WORKING CAPITAL MANAGEMENT OF COMMERCIAL BANKS OF NEPAL (WITH SPECIFIC REFERENCE TO STANDARD CHARTERED BANK NEPAL LIMITED AND HIMALAYAN BANK LIMITED)

A THESIS

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RECOMMENDATION

This is to certify that the Thesis

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

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

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And found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S.)

Viva-Voce Committee

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DECLARATION

I hereby declare that the work reported in this entitled **"WORKING CAPITAL MANAGEMENT OF COMMERCIAL BANKS OF NEPAL(WITH REFERENCE TO STANDARD CHARTERED BANK NEPAL LIMITED AND HIMALAYAN BANK LIMITED)"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Students (M.B.S.) under the supervision of Associate Professor Mr. Rakesh Chandra Mishra of Patan Multiple Campus.

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RAMA POKHAREL

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ABBREVIATIONS

ATM	:	Automated Teller Machine
B.S.	:	Bikram Sambat
C.V	:	Coefficient of Variation
CA	:	Current Assets
CBB	:	Cash and Bank Balance
CBS	:	Central Bureau of Statistics
CCC	:	Cash Conversion Cycle
CL	:	Current Liabilities
Co.	:	Company
Ed.	:	Edition
EPLTL	:	Equity plus Long-Term Liabilities
FA	:	Fixed Assets
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GWC	:	Gross Working Capital
HBL	:	Himalayan Bank Limited
ICP	:	Inventory Conversion Period
i.e.	:	That is
JVB	:	Joint Venture Banks
LAD	:	Loan, Advance and Deposits
LTD	:	Limited
LTL	:	Long-Term Liabilities
MBA	:	Masters' of Business Administration

MBS	:	Masters' of Business Studies
NBL	:	Nepal Bank Limited
NEPSE	:	Nepal Stock Exchange
No.	:	Number
NRB	:	Nepal Rastra Bank
NWC	:	Net Working Capital
PDP	:	Payable Deferral Period
PEs.	:	Public Enterprises
QA	:	Quick Assets
R	:	Rupees
RCP	:	Receivable Collection Period
Rs.	:	Rupees
SCBNL	:	Standard Chartered Bank Nepal Limited
Std. Dev.	:	Standard Deviation
TA	:	Total Assets
TR	:	Turnover Ratio
T.U.	:	Tribhuwan University
WC	:	Working Capital
WCM	:	Working Capital Management

CHAPTER-I
INTRODUCTION

1.1 Background of the Study

Commercial banks are the heart of the financial system. They hold the deposits of individuals, government establishment and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government establishments. In doing so, they assist both the flow of goods and services for the producers to consumers and the financial activities of the government. 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.

Nepal Bank limited (NBL) established in 1937 was the first commercial bank in Nepal. Following the establishment of Nepal Rastra Bank (NRB), the central bank of the country in 1956, was a major step towards the evolution and generalization of Nepalese financial system. The institutional network and volume of properties of the financial system has been expanded and diversified with a number of commercial banks which were five in 1990 and 32 at the present. Similarly a number of other financial institutions came into operation rapidly

The banking system comprises one central bank and 32 commercial bank the non-bank financial institutions comprise development banks, rural development banks, finance companies, financial cooperatives, non-governmental financial organizations, contractual saving institutions like Employees Provident Fund, Citizen Investment Trust and Insurance Companies, Postal saving offices and Nepal Stock Exchange. In addition, there are other quasi-financial institutions such as the Deposit Insurance and credit Guarantee Corporation, Rural Housing Finance Company etc.

After the openness and liberalization in the financial system, the establishment of banks and financial institution tremendously increased. The establishment process, in fact took an aggressive move. This type of development can be observed also in insurance services. The institutional network and volume of operations of insurance

companies has expanded and diversified enough with the number of companies going up from five in 1990 to 32 at present.

Service sector is a major contributor on Gross Domestic Product (more than 50 percent in and average) and financial service is a major component of this sector. Financial services sector consists basically banking service and insurance service. Such services in Nepal are very important because they provide many opportunities for efficient allocation of resources, utilization, promotion of economic activities, and fair competition and increase in the foreign direct investment. Liberalization of trade in financial services has many positive advantages like economic growth, introduction of advanced financial practices and market efficiency.

The concept of financial institutions in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL), was established as a semi-government organization. Central bank named as Nepal Rastra Bank was established with an objective of supervising, protecting and directing the functions of commercial banking activities. Consequently, another commercial bank fully owned by government, named as RastriyaBanijya Bank was established in 2022 B.S under the Banijya Bank Act 2021 B.S. in the fiscal year 2039/40, 40 new banking policies 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 (NABIL) is the first joint venture commercial bank incorporated in 2041 B.S, the second JVB, Nepal Indosuez Bank Ltd (currently Nepal investment Bank Limited) was established. In the same year, Nepal Grindlays Bank ltd. (Currently Standard Chartered Bank Nepal Limited) in the form of JVB was also established. But more JVB came into existence after the initiation of government's policy of economic liberalization and privatization in 2049 B.S. they are Himalayan bank Ltd. (2049), Nepal SBI Bank Ltd. (2050), Nepal Bangladesh Bank ltd. (2051), Everest Bank Ltd. (2051) and bank of Kathmandu (2052) came into existence in chronological order.

Under favorable environment, various other banks were established thereafter. In the current scenario there are 32 commercial banks, 58 development banks, 78 finance

companies, 12 Micro Credit Dev. Banks, 25 insurance Companies and 5 rural development banks in Nepal.(sources: Quarterly Economic Bulletin of NRB 2008/2009).

In a global perspective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups 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 operation (industrial or commercial investment, production or trade). These JBV came into existence to accelerate the pace of economic development and financial system of the nation.

Proper financial decision making is extremely important in banking transaction for its efficiency and profitability. Most of the financial decisions of a 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 a significant role to fulfill the requirement of working capital of other types of business enterprise. It also needs to efficiently manage its own working capital. Investment in working capital of other business enterprises is a part of current assets of bank's working capital and we can consider deposits and short term borrowings as a part of current assets of bank's working capital and we can consider deposits and short term borrowing as a part of current liabilities. (Sources: Banking and insurance, H.B. Singh, 2063).

Working capital plays vital role in the success or failure of any business. Working capital is lifeblood and controlling nerve-center of any organization. The excess working capital as well as short capital is harmful for business. So, management of working capital is not simple one, with the minor mistakes on decision-making about the adequacy of the working capital, in a concern may put company into liquidation. The financial institutions have to maintain an adequate reserve and supply of funds in the short-term demands by the customer for the fund. Otherwise it causes a serious problem in its operation.

The aspect of working capital concerned with short term financing decision has received much attention in the literature of finance. Because of the earlier emphasis of financial management was more on long term financial decision, which led to the

growth and development of many useful theories concerning these decisions as compared to short term financing decision. However in recent years, it has been realized that the area of working capital intricately interwoven with the success of failure of the company.

1.2 Focus of the Study

Thisstudy focuses on how the Nepalese commercial banks utilized the available working capital finds very well. This study also focuses on the relationship between current assets and current liabilities and relationship of other variables, which affect the working capital management. This study also only focuses the working capital management and its significance during past five years up to 2012 A.D. Working capital is the life-blood of every business activities. It is a controlling nerve center of business the success and failure of any business organization is heavily dependent upon the sort of efficiency in its working capital management. It is the process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. Specially, working capital management requires financial managers to decide what quantity of cash, other liquid assets, account receivables, and inventories, the firm will hold at any point of time.

Working capital management is concerned with the problem that arises in attempting to manage the current assets, current liabilities and interrelationship between them. The basic total of working capital management is to manage the current assets and current liabilities of firm. In such a way that the satisfactory working capital is maintained i.e. these are neither inadequate nor excessive. Inadequate of working capital may lead the firm insolvency and excessive working capital implies idle fund, which earns no profit for the business. A business firm needs working capital management for four reasons.

First, business firm determines the portion of investment in current assets; otherwise it would seriously erode their liquidity base. Secondly, they must be selected type of current assets suitable for investment so as to raise their operational efficiency. Thirdly, that is required to ascertain the turnover, the current assets that greatly determine the profitability of the private enterprises and lastly, that must find out the appropriate source of funds to finance current assets.

The risk can be measured by working capital. Working capital increases in two conditions, by increasing on current assets or decreasing current liabilities. So, it is assumed that the greater the amount of net working capital. That is why; taking into consideration the all above facts the researcher has taken this subject for detailed study. The study is directed toward the working capital management of selected different Nepalese commercial to analysis the working capital; to find out major suggestive recommendation to solve the working capital management that selected company's objective can be achieved. Thus it is an exploratory fact finding research study. The study is based on comparative study of working capital management of Standard Chartered Bank Nepal Limited (SCBNL), and Himalayan Bank Limited (HBL).

Brief descriptions of each of these banks are given below:

Standard Chartered Bank Nepal Limited

SCBNL has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank an integral part of standard chartered group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. the bank enjoys the status of the largest international bank contently operating in Nepal Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, UK & Americas. As one of the world's most international bank Standard Chartered employees all most 75000 peoples representing over 115 nationalities, worldwide. This diversity lies at the heart of the Banks values and supports the Banks growth as the world increasingly becomes one market.

With the mission statement "To be the leading international bank in our principal markets", the bank operates through 19 offices and 23 ATMs spread throughout Nepal and focuses mainly one corporate, consumer and commercial banking, providing services for international firms as well. The bank contributed to a large extent in the development of the country by the way of loans to industrial projects, the priority and deprived sectors.

Standard Chartered bank Nepal Limited, offers a full range of banking products and services in wholesale and consumer banking, catering to a wide range of customers from individuals, to mid-market local corporate to multinationals and large public sector companies as well as embassies, aid agencies, airlines, hotels and government corporations.

The bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products and highest level of service delivery. It is the first bank in Nepal that has implemented the anti-money Laundering Policy and applied the 'know Your Customer' procedure on all the customer accounts.

The bank has 425 staff as of the 15th July 2012. The number of staff having completed 10 years of service reached 29, completed 15 years of service 85 and 14 staff has completed 20 years of service. This indicates that the bank provides very good working environment to the best of financial sector in the country great emphasis is put on training staff. To improve the skills and knowledge of the staff, the bank continues to provide development programs in-house training programs, including on-the-job training and job rotation.

Himalayan Bank Limited

Himalayan Bank limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation concerned from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial; banking services, the bank also offers industrial and merchant banking services.

The bank has 23 branches and 40 ATMs in all over Nepal. Himalayan Bank has always been committed to providing a quality service to its valued customers with a personal touch. All customers are treated with utmost courtesy as valued clients. The bank wherever possible offers tailor made facilities to its clients, based on the unique needs and requirement of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank has adopted the latest banking

technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for further adaptation to new technology. The bank already offers unique services such as SMS banking and Internet banking to customers and will be introducing more services like these in the near future.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Himal Remit TM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

1.3 Statement of the Problems

Working capital is a crucial capital for any organization. In most enterprises the management of working capital has been misunderstood as the management of money rather that it's efficient utilization. The management of working capital is synonymous to the management to short term liquidity. It has been regarded as one of the conditioning factor in the decision making issues. 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 risks can go for more short term liquidity. The more of short term liquidity means more of current assets and less of current liabilities. The less current liabilities implies less short term financing heading to the lower returns resulting from the use of more high cost long

term financing. So it is very essential to analyze and find out problems and its solution to make efficient use of funds for minimizing the risk of loss to attain profit objective.

Working capital management on bank is also difficult as that of manufacturing and non-manufacturing business organization. Commercial banks are great monetary institutions which are playing important role to the general welfare of the economy. The responsibilities of commercial banks are more than any other financial institutions. They must be ready to pay on demand a good share of their liabilities without warning or notice. Bank collects funds from different types of deposits for providing loan and advances to different sector. To get higher return, bank must try to increase funds from deposits as well as their investment. The first motive of banking business is to borrow public saving an d lend to needy people. But commercial banks always face the problem for utilizing more deposits as investment fully and productively. The gap between collection of deposits and disbursement of loans increase the cash balance on bank which require paying its large amount of liabilities on its depositors demand without notice. But large amount of idle cash balance also decrease profitability of banks.

This study is directed to resolve the following issues;

- What is the existing position of current assets and current liabilities of sample firms?
- What is the liquidity position of sample bank?
- What is the composition of working capital assets utilization and profitability?
- Is there any relationship between net-working capital and net profit?

1.4 Objectives of the Study

The main objective of this study is to examine the management of working capital of StandardChartered Bank Nepal Limited. The specific objectives of this study are as follows.

- To assess the existing position of current assets and current liabilities of sample banks.
- To analyze the liquidity position of sample banks.
- To examine the composition of working capital, assets utilization and profitability of sample firms.

- To evaluate the relationship between net working capital, current liabilities and net profit.

1.5 Limitations of the Study

The scope of the present study has been limited in terms of period of study as well as sources and nature of data. The period covered by the study over 5 years from 2063/64 to 2067/68 B.S.

The limitations of this study are as follows:-

- This study has been confined to only two of the joint venture banks, namely SCBNL and HBL.
- The study is mainly based on secondary data.
- The study follows limited tools such as ratio analysis, mean, and coefficient of variation, correlation and hypothesis.
- The report has taken only five year data for study from 2062/63 to 2066/67 B.S.

1.6 Organization of the Study

This study has been divided into five chapters. They are as follows:

Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis and Summary, Conclusion and Recommendation.

Chapter I is begins with the background of the study, focus of the study, statement of problems, objective of the study, significance of the study and limitation of the study. The II chapter deals with the review of literatures relating to the working capital management. It includes two parts. The first part deals with the conceptual framework of the study while the second part is related with review of previous studies. The III chapter is the research methodology which deals with research design, nature and sources of data, population and sample, data gathering procedure and analysis of data. The IV chapter deals with the presentation and analysis of relevant data and information using various statistical and financial tools. The last chapter is concerned with summary, conclusion and recommendation of the study.

CHAPTER- II
REVIEW OF LITERATURE

The second chapter deals with the review of literature concerned with Working Capital Management. The chapter has been divided into two parts. The first part of the chapter deals with the conceptual framework of the study and the second part is related with review of previous studies i.e. books, articles, dissertations etc.

2.1 Conceptual Framework of Working Capital Management

Financial management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities, or in other words, long term investment and sources of fund, and secondly, current uses and sources of fund. Both of these types of fund play a vital role in business finance. The concept evolved from the concept of commercial bank. Commercial bank is the financial institution that deals in accepting deposits of individuals and institutions, and giving loans against securities. Commercial banks perform 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 deal letter of credit
- To help in issuing share

2.2 Concept of Working Capital Management

Working capital refers to the resources of the firm that are used to conduct operations to do day to day work that makes the business successful. Without cash, bills cannot be paid, without receivables; the firm cannot allow timing difference between delivering goods or services and collecting the money to pay for them. Without inventories the firm cannot engage in production 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.

The term working capital refers to the current assets of the firm those items that can be converted in to cash within a year. Hence, working capital management is the management for the short term. It is a process of short term decision making regarding the current assets and current liabilities affecting the long term operation of an enterprise. It is a process of planning and controlling the level of mix current assets of the firm as well as financing these assets. It concludes decision regarding cash and marketable securities, receivables, inventories and current liabilities with an objective of maximizing the overall value of a firm. 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 obligation 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 bearing 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 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.

Gross Working Capital

It is simply called as working capital and refers to the firm's investment in current assets. Current assets are the assets which can be converted in to cash within an accounting year (or operating cycle) and include cash, marketable securities, inventory, accounts receivables and debtors.

Net Working Capital

This is of critical importance to a firm. 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 (account payable), bills payable and outstanding expenses. (*pandey;1992:807-808).*

Another way of defining working capital is that portion of firm's current assets financed with long term fund. Both liquid assets and liabilities are important in working capital management.

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.

2.3 Types of Working Capital

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

2.3.1 Permanent (Fixed) Working Capital

Permanent working capital refers to that level of current assets, which is required on continuous basic over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital.

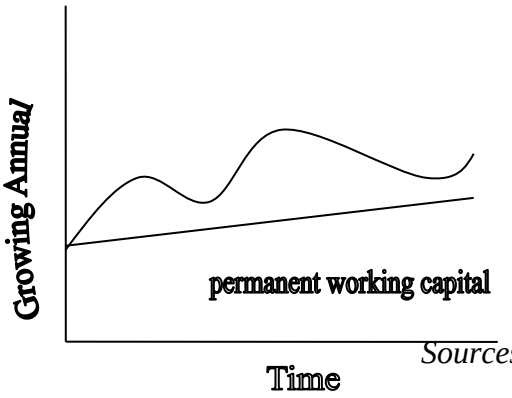
Therefore, a manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted production and sales functions. This portion of working capital is directly related to the firm's expansion of operation capacity.

2.3.2Variable 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 materials, work in progress and inventory of finished goods. Therefore, this portion of working capital depends upon the nature of firm's production relation between labor and management.

Figure 2.1

1.1.1 Variable Working Capital



Sources: I.M Pandey (1992:808)

Figure 2.1 shows clearly about this portion of working capital. If a firm has sound management on this portion this portion of working capital, it can easily win over other competitors in today's competitive and aggressive market.

2.4 Working Capital Cycle

Cash flows in a cycle into, around and out of a business. It is the business's life blood and every manager's primary task is to help keep it flowing and to use the cash flow to generate profits. If a business is operating profitably, then it should, in theory, generate cash surpluses. If it doesn't generate surpluses, the business will eventually run out of cash and expire.

The faster a business expands the more cash it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within business. Good management of working capital will generate cash will help improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of firm's total profits.

There are two elements in the business cycle that absorb cash – inventory (stocks and work-in-progress) and Receivables (debtors owing you money). The main sources of cash are payables (your creditors) and Equity and loans.

Each component of working capital (namely inventory, receivables and payables) has two dimensions ……. TIME……and MONEY.When it comes to managing working capital – TIME IS MONEY. If you can get money to move faster around the cycle (e.g. collect money due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales), the business will generate more cash or it will need to borrow less money to fund working capital. As a consequence, you could reduce the cost of bank interest or you'll have additional free money available to support additional sales growth or investment. Similarly, if you can negotiate improved terms with suppliers e.g. get longer credit or an increased credit limit; you effectively create free finance to help fund future sales. (*www.planware.org*).

If……	Then…….
Collect receivables (debtors) faster	Release cash from the cycle
Collect receivables (debtors) slower	Receivables soak up cash
Get better credit (in terms of duration or amount) from suppliers	Increases cash resources
Shift inventory (stocks) faster	Free up cash
Move inventory (stocks) slower	Consume more cash

It can be tempting to pay cash, if available, for fixed assets e.g. computers, plant, vehicles etc. if we do pay cash, remember that this is now longer available for working capital. Therefore, if cash is tight, consider other ways of financing capital investment- loans, equity, leasing etc. similarly, if we pay dividends or increase drawings, these are cash outflows and, like water flowing down a plug hole, they remove liquidity from the business (*http//www.planware.org*).

2.4.1 Key Working Capital Ratios

The following, easily calculated, ratios are important measures of working capital utilization.

Ratio	Formulae	Result	Interpretation
Stock Turnover (in days)	Average stock *365/ Cost of Goods Sold	= x days	On average, we turnover the value of our entire stock every x days. We may need to break this down into product groups for effective stock management. Obsolete stock, slow moving lines will extend overall stock turnover days. Faster production, fewer product lines, just in time ordering will reduce average days.
Receivables Ratio (in days)	Debtors* 365/Sales	= x days	It takes us on average x days to collect monies due to us. If our official credit terms are 45 day and it takes us 65 days…..why? One or more large or slow debts can drag out the average days. Effective debtor management will minimize the days.
Payables Ratio (in days)	Creditors* 365/ Cost of Sales (or Purchases)	= x days	On average, we pay our suppliers every x days. If we negotiate better credit terms this will increase. If we pay earlier, say, to get a discount this will decline. If we simply defer paying our suppliers (without agreement) this will also increase – but our reputation, the quality of service and any flexibility provided by our suppliers may suffer.

Current Ratio	Total current Assets / Total Current liabilities	= x times	Current Assets are that we can readily turn in to cash or will do so within 12 months in the course of business. Current liabilities are amount we are due to pay within the coming 12 months. For example, 1.5 times means that we should be able to lay our hands on $1.50 for every $1.00 we owe. Less than 1 time eg.0.75 means that we could have liquidity problems and be under pressure to generate sufficient cash to meet oncoming demands.
Quick Ratio	(Total Current Assets- Inventory) Total Current Liabilities	= x times	Similar to Current Ratio but takes account of the fact that it may take time to convert inventory into cash.
Working Capital Ratio	(Inventory+ Receivables- payables)/ Sales	As% Sales	A high percentage means that working capital needs are high relative to our sales.

Source: (www.planware.org)

Other working capital measures include the following

- Bad debts expressed as a percentage of sales.
- Cost of bank loans, lines of credit, invoice discounting etc.
- Debtor concentration – degree of dependency on a limited number of customers.

Once ratios have been established for our business, it is important to track them over time and to compare them with ratios for other comparable business or industry sectors (*http/www.planware.org).*

Sources of Additional Working Capital

Sources of additional working capital include the following:

- Existing cash reserves
- Profits (when we secure it as cash)
- Payables (credit from suppliers)
- New equity or loans from shareholders
- Bank overdraft or lines of credit
- Long- term loans

If we have insufficient working capital and try to increase sales, we can easily over-stretch the financial resources of the business. This is called overtrading. Early warning signs include:

- Pressure on existing cash
- Exceptional cash generating activities e.g. offering high discounts for early cash payment
- Bank overdraft exceeds authorized limit
- Seeking greater overdrafts or lines of credit
- Part- paying suppliers or other creditors
- Paying bills in cash to secure additional suppliers

Frequent short-term emergency request to the bank (to help pay wages, pending receipt of a cheque) (*www.planware.org*).

2.5 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 first of all, 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 policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions is financing current assets. Any firm has working capital policies regarding to the levels of each category of current assets. Any firm has working capital policies regarding to the level of each category of current assets and their financing are discussed in the ensuring part of this section.

2.5.1 Current Assets Investment policy

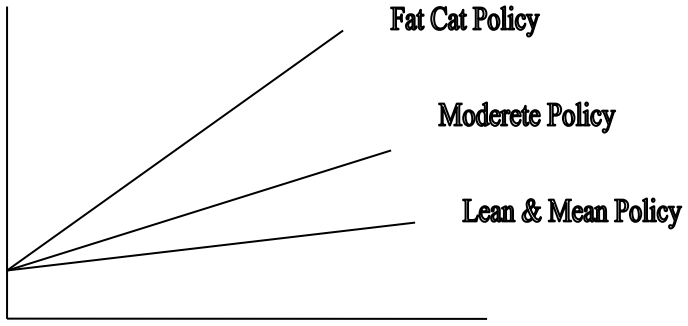
Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policies, namely, Fat Cat, Lean and Mean and Moderate.

2.5.1.1 Fat Cat Policy

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

Figure 2.2

Alternative Current Assets Policies



Source: Weston & Brigham; 1996:344

2.5.1.2 Lean and Mean Policy

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

2.5.1.3 Moderate Policy

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

2.5.2 Current Assets Financing Policy

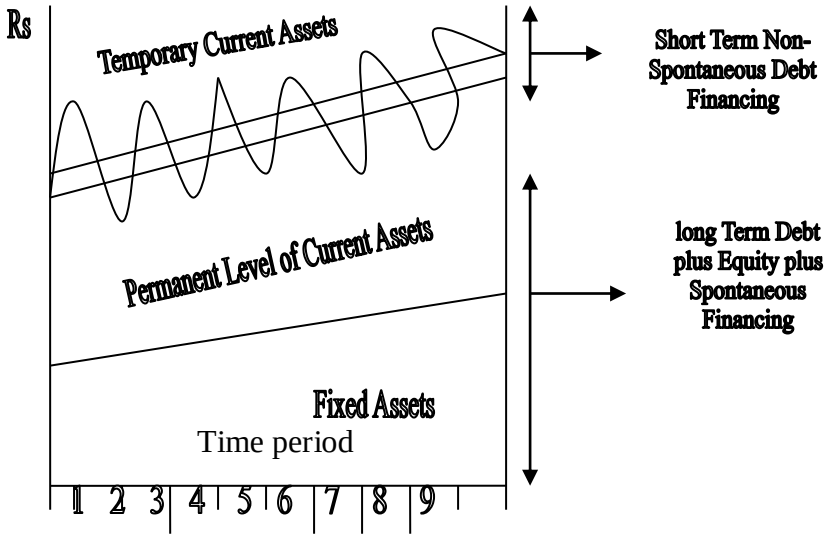
It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Thus, current assets financing policy should clearly outline the sources of financing of currents. There are three variants, namely, aggressive, conservative and matching policies of current assets financing.

2.5.2.1 Aggressive Policy

In aggressive policy, all the fixed assets of a firm are financed with long-term capital, but 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 finances not only temporary current assets but also a part of permanent current assets with short-term financing. Figure 2.4 shows that 50% of the permanent current assets are financed through short term financing. In general, interest rate increases with time, i.e., the shorter the time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal circumstances, the firm borrows on a short term financing rather than that from long term financing. On the other side, if the firm finances its permanent current assets by 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.

Figure 2.3

Aggressive Financing Policy



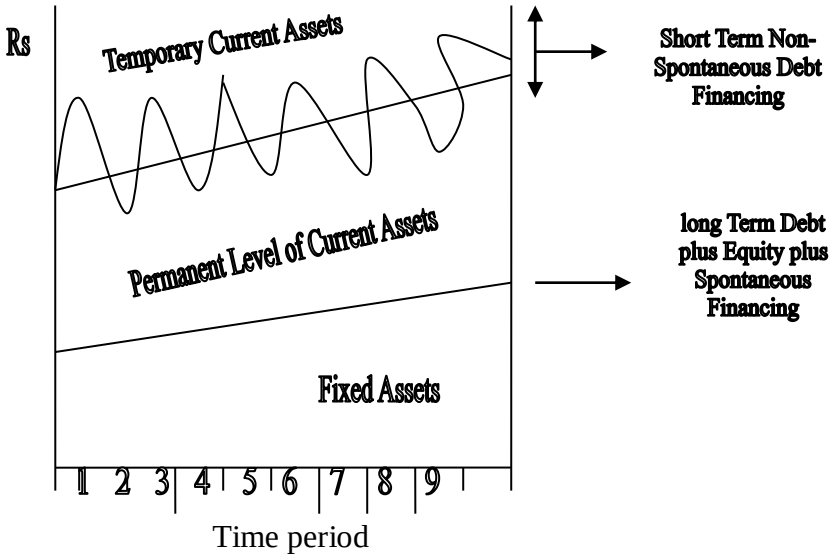
Source: Weston & Brigham; 1996:347

2.5.2.2 Conservative Policy

In conservative policy, the firm uses long term financing to finance not only fixed assets and permanent current assets, but also part of temporary current asses i.e., with short term financing (*Weston & Brigham: 1996:348)*. It means that the firm depends upon the long term sources for financing needs. This policy leads to high level of current assets, with long conversation cycle, low level of current liabilities higher interest cost.

Figure 2.4

Conservative Financing Policy



Sources: Weston & Brigham; 1996:348

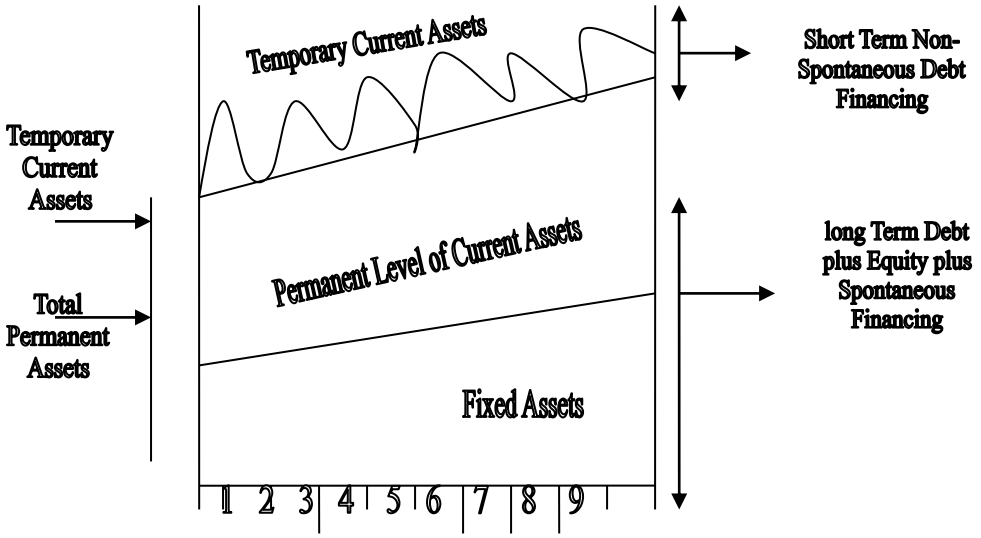
The risk and return are lower than that of aggressive one. The risk adverse management follows this policy.

2.5.2.3 Maturity Matching Policy

It is self-liquidity approach. In this policy, the firm finances the permanent current assets with long term financing and temporary with short term financing. It means that the firm matches the maturity of financing source with as 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. Figure 2.6 shows the temporary working capital is financed by short term financing and long term financing. Thus, no working capital is financed by long term funds. Hence, net working capital is zero under this policy.

Figure 2.5

Maturity Matching Financing Policy



Source: Weston & Brigham: 1996:347

2.6 Determinants of Working Capital

All thefirms,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 formulate to determine the working capital requirement of the firm. It is because of

a large number of factors affect different firm in different ways. Internal policies and changes in environment also affect the working capital. Generally, the following factors affect the working capital requirement of the firm (*pandey; 1999:816)*.

2.6.1 Nature and Size of Business

It depends upon the nature and size of the business. If the size of the firm is bigger, then it requires more working capital. While a small firm needs less working capital. Trading and financial firm require larger amount of working relatively to public utilities, while manufacturing concern lies between these two extremes.

2.6.2 Growth and Expansion

This also affects the working capital requirement of a firm. A growing firm needs more working capital than those static ones. However, it is difficult to precisely determine the relationship between the growth and expansion if the firm and working capital needs.

2.6.3 Credit Policy

Working capital requirement depends on terms of sales. Different terms 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 firm follows the stringent credit policy, it requires less working capital.

2.6.4 Production Policy

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

2.6.5 Availability of Credit

Availability of credit facility is another factor that affects the working capital requirement. If the creditors avail a liberal credit terms then the firm will needs 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 is required to operate the firm smoothly.

2.6.6 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, the larger will be working capital requirement and vice-versa.

2.6.7 Profit Margin

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

2.6.8 Price Level Change

Generally, a firm is required to maintain 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 to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

2.6.9 Operating Efficiency

It is also the important factor, which influence the working capital requirement of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus, financing manager can contribute to strong working capital position through operating efficiency.

If affirm has strong operating efficiency then it needs less amount of working capital otherwise it requires large amount of working capital. (*Pandey; 1999:817-819).*

2.6.10 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. It tax liability increases, it needs to increase the working capital and vice versa.

2.7 Needs for Working Capital

Working capital is the effective lifeblood and controlling nerve center of every business organization because without the proper control upon it, no business organization can run smoothly. Thus, it plays a crucial role in the success and failure of the organization. The need for working capital to run the day to day business activities cannot be overemphasized. We will hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. We know that 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 the other things. For constant operation of business, every firm needs to hold the working capital components, cash, receivables, inventory etc; therefore, every firm needs to working capital to meet the following motives (*Pandey; 1999:809).*

2.7.1 Transaction Motive

Transaction motive require a firm to hold cash and inventories to facilities smooth production and sales operation in regular. Thus, the firm needs working capital to meet the transaction motive.

2.7.2 Precautionary Motive

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

2.7.3 Speculative Motive

It refers to the desire of a firm to take advantages of the opportunities like opportunities of profit making investment, an opportunity of purchasing raw materials at a reduced price on payment of immediate cash, to speculate on interest rate, and to make purchase at favorable price etc. thus, the firm needs the working capital to meet the speculative motive *(Van Horne &Wachowicz; 1999:220).*

2.8 Financing of Working Capital

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

2.8.1 Long Term Financing

Long term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earnings and long term debts from financial institution are the major sources of long term financing. Even it includes retained earnings and long term loan from Nepal Industrial Development Corporation and long term other commercial banks.

2.8.2 Short Term Financing

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

2.8.3 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 called 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.

2.8.4 Bank Credit

Bank credit is the primary institutional sources for working capital financing. For the purpose of bank credit, amount of working capital requirement has to be estimated by the borrowers and banks are approached with the necessary supporting data. Bank determined the maximum credit based on the margin requirement 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 installment, interest is payables on actual balance outstanding.

Overdraft Arrangement

Under this arrangement the borrowers is allowed to overdraw on his current account with the bank up to stipulate limit. Within this limit, any numbers of drawing are permitted. Repayment should be made in short period.

Commercial Papers

It is used only by well-established high quality companies. The evidence of debts is an unsecured short term promissory note sold in the money market. It is sold either through dealers or directly to inventories. Besides the above form of credit, bank provide loan against the warehouse receipt, inventory receivable. 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 in our country.

Spontaneous Financing

Spontaneous financing arises from the normal operation of the firms. The two major sources of such financing are trade credit (i.e., credit and bills payable) and accruals. Whether trade credit is free of cost or not actually depends upon the terms of trade credit. Financial manager of the firm would like to finance its working capital with

spontaneous 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 financial manger concentrates his power in short term versus long term financing. Hence, the financing of working capital depends upon the working capital policy, which is perfectly dominated by the management attitude towards the risk return *(Pandey; 1999:827).*

2.9 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 distribution company, they 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 shortage and difficulties in maintaining smooth operations.

For small companies, current liabilities are the principal source 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 use of current liability financing. For these reasons, the financial manager and staff devote a considerable portion of their time to working capital matters. The management of cash, marketable securities, account receivable, account payable, accruals, and other means of short term financing is the direct responsibility of the financial 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 financial 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).*

Profitability and Risk

Underlying sound working capital management lie two fundamental decision issues for the firm. They are the determination of;

- The optimal level of investment in current assets
- The appropriate mix of short- term and long-term financing used to support this investment in current assets.

In turn, these decisions are influenced by the trade-off that must be made between profitability and risk. Lowering the level of investment in current assets, while still being able to support sales, would lead to an increase in the firm's return on total assets. To the extent that the explicit costs of short term financing are less than those of intermediate and long-term financing, the greater the proportion of short-term debt to total debt, the higher is profitability of the firm. Although short-term interest rates sometimes exceed long-term rates, generally they are less. Even when short-term-rates are higher, the situation is likely to be only temporary. Over an extended period of time, we would expect to pay more in interest cost with long-term debt than we should with short-term borrowings, which are continually rolled over (refinanced) at maturity. Moreover, the use of short-term debt as opposed to longer term debt is likely to result in higher profits because debt will be paid off during periods when it is not needed.

These profitability assumptions suggest maintaining a low level of current assets and high proportion of current liabilities to total liabilities. This strategy will result in a low, or conceivably negative, level of net working capital. Offsetting the profitability of this strategy, however, is the increased risk to the firm. Here, risk means jeopardy to the firm for not maintaining sufficient current assets to:

- Meet its cash obligations as they occur
- Support the proper level of sales (e.g., running out of inventory) (*Van Horne &Wachowic; 1999:204-205).*

2.10 Review of Journals & Articles

There are various studies with Working Capital Management have been documented in internal arena. The books written by different author entitled to review as under:

2.10.1 Review of Major Nepalese Studies

Shrestha (1982) in his article "*Working Capital Management in Public Enterprises"* has studied working capital management of ten selected public enterprises. Specially, he has focused on the liquidity turnover and profitability position of those enterprises. In this analysis, he found that four public enterprises have maintained adequate liquidity position, two public enterprises have excessive and remaining others public enterprises had failed to maintain desirable liquidity position. On the turn over side, two public enterprises had negative working capital turnover, four had adequate turnover, and one had higher turnover on net working capital. He had also found that out of ten public enterprises, six were operating in loss while only four were setting some percentage of profit. With the reference of his findings, he has brought certain policy issues.

This is as lack suitable financing planning, negligence of working capital management, deviation between liquidity and turnover of assets inability to show the positive relationship between turnover and return on net working capital. At the end, he has made some suggestive measures to overcome from the above policy issues. These are identification of management information system, positive attitude towards risk and profit and determination of right combinations of short term and long term sources of funds to finance working capital needs.

Pradhan (1988), in his article *"The Demand for Working Capital by Nepalese Corporation"* has analyzed the selected nine manufacturing public corporation with the 12 years data from 1973-1984. Regression equation has been adopted for the analysis. His study has summarized that the earlier studies concerning about the demand for cash and inventories by business firm did not report unanimous findings. A lot of controversies exist respect to the presence of economics of scale, roles of capital costs, capacity utilization rates and the speed with which actual cash and inventories and adjusted to describe cash and inventories respectively. To pooled

regression, result shows the presence of economics of scale with respect to the demand for working capital and its various components is function of both sales and their capital cost. The estimated results show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivables and gross working capital is doubtful.

Acharya (1985), in his article "Problems and Implementation in the Management of Working Capital in Nepalese Enterprises" has defined the two major problem i.e. operational problems and organizational problems, regarding the working capital management in Nepalese public enterprises. The operational problems, he found are increase of current liabilities than current assets, not allowing the current ratio 2:1 and slow turnover of inventories, similarly, change in working capital in relation to fixed capital had very low impacts over the profitability than transmutation of working capital employed to sales, absent of apathetic management information system. Break-even analysis, funds flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally, monitoring of the proper functioning of working capital management has never been considered as managerial job.

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

Shrestha(1995) in her article "*Portfolio Behavior of Commercial Banks in Nepal",* selecting two local commercial banks, three joint-venture banks and one development banks as a sample for the study. Some major findings of her study are given below.

- Total deposits have been the major sources of fund for all the banks.
- Capital sand reserve funds do not seem to have changed much over the year.

- The user of fund analysis shows that the resources of commercial banks are allocated in the liquid funds, investment on securities, loans and advances, bills purchased and discounted.
- Among the portfolio, for Nepalese banks loan and advances share highest volume of the recourses and the bills pursed and discounted the least over the year.
- The excess reserves of the commercial banks show unused resource. The cash reserve exceeds much more than the required cash reserve.

Mahat (2004) in his article, "Spontaneous Sources Working Capital Management" 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 include 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, provision and accrued expenses.

Mahat 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 an environment should be efficient enough to cope with the possible worst happening in future for working capital management. He 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 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 profits. Therefore, spontaneous sources of working capital will better to working capital in order to improve its performance.

Consequently, in a changed economic scenario, every company should realize that inability to manage working capital might land them in a vicious circle that can be hard to get out from. It is needed essential for industries to tighten their belts and checks their financial stability to face and stand in forthcoming competitive day.

2.10.2 Review of Master Degree of Thesis

There are various thesis concerned with working capital management. Some thesis entitled to review as under:

Dhungana (2009) has conducted research on "Working Capital Management of Unilever Nepal Limited". The main objectives are:-

- To assess the liquidity and profitability position of UNNL.
- To determine the structure and utilization of working capital of ULNL.
- To know the working capital policy of ULNL.
- To provide appropriate recommendation.

The major findings of this study are:-

- Current structure levels of ULNL are not stable.
- Current assets turnover ratio has found increasing trend.
- The company has not been able to convert current assets quickly in cash in order to meet current liabilities. The current ratio and quick ratio revealed and unsatisfactory liquidity position of ULNL and thereafter to increase the financial position for working capital.
- ULNL is following moderate working capital financing mix policy.

Shrestha(2007) has done a research on "*A Study on Working Capital Management of Nepal Lube Oil Limited".* The major objectives of this study are as follow.

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

The major findings of this study are as follow.

- 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 had insufficient in collecting receivable.

Major recommendations of this study are;

- NLOL management determines certain rate of return on its investment and setup sales target.
- The company should always concern about the current assets and current liabilities and regarding check should make.
- This study has also given the advice that the company should give attention to manpower planning should avoid both under and over staffing.

Lamsal (2004) has conducted research study on "A comparative study of working capital management of NABIL and Standard Chartered bank Nepal limited". The main objectives are:-

- To study the current assets and current liabilities and their impact on liquidity and profitability.
- To analyze the liquidity, assets utilization, long term solvency and profitability position of both banks.
- To analyze the comparative study of working capital management between NABIL and SCBNL.

Based on his findings, the Standard Chartered should seriously adjust its policy of investment on loan and advances with collected funds and increase their proportion of loan and advances in total current assets. Fixed deposits and saving deposits turnover position are also not satisfactory on both banks. Therefore, NABIL as well as SCBNL should give proper attention on collection of over dated loan and advances and utilization of idle fund as well as loan and advances. Interest earned to total assets ratio is higher on NABIL but net profit ratios are less than SCBNL. It is due to higher cost on NABIL. By adopting the matching working capital management policy instead of adopting conservative working capital policy NABIL as well as SCBNL could improve in its profitability in the short run as well as long run.

The major findings of his study were:

- The major components of current assets in NABIL and SCBNL are cash and bank balance, loan and advance and government securities.
- The liquidity position of SCBNL is better than NABIL.
- The turnover position of NABIL has better than SCBNL has better utilization of deposits in income generating activity than SCBNL.
- Long term debt to net worth ratio of NABIL is always higher than SCBNL on that study period.

Net profit to total assets ratio and net profit to total deposit ratios are always higher on SCBNL than NABIL. Cost of services to total assets of NABIL is always higher than the same of SCBNL on the study period. The average value of interest earned to total assets ratio of NABIL is higher than SCBNL.

Shrestha (2003) has carried out a study, entitled "*A Study on Working Capital Management with respect to National Trading Limited and Salt Trading Corporation Limited"*. Her main objective is to present overall picture of working capital of National Trading Limited and Salt Trading Corporation Limited. The major findings of the study are as follows:

- The Current Assets to Total Assets of NTL and STCL both are in fluctuating trend.
- The investment in current assets is high in both of the trading companies with respect to its total assets and net fixed assets.
- Cash and bank balance holds the highest portion followed by inventory in NTL where as cash and bank balance holds the least portion in STLC and inventory holds the highest portion.
- The turnover position of the NTL and STCL are in fluctuating trend.
- The liquidity position of the STCL is satisfactory and favorable in comparison to the liquidity position of the NTL.

Similarly, **Subedi** (2003) has carried out a study "Working Capital Management of Manufacturing Company Listed in NEPSE". His main objective is to examine the working capital policy of Nepalese manufacturing companies listed in Nepal Stock exchange limited. He has identified the following points as major findings:-

- There is wide variation of the current assets within individual manufacturing companies.
- The ratio of cash to current assets is widely varied among manufacturing companies during the study period from 1997 to 2001.
- The overall company average of receivables to current assets ratio is 16 percentages.
- There is wide variation in the ratio of inventory to current assets among the manufacturing companies.
- There is no consistency in the company average of current assets to total assets in manufacturing companies.
- The liquidity position of Nepalese manufacturing companies is not similar among different companies.

Shrestha (2001) has carried out his research on "*A study on working capital management of Dairy Development Corporation".* The main objective of the study is to analyze the current assets and current liabilities and their impact and relationship to each other. The major findings of his study are as follows:-

- The major components of current in DDC are inventory, cash and bank balance, sundry debtors and miscellaneous current assets in which inventory hold the major portion respectively in each year.
- The company's investment in the form of working capital has been increasing. The average investment in current assets is lower with respect to net fixed assets during the study period and DDC had no clear vision about the investment in current assets to fixed assets portion.
- The average receivable turnover and ACP is in fluctuating trend during the study period.
- There is ineffective liquidity position and unsatisfactory profitability ratio in DDC.

- The overall return position of DDC is negative i.e. not in favorable condition. It is because of inefficient utilization of CA, TA and shareholders wealth.

K. C (2000) has conducted research on "*Comparative study of Working Capital Management of Nepal Bank Limited and Nepal Arab Bank Limited".* The major objectives of the research are:-

- To review the related literature of recent development in working capital management.
- To analyze the comparative study of working capital management of NBL and NABIL.
- To study the current assets and current liabilities and their impact and relationship to each other of NBL and NABIL.

Based on his findings, he has recommended that NBL should reduce or replace its fixed deposits by collecting higher amount of short term deposits. NBL as well as NABIL should give proper attention on collection of over-dated loan and advances and utilization of idle fund as loan and advances. NBL should reduce its cost through reducing high cost deposit, and operate in a proper way so that it can have least operating cost which further maximize its profitability and maximize share holders return. Both banks should adopt the matching working capital management policy instead of adopting conservative working capital policy. The major findings of his study were:

- The major components of current assets in NBL and NABIL are cash, bank balance, loan advances and government securities.
- Out of the major three current assets components, cash and bank balance holds the smallest portion in NBL. On the other hand, government securities hold the smallest portion in NABIL. The interest income of NBL was better than NABIL.
- The trend of quick ratio, cash and bank balance to deposit ratio, and cash and bank balance to deposit ratio, and cash and bank balance to current, margin and other deposit ratios of NBL and NABIL are decreasing. The liquidity position of NBL was always better than NABIL.

- Fixed deposit to total deposit ratio of NBL were always higher than same of NABIL for the study period.
- The turnover position of NBL are in fluctuating trend but turnover position of NABIL are decreasing in first three years then increasing in last two years of study period. NABIL has the better utilization of deposits in income generating activity than NBL. Also the NABIL has better investment efficiency on loan and advance.
- Large portion of long term debt is used in current assets of both banks but relatively it is higher on NBL than NABIL. Both banks follow conservative working capital policy but NBL has more conservative working capital policy than NABIL. Due to more conservative working capital policy, risk of insolvency is lesser but cost of fund is higher on NBL than NABIL.
- The profitability position of NABIL is far better although NBL earned higher interest than NABIL.

Pathak(1994) has done a research on "An Evaluation of working capital management of Nepal Lube Oil Limited". The main objective of his study is to apprise the working capital management of NLOL and to study the relationship between sales and different variables of working capital. To achieve these objectives, he has taken five-year study period and applied the secondary data.

He found the current assets with respect to total assets are in increasing trend year after year during the study period. It has occupied high portion than fixed assets. Investment on current assets has affected on investment on total assets. According to him, the growing tendency of investment over current assets could have adverse effects in NLOL's wealth maximization goal in the long run.

According to the conclusion of his study, the major findings were:

- The company had lesser participation of fixed assets in total assets.
- Cash holds of the company was relatively small portion of total assets and inventory held largest portion indicating unsound inventory management.
- The company was inefficient in collecting receivables.
- Receivables were not affected by sales.

- Current assets did not depend upon the volume of cash receivables however significance relation between proportion of current assets and total assets, current assets and fixed asset, current asset and current liabilities and quick asset and current liability was.

Shrestha(1992) has carried out "*A Comparative Study of Working Capital Management in Bhaktapur Brick Factory and Harisiddhi Factory."* His main objective is to focus on the components of working capital cash, inventory, receivables and current liabilities. He had done comparative assumed of WCM of BBF and HBF. He had used financial ratios as a major tool of analysis. In addition to this, he had used mean, index, standard deviation and coefficient of variation.

The major findings of his study are as follows:

- There is no proper relationship between liquidity and profitability of two brick factories.
- Both brick factories have followed various working capitals. There is no good combination between fixed capital and working capital.
- BBF has been seriously sufficient from negative return whereas HBF has generated positive return. However, both factories profitability position is not satisfactory.
- Overall management and working capital is not strong in both brick factories.

Joshi (1986) has conducted a study entitled "*A Working Capital Management of Birat Nagar Jute Mill Ltd".* The main objective of his study is to show the composition of working capital and relationship between working capital and working capital components. To fulfill these objectives, he has taken five-year study period and used secondary data. He found out that inventory, cash and bank balance, receivables and components of working capital. The major portion of current assets has been occupied by inventory and cash, which have not been efficiently managed. The company has relied heavily on bank support for meeting additional funds without making the best utilization of realized funds. Receivable turnover is in favorable condition. Collection period is also favorable. It means the company can change is cash in very short period.

The major findings of the study were:

- Inventory held major share of current assets followed by debtors and very negligible cash balance.
- The company held poor liquidity position and was financed by short term sources (short term bank credit).
- The company had not earned sufficient profit even to pay the interest on short term loans.

2.11 Concluding Remarks

Many research studies have been conducted by the different students, experts and researchers about working capital management. There have been found numerous research studies on financial companies and public enterprises regarding working capital. Some studies are related to case study of a single company and some others are comparative in nature. But the comparative study of working capital management between financial companies can be hardly found. From the review of related studies no one study have been found (working capital management) as a comparative study in the context of Standard Chartered Bank Nepal Limited (SCBNL) and Himalayan bank limited (HBL). The financial and statistical tools used by most of the researchers were ratio analysis, test of hypothesis and regression analysis. This research includes different tools like ratio analysis, correlation analysis and trend analysis as specific tools. Thus the research study made on "A comparative study of working capital management of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited" will be an effort to analyze on detail about working capital management of the two banks as a comparative study in present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people as well.

CHAPTER – III
RESEARCH METHODOLOGY

3.1 Introduction

The third chapter is concerned with the research methodology employed in the study. Research methodology describes the methods and process applied in the entire aspect of the study. Thus, this chapter deals with the research design, nature of data, gathering procedure, population and samples, and analysis tools.

3.2 Research Design

This study aims to portray accurately upon the working capital (or current assets and current liabilities) and its impact on overall financial position of two banks under consideration, namely, Standard Chartered Bank Nepal Ltd. and Himalayan Bank Ltd. The research design followed for this study is the descriptive cum analytical.

3.3 Population and Sample

There are 32 joint venture commercial banks listed in NEPSE stock exchange up to July 2012 and all these commercial banks are population of study. Among them SCBNL and HBL have been selected as samples for the study.Financial statements of five years from 2063/34 to 2067/68.

3.4 Nature and Sources of Data

The data used in this study are fully secondary in nature. Published annual reports of the concerned banks are taken as basic sources of data. The relating to financial performance is directly obtained from the concerned banks. Similarly, related books, magazines, journals, report, bulletins, data from Nepal stock exchange and Nepal Rastra Bank, central Bureau of statistics, related website from internet etc. as well as other supplementary data and various economic surveys are also used.

3.5 Data Processing Procedure

Data are analyzed by using simple methods so that it would be easy to understand. The obtained data are presented in various tables, diagrams and charts that will definitely help to reach towards meaningful interpretations of the presented data. For

convenience, the calculations that cannot be shown in the body part of the report are presented in the appendices section.

3.6 Data Collection Technique

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

3.7 Method of Data Analysis and Interpretation

Financial as well as the statistical tools are used to makes the analysis more convenient, reliable and authentic. For data analysis, different items from the balance sheet and other statement are tabulated. Their ratios, percentages, mean, standard deviations and coefficient of variance are then calculated and presented in the tables. To study the relationship between two or more variables, correlation coefficients are also calculated. In order to know about the sources and applications of the fund, funds flow statement is prepared Likewise, trends analysis is also used to know the trend of various ratios. Following are the brief introduction of the financial and statistical tools used in this study.

3.7.1 Financial Analysis Tools

Financial ratios are calculated to ascertain the financial condition of the firms. It is the relationship between financial variables contained in the financial statement. It helps the related parties to spot out the financial strength and weakness of the firms. The financial tools used in this study are as follows.

3.7.1.1 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 ration and quick ratio measure the liquidity position of the company. (Pradhan; 2000:53). Liquidity of any business organization is directly related to working capital or current

assets and current liabilities of the organization. One of the main objectives of working management is to maintain goods liquidity position.

The liquidity ratio calculated in this study as follows.

3.7.1.1.1 Current Ratio

Current Ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. The ratio indicates the current short term solvency position of the bank. The current ratio is the ratio of total current assets to current liabilities. Higher current ratio indicates better liquidity position.

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

3.7.1.1.2 Quick Ratio

Quick ratio is used to measure the ability of concerned firms to pay current obligation (short term) without depending on other liquid asset of current ratio. It provides relationship between quick assets with current liabilities. This quick ratio can be found out by dividing the total quick asset by total liabilities.

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

3.7.1.1.3 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 banks balance by deposits (excluding fixed deposits). The ratio can be expressed as.

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

3.7.1.1.4 Fixed Deposit to Total Deposit Ratio

Fixed deposit is a long term and high interest charge bearing deposit. Although a high cost liability, increasing fixed deposit is subject to additional advantage if utilized properly. Sufficient fixed deposit enable banks to grant long term loan to their client at higher interest rate. This ratio is calculated in order to find out the proportion total deposit that has higher interest charge bearing which is expected as follows.

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

3.7.1.1.5 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, which is interest bearing and short term in nature. It calculated by dividing the total amount of saving deposit by the amount of total deposits this can be expressed as follows.

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

3.7.1.2 Activity or Turnover Ratio

Activity ratios as used to evaluate the efficiency with the firm manage and utilize its asset. This ratio indicated how quickly certain assets are converted in to cash.

3.7.1.2.1 Loan and Advances to Total Deposit Ratio

The ratio assesses to what extent the bankers are able to utilize the deposit find to earn profit by providing loans advances. It is computed by dividing the total amount of loan advances to total deposit funds.

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

3.7.1.2.2 Loan and Advance to Fixed Deposit Ratio

The ratio measure how much amount is used loans and advances in comparison to fixed deposit. Fixed deposits are interest bearing loan term obligation where as loan and advances are the major sources of investment in gearing income for commercial banks. It is calculated as follows.

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

3.7.1.2.3 Loan and Advances to Saving Deposit Ratio

This ratio is also employed for the purpose of measuring utilization of saving deposit in generating revenue by giving loan and advance e to the client. This ratio indicates how much short term interest bearing deposits are utilized for income gearing purpose. The formula for this ratio is as follows.

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

3.7.1.3 Profitability Ratio

The profitability ratio measures the operating profitability and reflects the overall efficiency and effectiveness of management *(pradhan; 2000:53)*

The profitability ratios calculated in this study are:

3.7.1.3.1 Interest Earned to Total Assets Ratio

This ratio is used to determine total interest earned from investment over the total asset of the firm. It can be computed as follows:

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

3.7.1.3.2 Net Profit to Total Asset Ratio

Profit to total asset ratio is useful in measuring the profitability of the financial resources invested compared to total asset of a firm. This ratio is calculated by dividing the amount of net profit by the amount of total asset employed. Hence,

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

3.7.1.3.3 Net Profit to Total Deposit Ratio

This ratio measure the percentage of profit earned from the utilization of the total deposits. Deposits are mobilized for investment, loan and advance to the public in gearing revenue. Higher ratio indicated the return from investment on loans and lower ratio indicates that the funds are not properly mobilized.

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

3.7.1.4 Leverage Ratio

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

3.7.1.4.1 Long-term Debt to Shareholders Equity Ratio

It is a test of long-term solvency of a firm. The ratio indicates the relationship between debt and equity. It is related to shareholder's fund indicating the degree of protection against long term creditors. The formula of Long-term Debt to Shareholders Equity Ratio is:

$$\text{Debt-Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Total Shareholder's Equity}}$$

3.7.2 Statistical Tools

The relationship between different variables related to the study topics were also drawn out using statistical tools. The statistical tools employed in this study are:

3.7.2.1 Arithmetic Mean or Average

The mean or average value is a single value 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 values. It is calculate by:

$$X = \frac{\sum X}{N}$$

X = Arithmetic Average,

$\sum X$ = Sum of values of all terms, and,

N = Number of term

3.7.2.2 Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distribution. It can be thought of as a rough measure of the average amount by which observation deviate on entire side of the mean. Denoted by Greek letter, standard deviation is extremely useful for judging the representative of the mean. Standard deviation is re presented as:

$$\sigma = \sqrt{\frac{\sum d2}{n}}$$

Where,

σ = Standard deviation,

$\sum d2$ = Sum of squares of the deviations measured from the arithmetic average

n = Number of items

3.7.2.3 Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation, the greater the risk relative to the average.

Mathematically,

$$CV = \frac{\sigma}{x}$$

Where,

CV = Coefficient of Variation

σ = Standard Deviation

x = Arithmetic Average

3.7.2.4 Coefficient of Correlation

Correlation is a statistical tool which is used to describe the degree to which one variable is linearly related to another. The coefficient measures the degree of relationship between to sets of figure. Among the various methods of finding out coefficient of correlation, Karl person's method is applied in the study. The result of coefficient of correlation is always between +1 and -1.

When r, the coefficient 0 correlation is -1, there is prefect relationship between two variables and vice-versa. Then r is o, there is no relationship between two variables. The formula for the calculation of coefficient of correlation between X and Y is given below.

$$r = \sum xy / \sqrt{\sum x2 \sum y2}$$

Also, the least of significance of correlation has been done in this study. In order to lest where the correlation coefficient is significance to the correlation between the two variable, paired sample t-tests has been applied at the standard significance level of 5%. If calculated value of t is greater or equal to its tabulated value, correlation is significance else it is not significant. The formula for the calculation of t value is,

$$t = \frac{r(\sqrt{n-2})}{\sqrt{1-r2}}$$

3.7.2.5 Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement of determination of its financial situation. The trend line is represented by following equation.

Yc = a+ bx, where,

Yc = Estimated value of Y for given value of x in coordinate axes,

A = Y intercept of mean of Y value,

B = Slope of the line or rate of change

X = Variable in time axis

To find the value of a & b, we have to solve the following equations:

$\sum y = Na + b \sum X$ (1)

$\sum XY = a \sum X + b \sum Y$ (2)

Where, N = Number of years

To make calculation easier, the deviation of the independent variable (i.e. time) are taken from the middle of the time period. So, that $\sum X=0$, then the above two equation change to:

$\sum y = na$ therefore, $a = \sum y / n$

And $\sum xy = b\sum x2$ therefore, $b = \sum xy / \sum x2$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

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

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

4.1 Introduction

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

4.2 Composition of Current Assets

To operate the business, different kinds of assets are required. The composition of the current assets differs from organization to organization. According to nature of the business and the attitude of the management towards risk. The firm, which has risk advert management, maintains the high liquidity, assets in total working capital. If the organization has aims to maximize return on shareholder investment should earn sufficient return from its operation. So every firm has to maintain the appropriate level of current assets according to their nature of business and attitude of management to run the business smoothly.

The following table shows the composition of current assets used by SCBNL and HBL of the study period.

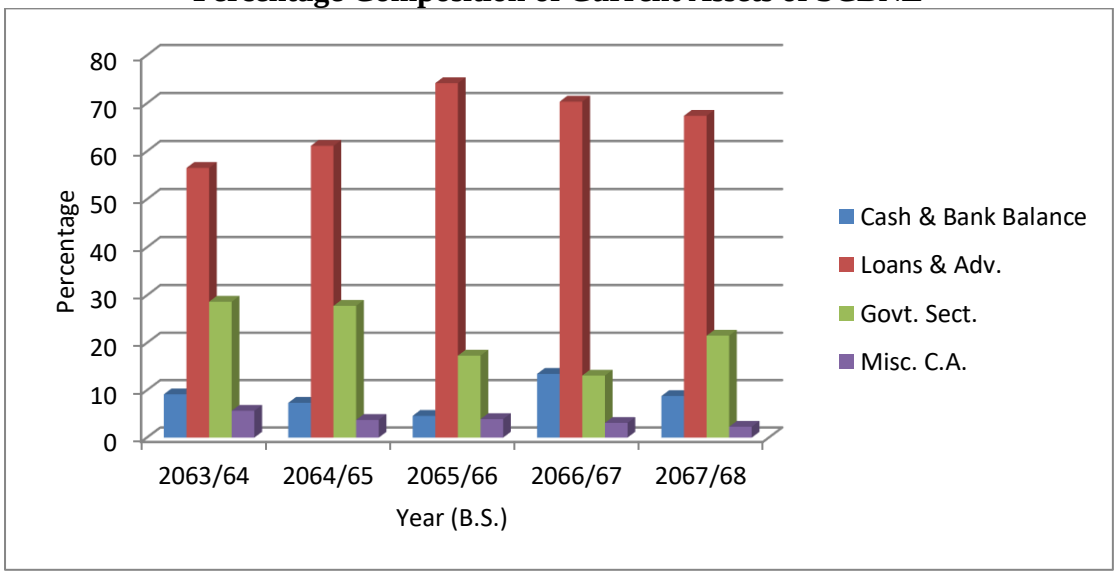
Table 4.1
Composition of Current Assets of SCBNL

(In Millions)

Year (B.S.)	SCBNL								
	Cash & Bank Balance	%	Loans & Adv.	%	Govt. Sect.	%	Misc. C.A.	%	TCA
2063/64	1144.76	9.14	7077.36	56.53	3588.77	28.67	7.8.61	5.66	12519.5
2064/65	970.48	7.35	8076.42	61.13	3672.63	27.80	492.2	3.73	13211.7
2065/66	639.38	4.59	10338.9	74.19	2413.94	17.32	543.88	3.90	13936.1
2066/67	2365.14	13.46	12358.6	70.34	2301.46	13.10	544.67	3.10	17569.8
2067/68	1963.36	8.79	15048.9	67.39	4808.35	21.53	512.05	2.29	22332
Avg.		**8.67**		**65.91**		**21.68**		**3.74**	

Source: Appendix I

Figure 4.1
Percentage Composition of Current Assets of SCBNL



In table 4.1,we can see the total amount of current assets components of SCBNL Total amount of current assets components of SCBNL has increased from second to last year of the study period, in fourth and fifth year it has increased largely.

Table 4.2
Composition of Current Assets of HBL

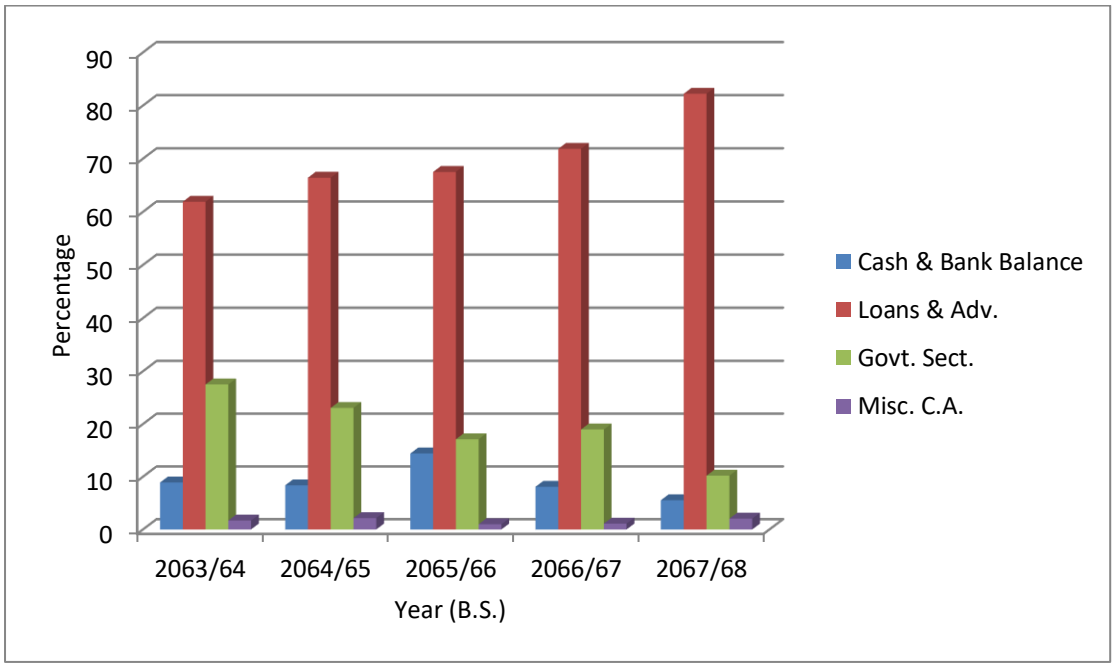
(In Millions)

Year (B.S.)	HBL								
	Cash & Bank Balance	%	Loans & Adv.	%	Govt. Sect.	%	Misc. C.A.	%	TCA
2063/64	347.96	8.90	2419.52	61.89	1075.19	27.50	66.56	1.70	3909.23
2064/65	448.96	8.37	3561.41	66.42	1235.28	23.04	115.95	2.16	5361.60
2065/66	1005.54	14.41	4711.17	67.50	1194.31	17.11	68.53	0.98	6980.09
2066/67	749.14	8.09	6655.96	71.85	1756.58	18.96	102.56	1.11	9264.24
2067/68	599.76	5.54	8902.53	82.22	1104.06	10.20	221.51	2.05	10827.8
Avg.		**9.06**		**69.98**		**19.36**		**1.60**	

Source: Appendix I

Figure 4.2

Percentage Composition of Current Assets of HBL



In table4.2, we can see the total amount of current assets components of HBL Total amount of current assets components of HBL has increased from second to last year of the study period but in second and forth year it has increased largely. The percentage composition of current assets to total current assets i.e., cash and bank

balance, loans and advances, investment in government securities and miscellaneous current assets to total current assets of banks are presented in following chart.

4.2.1 Cash and Bank Balance Percentage

Cash and Bank Balance Percentage of SCBNL is fluctuating over the study period. First three year, it is in decreasing trend and then it is increasing in forth year but again it is in decreasing trend in fifth year. It is highest in the forth year, i.e., 13.46 % and lowest in the third year of the study period, i.e., 4.59 %. The average cash and bank balance percentage of SCBNL is 8.67 %.

The yearly cash and bank balance of HBL is also in fluctuating over the study period. It has decreased in second year, increased in third year and again in decreasing trend in forth and last year of the study period. It is highest in the year 2065/66 B.S. where it is 14.41 % and lowest in the last year of the study period i.e., 5.54 %. The average cash and bank balance percentage of HBL higher than SCBNL.

4.2.2 Loan and Advance Percentage

In the case of SCBNL, loans and advances percentage are increasing till third year and decreasing till year of the study period. It is highest in the year 2065/66 B.S i.e., 74.19 % and lowest in the year 2063/64 B.S. i.e., 56.53 %. The average loans and advances percentage is 65.91 %. The yearly loans and advances percentage of NABIL in the year 2063/64 B.S. and 2064/65 B.S. are less than the average i.e., 56.63 % and 61.13 %. But in the year 2065/66, 2066/67 and 2067/68 B.S. the loans and advances percentage are higher than the average i.e., 74.19 %, 70.34 % and 67.39 %.

In the case of Himalayan Bank Ltd., loan and advances are increasing till last year of the study period. It is highest in the year 2067/68 B.S., i.e., 82.22 % and lowest in the year 2063/64 B.S., i.e., 61.89 %. The average loan and advances percentage of HBL is 69.98 %. In the first three years, i.e., 2063/64, 2064/65 and 2065/66 B.S., the yearly loan and advances percentage is lesser than the average loan and advances percentage. They are 61.89 %, 66.42 % and 67.50 % respectively. But in the last two years of the study, the yearly loan and advances percentage is higher than the average loan and advance percentage, i.e., 71.85 % and 82.22 %.

4.2.3 Government Securities Percentage

The percentage of Government Securities percentage of SCBNL is in decreasing trend. It is decreasing till fourth year, i.e. 2066/67 B.S. But, the amount of percentage has increased in the last year of the year of the study period, i.e., 2067/68 B.S. It is higher in the year 2063/64 B.S., i.e., 28.67 % and lower in the year 2066/67 B.S., i.e., 13.10 %. The average percentage of government securities percentages of last three years of the study period, i.e., 17.32 %, 13.10 % and 21.53 % and it is lower than its yearly government securities percentage of first two years of the study period, i.e., 28.67 % and 27.80 %.

Government securities percentage of HBL is fluctuating over the study period. It is highest in the year 2063/64 B.S., i.e. 27.50 % and the lowest government securities percentage is in the year 2067/68 B.S., i.e., 10.20 %. The average government securities percentage is 19.36 %. The yearly percentage of government securities percentage of the bank is higher than its average percentage in first two years of the study period, i.e., 27.50 % and 23.04 % and it is lower in last three years of the study period, i.e., 17.11 %, 18.96 % and 10.20 %.

4.2.4 Miscellaneous Current Assets Percentage

From the table 4.1, we know that SCBNL is investing lesser amount in miscellaneous current assets in comparison to other components of current assets over the study period. It is in range between 2.29 % and 5.66 %. The average miscellaneous current asset is 3.74 %. The yearly percentage in the year 2063/64 B.S. and 2065/66 B.S, i.e. 5.66 % and 3.90 % and it is lower than its average percentage in the year 2064/65, 2066/67 and 2067/68 B.S., i.e. 3.37 %, 3.10 % and 2.29 %. The investment in miscellaneous current assets is comparison to other components of current assets.

Miscellaneous current assets percentage of HBL is also more stable than its other components of current assets just like SCBNL It is in the range between 0.98 % and 2.10 %. The average miscellaneous current asset of the bank is 1.60 %. It is highest in the year 2064/65 B.S., i.e. 2.16 % and lowest in the year 2065/66 B.S., i.e. 0.98 %. The yearly percentage of miscellaneous current assets percentage of the bank is higher than its average percentage in the year 2063/64, 2064/65 and 2067/68 B.S., i.e. 1.70

%, 2.16 % and 2.05 % whereas in the year 2065/66 and 2066/67 B.S., the yearly percentage is lower than its average percentage, i.e. 0.98 % and 1.11 %.

Miscellaneous current assets percentage of HBL is always lesser than SCBNL and its average miscellaneous current assets percentage is lesser than SCBNL as well. From the above analysis, we can conclude that SCBNL is investing amount in miscellaneous current assets than HBL. It may be good for liquidation position of the bank but may harm for the profitability position of the bank because it is keeping higher idle amount in comparison to HBL.

4.3 Composition of Current Liabilities

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

Table 4.3
Total Amount of Current Liabilities Components of SCBNL
(In Millions)

Year (B.S.)	SCBNL								
	Borrowings	%	Deposit (Excl. FD)	%	Bills Payable	%	Misc. C.A.	%	TCA
2063/64	961.46	7.40	11195.12	86.14	108.94	0.84	730.37	5.62	12995.89
2064/65	229.66	1.77	11808.46	91.16	173.5	1.34	741.61	5.73	12953.23
2065/66	17.06	0.13	12508.07	95.56	119.75	0.91	444.7	3.40	13089.58
2066/67	173.2	1.02	15898.31	93.49	92.54	0.54	841.7	4.95	17005.89
2067/68	882.57	4.47	17907.01	90.62	83.51	0.42	887.97	4.49	19761.06
Avg.		**2.96**		**91.39**		**0.81**		**4.84**	

Source: Appendix II

Figure 4.3
Total Amount of Current Liabilities Components of SCBNL

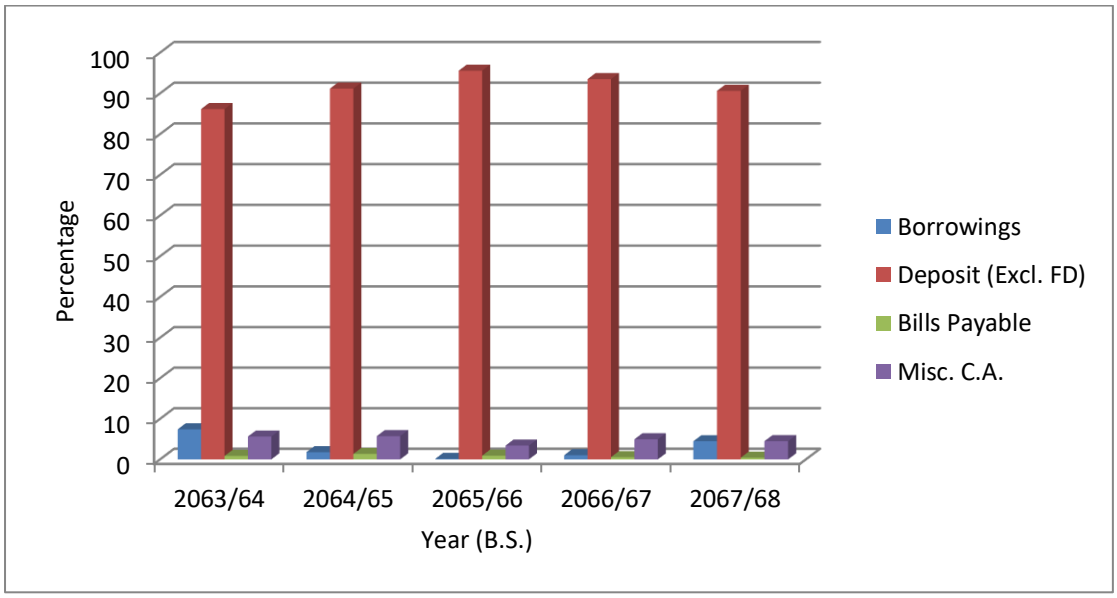


Table 4.3 shows the total amount of current liabilities components of SCBNL is decreased in second year and after third year; it has started to increase till last year of the study period.

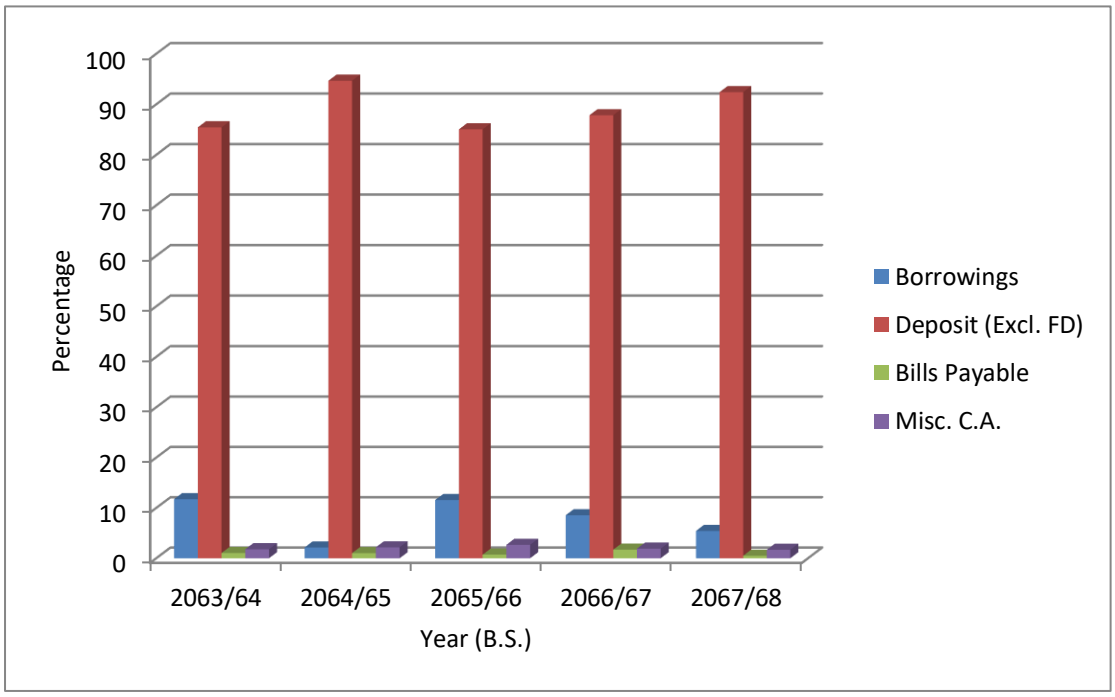
Table 4.4
Total Amount of Current Liabilities Components of HBL
(In Millions)

Year (B.S.)	HBL								
	Borrowings	**%**	**Deposit (Excl. FD)**	**%**	**Bills Payable**	**%**	**Misc. C.A.**	**%**	**TCA**
2063/64	274.75	11.73	2001.28	85.44	24.35	1.04	42.00	1.79	2342.38
2064/65	69.32	2.14	3063.42	94.67	32.92	1.02	70.25	2.17	3235.91
2065/66	450.37	11.57	3310.76	85.04	28.33	0.73	103.80	2.67	3893.26
2066/67	457.71	8.55	4701.45	87.83	91.51	1.71	101.97	1.91	5352.64
2067/68	352.13	5.43	5993.67	92.41	31.69	0.49	108.79	1.68	6486.28
Avg.		**2.96**		**91.39**		**0.81**		**4.84**	

Source: Appendix II

Table 4.4 shows total amount of current liabilities components of HBL Total amount of current liabilities components of HBL, has increased from beginning till last year of the study period.

Figure 4.4
Total Amount of Current Liabilities Components of HBL



4.3.1 Borrowing Percentage

The borrowing percentage of SCBNL is fluctuating over the study period. In the year 2064/65 and 2065/66 B.S., it decreased and then after it increased till last year of the study period. It is highest in the first year, i.e. 7.40 % and lowest in the year 2065/66 B.S., i.e. 0.13 %. The average borrowing percentage of SCBNL is 2.96 %.

The yearly borrowing percentage of HBL is more fluctuating. It has rapidly decreased in second year and increased in the same way in third year. Then it decreased till the last year of the study period. It is highest in the year 2063/64 B.S., i.e. 11.73 % and lowest in the year 2064/65 B.S. i.e. 2.14 %. The average borrowing percentage HBL is 7.88 %. The borrowing percentage of both banks is always fluctuating all over the study period. The average borrowing percentage of HBL is higher than that of SCBNL.

4.3.2 Deposit (Excluding Fixed Deposit) Percentage

The deposit (excluding fixed deposit) percentage of SCBNL is fluctuating. It has increased in the year 2064/65 and 2065/66 B.S. and then it has decreased till last year of the study period. It is highest in the year 2065/66 B.S., i.e. 95.56 % and lowest in the year 2063/64 B.S., i.e. 86.14 %. The average deposit (excluding fixed deposit) percentage of SCBNL is 91.39 %.

In Himalayan Bank Ltd., the deposit (excluding fixed deposit) percentage is increased in second year, decreased in third year and increased then after till the last year of the study period. It is highest in the year 2064/65 B.S., i.e. 94.67 % and lowest in the year 2065/66 B.S., i.e. 85.04 %. The average deposit (excluding fixed deposit) percentage of HBL is 89.08 %.

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

4.3.3 Bills Payable Percentage

The bills payable percentage of SCBNL is increased in the second year and then, decreased till the last year of the study period. The highest bills payable percentage is

1.34 % in the year 2064/65 B.S. and it is lowest in the year 2067/68 B.S., i.e. 0.42 %. The average bills payable percentage of SCBNL is 0.81 %.

In HBL, the bills payable percentage is in decreasing and increasing trend. It decreased till the third year and started increasing in the year 2066/67 B.S., i.e. 1.71 % and lowest in the year 2067/68 B.S., i.e. 0.49 %. The average bills payable percentage of HBL is higher than that of SCBNL.

4.3.4 Miscellaneous Current Liabilities Percentage

Table 4.4 shows that the miscellaneous current liabilities percentage of the SCBNL is fluctuating all over the study period. It is increased in second year, decreased in third year, increased in forth year and again decreased in the last year of the study period. It is highest in the year 2064/65 B.S., i.e. 5.73 % and lowest in the year 2065/66 B.S., i.e. 3.40 %. The average miscellaneous current liabilities percentage of SCBNL is 4.84 %.

In HBL, the miscellaneous current liabilities percentage is increasing till third year of the study period. Then it started to decreased till the last year of the study period. It is highest in the year 2065/66 B.S., i.e. 2.67 % and lowest in the year 2067/68 B.S., i.e. 1.68 %. The average miscellaneous current liabilities percentage is 2.04 %.

In both banks, the yearly percentage of miscellaneous current liabilities is fluctuating. The average miscellaneous current liabilities percentage of SCBNL is higher than that of HBL.

Ratio and its Trend Analysis

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

a. Liquidity Ratio

Liquid asset is one that can be easily converted into cash without significant loss of its original value. Converting assets, especially current assets such as inventory and receivables, to cash is the primary means by which a firm obtains the funds needed to pay its current bills. Therefore a firm's liquid position deals with the question of how well the firm is able to meet its current obligations. Short term assets or current assets are more easily converted to cash that another firm if it has a greater proportion of its total assets in the form of current assets. Liquidity ratio means the short term solvency position of the firm. Liquidity ratio is a ratio that shows the relationship of a firm's cash and other current assets to its current liabilities. Under this there are two types of ratios.

Liquidity of any business organizations is directly related with working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Banks and finance companies are different organizations which are engaged in mobilizations of funds. So, without sound liquidity position or ability to meet its short term obligations, various liquidity ratios are calculated and to know the trend of liquidity, trend analysis of major liquidity ratios has been considered.

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

I. Current Ratio

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

conservative the firm, although a high current ratio can mean less profitability than a competing firm with a leaner current ratio. Also like so many ratios, this one varies by industry. It is calculated as follows:

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

Table 4.5 and chart 4.5 show the current ratio to compare the working capital management of these financial institutions.

Table 4.5
Calculation of Current Ratio

(Rs. In Millions)

Year (B.S.)	**SCBNL**			**HBL**		
	C.A.	**C.L.**	**C.R.**	**C.A.**	**C.L.**	**C.R.**
2063/64	12519.50	12995.89	0.96	3909.23	2342.38	1.67
2064/65	13211.73	12953.23	1.02	5361.60	3235.91	1.66
2065/66	13936.07	13089.58	1.06	6980.09	3893.26	1.79
2066/67	17569.83	17005.89	1.03	9264.24	5352.64	1.73
2067/68	22332.63	19761.06	1.13	10827.86	6486.28	1.67
Average			1.04			1.70

Source: Appendix I &II

Figure 4.5
Current Ratio

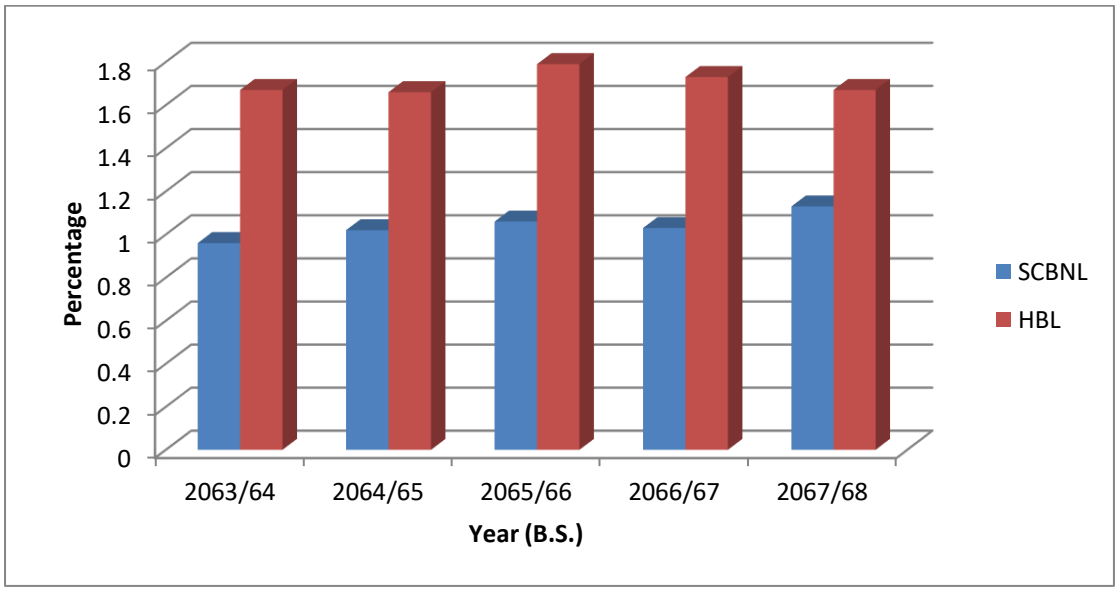


Figure 4.5 depicts that the current assets of SCBNL is in increasing trend from 2063/64 B.S. to the last year of the study period. And the current liabilities of SCBNL are decreasing in second year and then increasing till last year of the study period. The current ratios of SCBNL are increasing till third year. It decreased in forth year and then after it begins to increase in the year 2067/68 B.S., the current ratio highest in the year 2067/68 B.S., i.e. 1.13 lowest in the year 2063/64 B.S., i.e. 0.96. The average current ratio of SCBNL is 1.04.

In HBL, the current assets are in increasing trend from the year 2063/64 B.S. to the last year of the study period. And, the current liabilities of HBL are also in increasing trend from starting to end of the study period. But the current ratio of NBL is in fluctuating trend. It has decreased in second year, increased in the third year and then decreased till the last year of the study period. The current ratio is highest in the year 2065/66 B.S., i.e. 1.79 and lowest in the year 2064/65 B.S., i.e. 1.66. The average current ratio of HBL is 1.70.

The average current ratio of HBL is higher than that of SCBNL. It helps to conclude that the liquidity position of HBL is better than that of SCBNL. HBL has more ability to meet its current obligation that SCBNL.

II. Quick Ratio

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

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

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

Table 4.6
Calculation of Quick Ratio

(Rs. In Millions)

Year (B.S.)	SCBNL			HBL		
	C.A.	C.L.	C.R.	C.A.	C.L.	C.R.
2063/64	4733.53	12995.89	0.36	1423.15	2342.38	0.61
2064/65	4643.11	12953.23	0.36	1684.24	3235.91	0.52
2065/66	3052.32	13089.58	0.23	2199.85	3893.26	0.57
2066/67	4666.6	17005.89	0.27	2505.72	5352.64	0.47
2067/68	6771.71	19761.06	0.34	1703.82	6486.28	0.26
Average			0.31			0.48

Source: Appendix I &II

Figure 4.6

Quick Ratio

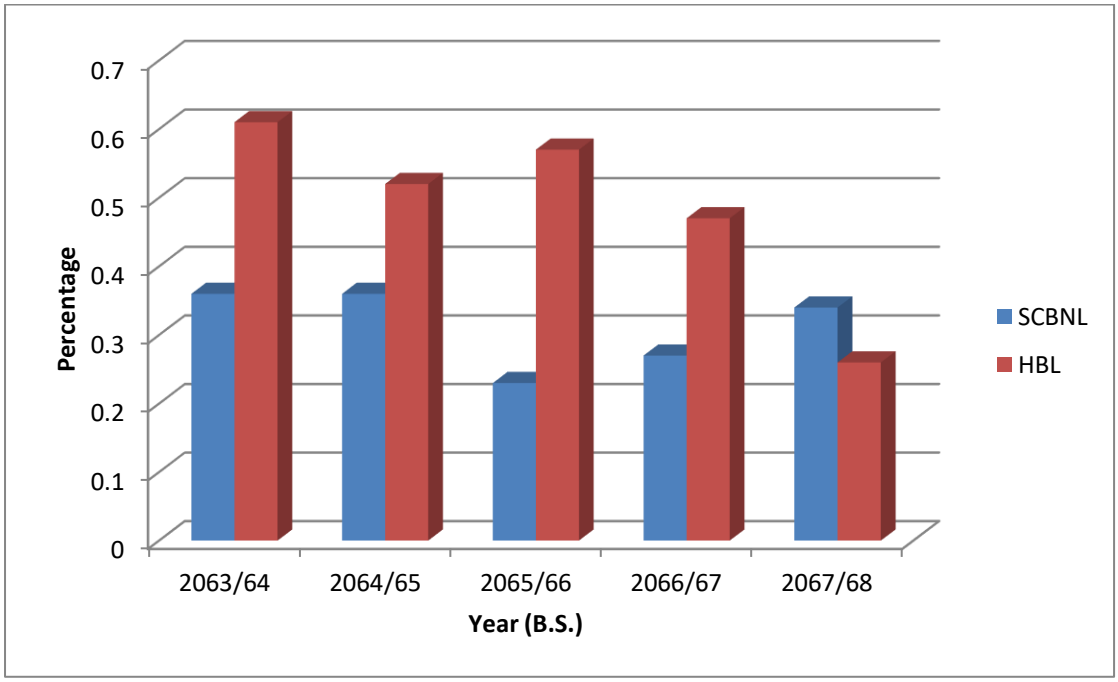


Table 4.6 and figure 4.6 depict that quick ratios of SCBNL are always Fluctuating over the study period. The quick ratio of SCBNL is constant in second year, decreased in third year and then increased till the last year of the study period. It is highest in the year 2063/64 and 2064/65 B.S., i.e. 0.36 and lowest in the year 2065/66 B.S., i.e. 0.23. The average quick ratio in SCBNL is 0.31.

The quick ratios of HBL are also fluctuating. The quick ratio of HBL is decreased in second year, increased in third year and then declined till the last year of the study period. It is highest in the year 2063/64 B.S., i.e. 0.61 and lowest in the year 2067/68 B.S., i.e. 0.26. The average of quick ratio in HBL is 0.48.

The yearly quick ratios of HBL are always than that of SCBNL except in the year 2067/68 B.S. The average quick ratio of HBL is higher than that of SCBNL (i.e. 0.48>0.31).

III. Cash and Bank Balance to Current, Margin and other Deposit Ratio (without fixed deposit)

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

$$\text{Cash \& Bank Balance to Current, Margin and other Deposit Ratio (without fixed deposit)} = \frac{\text{Cash and Bank Balance}}{\text{Deposit (excluding Fixed Deposit}}$$

Table 4.7
Cash & Bank Balance to Current, Margin and Other Deposit Ratio (Without Fixed Deposit)

(Rs. In Millions)

Year (B.S.)	SCBNL			HBL		
	Cash & Bank Balance	Deposit (Excluding fixed deposit)	Ratio	Cash & Bank Balance	Deposit (Excluding fixed deposit)	Ratio
2063/64	1144.76	11195.12	0.10	347.96	2001.28	0.17
2064/65	970.48	11808.46	0.08	448.96	3063.42	0.15
2065/66	639.38	12508.07	0.05	1005.5	3310.76	0.30
2066/67	2365.14	15898.31	0.15	749.14	4701.45	0.16
2067/68	1963.36	17907.01	0.11	599.76	5993.67	0.10
Average			0.10			0.18

Source: Appendix I

Figure 4.7
Cash & Bank Balance to Deposit (Excluding Fixed Deposit) Ratio

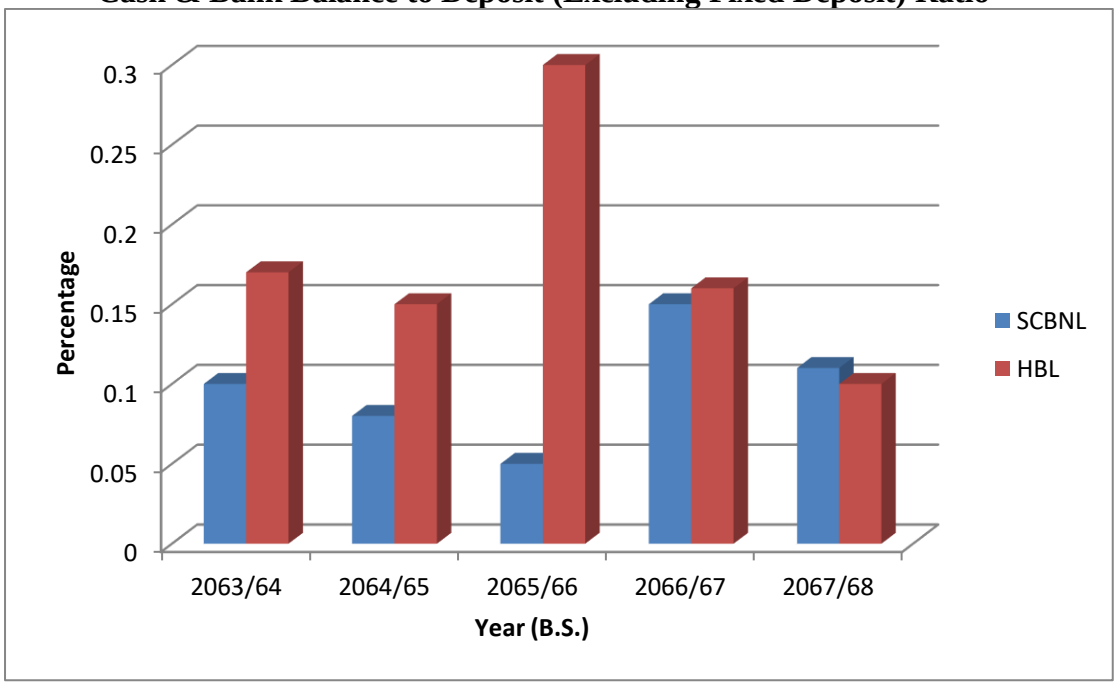


Figure 4.7 depicts that the cash and bank balance to deposit (excluding fixed deposit) ratios of SCBNL are decreasing till the first three years, increasing in fourth year and again decreasing in the last year of the study period. The ratio is higher in the year 2066/67 B.S., i.e. 0.15 and lower in the year 2065/66 B.S., i.e. 0.05. The average cash and bank balance to deposit (excluding fixed deposit) ratio of SCBNL is 0.10.

Table 4.7 shows that the cash and bank balance to deposit (excluding fixed deposit) ratios of HBL is fluctuating over the study period. The highest cash and bank balance to deposit (excluding fixed deposit) ratio is 0.30 in the year 2065/66 B.S. and lowest is 0.10 in the year 2067/68 B.S. The average cash and bank balance to deposit (excluding fixed deposit) ratio of HBL is 0.18.It is higher than the yearly ratios of the year 2063/64, 2064/65, 2066/67 and 2067/68 B.S., i.e. 0.17, 0.15, 0.16 and 0.10, but is lower than the yearly ratio of the year 2065/66 B.S., i.e. 0.30.

The average cash and bank balance to deposit (excluding fixed deposit) ratio of SCBNL, i.e. 0.10 is lesser than cash and bank balance to deposit (excluding fixed deposit) ratio of HBL, i.e. 0.18. The above analysis helps to conclude that HBL holds more cash balance than SCBNL. The higher cash and bank balance to deposit

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

a. Activity Ratio (Turnover Ratio)

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

I. Loan and Advances to Total Deposit Ratio

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

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

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

Table 4.8
Calculation of Loan and Advances to Deposit Ratio

(Rs. In Millions)

Year (B.S.)	SCBNL			HBL		
	Loan & Advances	Total Deposit	Ratio	Loan & Advances	Total Deposit	Ratio
2063/64	7077.36	13447.66	0.53	2419.5	3144.32	0.77
2064/65	8076.42	14119.13	0.57	3561.4	5146.48	0.68
2065/66	10338.87	14856.61	0.70	4711.7	6241.38	0.75
2066/67	12358.56	19345.40	0.64	6656.0	8765.95	0.76
2067/68	15048.87	10187.35	1.48	8902.5	10068.23	0.88
Average			0.78			0.77

Source: Appendix I & II

Figure 4.8
Calculation of Loan and Advances to Deposit Ratio

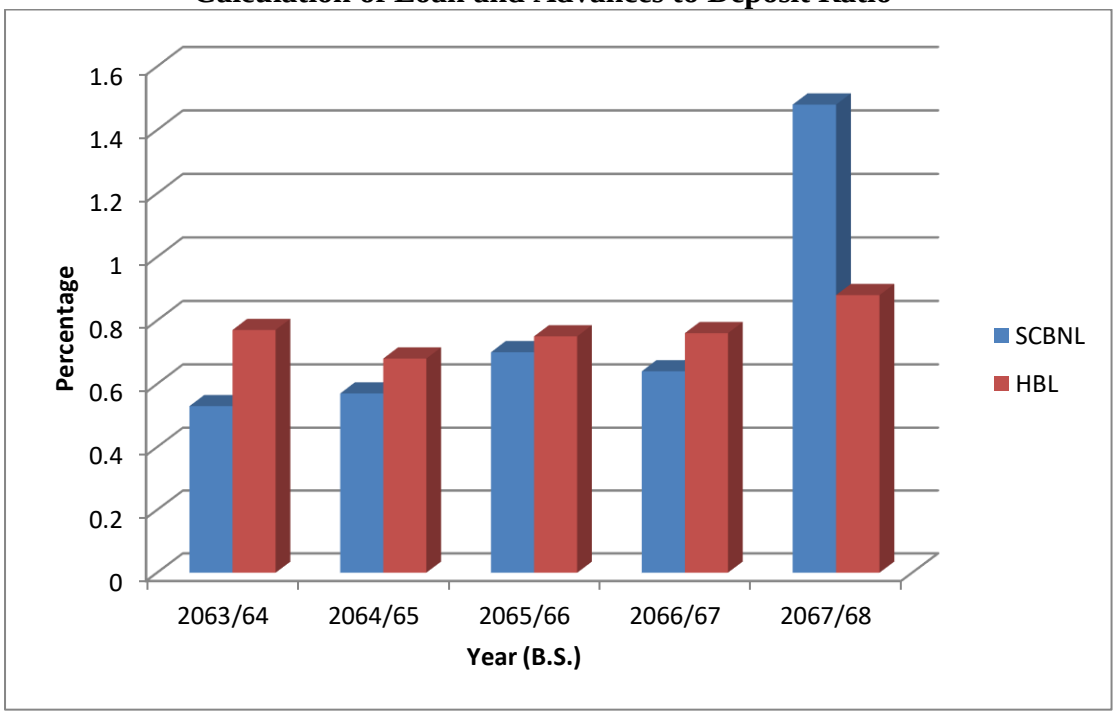


Figure 4.8 depicts that loan advances to total deposit ratios of SCBNL are fluctuating during the study period. It is increasing in second and third year, decreasing in forth year and again increasing in last year of the study period. The bank has the highest loan and advances to total deposit ratio in last year, i.e. 1.48 and the least in first year,

i.e. 0.53. But, the yearly amount of loan and advances to total deposit ratios are not much difference during the period of study. The average loan advances to total deposit ratio of SCBNL is 0.78 which is lower than its yearly ratios except last year of the study period, i.e. 1.48.

For HBL, loan and advances to total deposit ratios are more stable than SCBNL. The range of ratio is 0.69 to 0.88. The average loan and advances to total deposit ratio is 0.77. The loan and advances to total deposit ratios are decreasing in second year and increased from third year to last of the study period. The yearly ratio is higher, i.e. 0.88 in the year 2067/68 B.S. and lower, i.e. 0.69 in the year 2064/65 B.S.

The average loan and advances to total deposit ratio of SCBNL is higher than the same of HBL by 0.01. The above analysis helps to conclude that loan and advances to total deposit ratio or total deposit turnover ratio of SCBNL. Thus, SCBNL is employing the funds more efficiently for the profit generating purpose on loan and advances than HBL.

II. Loan and Advances to Fixed Deposit Ratio

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

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

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

Table 4.9
Calculation of Loan and Advances to Fixed Deposit Ratio
(Rs. In Millions)

Year (B.S.)	SCBNL			HBL		
	Loan & Advances	Total Deposit	Ratio	Loan & Advances	Total Deposit	Ratio
2063/64	7077.36	2252.54	3.14	2419.5	1143.04	2.12
2064/65	8076.42	2310.57	3.50	3561.4	2083.07	1.71
2065/66	10338.87	2078.54	4.97	4711.7	2930.62	1.61
2066/67	12358.56	3449.09	3.58	6656.0	4064.50	1.64
2067/68	15048.87	5435.19	2.77	8902.5	4074.56	2.18
Average			3.59			1.85

Source: Appendix I

Figure 4.9
Calculation of Loan and Advances to Fixed Deposit Ratio

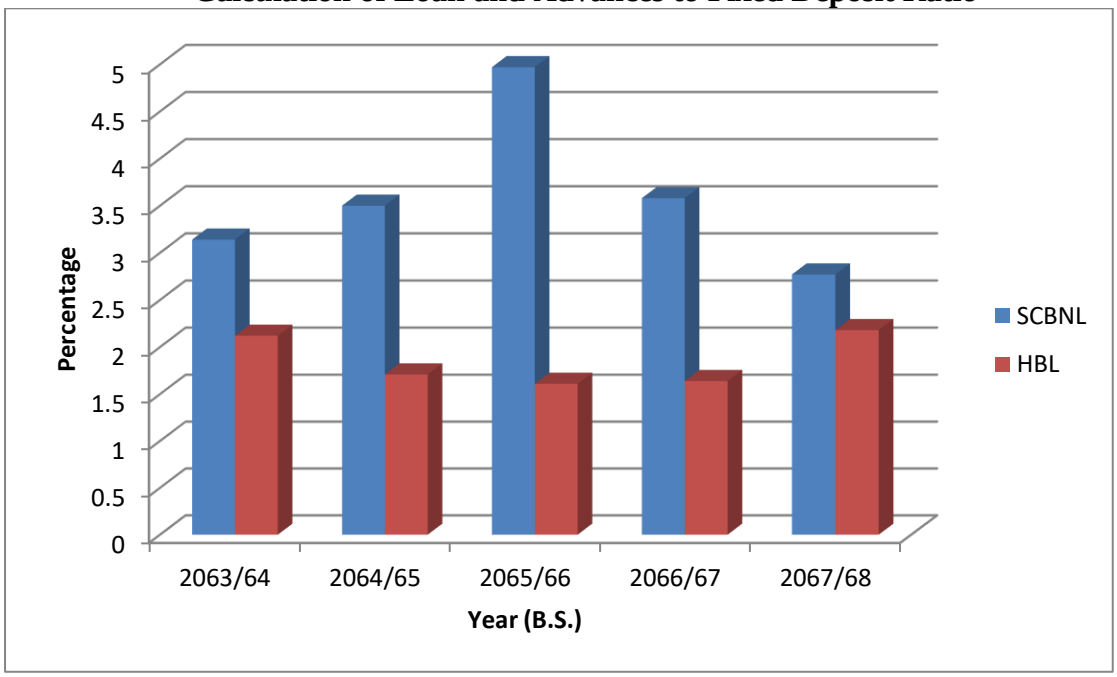


Table 4.9 depicts that fixed deposits are in rising and falling form. Fixed deposit of SCBNL has increased in second year then it has begun to decrease in third year and in fourth and last year of the study period, it has increased highly. Loan and advances to fixed deposit ratios are gradually increasing except in 2066/67 and 2067/68 B.S. The average ratio of SCBNL is 3.59, which is greater than its yearly ratios of the year

2063/64, 2064/65, 2066/67 and 2067/68 B.S., i.e. 3.14, 3.50, 3.58 and 2.77 respectively. But the average ratio of SCBNL is lower than its yearly ratios of the year 2065/66 B.S., i.e. 4.97.

For HBL, the fixed deposits are in rising form. Fixed deposit of HBL has increased highly from beginning to fourth year of the study period. The loan and advances to fixed deposits are fluctuating. The ratio has decreased in second and third year and then after gradually increasing. HBL has highest loan and advance to fixed deposit ratio in the year 2067/68 B.S., i.e. 2.18 and lowest in the year 2065/66 B.S., i.e. 1.61. The average ratio of HBL is 1.85 which is greater than the yearly ratio of the year 2064/65, 2065/66 and 2066/67 B.S., i.e. 1.71, 1.61 and 1.64. But it is lesser than the yearly ratio of the year 2063/64 and 2067/68 B.S., i.e. 2.12 and 2.18.

SCBNL had higher yearly ratios than HBL in the whole study period. SCBNL also has higher ratio of loan and advances to fixed deposit ratio than HBL, i.e. 3.59>1.85. The above analysis helps to conclude that loan and advances to fixed deposit ratio of SCBNL is better than of HBL. The ratio implies that SCBNL is utilizing its fixed deposit in loan and advances more efficiently.

III. Loan and Advances to Saving Deposit Ratio

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

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

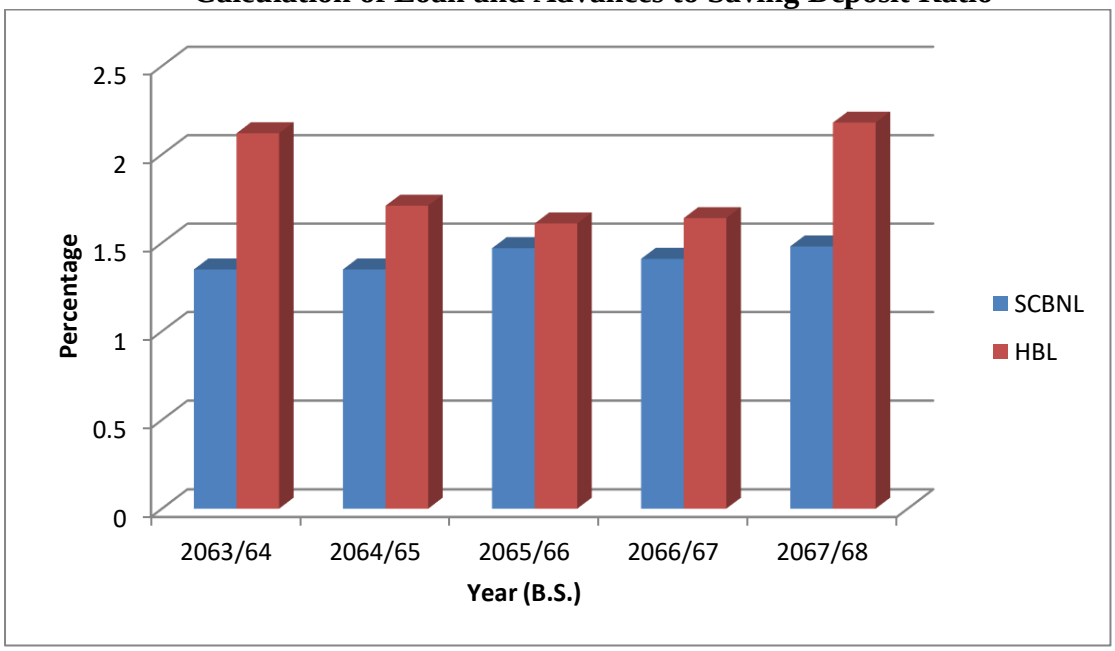
Table 4.10
Calculation of Loan and Advances to Saving Deposit Ratio

(Rs. In Millions)

Year (B.S.)	SCBNL			HBL		
	Loan & Advances	Saving Deposit	Ratio	Loan & Advances	Saving Deposit	Ratio
2063/64	7077.36	5229.72	1.35	2419.5	734.09	3.30
2064/65	8076.42	5994.12	1.35	3561.4	1280.48	2.78
2065/66	10338.87	7026.33	1.47	4711.7	2024.26	2.33
2066/67	12358.56	8770.76	1.41	6656.0	2797.42	2.38
2067/68	15048.87	10187.35	1.48	8902.5	3335.67	2.67
Average			1.41			2.69

Source: Appendix I & III

Figure 4.10
Calculation of Loan and Advances to Saving Deposit Ratio



Thable 4.10 depicts that the loan and advances to saving deposit ratios of SCBNL are fluctuating. The ratio is constant in the second year, increased in the third year, decreased in fourth year and at last increased in the last year of the study period. The ratio is highest in the last year, i.e. 1.48 and lowest in the first and second year, i.e. 1.35. the average ratio of SCBNL, i.e. 1.41 is higher than the yearly ratio of first two

years, constant in the year 2066/67 B.S. and lower than the year ratio of the year 2065/66 and 2067/68 B.S.

Loan and advances to saving deposit ratio of HBL is decreased in second and third year, then after it is gradually increased till the last year of the study period. For the HBL, the ratio is highest in the year 2063/64 B.S., i.e. 3.30 and lowest in the year 2065/66 B.S, i.e. 2.33. The average ratio is 2.69, which is lower than its yearly ratios in the year 2063/64 B.S., 2064/65 B.S. and higher than its yearly ratios in the year 2065/66, 2066/67 and 2067/68 B.S.

The yearly ratios HBL are always exceeding than SCBNL in the study period. So, the average loan and advances to saving deposit of HBL is higher than that of SCBNL. From the above analysis, it can be concluded that the loan and advances to saving deposits of HBL are better than the same of SCBNL. It implies that HBL is utilizing short term fund of outsider more effectively than SCBNL.

a. Leverage Ratio or Capital Structure

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

I. Long Term Debt to Net Worth Ratio

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

$$\text{Long Term Debt to Net Worth Ratio} = \frac{\text{Long Term Debt}}{\text{Net Worth}}$$

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

Table 4.11
Calculation of Long Term Debt to Net Worth Ratio

(Rs. In Millions)

Year (B.S.)	SCBNL			HBL		
	Long term debt	Net worth	Ratio	Long term debt	Net worth	Ratio
2063/64	2252.54	1671.92	1.35	1143.04	552.08	2.07
2064/65	2310.57	1840.35	1.26	2083.07	620.4	3.36
2065/66	2078.54	2018.2	1.03	2930.62	684.19	4.28
2066/67	3449.09	2233.36	1.54	4064.5	1212.62	3.35
2067/68	5435.19	1111.08	4.89	4074.56	1305.24	3.12
Average			10.82			3.24

Source: Appendix IV

Figure 4.11
Calculation of Long Term Debt to Net Worth Ratio

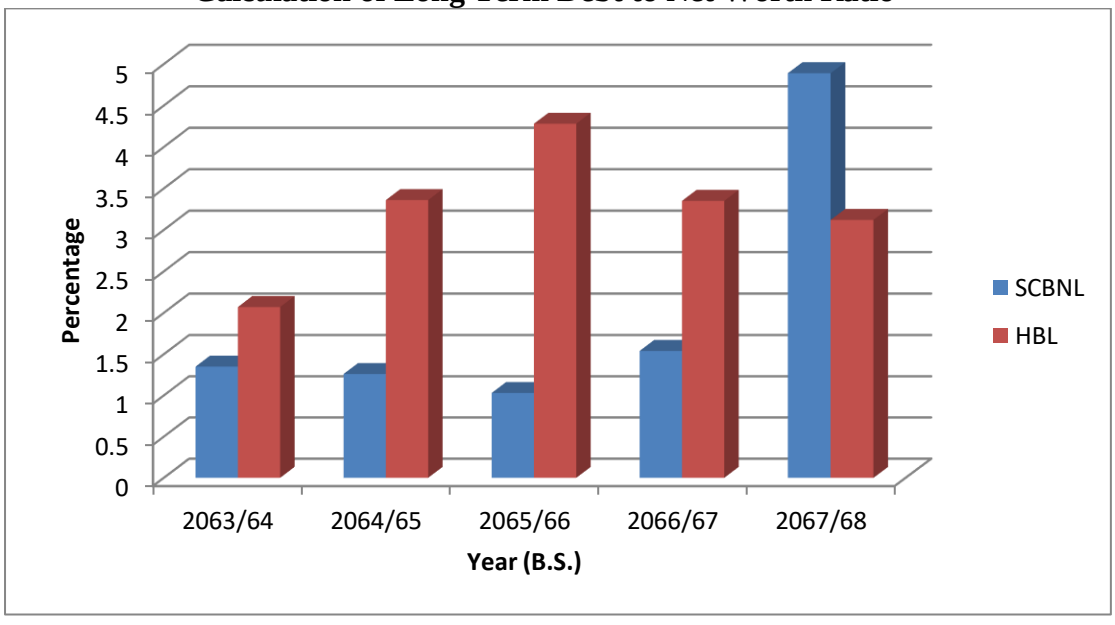


Table 4.11 depicts that the long term debt of SCBNL are fluctuating and the net worth are gradually increasing till the fourth year of the study period. So, the yearly ratios of SCBNL are also fluctuating. It has declined till year and then increased in fourth and

in last year of the study period. It increased very highly, i.e. from 1.54 to 48.93. The highest long term debt to net worth ratio is 48.93 and lowest is 1.03 in the year 2067/68 B.S. and 2065/66 B.S. respectively. The average ratio of SCBNL is 10.82.

For HBL, long term debt and net worth are in increasing trend all over the study period. But, the yearly long term debt to net worth is fluctuating over the period. It increased till the third year and then it shows down till the last year 2063/64 B.S. The average ratio of HBL is 3.24 B.S.

Table 4.11 shows the average ratio of SCBNL is very much higher than that of HBL. From this analysis, it can be conducted that the long term debt to net worth ratio of SCBNL are greater than HBL, which implies that the proportion of outsiders' claim in total capitalization is higher in SCBNL. The large amount of fixed deposit and very low net worth in the last year of the study period makes the ratios very much higher in case of SCBNL. So, SCBNL has more risky and aggressive capital structure than HBL.

II. Long Term Debt to Capital

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

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

Table 4.12
Calculation of Long Term Debt to Total Capital Ratio
(Rs. In Millions)

Year (B.S.)	SCBNL			HBL		
	Long term debt	Total Capital	Ratio	Long term debt	Total Capital	Ratio
2063/64	2252.54	16562.62	0.14	1143.04	4037.51	0.28
2064/65	2310.57	16745.49	0.14	2083.07	5939.37	0.35
2065/66	2078.54	16825.76	0.12	2930.62	7508.07	0.39
2066/67	3449.09	22332.1	0.15	4064.5	10383.6	0.39
2067/68	5435.19	27264.39	0.20	4074.56	11678.83	0.35
Average			0.15			0.35

Source: Appendix I & II

Figure 4.12
Calculation of Long Term Debt to Total Capital Ratio

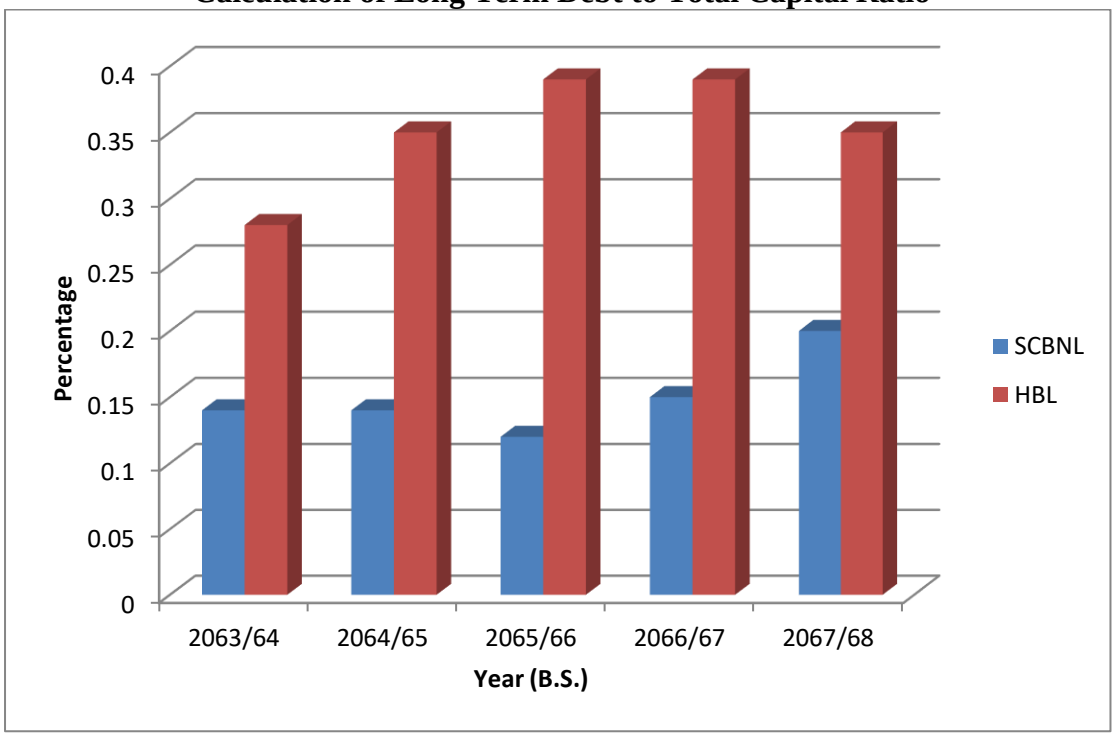


Table 4.12 clearly depicts that the yearly long term debt to total capital ratio of SCBNL are fluctuating. It has been constant in second year, decreased in third year then it is in increasing trend till the last year of the study period. The ratio is highest in the year, i.e. 0.12. The average long term debt to total capital ratio of SCBNL is 0.15.

For HBL, the yearly long term debt to total capital ratio are in fluctuating trend. It has increased till third year, constant in fourth year and decreased in last year of the study period. The ratio is in range of 0.28 to 0.39. The average long term debt to total ratio of HBL is 0.35.

The yearly ratios as well as the average ratio of HBL are higher than that of SCBNL. From the above analysis, it can be concluded that total capital covers low portion of long term debt in both banks. In other language, we can say that both banks use high short term liabilities to cover total capital. Due to large amount of long term debt in SCBNL, long term debt to total capital is higher in HBL than SCBNL.

a. Profitability Ratio

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

I. Interest Earned to Total Assets Ratio

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

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

Table 4.13
Calculation of Interest Earned to Total Assets Ratio

(Rs. In Millions)

Year (B.S.)	SCBNL			HBL		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
2063/64	1017.87	16250.15	0.06	291.14	4037.51	0.07
2064/65	1001.62	16186.42	0.06	363.04	5939.37	0.06
2065/66	1068.75	16397.9	0.07	457.61	7508.07	0.06
2066/67	1310.0	22688.33	0.06	579.98	10629.76	0.05
2067/68	1587.76	27621.64	0.06	725.82	11866.08	0.06
Average			0.06			0.06

Source: Appendix III

Figure 4.13
Calculation of Interest Earned to Total Assets Ratio

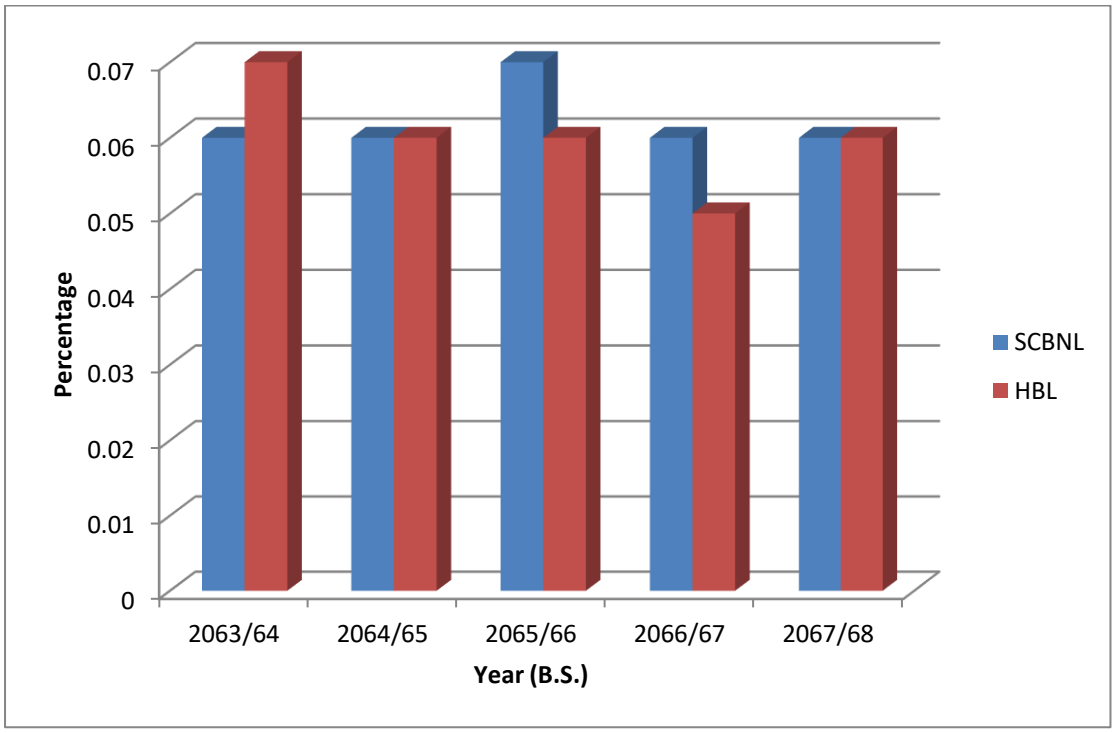


Figure 4.13 vividly depicts that interest earned by SCBNL is decreasing in the year 2064/65 B.S., and then it has begun to increase till the last year of the study period. The interest earned to total assets ratio of SCBNL is in constant form except in the third year of the study period. The average interest earned to total assets ratio of

SCBNL is 0.06 which is lower than the yearly ratio of 2065/66 B.S., i.e. 0.07 and constant to the other years of the study period.

For HBL, the interest earned is increasing till the last year of the study period. The interest earned to total assets ratio of HBL is fluctuating. The ration has decreased in the year 2064/65 B.S., i.e. 0.06, constant in the year 2065/66 B.S., i.e. 0.05. The average ratio of HBL is 0.06.

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

II. Net Profit to Total Assets Ratio

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

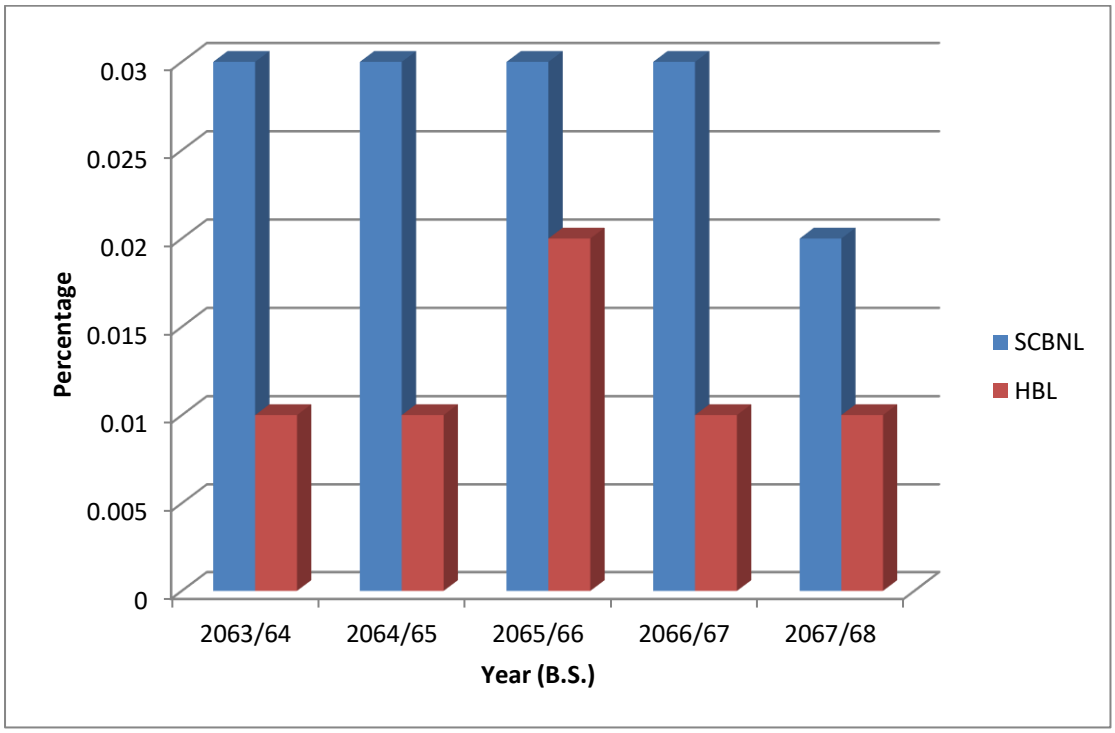
$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit after tax}}{\text{Total Assets}}$$

Table 4.14
Calculation of Net Profit after Tax to Total Assets Ratio
(Rs. In Millions)

Year (B.S.)	SCBNL			HBL		
	NPAT	Total Assets	Ratio	NPAT	Total Assets	Ratio
2063/64	416.24	16250.15	0.03	25.94	11866.08	0.01
2064/65	455.31	16186.42	0.03	68.26	10629.76	0.01
2065/66	518.64	16397.9	0.03	113.76	7508.07	0.02
2066/67	635.26	22688.33	0.03	96.59	10629.76	0.01
2067/68	673.96	27621.64	0.02	158.48	11866.08	0.01
Average			0.03			0.01

Source: Appendix I & II

Figure 4.14
Calculation of Net Profit after Tax to Total Assets Ratio



The above figure clearly depicts that the overall profitability ratio that is net profit to total assets of SCBNL are constant in the last year of the study period. The average ratio of SCBNL is 0.03 which is equal to the yearly ratio of first year to fourth year of the study period and higher than the yearly ratio of last year of the study period.

For HBL, the net profit to total ratios is also constant in the year 2065/66 B.S., i.e. 0.02. The highest yearly ratio of HBL is 0.02 in 2065/66 B.S. and constant in the years of the study period, i.e. 0.01. The average net profit to total assets ratio percentage of HBL is 0.01.

The yearly as well as the average ratio of SCBNL is greater than that of HBL. The above analysis helps to conclude that the overall profitability of SCBNL is better than the same of HBL. SCBNL is more efficiently utilizing its total assets to earn higher rate of profit.

III. Net Profit to Deposit Ratio

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

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

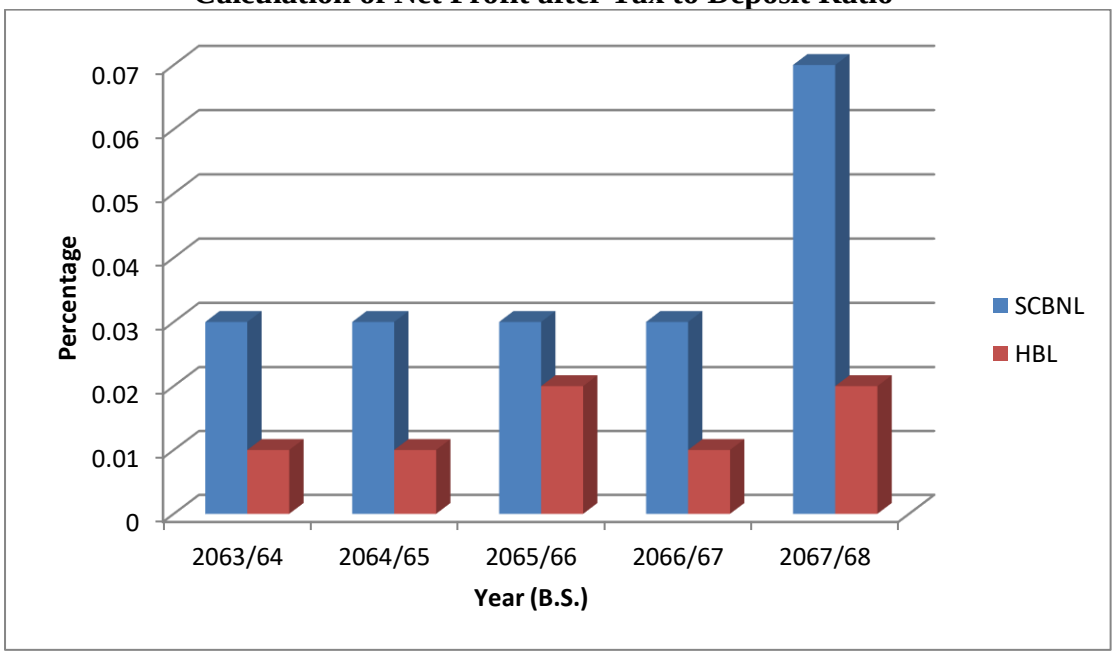
Higher ratio indicates the return from investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing.

Table 4.15
Calculation of Net Profit after Tax to Deposit Ratio
(Rs. In Millions)

Year (B.S.)	SCBNL			HBL		
	NPAT	Total Deposit	Ratio	NPAT	Total Deposit	Ratio
2063/64	416.24	13447.66	0.03	25.94	3144.32	0.01
2064/65	455.31	14119.13	0.03	68.26	5146.48	0.01
2065/66	518.64	14856.61	0.03	113.76	6241.38	0.02
2066/67	635.26	19347.4	0.03	96.59	8765.95	0.01
2067/68	673.96	10187.35	0.07	158.48	10068.23	0.02
Average			0.04			0.01

Source: Appendix III

Figure 4.15
Calculation of Net Profit after Tax to Deposit Ratio



The above figure shows that net profits of SCBNL have increased from first to last year of the study period. The net profit to total deposits ratio are constant till fourth year, i.e. 0.03 and increased in the last year of the study period. The highest net profit ratio is 0.07 in the last year. The average ratio of SCBNL is 0.04 which is lower than the yearly ratio of the yearly ratio of the year 2067/68 B.S., i.e. 0.07 and higher than the yearly ratio of rest of the year of the study period.

For, HBL, the net profit to total deposit ratio is in rising and falling term. In second year, it has been constant, i.e. 0.01, and then in the third, it increased. It decreased in fourth year of the study and at last in the fifth year, it again has risen. The range is 0.01 to 0.02. The average net profit to total deposit ratio is 0.01.

The yearly as well as the average ratio of HBL is less than that of SCBNL. The above analysis helps to find out that the net profit to deposit ratio of SCBNL are better than HBL. Mobilization of outsider fund is important to earn profit for commercial banks. Thus, we can say SCBNL has better performance on mobilization of total deposits.

4.4 Correlation

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

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

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

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

Table 4.16
Calculation of Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Bank	r	PEr	6PEr
SCBNL	0.83412352	0.0917	0.5502
HBL	0.37886235	0.2585	1.551

From the above table 4.16, we can find that coefficient of correlation between cash and bank balance and current liabilities (r) in SCBNL is 0.8341. it shows positive relationship between these two variables. By considering the probable error, since the value of 'r' is 0.8341, which is greater than its 6PEr, i.e. 0.5502, we can say that the value of 'r' is significant in SCBNL.

On the other hand, when we observe coefficient of correlation between cash and bank balance and current liabilities (r) in case of HBL, it has found that the value is 0.3789, which shows the positive relationship between these two variables. On the base of value of 6PEr, i.e. 1.551 which is higher than the value of 'r', we can further conclude that the relationship between coefficient of correlation between cash and bank balance and current liabilities is not significant.

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

4.4.2 Coefficient of Correlation between Loan and Advances and Net Profit

The basic function of commercial banks is to collect deposit and invest these funds on loan and advance to generate higher profit. Large amount of loan and advances generate higher profit. The coefficient of correlation between loan and advances and net profit is to measure the degree of relationship between loan and advances and net

profit. In correlation analysis, loan and advance is independent variable (Y) and net profit is dependent variable (X). he purpose of computing the correlation of the coefficient is to justify whether the loan and advance are significant to generate profit or not and whether there is any relationship between these two variables. The following table:

Table 4.17

Calculation of Coefficient of Correlation between Loan and Advances and Net Profit

Bank	r	PEr	6PEr
SCBNL	0.982556774	0.010	0.06
HBL	0.91039333	0.051	0.306

From the above table 4.17, we can find that coefficient of correlation between loan and advances and net profit (r) of SCBNL is 0.983 and same HBL is 0.910, which shows highly positive relationship between these variables in both banks. By considering the probable error, sine the value of 'r', i.e. 0.983 is greater than its 6PEr, i.e. 0.06 in SCBNL and the value of 'r' is significant in both banks.

From the above analysis, it can be concluded that there is highly significant relationship between loan and advances and net profit in SCBNL and HBL.

4.4.3 Coefficient of Correlation between Net Working Capital and Net Profit

The main objective of any firm is to achieve its profit goat. Banks and finance companies are also not exemption from that. Current asset minus current liabilities is equal to net work capital. Working capital management is very crucial function of management team of any type of organization. Its management is very crucial function of management team of any type of organization. Its management fails to keep adequate current assets, it can effect liquidation position of the firm but if it keeps more than its need, it can affect the profitability position of the firm. The coefficient of correlation between net working capital and net profit is to measure the degree of relationship between net working capital and net profit is to measure the degree of relationship between net working capital and net profit in these companies.

In the correlation analysis, net working capital is independent variable (Y) and net profit is dependent variable (X). The purpose of computing the correlation coefficient is to justify whether the net working capital generates profit or not and whether there is any relationship between these two variable. The following table shows the r, PEr and 6PEr of concern companies during the study period.

Table 4.18

Calculation of Coefficient of Correlation between Net Working Capital and Net Profit

Bank	R	PEr	6PEr
SCBNL	0.826726016	0.095	0.57
HBL	0.90918782	0.052	0.312

From the above table 4.18, we can find that coefficient of correlation between net working capital and net profit of SCBNL is 0.827 and same of HBL is 0.827 and same of HBL is 0.907, which shows highly positive relation between these variable in both banks. By considering the probable error, since the value of are r i.e. 0.827 is greater than its 6PEr i.e. 0.909 is greater than its 6PEr i.e. 0.312 in HBL, we can say that value of "r" is significant in both banks. From the above analysis, it can be concluded that there is highly significant relationship between net working capital and net profit in SCBNL and HBL.

4.5 Major Findings

The major findings of the study during the period of five years from the analysis are summarized below.

1. The major components of current assets are cash and bank balance, loans and advances and government securities in concerned bank, i.e., SCBNL and HBL. On the study period, the proportion of cash and bank balance, loans and advances and government securities to total current assets on an average are 8.67 %, 65.91 % and 21.68 % respectively in SCBNL and 9.06 %, 69.98 % and 19.36 % respectively in HBL. So, it is found at the average cash and bank balance percentage and loans and advances percentage are higher in HBL then SCBNL. But the average government securities percentage is higher in SCBNL then HBL.

2. The liquidity positions of these banks are analyzed with the current ratio, quick ration and cash and bank balance to deposit ratio. The current ratio of SCBNL is lowest in first year i.e., 0.96 and highest in last year of the study period i.e., 1.13 HBL is ranging between 1.66 to 1.79. SCBNL and HBL are able to maintain its current ratio of 1.04 and 1.70 in an average respectively on the study period. The average quick ratio of SCBNL and HBL are 0.31 and 0.48 respectively. Cash and bank balance to deposit (Excluding fixed deposit) ratio of HBL is higher than the same of SCBNL. So, it is found that the liquidity position of HBL is better than SCBNL. The trend of liquidity ratio i.e., quick ratio and cash and bank balance ratio of both banks are decreasing. It shows that both the banks tried to reduce its' idle money, however, it is shown that liquidity position of HBL is always better than that of SCBNL throughout the study period. It means HBL is bearing lower risk, which means lower profit in commercial banks; higher liquidity is not always the cause of lower profitability.

3. Activity ratio is intended to measure the effectiveness to employment of the resources in a business concern. Loans and advances to total deposit ratio, loans and advances to fixed deposit ratios and loans and advances to saving deposit ratio are calculated. The average value of loans and advances to total deposit ratio, and loans and advances to fixed deposit ratios are 0.78, 3.59 and 1.41 in SCBNL and 0.77, 1.85 and 2.69 in HBL. The trends of this ratio of both the banks are fluctuating. From the analysis of turnover of these banks, it is found that the SCBNL has better turnover than HBL. Thus SCBNL has better utilization of deposits in income generating activity then HBL. However, HBL is utilization of deposits in income generating activity then HBL. However, HBL is utilizing its saving deposit in loans and advances more effectively then SCBNL.

4. Profitability measures the efficiency of the firm. The profitability position of SCBNL and HBL are analyzed from various angles. The average value of interest on to total asset ratio of SCBNL i.e., 0.06 is equal to that of HBL. The trend values of interest on both banks are quite fluctuating. The net profits of total assets ratio on both banks are quite fluctuating. Net profit to total assets ratio are always higher on SCBNL than HBL. So, it is found that profitability

position of SCBNL is far better than HBL although the interest earned by SCBNL and HBL is equal.

5. The average long term debt to net worth ratio of SCBNL is higher than that of HBL i.e., 10.82 of SCBNL is greater than 3.24 of HBL. So, it is found that SCBNL has higher proportion of outsiders claim in total capitalization then HBL or we can say SCBNL has more risk and aggressive capital structure then HBL from the analysis of long term debt to total capital ratio, we can find out that the average long term debt to total capital ratio of SCBNL is 0.15 and same of HBL is 0.35 this implies that both banks are using high short term liabilities to cover total capital but due to large amount of long-term debt, long term debt to total capital is higher of HBL then that SCBNL.

6. Correlation between cash and bank balance and current liabilities in SCBNL is positive which shows the positive relationship between these two variables. On the other hand, coefficient of correlation between cash and bank balance to current liabilities in case of HBL also shows positive relationship. Considering probable error, we found correlation between cash and bank balance and current liabilities is not significant and that in SCBNL is highly significant. Correlation between loans and advances and net profit in SCBNL and HBL i.e., 0.982 and 0.910 respectively shows the higher positive relationship between these two variables. Considering the probable error we found correlation between loans and advances and net profit in both banks are highly significant. Coefficient of correlation between net working capital and net profit in SCBNL and HBL are 0.8267 and 0.909 respectively. That shows positive relationship between these two variables. After considering the probable error we find that there is highly significant relationship between net working capital and net profit in both banks.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

As a developing country, Nepal is striving to develop and modernize but economy rapidly on rational and social desired footings. The development process of a country involves the mobilization and deployment of resources. Bank and financial institutions plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding.

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 31 commercial banks at present competing with each other in their business. These joint venture banks have concentrated themselves on financing foreign trade, commerce and industry.

This study concentrates on the comparative analysis of working capital position of aforementioned banks SCBNL and HBL. From perspective of the researcher, these two banks are chosen for study mainly because of accessibility and availability of financial data for latest five year period. The main objectives of the study are:-

- To assess the existing position of current assets and current liabilities of sample banks.
- To analyze the liquidity position of sample banks.
- To examine the composition of working capital, assets utilization and profitability of sample firms.
- To evaluate the relationship between net working capital, current liabilities and net profit.

To fulfill the objective, various statistical and financial tools have been done for analysis of data, which includes ratio analysis as financial tool and trend analysis, correlation coefficient and test hypothesis as statistical tools. The major ratio analysis consists of the composition of working capital, liquidity position, capital structure

position and profitability position. Under these, main ratios and their trend position are studied in the chapter four.

In order to test the relationship between the various components of working capital, Karl Pearson's correlation coefficient 'r' is calculated and analyzed. The necessary data are derived from the balance sheet and profit and loss account of SCBNL and HBL for the period of five years from fiscal year 2063/64 to 2067/68 B.S.

5.2 Conclusion

From the analysis of various data it can be said that working capital management is one of the most important parts of every financial institution. The average cash and bank balance and government securities percentage are higher on SCBNL than HBL and average loan and advances misc. current assets percentage is higher in HBL than in SCBNL. The net working capitals of both banks are positive in the study period. Comparatively, HBL has higher net working capital than SCBNL. Both the banks are able to maintain adequate liquidity position to meet the short term or even instant obligations in that period. The current ratio of both SCBNL and HBL are below the normal standard ratio of 2:1. However, the liquidity position of SCBNL is slightly better than that of HBL.

Analyzing the turnover position between these two banks, the HBL is funds more efficiently for the profit generating purpose on loan and advances than SCBNL. HBL is utilizing saving deposits more for the income generating purpose whereas SCBNL is utilizing more fixed deposits for the income generating purpose.

In case of profitability position, profitability in terms of interest earned to total assets ratio of HBL is slightly higher than that of SCBNL. Therefore, HBL is more efficiently using its total assets (funds) to earn interest income. The net profit to total assets and the net profit to total deposits ratios are higher in SCBNL than in HBL. Thus, it is concluded that the average profitability ratio of SCBNL is higher than that of HBL. But both the banks profitability position is not satisfactory. To acquire higher profits they should take strong steps for the better management, strong marketing and strategic development etc.

The correlation coefficient of the variables selected for the statistical analysis shows that SCBNL has insignificant relationship with investment on government securities and total deposits, cash and bank balance and current liabilities but significant relationship with loan and advances and net profit. Similarly, HBL has insignificant relationship with cash and bank balance and current liabilities but significant relationship with loan and advances and net profit and investment on government securities and total deposits.

Therefore, from above all, it can be concluded that there are not much difference between both banks. Comparatively, SCBNL is financially steady and better than HBL. But it does not mean that HBL is not performing well. Both banks are striving for better performance by adopting various new strategies and providing additional services.

5.3 Recommendations

On the basis of findings of the present study, following recommendations are made:

- Although proportion of loan and advances out of the total current assets of SCBNL is more than other current assets. Similarly, the proportion of loan and advances out of the total current assets of HBL is more than 50% of current assets. Hence, SCBNL should adjust its policy of investment on loan and advances with collected funds and increase the proportion of loan and advances in total current assets.
- Positive working capital represents the sound financial management of the banks. Similarly, negative working capital represents the poor financial management of the banks. In case of sample banks, we found positive working capital. Therefore, to eradicate this situation these banks should be formulated and implemented suitable working capital. There should be keeping optimum size of investment in current assets and current liabilities.
- The liquidity position in terms of current ratio of both SCBNL and HBL are below than normal standard. Therefore, both banks should increase the current assets.

- The turnover of commercial banks is the primary factor of income generating activity. Total deposits turnover position of both banks is less than unity. Fixed deposits and saving deposits turnover position are also not satisfactory on both banks. Due to the poor turnover position, the chances of bad debts and non-earning idle funds are high. Therefore, both SCBNL and HBL should give proper attention on collection of over-dated loan and advances and utilization of idle funds as loan and advances.
- Proportion of saving to total deposits is more than 50% in both SCBNL and HBL. Comparatively, SCBNL is better than that of HBL.
- Net profit to total assets ratio and net profit to total deposits ratio are higher on SCBNL than HBL. However, interest earned to total assets ratio and the cost of services are higher on HBL than SCBNL. Therefore, HBL should try to reduce its cost by reducing high cost deposits and operating in proper and efficient way so that it can have least operating cost which further maximizes its profitability and shareholder return.
- The unskilled manpower, over-staffing, unsystematic purchase of raw materials, unnecessary expenses, misuse of facilities, heavy expenses on overhead etc. may be the causes for high operating cost. So, both SCBNL and HBL are recommended to pay attention to these aspects.
- From turnover ratios, investment policy of HBL seems better than that of SCBNL during the study period. It is therefore necessary for SCBNL to utilize its deposits in income generating activities by better investment efficiency on loan and advances.
- By implementing the matching working capital management policy instead of adopting conservative working capital policy, SCBNL, as well as HBL, can improve in its profitability in both short and long runs.
- Improper working capital leads to decrease the profitability of the company and leads to ruin the company in the long run. So, SCBNL and HBL are recommended to give emphasis to proper working capital policy to uplift the financial performance of the companies in the competitive age of today.

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APPENDIX – I

From Asset Side of Balance Sheet

Source: ***http://www.standardchartedbank.com/annualrep.php***

http://www.himalayanbank.com.np/annual.php

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Cash and Bank Balance

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	1144.76	970.48	639.38	2365.14	1963.36
HBL	347.96	448.96	1005.54	749.14	599.76

Loans and Advances

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	7077.36	8076.42	10338.9	12358.6	15048.9
HBL	2419.52	3561.41	4711.71	6655.96	8902.53

Government Securities

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	3588.77	3672.63	2413.94	2301.46	4808.35
HBL	1075.19	1235.28	1194.31	1756.58	1104.06

Money at call and short notice

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	-	-	80	1734.90	563.53
HBL	92.56	129.66	89.88	353.52	163.01

Investments

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	6031.18	5835.95	4267.23	6180.66	8956.31
HBL	1542.32	1760.72	1572.90	2479.91	1599.48

Risk Assets

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	7808.12	8309.20	10465.27	13033.25	15659.96
HBL	3557.02	4773.45	5501.94	6902.12	9107.58

Bill Purchased

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	305.57	239.46	120.90	245.53	243.07
HBL	-	1.69	1.81	-	21.07

Fixed Assets

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	251.92	338.13	361.24	319.09	286.90
HBL	61.72	43.29	59.50	39.86	153.68

Current Assets

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	12519.50	13211.73	13936.07	17569.83	22332.60
HBL	-	5361.60	6980.09	9264.24	10827.80

Other Assets

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	708.61	492.20	543.88	544.67	512.05
HBL	66.56	115.95	68.53	102.56	221.51

Total Assets

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	16250.15	16186.42	16397.90	22688.33	27621.64
HBL	4037.51	5939.37	7508.07	10629.76	11866.08

Quick Assets

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	4733.53	4643.11	3053.32	4666.60	6771.71
HBL	1423.15	1684.24	2199.85	2505.72	1703.82

APPENDIX – II

From Capital and Liabilities side of Balance Sheet

Source: ***http://www.standardchartedbank.com/annualrep.php***

http://www.himalayanbank.com.np/annual.php

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Total Capital

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	16562.62	16745.49	16825.76	22332.10	27264.39
HBL	4037.51	5939.37	7508.07	10383.60	11678.83

Borrowings

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	961.46	229.66	17.06	173.20	882.57
HBL	274.75	69.32	450.37	457.71	352.13

Total Deposit

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	13447.66	14119.13	14856.61	19347.40	10187.35
HBL	3144.32	5146.48	6241.38	8765.95	10068.23

Fixed Deposit

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	2252.54	2310.57	2078.54	3449.09	5435.19
HBL	1143.4	2083.07	2930.62	4064.50	4074.56

Saving Deposit

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	5229.72	5994.12	7026.33	8770.76	10187.40
HBL	734.09	1280.48	2024.26	2797.42	3335.67

Bill Payable

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	108.94	173.50	119.75	92.54	83.51
HBL	24.35	32.92	28.33	91.51	31.69

Other Liabilities

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	730.37	741.61	444.70	841.84	887.97
HBL	42.00	70.25	103.80	101.97	108.79

Other Current Liabilities

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	12995.89	12953.23	13089.58	17005.80	19761.00
HBL	2342.38	3235.91	3893.26	5352.64	6486.20

APPENDIX – III

From Profit and Loss Account

Source: ***http://www.standardchartedbank.com/annualrep.php***

http://www.himalayanbank.com.np/annual.php

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Invest Earned

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	1017.87	1001.62	1068.75	1310.00	1587.76
HBL	291.14	363.04	157.61	579.98	725.82

Net Profit after Tax

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	461.24	455.31	518.64	635.26	673.96
HBL	25.94	68.26	113.76	96.59	158.48

APPENDIX – IV

Source: ***http://www.standardchartedbank.com/annualrep.php***

http://www.himalayanbank.com.np/annual.php

Banking financial Statistics of NRB

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Net Worth

(In Million Rs.)

Banks	2063/64	2064/65	2065/66	2066/67	2067/68
SCBNL	1671.92	1840.35	2018.20	2233.36	111.08
HBL	552.08	620.40	684.19	1212.62	1305.24

APPENDIX – V

Calculation of Correlation Coefficient

Correlation between Cash and Bank Balance and Current Liabilities of SCBNL

Fiscal Year	Cash & Bank Balance (X)	Current Liabilities (Y)	X^2	Y^2	XY
2063/64	1144.76	12995.89	1310475.46	168893156.9	14877175.04
2064/65	970.48	12953.23	941831.43	167786167.4	12570850.65
2065/66	639.38	13089.58	408806.78	171337104.6	8369215.66
2066/67	2365.14	17005.89	5593887.22	289200294.7	40221310.67
2067/68	1963.36	197610.6	3854782.49	390499492.3	38798074.76
N=5	$\sum X = 7083.12$	$\sum Y =$ 7083.12	$\sum X^2 =$ 12109783.38	$\sum Y^2 =$ 1187716216.0	$\sum XY =$ 114836626.8

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

$= \frac{5\times114836626.8-(7083.12\times75805.65)}{\sqrt{5\times12109783.38-(7083.12)^2}\sqrt{5\times1187716216-(7580.65)^2}}$

$\therefore$ r = 0.83

For the calculation of probable Error (PEr);

Per = $0.6745\ \frac{1-r^2}{\sqrt{n}}$

$= 0.6745 \times \frac{1-(0.83412352)^2}{\sqrt{5}}$

$\therefore$ Per = 0.0917

Correlation between Loans and Advances and Net Profit of SCBNL

(In Million Rs.)

Fiscal Year	Net Profit (X)	Loans and Advances (Y)	X^2	Y^2	XY
2063/64	416.24	7077.36	173255.74	50089024.57	2945880.33
2064/65	455.31	8076.42	207307.20	65228560.02	3677274.79
2065/66	518.64	10338.9	268987.45	106892853.2	5362167.10
2066/67	635.26	12358.6	403555.27	152734994.0	7850924.24
2067/68	673.96	15048.9	454222.08	226469391.2	10142359.64
N = 5	$\sum X = 2699.41$	$\sum Y = 52900.18$	$\sum X^2 = 1507327.73$	$\sum Y^2 = 601414823$	$\sum XY = 29978603.09$

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

$= \frac{5\times29978603.09-(2699.41)(52900.18)}{\sqrt{5\times1507327.73-(2699.41)^2}\sqrt{5\times601414823-(52900.18)^2}}$

$\therefore$ r = 0.9825

For the calculation of probable Error (PEr);

Per = $0.6745\ \frac{1-r^2}{\sqrt{n}}$

$= 0.6745 \times \frac{1-(0.9825)^2}{\sqrt{5}}$

$\therefore$ Per = 0.010

Correlation between Cash and Bank Balance and Current Liabilities of HBL

Fiscal Year	Cash & Bank Balance (X)	Current Liabilities (Y)	X^2	Y^2	XY
2063/64	347.96	2342.38	121076.16	5486744.06	815054.54
2064/65	448.96	3235.91	201565.08	10471113.53	1452794.15
2065/66	1005.54	3893.26	1011110.69	15157473.43	3914828.66
2066/67	749.14	5352.64	561210.74	38650754.97	4009876.73
2067/68	599.76	6486.28	359712.06	42071828.24	3890211.29
N=5	$\sum X = 3151.36$	$\sum Y =$ 21310.47	$\sum X^2 =$ 2254674.73	$\sum Y^2 =$ 101837914.2	$\sum XY =$ 14082765.38

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

$= \frac{5\times14082765.38-(3151.36\times21310.47)}{\sqrt{5\times2254674.73-(3151.36)^2}\sqrt{5\times101837914.2-(21310.47)^2}}$

$\therefore$ r = 0.37886

For the calculation of probable Error (PEr);

Per = $0.6745\frac{1-r^2}{\sqrt{n}}$

$= 0.6745\times\frac{1-(0.37886)^2}{\sqrt{5}}$

$\therefore$ Per = 0.2585

Correlation between Loans and Advances and Net Profit of HBL

(In Million Rs.)

Fiscal Year	Net Profit (X)	Loans and Advances (Y)	X^2	Y^2	XY
2063/64	25.94	2419.52	672.88	5854077.03	62762.35
2064/65	68.26	3561.41	4659.43	12683641.19	243101.85
2065/66	113.76	4711.71	12941.34	22200211.12	536004.13
2066/67	96.59	6655.96	9329.63	44301803.52	642899.18
2067/68	158.48	8902.53	25115.91	79255040.4	1410872.95
N = 5	$\sum X = 463.03$	$\sum Y = 26251.13$	$\sum X^2 = 52719.19$	$\sum Y^2 = 164294773.3$	$\sum XY = 2895640.46$

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

$= \frac{5\times2895640.46-(463.03)(26251.13)}{\sqrt{5\times52719.19-(463.03)^2}\sqrt{5\times164294773.3-(26251.13)^2}}$

$\therefore$ r = 0.9104

For the calculation of probable Error (PEr);

Per = $0.6745\frac{1-r^2}{\sqrt{n}}$

$= 0.6745\times\frac{1-(0.9104)^2}{\sqrt{5}}$

$\therefore$ Per = 0.051

Calculation of Net Working Capital

(In Million Rs)

SCBNL			HBL		
Current Assets	Current Liabilities	Net Working Capital	Current Assets	Current Liabilities	Net Working Capital
12519.50	12995.89	(476.39)	3909.23	2342.38	1566.85
13211.73	12953.23	258.40	5361.60	3235.91	2125.69
13936.07	13089.58	846.49	6980.09	3893.26	3086.83
17569.83	17005.89	563.94	9264.24	5352.64	3911.60
22332.63	19761.06	2571057	10827.86	6486.28	4341.58

Correlation between Net Working Capital, Net Profit of SCBNL

(In Million Rs.)

Fiscal Year	Net Profit (X)	Net Working Capital (Y)	X^2	Y^2	XY
2063/64	416.24	(476.39)	173255.74	226947.43	(198292.57)
2064/65	455.31	258.5	207307.20	66822.25	117697.64
2065/66	518.64	846.49	268987.45	716545.32	439023.57
2066/67	635.26	563.94	403555.27	318028.32	358248.52
2067/68	673.96	2571.57	454222.08	6612972.265	1733135.32
N = 5	$\sum X = 2699.41$	$\sum Y = 3764.11$	$\sum X^2 = 1507327.73$	$\sum Y^2 = 7941316$	$\sum XY = 2449812.477$

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

$= \frac{5\times2449812.477-(2699.41)(3764.11)}{\sqrt{5\times1507327.73-(2699.41)^2}\sqrt{5\times7941316-(3764.11)^2}}$

$\therefore$ r = 0.8267

For the calculation of probable Error (PEr);

Per = $0.6745\frac{1-r^2}{\sqrt{n}}$

$= 0.6745\times\frac{1-(0.8267)^2}{\sqrt{5}}$

$\therefore$ Per = 0.095