WORKING CAPITAL MANAGEMENT PRACTICE IN NEPALESE MANUFACTURING COMPANIES (WITH REFERENCE TO UNILEVER NEPAL LTD. AND BOTTLERS NEPAL LTD.)

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RECOMMENDATION

This is to certify that the thesis:

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

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Asso. Prof. Dr. Kapil Khanal	Asso. Prof. Dr. Sajeeb Kumar Shrestha	Asso. Prof. Dr. Krishna Prasad Acharya
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VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the thesis presented

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and found the thesis to be original work of the student and written in accordance to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for

Master Degree of Business Studies (M.B.S)

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DECLARATION

I hereby declare that the work reported in this thesis entitled, **WORKING CAPITAL MANAGEMENT PRACTICE IN NEPALESE MANUFACTURING COMPANIES (WITH REFERENCE TO UNILEVER NEPAL LTD. AND BOTTLERS NEPAL LTD.)** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the Master's Degree in Business Studies (M.B.S) under the supervision, Asso. Prof. Dr. Kapil Khanal of Shanker Dev Campus.

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ABBREVIATION

BNL	Bottlers Nepal Limited
C.V.	Coefficient of Variation
EOQ	Economic Order Quantity
FY	Fiscal Year
ITR	Inventory Turnover Ratios
JIT	Just In Time
M.B.S.	Master of Business Studies
NEPSE	Nepal Stock Exchange
NPAT	Net Profit After Tax
NRB	Nepal Rastra Bank
P/E	Price Earnings Ratio
R	Correlation Coefficient
S.D	Standard Deviation
TOC	Total Ordering Cost
UNL	Unilever Nepal Limited

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal, classified as a developing nation, is actively pursuing modernization and economic growth on rational and socially beneficial grounds. However, its economy remains largely reliant on agriculture, with a minimal industrial base. To diversify and advance beyond its agricultural roots, Nepal has embraced a mixed economic model. This approach aims to synergize the efforts of both the state and private sectors since the inception of economic planning in 1956. The central objective for Nepal, like many developing countries, is rapid economic development and the enhancement of national welfare. Consequently, Nepal has recently embarked on a path of economic liberalization to foster its economic progress. Following the restoration of democracy, liberalization policies have become integral as directive principles and state policies in Nepal's constitutional framework (The Constitution of the Kingdom of Nepal, 1990, 2014-17).

The advancement of trade, commerce, and industry is crucial for achieving economic, political, and social objectives. Financial functions often take precedence over other functions to facilitate effective planning. Underdeveloped economies such as Nepal frequently encounter financial shortages because their natural resources are either underutilized or not directed towards productive sectors or social welfare. Despite possessing abundant land, water, minerals, forests, and power resources, these nations often fail to exploit them fully, limiting their potential contributions.

In underdeveloped countries like Nepal, the shortage of financial resources stems not only from their actual scarcity but also from inadequate mobilization and inefficient utilization for productive purposes. To achieve rapid economic development, it is essential to maximize the utilization of these resources, which are often underutilized due to various challenges or lack of awareness. Hoarding may contribute to this underutilization.

Financial institutions play a critical role in promoting thrift and discouraging hoarding by mobilizing and consolidating resources. They stimulate economic growth by fostering banking habits among the populace, aggregating small and dispersed

resources, and channeling them into productive endeavors. Additionally, these institutions provide essential services that enable individuals to access funds based on future income, potentially enhancing their economic well-being.

The manufacturing sector in Nepal's economy remains notably small and encounters numerous challenges that hinder its growth. These issues stem largely from the country's landlocked and underdeveloped status, as well as deficiencies in physical, human, and financial resources. Administrative infrastructure is inadequate, and transportation and communication networks are inconvenient. Energy supply lacks reliability at affordable rates, while trained and skilled manpower is in short supply. Capital shortages, small market size, high production costs, low input productivity, and government instability further compound these challenges.

Firms in Nepal aim to maximize their value by focusing on delivering quality products and services promptly. Working capital, which supports daily operations, is integral to this effort. Managing working capital involves overseeing current assets and liabilities and their interrelationships. Effective working capital management is crucial for financial health. It can enhance profitability and liquidity, whereas inefficiencies can lead to financial difficulties and even bankruptcy. Poor working capital management may also result in loss of market share.

Effective management of working capital is crucial for the sustained success of a business. It involves several key practices, this entails projecting the cash inflows and outflows of the firm over a defined period. It ensures that sufficient funds are available to meet short-term financial obligations. This focuses on optimizing inventory levels to meet customer demand without excess, thereby minimizing unnecessary tying up of funds.

This involves managing the firm's receivables to ensure timely collection from customers, reducing the risk of bad debts. This includes managing payments to suppliers to take advantage of early payment discounts and avoid late payment penalties. This strategy involves utilizing short-term loans or credit lines to address working capital needs during periods of cash shortfall. These practices collectively enable businesses to ensure liquidity, meet short-term financial commitments, and enhance profitability over the long term. Effective working capital management is vital as it supports operational continuity and financial stability.

1.2 Introduction to Sample Companies

Brief Profile of Sample Companies

This study examines the working capital management practices of two manufacturing companies listed on the Nepal Stock Exchange (NEPSE). Here is a concise introduction to the selected sample of manufacturing companies:

(a) Bottlers Nepal Limited (BN)

Bottlers Nepal Limited originated in 1973 as a private limited company under the Company Act of 1964, initially authorized with NPR 500 million in capital, of which NPR 194.889 million was paid-up. By 1984, it transitioned to a public limited company and subsequently became listed on the Nepal Stock Exchange in 1986. The company's primary objective is the production and bottling of soft drinks, including renowned brands such as Coke, Fanta, and Sprite. It has implemented numerous promotional initiatives, supported financially and technically by The Coca-Cola Company, USA.

(b) Unilever Nepal Limited (UNL)

Unilever Nepal Limited was established in 1992 as a joint-venture company, initially with an authorized capital of NPR 300 million. It became listed on the Nepal Stock Exchange in 1994. The company's manufacturing facility is situated in Basamadi VDC-5 of Makawanpur district, with its corporate office located in Heritage Plaza, Kamaladi, Kathmandu. The primary objective of Unilever Nepal Limited is the production of soap, detergents, cosmetics, toiletries, and other chemical products under brand names licensed from Hindustan Lever Limited, India. Notably, this venture marks Hindustan Lever Limited's first joint venture outside of India.

1.3 Statement of the Problem

Working capital management is widely acknowledged as crucial for business decision-making, particularly in terms of short-term liquidity. It is considered essential for the smooth operation of any organization, serving as its lifeblood and nerve center. Proper management ensures that a company can meet its short-term financial obligations effectively. However, misallocation whether insufficient or excessive can hinder an organization from achieving its primary goals.

Maintaining an optimal level of working capital is critical because it involves balancing risk and return. Determining the appropriate amount of working capital for a specific business is challenging. Businesses preferring lower financial risk tend to prioritize higher short-term liquidity. Yet, greater liquidity often means more current liabilities and less short-term financing. Thus, it's vital to analyze issues and find effective solutions to utilize funds efficiently and minimize the risk of financial loss, ultimately aiming for profitability.

Insufficient investment in working capital can jeopardize a company's solvency and impede its growth. Conversely, excessive investment does not yield proportional benefits. Therefore, working capital should be managed to minimize the total cost—comprising liquidity and non-liquidity costs. The objective of working capital management is to maintain an optimal level that supports operational needs without excessive costs.

Managing working capital in manufacturing firms presents additional challenges compared to non-manufacturing businesses. These complexities arise from inventory management, production cycles, and the variability of raw material costs and demand fluctuations. Thus, effective working capital management in manufacturing requires tailored strategies to ensure operational efficiency and financial stability.

Based on the analysis of Bottlers Nepal Limited (BN) and Unilever Nepal Limited (UNL), both companies have demonstrated strong performance and profitability relative to their peers in the manufacturing sector. However, the relationship between their working capital management practices and their performance remains uncertain. Thus, the study identifies the following key issues for investigation:

- What is the current state of working capital management in Nepalese manufacturing firms?
- What is the correlation between various working capital management practices, such as inventory management, accounts receivable management, and accounts payable management, and financial performance measures, such as profitability, liquidity, and solvency, in Nepalese manufacturing companies?
- What is the impact of working capital management on the performance of Nepalese manufacturing firms?

1.4 Objectives of the Study

This study aims to investigate the impact of optimal working capital management on business performance and profitability in the context of manufacturing companies, specifically focusing on Bottlers Nepal Limited (BN) and Unilever Nepal Limited (UNL). Key objectives include:

- Examine the current state of working capital management in Nepalese manufacturing firms
- To examine the correlation between different working capital management practices and financial performance measures, such as profitability, liquidity, and solvency.
- Evaluate the impact of working capital management on the performance of Nepalese manufacturing firms

1.5 Significance of the Study

Working capital represents a firm's investment in short-term assets necessary for day-to-day operations. Effective management of working capital is crucial because a substantial portion of a company's total assets, often more than half, is allocated to current assets. The management of these assets is pivotal in preventing liquidity crises that could lead to adverse outcomes such as creditor takeovers, forced mergers, or bankruptcy, despite robust production capabilities and extensive fixed asset investments.

In Nepal, manufacturing companies exhibit diverse patterns in working capital utilization. Many lack consistent policies, leading to inadequate cash flow management. Despite significant investments in fixed and long-term assets, these companies encounter operational challenges due to deficiencies in managing day-to-day liquidity requirements.

This study aims to contribute to further research by examining the relationship between working capital management and overall enterprise efficiency. It seeks to provide insights that can assist management in enhancing efficiency and profitability through better handling of working capital components. Key reasons why working capital management is critical include:

Significant Investment in Current Assets: More than half of a typical firm's assets are often tied up in current assets.

Managerial Focus: A considerable amount of the financial manager's time is dedicated to managing working capital effectively.

Inescapable Investments: Unlike fixed assets that small firms may minimize through leasing, investments in cash, receivables, and inventories are unavoidable.

Direct Relationship with Sales Growth: There is a direct correlation between business expansion, increased sales, and the need to augment investments in current assets to support operational growth.

This study aims to provide practical insights that can aid in optimizing working capital management practices, thereby fostering sustainable growth and operational resilience for manufacturing companies in Nepal.

1.6 Limitations of the Study

There are several limitations to this study:

- The study spans a timeframe of ten fiscal years, from 2013/14 to 2022/23.
- It focuses exclusively on a sample of manufacturing companies in Nepal, so the conclusions drawn may not be fully applicable to the entire manufacturing sector in the country.
- The research relies on secondary data, which could potentially contain biases and inaccuracies.
- External factors such as the macroeconomic environment's influence on working capital management in Nepalese manufacturing firms are not considered in this study.
- The study does not explore working capital management practices in sectors or industries beyond manufacturing in Nepal.
- Due to time constraints, some related areas could not be thoroughly examined.

1.7 Organization of the Study

The study is structured into five main chapters, each focusing on distinct aspects:

Chapter 1: Introduction

This chapter provides an overview of the study, including the background, a concise profile of the selected companies, statement of the research problems, significance of the study, objectives, limitations, and the organization of subsequent chapters.

Chapter 2: Review of Literature

Here, existing literature and research related to working capital management are reviewed. This includes studies and insights from various experts and researchers in the field, consolidating the current knowledge base.

Chapter 3: Research Methodology

This chapter outlines the methodology employed in the study. It covers aspects such as research design, sources and nature of data, population and sampling techniques, and details of data analysis methods. Both quantitative and qualitative tools are utilized, drawing from secondary data including annual reports, financial statements, and relevant literature on working capital management.

Chapter 4: Data Presentation and Analysis

Arguably the most critical chapter, it presents, analyzes, and interprets the collected data using various statistical and accounting tools. This section provides insights into the findings derived from the analysis.

Chapter 5: Summary, Conclusions, and Recommendations

The final chapter summarizes the entire research report, encapsulates the conclusions drawn from the analysis, and offers practical recommendations and suggestions for stakeholders involved.

This structured approach ensures a comprehensive examination of the relationship between working capital management and business performance in Nepalese manufacturing firms, utilizing rigorous research methodologies to provide valuable insights and recommendations.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature is a critical process in research that involves examining and summarizing past research and propositions relevant to the study's area. It serves as a foundational component in dissertations and research papers, offering insights into prior studies, their findings, and identifying gaps that warrant further investigation. This methodological step is crucial as it establishes a robust theoretical framework and facilitates empirical exploration of relationships.

The primary objectives of conducting a literature review include, comprehensively understanding existing knowledge and theories within the research domain. Recognizing areas where new contributions can be made to advance the field and drawing on insights from previous studies to shape the methodology and approach of the current research. Thus, disregarding previous research is unwise because it forms the basis upon which current studies build and evolve. Continuity in research is achieved by linking present investigations with past findings, thereby enriching the cumulative knowledge base of the discipline.

The literature review serves several pivotal roles in the planning and execution of research by clarifying what has already been investigated and what areas remain underexplored or unresolved. Engaging with various scholarly sources such as books, reports, journals, and unpublished dissertations to gather a comprehensive understanding and the review typically involves: (1) Summarizing and analyzing prior research, (2) Identifying gaps or areas needing further exploration, and (3) Establishing a foundation to inform the structure and methodology of the current study.

Ultimately, the literature review enhances the rigor and realism of research endeavors by grounding them in established knowledge, fostering innovation, and addressing pertinent gaps in the field.

- Conceptual review
- Review of articles & journals
- Review of thesis

2.1 Conceptual Review

In this section, various books are reviewed to clarify the concepts, definitions, composition, and assumptions related to capital structure, as well as the theories and approaches concerning capital structure factors. This review helps to assess new ideas by examining the perspectives of different authors and scholars.

Conceptual Framework:

The underlying principles and international practices found in different books are crucial for understanding capital structure. These principles and practices are discussed under different headings to enhance comprehension.

Working capital encompasses all short-term assets utilized in daily business operations. Managing these assets constitutes working capital management, a critical aspect of overall financial management (Khan and Jain, 1999). Working capital, also known as circulating capital (Kulkarni, 1993), represents funds that move through various forms of current assets during routine business operations. For instance, cash is used to purchase materials, goods, labor, etc., which are then converted into inventories, sold, and ultimately converted back into cash (Khan and Jain, 1999).

Effective working capital management presents challenges for financial managers because both excessive and inadequate working capital can harm a business. A higher proportion of liquid assets reduces the risk of cash shortages, though it may decrease profitability (Kuchhal, 1988). Conversely, insufficient working capital can jeopardize solvency if current financial obligations cannot be met. Higher returns may result from less money tied up in non-income-earning assets, but this carries the risk of cash shortages during emergencies (Pradhan, 1986).

The primary objective of shareholders and investors is to maximize returns, but maintaining adequate liquidity is crucial to ensure the organization meets its current financial obligations (Pradhan, 1986). Working capital management significantly influences the success or failure of an organization as it deals with assets transitioning through the manufacturing cycle. Thus, effective management of working capital is essential for all business organizations, regardless of their nature.

Financial decisions regarding working capital involve planning, utilization, and control of current assets based on the company's requirements and liquidity position.

Mastery of working capital management is essential for efficient fund utilization and minimizing the risk of financial loss, thereby achieving profit objectives.

Concept of Working Capital

There are two primary concepts of working capital: the gross working capital concept and the net working capital concept.

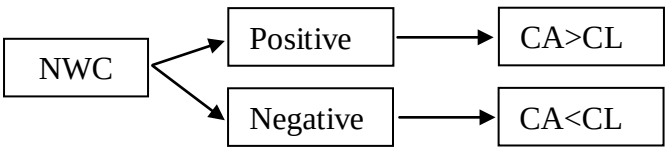
I) Gross Working Capital Concept:

The gross working capital concept defines working capital solely in terms of current assets. Current assets are those assets that can be converted into cash within an accounting cycle, typically one year. Examples of current assets include cash, short-term securities, accounts receivable, inventories, and prepaid expenses. Proponents of the gross working capital concept argue that the operational needs of public enterprises primarily rely on current assets, hence it is logical to define working capital as total current assets.

Gross Working Capital = Total Current Assets

II) Net Working Capital Concept:

The net working capital concept, on the other hand, considers the difference between current assets and current liabilities. This concept arises because the gross concept overlooks the obligations represented by current liabilities. Current liabilities are debts and obligations that must be settled within one year and include accounts payable, bills payable, and outstanding expenses. Net working capital can be either positive or negative. A negative net working capital occurs when current liabilities exceed current assets, indicating potential financial difficulty. Conversely, a positive net working capital occurs when current assets exceed current liabilities, reflecting a healthy liquidity position.



This concept helps determine the optimal mix of short-term and long-term capital for business enterprises. It is particularly relevant to ongoing businesses, often referred to as the qualitative concept of working capital.

Networking Capital = Current Assets - Current Liabilities

Characteristics of Working Capital:

1. Short Life: Working capital comprises assets with a lifespan of less than one year, such as cash, marketable securities, accounts receivable, and inventories. This short lifespan leads to significant fluctuations in the required investment for financing working capital.

2. Nearness to Cash or Liquidity: Cash is the most liquid asset with zero conversion time and 100% conversion rate. Other assets like inventory and marketable securities require consideration of their proximity to cash and the realized price upon conversion.

3. Lack of Synchronization: Businesses often face challenges in synchronizing cash inflows and outflows due to varying sales volumes, production policies, and collection policies. The level of investment in working capital is influenced by these factors, which affect cash management.

Determinants of Working Capital:

A firm should manage its operations to maintain an appropriate level of working capital, balancing between excess and insufficient amounts. Several factors influence the working capital requirements:

1. Nature and Size of Business: The size and nature of the business determine its working capital needs. Larger firms typically require more working capital compared to smaller firms, and trading and financial firms generally need more working capital than public utilities.

2. Manufacturing Cycle: The time taken to convert raw materials into finished goods affects the working capital requirement. Longer manufacturing cycles increase the need for working capital.

3. Production Policy: Whether a firm follows a seasonal production pattern or maintains steady production impacts its working capital needs. Seasonal production necessitates higher working capital during peak periods.

4. Growth and Expansion: Growing firms typically require more working capital to support expansion activities. The relationship between growth and working capital needs varies but generally increases with business expansion.

5. Taxation Level: Tax obligations influence working capital requirements due to the need to pay taxes in cash. Higher tax liabilities necessitate increased working capital provision.

In conclusion, managing working capital effectively involves balancing liquidity and profitability while considering the specific operational and financial characteristics of the business. This approach ensures that the firm maintains sufficient liquidity to meet its short-term obligations without tying up excessive funds in non-productive assets.

Working capital is essential for meeting the daily operational needs of a business, including expenditures on raw materials, wages, rent, utilities, advertising, and other sales-related expenses. Depending on the nature and timing of these needs, businesses utilize various sources to finance their working capital requirements:

1. Regular or Permanent Working Capital: Businesses issue long-term financing instruments such as shares and debentures to meet continuous operational needs.

2. Variable or Seasonal Working Capital: For fluctuating operational needs, businesses utilize sources like working capital from indigenous bankers, commercial banks, public deposits, and retained earnings. These sources cater to the volatile nature of the business's activities.

Importance and Objectives of Working Capital:

Every business firm requires working capital to facilitate its daily transactions and operations. Key reasons why working capital is crucial include:

1. Transaction Motive:

Businesses hold current assets such as cash, inventories, and marketable securities to ensure smooth daily operations. These assets enable businesses to maintain inventory levels, manage cash flow, and meet regular transactional needs promptly.

2. Precautionary Motive:

Working capital serves as a buffer against risks arising from unforeseen events like changes in demand, supply disruptions, strikes, customer failures, or delays in receivables collection. It ensures the firm can weather unexpected contingencies without disrupting operations.

3. Speculative Motive:

Businesses maintain cash and marketable securities to capitalize on profitable opportunities. This includes purchasing raw materials at lower prices with immediate cash payments, speculating on favorable interest rates, or seizing advantageous market conditions. These funds act as a "war chest," allowing firms to swiftly exploit short-term investment prospects or strategic acquisitions.

In summary, effective management of working capital supports business continuity by ensuring sufficient liquidity to sustain day-to-day operations, safeguard against uncertainties, and capitalize on profitable opportunities as they arise.

2.2 Review of Journals/Articles

This section primarily focuses on reviewing journals published by various management experts in the field of working capital management. Estimating precise working capital needs is challenging, requiring firms to decide on appropriate levels of current assets. These holdings are influenced by the firm's working capital policy, which can be either conservative or aggressive, each carrying different risk-return implications (Van Horne, 1970).

Working capital management encompasses the administration of assets such as cash, marketable securities, receivables, and inventories, as well as the management of current liabilities. It involves addressing the complexities that arise in managing these components and understanding the interrelationships between current assets and liabilities (Van Horne, 1970).

The financial manager plays a crucial role in determining the optimal level of current assets to maximize shareholder wealth. Each type of current asset should be carefully managed to achieve this objective (Walker, 1964). Current assets, such as cash, are utilized to purchase raw materials, pay for labor, and cover other manufacturing expenses, which subsequently result in the creation of inventories. Upon selling these inventories, accounts receivable are generated, and when these receivables are collected, cash flows back into the firm, restarting the cycle (Hampton, 1986).

Due to this continuous cycle of current assets, working capital is considered as circulating assets that are constantly changing in nature (Hampton, 1986).

An article on working capital management in public enterprises (PEs) by Shrestha (1982-1983) examined the practices in ten selected PEs, revealing that six were operating at a loss while only four were profitable. Shrestha identified several policy issues based on these findings, including inadequate financial planning, negligence in working capital management, and discrepancies between turnover and return on net working capital. To address these issues, he recommended measures such as regular assessment of fund requirements, diligent financial monitoring, development of management information systems, fostering a positive risk-taking attitude, and determining the appropriate mix of short-term and long-term funding sources for working capital needs (Shrestha, 1982-1983).

Another study on the demand for working capital by Nepalese corporations, conducted by Pradhan (1988), analyzed data from nine public corporations spanning 12 years (1973-1984) using regression analysis. Previous research on cash and inventory demand among business firms had conflicting findings regarding economies of scale, capital cost rates, and their relationship with capacity utilization. Pradhan's pooled results indicated the presence of economies of scale in the demand for working capital and its components. The regression outcomes strongly suggested that the demand for working capital and its components is influenced by both scale and capital costs.

In a subsequent article on working capital management by Acharya (2000), two significant operational and organizational challenges in Nepalese PEs were highlighted.

In his article on "Problems and Impediments in the Management of Working Capital in Nepalese Enterprises," Acharya (2000) emphasizes the challenges faced by public enterprises (PEs) in Nepal regarding working capital management. He identifies both operational and organizational issues that hinder effective management:

1. Operational Problems:

Slow inventory turnover: PEs face inefficiencies in managing their inventory turnover rates.

Low impact of working capital changes on profitability: Changes in working capital have minimal positive effects on profitability.

Increased current liabilities relative to current assets: There is a mismatch where current liabilities exceed current assets.

Deviation from conventional debt-equity ratios: Many PEs do not adhere to the conventional debt-equity ratio of 1:1.

Lack of an effective information management system: Absence or inadequate use of systems for managing financial information.

Ineffective performance evaluation tools: Tools such as break-even analysis and ratio analysis are either not employed or prove ineffective.

Lack of managerial focus on working capital management: Monitoring of working capital management is not considered a priority by management.

2. Organizational Problems:

Inadequate financial evaluation: PEs lack regular evaluations of financial results and lack robust internal and external audit systems.

Poor presentation of capital requirements: Many PEs fail to justify their capital needs adequately.

Unsatisfactory performance of finance departments: The finance departments in PEs do not function effectively.

Underutilization of capacity: Some PEs experience underutilization of their production capacities.

To enhance the efficiency of working capital management and minimize financial risks, Acharya suggests several recommendations:

- PEs should align with favorable policy directives from the Government of Nepal.
- It's crucial for PEs to maintain active customer engagement and avoid hoarding assets.
- Finance staff should be trained in modern analytical tools for data presentation and analysis.
- Optimal levels of investment should be determined to balance risk and return effectively.

Furthermore, working capital management involves optimizing the relationship between a firm's short-term assets and liabilities to ensure operational continuity and meet financial obligations. Efficient management practices are critical for maximizing shareholder wealth and maintaining financial stability (The Bulletin, ISC, and Publication Nepal).

Regarding academic insights, Kieschnick, LaPlante, and Moussawi (2008) highlight in their study "Working Capital Management, Agency Costs, and Firm Value" that the value of a firm can be significantly impacted by how efficiently it manages its net operating working capital. Their research underscores the importance of managing working capital effectively to preserve firm value and avoid over-investment in working capital, which can detract from shareholder wealth.

In another study, Hill, Kelly, and Highfield (2009) analyze "Net Operating Working Capital Behavior," demonstrating that firms adopt specific working capital policies to navigate market imperfections across their operating cycles. They find that variations in sales growth, sales volatility, and financial capabilities influence how firms manage their operating working capital, underscoring the strategic importance of balancing liquidity with operational efficiency.

Finally, Elizalde (2009) explores challenges in "Working Capital Management in Latin America," emphasizing issues like invoice reconciliation, disputes, and Days Sales Outstanding (DSO). He underscores the complexities that companies face in managing their working capital effectively in the region, necessitating robust financial strategies and resources to mitigate operational risks.

These insights collectively highlight the multifaceted nature of working capital management across different contexts and underscore the importance of adopting tailored strategies to optimize financial performance and operational resilience.

Rachelle Fisher (2021) explores the intricacies of "Working Capital Management for Manufacturing Companies," highlighting numerous challenges faced by these entities. These challenges encompass inventory management issues, unpredictable cash flows, the risk of overstocking, internal operational risks, high operating costs, reliance on manual processes, delays in receivables, and manual handling of accounts receivable. The article emphasizes the critical role of effective working capital management in ensuring the success and sustainability of manufacturing businesses.

Padachi (2022) delves into "Trends in Working Capital Management and its Impact on Firms' Performance: An Analysis of Mauritian Small Manufacturing Firms." The study examines the trends in working capital management practices and their impact on the financial performance of small manufacturing firms in Mauritius. It identifies that firms in the paper and printing industry exhibit higher scores on various working capital components, which positively influence their profitability. However, the research underscores the need for additional empirical studies to explore financial management practices across small businesses in Mauritius comprehensively. This includes expanding the sample size and conducting industry-specific analyses to aid policymakers and educators in addressing challenges specific to different sectors. The study acknowledges limitations such as sample size constraints and data nature, advocating for future research efforts to enhance panel estimates for more robust conclusions.

These articles contribute valuable insights into the complexities of working capital management in manufacturing sectors, underscoring the importance of tailored strategies to optimize financial performance and mitigate operational risks.

2.3 Review of Related Thesis

Yogi (2000) conducted a study on "The Working Capital Management of Nepal Lever Limited." The study revealed that inventory constituted the largest portion of Nepal Lever Limited's total assets. While the liquidity position of the company was improving and satisfactory, the optimal utilization of current assets was not achieved despite an increasing inventory turnover rate observed over the study period.

Gurung (2002) also studied "The Working Capital Management of Nepal Lever Limited." The research highlighted that inventory and receivables comprised a significant portion of the company's current assets. Although there wasn't a significant relationship noted between current assets and current liabilities, the liquidity position was deemed unsatisfactory but showing an upward trend, indicating potential future improvements. The company's financing policy favored short-term financing over long-term options. Recommendations included optimizing the proportions of current asset components, refining marketing and credit policies, and selecting appropriate financing sources.

Joshi (2003) examined "The Working Capital Management of Biratnagar Jute Mill." The study found that inventory was the largest component of current assets, followed by cash and receivables. Despite heavy reliance on bank support for additional funding needs, the company demonstrated favorable receivable and collection periods, facilitating quick conversion of receivables into cash. However, the study concluded that the company's management of working capital sources was ineffective. Recommendations included implementing an efficient inventory management system, developing robust sales plans through market research, expanding domestic and international sales, and utilizing short-term bank borrowing to manage cash shortages effectively.

K.C. (2013) compared the working capital management of Nepal Bank Limited (NBL) and Nepal Arab Bank Limited (NABIL). It was found that while NBL had a better liquidity position, NABIL demonstrated superior efficiency in turnover and investment in loans and advances. Despite earning higher interest, NBL lagged behind NABIL in profitability. This study concluded that NABIL had stronger overall working capital management compared to NBL.

Gartaula (2013) focused on "Working Capital Management of Tea Development Corporation." Key findings included inventory being the largest component of working capital, a rising trend in sundry debtors indicating slow sales turnover, and a generally poor liquidity position with a low risk of technical insolvency.

Gautam (2014) studied "The Working Capital Management of Soaltee Crowne Plaza." The study highlighted receivables as the largest current asset, followed by inventory. The company faced challenges with negative returns on investment in certain years, primarily due to a conservative financing policy and a negative cash conversion rate, which could affect its creditworthiness in the long run. Recommendations included improving marketability, reducing overstocking, refining credit policies, and optimizing financing sources.

Yadav (2016) examined "Working Capital Management of Listed Hotels in Nepal Stock Exchange." Hotels like Yak & Yeti, Oriental, and Soaltee Crowne Plaza were analyzed. Findings showed excess current assets compared to liabilities, with varying approaches to financing—Yak & Yeti adopted a conservative policy while Soaltee and Oriental preferred aggressive financing. Although liquidity and profitability were

satisfactory overall, Oriental excelled in debt collection efficiency. Recommendations included implementing robust financing planning to enhance working capital management.

Shah (2017) explored "The Working Capital Management of a Manufacturing Company." Inventory dominated the company's working capital structure, with current assets outweighing fixed assets. The company faced liquidity challenges, indicated by below-standard current and quick ratios and an extended collection period. Suggestions included improving turnover rates, reducing the cash conversion cycle, setting investment and sales targets, and enhancing human resource planning.

Shrestha (2017) focused on "Working Capital Management of Manufacturing Companies Listed on Nepal Stock Exchange." Most companies adopted an aggressive working capital policy, negatively impacting revenue. Many companies were financially unsound with unfavorable liquidity, profitability, and turnover positions, suggesting a need for strategic adjustments in their working capital strategies.

Pathak (2018) examined "Working Capital Management of Nepal Lube Oil." The study found significant portions of current assets were tied up in inventory and receivables, contributing to an unfavorable liquidity position with low cash reserves. Recommendations included cost reduction measures, enhanced communication between departments, and improving the information system to better gauge working capital needs.

Kharel (2018) investigated "Working Capital Management of Nepal Insurance Company." The company maintained a conservative current asset policy with a strong liquidity position but showed inefficiencies in utilizing working capital, leading to suboptimal returns. Recommendations included refining asset management, reducing long-term working capital financing, and improving turnover ratios for better efficiency.

Sathyamoorthi et al. (2018) assessed the impact of working capital management on profitability in Botswana's retail sector. The study highlighted negative correlations between profitability metrics and cash, inventory, receivables, and payable conversion periods. It emphasized that efficient management of working capital components positively influenced profitability metrics such as return on assets and net operating income.

Devkota (2019) studied "Working Capital Management of Manufacturing Companies Listed in Nepal Stock Exchange." Companies faced challenges like low turnover, profitability issues, poor liquidity, and inadequate working capital policies. Recommendations included adopting comprehensive policies, optimizing fund utilization, refining credit and inventory management, and enhancing employee capabilities.

Adhikari (2020) explored "Working Capital Management and Corporate Profitability in Nepalese Manufacturing Sector." The study found significant impacts of inventory, receivables, payables, cash conversion periods, and financial ratios on profitability. Maintaining appropriate working capital levels was crucial for achieving higher profits, underscoring the importance of efficient working capital management practices in enhancing financial performance.

These studies collectively highlight the diverse challenges faced by Nepalese companies in managing their working capital effectively. Issues range from liquidity constraints and inefficient asset utilization to suboptimal financing policies and operational inefficiencies. The recommendations underscore the importance of adopting tailored strategies for inventory management, credit policies, financing decisions, and operational improvements to enhance overall financial health and profitability in the Nepalese business context.

2.4 Research Gap

In recent years, Nepal has undergone significant changes with the adoption of liberalization, privatization, and globalization policies, alongside its accession to the WTO. These developments have necessitated Nepalese manufacturing companies to compete more aggressively in the global market, presenting both opportunities and challenges. The establishment of numerous manufacturing firms amid Nepal's political landscape underscores the critical need for effective working capital (WC) management, which can decisively impact the survival and success of these enterprises.

Previous studies on Nepalese manufacturing companies have predominantly focused on various aspects, yet the specific focus on WC management has been relatively neglected. Given the dynamic nature of the business environment and the evolving global economic integration, there is a compelling rationale for conducting a fresh

study on WC management in Nepalese manufacturing sectors. Such a study would utilize contemporary variables and analytical tools, drawing on the latest available data, to provide insights into how WC management practices influence the operational efficiency, financial health, and competitiveness of selected manufacturing companies.

The proposed study aims to fill the gap by concentrating exclusively on WC management, leveraging advanced methodologies to analyze the intricacies of current assets and liabilities management. By doing so, it seeks to identify optimal strategies for managing inventory, receivables, payables, and cash conversion cycles amidst competitive pressures and fluctuating market conditions. This research endeavor is crucial not only for advancing theoretical understanding but also for offering practical recommendations that can enhance the resilience and profitability of Nepalese manufacturing firms in the contemporary globalized economy.

CHAPTER-III
RESEARCH METHODOLOGY

Research is a systematic and thorough exploration or investigation of a specific topic, subject, or area, involving the collection, compilation, presentation, and interpretation of relevant details or data. It entails a deliberate inquiry into a subject matter aimed at uncovering valuable facts that can be applied or utilized further. Research may involve discovering new techniques, modifying existing concepts, or challenging established theories, concepts, and methods. It often includes formulating hypotheses and testing them by establishing relationships between different variables to identify solutions to problems (Joshi, 2015).

Research methodology, on the other hand, refers to the systematic approach used to solve a research problem. It encompasses the sequential steps adopted by a researcher to study a problem with specific objectives in mind. Research methodology describes the methods and processes applied throughout the study. It provides a rationale for the methods chosen and explains why particular techniques are employed. Additionally, it clarifies how the research problem is defined, what data are collected, which methods are used, and the reasons for formulating hypotheses (Wolf & Pant, 2009).

The choice of research methodology depends on several factors inherent to the research project, such as its scale, significance, objectives, timeframe, and potential impact on human aspects. These variables shape the methodology employed in a particular study, ensuring that the approach taken is appropriate and effective for achieving the research goals.

3.1 Research Design

The term "research" refers to the systematic and organized effort to investigate a specific problem in search of a solution. "Design" refers to the planning necessary to carry out an investigation aimed at obtaining answers to research questions. The research design functions as a framework for the study, guiding the collection and analysis of data, specifying the research instruments to be used, and outlining the sampling plan (Wolf & Pant, 2009).

Specifically, research design outlines the overall strategy for collecting, analyzing, and evaluating data after determining:

- What the researcher intends to investigate?
- How to address the need for the required information?

In this study, particular research designs are employed based on the study objectives. The research aims to compose and establish relationships between variables, categorizing it as analytical, informative, descriptive, challenging, and feedback-oriented. To study working capital management in manufacturing companies, financial and statistical tools are utilized as secondary data. Qualitative analysis is applied to achieve the desired outcomes.

This approach ensures that the study is methodologically sound and aligned with its objectives, using appropriate tools and methodologies to analyze the complexities of working capital management in manufacturing sectors effectively.

3.2 Sources of Data

Research designs rely on data to reach conclusions regarding study objectives, which may be qualitative or quantitative in nature. Quantitative data typically provide more precise information for drawing conclusions compared to qualitative data. Quantitative data are numerical in nature, offering clear and accurate information derived from arithmetic figures. Both qualitative and quantitative data can be gathered through primary or secondary sources.

Primary sources involve firsthand data collection by researchers using various data collection techniques, requiring substantial time and dedication. Conversely, secondary sources provide secondhand data collected by others related to the research study.

In this study, the focus is primarily on secondary data. The necessary information is extracted from balance sheets, profit and loss accounts, and other financial schedules found in annual reports and websites of selected banks. Additional supplementary data are sourced from various institutions and regulatory authorities such as the Nepal Stock Exchange Ltd. and the Securities Exchange Board. The research spans the past decade (F.Y. 2010/11 to 2019/20) using data from annual reports and websites of

sample companies. All collected data and information have been systematically synthesized, organized, tabulated, and analyzed to meet the study's objectives.

3.3 Population and Sample

This study focuses on the analysis of working capital management among Nepalese manufacturing companies listed on the Nepal Stock Exchange Limited (NEPSE). NEPSE lists a total of 190 companies, with only 18 of them operating in the manufacturing sector. For this study, two manufacturing companies, which produce various products, have been selected, representing approximately 11.11% of the total manufacturing companies listed.

The objective is to understand the contribution of these selected manufacturing companies within the manufacturing sector. Data have been collected over a period of five years to comprehensively analyze their working capital management.

The table below presents the sample of manufacturing companies included in the study:

S. No.	Name of Companies	Listed Date
1	Bottlers Nepal Limited (BN)	05/11/1986
2	Unilever Nepal Limited (UNL)	22/09/1994

3.4 Limitation of the Methodology

This study addresses a sensitive aspect of company operations, which has prompted management to be cautious in disclosing detailed views on their working capital management. Therefore, the research relies primarily on annual reports of selected companies, published materials, and other relevant publications. The robustness of the findings hinges significantly on the accuracy of the input data. However, several limitations should be noted:

- The analysis is based solely on secondary data sources.
- The study samples only two manufacturing companies.
- The analysis spans a period of ten years, focusing on audited data from 2013/14 to 2022/23.

- All data are sourced from websites, underscoring the importance of the accuracy and reliability of the information provided by these online platforms.

These factors imply that the conclusions drawn from this study are contingent upon the quality and precision of the secondary data available and the assumptions made during the analysis process.

3.5 Study Instruments and Data

This study primarily employs financial methods, complemented by appropriate statistical tools such as correlation analysis and hypothesis testing. Data were sourced from the websites of the relevant companies, covering a span of at least ten fiscal years from FY 2010/11 to 2022/23. The collected data encompass both quantitative and qualitative aspects.

To calculate ratios, information extracted from annual reports and company websites was utilized. Data entry and analysis were conducted using data analysis software programs, specifically Microsoft Office Excel 2007, tailored to meet the research requirements. This approach ensures that the study effectively examines and interprets the dynamics of working capital management among the selected manufacturing companies over the specified time frame.

3.6 Method of Analysis

Analysis is a critical component of research, involving a thorough examination of available facts to understand data and derive conclusions based on established principles and logical reasoning.

Data analysis entails several interconnected operations, starting with the establishment of categories and applying these categories to raw data through collection, tabulation, and subsequent statistical interpretation. The process begins by identifying and gathering data and information pertinent to the research problem and study objectives.

Collected data are systematically processed and organized into tables for clarity and simplicity. To facilitate analysis and interpretation, a combination of financial and statistical tools has been employed. These tools are selected based on their relevance to the research objectives, ensuring a comprehensive evaluation and understanding of the data.

3.6.1 Financial Tools

In the realm of financial tools utilized for this study, the focus has predominantly been on evaluating the earnings and dividend policy indicators of the companies involved.

3.6.1.1 Ratio Analysis

A ratio represents the arithmetic relationship between two figures, computed by dividing one item of the relationship by the other. Essentially, it expresses one number in terms of another, providing insight into the relationship between financial variables found within financial statements such as balance sheets and income statements. Ratios are instrumental in helping stakeholders identify both the financial strengths and weaknesses of a firm.

3.6.1.2 Composition of Working Capital

The composition of working capital is analyzed through the following ratios:

1. Current Assets to Total Assets (CATA)

The ratio of current assets to total assets indicates the percentage of a company's total assets that are invested in the form of current assets. Higher Current Assets to Total Assets (CATA) ratio suggests higher risk and potentially lowers profitability, whereas a lower ratio indicates lower risk and potentially higher profitability. This ratio is calculated as follows:

Current Assets to Total Assets = (Current Assets / Total Assets) x 100%

2. Cash and Bank to Current Assets (CBCA)

This ratio illustrates the relationship between cash and bank balances to the level of current assets, indicating the percentage of current assets held in the form of cash and bank balances. The management of cash and bank balances directly impacts working capital. A lower ratio suggests increased efficiency and effective cash management, while a higher ratio may indicate inefficiencies. The calculation of this ratio is as follows:

Cash and Bank to Current Assets= (Cash and Bank Balance / Current Assets) x 100%

3. Inventories to Current assets (ICA)

This ratio represents the percentage of current assets that are held in the form of inventory. Inventory levels directly impact working capital; therefore, an increase in this ratio indicates a higher volume of working capital and suggests that the company is following a liberal inventory policy. Conversely, a smaller ratio suggests a lower volume of working capital. This ratio analyzes the proportion of inventories to current assets within selected companies during the study period. The calculation is as follows:

Inventories to Current assets = (Inventory Balance / Current Assets) x 100%

4. Receivables to Current Assets Ratio

This ratio represents the percentage of current assets that consist of receivables. A higher percentage indicates a higher opportunity cost associated with carrying receivables. Therefore, firms aim to minimize the percentage of receivables without negatively impacting sales volume. The calculation for this ratio is as follows:

Receivables to Current Assets Ratio = (Accounts Receivable/Current Assets) x 100%

Where:

Accounts Receivable: This refers to the amount of money owed to a company by its customers for goods or services that have been delivered but not yet paid for.

Current Assets: This category encompasses assets on a company's balance sheet that are expected to be converted into cash within one year or less. Current assets include cash and cash equivalents, marketable securities, accounts receivable, and inventory.

5. Current Liabilities to Total Liabilities Ratio

The current to total liabilities ratio measures the percentage of total current liabilities in relation to total liabilities. An increasing ratio of current to total liabilities typically signifies a potentially negative indicator, while a decreasing ratio suggests the opposite. This ratio is calculated as follows:

Current Liabilities to Total Liabilities Ratio = (Current Liabilities / Total Liabilities) x 100%

Where:

Current Liabilities: These are liabilities on a company's balance sheet that are expected to be settled within one year or less. Current liabilities encompass accounts payable, short-term debt, and other obligations due in the short term.

Total Liabilities: This represents the overall amount of money that a company owes to its creditors. Total liabilities include both current liabilities (short-term obligations) and long-term liabilities (obligations due beyond one year).

3.6.1.3 Turnover Analysis

Turnover analysis evaluates how effectively a firm utilizes its resources, particularly inventories, through the following ratios:

1. Inventory Turnover (IT):

This ratio assesses the relationship between sales and the inventory utilized by the firm. It is calculated by dividing sales by the cost of goods sold or average inventory. The ratio measures the firm's ability to efficiently use its inventory and indicates how quickly inventory is converted into sales. The calculation is as follows:

Inventory Turnover Ratio = (Cost of Goods Sold / Average Inventory) x 100%

Where:

Cost of Goods Sold (COGS): This represents the total cost incurred by a company to produce goods that were sold during a specific period. It includes direct costs like raw materials and labor, as well as indirect costs such as factory overhead.

Average Inventory: This is the average amount of inventory that a company holds over a given period. It is calculated by adding the beginning inventory and ending inventory for the period, then dividing the result by 2.

3. Receivables Turnover (RT):

This ratio establishes the relationship between credit sales and receivables. It is calculated by dividing net credit sales by average accounts receivable. This ratio measures how efficiently the company manages its debtors. The calculation is as follows:

Receivables Turnover = (Net Credit Sales / Average Accounts Receivable)

Where:

Net Credit Sales: This represents the total amount of sales made on credit by a company during a specific period, after deducting any returns or discounts given.

Average Accounts Receivable: This is the average amount of accounts receivable held by a company over a given period. It is calculated by adding the beginning accounts receivable and ending accounts receivable for the period, then dividing the result by 2.

6. Current Assets Turnover Ratio:

The Current Assets Turnover Ratio measures a firm's ability to generate sales using its current assets (such as cash, inventory, and accounts receivable). It indicates how efficiently the firm utilizes its current assets to generate revenue. A higher current assets turnover ratio suggests that the company can achieve higher sales with a lower investment in current assets. The calculation is as follows:

Current Assets Turnover Ratio = (Net Sales / Average Current Assets)

Where:

Net Sales: This refers to the total amount of sales generated by a company during a specific period, after deducting any returns or discounts.

Average Current Assets: This represents the average amount of current assets held by a company over a given period. It is calculated by adding the beginning current assets and ending current assets for the period, then dividing the result by 2.

3.6.1.4 Liquidity Position:

This ratio establishes the relationship between current assets and current liabilities. A higher current ratio indicates greater liquidity and suggests that the firm has the ability to meet its short-term obligations. A conventional benchmark for a satisfactory current ratio is 2:1 or more.

1. Current Ratio (CR):

The Current Ratio measures the relationship between Current Assets and Current Liabilities. It is calculated by dividing Current Assets by Current Liabilities to assess

the short-term safety margin available for meeting current obligations. A higher current ratio indicates greater liquidity and suggests that the firm can pay its bills comfortably. The calculation is as follows:

Current Ratio = (Current Assets / Current Liabilities)

Where:

Current Assets: These are assets listed on a company's balance sheet that are expected to be converted into cash within one year or less. Current assets encompass cash and cash equivalents, marketable securities, accounts receivable, and inventory.

Current Liabilities: These are liabilities listed on a company's balance sheet that are expected to be settled within one year or less. Current liabilities include accounts payable, short-term debt, and other obligations due in the short term.

2. Quick (Liquid) Ratio (QR):

The Quick Ratio, also known as the Liquid Ratio, establishes the relationship between a company's liquid assets and its current liabilities. It is calculated by dividing quick assets (which typically exclude inventory) by current liabilities. This ratio assesses the company's ability to meet its short-term obligations using its most liquid assets. The calculation is as follows:

Quick Ratio = (Current Assets - Inventory) / Current Liabilities

3.6.1.5 Profitability Analysis

1. Net Profit Margin Ratio

The ratio used to analyze the profitability position of a firm is known as the Profitability Ratio. A higher ratio indicates greater profitability, while a lower ratio suggests lower profitability. It is calculated as follows:

Net Profit Margin Ratio = (Net Profit / Total Revenue) x 100%

Where:

Net Profit: This represents the company's net income, calculated by subtracting all expenses, including taxes, from the total revenue.

Total Revenue: This is the company's total income from all sources, including sales of goods and services, interest, dividends, and other sources of income.

2. Return on Equity (ROE):

Return on Equity measures how effectively a company generates profits from its equity capital and indicates the profitability for the owners' investment. It is calculated as follows:

Return on Equity = (Net Income / Shareholder Equity) x 100%

Where:

Net Income: This refers to the company's net profit, calculated by deducting all expenses (including taxes) from the total revenue.

Shareholder Equity: This is the total shareholder equity of the company, calculated by aggregating the value of all outstanding shares of common stock and preferred stock, and subtracting any accumulated losses.

2. Return on Total Assets Ratio (ROA):

Return on Total Assets Ratio measures how effectively a company utilizes its assets to generate net profit. It indicates the efficiency of asset utilization and helps management understand the factors influencing overall firm performance. The calculation is as follows:

Return on Total Assets = (Net Income / Total Assets) x 100

Where:

Net Income: This refers to the company's net profit, calculated by subtracting all expenses (including taxes) from the total revenue.

Total Assets: This represents the company's total assets, encompassing all physical and financial resources such as cash, accounts receivable, inventory, fixed assets (like property, plant, and equipment), and intangible assets (such as patents, trademarks, and copyrights).

3.6.2 Statistical Analysis

The use of statistical tools is crucial for measuring relationships between variables in this study. The following statistical tools are employed:

3.6.2.1 Arithmetic Mean (Average):

The arithmetic mean is the most widely used measure of central tendency, representing the entire dataset with a single value. It is calculated by dividing the sum of all values by the total number of values. The formula for calculating the arithmetic mean is as follows:

$$\mu = (\Sigma x) / n$$

i.e.

Arithmetic Mean = (Sum of Values) / (Number of Values)

Where:

μ (μ) represents the arithmetic mean, which is the average value of a dataset.

Σ (Σ) represents the sum of all the individual values in the dataset.

x represents each individual value in the dataset.

n represents the total number of values in the dataset.

3.6.2.2 Standard Deviation (S.D)

Standard Deviation is a widely used measure of dispersion that indicates the variability or spread of data points around the mean. It is calculated using the following formula:

$$S.D. = \sqrt{[(\Sigma (x - \mu)^2) / (n - 1)]}$$

Where:

- S.D. represents the standard deviation.
- √ (the square root symbol) indicates that the result should be calculated as the square root of the expression in the brackets.
- Σ (the Greek letter "sigma") represents the sum of all the values in the data set.
- x represents the individual values in the data set.

- μ (the Greek letter "mu") represents the arithmetic mean (average) of the data set.
- n represents the number of values in the data set.

3.6.2.3 Co-efficient of Variation (CV)

Standard Deviation is an absolute measure of dispersion, indicating the extent of variability or spread of data points around the mean. When assessing variability relative to the mean, the coefficient of Standard Deviation is used, also known as the Coefficient of Variation (CV). The Coefficient of Variation is calculated as follows:

CV = (S.D. / μ) x 100

Where:

- CV represents the coefficient of variation.
- S.D. represents the standard deviation of the data set.
- μ (the Greek letter "mu") represents the arithmetic mean (average) of the data set.

3.6.2.4 Correlation Coefficient (r)

The coefficient of correlation, also known as Pearson's correlation coefficient, is a statistical measure that quantifies the strength and direction of the linear relationship between two variables. It is denoted by the symbol "r" and is calculated using the following formula:

$$r = (n \sum xy - \sum x \sum y) / \sqrt{[(n \sum x^2 - (\sum x)^2) (n \sum y^2 - (\sum y)^2)]}$$

Where:

- n is the number of pairs of data points
- x and y are the two variables
- ∑xy is the sum of the products of the paired x and y values
- ∑x is the sum of the x values
- ∑y is the sum of the y values

- ∑x^2 is the sum of the squared x values
- ∑y^2 is the sum of the squared y value

Here is an example of a correlation coefficient table:

Correlation Coefficient	Interpretation
< -0.7	Strong negative correlation
-0.7 to -0.3	Moderate negative correlation
-0.3 to -0.1	Weak negative correlation
-0.1 to 0.1	No correlation
0.1 to 0.3	Weak positive correlation
0.3 to 0.7	Moderate positive correlation
> 0.7	Strong positive correlation

This table can be used to interpret the strength and direction of the correlation between two variables based on the calculated correlation coefficient.

The coefficient of correlation ranges from -1 to 1. A value of 1 indicates a perfect positive correlation, meaning that as one variable increases, the other variable also increases. A value of -1 indicates a perfect negative correlation, meaning that as one variable increases, the other variable decreases. A value of 0 indicates no correlation between the two variables.

The correlation coefficient is used to measure the relationship between sales and receivable. The analysis is used to find out the cause-and-effect relationship between the variables.

3.6.2.5 Regression Analysis

Regression analysis is a statistical method used to estimate and analyze the relationships between variables. It helps in understanding how the typical value of a dependent variable changes when independent variables are varied, with other

independent variables held constant. It also identifies which independent variables are related to the dependent variable and explores the nature of these relationships.

I. Regression Analysis of Dependent Variable (Return on Assets) and Independent Variables (Current Ratio and Receivables Turnover Ratio). This analysis examines how Return on Assets (ROA) varies with changes in the Current Ratio and Receivables Turnover Ratio across selected companies during the study period.

II. Regression Analysis of Dependent Variable (Net Profit) and Independent Variables (Current Assets and Total Assets). This analysis explores how Net Profit changes in relation to variations in Current Assets and Total Assets among selected companies over the study period.

III. Regression Analysis of Dependent Variable (Net Profit) and Independent Variables (Cash and Net Working Capital): This analysis investigates how Net Profit is influenced by changes in Cash and Net Working Capital among selected companies during the study period.

The regression line of y on x1 and x2, used to estimate the value of y based on the values of x1 and x2, is given by:

It is given by:

$$\mathbf{y= a+b1x1+b2x2}$$

Where:

y= Dependent Variable

x1& x2 = Independent Variables

a = Constant

b1= the coefficient for the second independent variable (x1)

b2 = the coefficient for the second independent variable (x2)

In a linear regression model, the relationship between the dependent variable (y) and the independent variable (x) is represented by the following equation:

$y = a + b1*x$

In this equation, y is the dependent variable (i.e., current assets), x is the independent variable (i.e., current liabilities), a is the intercept term (i.e., the value of y when x is

0), and b1 is the slope term (i.e., the change in y for a given change in x).Taking more than one independent variable in a regression model. For example, if we wanted to predict current assets based on both current liabilities and another variable, net income, we could use the following equation:

$y = a + b1x1 + b2x2$

In this case, x1 represents current liabilities and x2 represents net income.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

The primary aim of this study is to analyze the working capital management of UNL Ltd and BNL Ltd. This chapter presents and examines all pertinent data and information, utilizing various ratios, correlation analysis, regression analysis, and trends related to working capital. The analysis focuses on understanding how these companies manage their working capital, which is crucial for assessing their financial health and operational efficiency. By examining key financial ratios, correlations between variables, regression analyses, and trends over time, the study aims to provide insights into the financial strategies and performance of UNL Ltd and BNL Ltd in managing their working capital effectively. This comprehensive approach will help in evaluating the strengths and weaknesses of their working capital management practices, identifying areas for improvement, and drawing conclusions about the overall financial stability and operational efficiency of the companies.

4.1 Composition of Current Assets

The success or failure of any business firm hinges on the effective management of current assets. Current assets typically include inventory, accounts receivable, cash, and bank balances among others. Proper management of these assets is crucial for achieving the primary objective of maximizing profit and ultimately enhancing shareholder wealth.

Cash management is particularly vital as it supports various functions such as purchasing raw materials and paying expenses. Due to the mismatch between cash inflows and outflows, firms often need to hold cash reserves to meet future obligations. Similarly, maintaining a stock of raw materials ensures uninterrupted production and mitigates the risk of supply shortages.

Efficient management of current assets is an integral component of overall financial management strategies. Therefore, in this context, we present the current assets data for UNL Ltd. and BNL Ltd., focusing on their roles in ensuring operational continuity and financial stability.

Table 4.1

Composition of Current Assets of UNL Ltd

(Rs. In Millions)

Year	**Cash and bank balance**	**Sundry debtors**	**Inventory**	**Miscellaneous**	**Total Current assets**
2015/016	62.33	75.44	121.25	61.22	320.24
2016/017	202.25	75.42	53.81	65.23	396.71
2017/018	302.20	45.14	54.10	61.25	462.69
2018/019	60.33	32.16	144.45	36.19	275.13
2019/020	317.40	64.78	126.11	81.60	589.89
2020/021	391.53	97.10	184.22	51.44	724.29
2021/022	443.31	157.72	229.27	60.62	890.92
2022/023	160.19	81.60	51.44	104.45	397.68
Average	**234.90**	**78.67**	**120.45**	**30.12**	**507.19**

Source: Annual report of UNL Ltd.

The above table 4.1 shows the composition of current assets and percentage composition of current assets for five fiscal year of UNL Ltd. The components of current assets are cash and bank balance, sundry debtors, inventory and miscellaneous current assets. Cash and Bank, the next liquid assets hold the major portion of total current assets. In average it holds 507.19(million) of total current assets which is the highest to compare with other components of current assets. In year 2021/022, it holds the highest amount of Cash and Bank Balance which is 443.31(in Million). During the study period, the percentage of Cash and Bank balance to the total current asset has been fluctuated during the year. In the above table, it shows that the inventory holds the second major portion of the current assets. During the study period the proportion of inventory to the total current assets are 320.24, 396.71, 462.69, 275.13, 724.29, 890.92 and 397.68 respectively. The average amount of sundry debtors for the 10 years study is Rs. 78.67 (in million) and the proportion on total current assets is 13.76% which seems low. Sundry debtors hold the least proportion of the current assets in the fiscal year 2018/019 i.e. 32.16 million. Miscellaneous current assets include other current assets except inventory sundry debtors, cash and bank balances. It contains prepaid expenses, advances to employees, deposits, investment in government banks and other current assets. The average percentage of miscellaneous

current assets is 16.39% and 30.12 million. The proportion of miscellaneous current assets has been fluctuated from the beginning to the end of the year.

Table 4.2

Composition of Current Assets of BNL Ltd

In Rs (million)

Year	**Cash and bank balance**	**Sundry debtors**	**Inventory**	**Miscellaneous**	**Total Current assets**
2014/015	0.8	42.25	30.25	12.20	85.5
2015/016	1.52	55.43	23.26	9.26	89.47
2016/017	2.8	40.23	22.36	15.26	80.65
2017/018	2.4	45.14	25.63	12.14	85.31
2018/019	1.32	71.94	19.27	4.86	93.49
2019/020	2.29	75.50	30.57	14.72	123.08
2020/021	0.7	54.80	31.60	9.39	96.49
2021/022	2.91	60.83	36.39	10.32	110.15
2022/023	3.18	70.24	38.26	18.41	130.09
Average	**1.9**	**56.92**	**28.62**	**11.84**	**99.3**

Source: Annual report of BNL Ltd.

The table 4.2 shows the composition of current assets and percentage composition of current of current assets for five fiscal year of BNL Ltd. The components of current assets are cash and bank balances, sundry debtors, inventory and miscellaneous current assets. Sundry debtors hold the major portion of total current assets. In average it holds 99.3 millions of total current assets which is the highest to compare with other component of current assets. In this year 2021/022 sundry debtors holds the highest proportion of current assets which is 157.72 million where as in year 2019/020 BNL Ltd holds the highest amount of sundry debtors which is Rs.75.50 (in million). The proportion of sundry debtors has been fluctuated in the entire period of five years. In the above table shows, that the inventory holds the second major portion of the current assets. During the study period the portion of inventory to the total current assets are 30.26 to 38.26 respectively. Proportion of inventory fluctuated between 2018/019 and 2021/022 i.e. 20.45 to 33.07. The average amount of inventory is 28.62 million. The cash and bank balance of BNL Ltd which holds the lowest

portion in composition to other all components of current assets. The average percentage is 1.9 million of total current assets. It has been fluctuated entire during the year i.e. from 0.8 to 3.18, highest in 2022/023 i.e. and lowest is 2020/021 i.e. 0.7 million. Miscellaneous current assets which include and contains prepaid expenses, advances to employee deposits, investment in government bonds and other current assets. The average percentage of miscellaneous current assets is 11.84 million. The proportion of the miscellaneous current assets has been fluctuated from 12.2 to 18.41 in between 2014/015 to 2022/023.

4.1.1 Comparison of Cash and Bank Balance Percentage and Trend Analysis

The cash and bank balance percentages for both UNL Ltd. and BNL Ltd. have exhibited fluctuations over the study period. For UNL Ltd., the highest cash and bank balance percentage was 443.31 million in F/Y 2018/2019, while the lowest was 60.33 million in F/Y 2018/2019. On average, the cash and bank balance percentage was 234.90 million. Similarly, for BNL Ltd., the highest cash and bank balance percentage was 3.18 million in F/Y 2022/2023, and the lowest was 0.7 million in F/Y 2020/2021. The average cash and bank balance percentage was 1.9%. These figures illustrate the variability in cash and bank balances held by both companies over the specified periods, highlighting their management of liquidity and financial resources across different fiscal years.

Table 4.3

Trend Values of Sundry Debtors to Current Assets Ratio

Year (t)			**UNL Ltd**			**BNL Ltd**		
	X = (t – 2016)	**X^2**	**Y_1**	**xy_1**	**Y_c = a+bx**	**Y_2**	**xy_2**	**Y_c = a+bx**
2015/016	-2	4	8.06	-16.12	8.18	72.67	-145.34	68.70
2016/017	-1	1	10.98	-10.98	10.97	61.34	-61.34	64.33
2017/018	0	0	13.41	0	13.76	56.79	0	59.95
2018/019	1	1	17.69	17.69	16.55	54.95	54.95	55.56
2019/020	2	4	18.65	37.30	19.34	53.99	107..98	51.20
2020/021	3				22.13			46.83
2021/022	4				24.92			42.45
2022/023	5				27.71			38.08
		$\sum x^2$ =10	**68.79**	**27.89**		**299.74**	**-43.75**	

Source: Annual report of UNL Ltd and BNL Ltd.

The rate of change of percentage of sundry debtors is UNL Ltd is positive whereas in BNL Ltd is negative. Thus, negative 'b' which implies that the percentage of sundry

debtors in BNL Ltd is decreasing trend but in UNL Ltd sundry debtors implies b position which indicates increasing trend.

4.1.2 Comparison of Inventory Percentage and Trend Analysis

The inventory percentages for UNL Ltd. and BNL Ltd. have shown fluctuations over the years. For UNL Ltd., the highest inventory percentage was 36.19% in F/Y 2018/2019, while the lowest was 21.38% in F/Y 2019/2020. The average inventory percentage for UNL Ltd. was 28.72%. For BNL Ltd., the highest inventory percentage was 33.07% in F/Y 2021/2022, and the lowest was 20.45% in F/Y 2018/2019. The average inventory percentage for BNL Ltd. was 28.10%. Interestingly, the average inventory percentage for UNL Ltd. is higher than that of BNL Ltd., indicating potentially different strategies or operational requirements in managing inventory levels over the study period.

Table 4.4

Trend value of Inventory to Current Assets Ratio

Year (t)			**UNL Ltd**			**BNL Ltd**		
	X= (t-2016)	**x^2**	**y_1**	**xy_1**	**Y_c = a+bx**	**y_2**	**xy_2**	**Y_c = a+bx**
2015/016	-2	4	36.19	-72.38	28.50	20.45	-40.90	22.87
2016/017	-1	1	21.38	-21.38	28.61	24.84	-24.84	25.49
2017/018	0	0	25.73	0	28.72	32.75	0	28.10
2018/019	1	1	25.78	25.78	28.83	33.07	33.07	30.72
2019/020	2	4	34.54	69.08	28.94	29.41	58.82	33.33
2020/021	3				29.05			35.95
2021/022	4				29.16			38.56
2022/023	5				29.27			41.18
		$\sum x^2$ = 10	**143.62**	**1.1**		**140.52**	**26.15**	

Source: Annual report of UNL Ltd and BNL Ltd

The rate of change of percentage of inventory in UNL Ltd and BNL both are Positive. Thus, positive 'b' which implies that the percentage of inventory in UNL Ltd and BNL Ltd are increasing trend.

4.1.3 Comparison of Miscellaneous Current Assets Percentage and Trend Analysis

The Miscellaneous Current Assets (C.A.) percentages for UNL Ltd. and BNL Ltd. have shown varying trends over the period under study. For UNL Ltd., the highest percentage of Miscellaneous C.A. was 40.13% in F/Y 2018/2019, while the lowest was 6.80% in F/Y 2021/2022. The average Miscellaneous C.A. percentage for UNL Ltd. was 16.39%. Similarly, for BNL Ltd., the highest percentage of Miscellaneous C.A. was 14.15% in F/Y 2022/2023, and the lowest was 5.31% in F/Y 2018/2019. The average Miscellaneous C.A. percentage for BNL Ltd. was 10.10%. The average percentage of Miscellaneous C.A. for UNL Ltd. is higher than that of BNL Ltd., suggesting potentially different management approaches or operational requirements for these assets between the two companies. To calculate the trend of Miscellaneous C.A. percentage from Appendix 1 (iv), the values of the constraints 'a' and 'b' are determined as follows:

Table 4.5

Trend Value of Miscellaneous Assets to Current Assets Ratio

Year (t)			**UNL Ltd**					**BNL Ltd**
	x = (t - 2016)	**x^2**	**y_1**	**xy_1**	**Y_c = a+bx**	**y_2**	**xy_2**	**Y_c =a+bx**
2015/016	-2	4	40.13	-80.26	28.22	5.31	-10.62	7.08
2016/017	-1	1	13.83	-13.83	22.30	11.96	-11.96	8.59
2017/018	0	0	7.10	0	16.39	9.73	0	10.10
2018/019	1	1	6.80	6.80	10.48	9.37	9.37	11.61
2019/020	2	4	14.08	28.16	4.56	14.15	28.30	13.12
2020/021	3				-1.35			14.63
2021/022	4				-7.26			16.14
2022/023	5				-13.18			17.65
		$\sum x^2$ =10	**81.94**	**-59.13**		**50.52**	**15.09**	

Source: Annual report of UNL Ltd and BNL Ltd.

The rate of change of percentage of Miscellaneous C.A in UNL Ltd is negative whereas in BNL is positive. Thus negative b which implies, that the percentage of Miscellaneous C.A in UNL Ltd is decreasing trend but in BNL Ltd Miscellaneous C.A implies b position which indicates in increasing trend.

4.2 Composition of Current Liabilities

Current liabilities are obligations that are scheduled for repayment within one year and play a critical role in assessing the liquidity and solvency of a firm. These liabilities encompass various components crucial to day-to-day operations and financial management. Key elements typically included in current liabilities are loans and advances, sundry creditors (trade creditors), provisions for taxation, and miscellaneous current liabilities. These components collectively reflect the short-term financial obligations a company must fulfill, influencing its ability to manage cash flow effectively and meet near-term financial commitments. Understanding the composition and management of current liabilities is essential for evaluating a firm's financial health and its ability to sustain operations over the short term.

Table 4.6

Composition of Current Liabilities of UNL Ltd

Particulars	**Fiscal Years**																				**Average %**
	2013/014	**%**	**2014/015**	**%**	**2015/016**	**%**	**2016/017**	**%**	**2017/018**	**%**	**2018/019**	**%**	**2019/020**	**%**	**2020/021**	**%**	**2021/022**	**%**	**2022/023**	**%**	
Loan and Advances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sundry Creditors	66.45	21.12	630.12	36.12	450.32	45.36	66.12	45.32	75.00	32.14	85.70	38.39	240.92	56.49	329.35	60.58	364.25	41.30	353.31	47.60	48.87
Miscellaneous Current Liabilities	78.14	39.12	270.12	45.20	245.12	37.20	54.36	38.47	145.12	45.36	137.51	61.61	185.53	43.51	214.36	39.43	517.77	58.70	388.92	52.40	51.13
Total Current Liabilities	**45.12**	**43.54**	**460.18**	**780.12**	**450.66**	**44.12**	**95.10**	**48.36**	**385.12**	**78.12**	**223.21**	**100**	**426.45**	**100**	**543.71**	**100**	**882.02**	**100**	**742.23**	**100**	

Source: Annual report of UNL Ltd.

The current liabilities of UNL Ltd contain loans and advances, sundry creditors and Miscellaneous Current liabilities. The above table 4.7 shows the amount of different component of current liabilities hold by UNL Ltd. Sundry Creditors are the major component of current liabilities. The highest percentage of sundry creditors is 60.58% in F/Y 2020/021 and lowest is 38.39% in F/Y 2018/019. It holds the total highest

major portion of total current liabilities. The average percentage of sundry creditors during the period is 48.87%. The miscellaneous current liabilities contain the other current liabilities except loans and advances and sundry creditors. It contains highest major portion of the current liabilities in UNL Ltd during the period. It covered 51.13% of the total current liabilities. The highest percentage of Miscellaneous CL is 61.61% in F/Y 2018/019 and lowest is 39.43% in F/Y 2020/021.

Table 4.7

Composition of Current Liabilities of BNL Ltd.

Particulars	**Fiscal Years**																				**Average %**
	2013/014	**%**	**2014/015**	**%**	**2015/016**	**%**	**2016/017**	**%**	**2017/018**	**%**	**2018/019**	**%**	**2019/020**	**%**	**2020/021**	**%**	**2021/022**	**%**	**2022/023**	**%**	
Loan and Advances	17.25	28.12	22.12	43.87	46.25	39.14	28.14	33.38	25.12	33.020	24.22	32.39	46.76	39.62	21.43	28.16	38.36	43.89	45.32	42.89	37.39
Sundry Creditors	45.12	21.45	45.23	22.60	49.10	28.36	32.32	39.14	29.36	28.45	31.76	42.48	46.44	44.06	37.19	48.88	29.29	33.51	50.14	47.46	43.28
Miscellaneous Current Liabilities	21.30	48.8	47.12	33.51	19.10	33.88	24.33	28.36	17.23	39.14	18.79	25.13	17.20	16.32	17.47	21.45	19.75	22.60	10.20	9.65	19.03
Total Current Liabilities		**100**		**100**		**100**		**100**	**71.59**	**100**	**74.77**	**100**	**105.40**	**100**	**76.09**	**100**	**87.40**	**100**	**105.66**	**100**	

Source: Annual report of BNL Ltd.

The above table 4.7 shows the amount of different component of current liabilities holds by BNL Ltd. and percentage of proportion of different component to total current liabilities. Sundry Creditors contains highest major portion of the current liabilities in BNL Ltd during the period. It covered 43.28% of the total current liabilities. The highest percentage of sundry creditor is 48.88% in F/Y 2022/023 and lowest is 33.51% in F/Y 2021/022. Loan and advances has covered the second highest portion of the total current liabilities in BNL Ltd. during the study period. The average percentage of the loan and advances during the period is 43.28%. It has been fluctuated between 2020/021 and 2021/022. Miscellaneous Current Liabilities holds least portion of the total current liabilities in BNL Ltd during the year. It is lowest 9.65% in the F/Y 2022/023 and highest i.e. 25.13% in F/Y 2018/019 and has been fluctuated between the F/Y 2018/019 to 2022/023.

4.2.1 Comparison of Percentage of Current Assets on Total Assets

Current assets are crucial elements that significantly impact a company's operations. The current assets to total assets ratio indicates the proportion of current assets relative to total assets. Total assets encompass both current assets (such as cash, accounts receivable, and inventory) and fixed assets (such as property, plant, and equipment). Increasing the proportion of current assets can enhance liquidity, potentially increasing returns but also introducing higher risks due to short-term nature and variability. Conversely, reducing this ratio may improve stability but could limit immediate financial flexibility. The following table illustrates the percentage of current assets to total assets for two related companies:

Table 4.8

Proportion of Current Assets to Total Assets of BNL Ltd

Rs. in million

Year	Current Assets	Total Assets	CA/TA*100
2013/014	62.84	89.95	69.86
2014/015	85.36	108.25	78.85
2015/016	90.25	109.7	82.22
2016/017	116.12	132.76	87.46
2017/018	93.49	111.83	83.60%
2018/019	123.08	143.33	85.87%
2019/020	96.48	115.09	83.83%
2020/021	110.15	127.31	86.52%
2021/022	130.09	145.41	89.46%
2022/023			85.86%

Source: Annual report of BNL Ltd.

In the above table 4.8 the proportion of current assets to total assets is in F/Y 2014/015 which contains 69.86% which gradually increases to 87.46 during study period it holds the highest proportion of current assets, which is 87.46% in the F/Y 2017/018. The increasing proportion of current assets in the observed fiscal years shows that the holding on inventories, debtors and cash is in increasing trend. In an average there is 78.66% sharing of current assets to total assets during the period. The proportion of current assets is in fluctuating during the period. In the F/Y 2018/019

the proportion contains 83.60% of the total assets. It fluctuates in the entire study period and reaches to 89.46% in F/Y 2022/023. In an average the sharing of current assets to total assets in BNL Ltd is 85.86% during the period. The amount of current asset and total assets are always higher in UNL Ltd., the proportion of CA to TA in UNL Ltd is 78.66% where as in BNL Ltd is 85.86%.

4.3 Ratio Analysis

Ratio analysis is an essential tool in financial analysis that aids in assessing the financial strengths and weaknesses of manufacturing concerns. It involves evaluating various ratios across categories such as liquidity, activity, leverage, and profitability: These ratios assess the ability of a company to meet its short-term obligations. Examples include the current ratio and the quick ratio. Activity ratios measure how effectively a company utilizes its assets to generate revenue. Examples include inventory turnover ratio and accounts receivable turnover ratio. Also known as solvency ratios, these ratios indicate the extent to which a company uses debt to finance its operations and the company's ability to meet its long-term financial obligations. Examples include debt-to-equity ratio and interest coverage ratio. Profitability ratios measure the company's ability to generate profits relative to its sales, assets, and equity. Examples include gross profit margin, net profit margin, return on assets (ROA), and return on equity (ROE).

4.3.1 Liquidity Position

Liquidity ratios are essential for assessing a company's ability to meet short-term obligations. They primarily involve the relationship between current assets and current liabilities. One crucial measure of liquidity is the current ratio, which evaluates the firm's ability to cover short-term liabilities with its current assets.

Current Ratio Calculation:

The current ratio is computed by dividing current assets by current liabilities. It provides a snapshot of the firm's short-term solvency in gross terms.

Table 4.9

Current Ratio

Fiscal Year	UNL Ltd			BNL Ltd		
	CA	**CL**	**Ratio**	**CA**	**CL**	**Ratio**
2013/014	412.44	303.26	1.36	125.08	103.37	1.21
2014/015	455.55	376.48	1.21	98.88	79.74	1.24
2015/016	602.78	590.96	1.02	106.22	89.26	1.19
2016/017	541.55	334.29	1.62	111.56	92.96	1.20
2017/018	560.68	533.98	1.05	99.53	78.99	1.26
2018/019	399.13	223.21	1.79	93.49	74.77	1.25
2019/020	589.89	426.45	1.38	123.08	105.40	1.17
2020/021	724.24	593.71	1.33	96.48	76.09	1.27
2021/022	891.41	882.02	1.01	110.15	87.40	1.26
2022/023	741.60	742.23	0.99	130.09	105.66	1.23
Average			1.27			1.23

Source: Annual report of UNL Ltd and BNL Ltd.

Current ratio can be calculated by dividing the current assets by current liabilities. The current ratio indicates the capabilities of paying its current liabilities. The general acceptable current ratio is 2:1. It means the firm should hold minimum 200 % of the current assets to its current liabilities. The current ratio of UNL Ltd. for 10 years is 1.36,1.21,1.02,1.62,1.05,1.79, 1.38, 1.33, 1.01 and 0.99 where as the current ratio of BNL Ltd for 10 years is 1.21,1.24,1.19,1.20,1.26,1.25, 1.17, 1.27, 1.26 and 1.23. The highest current ratio of UNL Ltd is 1.79 in F/Y 2018/019 and lowest is 0.99 in F/Y 2022/023. Same way the highest current ratio of BNL Ltd is 1.27 in F/Y 2020/021 and lowest is 1.17 in F/Y 2018/019. The average current ratio of UNL Ltd and BNL Ltd is 1.27 and 1.23 respectively. The average current ratio of UNL Ltd is higher than that of BNL Ltd which seems to be considerable in five years study the firm is in general considerable level. The value of constants 'a' and 'b' are as follows:

ii. Quick Ratio

Quick assets consist of current assets excluding inventory, which is less liquid due to the time required for conversion into cash. Liquidity is determined by an asset's ability to be converted into cash quickly or without significant loss in value. The quick ratio specifically assesses a firm's immediate liquidity position.

Calculation of Quick Ratio:

The quick ratio is calculated by dividing quick assets by current liabilities. This ratio provides insight into a company's ability to meet short-term obligations using its most

liquid assets. These include cash and cash equivalents, marketable securities, and accounts receivable. This category encompasses obligations such as accounts payable, short-term loans, and accrued expenses that must be settled within one year.

This table presents the quick ratios of UNL Ltd and BNL Ltd over several years, illustrating their respective immediate liquidity positions. A higher quick ratio suggests better ability to meet short-term obligations using liquid assets. Analyzing these ratios aids stakeholders in assessing how effectively each company manages its liquidity and prepares for short-term financial demands.

Table 4.10

Quick Ratio

Fiscal Year	**UNL Ltd**			**BNL Ltd**		
	QA	**CL**	**Ratio**	**QA**	**CL**	**Ratio**
2013/014	330.66	300.6	1.10	62.98	74.09	0.85
2014/015	221.69	197.93	1.12	68.52	75.29	0.91
2015/016	405.25	401.23	1.01	84.22	96.80	0.87
2016/017	407.68	377.48	1.08	76.55	83.20	0.92
2017/018	302.55	272.56	1.11	82.41	95.82	0.86
2018/019	254.69	223.21	1.14	74.22	74.77	0.99
2019/020	463.77	426.45	1.09	92.50	105.40	0.88
2020/021	540.02	543.71	0.99	64.88	76.09	0.85
2021/022	661.64	882.02	0.75	73.76	87.40	0.84
2022/023	485.44	742.23	0.65	91.83	105.66	0.87
Average			**1.004**			**0.88**

Source: Annual report of UNL Ltd and BNL Ltd.

The quick ratio of 1:1 of a firm is considered as good position. The quick ratio of UNL Ltd is fluctuating for the entire period. The quick ratio of UNL Ltd for 10 years is 1.10,1.12,1.01,1.08,1.11,1.14, 1.09, 0.99, 0.75 and 0.65 where as the quick ratio of BNL Ltd for 10 years is 0.85,0.91,0.87,0.92,0.86,0.99, 0.88, 0.85, 0.84 and 0.87. The highest quick ratio of UNL Ltd. is 1.14 in F/Y 2018/019 and lowest is 0.65 in F/Y 2022/023. Same way the highest quick ratio of BNL Ltd is 0.99 in F/Y 2018/019 and lowest is 0.84 in F/Y 2021/022. The average quick ratio of UNL Ltd and BNL Ltd. is 1.004 and 0.88 respectively. The average quick ratio of UNL Ltd. is higher than that of BNL Ltd which seems to be considerable in 10 years study the firm is in general considerable level.

4.3.2 Active or Turnover Ratio

Activity ratios assess how effectively a firm utilizes its assets to generate sales or revenue. They indicate whether assets are optimally managed relative to current and anticipated operational needs. If assets are insufficient, opportunities for profitable sales may be missed, whereas excessive assets may indicate inefficiency or overinvestment.

a) Debtors Turnover/Receivable Turnover Ratio

Accounts receivable is a critical component of current assets and significantly influences a company's liquidity position. The turnover ratio of accounts receivable and Days Sales Outstanding (DSO) are key metrics used to assess this liquidity:

Receivable Turnover Ratio: This ratio measures how efficiently a company collects its credit sales within a period. A higher turnover ratio indicates quicker conversion of receivables into cash, which enhances liquidity.

Days Sales Outstanding (DSO): DSO measures the average number of days it takes for a company to collect payment after making a sale on credit. It provides insights into the efficiency of credit and collection policies.

These metrics help stakeholders assess how effectively a company manages its accounts receivable, indicating both liquidity and the efficiency of credit management practices. A lower DSO and higher receivable turnover ratio generally signify better liquidity and more effective credit management.

Table 4.11

Receivable Turnover and Days Sales Outstanding of UNL Ltd and BNL Ltd

(In million)

Fiscal Year	UNL Ltd			BNL Ltd		
	Sales	**Account Receivable**	**DSO = Days in year*AR/Sales**	**Sales**	**Account Receivable**	**DSO = Days in Year*AR/Sales**
2013/014	1435.75	130.52	33	128.56	71.50	203
2014/015	1501.22	71.48	17	130.22	80.62	226
2015/016	1351.55	84.47	23	128.27	67.12	191
2016/017	1388.66	73.08	19	114.20	62.88	201
2017/018	1488.25	45.09	11	136.55	70.70	189
2018/019	1236.05	32.16	9	136	67.94	181
2019/020	1244.73	64.77	19	119.15	75.50	230
2020/021	1524.90	97.06	23	84.71	54.80	236
2021/022	1481.56	157.72	38	118.10	60.83	188
2022/023	1469.68	138.32	34	148.75	70.24	172
Average			22.6			201.7

Source: Annual report of UNL Ltd and BNL Ltd.

The table shows the receivable turnover and days outstanding of UNL Ltd and BNL Ltd. Receivable turnover ratios are fluctuating in the entire period of year. The highest receivable ratio is 38.43 in F/Y 2018/019 which has 9 days sales outstanding. Similarly, the lowest receivable ratio is 9.39 in F/Y 2021/022 which has 38 DSO. The average receivable turnover ratio for the 10 years of UNL Ltd is 18.68. The table shows the receivable turnover and day's sales outstanding of BNL Ltd. It has also fluctuating to the entire period of time. The higher receivable ratio is 2.11 in F/Y 2022/023 which has 172 days sales outstanding. Similarly the lowest receivable ratio is 1.54 in F/Y 2020/021 has 236 days sales outstanding. The average receivable turnover ratio of BNL Ltd is 1.84.The D. S. O. period of UNL Ltd is lower than BNL Ltd. lesser the D.S.O. indicated that quick collection of receivables from the debtors. The above table shows that UNL Ltd is very much more capable in collecting receivables from the debtors in comparison to BNL Ltd during the period.

b) Inventory Turnover Ratio

The inventory turnover ratio is a crucial indicator of how effectively a company manages its inventory: inventory Turnover Ratio: This ratio quantifies the relationship between sales and inventory, revealing the efficiency of inventory management. A higher inventory turnover ratio suggests that inventory is being sold more quickly, which is generally seen as more efficient. On the other hand, a lower ratio could indicate issues such as slow-moving inventory or overstocking. The formula for inventory turnover ratio is: cost of Goods Sold (COGS): The direct costs attributable to the production of goods sold by a company during a specific period. Average Inventory: (Beginning Inventory + Ending Inventory) / 2. This calculates the average inventory level over a period. A high inventory turnover ratio implies efficient inventory management, where goods are sold quickly without excessive holding costs. Conversely, a low ratio might indicate inefficiencies or challenges in sales and inventory management strategies.

Table 4.12

Calculation of inventory Turnover Ratio of UNL Ltd and BNL Ltd

(In million)

Fiscal Year	UNL Ltd			BNL Ltd		
	Sales	Inventory	Sales/Inv.	Sales	Inventory	Sales/Inv.
2013/014	1322.55	163.27	8.10	132.58	20.11	6.59
2014/015	1421.25	227.4	6.25	131.26	28.78	4.56
2015/016	1369.48	172.91	7.92	138.66	36.01	3.85
2016/017	1429.36	198.24	7.21	115.68	20.73	5.58
2017/018	1423.26	206.56	6.89	105.25	32.48	3.24
2018/019	1236.05	144.45	8.56	136.00	19.27	7.06
2019/020	1244.73	126.11	9.87	119.15	30.57	3.90
2020/021	1524.90	184.22	8.28	84.71	31.60	2.68
2021/022	1481.86	229.97	6.45	118.40	36.39	3.25
2022/023	1469.68	256.16	5.74	148.75	38.26	3.89
Average			7.52			4.46

Source: Annual report of UNL Ltd and BNL Ltd.

From the above table the inventory turnover ratio of UNL Ltd is fluctuating up to F/Y 2013/014. The highest inventory turnover ratio is 9.87 in F/Y 02019/020 which indicates that from kept the low inventory and the lowest inventory turnover ratio is 5.74 in F/Y 2022/023 which indicates the from kept high inventory which low sales. UNL Ltd holds the higher portion of raw materials in inventory. So it has less turnover time in practical use. The inventory turnover ratio of BNL Ltd is varies for 2.68 to 7.06 during their period. The inventory turnover ratio of UNL Ltd is higher than BNL Ltd during the period of study. The nature and size of business of UNL Ltd is wide range of Products that fulfill the various needs and requirement of the customers, so the net sales amount and closing inventory. The higher average turnover ratio of UNL Ltd i.e. 7.52 has better inventory management of UNL Ltd than of BNL Ltd i.e. 4.46 during the period of study.

c) Total Assets Turnover Ratio

The total assets turnover ratio measures the efficiency with which a company uses its total assets to generate sales. This ratio evaluates how effectively a company utilizes its total assets (both current and fixed assets) to generate revenue. It indicates the amount of sales generated for every dollar invested in total assets. The formula for calculating the total assets turnover ratio is monitoring the total assets turnover ratio helps businesses assess their operational efficiency, identify potential areas for improvement in asset management, and optimize their asset allocation strategies to enhance profitability and return on investment.

Total Assets Turnover Ratio = Sales /Total Assets

Table 4.13

Total Assets Turnover Ratio of UNL Ltd and BNL Ltd

(In million)

Fiscal Year	UNL Ltd			BNL Ltd		
	Sales	Total Assets	Sales/Total Assets	Sales	Total Assets	Sales/Total Assets
2013/014	1288.56	723.91	1.78	125.63	124.38	1.01
2014/015	1351.52	738.53	1.83	110.25	132.83	0.83
2015/016	1425.26	937.67	1.52	95.36	99.33	0.96
2016/017	1510.22	949.82	1.59	121.52	101.26	1.20
2017/018	1421.01	845.83	1.68	89.36	98.19	0.91
2018/019	1236.05	571.34	2.16	136.90	111.83	1.25
2019/020	1244.73	784.80	1.58	119.25	143.33	0.85
2020/021	1524.90	939.71	1.62	84.71	115.09	0.74
2021/022	1481.56	1019.19	1.45	118.10	127.31	0.93
2022/023	1469.68	1046.91	1.40	148.75	145.41	1.02
Average			1.64			0.96

Source: Annual report of UNL Ltd and BNL Ltd.

The above table shows the total assets turnover ratio of UNL Ltd and BNL Ltd. The total assets turnover ratio in UNL Ltd is fluctuating. The highest total assets turnover ratio of UNL Ltd is 2.16 times in F/Y 2018/019. Whereas, lowest totals assets turnover ratio is 1.40 times in F/Y 2022/023. The average total assets turnover ratio of UNL Ltd is 1.64 times. Similarly total assets turnover ratio of BNL Ltd is in fluctuated. The lowest total assets turnover ratio is 0.74 times in F/Y 2020/021. The average total assets turnover ratio of BNL Ltd is 0.96 times. Total assets turnover ratio of UNL Ltd is always higher than that of BNL Ltd. That is why UNL Ltd is generating sales from all financial resources committed to total assets in comparison to BNL Ltd.

4.3.3 Profitability Ratio

Profitability is the outcome of various strategies and decisions made within a company. Ratios analyzing profitability provide insights into how well a firm operates, reflecting the combined impact of liquidity management, asset utilization, and debt management on its financial performance. These ratios are crucial for evaluating the effectiveness of business operations and financial health.

a) Gross Profit Margin

The gross profit margin ratio reveals the percentage of profit remaining after subtracting the cost of production from sales. A higher ratio indicates efficient production at lower costs, while a lower ratio suggests higher production costs. This metric is calculated by dividing gross profit by sales, as shown below:

This ratio is essential for assessing a company's ability to manage production costs effectively relative to its sales revenue.

Gross Profit Margin = Gross Profit/Sales

Table 4.14

Gross Profit Margin of UNL Ltd and BNL Ltd

(In million)

FY	Gross Profit	Sales	Gross Profit /Sales*100	Gross Profit	Sales	Gross Profit /Sales*100
2013/014	301.25	1237.34	31.25	30.12	109.44	27.52
2014/015	352.88	1344.30	26.25	41.25	144.68	28.51
2015/016	401.28	1276.46	31.66	43.25	127.50	33.92
2016/017	345.56	1221.52	29.25	35.66	97.67	36.51
2018/019	298.32	1236.05	24.13	39.50	136.50	29.04
2019/020	401.59	1244.73	32.26	45.12	119.15	37.87
2020/021	556.79	1524.90	36.45	29.58	84.71	34.92
2021/022	547.07	1481.56	36.92	35.12	118.16	29.72
2022/023	529.45	1469.68	36.02	36.18	148.75	24.32
Average			33.15			31.17

Source: Annual report of UNL Ltd and BNL Ltd.

As the above table shows that the highest gross profit margin of UNL Ltd is 36.92% in F/Y 2021/022 and the lowest is 24.13% in F/Y 2018/019. So, gross profit margin of UNL Ltd is in increasing trend. The average gross profit margin of UNL Ltd is 33.15%.Similarly, the highest gross profit margin of BNL Ltd is 37.87 in F/Y 02019/020 and lowest is 24.32% in F/Y 2022/023. The gross profit margin of BNL Ltd is in decreasing trend. The average gross profit margin of BNL Ltd is 31.17. The gross profit margin of UNL Ltd is higher than BNL Ltd during the period of study.

b) Net Profit Margin

Earning profit is the primary goal of every business firm. Therefore, analyzing the net profit margin is crucial. Also known as net margin, this metric illustrates the

relationship between net profit and sales, reflecting the efficiency of overall management functions within the firm.

Net profit margin is calculated by dividing net profit by sales. Net profit, which represents the firm's overall profit, is obtained by deducting all taxes and operating expenses from gross profit. This metric serves as a key indicator of profitability and operational efficiency.

Net Profit Margin = Net Profit After Tax/Sales *100

Table 4.15

Net Profit Margin of UNL Ltd and BNL Ltd

(In million)

Fiscal Year	UNL Ltd			BNL Ltd		
	Net Profit	Sales	Net Profit/Sales*100	Net Profit	Sales	Net Profit /Sales *100
2013/014	28.52	671.05	4.25	4.98	187.92	2.65
2014/015	30.69	599.41	5.12	4.25	147.05	2.89
2015/016	38.52	560.41	6.87	3.63	115.23	3.15
2016/017	37.52	742.90	5.05	3.21	99.63	3.22
2017/018	40.52	728.77	5.56	4.85	187.98	2.58
2018/019	42.61	1236.05	3.45	6.22	136.80	4.57
2019/020	93.17	1244.77	7.49	4.24	119.15	3.56
2020/021	140.78	1524.90	9.23	0.31	84.71	0.37
2021/022	189.20	1481.56	12.77	3.06	118.10	2.59
2022/023	238.15	1469.68	16.20	0.17	148.75	0.11
Average			9.83			2.24

Source: Annual report of UNL Ltd and BNL Ltd.

As the above table shows that the net profit margin of UNL Ltd and BNL Ltd of the 10 years. The highest net profit margin of UNL Ltd is 16.20 % in F/Y 2022/023 and lowest is 3.45 % in F/Y 2018/019. The average net profit margin of UNL Ltd is 9.83 %. Same as the highest net profit margin of BNL Ltd is 4.57 % in F/Y o61/62 and lowest is 0.11% in F/Y 2022/023. The average net profit margin of BNL Ltd is 2.24. The average net profit margin of UNL Ltd is higher than BNL Ltd in the entire period of study.

4.3.4 Leverage Ratio

Leverage ratios, also known as capital structure ratios, assess the long-term solvency of a firm. They are crucial for measuring financial risk and understanding how

effectively the firm utilizes debts to benefit shareholders. Funds required by the firm can be raised through issuing shares or obtaining long-term and short-term debts. Debt entails funds obtained from investors with regular interest payments, whereas equity shares do not require such payments.

The debt management ratio significantly influences the risk and return of the company. Therefore, it's essential for firms to effectively manage the proportion of debt and equity. One key ratio in this regard is the Debt to Equity ratio, which indicates the structural position of the firm in terms of its financing sources. A higher debt to equity ratio suggests higher financial risk for the firm.

4.3 Correlation analysis

Correlation is a statistical concept that measures the strength and direction of the relationship between two variables. When two variables move in the same direction, they have a positive correlation; when they move in opposite directions, they have a negative correlation. A correlation matrix is a table that displays correlation coefficients between variables. Each cell in the matrix represents the correlation between two specific variables. The correlation matrix is useful for several purposes:

Summarizing Data provides a concise summary of the relationships between multiple variables. Input for Advanced Analysis serves as an input for more advanced statistical analyses, such as regression analysis. Diagnostic Tool helps in diagnosing potential issues or insights into the dataset before conducting further analyses. In essence, a correlation matrix enables researchers and analysts to understand how variables are related to each other, thereby aiding in drawing conclusions and making decisions based on the data.

Table 4.16

Correlation of UNL and BNL

	Profit	**CR**	**QR**	**ROE**	**ROA**	**INVT**
Profit	1					
CR	-.330*	1				
QR	.294	.373*	1			
ROE	-.786**	.776**	-.113	1		
ROA	.837**	-.498**	.040	-.814**	1	
INVT	.618**	-.631**	-.349	-.649**	.815	1

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

**. Correlation is significant at the 0.01 level (2-tailed).

The above table depicts that, the correlation between profit with account receivable is -.330*; it means statistically there is negative correlation between the profit with account receivable of *UNL and BNL respectively*. This implies that, when account receivable increases, profit decreases significantly. Also, CR is significant at 5% level of significance. Similarly, the correlation between profits with sales revenue is .294; it means statistically, there is positive correlation between the two variables. This implies that, when sales revenue increases, profit also increases significantly. More ever, the correlation between profit with ROE is -.786**; it means statistically there is negative correlation between the profit with Average Collection period of elected institutions. It indicates that, higher the AOE, lower would be the profit and vice-versa. ROE is significant at 1% level of significance. However, the profit with operation and maintenance cost is .837**, it means there is Positive correlation between the two variables likely to profit with operation and maintenance cost respectively. ROA is significant at 1% level of significance. Finally, the profit with the Cost of sales is .618**, it means there is Positive correlation between the two variables respectively. Also, cost of sales is significant at 1% level of significance.

4.4 Regression Analysis

Regression analysis is a statistical technique widely utilized in finance, investing, and various disciplines to explore and quantify the relationship between a dependent variable (typically denoted as Y) and one or more independent variables. It helps in understanding the strength and nature of this relationship, allowing researchers to identify influential factors, assess their impact, and discern how these factors interact with each other.

In essence, regression analysis is a robust tool for exploring complex relationships within data sets, helping researchers confidently draw conclusions about which variables are most influential in explaining the phenomenon under study.

Table 4.17

Model Summary UNL and BNL

Model	**R**	**R Square**	**Adjusted R Square**
1	.945[a]	.893	.871

a. Predictors: (Constant), CR, QR, ROE, ROA and INT,

b. Dependent Variable: Profit

The above depicts the model summary analysis of *UNL and BNL* where R is the correlation relationship of different variable likely to profit with account receivable, sales revenue, average collection period, cost of sales and operation and maintenance cost respectively. In others words, R is the square root of R-Squared and is the correlation between the observed and predicted values of dependent variable. Similarly, R2 is the coefficient of determination where, it shows the how much percentage has capable for capturing of model of trend line or accurate fitness of data. In the world of sales revenue, R-squared is expressed as a percentage between 0 and 100, with 100 signaling perfect correction and zero no correlation at all. Similarly, the adjusted R-squared, is used to indicate how well a regression model predicts responses for new observations. So where the adjusted R-squared can provide an accurate model that fits the current data. The value of R-square and adjusted R-square will be much closer because the ratio of (N – 1)/ (N – k – 1) will approach 1. More ever, the standard error of the estimate, also called the root mean square error, is the

standard deviation of the error term, and is the square root of the Mean Square Residual (or Error).

As can be seen in the table above, the R value is .945. This indicates that there is a strong correlation between the dependent variable (profit)) with independent variables account receivable, sales revenue, average collection period, operation and maintenance cost and cost of sales respectively. Moreover, the results showed that R-squared statistics and adjusted R-squared statistics value of 89.30% and 87.10% respectively. It means that the change in the independent variables explain 87.10% of the change in dependent variable. That is account receivable, sales revenue average collection period, operation and maintenance cost and cost of sales collectively explains 87.10% of profit. The remaining 12.90% of change was explained by other factors which are not included in this model.

Table 4:18

ANOVA Table

Model		Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	2610990657.692	5	522198131.538	40.198	.000b
	Residual	311778404.100	24	12990766.837		
	Total	2922769061.791	29			

a. Dependent Variable: Profit

b. Predictors: (Constant), CR, QR, ROE, ROA and INT

Model -SPSS allows that, to specify multiple models in a single regression command. This tells that the number of the model being reported. This is the source of variance, Regression, Residual and Total. The Total variance is partitioned into the variance which can be explained by the independent variables (Regression) and the variance which is not explained by the independent variables (Residual, sometimes called Error). Note that the Sums of Squares for the Regression and Residual add up to the Total, reflecting the fact that the Total is partitioned into Regression and Residual variance. Sum of Squares of these are the Sum of Squares associated with the three sources of variance, Total, Model and Residual. These are the degrees of freedom associated with the sources of variance. The total variance has N-1 degrees of freedom. In this case, there were N=10fiscal year, so the DF for total is 29. The model degrees of freedom correspond to the number of predictors minus 1 (K-1). It may think this would be 10-1 (since there were 5 independent variables in the model,

CR, QR, ROE, ROA and Invt But, the intercept is automatically included in the model (unless you explicitly omit the intercept).

Mean Square -these are the Mean Squares; the Sum of Squares divided by their respective DF, for the Regression, 2610990657.692/5=522198131.538. For the Residual, 311778404.100/24 =12990766.837, these are computed so you can compute the F ratio, dividing the Mean Square Regression by the Mean Square Residual to test the significance of the predictors in the model. F and Sig.- The F-value is the Mean Square Regression 522198131.538 divided by the Mean Square Residual 12990766.837, yielding F=40.198 P value is significance or insignificance parameter and its measuring and comparing value is 0.05 which the p-value is less than 0.05, you would say that the group of independent variables show a statistically significant relationship with the dependent variable, or that the group of independent variables reliably predict the dependent variable. From the results of the F test retrieved, as shown above, it appears that the F value of 40.198 has a significant value of 0.000 or smaller than 0.05.This shows that the account receivable, sales revenue, average collection period, operation and maintenance cost and cost of sales. Simultaneously, have a significant impact towards profit of the companies.

Table 4.19

Coefficient Analysis of UNL and BNL

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17203.983	7615.002		2.259	.000
	CR	1.647	.349	1.031	4.715	.000
	QR	-.051	.076	-.083	-.680	.503
	ROE	-342.197	66.208	-1.483	-5.169	.000
	ROA	-.326	.309	-.240	-1.055	.302
	INVT	244.368	85.843	.474	2.847	.009

a. Dependent Variable: Profit

On the basis of above findings following regression model has been developed.

The model is: Projected ($\ddot{Y}$) = β0 +β1*X1 + β2*X2 + β3*X3 + β4 * X4+β5 * X5+ Tn

Table 4.10 presents the regression coefficient of independent variables account receivable (CR), sales revenue (SR), ROE and ROA and Invt of public enterprises and the intercept value of dependent variable profit (PT). The coefficient of regression (β) is 1.647 for CR. It indicates that if AR increased by one percent then Profit increased

by 1.647 percent and the p value of AR is 0.000 discloses that it is statistically significant at 1 percent level of significance. Hence, this is significant positive relationship between CR and Profit. The coefficient of regression (β) is -0.051 for SR. It indicates that if QR increased by one percent then profit decreased by 0.051 percent and the p value of QR is 0.503 reveals that it is statistically insignificant at 5 percent level of significance. This means QR has insignificant impact on profit of sample companies.

Similarly, the coefficient of regression (β) is -342.197 for ROE. It indicates that if ROE increased by one percent then profit decreased by 342.197 percent and the p value of ROE is 0.000 reveals that it is statistically significant at 1 percent level of significance. Hence, this is significant negative relationship between ROE and profit. At the same time, the coefficient of regression (β) is -0.326 for ROA. It indicates that if ROA increased by one percent then profit decreased by 0.326 percent and the p value of ROA is 0.302 discloses that it is statistically insignificant at 5 percent level of significance. This means ROA has insignificant impact on profit of sample companies. Finally, the coefficient of regression (β) is 244.368 for Invt. It indicates that if isn't increased by one percent then profit increased by 244.368 percent and the p value of Invt is 0.009 reveals that it is statistically insignificant at 5 percent level of significance. That's why this is insignificant positive effect between cost of sales and profit

4.5 Major findings

The major findings of the study are as follows:

- To study the working capital management of UNL Ltd and BNL Ltd, primary and secondary data were collected and analyzed using various statistical tools. Here are the major findings of the study:
- Cash and bank balance constitute the highest proportion, averaging 41.20%. Inventory, sundry debtors, and miscellaneous current assets average 28.72%, 13.76%, and 16.32%, respectively.
- Sundry debtors hold the highest proportion at an average of 59.95%. Cash and bank balance, inventory, and miscellaneous current assets average 1.82%, 28.10%, and 10.10%, respectively. UNL Ltd has higher averages for cash and bank balance, inventory, and miscellaneous current assets compared to BNL Ltd.

- The rate of change ('b') for loan and advances in both UNL Ltd and BNL Ltd is positive. Sundry debtors in UNL Ltd show a positive trend but are decreasing in BNL Ltd. Inventory percentages in both companies show a positive trend. Miscellaneous current assets show a negative trend in UNL Ltd and a positive trend in BNL Ltd.
- Miscellaneous current liabilities constitute the highest proportion at 51.13% of total current liabilities. Sundry creditors and loan and advances average 48.87% and 0%, respectively.
- Sundry creditors constitute the highest proportion at an average of 43.28% of total current liabilities. Loan and advances and miscellaneous current liabilities average 37.39% and 19.03%, respectively. UNL Ltd has a higher proportion of miscellaneous current liabilities compared to BNL Ltd.
- The rate of change ('b') for loan and advances is positive in both UNL Ltd and BNL Ltd, indicating an increasing trend. Sundry creditors show a negative trend in BNL Ltd and a positive trend in UNL Ltd. Miscellaneous current liabilities show a negative trend in both UNL Ltd and BNL Ltd.
- CA to TA ratio fluctuates over the years, with an average of 76.08%.
- CA to TA ratio also fluctuates, with an average of 85.86%. BNL Ltd has a higher average CA to TA ratio compared to UNL Ltd.
- CR ranges from 1.79 to 0.99, with an average of 1.30.
- CR ranges from 1.25 to 1.23, with an average of 1.23. Both companies show CR ratios below the general acceptable ratio of 2:1, indicating higher current liabilities compared to current assets.
- QR ranges from 1.14 to 0.65, with an average of 0.99.
- QR ranges from 0.99 to 0.84, with an average of 0.88. Both companies show a decreasing trend ('b' QR is negative), indicating liquidity challenges.
- Receivable turnover ratio averages 18.68 times, with a DSO of 25 days.
- Receivable turnover ratio averages 1.84 times, with a DSO of 201 days. UNL Ltd demonstrates higher efficiency in receivable management compared to BNL Ltd.
- Inventory turnover ratio averages 7.78 times over the five-year period.

- Inventory turnover ratio averages 4.15 times. UNL Ltd shows better efficiency in inventory management compared to BNL Ltd.
- Total assets turnover ratio averages 1.64 times.
- Total assets turnover ratio averages 0.96 times. UNL Ltd utilizes its assets more efficiently to generate sales compared to BNL Ltd.
- Gross profit margin (GPM) averages 33.15% and net profit margin (NPM) averages 9.83%.
- GPM averages 31.17% and NPM averages 2.24%. UNL Ltd shows better profitability compared to BNL Ltd.
- Debt to equity ratio averages 6.12 times.
- Debt to equity ratio averages 4.43 times. UNL Ltd has a higher debt to equity ratio compared to BNL Ltd, indicating higher financial leverage.
- The correlation between net profit and net working capital is -0.8625 for UNL Ltd and -0.7001 for BNL Ltd, indicating a high degree of negative correlation.
- The correlation between net sales and net working capital is -0.5101 for UNL Ltd (negative correlation) and 0.3285 for BNL Ltd (positive correlation).
- These findings highlight the differences in working capital management, liquidity, efficiency, profitability, and financial leverage between UNL Ltd and BNL Ltd over the study period.

CHAPTER-V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This chapter provides a detailed analysis of working capital management between UNL Ltd and BNL Ltd based on data from fiscal years 2018/019 to 2022/023. The study utilized secondary data from annual reports, financial statements, and other sources, supplemented by personal interactions with company representatives.

It is Highlights the significance of multinational companies in Nepal's industrialization and economic development, it is covers theories and existing literature on working capital management's role in financial management. Describes the methods used, including financial ratios and statistical tools like correlation coefficients and trend analysis. It is presents findings on current assets and liabilities composition, trends in working capital components, and detailed financial ratio analysis. Summarizes key findings and draws conclusions on effective working capital management for UNL Ltd and BNL Ltd. Detailed breakdowns and analysis of cash, bank balances, sundry debtors, inventory, loans, advances, sundry creditors, and miscellaneous current assets and liabilities. It is analyzed rates of change for various components impacting liquidity, efficiency, and financial health. It was included liquidity, turnover, profitability, and leverage ratios to assess financial performance and efficiency.

It is effective management of current assets and liabilities. Evaluation of liquidity positions, operational efficiencies, profitability, and financial leverage. It was comparison of UNL Ltd and BNL Ltd's performance in working capital management. It is optimizing inventory turnover for efficiency gains. Strengthening profitability margins and adjusting financial leverage for improved risk management. In summary, the chapter offers comprehensive insights into the working capital management of UNL Ltd and BNL Ltd, emphasizing strategic recommendations for enhancing their operational and financial efficiency.

5.2 Conclusion

Working capital management is a critical facet of financial management, serving as the lifeblood and central nerve center for any business organization. It plays a pivotal role in ensuring smooth day-to-day operations by effectively managing current assets and liabilities. Neglecting proper working capital management can severely impact a company's financial viability, making it imperative for managers to grasp the factors influencing working capital needs.

During the study of UNL Ltd and BNL Ltd, it became evident that both companies have not adequately focused on their working capital management policies. Fluctuations in their current assets (CA) indicate a lack of predetermined strategies to manage working capital effectively. Both companies face challenges related to financing sources and maintaining a stable financial position without adequate long-term support for their current assets. This has led to high variability in working capital and lower liquidity positions throughout the study period.

BNL Ltd, being a blending company importing various chemicals for producing lubricants, and UNL Ltd, involved in importing raw materials for daily necessity products, both face complexities in managing their inventory and miscellaneous current assets effectively. UNL Ltd, being larger in scale, consistently maintains higher levels of CA and current liabilities (CL) compared to BNL Ltd, posing challenges in handling these components efficiently.

Economic policies in Nepal have posed challenges for UNL Ltd in tax provision management, whereas BNL Ltd has struggled with advances and loans. Both companies also grapple with significant credit sales, encountering difficulties in timely collection from debtors, which impacts their financial stability.

Through various financial calculations, UNL Ltd demonstrates better liquidity, profitability, and turnover positions compared to BNL Ltd. UNL Ltd pursues a more aggressive financial strategy, whereas BNL Ltd exhibits more conservative financial practices. The correlation coefficient analysis reveals a negative relationship between net profit and net working capital for both companies, indicating that as net profit fluctuates, so does net working capital. Interestingly, while BNL Ltd shows a positive correlation between net sales and net working capital, UNL Ltd does not exhibit a clear relationship between these variables.

In conclusion, effective working capital management is crucial for sustaining financial health and operational efficiency in manufacturing companies like UNL Ltd and BNL Ltd. It requires a proactive approach to mitigate financial risks, optimize asset utilization, and ensure adequate liquidity to support ongoing business operations.

5.3 Recommendations

Working capital management is a crucial aspect of financial management that focuses on overseeing all current accounts within a firm. It involves ensuring that current assets are adequate while managing the risks associated with current liabilities. This discipline aims to establish effective policies for balancing current assets and liabilities, utilizing practical techniques to optimize the benefits derived from managing working capital. In the case of UNL Ltd and BNL Ltd, a study was conducted using both primary and secondary data to analyze their working capital management practices.

Inventory Management, UNL Ltd's secondary data highlights that inventory constitute a significant portion of its current assets. To improve efficiency, UNL Ltd should focus on managing inventory levels based on sales and production priorities. Holding excessive inventory can lead to high operational costs. Implementing a robust storekeeping system, efficient material handling practices, and regular inspections are recommended. Additionally, adopting a systematic inventory control system will provide real-time insights into inventory positions.

Liquidity Position, maintaining an optimal liquidity position is crucial for both firms. High liquidity reduces risks but may lead to lower profitability, while tight liquidity increases risks but may yield higher profits. UNL Ltd should strive to maintain a balanced liquidity position to ensure timely payment of current liabilities and effective resource utilization, including tax management.

Credit Policy, effective working capital management hinges on a well-defined credit policy. In UNL Ltd, receivables are increasing relative to sales, indicating the need for promoting cash sales through discounts and implementing a strict credit policy. Conversely, BNL Ltd faces challenges due to ineffective credit policies leading to higher collection costs. Establishing and enforcing a structured credit policy is essential for both companies to optimize working capital efficiency.

Inventory Control, BNL Ltd encounters issues with inefficient inventory management. It is advised to enhance inventory control by optimizing capacity utilization, managing ordering costs, and minimizing carrying costs. This approach will streamline operations and reduce unnecessary inventory holding costs.

Financing policy, BNL Ltd lacks a defined financing policy, posing risks to its liquidity position. Establishing a structured financing policy that includes maintaining a proportionate level of current liabilities will mitigate default risks. This policy should ensure stable liquidity and support the company's long-term financial health.

Operating expenses management, Both UNL Ltd and BNL Ltd should focus on minimizing operating expenses to enhance profitability. Addressing issues such as unskilled labor, excessive employee tendencies, unnecessary raw material purchases, and high overhead costs will lead to efficient cost management and improved financial performance.

In conclusion, effective working capital management is pivotal for the operational success and financial stability of UNL Ltd and BNL Ltd. By implementing these recommendations based on thorough analysis of secondary data, both companies can enhance their liquidity, profitability, and overall efficiency in managing working capital.

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CHAPTER-I INTRODUCTION 1.1 Background of the Study Nepal, classified as a 8

developing nation, is actively pursuing modernization and economic growth on rational and socially beneficial grounds. However, its economy remains largely reliant on agriculture, with a minimal industrial base. To diversify and advance beyond its agricultural roots, Nepal has embraced a mixed economic model. This approach aims to synergize the efforts of both the state and private sectors since the inception of economic planning in 1956. The central objective for Nepal, like many developing countries, is rapid economic development and the enhancement of national welfare. Consequently, Nepal has recently embarked on a path of economic liberalization to foster its economic progress. Following the restoration of democracy, liberalization policies have become integral as directive principles and state policies in Nepal's constitutional framework (The Constitution of the Kingdom of Nepal, 1990, 2014-17). The advancement of trade, commerce, and industry is crucial for achieving economic, political, and social objectives. Financial functions often take precedence over other functions to facilitate effective planning. Underdeveloped economies such as Nepal frequently encounter financial shortages because their natural resources are either underutilized or not directed towards productive sectors or social welfare. Despite possessing abundant land, water, minerals, forests, and power resources, these nations often fail to exploit them fully, limiting their potential contributions. In underdeveloped countries like Nepal, the shortage of financial resources stems not only from their actual scarcity but also from inadequate mobilization and inefficient utilization for productive purposes. To achieve rapid economic development, it is essential to maximize the utilization of these resources, which are often underutilized due to various challenges or lack of awareness. Hoarding may contribute to this underutilization. Financial institutions play a critical role in promoting thrift and discouraging hoarding by mobilizing and consolidating resources. They stimulate economic growth by fostering banking habits among the populace, aggregating small and dispersed resources, and channeling them into productive endeavors. Additionally, these institutions provide essential services that enable individuals to access funds based on future income, potentially enhancing their economic well-being. The manufacturing sector in Nepal's economy remains notably small and encounters numerous challenges that hinder its growth. These issues stem largely from the country's landlocked and underdeveloped status, as well as deficiencies in

physical, human , and **financial resources. Administrative infrastructure** is inadequate, and **transportation and communication networks** 4

are inconvenient. Energy supply lacks reliability at affordable rates, while trained and skilled manpower is in short supply. Capital shortages, small market size, high production costs, low input productivity, and government instability further compound these challenges. Firms in Nepal aim to maximize their value by focusing on delivering quality products and services promptly. Working capital, which supports daily operations, is integral to this effort. Managing working capital involves overseeing current assets and liabilities and their interrelationships. Effective working capital management is crucial for financial health. It can enhance profitability and liquidity, whereas inefficiencies can lead to financial difficulties and even bankruptcy. Poor working capital management may also result in loss of market share. Effective management of working capital is crucial for the sustained success of a business. It involves several key practices, this entails projecting the cash inflows and outflows of the firm over a defined period. It ensures that sufficient funds are available to meet short-term financial obligations. This focuses on optimizing inventory levels to meet