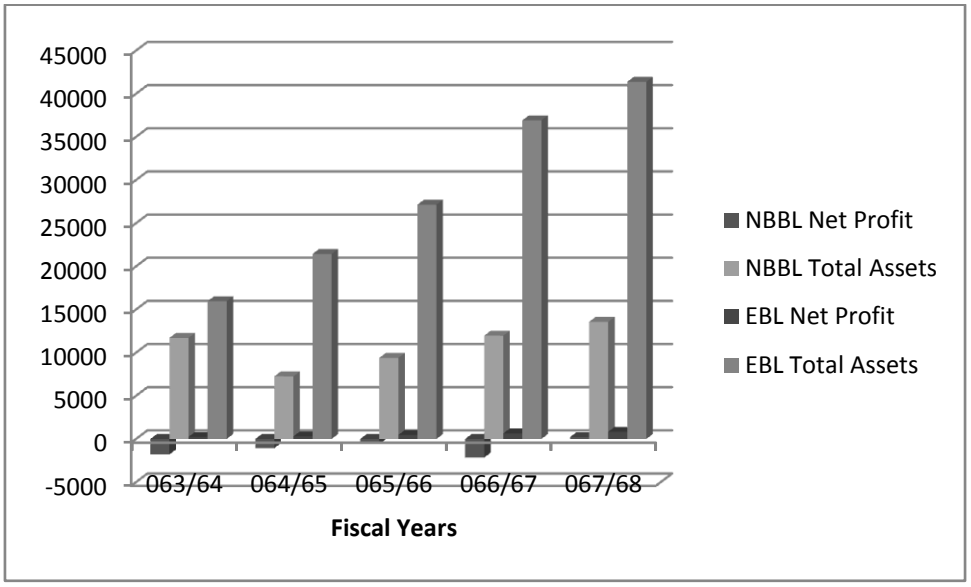
Net Profit /Loss to Total Assets Ratio (Rs in million)

Fiscal Year	NBBL			EBL		
	Net Profit	Total Assets	Ratio	Net Profit	Total Assets	Ratio
063/64	(1796.15)	11709.28	(0.153)	237.29	15959.28	0.015
064/65	(1061.57)	7254.55	(0.146)	297.99	21432.57	0.014
065/66	(596.48)	9391.026	0.064	459.29	27149.34	0.016
066/67	(2158.10)	11964.55	0.18	638.73	36916.85	0.0173
067/68	218.208	13575.65	0.016	831.76	41382.76	0.02
Average			(0.0078)			0.016
S.D.			0.14			0.00238
C.V.			(17.95)			0.1487

Source: Appendix-3,4&16

Figure: 4.12

Net Profit /Loss to Total Assets Ratio (Rs in million)



Above the table and figure depict that the overall profitability ratio, NBBL is fluctuating for the years. Ratio is negative for year 063/064, and 064/065. The ratio is highest in 066/067 and lowest in (0.146%). The average ratio of NBBL is (0.0078%). The ratios of EBL are fluctuating for the overall year. The ratio is highest in year 067/068 and Lowest in 064/065. The average ratio is 1.6%. The yearly ratios of EBL are higher than NBBL.

The coefficients of variation are negative (17.95) in NBBL and 0.00238 in EBL. Thus CV of NBBL is lower than that of EBL. This is more variation in net profit to total assets ratio maintained by NBBL compared to EBL. In other words EBL has higher risk in it.

4.5.2.5 Net Profit to total Deposit Ratio

The ratio is calculated as:

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

The following table shows the net profit /Loss to total deposit ratio of NBBL and EBL.

Table: 4.13

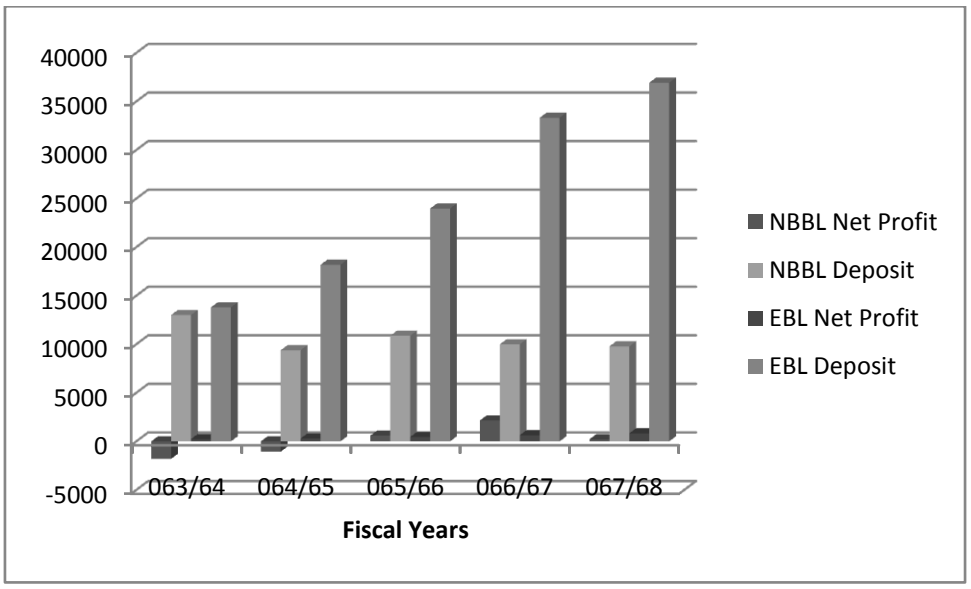
Net Profit /Loss to Total Deposit Ratio (Rs. in million)

Fiscal Year	NBBL			EBL		
	Net Profit	Deposit	Ratio	Net Profit	Deposit	Ratio
063/64	(1796.15)	13015.13	(0.133)	237.29	13802.44	0.017
064/65	(1061.57)	9385.95	(0.113)	297.99	18186.25	0.016
065/66	596.487	10883.65	0.055	451.21	23976.29	0.018
066/67	2158.10	9997.69	0.22	638.73	33322.95	0.019
067/68	218.208	9785.19	0.022	831.76	36932.31	0.0225
Average			0.0092			0.0185
S.D.			0.1439			0.0129
C.V.			1564			0.697

Source: Appendix-3,4 &17

Figure: 4.13

Net Profit /Loss to Total Deposit Ratio (Rs. in million)



Above the table and figure depict that the ratio for NBBL and EBL are fluctuating during entire period of study. In NBBL, the ratio negative for

first two year and thesis fluctuating thereafter. The highest ratio of NBBL is 22% in year 066/067 and lowest is (0.138) in year 063/064. The average ratio of NBBL is 0.0092. In EBL the yearly ratio fluctuating till the two year and then increased the rafter. It is highest in year 067/068 and lowest in year (0.138). The average ratio of EBL is 0.0185 during the study period. The average ratio of NBBL is lower than that of EBL.

The coefficients of variation are 15.64 in NBBL and 0.697 in EBL. Thus CV of NBBL is higher than that of EBL. This shows that there is more variation in net profit to total deposit ratio minted by NBBL compared to EBL. NBBL has high risk in it.

The above analysis helps to conclude that the net profit to total deposit ratio of NBBL is better than EBL. Mobilization of external funds is important to earn profit for commercial bank. Thus EBL has better performance on mobilization of total deposits during that period.

4.5.2.6 Cost of services to Total Assets Ratio

The ratio is calculated as:

$$\text{Cost of services to Total Assets Ratio} = \frac{\text{Cost of Serviices}}{\text{Total Assets}}$$

The following table shows the cost of services to total assets ratio of NBBL and EBL:

Table: 4.14

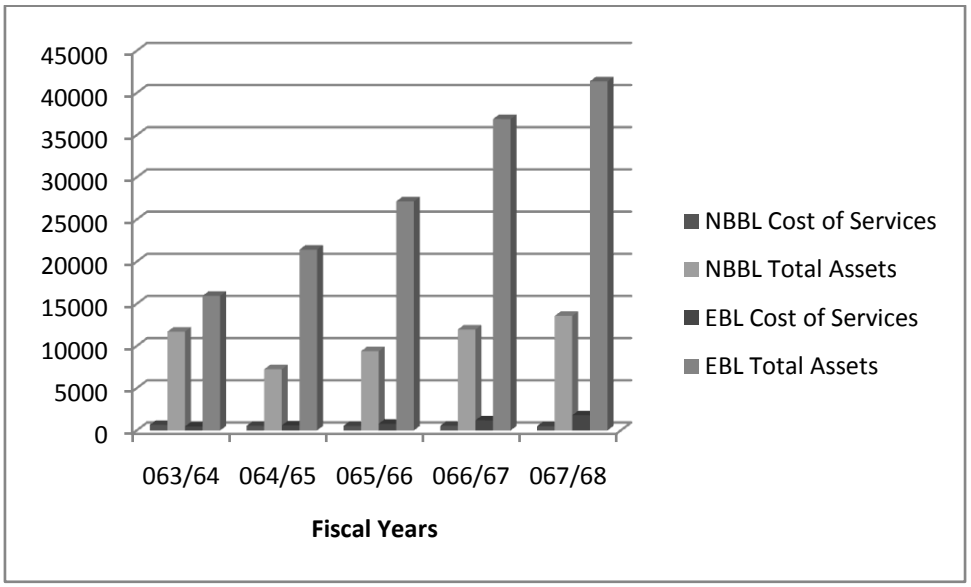
Cost of services to total Assets Ratio (Rs in million)

Fiscal Year	NBBL			EBL		
	Cost of Services	Total Assets	Ratio	Cost of Services	Total Assets	Ratio
063/64	658.755	11709.28	0.058	472.31	15959.28	0.029
064/65	544.75	7254.55	0.075	603.24	21432.57	0.028
065/66	538.83	9391.026	0.057	790.56	27149.34	0.029
066/67	548.203	11964.55	0.046	1199.79	36916.85	0.032
067/68	508.26	13575.65	0.037	1799.15	41382.76	0.043
Average			0.0546			0.0322
S.D.			0.01428			0.0062
C.V.			0.26			0.193

Source: Appendix-1,2 &18

Figure: 4.14

Cost of services to total Assets Ratio (Rs in million)



Above table and figure show that the amount of cost of services of NBBL is fluctuating over the year of study period. The ratio of NBBL is highest in year 064/065 and lowest in 067/068. The average ratio of NBBL is 5.46%.

The EBL, the amount of cost of services is increasing but the ratio are decreasing for 064/065 year .The highest ratio of EBL is 4.3% in 067/068 and lowest in 2.8% in 064/065. The average ratio of EBL is 3.2% for that period. The yearly ratios of NBBL are higher than that of EBL. Hence the average ratio of NBBL (5.46%) is higher than that of EBL (3.22%).

The coefficients of variation are 0.26 in NBBL are 0.193 in EBL. Thus CV of EBL is higher than NBBL. This shows that there is more variation in cost of services to total assets ratio maintained by EBL compared to NBBL.

From the above analysis we conclude the cost of services on NBBL is higher than that of EBL during that period. Due to higher services cost profitability of NBBL is not satisfactory. In other words, EBL is performing better in terms of cost of services to total deposit ratio.

4.6 Correlation Analysis

Correlation is a statically tools that can be used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measured the degree of relationship between to sets of figures. Among the various method of finding out coefficient of correlation Karl Pearson's method is applied in the study. The result of coefficient of correlation is +1 there is perfect relationship between two variables and vice-versa. When r is 0, there is no relationship between two variables and vice –versa. When r is 0, there is no relationship between two variables.

In order to test whether the correlation coefficient is significant of the correlation between is significant of the correlation between the two variables; t-test has been applied at the standard significant level of 5%. If calculated value of t is greater or equal to its tabulated value, it is significant. The value is not significant otherwise.

4.6.1 Coefficient of Correlation between Loan and Advances and Total Deposit

The coefficient of correlation between loan and advances and total deposit is to measure the degree of relationship between major components of current assets, that is loan and advance and whether there is any relationship between these two variables. To find out the correlation r various calculation are done.

The 4.19 shows the coefficient of correlation between loan and advance and total deposit, and test statistic value of NBBL and EBL during the study period.

Table: 4.15

Correlation Coefficient and Calculated and Tabulated t Values

Bank	r	Calculated t	Tabulated t	Result
NBBL	-0.43	-0.823	3.182	Not Significant
EBL	0.997	22.29	3.182	Significant

Source: Appendix-19&20

The table above indicates that the coefficient correlation between loan and advance and total deposit of NBBL is -0.43 which indicates highly negative relationship between these two variables. By considering the test statistic since the calculated value of 3.182, there is a no significant between total deposit and loan and advances. In case of EBL, we observe coefficient of correlation between total deposit and loan and advance is 0.997 which shows the highly positive relationship between two variables. By considering the test statistics, since the calculated value of t is more than its tabulated value of 3.182, there is a no significant between total deposit and loan and advances.

In case of EBL, we observe coefficient of correlation between total deposit and loan and advance is 0.997 which shows the highly positive relationship between two variables. By considering the test statistics since, the calculated value of t is more than its tabulated value of 3.182 it can be concluded that the correlation between total deposit and loan and advance is highly significant in this case as well. From the above analysis, it can be concluded that there is no significant relationship between loan and advance and total deposit in NBBL. It can be concluded that there is significant relationship between loan and advance and total deposit in EBL, Higher value r in EBL less then or negative relationship as well as utilization of deposit on loan and advance then NBBL.

4.6.2 Coefficient of Correlation between Investment on Government Securities and Total Deposit

The coefficient of correlation between investment on government security and total deposits is to measure the degree of relationship between two variables. Although bank utilizes its deposits on loan and advance, some part of idle deposits are invested on government securities. In correlation analysis, deposit is independent variable Y and a government security is dependent variable X. The purpose of computing coefficient of correlation in this case is to justify whether or not the excess deposits are significantly used in government securities whether there is any relationship between these two variables.

Table 4.15 Shows the Coefficient of Correlation between Government Securities and Total Deposit during the Study Period

Table: 4.16

Correlation Coefficients and Calculated and Tabulated t Values

Bank	r	Calculated t	Tabulated t	Result
NBBL	0.449	-1.77	3.182	Not Significant
EBL	0.54	1.11	3.182	Not Significant

Source: Appendix-19&20

The table above point out that the coefficient correlation between government securities and total deposit of NBBL is 4.49 implying highly positive relationship between these two variables. By considering the test statistics, since the calculated value of t is less than its tabulated value of 3.182, it can be inferred that the value of r is not significant. On the other hand, it is observed that coefficient of correlation between total deposit and government securities in case of NBBL is 4.49 which indicating the highly positive relationship between the two variable. By considering the test statistics, since the calculated value of t is more than its tabulated value of 3.182, it can be further conclude that the correlation between total deposit and investment of government securities is highly significant.

From the above analysis, it is clear that there is no significance relationship between investment on government securities and total deposit in EBL and NBBL.

4.6.3 Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Cash and Bank balance are most liquid components of current assets. They are required to meet the unexpended short term obligation or current liabilities. The coefficient of correlation between cash and Bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are performed. Table 4.21 shows the coefficient of

correlation between cash and Bank balance and current liabilities and calculated and tabulated value of t of NBBL and EBL during the study period.

Table: 4.17

Correlation Coefficients and Calculated and Tabulated t Values

Bank	r	Calculated t	Tabulated t	Result
NBBL	0.32	0.52	3.182	Not Significant
EBL	1.0035	20.76	3.182	Significant

Source: Appendix-19&20

From the table above, it can be inferred that the coefficient of correlation between cash and Bank Balance and current liabilities in NBBL is 0.32 which shows positive relationship between these two variables. By considering the test statistics, since the calculated value of t is less that its tabulated value of 3.182, we can say that the value of r is not significant. In other words there is no significant relationship between cash and bank balance, and current liabilities.

In case of EBL it can be seen that co-efficient of correlation between cash and Bank balance and current liabilities is high. The value of r in case is 1.0035 which shows highly positive relationship between two variables. By considering the test statistics since the calculated value of t is greater than its tabulated value of 3.182, we can further conclude that the relationship between cash and bank balance and current liabilities is significant.

From the above analysis it can be concluded that there is no significant relationship between cash and Bank balance and current liabilities in EBBL and EBL. There is significant relationship between cash and Bank balance and current liabilities in EBB.

4.6.4 Coefficient of Correlation between Loan and Advance and Net Profit

The basic function of a commercial bank is t collect deposit and invests these funds on loan and advance to generated higher profit. Large amount of loan and advance generated higher profit. The coefficient of correlation between loan and advance and net profit measures the degree of relationship between loan and advance, and net profit in correlation analysis, loan and advance is independent variable. Y and net profit is dependent variable X. The purpose of computing coefficient of correlation is to justification generate profit and whether there is any relationship between these two variables.

Table 4.22 shows the coefficient of correlation between loan and advance and net profit and calculated and tabulated t value of NBBL and EBL during the study period.

Table: 4.18

Correlation Coefficient and Calculated and Tabulated value

Bank	r	Calculated t	Tabulated t	Result
NBBL	0.32	0.58	3.182	Not Significant
EBL	0.98	8.56	3.182	Significant

Source: Appendix-19&20

4.7 Test of Hypotheses

As stated in chapter three in research methodology, some conceptual framework of null and alternative hypothesis between NBBL and EBL in various variables are formulated and tested as follows:

For the study, following set of null hypothesis have been formulated and tested.

a. H0: there is no significant difference in composition of working capital between NBBL and EBL.

   H1: There is a significant difference in composition of working capital between NBBL and EBL.

b. H0: there is no significant difference in liquidity position between NBBL and EBL.
   H1: there is significant difference in liquidity position between NBBL and EBL.
c. H0: there is no significant difference in profitability position between NBBL and EBL.
   H1: there is significant difference in profitability position between NBBL and EBL.

To test the validity of our assumption, if sample size is less than 30, t-test is used. In order to apply t-test in the context of small sample, the t-value is calculated first and compared with the table value of t at a certain level of significance (say on 5%) for given degree of freedom. If calculated value oft exceeds the table value, we infer that the null hypothesis is rejected, that is, the difference is significant at%% level of significance.

4.8 Profitability Position

To judge whether there is significant difference in profitability position between NBBL and EBL, following null hypothesis and alternative hypothesis are formulated and tested.

a. Null Hypothesis

HO: there is no significant difference in profitability position between NBBL and EBL.

b. Alternative Hypothesis

H1: There is significant difference in profitability position between NBBL and EBL.

The following table exhibits the mean value of various percentage measuring the profitability position of NBBL and EBL and student t value.

Table: 4.19

t-value of Profitability Position

S.N.	composition	NBBL Mean	EBL Mean	calculated t value	Tabulated t value	Result/Decision
1	Interest Earned to Total Assets	0.0454	0.0326	1.06	2.306	H0 is accepted
2	Net profit to total Assets	0.0078	0.016	-0.3808	2.306	H0 is accepted
3	Net profit loss total Deposits	0.0092	0.0185	0.11	2.306	H0 is accepted
Details in appendices						

From the table above, it is clear that there is no significant difference in Interest earned to total assets, net profit loss to total deposits NBBL and EBL and null hypothesis is accepted these two banks.

4.9 Composition of Working Capital

To judge whether there is significant difference in composition of working capital between NBBL and EBL, following null hypothesis and alternative hypothesis are formulated and tested.

a. Null Hypothesis

H0: There is no significant difference in composition of working capital between NBBL and EBL.

b. Alternative Hypothesis

H1: There is significant difference in composition of working capital between NBBL and EBL.

The following table exhibits the mean value of various percentages measuring the composition or structure of working capital of NBBL and student *t* value.

Table: 4.20

Mean t-value of composition of working capital

S.N.	composition	NBBL Mean	EBL Mean	calculated t value	Tabulated t value	Result/Decision
1	Cash & Bank balance	17.24	13.67	1.25	2.306	H0 is accepted
2	Loan and advance	57.85	66.84	-6.5	2.306	H0 is accepted
3	Govt. Securities	18.204	17.84	0.80	2.306	H0 is accepted
4	Misc. current Assets	6.68	1.63	3.325	2.306	H0 is rejected.
Details in appendices						

From the above, it is clear that is no significant difference between cash and bank, balance, loan and advances, government securities percentage of NBBL and EBL because the calculated value of t is less than its tabulated value, and therefore, the null hypothesis is accepted. Therefore is however significant difference in misc. current. Assets of these two banks.

4.10 Liquidity Position

To judge whether there is significant difference in liquidity position between NBBL and EBL, following null hypothesis are formulated and tested.

a. Null Hypothesis

H0: There is no significant difference in liquidity position NBBL and EBL.

b. Alternative Hypothesis

H1: There is significant difference in liquidity position NBBL and EBL.

The following table exhibits the mean value of various percentages measuring the liquidity position of NBBL and student *t* value.

Table 4.21

Mean t-value of composition of working capital

S.N.	Composition	NBBL Mean	EBL Mean	calculated t value	Tabulated t value	Result/Decision
1	current ratio	0.92	1.047	1.589	2.306	H0 is accepted
2	Quick ratio	0.33	0.332	-0.00519	2.306	H0 is accepted
3	Cash & bank balance to deposit ratio (Excl. fixed deposit)	0.172	0.148	-1.552	2.306	H0 is accepted
Details in appendices						

From the above, it is clear that current ratio and quick ratio and cash and bank balance to deposit ratio quick ratio NBBL and EBL because the calculated value of t is less than its tabulated value of these two banks.

From the above, it is found that the coefficient correlation between loan and advances and net profit of NBBL is 0.32 which shows positive relationship between these two variables. By considering the test statistic, since the calculated value of t is less than its tabulated value of 3.182, we can say that the value of r is not significant. In other words, there is no signification. In other words, there is no significant relationship between loan and advances and net profit.

In case of EBL, it is observed that coefficient of correlation between loan and advances and not profit to be 0.98 which shows highly positive relationship between these two variables. By considering the test statistics, since the calculated value of t is more than its tabulated value of t of 3.182,

we can further conclude that the relationship between loan and advances and net profit is highly significant.

From the above analysis it can be concluded that in case of NBBL there is no significance relationship between loan and advances and net profit but there a significant relationship in exists EBL.

4.11 Major Findings

The major findings of this study of NBBL and EBL during the five year period are summarized below.

- The net working capital of NBBL is negative in the year 063/064. 064/065 and 065/066 of study period. Which shows in sufficient amount of working capital for operational requirement in that year. Incase EBL, the net working capital is positive in the study period. The average net working capital of NBBL is negative amount of Rs 61.39 million and that of EBL is Rs 1292.566 million.
- The net working capital of NBBL range from -2710.97 million to Rs 1505.059 million whereas in EBL, it range from Rs 458.87 million to Rs 1939.82 million. The C.V. of NBBL is -2.27 and that EBL is 0.44 which shows that there is very high variability of net working capital maintained by NBBL compared to EBL.
- The liquidity position of banks is analyzed with the current ratio, quick ratio and cash bank balance to deposit ratio. The current ratio of NBBL and EBL range from 0.73 to 1.13 and 1.03 to 1.065 respectively. Measuring the risk factor it shows that there is more variation in current ratio of NBBL and EBL are 0.92 and 1.047 respectively. EBL is better than NBBL in the study period .The trend liquidity ratio or current ratio ,quick ratio and cash and bank balance to deposit ratio of NBBL and EBL are increasing .Although higher liquidity means lowest risk as well as lower profit in general ,it does not necessarily mean lower profit in case of commercial bank.

- The turnover position of NBL have decreasing for the second year and increasing for 2063/064,065/066, 066/067, 067/068 year. Incase of EBL, they are increasing except for fourth year of study period. The average value of loan and advance to total deposit ratio id 0.578 on NBBL and 0.738 on EBL. From the analysis of turnover of these two banks, it is found that although EBL has slightly higher risk then EBL, it has better investment efficiency on loan and advance.
- The profitability position of NBBL and EBL are analyzed from angles. The average value of interest earned to total assets ratio of NBBL is 4.54% which is higher then EBL is 3.26%.This implies that NBBL is more efficiently using its total asset (funds) to earn interest income. The trend value of interest earned to total assets ratio on both bank are fluctuating. Although the net profit to total deposit ratio always higher on EBL than to NBBL .For first second year negative or loss of study period in NBBL. The trend value of net profit to total assets ratio of NBBL is fiscal year 2062/066 and 064/065 is negative but in 065/066, 066/067, 067/068 year is ratio of fluctuation.
- Incase of EBL fluctuation of the study period. This shows that EBL is more efficiently then NBBL.
- Cost of services to total assets ratio of NBBL is also always higher than of EBL .Cost of services to total assets ratio of both bank fluctuation trend which range from 7.5%to 3.7% in NBBL and 4.3%to 2.8% in EBL .So it is found that although profitability position of NBBL is better than EBL.
- While analyzing the correlation coefficient loan and advances and total deposit of both the banks NBBL is not significant and EBL is significantly correlated. The value of r of NBBL is -0.43 and incase of EBL it is 0.997. The positive value of r shows the positive relationship between loan and advance and total deposit .The negative value of r shows the negative relationship between loan and

advances and total deposit .It is relationship shows as well as utilized of deposit are better in EBL then in NBBL.

- Correlation between investment on government security and total deposit of EBL is highly significant .It shows that there is close a relationship between investment on government securities and total deposit of EBL. However it is not significant incase of NBBL.
- There is significant relationship between cash and bank balance and current liabilities in NBBL. In EBL cash and bank balance and current liabilities is significant. The value of r is 0.32 on NBBL and 1.0035 on EBL. It shows that holding of cash and bank balance of NBL is not related with current liabilities, and cash and bank balance of EBL is related with current liabilities. Coefficient of correlation between loan and advance and net profit of NBBL. In case of EBL there is significant relationship between loan and advance and net profit related since coefficient value r is 0.98.
- While testing the hypothesis of composition of working capital, it ahs been observed that the mean value of proportion of cash and bank balance, loan and advance and government securities of NBBL and EBL are not statistically different.
- While testing the hypothesis of liquidity management it has been observed that the mean value of current ration quick ration and cash and bank balance to deposit ration of NBBL and EBL are not significantly different. It shows that liquidity management policy of these two banks is significantly different.
- While testing the hypothesis of profitability position, it is observed that the mean value of net profit to total assets, net profit to total deposit and interest on to total assets of NBBL are not statistically different from that of EBL.

It shows that change on loan and advance on NBBL does not change the amount of profit significantly. It may be due to the use of higher amount of costly funds and other higher costs.

CHAPTER-V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter is dedicated to provide conclusion after comparatively analyzing the working capital management of two joint venture banks. Nepal Bangladesh bank limited and Everest Bank limited, respectively.

5.1 Summary

Establishment of commercial banks, especially joint venture banks has continued in response to the economic liberalization policies of the government. As a result in Nepal there are commercial banks at present competing with each other in their in their business. These joint venture banks have concentrated themselves on financing foreign trade, commerce and industry.

As mentioned earlier, this study concentrates on the comparative analysis of working capital position of re-mentioned banks NBBL and EBL. From the perspective of the researcher, these two banks are chosen for study mainly because of accessibility and availability of financial data for lasts five year period.

To fulfill the objective an appropriate research methodology has been developed which includes ratio analysis as financial tools and trend analysis correlation coefficient. The major ratio analysis consists of the composition of working capital position, liquidity position turnover position and profitability position. Under these main ratio and their trend position are studied in the chapter four in order to test the relationship between the various compounds of working capital, Karl Pearson correlation coefficient r is calculated and analyzed.

The necessary data are derived from the balance sheet and profit and loss account of NBBL and EBL for period of five years from fiscal year 2063/064 to 2067/068 B.S. In this chapter an attempt has been made to present conclusion and some suggestions and recommendations.

5.2 Conclusions

In conclusion it can be said that working capital management is one of the most important parts of every financial institution. Working capital is a crucial capital, which is often compared to life blood of the human being. After analyzing the two sample banks, NBBL and EBL comparatively using various financial and statistical tools various important conclusions have been derived from the study.

The average cash and bank balance and government securities percentage are higher on Nepal Bangladesh bank than on Everest bank and average loan and advances percentage is higher in NBBL than in EBL The net working capital of NBBL is negative in the of study and Everest banks is positive in the study comparatively. NBBL has less net working capital than EBL. Both the banks are unable to maintain adequate liquidity position to meet the short terms or even instant obligations. The current ratio of both NBL and EBL are below the normal standard ratio of 2:1. However, the liquidity position of EBL is slightly better than that of NBBL. Although higher liquidity means lower risk as well as lower profit, but in commercial bank higher liquidity is not always the cause of lower profitability.

Under profitability position, profitability in terms of interest earned to total assets ratio of NBBL is higher that of EBL. So NBBL is more efficiently using its total assets to earned interest income. The net profit to total assets and the net profit to deposit ratio are also higher in NBBL then in EBL. Hence it is concluded that the average profitability ratio of NBBL is higher

than of EBL. But for past few years, there is a decrease in profitability of NBBL which may be due to the lack of proper management, strong marketing, strategic development, strong HRM and information and technology etc.

5.3 Recommendations

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

- The loans and advance percentage as a part of current assets of EBL was in the increasing trend. So, it should review, its policy are to reverse the trend, as they are the most productive assets. On the other hand, the average loans and advances percentage as a part of current assets of NBBL is just more than EBL. So, it should increase the percentage by adopting new policies.
- The standard liquidity ratio should be 2:1, but the low liquidity ratio of both the banks suggests that they should enhance their liquidity position by keeping optimum current assets.
- Both the banks had low average turnover on total deposits which is less than one. Due to low turnover non earning idle funds might be high on these banks. So, these banks should give proper attention on the utilization of idle funds in more productive sectors.
- By adopting the matching working capital management policy instead of adopting conservative policy these banks can improve their profitability in the short as well as in the long run.
- Low return on assets of EBL Suggests that it should cut down its operating cost in order to maximize its profitability.
- Both the banks need to utilize the outsiders' as well as insiders' fund effectively and efficiently in order to keep all the stakeholders happy.
- As the services of these banks have been limited to urban and semi urban regions of the nation, they should initiate some measures to widen their reach to the people of rural areas.

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