

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the study**

Working capital management is an important decision making area of financial management of an enterprise. It requires understanding for how to raise and allocate financial resources, how to relate short-term investments, and financial decisions to the overall objectives of the firm, and how to relate short-term financial decisions to certain long-term financial decisions.

Working capital management involves the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash.

Working capital is used to pay short-term obligations such as your accounts payable and buying inventory. If your working capital dips too low, you risk running out of cash. Even very profitable businesses can run into trouble if they lose the ability to meet their short-term obligations. The calculator assists you in determining working capital needs for the next year, Working capital is used by lenders to help gauge the ability for a company to weather difficult financial periods. Working capital is calculated by subtracting current liabilities from current assets. Due to differences in businesses and the fact the working capital is not a ratio but an absolute amount it is difficult to predict what the ideal amount of working capital would be for your business. To calculate working capital requirements this calculator uses the "Current

ratio" to determine a target amount of working capital see the "Current Ratio" definition for more information. (Source: [www.planware.org](http://www.planware.org))

There are two concepts of working capital-gross concept and net concept. Gross working capital, simply called as working capital, refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year and include cash, Short-term securities, debtors, bills receivables and stock. Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors, bills payable and outstanding expenses, Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets. (Pandey, 1995)

Working capital management is a process of short-term decision making regarding the current assets and liabilities affecting the long-term operation of an organization. It is a process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. It includes decisions regarding cash and marketable securities, receivables, inventories, and current liabilities with an objective of maximizing the overall value of a firm.

In general, the concept of working capital is synonymous with the fund available for meeting day-to-day requirements of a company. But according to a group of authorities, working capital refers to the amount of investment in total current assets only. It means they are supporting the gross concept of working capital. Thus the gross concept of working capital denotes short-term assets only, it does not include short-term

liabilities. However, a business can not exist only with the current assets, it needs current liabilities too. Actually, the amount of working capital heavily depends upon the amount of current liabilities. In this sense working capital, means the excess of current assets over current liabilities. This concept of working capital is called as net concept.

## **1.2 About Nabil Bank Limited**

NABIL completes a history of 26 years' unwavering services in banking in the nations; this in essence ushers in a marked evolution and breakthrough in the industry. As a new entrant partnering with Dubai Bank Ltd. through a technical service Agreement (TSA) the birth of NABIL was on the 12th of July 1984. With this long length of time the bank has gone through various experiences, and of course through phases of different socioeconomic and political scenarios. Not that the bank had for all time smooth goings unhindered. Today it stands firmly as a seasoned organization.

### **Present Capital Structure of NABIL AS MID JULY 2010**

#### **1. Share Capital**

##### **1.1 Authorized Capital NPR:1,600,000,000**

16,000,000 Ordinary Shares of NPR 100 each                      NPR:1,600,000,000

##### **1.2 Issued Capital NPR:1,449,124,000**

14,491,240 Ordinary Shares of NPR 100 each                      NPR: 1,449,124,000

##### **1.3 Paid Up Capital NPR: 1,449,124,000**

14,491,240 Ordinary Shares of NPR 100 each                      NPR: 1,449,124,000

### **Share Holding Pattern as mid july 2010**

1. National Bank Ltd, Bangladesh	50%
2. NIDC	6.15%
3. Rastriya Beema Sansthan	9.67%
4. Nepal Stock Exchange	0.33%
5. General Public	30%
6. Other(Promoter Group)	3.85%

Following Activities and Services are provided by NABIL:

1. ATM
2. E-banking
3. Locker Facilities
4. EASY saving scheme
5. Deposit Locker
6. Trade finance
7. Western Union money transfer
8. Privilege Banking
9. Bancassurance
10. Personal lending
11. Lean bills
12. NABIL auto
13. NABIL edu
14. NABIL housing
15. NABIL properties
16. NABIL visa & master card

### **1.3 Statement of the problem**

Working capital management has been regarded as one of the conditioning factor in the decision making issues. It is needless to say that it is very difficult to point out as to how much working capital a particular business organization requires. The organization which is not willing to take risks can go for more short-term liquidity. The more of short-term liquidity means more of current assets and less of current liabilities. The less current liability implies less short-term financing heading to the lower returns resulting from the use of more high cost long-term financing. Hence, it is very important to analyze and find out problems and its solutions to make efficient use of fund for minimizing the risk of loss to attain profit objective.

It will not be an exaggeration to say that the success of any business organization depends upon its entire environment. Financial management is one of them which the organization can control to some extent. It is concerned with the decision making regarding the size and composition of assets, and the level and structure, the cheaper source of fund and to invest it at the best opportunities etc. come under the heading of financial decision making, the management of short-term assets and source of finance which entails an analysis of the effect of risk and profitability can not be overlooked.

The working capital has to be regarded as one of the conditioning factors in the long range analysis and decision making. To achieve the goal of overall business, the determinants of working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in corporation and determining which one is more beneficial to the corporation and which is not.

Working capital of the organization can not be managed in an easy way and it should not be neglected. Further, the banker's problem in this regard is more difficult bank and great monetary institution, important to the general welfare of the economy. More than any other financial institutions, they have a vastly sobering and exacting responsibility they must be ready to pay "on demand" without warning or notice, a good share of their liabilities. Different types of deposits are the main source of fund which they can use of giving loans and advances to different sectors. Hence in order to have a higher return from their transaction, banks must try to increase their deposits as well as their investment. To fix the level of deposits and the capacity of mobilizing these deposits is main problem of working capital management of banks. Banks can get higher profit they invest their increasing deposits in proper places, otherwise profitable of the bank can not be expected. Some specific problems felt in this study are as follows:

- a. What is the position of Current Liability & Assets of NABIL?
- b. What is the effect of Working Capital Management in the operating income?
- c. What is the liquidity position of NABIL?
- d. Is the fund properly and productively utilized or not?

#### **1.4 Objectives of the study**

Increasing loans and advances and maximizing profit. The objective of the study is to know the working capital Management effectiveness.

- ) To Point out the Position of Current Liability & Assets of NABIL Bank Limited over the year.
- ) To know the effect of Working Capital Management on operating income.
- ) To point out the liquidity position of NABIL over the years.
- ) To find out that the bank utilize their fund effectively.

#### **1.5 Significance of the study**

Working capital is the size of investment in each type of current assets. Each of the current assets should be managed efficiently and affectively. It is because decision regarding working capital affects not only the profitability of

the firm in the short-term but also its very survival in the long-run. The management of working capital should not be neglected by enterprises. Otherwise, they will seriously erode their financial viability. As the commercial banks in Nepal are exacting greater and greater influence on the economy of the country, an effective and efficient management of their current assets is needed to better the profitability of the firm.

The need of the study like this arises from the real nature of the banking business and also from the impact that it has in the economy of the country. Because the business of banks is to accept deposits and advance loans, and the level of deposits and loans depends upon the working capital policy, the study of this type will be most important for the bankers, the economists, and the public at large. It provides the literature to the researcher who wants to carry on further research in this field. Therefore, it has been felt very necessary to evaluate the position of working capital management and to focus on the important working capital management in NABIL BANK Limited.

### **1.6 Limitation of the study**

This study is simply a partial requirement of Master of Business Study (MBS) program so this study will be limited by following factors.

- ) There are many factors that affect working capital management of the bank however only those related factors will be considered in this study.
- ) This study will be focused on working capital management of NABIL BANK Limited only. Thus the findings of the study may not be applicable for other banks and firms and companies as well.
- ) This study will consider only working capital management of the bank. So the study can not judge other financial aspects of the bank.
- ) The study is mostly based on secondary data which may or may not provide exact vision of the field.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

The main purpose of this chapter is to review the available literature on working capital management in the context of Nepalese enterprises including the available information of commercial banks. After selecting the topics of the research, researcher study different magazines, Journals and newspaper book to collect the information about their subject matter. This process of studying different materials. Which we concerned with the selected topics of the research, is known as review of literature. P.V. Young argues "Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research".

#### **2.1 Conceptual Framework**

The management of the funds of business can be described as financial management Financial Management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities; in other words, long-term investment and sources of funds. Secondly, current assets and current liabilities, which are concerned with current uses and sources of funds. Both of these types of funds play a vital role in business finance, Business firms need various types of assets in order to carry out its operation. Some assets are required to meet the needs of regular production and some others are required specially to meet day to day expenses and short-term obligations. The assets such as cash, marketable securities, account receivables and inventories, which are known as current assets are required to be maintained at a certain level depending upon the volume of production and sales.

The cash and marketable securities are respectively considered as purely liquid and near liquid assets whereas the account receivable and inventories are not. However, they can be liquidated as and when necessary within a period of less than one year. The capital invested on these assets is known as working capital. In short, working capital is the source of financing current assets and it includes short as well as long-term financing. Working capital is a controlling nerve of business. It is an important and integral part of financial management as short-term survival is a pre-requisite to long-term success. As pointed out by Ralph Kennedy and Stewart McMullar, the inadequacy or mismanagement of working capital is the heading cause of business failure. Unless the payment is made at the maturity of the particular debt, the firm is at worst and the creditors may force the firm to terminate its business.

Firms need cash to pay for all their day-to-day activities. They have to pay wages. Pay for raw materials. Pay bills and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets as these are the short-term assets that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has at its disposal.

Working capital is therefore.

Working capital (WC) =	Current Assets (CA) (Stock + debtors + Cash)	-	Current liabilities (CL)
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Thus working capital is the same as net current assets, and is an important part of the top half of the firm's balance sheet. It is vital to a business to have sufficient working capital to meet all its requirements. Many businesses have gone under, not because they were unprofitable.

But because they suffered from shortages of working capital (*www.bized.ac.uk*)

Working capital refers to the cash a business requires for day-to-day operations, or, more specifically, for financing the conversion of raw materials into finished goods, which the company sells for payment. Among the most important items of working capital are levels of inventory, accounts receivable, and accounts payable. Analysts look at these items for signs of a company's efficiency and financial strength. The better a company manages its working capital, the less the company needs to borrow. Even companies with cash surpluses need to manage working capital to ensure that those surpluses are invested in ways that will generate suitable returns for investors. (*www.studyfinance.com*)

Therefore, the role of working capital management is more significant for every business organization irrespective of their nature. There have been a number of studies on working capital management from different experts in various enterprises.

## **2.2 Concept of working capital**

The term working capital management is closely related with short-term finance and it is concerned with collection and allocation of the resources. Working capital management related to the problems that arise in attempting to manage the current assets the current liabilities and the inter-relationships that exist between them. Thus the management of working capital is no longer viewed as an accounting task but as a strategic method for increasing the financial performance of leading organizations. While early initiatives for reducing days sales outstanding (DSO) have largely focused on post invoice collections and dispute management today the ability to drive working capital management throughout the entire quote-to-cash cycle has proven to deliver an

exponential effect on DSO and the overall customer experience.  
([www.bambooweb.com](http://www.bambooweb.com))

There are two schools of thoughts or concepts regarding the meaning of working capital, according to one school of thought, working capital is meant for the current assets only, it is concerned nothing with the liabilities side. According to other school of thought working capital is the excess of current assets over current liabilities. The former concept which can be termed as gross concept, is important to newly established companies where liabilities have not been acquired immediately, but the latter one which can be termed as net concept. Is important for both newly established and operating concerns where some amount of current liabilities has been maintained for payment of different creditors, income taxes. Bills payable, severed and unsecured loan, etc. the term current assets refers to those assets which in the ordinary course of business can be or will be turned into cash within one year without undergoing a diminishing in value and without disrupting the operations of the firm such as cash, marketable securities, accounts receivables and inventory etc. current liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business such as accounts payable, bank over-draft and outstanding expenses etc. Mainly there are two concepts of working capital Gross Concept and Net Concept.

### **Gross Concept**

According to gross concept, WC refers to the capital invested in current assets of a firm. It focuses only the optimum investment on current assets and financing of current assets. It includes cash, short-term securities, and inventory and account receivables, The level of current assets may be fluctuating with the changing business activity. Thus this concept can help earning more profit through maximum

utilization of current assets. This concept is called quantitative concept. (*Pradhan, 1986:119*)

Working capital in gross concept means the total sum of current assets only, The view was supported by distinguished authorities like Mean, Baker, Milled, Pandey, Pradhan Field and Adam smith. Adam smith called, 'Circulating Capital' for current assets. The use of this term emphasizes on the short-term cash cycle of the firm. The short-term cash cycle refers to the recurring transactions from cash to inventory, inventory to receivables and receivables to cash again.

### **Net Concept**

According net concept, Working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long term funds. It focuses on the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds. It is not very useful to compare the performance of different firm as a measure of liquidity, but it is quite useful for internal control. This concept helps to compare the liquidity of the same firm over a time. (*Khan and Jain, 1999:604*)

The term net working capital refers to the difference between current assets and current liabilities, Current liabilities are those claim of outsiders which are expected to nature for payment within an accounting year, and includes; creditors, bills payable, bank overdrafts and outstanding expenses or accrued income. Net working capital arises when current assets exceed current liabilities. A negative WC occurs when current liabilities are in excess of current assets. (*Pandey: 1995:730*)

According to the well known Indian Professor I.M. Pandey, there are specially two concepts of working capital; Gross concept and Net Concept, The gross working capital simply called as working capital refers to the firm's investment in current assets. Current assets are those assets, which can be converted into cash within an accounting year and included cash, short-term securities, debtors, bills receivables, stock and prepaid expenses.

According to James C. Van Horne, there are two major concepts of working capital -net working capital and gross working capital. When accountants use the term working capital, they are generally referring to net working capital, which is the dollar difference between current assets and current liabilities. This is one measure of the extent to which the firm is protected from liquidity problems. From a management viewpoint, however, makes little sense to talk about trying to actively manage a net difference between current assets and current liabilities, particularly when the difference is continuously changing.

Financial analysts, on the other hand, mean current assets when they speak of working capital. Therefore, their focus is on gross working capital. Since it does make sense for the financial manager to be involved with providing the correct amount of current assets for the firm at all times, we will adopt the concept of gross working capital. As the discussion of working capital management unfolds, our concern will be to consider the administration of the firm's current assets-namely, cash and marketable securities receivables, and inventory and the financing needed to support current assets. (*Van Horne: 1996:204*)

Thus, there are two concepts of WC: gross concept and net concepts. However, concept of WC is related not only with gross and net concepts of WC but also with organization borrowings. The

management of any organization has to pay attention towards the total amount of both current assets as well as borrowings, And along with this the management has to check where profit earning capacity of the organization favorable of not because it is higher than the cost of borrowings, In a corporation or any type of firms the financial manager should pay attention to the aspects of profitability. He should also aim to ensure the liquidity of the firm. Any established business is a constant should also aim to ensure the liquidity of the firm. Any established business is a constant 'debtor' It borrows from financial institutions. It purchases merchandise on credit and it has tax obligations to the government or the concerned authorities. Thus in every step of the business of corporation activities there is an obligation of creditors. So, to satisfy their creditors, the firm must have that much of liquid cash for making payment of all these obligations in time. Hence, both concepts of net and gross working capital are necessary for the business finance. Both current assets and current liabilities are two main parts of management of working capital. In WC management we manage the financial resources needed by a firm and use it in a most profitable field without keeping any idle fund as far as possible.

### **2.3 Classification of Working Capital**

Before turning our attention to the way working capital should be financed, we need to take a slight detour and classify working capital Working capital can be classified into two types:

- (i) Permanent or Fixed working capital
- (ii) Variable or temporary or fluctuating working capital.

A firm's permanent working capital is the amount of current assets required to meet long-term minimum needs. You might call this 'Bare Bones' working capital. Temporary working capital, on the other hand, is the investment in current assets that varies with seasonal

requirements. Figure in below illustrates the firm's changing needs for working capital over time while highlighting both the temporary and permanent nature of those needs.

Permanent working capital is similar to the firm's fixed assets in two important respects First the amount investment in both of these asset groups is long term. Therefore suppliers of capital to the firm need to realize that the funding needs for permanent current assets is long term despite the seeming contradiction that the assets being financed are called "Current" Second. for a growing firm the level of permanent working capital needed will increase over time in the same way that a firm fixed assets will need to increase over time. However, Permanent working capital is different from fixed assets in one very important respect - it is constantly changing. Permanent working capital does not consist of particular current assets staying errantly in place, but is a permanent level of investment in current assets, whose individual firm are constantly turning over, viewed still another way, permanent working capital is similar to the level of water that you find in a bay at low tide.

Like permanent working capital, temporary working capital also consists of current assets in a constantly changing form. However, since the need for this portion of the firm's total current assets is seasonal, we may want to consider financing this level of current assets from a source which can itself be seasonal or temporary in nature (*Van Horn, 1996:205*)

.Thus the permanent working capital refers to the level of current assets which is required on a continuous basis over the entire year and the temporary working capital represents that portion of working capital which is required over permanent working capital.

## 2.4 Working Capital Cycle

Cash flow in a cycle into, around and out of a business. It is the business's life blood and every manager's primary task is to help keep it flowing and to use the cash flow to generate profits. If a business is operating profitably, then it should, in theory, generate cash and expire, the faster a business expands the more cash it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within business. Good management of working capital will generate cash will help. Improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits.

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

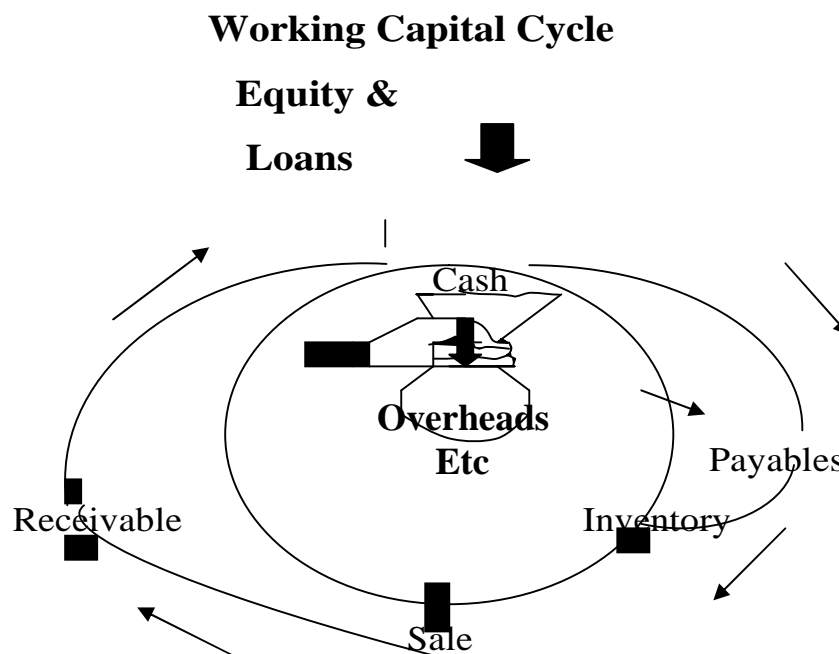


Figure:2-4

Each component of working capital (namely inventory, receivables and payables) has two dimensions ..... Time ..... and MONEY. When it comes to managing working capital- TIME IS

MONEY. If you can get money to move faster around the cycle (e.g. collect monies due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales), the business will generate more cash or it will need to borrow less money to fund working capital. As a consequence, you could reduce the cost of bank interest or you'll have additional free money available to support additional sales growth or investment. Similarly, if you can negotiate improved term with suppliers e.g. get longer credit or an increased credit limit, you effectively create free finance to help fund future sales.

<b>If you .....</b>	<b>Then .....</b>
Collect receivables (Debtors) Faster	You release cash from they cycle
Collect receivables (Debtors) slower	Your receivables soak up cash
Get better credit (in terms of duration or amount) from suppliers	You increase your cash resources
Shift inventory (Stocks) faster	You free up cash
Move inventory (Stocks) slower	You consume more cash

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

## 2.5 Working Capital Policy

A firm's net working capital position is not only important as an index of liquidity but it is also used as a measure of the firm's risk. Risk in this regard, means chances of the firm being unable to meet its obligations on due date. (*Pandey: Op. cit: 738*)

Working capital management involves deciding upon the amount and composition of current assets and how to finance these assets. These decisions involve trade off between risk and profitability. The greater the relative proportion of liquid assets, the lesser the risk of running out of cash all other things being equal. Profitability, unfortunately, also will be less. The longer the composite maturity schedule of securities used to finance the firm, the lesser the risk of cash insolvency all other things being equal. Again the profits of the firms are likely to be less. Resolution of the trade off between risk and profitability with respect to these decisions depends upon the risk preferences of management.

Working capital policy refers to the firm's basic policies regarding target level of each category of current assets and how current assets will be financed. (*Western and Brigham: 1996:333*)

So, first of all, the firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds for working capital.

## **Current Assets Investment Policy**

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. How much a firm will invest in CA will depend on its operating cycle. There are three alternative current assets investment policies-fat cat, lean and mean moderate. (*Western and Brigham; 1996:344*)

### **(i) Fat Policy**

This is known as relaxed current assets investment policy. In this policy, the firm holds relatively large amount of cash, marketable securities, inventory and receivable to support a given level of sales. This policy creates longer inventory and cash conversion cycles. It also creates the longer receivable collection period due to the liberal credit policy. Thus this policy provides the lowest expected return on investment with lower risk

### **(ii) Lean and Mean Policy**

In lean and mean policy, a firm holds the minimum amount of cash, marketable securities, inventory and receivables to support a given level of sales. This policy tends to reduce the inventory and receivable conversion cycle. Under this policy firm follows a light credit policy and bears the risk of losing sales.

### **(iii) Moderate policy**

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

### *Alternative current Assets Investment policy*

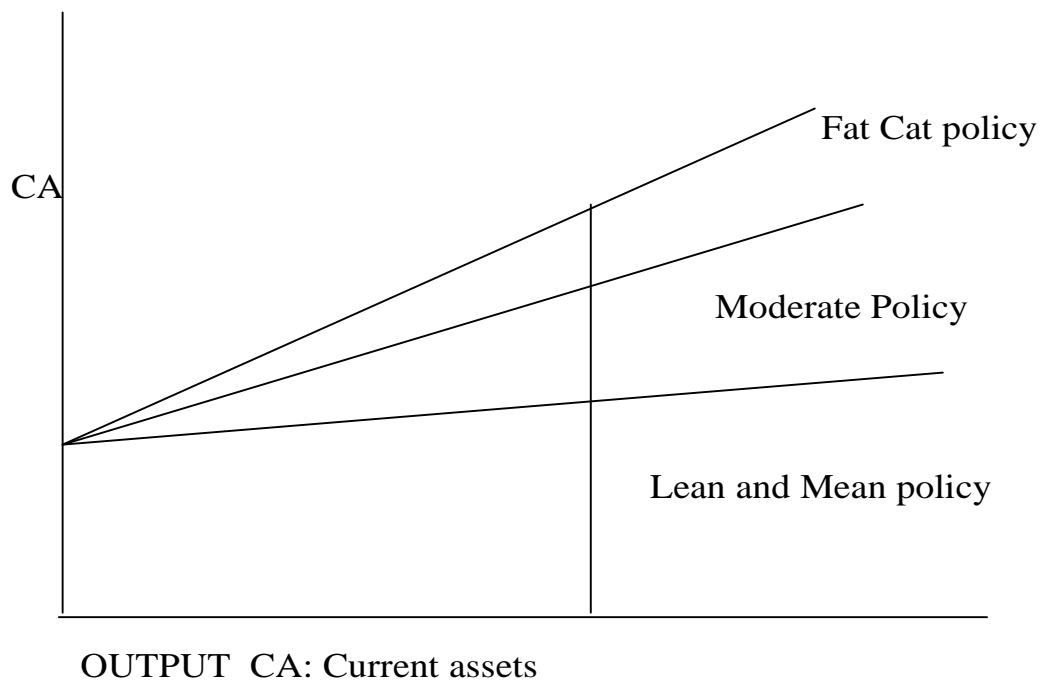


Figure:2-5

The relationship between output and current assets level for these alternatives illustrated in above figure. We see from the figure that the greater the output, the greater the need for investment in current assets to support that output and sales. This relationship is based on the notion that it takes a greater proportional investment in current assets when only a few units of output are produced than it does later on, when the firm can use its current assets more efficiently.

### **Current Assets Financing Policy**

It is the manners in which the permanent and temporary current assets are financed current assets are financed with fund raised from different sources. But cost and risk affect the financing of any assets. Thus, current assets financing policy should clearly outline the sources of financing. There are three policies - aggressive, conservative and matching or hedging policies of current assets financing.

**(i) Aggressive Policy**

In this policy, the firm finances a part of its permanent current assets with short-term financing and rest with long-term financing. In other words, the firm finances not only temporary current assets but also a part of permanent current assets with short-term financing. In this policy the liquidity position will be low and the risk will be high. A low liquidity position may expose the firm to opportunity cost. If a firm relies heavily on short-term borrowings, during the period of high money credit may be rational and the firm may be unable to obtain all the financing its needs.

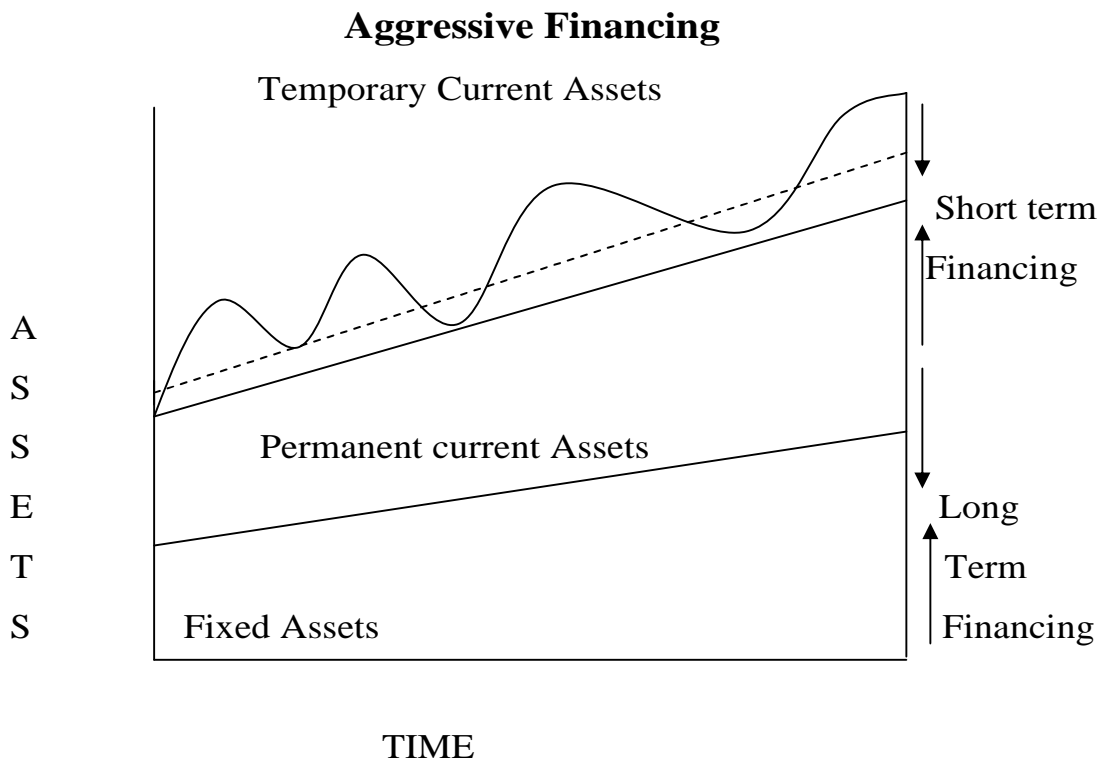


Figure:2.6

Above figure shows that short-term financing finances 50 percent of the permanent current assets. In general, interest rate increases with time i.e. shorter the time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal situation the firm borrows on a short-term financing rather than long-term financing. On the other side, if the firm finances its permanent current assets by short-term financing, then it

runs the risk of renewing the borrowing again and again. This continued financing exposes the firm to certain risk. It is because, in future the retest expenses will fluctuate widely and also, it may be difficult for the firm to raise the funds during the stringent credit periods. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

### **(ii) Conservative Policy**

In this policy, the use of short-term fund is restricted to the emergency situation when there is necessity to invest current assets. Otherwise, the long-term fund should be used as far as possible in financing of investment in current assets. However the cost of financing in this policy will be more, the liquidity will be relatively greater and risk will be minimized.

A firm may adopt a conservative policy in financing its current and fixed assets. The financing policy of the firm is said to be conservative when it depends more on long-term funds for financing needs. Under a conservative plan, the firm finances its permanent assets and a part, of temporary current assets with long-term financing. Thus in periods when the firm has no temporary current assets, it stores liquidity by investing surplus fund into marketable securities. The conservative financing relies heavily on long-term financing and therefore is less risky. The conservative financing policy is shown in figure below. (Pandey: 1995:684)

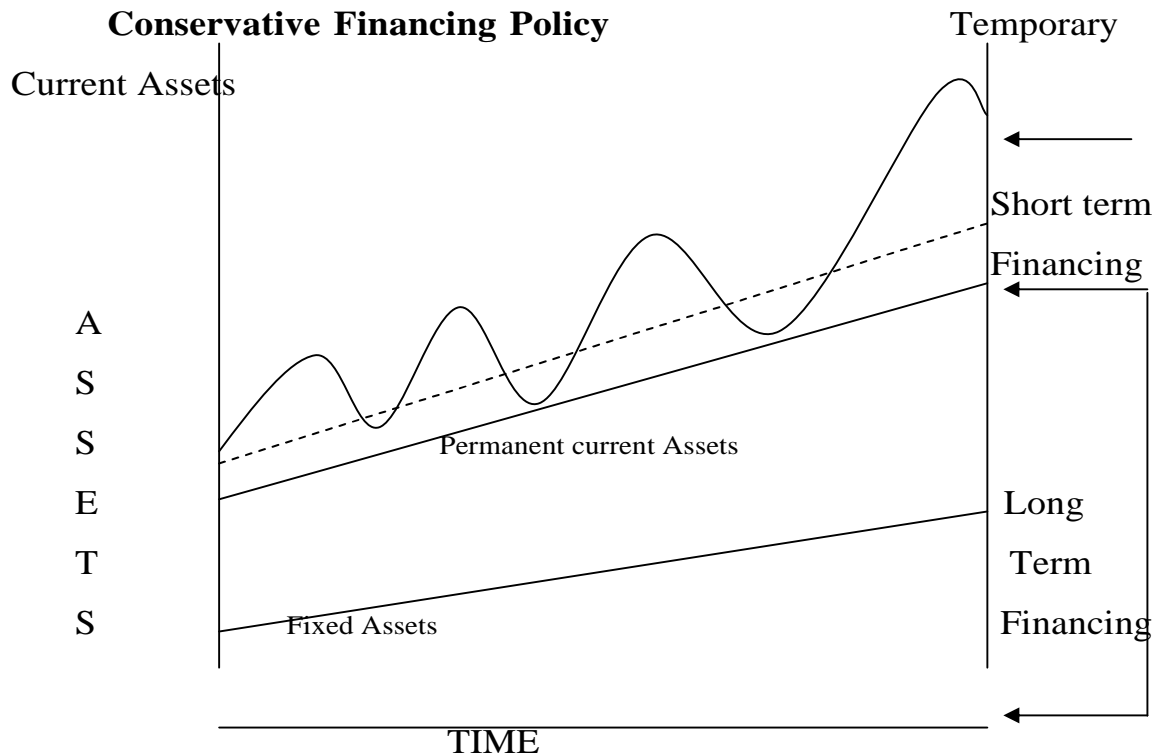


Figure:2-7

In above figure the conservative financing policy is shown. Not that when the firm has no temporary current assets (at the level of slope) the long-term funds released can be invested in marketable securities to build up the liquidity position of the firm.

### (iii) Matching Policy

In this policy, the firm finances the permanent current assets with long-term financing and temporary with short-term financing. It lies in between the aggressive and conservative policies. It deals to neither high nor low level of current assets and current liabilities. Figure in below shows the temporary working capital financed by short-term financing and long-term financing. Thus no working capital is zero under this policy.

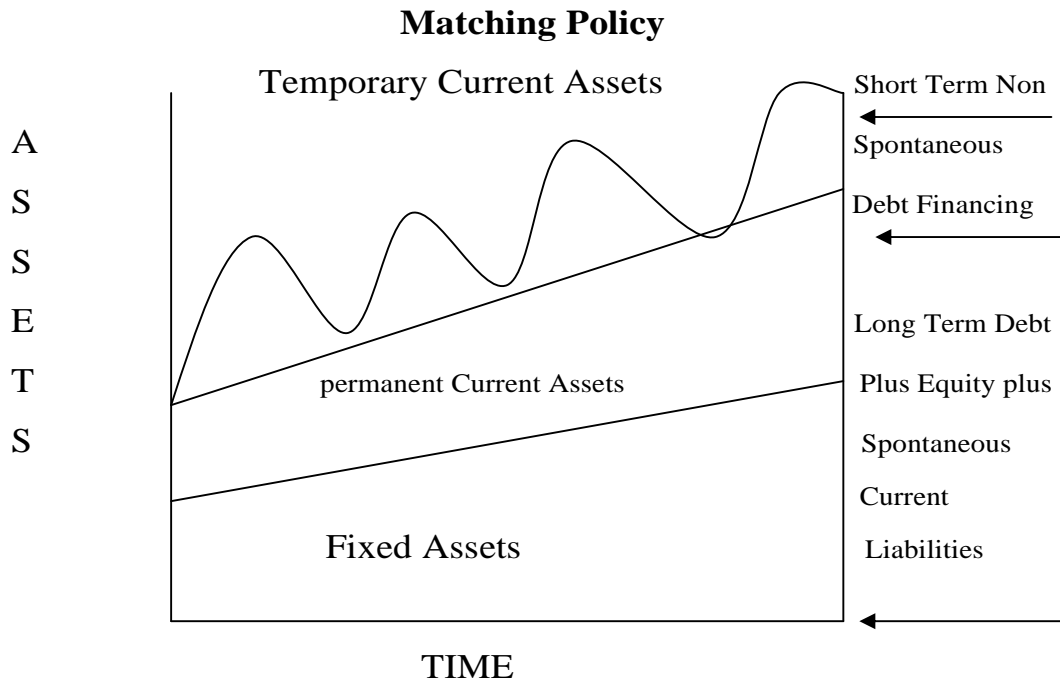


Figure:2-8

Thus, when the firm follows matching policy also known as heading policy, long-term financing will be used to finance fixed assets and permanent current assets and short-term financing to finance temporary or variable current assets. Figure is used to illustrate the matching policy over time. The firm's fixed assets and permanent CA are financed with long-term funds and as the level of these assets increases, the long-term financing level also increases. The temporary of variable CA are financed with short-term funds and as their level increases, the level of short-term financing also increases.

## 2.6 Financing of working Capital

The firm's working capital assets policy is never set in a vacuum; it is always established in conjunction with the firm's working capital financing policy. Every financial company requires additional assets whether they are in stable or growing conditions. The most important function of financial manger is to determine the level WC and to decide how it is to be financed. Financing of any asset is concerned with two major factors cost and risk. Therefore, the financial manager must

determine an appropriate financing mix or decide how CL should be used to finance CA., However, a number of financing mixes are available to the financial manager. He can resort generally three kinds of financing.

### **(i) Long-term Financing**

Long-term financing has high liquidity and low profitability. Ordinary share, debenture preference share, retained earning and long-term debts of financial institution are major sources of long-term financing.

### **(ii) Short-term Financing**

A firm must arrange its short-term credit in advance. The sources of short-term financing of working capital are made credit and bank borrowing.

Trade Credit refers to the credit that a customer gets from suppliers of goods in the normal course of business. The buying firm have not to pay cash immediately for the purchase is called trade credit. It is mostly an informal arrangement and is granted on an open account basis. Another form of trade credit is bills payable. It depends upon the term of trade credit. (*Van Horne: 1996:248*)

Bank credit is the primary institutional sources for working capital financing for the purpose of bank credit, amount of working capital required has to be estimated by the borrowers and banks are approached with the necessary supporting data. After availability of this data, bank determines the maximum credit based on the margin requirement of the security. The types of loan provided by commercial banks are loan arrangement overdraft arrangement, commercial papers etc.

### **(iii) Spontaneous Financing**

Spontaneous financing arises from the normal operation of the firms. The two major sources of such financing are trade credit and accruals. Whether trade credit is free of cost or not actually depends upon the term of trade credit. Financial manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect the real choice of CA financing is either short-term & long-term sources. Thus, the financial manager concentrates his power in short-term versus long-term financing. Hence, the financing of working capital depends upon the working capital policy which is perfectly dominated by management attitude towards the risk-return.

There are three basic approaches for determining an appropriate working capital financing mix.

- a) Hedging Approach
- b) Conservative Approach
- c) Aggressive Approach

#### **a) Hedging Approach**

The firm can adopt a financial plan which involves the match in of the expected life of assets with the expected life of the sources of funds raised to finance assets. (*Pandey: 1995:683*)

In this approach the long-term assets are financed by short term funds. It is called hedging approach because it matches the risk-regarding activities. M.Y. Khan and P.K. Jain express that the term hedging is often used in the sense of a risk-reducing investment strategy involving transitions of a simultaneous, but opposite nature, so that the effect of one is likely to counter balance the effect of the other. With the heading approach short term of seasonal variations in CA would be financed with short-term debt, the permanent components of CA would

be finished with long-term debt of equity. In this approach assets are classified into three categories.

- ) Funds requirement for seasonally needed CA.
- ) Funds requirement for regularly needed CA.
- ) Funds requirement for fixed of long-term assets.

According to hedging approach, we should finance variables or short-term WC from CL or short-term funds and long-term funds should be used to finance the fixed portion of CA.

#### b) Conservative Approach

The financing Policy of the firm is said to be conservative when it depends more on long term funds for financing needs. Under a conservative plan the firm finances its permanent assets and also a part of temporary current assets, with long-term financing the periods when the firm has no need for temporary current assets the idle long-term funds can be invested in the tradable securities to conserve liquidity.

The approach relies heavily on long term financing; as a result firm has less possibility financing the problems of shortage of funds. In conservative approach, permanent capital is used to finance all permanent assets requirements or also to meet some or all of the seasonal demands. (*Western and Brigham, 1996: 27*)

#### c) Aggressive Approach

A firm can follow aggressive policy in financing its assets. Under an aggressive approach the firm finances a part of its permanent current assets with its short-term financing "The relatively more use of short-term financing make the firm more risky" (*Pandey, 1995: 685*)

The greater the portion of the permanent asset need financed with short-term debt, the more aggressive the financing is said to be" (*Van Horne: 1996:209*)

## **2.7 Determinants of Working Capital**

The total requirement of working capital is determined by a wide variety of factors. The influence of these factors is different in different business organizations. Perhaps none of them can neglect the management of adequate W.C. Therefore, an analysis of the relevant factors should be made in order to determine the total investment in WC. The description of the factors which generally influence the WC requirement of the firm is given below.

### **i) Nature and size of Business**

The working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is bigger, then it requires more working capital. Trading and financial firm have a very low investment in fixed assets. Contrary to this, public utilities have a very limited need of working capital and have to invest abundantly in fixed assets. Their working capital requirements are nominal.

### **ii) Manufacturing Cycle**

The manufacturing cycle starts with the purchase and use of raw material and completes with the production of finished goods. Longer the manufacturing cycle, larger will be the firm's working capital requirements. An extended manufacturing time span means a larger tie-up of funds in stocks. Thus, if there are alternative ways of manufacturing cycle should be chosen. Once a manufacturing process has been selected, it should be ensured that manufacturing cycle is completed within the specified period. This needs proper planning and co-ordination at all levels of activity. Non-manufacturing firms, service and financial enterprises do not have manufacturing cycle. (*Pandey: 1995:674*)

### **iii) Production policy**

We just noted that a strategy of constant production may be maintained in order to resolve the working capital problems arising due

to seasonal changes in the demand for the firm's product. A steady and the firm will be exposed to greater inventory costs and risks. Thus, if costs and risks of maintaining a constant production schedules in accordance with changing demand. Those firms, whose productive capacities can be utilized for manufacturing varied products, can have the advantage of diversified activities and solve their working capital problems. (*Pandey: 1995:675*)

#### **iv) Operating Efficiency**

The operating efficiency of a firm relates to the optimum utilization of resources at minimum costs. The firm can not effectively contribute to its working capital when the operating efficiency is low. Working capital turnover is improved with a better operation and financial efficiency of a firm. Efficiency of operation accelerates the pace of cash cycle and improves the working capital turnover. It releases the pressure on working capital by improving profitability and improving the internal generation of fund.

#### **v) Profit Margin**

The net profit is a source of working capital to the extent that has been earned in cash the capacity to generate profit differs from company to company. In the words of I. M. Pandey, "Some firm enjoy a dominate position, due to quality product or good marketing management or monopoly power in the market and earn a high profit margin" Higher profit margin contributes to more working capital. The level of working capital is determined not only by the profit margin, but also by the way of appropriation for taxations. Dividend, reserves and depreciation. Only after providing for these items internal funds can be set aside for working capital. As the provisions for these items are higher, the amount of working capital will be lesser.

## **vi) Level of Taxes**

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

Besides the above factors there are many other factors also which may have a greater role in determining the size and composition of working capital. For example, firm's attitude to take risk firm's policies toward the financial management in the inflationary period co-ordination among production distribution, developed transport and communication system etc. could also play an important role in determinants affects both temporary and permanent working capital.

## **2.8 Research Gap**

Many research studies have been conducted by the different students, experts and researchers about working capital management. Some studies are related to a case study of a single manufacturing company and some are comparative in nature. Keeping in view, the fact that there is no study of working capital management particularly in Nepalese commercial bank. Thus, "A Study on Nabil Bank's Working capital management", has been taken for the study of working capital position and to suggest overcoming from such difficulties.

In this study, by use of coefficient correlation analysis, the strength of relationship between two variable (e.g. Investment on Government Securities on Total Deposit, Loan & Advances on Total Deposit, Cash & Bank balance on Current Liabilities & Loan & Advances on Net Profit ) have determined.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

A brief introduction of this study has been already presented in the first chapter. Besides, the reviews of literature with possible review of ideas, theories and research finding have also been presented in second chapter. Now, it is important to have choice of research methodology that helps to make my analysis meaningful. So, this chapter deals with the methodology adopted for the study.

Research methodology refers to the various sequential steps to be adopted by the researcher in studying a problem with certain object in view. (*Kothari: 1986:19*)

In this study, research methodology has been paid due attention to achieve the objectives of the study.

#### **3.1 Research Design**

Research Design is the plan, structure and strategy of investigation conceived so as to obtain answers to research question and to control variances. The plan is the overall scheme or program of the research. (*Krelings; 1986:275*)

Research design means a definite procedure and technique which guides the study and propounds ways for doing research. For the study of working capital management in Nabil bank ltd., research design followed is an exploratory research approach. In this study descriptive and analytical survey is done. The justifications for the choice of these methods are many and various. The descriptive method is preferred because it includes reliable data and information covering a long time and avoids numerous complex variables operating into formulation and adoption of credit and investment policies.

### **3.2 Sources of Data**

This study is mainly based on secondary data. The main sources of data are the finance statements and reports of Nabil bank ltd, different circular regarding rules and regulations of Nabil bank ltd, reports of the corporation coordination council, other published and unpublished materials, magazines and newspapers, some ideas and information's have been collected form the discussion with managers of Nabil bank ltd.

### **3.3 Population and sample**

Until june 2010, 27 commercial banks (Including government owned, private and joint venture) are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, sampling will be done selecting form population, Nabil is selected as a sample for the study and analysis.

### **3.4 Data Gathering Procedures**

As this study is mostly based on secondary data. Therefore, data were directly collected form the information department of the concern bank, research department of the Nepal Rastra Bank and form different web sites.

### **3.5 Data Processing Procedures**

Data Collected from various sources were in raw form. They were classified and tabulated as per the nature of the study and in accordance of the data. Simple percentage tool was used as arithmetic tool and different financial and statistical were also used to analyze the collected data.

### **3.6 Research Variables**

Working capital was major research variable of this study. As being the research based on working capital management, total assets, total deposit, current assets, current liabilities total investment, total loan and advances etc. were also taken as secondary research variables.

### **3.7 Tools and Techniques of Analysis**

On the basis of historical data both financial and statistical tools are used to analytical of different valuables.

#### **3.7.1 Financial Tools**

In this research study various financial tools are employed for the analysis. The analysis of this study is based on following financial tools.

##### **a) Working Capital**

Working capital is used by lenders to help gauge the ability for a company to weather difficult financial periods. Working capital is calculated by subtracting current liabilities from current assets. Due to difference in business and the fact that working capital is not a ratio but an absolute amount it is difficult to predict what the ideal amount of working capital would be for the business. ([www.planware.org](http://www.planware.org))

Working Capital (WC) =current Assets (CA)-Current Liabilities (CL)

##### **b) Liquidity Ratios**

Liquidity ratios indicate the firm's ability to meet it maturing short-term obligations. Your liquidity ratios measure your company's ability to generate cash to meet your short term financial commitments. The current ratio measures debts over the next 12 months, while the quick ratio measures liquidity available for immediate demands. As stated a ratio of 10 or greater is generally acceptable, but depends on the nature of the company.

A comparatively low ratio can mean that your company might have difficulty meeting your obligations and may not be able to take advantage of opportunities that require quick cash. Paying off your liabilities can improve this ratio - you may want to delay purchases or consider long-term borrowing to repay short-term debt. A too-high ratio may mean that your capital is being underemployed. You may want to invest your capital.

### **i) Current Ratio**

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

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

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

### **(ii) Quick Ratio**

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable

securities. Thus, QA includes the all or current assets except inventory or stock. Inventory can not be converted into cash immediately. This quick ratio can be found out by dividing the total of quick assets by total current liabilities.

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

### **iii) Cash and Bank Balance to Deposit (Excluding fixed deposit) Ratio**

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balance by saving margin and current deposits (excluding fixed deposit). This ratio is calculated by using following formula.

$$\text{Cash and Bank Balance to Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Deposit (Except Fixed deposit)}}$$

### **(iv) Saving Deposit to Total Deposit Ratio**

Saving deposit is interest bearing short-term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short-term in nature. It is find out by dividing the total amount of saving deposit by the amount of total deposit, which is given as follows.

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

### **b) Activity or Turnover Ratio**

Activity ratios are intended to measure the effectiveness to employment to the resources in a business concern. Throughout these ratios, it is known whether the funds employed have been used

effectively into the business activities or not. The following are the ratios employed to analyze the activeness of the concerned bank.

### **(i) Loan and advances to Total Deposit Ratio**

This ratio assesses to what extent, the bank are able to utilize the depositor's funds to earn profit by providing loans and advances. It is computed dividing the total amount of loans and advances by total deposited fund. The formula used to compute this ratio is as

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

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

### **(ii) Loan and Advance to Fixed Deposit Ratio**

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. For commercial banks, fixed deposits are long-term interest bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit as under. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is computed as follows.

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

This ratio examines to what extent the fixed deposits are utilized for income earning purpose.

### **(iii) Loan and Advance to Saving Deposit Ratio**

This ratio assesses, how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short-term obligation and the major sources of investment in loan and advances for income generation and the major sources of investment in loan and advances for income generating purpose by CBs. This ratio

indicates how many times the short-term interest bearing deposits are utilized for generating the income, is calculated dividing the amount of loan and advances by total deposit in saving account. The following formula is used to determine this ratio as:

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

### **(c) Leverage Ratio**

Leverage refers to the ratio of debt to equity in the capital structure of the firm. Debt and equity are long-term obligations and remaining parts in the liability side of the balance sheet are termed as short-term obligations. Both types of obligations are required in forming the capital structure of the firm. The long-term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsiders fund and owner's capital used the firm.

#### **(i) Long term Debt to Net worth Ratio**

Long term debt refers to the amount of fixed deposits and loans of the banks. The ratio measures the proportion of outsiders and owner's fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the banks by owner's claim. It is calculated by using following formula.

$$\text{Loan and Debt to Net worth Ratio} = \frac{\text{Long term Debt}}{\text{Net worth}}$$

#### **ii) Net Fixed Assets to Long term Debt Ratio**

Net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows:

$$\text{Net Fixed Assets to Long term Debt Ratio} = \frac{\text{Net Fixed assets}}{\text{Long term Debt}}$$

#### d) Profitability Ratio

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used as follows.

#### i) Interest Earned to Total assets Ratio

It is the ratio, which formed to find out the percentage of the interest earned to total assets. This is derived by dividing the amount of interest earned by the total assets of the firms.

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

#### (ii) Net profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets is computed by using following formula.

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

#### (iii) Net profit to Total Deposit Ratio

This ratio is used to measuring the internal rate of return from deposits. It is computed dividing the net profit by total deposits. Higher ratio indicates the return from investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing. The following formula is used as:

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

#### **(iv) Cost of services to total assets Ratio**

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

$$\text{Cost of Services to Total assets Ratio} = \frac{\text{Cost of Service}}{\text{Total Assets}}$$

### **3.7.2 Statistical Tools**

Besides the financial tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated, compared, analyzed and interpreted. In this study, the following statistical tools are used for analysis.

#### **(i) Trend Analysis**

It is important to analyze trends in ratio as well as their absolute levels, for the trends give clue to whether the financial situation is improving or whether it is deteriorating. In other word trend analysis of ratios indicates the direction of changes. The significance of a trend analysis of ratios lies in the fact that the analyst can know he direction of movement, i.e. whether the movement is favorable or not. Thus, the tools that are used to show grandly increase of decrease of variables over a period of time is known as trend analysis. with the help of trend analysis the tendency of variables over the period can be seen clearly.

#### **(ii) Correlation Analysis**

The correlation analysis is the technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction.

The coefficient of correlation is a number, which indicates to what extent two variables are related with each other and to what extent variations in one leads to the variation in the other and it is denoted by 'r'

The value of coefficient of correlation always lies between  $\{-1, 1\}$ . A value of -1 indicates a perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means the variables are uncorrelated. The closer r is +1 or -1, the closer the relationship between the variables and closer r is to zero (0) the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the coefficient is concerned with the strength, or closeness of the relationship between two variables. The correlation coefficients can be calculated as.

$$r = \frac{\text{Cov}(XY)}{\sigma_x \sigma_y}$$

$$\text{or, } r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

$$\text{or, } r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

$\sigma_x \sigma_y$  are the standard deviation of the distributions of X and Y values respectively.

COV (X, Y) = Covariance of X, Y value.

$$\sum \frac{(X - \bar{X})(Y - \bar{Y})}{N}$$

N = Number of items in the series

X and Y = Variables.

## **CHAPTER-IV**

### **DATA PRESENTATION AND ANALYSIS**

The major objective of this study is to evaluate the working capital position of Nabil bank Limited. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of Nabil bank Limited from the long-range view point. In this chapter relevant data and information of working capital as well as financial performance of Nabil bank limited are presented and analyzed accordingly. Data of the years 062/063 to 066/067 have been presented and analyzed. It covers to analyze the ratio as well as trend and composition of working capital which means current assets, liquidity, current liabilities, turnover, leverage and profitability of Nabil bank limited. It also used correlation analysis. With the help of these analyses, we can know the working capital as well as financial position of Nabil bank limited.

#### **4.1 Working capital**

Working capital means current assets minus current liabilities. Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth also called net current assets or current capital, Therefore.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

### 4.1.1 Components of Current Assets

To operate the business, different kinds of assets are needed, For the day to day business operation different types of current assets are required. The composition of current assets or the main components of current assets at Nabil bank limited are cash and bank balance. Loan and Advances and government securities. Miscellaneous current assets are also a component of current assets prepaid expenses, outstanding income like interest receivable and other current assets are included in miscellaneous current assets. The following table shows the amount of cash and bank balance, loan and advances, government severities and miscellaneous current assets of Nabil bank limited .

#### Components of Current Assets of NABIL

**Table 4.1**

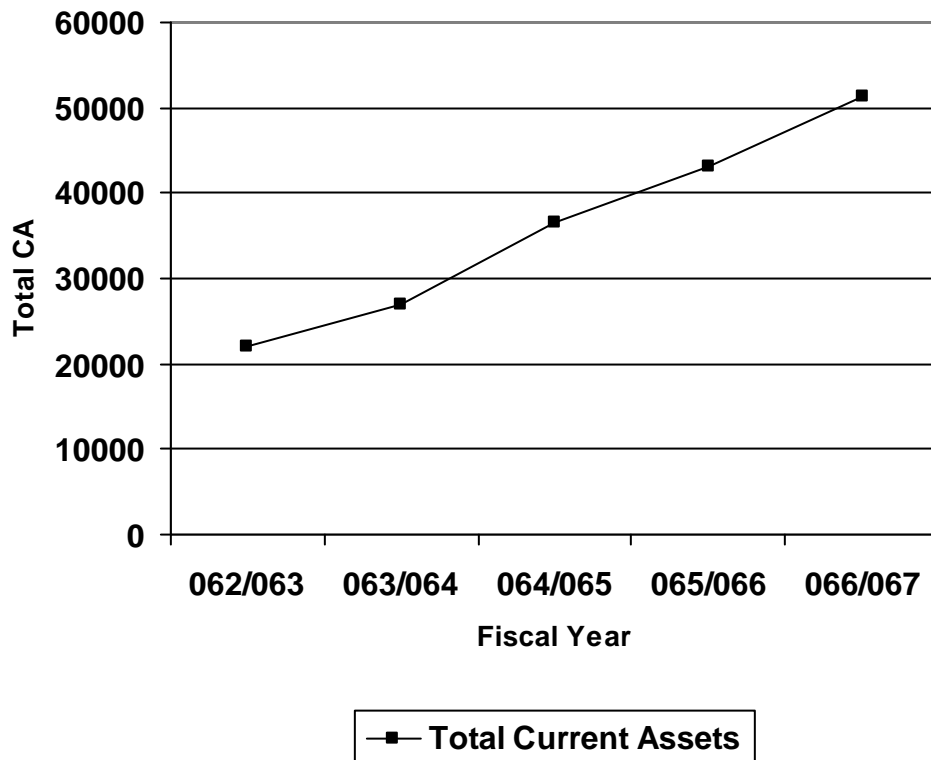
*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Cash Balance</b>	<b>Bank Balance</b>	<b>Money At Call</b>	<b>Loan &amp; Advance</b>	<b>Other Assets</b>	<b>Govt Security</b>	<b>Total Current Assets</b>
<b>062/063</b>	<b>237.8185</b>	<b>392.42</b>	<b>1734.9019</b>	<b>12922.5431</b>	<b>544.6681</b>	<b>6178.5331</b>	<b>22010.8847</b>
<b>063/064</b>	<b>270.4069</b>	<b>1129.4188</b>	<b>563.5326</b>	<b>15545.7787</b>	<b>512.0500</b>	<b>8945.3105</b>	<b>26966.4975</b>
<b>064/065</b>	<b>511.4265</b>	<b>2159.7144</b>	<b>1952.3607</b>	<b>21365.0533</b>	<b>606.3936</b>	<b>9939.7714</b>	<b>36534.7199</b>
<b>065/066</b>	<b>674.3954</b>	<b>2698.1169</b>	<b>552.8882</b>	<b>27589.9330</b>	<b>864.6957</b>	<b>10826.3790</b>	<b>43204.4082</b>
<b>066/067</b>	<b>635.9866</b>	<b>764.1111</b>	<b>3118.1440</b>	<b>32268.8732</b>	<b>912.6658</b>	<b>13600.9166</b>	<b>51300.6973</b>

*(Sources: Financial Summary of nabil)*

Above table 4.1 depicts that the components of current assets of nabil consists cash and bank balance, loan and advances, money at call or short notice and govt. securities, miscellaneous other current assets. In Fiscal year 062/063 total current assets of the bank was amounted to Rs. 22010.8847million which included Rs. 392.42 million of Bank and Rs.237.8185 Cash balance, Rs. 12922.5431million of loan and advances, Rs. 1734.9019 million of money at call or short notice, Rs. 6178.5331 and Rs. 544.6681million of miscellaneous other current assets. The CA of the bank increased fastly in fiscal year 063/064 and reached amounted to Rs. 26966.4975million. Similarly, in F/Y 064/065 & 065/066 it also increased amounted to Rs. 36534.7199million and Rs. 43204.4082million respectively. Finally the CA of the bank increase in F/Y 066/067 and reached amounted to Rs. 51300.6973million, which included Rs. 635.9866million on cash balance, Rs. 764.1111million on bank balance, Rs. 3118.1440million money at call, Rs. 32268.8732 million on loan & advance, Rs 912.6658 million on other assets, Rs.13600.9166 on govt. securities respectively.

**Figure 4.1**  
**Components of Current Assets of NABIL**



As stated in above figure 4.1 the current assets of the Nabil increasing gradually up to fiscal year 066/067

#### **4.1.2 Components of Current Liabilities**

Current liabilities is a short-term obligation which is payable with in a year. The composition of current liabilities or the main components of current liabilities at Nabil are deposit, short term loans, bills payable and miscellaneous current liabilities. Tax provision, staff bonus, dividend payable and other current liabilities are included in miscellaneous current liabilities. The following table shows the amount of deposit and other accounts. Short term loans, bills payable and miscellaneous current liabilities of Nabil.

**Table 4.2**  
**Components of Current Liabilities of Nabil**

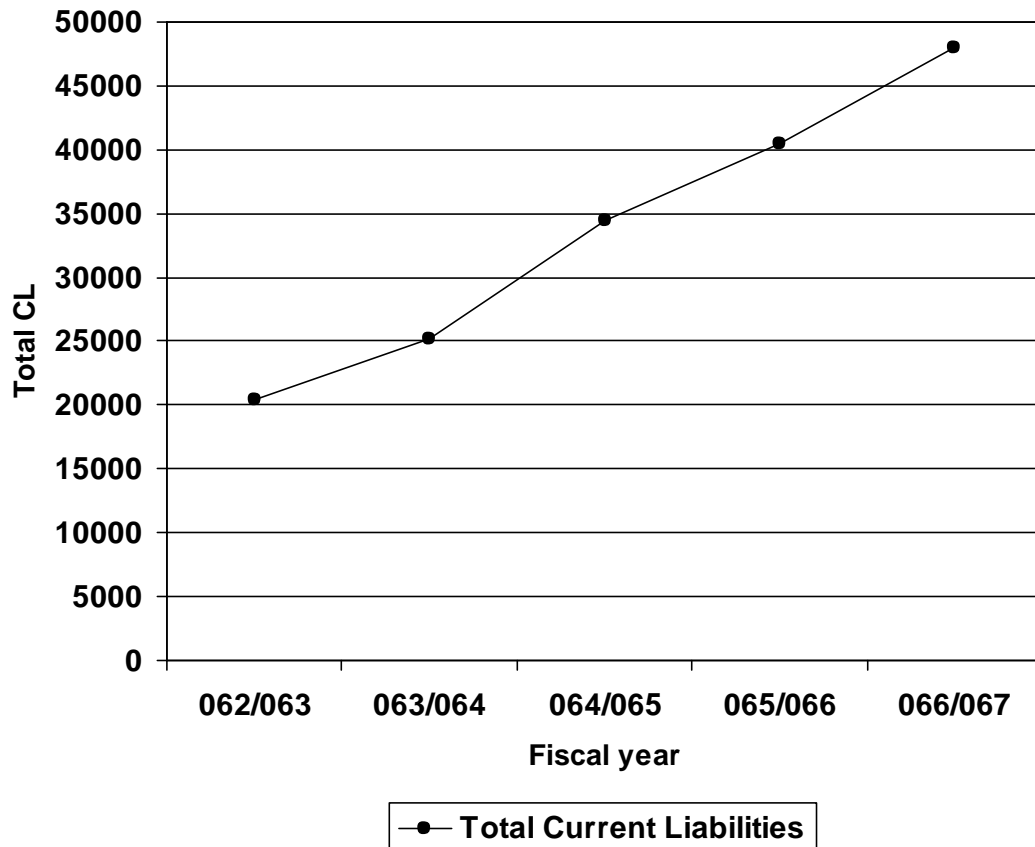
*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Shortterm Loan</b>	<b>Deposit</b>	<b>Bills Payable</b>	<b>Other Liabilities</b>	<b>Total Liabilities</b>
062/063	173.2017	19347.3994	92.5368	841.8385	20454.9764
063/064	882.5725	23342.2853	83.5148	887.9706	25196.3432
064/065	1360	31915.0474	238.4218	942.0907	34455.5599
065/066	1681.3050	37348.2558	463.1386	944.4573	40437.1567
066/067	74.90	46340.7006	425.4439	1104.4552	47945.4997

*(Sources: Financial Summary of Nabil)*

In above table, we can found that the component of current liabilities which consists deposit and other accounts, short term loan, bills payable and miscellaneous (other) CL. As stated in above table total CL of Nabil was Rs.20454.9764 million to fiscal year 062/063. The CL increased in F/Y 063/064, F/Y 064/065 and F/Y 065/066 and reached amounted to Rs.25196.3432 million, Rs.34455.5599 million & Rs.40437.1567 million respectively. At the end of F/Y 0666/067 the current liabilities of Nabil is Rs 47945.4997 million, which consists of Rs.74.9 million, Rs.46340.7006 million, Rs.425.4439 million & Rs.1104.4552 million of short term loan, deposit, bills payable and miscellaneous other current liabilities respectively.

**Figure 4.2**  
**Components of Current Liabilities of NABIL**



As stated in above figure 4.2 the current liabilities of the Nabil increasing gradually up to all fiscal year 066/067.

### **4.1.3 Working Capital of Nabil**

The working capital has to be regarded as one of the conditioning factors in the long-range analysis and decision making. To achieve the goal of overall business, the determinants of working capital management should be as accurate as possible. It means money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in bank,

and determining which one is more beneficial to the bank and which is not. The following table shows the amount of working capital of Nabil of the study period.

**Table 4.3**  
**Working Capital of Nabil**

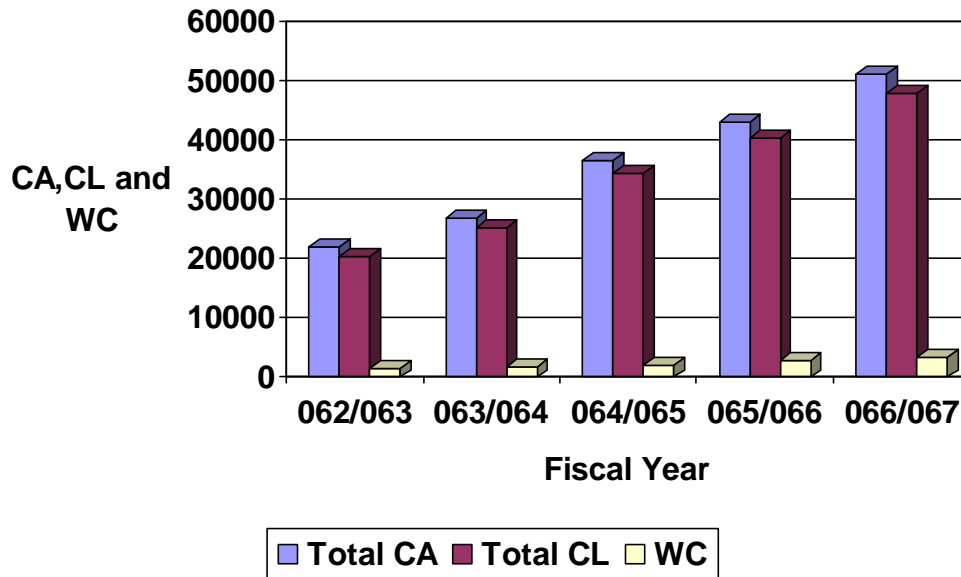
*(Rs. In million)*

<b>Fiscal Year</b>	<b>Total CA</b>	<b>Total CL</b>	<b>WC= CA-CL</b>
062/063	22010.8847	20454.9764	1555.9083
063/064	26966.4975	25196.3432	1770.1543
064/065	36534.7199	34455.5599	2079.16
065/066	43204.4082	40437.1567	2801.2515
066/067	51300.6973	47945.4997	3355.1976

*(Sources: Financial Summary of Nabil)*

In above table 4.3 shows that the increment of working capital in different study period by different level. In F/Y 062/063, the working capital was amounted Rs. 1555.9083million. In fiscal year 063/064 the working capital of the bank was to increasing position and reachedRs.1770.1543 million.Similarly fiscal year 064/065, 065/066 increasing working capital and reached Rs. 2079.16 million, Rs. 2801.2515 million respectively.At fiscal year 066/067 working capital reached Rs. 3355.1976 which consists Rs. 51300.6973 million total current assets & Rs. 47945.4997 million total current liabilities.

**Figure 4.3**  
**Working Capital of NABIL**



As stated in above figure 4.3 In F/Y 062/063 the working capital was amounted Rs. 1555.9083 million which consists Rs.22010.8847 million of current assets Rs.20454.9764 million current liabilities. In fiscal year 063/064 the working capital of the bank was to increasing position and reached Rs.1770.1543 million. Similarly fiscal year 064/065, 065/066 increasing working capital and reached Rs. 2079.16 million, Rs. 2801.2515 million respectively. At fiscal year 066/067 working capital reached Rs. 3355.1976 which consists Rs. 51300.6973 million total current assets & Rs. 47945.4997 million total current liabilities.

The working capital depicts the liquidity position of any organization i.e. higher the working capital higher the liquidity and vice versa.

## **4.2. Ratio and Trend Analysis**

Ratios are used to create comparisons within any company's performance or within any particular industry, be it by region, country or globally, comparisons may say a lot about any company's financial health and can uncover trends as well as pinpoint possibilities for improvement in other words. to evaluate the financial conditions and performances for a firm, the financial analyst needs certain yardsticks. Experienced and skilled analysts would obtain a better understanding to the financial conditions and performance of the firm form the analysis and interpretation of various ratios than form analysis of the financial data. Thus we can conclude that the ratio analysis is the powerful financial tools to measure the financial performance of the bank.

It is important to analyze trends in ratio as well as their absolute levels, for the trends give clue to whether the financial situation is improving or whether it is deteriorating. In other words trend analysis of ratios indicates the direction of changes. The significance of a trend analysis of ratios lies in the fact that the analyst can know the direction of movement, i.e. whether the movement is favorable of not.

### **4.2.1 Liquidity Ratio**

Liquidity ratio indicates the company's ability to pay its short term debts, by measuring the relationship between current assets i.e. those which can be turned into cash against the short-term debt value. Liquidity of any business organization is directly related with working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position, Bank is a different organization which is engaged in mobilization of funds, so without sound liquidity position. Bank is not able to operate its function. To measure the bank's solvency position of ability to meet its short term obligation, various

liquidity ratios are calculated and to know the trend of liquidity trend analysis of major liquidity ratios have been considered.

#### 4.2.1.1 Current Ratio

This ratio indicates the current short term solvency position of bank. Higher current ratio indicates better liquidity position. In other words, Current ratio represents a margin of safety, i.e. a cushion of protection for creditors and the highest the current ratio, greater the margin of safety, large the amount of current assets in relation to current liabilities, more the banks ability to meet its current obligations. It is calculates as follows.

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

The following table shows the current ratio to compare the working capital management of Nabil

**Table 4.4**  
**Current Ratio of NABIL**

*(Rs. In million)*

<b>Fiscal Year</b>	<b>Total CA</b>	<b>Total CL</b>	<b>Current Ratio</b>
062/063	22010.8847	20454.9764	1.076
063/064	26966.4975	25196.3432	1.070
064/065	36534.7199	34455.5599	1.060
065/066	43204.4082	40437.1567	1.068
066/067	51300.6973	47945.4997	1.069
<b>Average</b>			<b>1.0686</b>

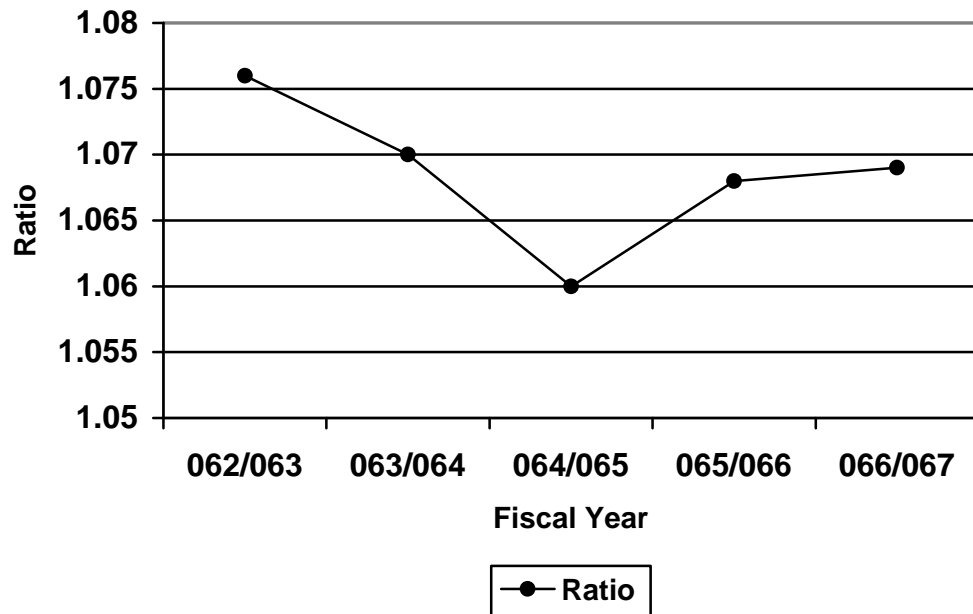
*(Sources: Financial Summary of Nabil)*

The above table 4.4 depicts that the current ratio of Nabil are decreasing for the first three years of study period than it has slightly increased in fourth year and last year current ratio has also slightly

increased . The highest current ratio is 1.076 in the fiscal year 062/063 and the lowest current ratio is 1.060 in the fiscal year 064/065. The average current ratio of Nabil is **1.0686**.

Figure:4-4

**Current Ratio of NABIL**



The above figure depicts that the current ratio of Nabil are decreasing for the first three years of study period than it has slightly increased in fourth year and last year current ratio has also slightly increased . The highest current ratio is 1.076 in the fiscal year 062/063 and the lowest current ratio is 1.060 in the fiscal year 064/065. The average current ratio of Nabil is 1.0686.

#### 4.2.1.2 Cash and Bank Balance to Total Deposit Ratio

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

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

The following table and figure shows the cash and bank balance to total deposit ratio of the over the study period.

**Table 4.5**  
**Cash and Bank Balance to Total Deposit Ratio of NABIL**

*(Rs. In million)*

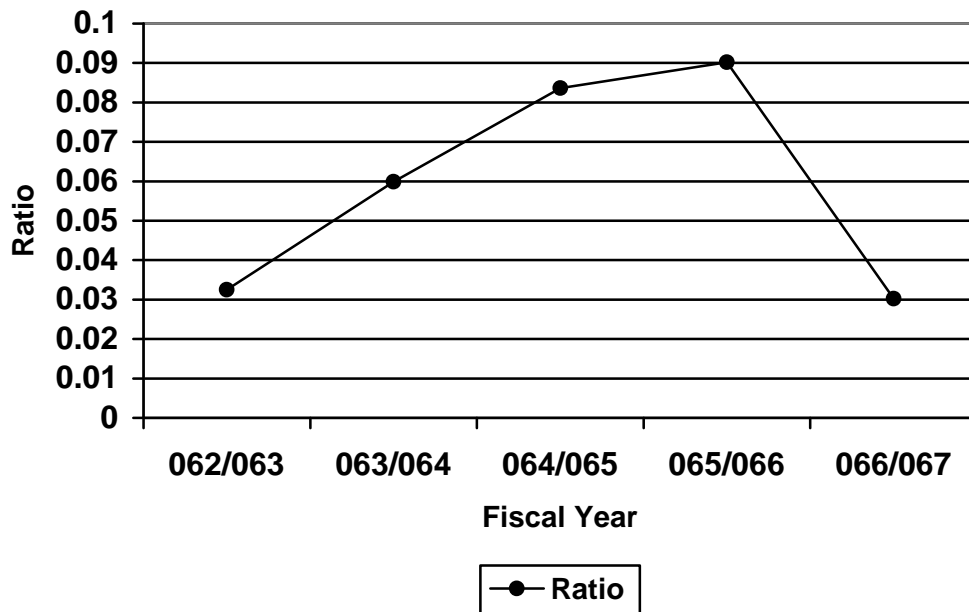
<b>Fiscal Year</b>	<b>Cash and Bank</b>	<b>Total Deposit</b>	<b>Ratio</b>
062/063	630.2385	19347.3994	0.0325
063/064	1399.8257	23342.2853	0.0599
064/065	2671.1409	31915.0474	0.0836
065/066	3372.5123	37348.2558	0.0902
066/067	1400.0977	46340.7006	0.0302
<b>Average</b>			<b>0.0592</b>

*(Sources: Financial Summary of Nabil)*

The above table depicts that the cash and bank balance to deposit (except Fixed Deposit) of Nabil has been slightly increasing first four years of the study periods fiscal year 062/063 to F/Y 065/066. F/Y 066/067 Cash and Bank Balance to Total Deposit Ratio is 0.0302 . The bank has average ratio of 0.0592.

**Figure 4.5**

**Cash and bank Balance to Total Deposit Ratio of Nabil**



As stated in above figure also depicts that the cash and bank balance to deposit ratio excluding fixed deposit ratio has been increasing up to fiscal year 062/063 to 065/066 and fiscal year 066/067 decreased .

The above analysis helps to find our the ability of banks immediate funds to cover its current margin, call and saving deposit of the ban, In other words, the liquidity position of the bank. But the large amount of idle cash and bank balance badly affect the profitability of the bank.

**4.2.1.3 Saving Deposit to Total Deposit Ratio**

Saving deposit is interest bearing short-term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short-term in nature. It is find out by dividing the total amount of saving deposits by the amount of total deposit, which is given as follows.

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

The following table and figure shows the Nabil's saving to total deposit ratio.

**Table 4.6**  
**Saving Deposit to Total Deposit Ratio of NABIL**

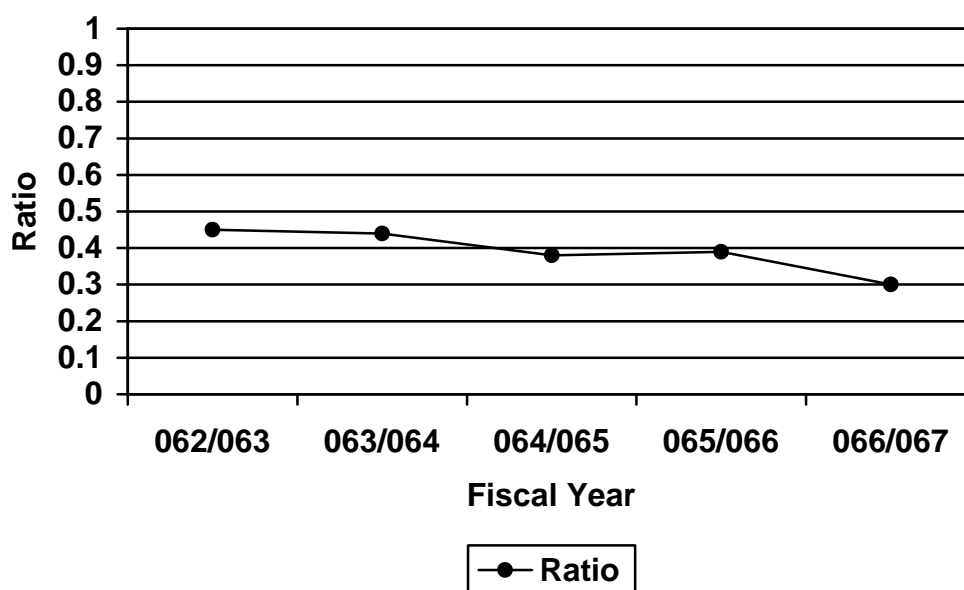
*(Rs. In million)*

<b>Fiscal Year</b>	<b>Saving Deposit</b>	<b>Total Deposit</b>	<b>Ratio</b>
062/063	8770.7594	19347.3994	0.45
063/064	10187.3544	23342.2853	0.44
064/065	12159.9664	31915.0474	0.38
065/066	14620.4073	37348.2558	0.39
066/067	13783.5859	46340.7006	0.30
<b>Average</b>			<b>0.392</b>

*(Sources: Financial Summary of Nabil)*

The above table 4.7 depicts that the amount of saving deposit has been gradually decreasing during the study period. Similarly, the total deposit of Nabil has been decreasing to final years of the study period. Likewise, the saving deposit to total deposit ratio of Nabil has been decreasing in first five years. The average ratio stands at 0.392.

**Figure 4.6**  
**Saving Deposit to Total Deposit Ratio of Nabil**



As stated in above figure, the saving deposit to total deposit ratio of Nabil decrease in first three years from 062/63 to and 064/65 than slightly increased in fiscal year 065/66. Decreased ratio 0.3 during the final year. And average ratio is 0.392.

Although, saving deposit is short-term liability but its nature is long term then current, margin and other deposits. So, the large portion saving deposit in total deposit shows the liquidity of the bank, Bank also pays interest on saving deposit but current, margin and other deposits are nominal cash fund. It means higher the ratio higher the liquidity position of the bank and vice versa. In other hand, the higher saving deposit increased interest obligation to the bank. Therefore, the higher ratio of saving deposit to total deposit decreased the profitability of the bank form the view pint of profitability the lower ratio is preferable than higher ratio.

## 4.2.2. Activity of Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. The ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover, help in measuring the banks ability to utilize their available resources.

### 4.2.2.1. Loan and Advances to Total Deposit Ratio

This ratio assesses to what extent, the banks are able to utilize the depositor's funds to earn profit by providing loans and advances, It is computer dividing the total amounts of loans and advances by total deposited funds. The formula used to compute this ratio is as:

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

The following table and figure shows the effectiveness in utilization of total deposits of Nabil.

**Table 4.7**

#### **Loan and Advances to Total Deposit Ratio of NABIL**

*(Rs. In million)*

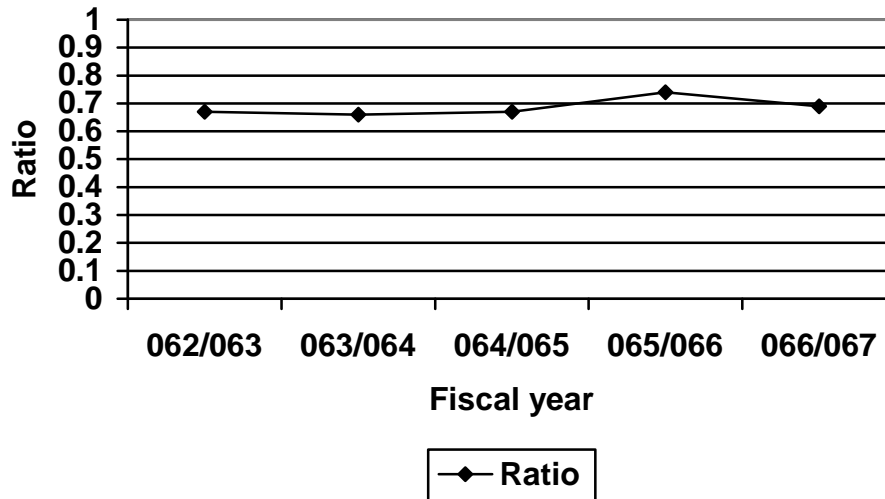
<b>Fiscal Year</b>	<b>Loan and Advances</b>	<b>Total Deposit</b>	<b>Ratio</b>
062/063	12922.5431	19347.3994	0.67
063/064	15545.7787	23342.2853	0.66
064/065	21365.0533	31915.0474	0.67
065/066	27589.9330	37348.2558	0.74
066/067	32268.8732	46340.7006	0.69

*(Sources: Financial Summary of Nabil)*

The above table shows the position and ratio of loan and advances and total deposit of Nabil form fiscal year 062/063 to fiscal year

066/067. The loan and advances of the bank has been gradually up and down position. Similarly, total deposit of the bank has been increasing gradually up to F/Y 065/066 . highest ratio is 0.74 in F/Y 065/066.

**Figure 4.7**  
**Loan and Advances to Total Deposit Ratio of NABIL**



Above figure 4.7 states that the loan and advances to total deposit ratio was 0.67 in fiscal year 062/063 then decreased in F.Y 063/064 and has been increased up to F/Y 065/066.ratio of fiscal year 066/067 is 0.69.

Form the above analysis, loan and advances to total deposit ratio clearly shows the capacity of the bank to mobilize its deposit. The bank has the responsibility of collecting a huge amount of deposit for the purpose of lending a great amount of it to needy people. It's collect money not for keeping it idle, but for using it in a creative work. If it can not utilize its deposits more profitability, it is better to reduce the volume of deposits. So the volume of deposits has some limit which is affected by loans. But there is no limit to the volume of loans However, the rate of interest as well as the volume of deposits highly affects the volume of loans. Once the deposit is more than sufficient, there is no

need to pay higher rate of interest on it. On the contrary if the volume of deposit is insufficient for meeting the need of borrowers the interest rate should be increased.

#### **4.2.2.2. Loan and Advance to Fixed Deposit Ratio**

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. For commercial banks, fixed deposits are long-term interest bearing obligations, whereas investment in loans and advances are the main sources of earning this ratio is computed dividing loans and advances by fixed deposit as under. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is computed as follows.

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

The following table and figures shows the effective loan and advances to fixed deposit ratio of Nabil

**Table 4.8**

#### **Loan and Advances to Fixed Deposit Ratio of NABIL**

*(Rs. In million)*

<b>Fiscal Year</b>	<b>Loan And Advances</b>	<b>Fixed deposit</b>	<b>Ratio</b>
062/063	12922.5431	3449.0941	3.745
063/064	15545.7787	5435.1897	2.86
064/065	21365.0533	8464.0861	2.52
065/066	27589.9330	8310.7082	3.32
066/067	32268.8732	14711.1584	2.19

*(Sources: Financial Summary of Nabil)*

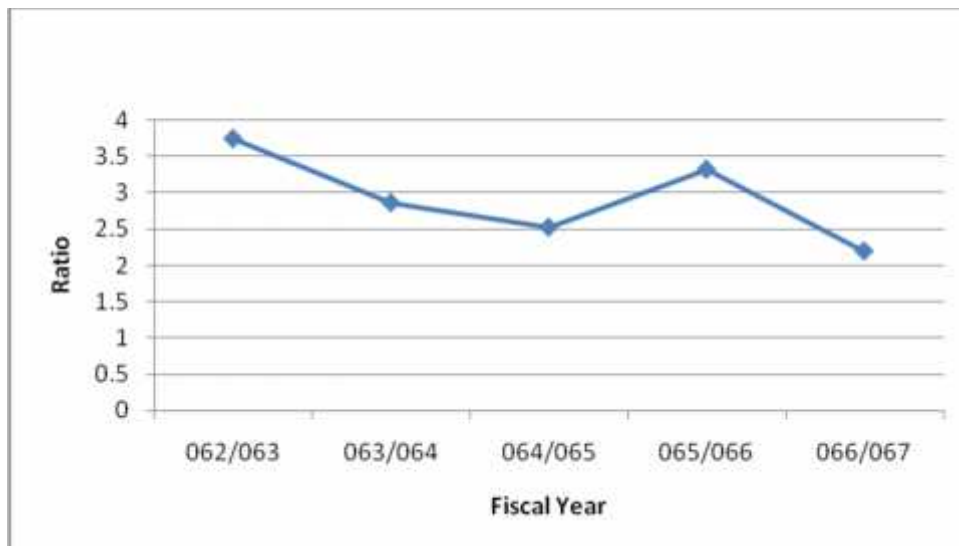
The above table depicts that the loan advances to total fixed deposit ratio of Nabil was decreased in fiscal year 063/064 than

previous year 062/063. In Fiscal year 064/065 it decreased and reached to 2.52. In fiscal year 065/066 increased and reached up to 3.32. Ratio decreased at the end of fiscal year 66/067. Highest ratio is 3.745 in fiscal year 062/063.

For understanding it more clearly, the loan and advances and fixed deposit and its ratio of Nabil can be presented in figure with the help of trend analysis method.

**Figure 4.8**

**Loan and Advances to Fixed Deposit Ratio of NABIL**



The above figure clearly shows that the loan and advance to fixed deposit of Nabil was decreased in fiscal year 064/65 from 062/63. Then fiscal year 065/66 increased ratio is 3.32. And in fiscal year 066/67 again down and reached ratio 2.19.

The above analysis implies that the utilization of fixed deposit in loan and advances efficiently or not. The higher ratio implies the efficient mobilization of fixed deposit and vice versa. From the above trend analysis we can conclude that the Nabil has been mobilizing its fixed deposit quite satisfactory.

### 4.2.2.3. Loan and Advance to Saving Deposit Ratio

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

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

The Following table and figure shows the loan and advance to saving deposit ratio of Nabil.

**Table 4.9**

#### **Loan and Advances to Saving Deposit Ratio of NABIL**

*(Rs. In million)*

<b>Fiscal Year</b>	<b>Loan and Advances</b>	<b>Total Saving Deposit</b>	<b>Ratio</b>
062/063	12922.5431	8770.7594	1.47
063/064	15545.7787	10187.3544	1.53
064/065	21365.0533	12159.9664	1.76
065/066	27589.9330	14620.4073	1.89
066/067	32268.8732	13783.5859	2.34

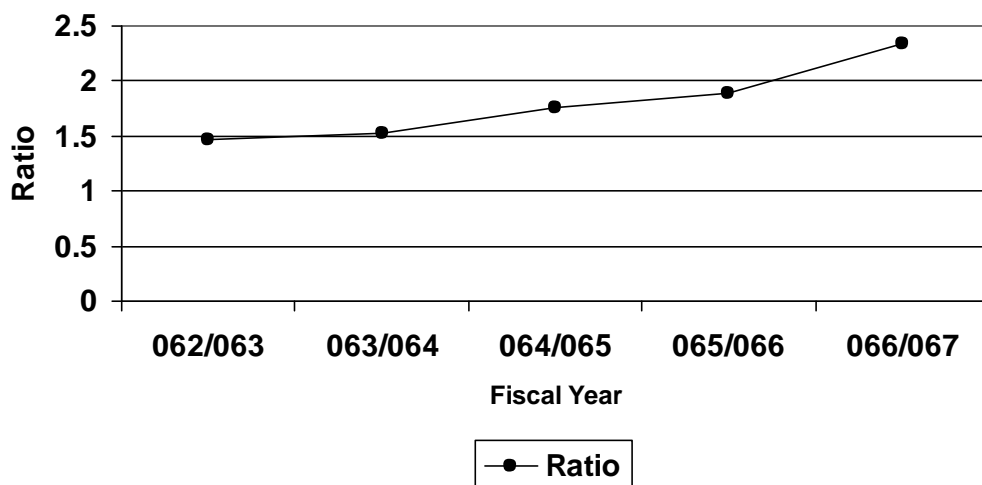
*(Sources: Financial Summary of Nabil)*

As depicted by above table, the saving deposit of Nabil has been gradually increasing ratio in last five fiscal year. In fiscal year 062/063 is 1.47. In fiscal year 063/064 ratio increased and reached 1.53. Similarly

ratio 1.76, 1.89 increased in fiscal year 064/065, 065/066 respectively. In fiscal year 066/067 increasing high ratio and reached 2.34.

In other hand the loan and advances has been gradually increased up to final year of the study period.

**Figure 4.9**  
**Loan and Advances to Saving Deposit Ratio of NABIL**



The above figure clearly shows that the loan and advance to saving deposit ratio of Nabil is very fluctuating.

Form the above analysis it can be concluded that the saving deposit of the bank has been effectively utilized in loan and advances.

### 4.2.3. Capital Structure of Leverage Ratio

Leverage refers to the ratio of debt to equity in the capital structure of the firm. Debt and equity are long-term obligations and remaining parts in the liabilities side of the balance sheet are trended as short-term obligations. Both types of obligations are required in forming the capital structure of the firm. The long-term financial position of the firm is determined by the leverage or capital structure. The different

leverage ratios are maintained to measure the financial risk or proportion of outsiders fund and owner's capital used the firm. The bank often uses these ratios to see how the assets are financed i.e. by creditors or through their own investments. In general, a bank will consider a lower ratio to be an indicator of the ability to repay the creditors. The ratios will vary from industry to industry, and over time, interpreting ratios requires knowledge of the business industry and the reasons for fluctuations.

#### 4.2.3.1. Net Fixed Assets to Long-term Debt Ratio

Here, net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows.

$$\text{Net fixed Assets to long term Debt Ratio} = \frac{\text{Net fixed Assets}}{\text{Long term Debt}}$$

**Table 4.10**

#### **Net Fixed Assets to Long-term Debt Ratio of Nabil**

*(Rs. In million)*

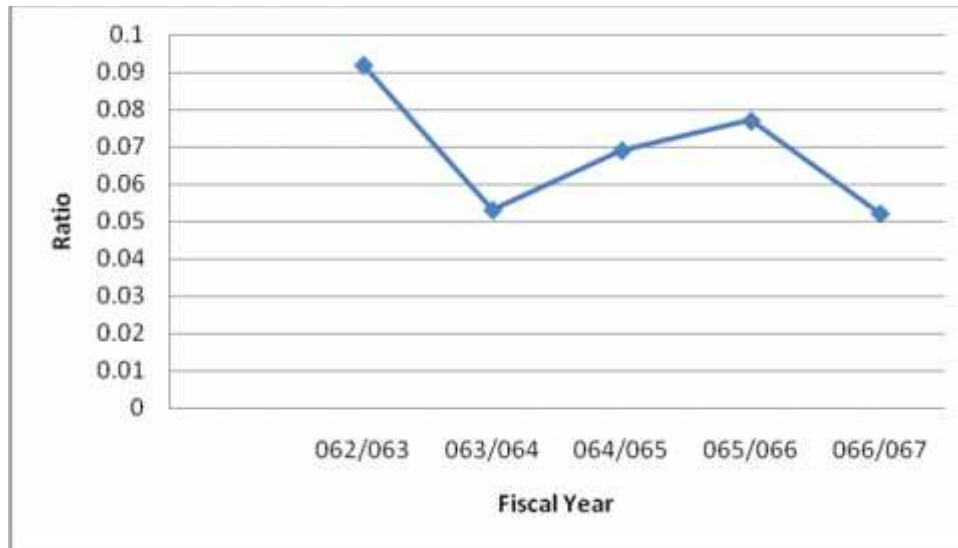
<b>Fiscal Year</b>	<b>Net Fixed Assets</b>	<b>Long-term Debt</b>	<b>Ratio</b>
062/063	319.0861	3449.0941	0.092
063/064	286.8952	5435.1897	0.053
064/065	598.0389	8704.0861	0.069
065/066	660.9889	8610.7082	0.077
066/067	779.5397	15011.1584	0.052

*(Sources: Financial Summary of Nabil)*

The above table clearly show that the ratio in fiscal year 062/63 is 0.092. In fiscal year 063/64 decreased and reached ratio 0.053. In fiscal year 064/65 increased and reached ratio 0.069 and increased fiscal year 065/66 ratio is 0.077. In fiscal year 066/67 increased and reached ratio 0.052.

**Figure 4.10**

**Net Fixed Assets to Long-term Debt Ratio of Nabil**



In the above figure clearly show that the ratio in fiscal year 062/63 is 0.092. In fiscal year 063/64 decreased and reached ratio 0.053. In fiscal year 064/65 increased and reached ratio 0.069 and increased fiscal year 065/66 ratio is 0.077. In fiscal year 066/67 decreased and reached ratio 0.052.

#### **4.2.4. Profitability Ratio**

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. For instance, the business may have experienced a downturn in its net profit margin by 10% over the last 3 years, which may seem worrying.

#### 4.2.4.1. Interest Earned to Total Assets Ratio

It is the ratio, which formed to find out be percentage of the interest earned to total assets. This is derived by dividing the amount of interest earned by the total assets of the firms.

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

The following table and figure shows the interest earned to total assets ratio of the Nabil.

**Table 4.11**  
**Interest Earned to Total Asset s Ratio of Nabil**

*(Rs. In million)*

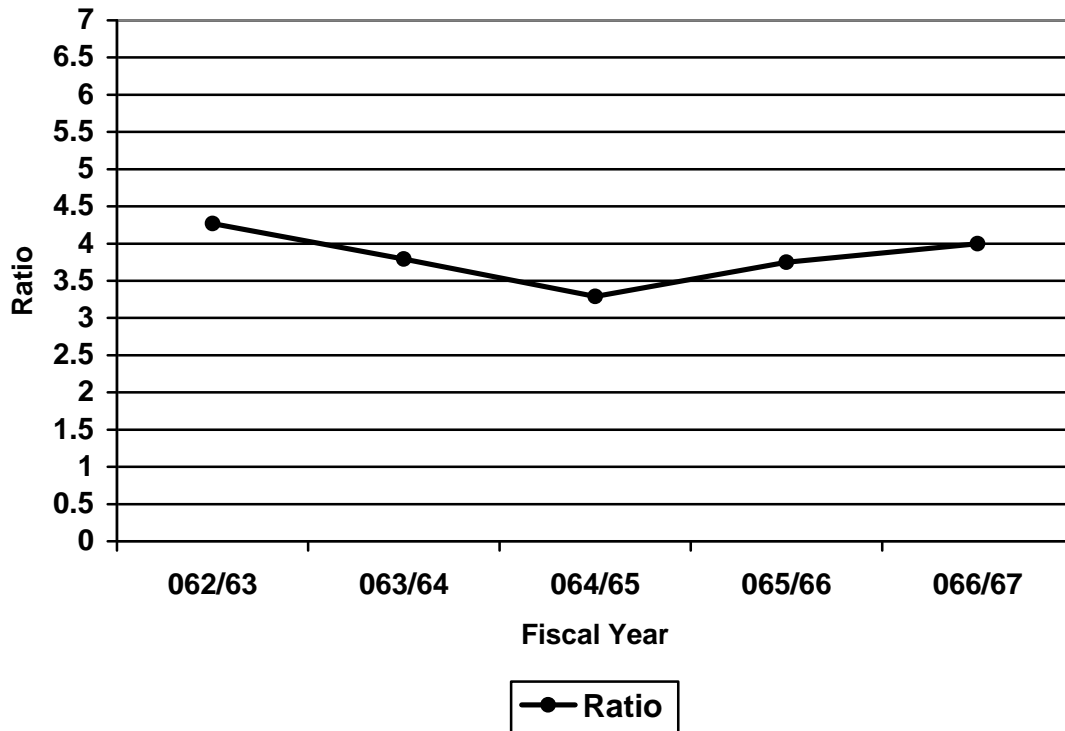
<b>Fiscal Year</b>	<b>Interest Earned</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
062/063	952.8372	22329.9710	4.27%
063/064	1032.0486	27253.3930	3.79%
064/065	1220.2605	37132.7591	3.29%
065/066	1645.2061	43867.3975	3.75%
066/067	2087.6178	52150.2373	4.00%
Average			3.82%

*(Sources: Financial Summary of Nabil)*

The interest earned has been following ups & down . The total asset of the Nabil has been also increasing gradually over the study period. Interest earned to total assets ratio of the bank was quite fluctuating. It was stand at 4.27% in fiscal year 062/63. It was decreased in fiscal year 063/064 and reached up to 3.79%.In the F/Y 065/066 & F/Y 065/066 it was decreased and reached to 3.29% & 3.75% respectively. It is increased in fiscal year 066/067 and reached 4.00%.The average ratio of the Nabil was 3.82% over the study period.

The following figure shows the ratio of interest earned to total of the bank.

**Figure 4-11**  
**Interest Earned to Total assets Ratio of NABIL**



The above figure depicts that Interest earned to total assets ratio of Nabil ups & down position over the study period. In fiscal year 064/65 the trend of the bank was in increased. But at the fiscal year 062/063 & 063/064 it seems to in declining position and again a fiscal year 066/67 it started to grow position.

From the above analysis we can conclude that the interest earned to total assets of the Nabil is not so much satisfactory, it is quite ok. It implies that the bank might not be able to use its total assets of funds to earned interest.

#### 4.2.4.2. Net Profit to Total assets Ratio

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets is computed by using following formula.

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

**Table 4-12**  
**Net Profit to Total Assets Ratio of Nabil**

*(Rs. In million)*

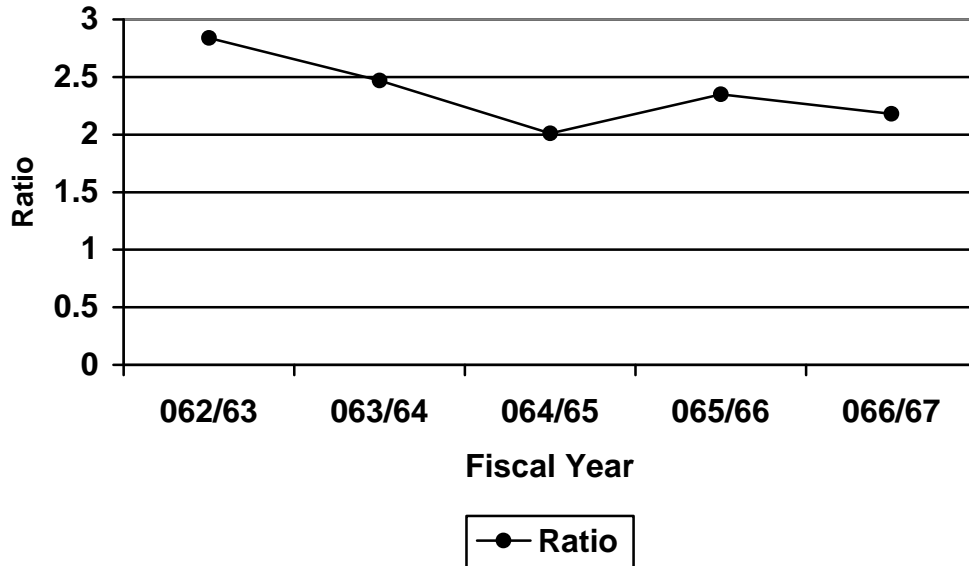
<b>Fiscal Year</b>	<b>Net Profit</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
062/063	635.2623	22329.9710	2.84
063/064	673.9597	27253.3930	2.47
064/065	746.4683	37132.7591	2.01
065/066	1031.0531	43867.3975	2.35
066/067	1139.0993	52150.2373	2.18
Average			2.37

*(Sources: Financial Summary of Nabil)*

As shown in the above table the net profit of the bank was Rs. 635.2623 million in F/Y 062/063, Rs, 673.9597 Million in F/Y 063/064, Rs 746.4683 million in F/Y 064/065, Rs. 1031.0531 million in F/Y 065/066 and Rs. 1139.0993 million in F/Y 066/067. The net profit has been also increasing gradually over the study period. Likewise total assets also increasing over the study period. the ratio of net profit to Total assets is ups & down position. The average of net profit to total assets ratio is 2.37 over the study period.

**Figure 4-12**

**Net Profit to Total Assets Ratio of NABIL**



The above figure implies that the ups&down position of net profit to total assets ratio in percentage of Nabil. Above analysis helps to find out whether the bank efficiently used its working funds or total assets to earned higher rate of profit or not. The ratio of net profit to total assets of Nabil implies that the bank could able to use its available working funds more effectively over the study period which signify towards the fast growth of the bank.

**4.2.4.3. Net Profit to Total Deposit Ratio**

This ratio is used to measuring the internal rate of return deposits. It is computed dividing the net profit by total deposits. Higher ratio indicates the from investment on loans and advances are desirable and lower indicates the funds are not properly mobilizing. The following formula is used as:

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

**Table 4-13**  
**Net Profit to Total Deposit Ratio**

*(Rs. In million)*

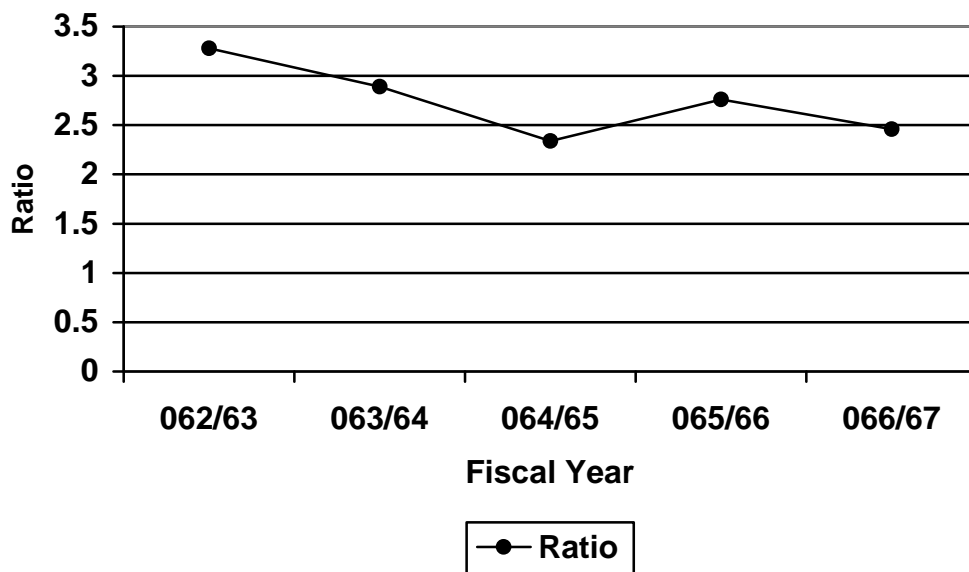
<b>Fiscal Year</b>	<b>Net Profit</b>	<b>Total Deposit</b>	<b>Ratio (%)</b>
062/063	635.2623	19347.3994	3.28
063/064	673.9597	23342.2853	2.89
064/065	746.4683	31915.0474	2.34
065/066	1031.0531	37348.2558	2.76
066/067	1139.0993	46340.7006	2.46
Average			2.75

*(Sources: Financial Summary of Nabil)*

The above table shows that the total deposit of Nabil has been gradually increasing over the period of study. Similarly, the net profit is also increasing from F/Y 062/063 to F/Y 066/067. Likewise the ratio has been gradually decreased in first three years and reached to 2.34 in fiscal year 064/065 and again start increased from fiscal year 065/066 reached 2.76. The ratio stands at 2.46 at the end fiscal year 066/067. The average of net profit to total deposit ratio is 2.75 over the study period.

The above analysis helps to find out whether the bank could able to mobilize of outsiders funds properly or not. The mobilization of outsiders fund is very important to earn profit for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank mobilized its deposit as efficiently as possible. As shown in above tale we can easily conclude that the bank could able to mobilize its deposit or outsiders funds efficiently. The bank has been mobilized its deposit properly to increase profit.

**Figure 4-13**  
**Net Profit to Total Deposit Ratio**



The above figure shows that the total deposit of Nabil has been gradually increasing over the period of study. Similarly, the net profit is also increasing from F/Y 062/063 to F/Y 066/067. Likewise the ratio has been gradually decreased in first three years and reached to 2.34 in fiscal year 064/065 and again start increased from fiscal year 065/066 reached 2.76. The ratio stands at 2.46 at the end fiscal year 066/067. The average of net profit to total deposit ratio is 2.75 over the study period.

#### **4.2.4.4 Cost of Service to Total Assets Ratio**

A sound management always tries to utilize its larger amount of assets with minimum cost. This ratio is useful in measuring the assets utilization with cost of service, the ratio can be expressed as below

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

The following table shows the cost of bearing of services taking by Nabil

**Table 4-14**  
**Cost of Service to Total Assets Ratio of NABIL**

*(Rs. In million)*

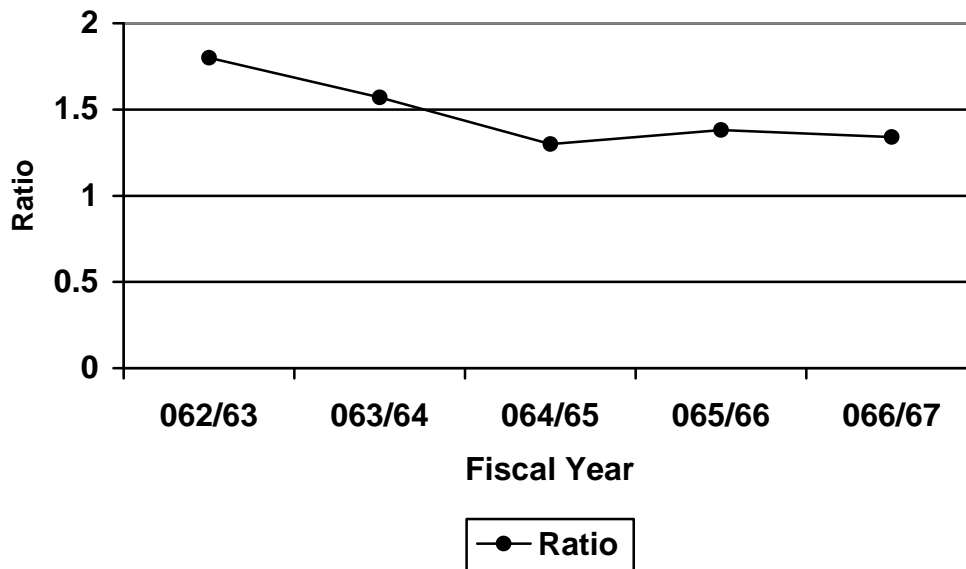
<b>Fiscal Year</b>	<b>Cost of Service</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
062/063	402.4772	22329.9710	1.80
063/064	428.3445	27253.3930	1.57
064/065	483.658	37132.7591	1.30
065/066	605.0559	43867.3975	1.38
066/067	701.1262	52150.2373	1.34
Average			1.48

*(Sources: Financial Summary of Nabil)*

From the above table shows that the total asset of the Nabil has been increasing gradually over the study period. The cost of service included operating expenses and salaries, allowances and provident fund. The cost of service of the Nabil cost of service to total assets ratio is 1.80 in fiscal year 062/63. Then in last two years has been decreased from F/Y 063/064 to F/Y 064/065. In fiscal year 065/066 it's slightly increased to 1.38%. In fiscal year 066/67 ratio decreased and reached 1.34. The average ratio of cost of service to total assets is stands at 1.48%.

figure 4-14

**Cost of Service to Total Assets Ratio of NABIL**



From the above figure shows that the total asset of the Nabil has been increasing gradually over the study period. The cost of service included operating expenses and salaries, allowances and provident fund. The cost of service of the Nabil cost of service to total assets ratio is 1.80 in fiscal year 062/63. Then in last two years has been decreased from F/Y 063/064 to F/Y 064/065. In fiscal year 065/066 it's slightly increased to 1.38%. In fiscal year 066/67 ratio decreased and reached 1.34. The average ratio of cost of service to total assets is stands at 1.48%.

### 4.3 Correlation Analysis

Correlation analysis is a statistical relation two or more variables such that systematic changes in the value of one variable are accompanied by systematic changes in the other, In other words, correlation is the statistical tool that we can use to describe the degree to which on variable is linearly relation to another. The coefficient of correlation measure the degree of relationship between two sets of figure. It is denoted by small letter 'r' The result of coefficient of

correlation is always between +1 and -1 when 'r' is equal to +1, it means there is perfect relationship between two variables and vice versa, When 'r' is zero It means there is no relationship between two variables. Therefore correlation is a reciprocal relation between two or more things.

#### **4.3.1. Coefficient of Correlation between Investment on Government Securities and Total Deposit**

The Coefficient of correlation between investment on government securities and total deposit is to measure the degree of relationship between two variables. Although, bank utilizes its deposit on loan and advances but some part of idle deposit are invested on government securities. The purpose of computing correlation coefficient is to justify whether the excess deposits are significantly used in government securities or not or whether there is any relationship between these two variables, In this analysis, government security is dependent variable (X) and total deposit is independent variable (Y) The following table shows the coefficient between deposits and government securities i.e., 'r', 'PE', '6PEr' of Nabil over the study period.

**Calculation of Coefficient of Correlation between Investment on Government Securities and Total Deposit.**

GS (X)	TD (Y)	$x = \sum X - \bar{X}f$	$x^2$	$Y = \sum Y - \bar{Y}f$	$y^2$	$xy$
6178.53	19347.40	(3719.65)	13835811	(12311.34)	151569092.6	45793875.83
8945.31	23342.29	(952.87)	907965.05	(8316.45)	69163340.6	7924495.71
9939.77	31915.05	41.59	1729.56	256.31	65694.82	10659.93
10826.38	37348.26	928.20	861551.53	5689.52	32370637.83	5281012.46
13600.92	46340.70	3702.74	13710268.7	14681.96	215559949.4	54363480.57
X= 49490.91	Y= 158293.70		$X^2 =$ 29317325.8		$Y^2 =$ 468728715.3	$xy =$ 113373524.5

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

$$= \frac{49490.89}{5}$$

$$= 9898.182$$

$$\bar{Y} = \frac{\sum Y}{N}$$

$$= \frac{158293.7}{5}$$

$$= 31658.74$$

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

$$r = \frac{113373524.5}{\sqrt{29317325.84 \times 468728715.3}}$$

$$= 0.9671$$

$$PEr = 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

$$= 0.6745 \frac{1Z(0.9671)^2}{\sqrt{5}}$$

$$= 0.0289$$

$$6PEr = 6 \times 0.0289$$

$$= 0.1734$$

**Table 4-15**

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

<b>Name of Bank</b>	<b>Correlation (r)</b>	<b>PEr</b>	<b>6PEr</b>
<b>NABIL</b>	<b>0.9671</b>	<b>0.0289</b>	<b>0.1734</b>

From the above table we can find the coefficient of correlation between government security and total deposit of Nabil value 'r' is +0.9671. It shows that the positive relationship between these two variable government security and total deposit of the bank. By considering the probable error less than six times of PEr then we can say that the value of 'r' is not significant and in case of Nabil the value of ;'r; is geater than the value of of PEr i.e.  $r > PEr$  so there is significant relationship between government security and total deposit of the bank.

Hence form the above analysis, it can be concluded that there is significant relationship between government security and total deposit of the bank over the study period.

### 4.3.2. Coefficient of Correlation between Loan and Advance and Total Deposit

The Coefficient of correlation between loan and advances and total deposits is to measure the degree of relationship between major components of current assets i.e. loan and advances and major sources of fund on bank i.e. total deposits. In correlation analysis, deposit is independent variable (Y) and Loan and advances is dependent variable (X). The purpose of computing coefficient of correlation is to justify whether the deposits are significant used in loan and advances or not and whether there is any relationship between these two variables. To find out the correlation, various calculations are done.

#### Calculation of Coefficient of Correlation between Loan & Advances and Total Deposit.

LA (X)	TD (Y)	X = $\sum X - \bar{X}f$	X <sup>2</sup>	y = $\sum Y - \bar{Y}f$	y <sup>2</sup>	xy
12922.54	19347.40	(9015.89)	81286344.62	(12311.34)	151569092.6	110997687.19
15545.78	23342.29	(6392.65)	40866025.16	(8316.45)	69163340.6	53164154.09
21365.05	31915.05	(573.38)	328769.21	256.31	65694.82	146963.0278
27589.93	37348.26	5651.50	31939407.04	5689.52	32370637.83	32154322.28
32268.87	46340.70	10330.44	106717907.95	14681.96	215559949.4	151671106.86
<b>X = 109692.17</b>	<b>Y = 158293.70</b>		<b>X<sup>2</sup> = 261138453.98</b>		<b>Y<sup>2</sup> = 468728715.3</b>	<b>XY = 348134233.44</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{109692.17}{5} = 21938.434$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{158293.70}{5} = 31658.74$$

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

$$r = \frac{348134233.44}{\sqrt{261138453.98 \times 468728715.3}}$$

$$= 0.995$$

$$PEr = 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

$$= 0.6745 \frac{1Z(0.995)^2}{\sqrt{5}}$$

$$= 0.003$$

$$6PEr = 6 \times 0.003$$

$$= 0.018$$

**Table 4-16**

**Coefficient of Correlation between Loan and Advance and Total Deposit**

<b>Name of Bank</b>	<b>Correlation (r)</b>	<b>PEr</b>	<b>6PEr</b>
<b>Nabil</b>	<b>+0.995</b>	<b>0.003</b>	<b>0.018</b>

From the above table depicts that the coefficient of correlation between loan and advances and total deposit value 'r' of Nabil is +0.995. It shows highly positive relationship between two variables loan and advances and total deposit of Nabil. By considering the probable error,

since the value of 'r' i.e. +0.995 is more than six times of probable error i.e. 0.018, we can say that the value of 'r' is highly significant i.e. there is significant relationship between total deposit and loan and advances. What this means essentially is that changing the scale of either the x or the y variable will not change the size of the correlation coefficient, as long as the transformation conforms to the requirements of a linear transformation.

Thus from analysis, we can conclude that the bank have utilized its total deposits on loan and advances effectively.

#### **4.3.3. Coefficient of Correlation between cash and Bank Balance and Current Liabilities**

Cash and bank balance is most liquid component of current assets. This is required to meet the unexpected short term obligation i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are done. In correlation analysis, cash and bank balance is dependent variable (X) and current liabilities are independent variable (Y). The following table shows the coefficient of correlation between cash and bank balance and current liabilities i.e. 'r', 'PEr', '6PEr' of Nabil.

**Calculation of Coefficient of Correlation between Cash and Bank Balance and Current Liabilities.**

C & B(X)	CL (Y)	$x = \sum(X - \bar{X})$	$x^2$	$y = \sum(Y - \bar{Y})$	$y^2$	xy
630.24	20454.98	(1264.52)	1599010.83	(13242.93)	175375194.98	16745949.84
1399.83	25196.34	(494.93)	244955.70	(8501.57)	72276692.46	4207682.04
2671.14	34455.56	776.38	602765.90	757.65	574033.52	588224.307
3372.51	40437.16	1477.75	2183745.06	6739.25	45417490.56	9958926.69
1400.09	47945.50	(494.67)	244698.41	14247.59	202993820.81	(7047855.34)
<b>X=</b> 9473.81	<b>Y=</b> 168489.54		<b>X<sup>2</sup>=</b> 4875175.9		<b>Y<sup>2</sup>=</b> 496637232.33	<b>XY=</b> 24452927.54

$$\bar{X} X \frac{X}{N} = X \frac{9473.81}{5} = 1894.76$$

$$\bar{Y} X \frac{Y}{N} = X \frac{168489.54}{5} = 33697.91$$

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

$$r X \frac{24452927.54}{\sqrt{4875175.9 \times 496637232.33}}$$

$$= 0.50$$

$$PEr = 0.6745 \frac{1 Z r^2}{\sqrt{N}}$$

$$PEr = 0.6745 \frac{1Z(0.50)^2}{\sqrt{5}}$$

$$= 0.23$$

$$6PEr = 6X 0.23$$

$$= 1.35$$

**Table 4-17**

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

<b>Name of Bank</b>	<b>Correlation (r)</b>	<b>PEr</b>	<b>6PEr</b>
<b>Nabil</b>	<b>+0.50</b>	<b>0.23</b>	<b>1.35</b>

As stated in above table we can find that the coefficient of correlation between cash and bank balance and current liabilities of Nabil is +0.50 which shows the positive relationship between two variables cash and bank balance and current liabilities. By considering the probable error, since the value of 'r' i.e. +0.50 is not more than six times of PEr i.e. 1.35

**4.3.4. Coefficient of Correlation between Loan and Advances and Net Profit.**

The basic function of commercial bank is to collect deposit and invest these funds on loan and advance to generate higher profit large amount of loan and advances generate higher profit. The coefficient of correlation between loan and advances and net profit is to measure the degree of relationship between loan and advances and net profit. In correlation analysis, loan and advances is independent variable (Y) and net profit is dependent variable (x). The purpose of computing the

correlation of the coefficient is to justify whether the loan and advances are significantly generate profit or not and whether there is any relationship between these two variables. The following table shows the calculated amount of 'r', 'PEr' and '6PEr' the Nabil over the study period.

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

LA (X)	NP (Y)	$x = \sqrt{X - \bar{X}}$	$X^2$	$Y = \sqrt{Y - \bar{Y}}$	$y^2$	xy
12922.54	635.26	(9015.89)	81286344.62	(209.91)	44061.37	1892525.47
15545.78	673.96	(6392.65)	40866025.16	(171.21)	29312.18	1094485.61
21365.05	746.47	(573.38)	328769.21	(98.698)	9741.30	56591.46
27589.93	1031.05	5651.50	31939407.04	185.88	34552.12	1050500.82
32268.87	1139.10	10330.44	106717907.95	293.93	86396.03	3036426.23
<b>X=</b> <b>109692.17</b>	<b>Y=</b> <b>4225.84</b>		<b>X<sup>2</sup>=</b> <b>261138453.98</b>		<b>Y<sup>2</sup>=</b> <b>204063</b>	<b>XY=</b> <b>7130529.59</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{109692.17}{5} = 21938.434$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{4225.84}{5} = 845.168$$

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

$$r = \frac{7130529.59}{\sqrt{261138453.98 \times 204063}}$$

$$= 0.98$$

$$PEr = 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

$$= 0.6745 \frac{1Z(0.98)^2}{\sqrt{5}}$$

$$= 0.011$$

$$6PEr = 6 \times 0.011$$

$$= 0.068$$

**Table 4-18**

**Coefficient of Correlation between Loan and Advance and Net Profit.**

<b>Name of Bank</b>	<b>Correlation (r)</b>	<b>PEr</b>	<b>6PEr</b>
<b>Nabil</b>	<b>+0.98</b>	<b>0.011</b>	<b>0.068</b>

As stated in above table the coefficient of correlation between loan and advances and net profit of Nabil over the study period is 0.98. It shows positive relationship between two variables loan and advances and net profit. Similarly considering the value of probable error and six times of probable error which value are 0.011 and 0.068 respectively. These values are less than coefficient of correlation.

Thus from the above analysis. It can be conclude that there is significant relationship or relationship is positive between loan and advances and net profit because change in any variable can affect the value of other variable.

#### **4.4. Major Finding of the Study**

**The following are the major findings of the study.**

) The working capital of Nabil was amounted Rs. 1555.9083 million in F/Y 062/63 then Working Capital has been increasing Rs.1770.1543 million, Rs.2079.16 million in fiscal year 063/64,F/Y 064/65 respectively..In F/Y 065/66 & F/Y 066/67 the Working capital of bank was able to increased and reached Rs. 2801.2515 million,3355.1976 million respectively. The working capital depicts the liquidity position of any organization. It means higher the working capital higher the liquidity of the firm and vice versa. Total working capital of the bank was limited to Rs. 1555.9083 million, Rs. 1770.1543 million, Rs. 2079.16 million, Rs. 2801.2515 million and Rs. 3355.1976 million at the end of F/Y 062/62, 063/64, 064/65, 065/66 and 066/67 respectively.

) The current ratio of the bank was decreasing for the first three year, which stands 1.076 at F/Y 062/63, 1.070 at F/Y 063/64 1.060 at F/Y 064/65 respectively. In F/Y 065/66 the Current ratio has increased & stands 1.068 and in fiscal year 066/67 current ratio has slightly increased & stands 1.069. The average CR of the bank stands at 1.0686 over the study period. As stated by the result, the bank has enough liquidity to remain solvent at the ratio of 1.060, which is minimum in F/Y 064/65. In this case, the bank has enough idle money which can not generate inflow to the bank. Higher current ratio shows the idle fund of the bank.

) The quick ratio of the bank is also representing by the current ratio. The Q.R. of the bank is same as C.R. It means, quick ratio is also

fluctuating and the bank has enough idle fund is unproductive to the bank. So, bank has to reset ratio to meet its current liabilities.

) The cash and bank balance to total deposit ratio excluding fixed deposit of the bank increasing up to fiscal year 065/66 and decreasing in F/Y 066/67. It indicates that how much funds available with the bank to cover its current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. This ratio stands average 0.0592 over the study period which means bank is in satisfactory level.

) The saving deposit to total deposit ratio of the bank has been gradually decreasing over the three year but in fourth year slightly increased. It stands at average 0.392 over the study period. Thus, the ratio indicates the bank's liquidation position. Higher level of this ratio of the bank indicates to the idle fund too. From profitability point of view, the bank should minimize the ratio. As depicted by the study.

) The loan and advances to total deposit ratio of Nabil was quite fluctuating. The ratio stands 0.67 in fiscal year 062/63, 0.66 in fiscal year 063/64, 0.67 in fiscal year 064/65, 0.74 in fiscal year 065/66 and 0.69 in fiscal year 066/67. The ratio indicates the capacity of the bank to mobilization its deposit. As stated by the study, the mobilization of deposit of the bank is satisfactory level over the study period.

) The loan and advances to fixed deposit ratio of Nabil was slightly decreased in fiscal F/Y 063/64 to 064/65 but it increases after F/Y 065/66. It stands at 3.32 .In fiscls year 066/67 ratio decreased and

reached 2.19. These ratios indicate the capacity of mobilizing its fixed deposit to loan and advances. It means, these ratios implies to the utilization of fixed deposit in loan and advances efficiently or not. Form the study, it is found that the bank has been mobilizing its fixed deposit quite satisfactory.

) The loan and advances to saving deposit ratio of the bank has been increased F/Y 062/063 to F/Y 066/67.. There was consistency in the ratio. Ratio are 1.47, 1.53, 1.76, 1.89, 2.34 at fiscal year 062/63 to 066/67 respectively over the study period. These ratios implies that the bank either able to mobilize its saving deposit or not. As per the study, the bank is in satisfactory position over the study period.

) The net fixed asset to long-term debt ratio of the bank 0.092 at fiscal year 062/63. Ratio has been decreased and reached 0.053 at fiscal year 063/64. Then ratio has been increased and reached 0.069, 0.077 at fiscal year 064/65, 065/66 respectively. last fiscal year 066/67 ratio reached 0.052.

) Interest earned to total assets ratio of any organizations indicates the profitability ratio. This ratio of the bank is very fluctuating. It was 4.27% at F/Y 06/63, which is maximum and 3.29% at F/Y 064/65 which is minimum. It stands at average 3.82% over the study period. From the study, it is concluded that the interest earned to total assets ratio of Nabil is quite satisfactory. It means, the bank could able to use its total assets properly to earned interest.

) Net profit total assets ratio of the bank has been fluctuating trend. It was 2.84% in F/Y 062/63, 2.47 in F/Y 063/64, 2.01 in F/Y 064/65, 2.35 in F/Y 065/66 and 2.18 in F/Y 066/67. It stands at average 2.37

over the period of study. The study shows that the bank could able to utilize its total assets to generate profit.

J Net profit to total deposit ratio of the bank the total deposit of Nabil has been gradually increasing over the period of study. Similarly, the net profit is also increasing from F/Y 062/063 to F/Y 066/067. Likewise the ratio has been gradually decreased in first three years and reached to 2.34 in fiscal year 064/065 and again start increased from fiscal year 065/066 reached 2.76. The ratio stands at 2.46 at the end fiscal year 066/067. The average of net profit to total deposit ratio is 2.75 over the study period. This ratio is used to find out whether the bank could able to mobilize outsider's funds properly or not. The mobilization of outsider's funds is very important for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank should mobilize its deposit as efficiently as possible. From the above study, we can easily found that the bank could able to mobilized its total deposit efficiently.

J Cost of services to total assets the of the Nabil has been increasing gradually over the study period. Ratio is 1.80 in fiscal year 062/63. Then in last two years has been decreased from F/Y 063/064 to F/Y 064/065. In fiscal year 065/066 it's slightly increased to 1.38%. In fiscal year 066/67 ratio decreased and reached 1.34. The average ratio of cost of service to total assets is stands at 1.48%. Form the above study we can easily found that the bank has been given effort to decrease its cost of service, there is not doubt that, the decrement of cost of service will result and maximizing profit of the bank. It is quite satisfactory but the bank has to give attention towards further decline of the cost of service.

- J The coefficient of correlation between investment and government securities and total deposit was +0.9671, which is significant over the study period.
  
- J The coefficient of correlation between loan and advances and total deposit stands at +0.995, which is significant. It means there is a positive relationship between loan and advances and total deposit of the bank i.e. perfectly correlated. The bank should increase total deposit to increase loan and advances and vice versa.
  
- J The coefficient of correlation between cash and bank balance and current liabilities was +0.50, which is significant.
  
- J The coefficient of correlation between loan and advances and net profit was +0.98. It means a positive relationship between loan and advances and net profit, which is significant.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary and Conclusion**

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channelized the available resources in the needed sector. Financial institutions like banks are necessity to collect scattered saving and put them into productive channels. In the absence of such institutions it is possible that the saving will not be safety and profitably utilized within the economy. It will be diverted aboard or channelized into unproductive conspicuous consumption including real estate speculation.

Finance is business term which deals with the study of fund management. If finance is to be accepted as weapon which enables an organization to pay its bills promptly it is necessarily linked with the flow of fund. The management may accept or reject a business provision on the basis of financial viabilities. It guides investment where opportunity is the greatest, producing relatively uniform yardstick for judging most of a firm's operations and projects and is continually concerned with achieving an adequate rate of return on investment as this is necessary for survival and the attracting of new capital.

The function of finance involves three major decisions which, the firm must make the investment decision, financing decision and the dividend decision. An optimum combination of the three will maximize the value of the firm. In other words entire activities relating the finance are done with the help of financial management. So in this area of management there are two main functions, firstly to assemble the funds

necessary to initiate a new business economically and secondly to provide the basis of continue new operation.

It will not be an exaggeration to say that the success of any business organization depends upon its entire environment. Financial management is one of the which the organization can control to some extent. It is concerned with the decision making regarding the size and composition of assets and the level and structure, the cheaper source of fund and to invest it at the best opportunities etc. Come under the heading of financial decision making, the management of short-term assets and source of finance which entails and analysis of the effect of risk and profitability can not be overlooked.

The working capital has to be regarded as one of the conditioning factors in the long range analysis and decision making to achieve the goal of overall business, the determinants of working capital management should be as accurate as possible. It means money invested on working capital should be neither more not less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in corporation, and determining which one is more beneficial to the corporation and which is not.

Firm need cash to pay for all their day-to-day activities. They have to pay wages, pay for raw materials, pay bills and so on. They money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets as these are the short-term assets that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be

taken account of when working out how much working capital a firm has at its disposal.

According to gross concept, working capital refers to the capital invested in current assets of a firm. It focuses only on the optimum investment on current assets and financing of current assets. It includes cash, short-term securities, and inventory and account receivables, similarly, according to net concept, working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long term funds. It focuses on the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds.

The working capital of Nabil has been following increasing trend fiscal year 062/63 to F/Y 066/67. The working capital depicts the liquidity position of any organization. It means higher the working capital higher the liquidity of the firm and vice versa. Total working capital of the bank was Rs. 1555.9083 million, Rs. 1770.1543 million, Rs. 2079.16 million, Rs. 2801.2515 million and Rs. 3355.1976 million at the end of F/Y 062/63, 063/64, 064/65, 065/66 and 066/67 respectively.

The current ratio of the bank was quite fluctuating, which stands 1.076 at FY 062/63, 1.070 at F/Y 063/64, 1.060 at F/Y 064/65, 1.068 at F/Y 065/66 and 1.069 at F/Y 066/67 respectively. The average CR of the bank stands at 1.0686 over the study period. As stated by the result, the bank has enough liquidity to remain solvent at the ratio of 1.060, which is minimum in F/Y 064/65. In this case, the bank has enough idle money which can not generate inflow to the bank. Higher current ratio shows the idle fund of the bank. The quick ratio of the bank is also representing by the current ratio. It means, quick ratio is also fluctuating

and the bank has enough idle fund is unproductive to the bank. So, bank has to reset ratio to meet its current liabilities.

The cash and bank balance to total deposit ratio excluding fixed deposit of the bank lightly increasing up to fiscal year 065/66 and drastically decreasing in F/Y 066/67 . It indicates that how much funds available with the bank to cover its current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. This ratio stands average 0.0592 over the study period which means bank is in satisfactory level.

The saving deposit to total deposit ratio of the bank has been gradually decreasing F/Y 063/064 and 064/65 and slightly increased in F/Y 065/066. It stands at average 0.392 over the study period. Thus, the ratio indicates the bank's liquidation position. Higher level of this ratio of the bank indicates to the idle fund too. Form profitability point of view, the bank should minimize the ratio. As depicted by the study, Nabil's position seems satisfactory level over the study period. The loan and advances to total deposit ratio of Nabil was quite fluctuating. The ratio stands 0.67 in fiscal year 062/63, 0.66 in fiscal year 063/64, 0.67 in F/y 064/65, 0.74 in fiscal year 065/66 and 0.69 in fiscal year 066/67. The ratio indicates the capacity of the bank to mobilization its deposit. As stated by the study, the mobilization of deposit of the bank is satisfactory level over the study period.

The loan and advances to fixed deposit ratio of Nabil was slightly decreased in fiscal F/Y 063/64 and 064/65 but it increases the F/Y 065/66. Ratio 2.19 at F/Y 066/67 at the end of study period. These ratios indicate the capacity of mobilizing its fixed deposit to loan and advances. It means, these ratios implies to the utilization of fixed

deposit in loan and advances efficiently or not. From the study it is found that the bank has been mobilizing its fixed deposit satisfactorily.

The loan and advances to saving deposit ratio of the bank has been following an increasing trend. The saving deposit of Nabil has been gradually increasing in the last five fiscal years. In fiscal year 062/063 it is 1.47. In fiscal year 063/064 the ratio increased and reached 1.53. Similarly, ratios of 1.76, 1.89 increased in fiscal years 064/065, 065/066 respectively. In fiscal year 066/067 the ratio increased to a high and reached 2.34. These ratios imply that the bank is able to mobilize its saving deposits. As per the study, the bank is in a satisfactory position over the study period.

Net Fixed Assets to Long-term Debt ratio in fiscal year 062/63 is 0.092. In fiscal year 063/64 it decreased and reached a ratio of 0.053. In fiscal year 064/65 it increased and reached a ratio of 0.069 and in fiscal year 065/66 the ratio is 0.077. In fiscal year 064/65 it increased and reached a ratio of 0.052.

Interest earned to total assets ratio of an organization indicates the profitability ratio. This ratio of the bank is very fluctuating. It was 4.27 at F/Y 062/63, which is the maximum, and 3.29 at F/Y 064/65, which is the minimum. It stands at an average of 3.82 over the study period. From the study, it is concluded that the interest earned to total assets ratio of Nabil is quite satisfactory. It means, the bank could use its total assets properly to interest.

Net profit to total assets ratio of the bank has been fluctuating. It was 2.84 in F/Y 062/63, which is the maximum, and 2.01 in F/Y 064/65, which is the minimum over the study period. It stands at an average of 2.37 over the period of study. The study shows that the bank could not utilize its total assets to generate profit.

Net profit to total deposit ratio of the bank was also fluctuating. It was 3.28 in F/Y 062/63, which is maximum and 2.34 in F/Y 064/65, which is minimum over the study period. It stands at average 2.75 over the period of study. This ratio is used to find out whether the bank could be able to mobilize outsider's funds properly or not. The mobilization of outsider's funds is very important for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank should mobilize its deposit as efficiently as possible. But from the above study, we can easily find that the bank could be able to mobilize its total deposit efficiently.

Cost of services to total assets ratio of the bank has been fluctuating over the year. It was 1.80 in F/Y 062/63, which is maximum and 1.30 in F/Y 064/65, which is minimum over the study period. It stands at average 1.48 over the period. From the above study we can easily find that the bank has been given effort to decrease its cost of service, there is no doubt that, the decrement of cost of service will result in maximizing profit of the bank. It is quite satisfactory but the bank has to give attention towards further decline of the cost of service.

The coefficient of correlation between government security and total deposit of Nabil value 'r' is +0.9671. It shows that the positive relationship between these two variables government security and total deposit of the bank. By considering the probable error less than six times of PEr then we can say that the value of 'r' is not significant and in case of Nabil the value of 'r' is greater than the value of PEr i.e.  $r > PEr$  so there is significant relationship between government security and total deposit of the bank.

The coefficient of correlation between loan and advances and total deposit value 'r' of Nabil is +0.995. It shows highly positive relationship between two variables loan and advances and total deposit of Nabil. By considering the probable error, since the value of 'r' i.e. +0.995 is more than six times of probable error i.e. 0.018, we can say that the value of 'r' is highly significant i.e. there is significant relationship between total deposit and loan and advances. What this means essentially is that changing the scale of either the x or the y variable will not change the size of the correlation coefficient, as long as the transformation conforms to the requirements of a linear transformation.

The coefficient of correlation between cash and bank balance and current liabilities of Nabil is +0.50 which shows the positive relationship between two variables cash and bank balance and current liabilities. By considering the probable error, since the value of 'r' i.e. +0.50 is not more than six times of PEr i.e. 1.35

The coefficient of correlation between loan and advances and net profit of Nabil over the study period is 0.98. It shows positive relationship between two variables loan and advances and net profit. Similarly considering the value of probable error and six times of probable error which value are 0.011 and 0.068 respectively. These values are less than coefficient of correlation

## **5.2 Recommendations**

Suggestions help to take corrective actions in their activities in future. On the base of analysis and findings of the study, following recommendations can advanced to overcome weakness and efficiency and to improve working capital.

### **Increase deposits ratio**

The commercial bank's main source of fund is collecting deposit from public, who don't need that fund recently. Without enough deposit collection, banks cannot operate effectively.

### **Increase investment in government securities**

Nabil has not invested more money in government securities Investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly liquid in nature and have very lower yield than other companies' securities. This also helps to maintain the sound portfolio of the bank. It is better in regard to safety than other means of investment. Bank are strongly recommended to invest more funds in govt. securities.

### **Increase loan & advances**

From the above study, Nabil has not properly used their existing funds as loan and advances. The largest item of the bank in the asset side is loan and advances. If it is neglected, than it could be the main cause of liquidity crisis in the bank and one of the main reasons for a

banks failure. So Nabil is strongly recommend to improve the efficiency in utilizing the deposits in loan and advances for generating the profit.

### **Liberal Lending policy and sound credit collection policy**

Loan & advances are the main source of income and also utilization resources of commercial banks. Negligence in administrating these assets could be the cause of liquidity crisis in the bank and one of the main reasons of bank failure. When the bank grants loan & advances, it must be collected after a certain period. But now days there are many difficulties in recovery loan and advances and large amount of loan is blocked as non performing assets and which sometime reduce income. So it is essential to exercise a suitable mechanism through with the overdue loan can be recovered within time. To fulfill this purpose banks are suggested the special "Loan Recovery Act" should be enacted. Therefore the bank follow liberal policy when sanctioning loan & advances with sufficient guarantee and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower, continual follow up and a legal procedure if required.

### **Increase profit**

Profitability is the main indicator of the financial performance of every business organization & is essential for the survival and growth of banks. But over the study period, Nabil is seen unable to earn a satisfactory level of profit. So, banks are recommended more to earn profit and adopt various measures to improve its profitability.

## **Investment vision**

Portfolio management is very important for each and every investor's. Forming the efficient and optimal portfolios can minimize the risk. Banks have been increasing total investment in every year to earn more profit.

## **Extend branches over the country**

Nabil do not have branches in the rural area of the country. Its branches are limited only to the urban areas only. Therefore, Nabil recommended to open branches in rural areas to help in economic development of the country. NEPAL GOVERNMENT has also encouraged the joint venture banks to expand banking service in rural areas and communities without making unfavorable impact in their profit.

Nabil is taken as one of the most leading joint venture bank in Nepal. It is the one of the most successful bank in Nepal. Today is the world of the competition is growing day by day in the banking sector. It must mobilize its deposits and other fund to profitable, secured and marketable sector so that it can earn a profit as well as it should be secured and can convert into cash whenever needed.

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. The bank is recommended to adopt new technology and services or innovator in introducing many new products such as swift, Atm card , international credit card, locker services, lending against gold and silver services, 24 hours service, holiday banking etc. The bank should involve in different kind of social and community development activities. The bank has been able to provide more personalized services and a better

environment for its customer, it is an effective tool to attract and retain the customers.

An income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credit created by the bank the higher will be the profitability. Nabil Bank has achieved a success in banking sector in term of market share and profitability.

In other to collection much funds, banks are not to be surrounded and limited only big clients i.e. multinational companies, large industries, manufacturing companies, Ngos and Ingos etc. It should also cater the lower and middle level people too.

The loan and advances to total deposit ratio indicates the capacity of bank to mobilize its deposit into loan and advances. It also majors the efficiency of management to utilize their available resources. As found in the above study, the bank could able to mobilize its total deposit through loan and advances. Therefore, the bank should disburse its total deposit as much as possible by means of loan and advances.

Working capital is essential to meet short-term obligations. But high level of working capital increased idle fund which affects the profitability of the bank. Therefore, the bank should maintain sound working position. It means neither more nor less. The working capital of Nabil has been increasing trend. Thus, the bank should try to maintain sound working capital.

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