

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Nepal is a least developed agro based country having average per capita income of about NRs.15,162.00.¹ According to the Population Profile of Nepal 2007, the total population of the country at the end of 2007 is approximate 26.43 million and the estimated population of Nepal at the end of 2008 is approximate 26.97 million. About 83.3 percent of population is living in rural areas. Approximately 80 percent of the population maintains their livelihood through agriculture. The average annual growth (in 10 millions) on Gross Domestic Product (at producer's prices) is 9.38 percent from 2001 to 2007.²

For a better economic condition of any nation there is a need of industrialization. Industrialization is a process of economic development in which growing part of national resources are mobilized to develop a technically up-to-date diversified domestic economic structure characterized by dynamic manufacturing consumer goods, capable of assuming a high rate of growth for economy as a whole and achieving economic and social progress. It is a major instrument of progress, modernization and social change in developing countries. Furthermore, industrialization is the central problem of economic development of backward countries. It is one of the major tools with the aid of which the various circle of backwardness and poverty can be broken.

¹ Nepal Living Standards Survey 2003/04 Statistical Report Volume I

² Nepal Living Standards Survey 2003/04 Statistical Report Volume II

In the country like Nepal where the economy is agro-based, the industrialization plays a vital role in the economic development of the country. It is because industrial development helps country in enormous ways, it contributes to the national income, absorbs the growing labor forces to reduce significantly the disguised unemployment lessons and the dependence on imports and promote exports. Expansion of industry of offers prospects of increased employment; improve balance of payment and more efficient user of resource. In present situation, industrialization has proved itself a most powerful instrument in spending up the economic development through establishment of different companies in different sectors.

Nevertheless, manufacturing sector is also an important component of Industries to develop economy but manufacturing sector is critical to practice sustainable growth due to its potential to promote to technological capacities, advance the diversification of production and exports, and add values to exports and to foster intersectional industry linkages.

In manufacturing companies, working capital plays a vital role in the success or failure of the companies. Working capital management is an important aspect of manufacturing companies. Every business organization needs various types of assets to carryout their operation. Some assets are required to meet long term requirement which are fixed assets and some are required to meet day to day expenses and to pay the current liabilities, which are termed as current assets. Working capital is related to the management of current assets. Among available options, proper management of working capital is the best possible options to improve their operational viability. Working capital is crucial aspect of financial management practices in manufacturing enterprises. Thus, working capital is the lifeblood and controlling nerve-center of the business and success or failure of any business. Business organization heavily depends upon efficiency on its working capital management.

Simply, working capital management means excess of current assets over current liabilities. It refers to the administration of all aspects of the current assets and current liabilities. To run day-to-day operations of the business, amount invested in the form of raw material, cash, semi-finished goods, receivable etc. put together is called working capital.

There are two concepts of working capital, net concept and gross concept. Net concept of working capital is the excess of current assets over current liabilities. Gross concept is the total of current assets. It is practically useful for new companies in deciding size of the investment in each type of current assets. Inadequate investment in working capital threatens the solvency of the company. Excessive investment affects firm's profitability, as idle investment yields nothing. So, with the increase or decrease in business activities, working capital also needs to fluctuate from time to time. This aspect of working capital management is equally applicable to the small as well as large scale enterprises. The main difference of working capital between small and large firm is the working capital management itself in small scale enterprises which decides success or failure of the small firm; whereas in large firms, efficient working capital management significantly affects the firm's risk return and share price.

Working Capital Practices in Nepal

The working capital management practices in the Nepalese manufacturing enterprises provide a totally different picture. The past trend indicates that many manufacturing companies have lower efficiency.

The government policy to concentrate more on fixed capital has overlooked the financing of working capital. So, in order to create the culture of risk bearing ability through commercial prudence and professionalism, the aspect

of working capital should be treated in the same way as the fixed capital while deciding the capital structure of the manufacturing companies.

Until recently, the aspect of working capital concerned with short terms financial decisions has not received much attention in the literature of finance. Because of the earlier emphasis of financial management was more on long term financial decisions. It led to the growth and development of many useful theories concerning long term decisions compared to the short term financial decisions.

In recent years, it has been realized that the areas of working capital intricately inter woven with the success or failure of the enterprises. Today, one may come across with situations where shortage of funds for working capital as well as the uncontrolled over expansion of working capital has caused many business to fail and has stunted their growth. This aspect of financial management is equally applicable to the small as well as large scale enterprises.

1.2 Statement of the Problem

Working capital management plays the vital role for making long run analysis and decision making. One cannot estimate the accurate requirement of working capital in any organizations. The short term liquidity that reduces the risk but holding of higher level of current assets involves higher opportunity cost, which minimizes the return. Inversely, the risk increases and accordingly the return also increase. Therefore, if a firm wants to maintain sound financial position, it should maintain optimal level of working capital. It's not shown easily to maintain daily current assets and current liabilities. So, the task of working capital management should be done seriously. Negligence may create big problem in daily operations of the organization.

In most enterprises, the management of working capital has misunderstood

as the "Management of Money" and the managers are found over conscious about the boarding of money rather than its efficient utilizations. Regarding the management of working capital sources, most of public enterprises are said to be not thinking seriously. They are usually found to be depending on Government of Nepal even for overcoming shortages of working capital. Some of the public enterprises have used depreciation fund and utilized surplus to overcome the poverty of working capital. Working capital has been most intricate and challenging area. The management always faces a trade off between the liquidity and profitability of the firms.

Though, most of the manufacturing companies in Nepal have well recognized the importance of proper working capital management, administrative negligence in day to day operations creates serious liquidity problem like lower turnover of assets, negative rate of return, inappropriate financing policy, higher production and operating expenses. Poor collection and payable are the major problem of Nepalese manufacturing companies. Moreover, various factors have been identified for the low economic performance. Among them, poor financing management is the prominent one. Financial function in Nepalese manufacturing companies means only procuring and rising of funds. It is also seen in practice that there is lack of appropriate assets mixed policy in Nepalese manufacturing companies.

This research study is primarily focused on working capital management of Nepalese manufacturing companies or how they are managing their working capital especially the current assets and if the management policy is appropriate. So, the specific problems that will be analyzed during the study are as follows;

- ❖ Has the manufacturing companies opted appropriate working capital policy? Is the overall working capital management satisfactory?
- ❖ Does the working capital policy of the company effects its profitability? Are they correlated?

- ❖ Does Sales relate to working capital policy of the company? And does it differ due to different working capital policy?

1.3 Objective of the Study

"Working capital plays a vital role of success or failure of any company. The excess working capital as well as inadequate working capital both is harmful for business. The acceptance of working capital concerned with short term financing decision has never been given much attention in the literature of finance because of the earlier emphasis of financial management was more on long term financial decisions as compared to short term financing decision.

The main objective of the study is to examine the working capital management of 2 Nepalese manufacturing companies listed in Nepal Stock Exchange namely Bottlers Nepal Private Limited and Jyoti Spinning Mills Limited. The following are the specific objective of the study.

-) To observe the working capital investment policy opted by Bottlers Nepal Private Limited and Jyoti Spinning Mills Limited.
-) To examine the relation between current assets and the profitability of the companies.
-) To examine the relation between current asset and sales of the companies.

1.4 Focus of the study

Every business firm needs various types of assets to run the business without any interruption of working capital. Working capital defines as an important decision, which plays a decisive role in manufacturing sectors. Especially manufacturing companies must have an adequate supply of raw materials which has to convert into work-in-progress and then into finished goods. Such

finished products are sold into the market. It also must have capability of waiting for the market and also have ability to sell in credit in the era of cutthroat competition. Neither excess working capital nor less working capital is good for the company. So, it has to be managed in such a way that it will be adequate for maintain solvency and continuing business. Without effective management of working capital, manufacturing company cannot run and grow properly. So, the study is focused on how the working capital management is managing in Nepalese manufacturing companies listed in NEPSE.

The study will be focused mainly on the working capital management of two manufacturing companies listed in NEPSE; which are as follows:-

1. Bottlers Nepal Private Limited(BNPL)
2. Jyoti Spinning Mills Limited(JSML)

1.5 Limitations of the Study

This proposed research work is being done for partial fulfillment of master's level program in management with core subject as finance. So, due to time constraint and area of study covered by the research, it has certain limitations.

1. There are 32 manufacturing companies listed in NEPSE. Only 2 companies have been taken for comparative study.
2. All the time of conducting this study, data are available up to the fiscal year 2007. The period covered is from July 2002 to June 2007 as per Nepali fiscal year.
3. All the analysis depends upon secondary data due to unavoidable circumstances to obtain primary data.
4. The accuracy of the research work is dependent upon the data provided by concerned companies.

1.6 Organization of the Study

This study has been divided into five chapters.

The first chapter will deal with the introduction on working capital management, the need, objectives, and limitations of the study. It also describes the statement of the problem and the hypothesis set for the study.

The second chapter is very important chapter which covers the review of literature. It will basically describe how the study will go further, what were the studies done in the past in the same subject matter including national and international articles, journals, research papers and thesis. It will show the conceptual framework of the study. The definitions of the financial terms related with this study.

The third chapter will deal with research methodology. The research design, nature and sources of data, population and sample followed financial tools and statistical tools to be used for the analysis of the study.

The fourth chapter will deal with presentation and analysis of data based on the data given by the respective companies. Both financial and statistical analysis will be done. To examine the overall working capital policy and the policy adopted by the company, financial analysis will be done and to examine the correlation between current assets and sales and also the correlation between current assets and profit, the statistical analysis will be done including hypothesis test.

The fifth chapter will conclude this study with the research conclusion and recommendations. This is basically the important chapter of this study.

CHAPTER TWO

REVIEW OF LITERATURE

The main objective of this chapter is to analyze and clarify the need of the study rationally and systematically. It reviews literature on working capital management by theoretical framework. It includes different views of experts and researchers done by Master's Degree Level students, who accomplished their researches in different companies of Nepal. The main focus of this chapter is on review of literature. Moreover, in order to make this study more comprehensive, it is important to go through the relevant literatures.

The review of literature is organized in the following categories; a) Conceptual Framework, b) Review of related studies

2.1 Conceptual Framework

Every manufacturing company requires various types of assets in order to carry out its functions without any interruption. Such assets are classified on fixed and current assets. Fixed assets are those assets which are required for long term production and current assets are required to meet the need of regular production, day to day expenses and short term obligation. Khan and Jain, (1997:163)

Working capital is termed as all the short term assets used in day to day operation of firms. The management of such assets is described as working capital management. It is one of the most important aspects of the overall financial management (Khan and Jain, 1999:15.2).

Working capital plays a vital role in the success or failure of the business. It is also known as circulating capital (Kulkarni, 199:374).

Working Capital represents that part of fund, which circulates from one form of current assets to another form in the ordinary course of business. For example cash is used to purchase materials, merchandise goods, fuel, labor, staff etc. It creates inventories, then finished goods, inventories are sold in market, it change to cash (Khan and Jain, 1999: 15.3)

Therefore, working capital management is concerned with the problems which arises in attempting to manage the current assets, current liabilities and interrelationship that exists between them. The term current assets refers to those assets which can be or will be turned in to cash with in one year with out undergoing a reduction in value and without disrupting the operation of the firm. The major current assents are cash, marketable securities, current receivables and inventories, current liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business within a year, out of the current assets of earning of the concerned. The basic current liabilities are accounts payable, bills payable, bank overdraft and outstanding expenses.

The goal of working capital is to manage the firm's current assets and current liabilities in such a way that a satisfactory level of working capital management is maintained. It helps the firm to operate day to day transactions and operations without any interruption. If the firm cannot maintain the satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the current assets must manage efficient in order to maintain the liquidity of the firm while not keeping too high level of any one of them.

Each of the short term sources of financing must be continuously managed to ensure that they are obtained and used in the best possible manner. The interaction between current assets and current liabilities is, therefore, the main theme of the theory of working capital management (Khan and Jain, 1993:603).

Working capital management is very difficult task for financial manager because both excess working capital and less working capital are harmful to the business. Greater the relative proportion of liquid assets, lesser the risk of running out of cash, all other being equal. However, profitability will be less (Kunhhal, 1988:356).

On the other hand inadequate amount of working capital can threaten the solvency of the organization if its fails to meet its current financial obligation. The higher return is due to the less money tied up in non-income earning assets and then higher risk is due to the possibility of shortage of cash in the event of urgency. Thus, a low liquidity is associated with high rate of return (Pradhan,1986:22).

The main objective of shareholders and investors is to maximize the return of their investment. But it does not mean that low liquidity is the best interest of shareholders wealth but liquidity has to do with assuring that the enterprises is able to satisfy its entire current financial obligations. (Pradhan,1986: 22)

Thus, it plays the crucial role in the success and failure of an organization as it deals with that part of assets, which is transformed from to another form during the course of manufacturing cycle. Therefore, the role of working capital management is more significant for every business organization irrespective to their nature. The financial decision on working capital management is planning, utilizing and controlling its current assets/short term assets in term of the requirement of the company, and liquidity position of the company. The skill of working capital management should be unique to make

an efficient use of funds for minimizing the risk of loss to attain profit objectives.

2.2 Concept of Working Capital

There are two concepts of working capital, one is gross concept and another is net concept.

2.2.1 Gross Working Capital

The concept refers to total sum of current assets that can be converted into cash within a year. Gross working capital and total current assets are synonymous. It includes cash, marketable, securities, account receivable, bills receivable, inventory and prepaid expenses, from the management viewpoint, gross working capital deals with problems of managing individual assets in the day to day operation (Kuchhal, 2988:157). The gross concept emphasizes the excessive investment in current assets affects profitability, as idle investment in current assets make it different to carryout the day to day operation of the business smoothly (Pradhan,1986:19)

Gross working capital = total current assets

Gross working capital is also known as quantitative concept because it does not concern about the current liabilities, and difference between current assets and current liabilities. Thus this concept is useful for new business enterprises to manage the working capital (K.C, 2051: 81)

2.2.2 Net Working Capital

This concept refers to the difference between current assets and current liabilities. The need for this concept arises because the gross concept fails to consider current liabilities. The current liabilities are those liabilities, which can be claimed by outsider/suppliers within a year. It includes account payable, bills payable and outstanding expenses. The concept of networking capital

helps the management to look for permanent sources for its financing since working capital under this approach does not increase with increase in short term borrowing (Kunchhal, 1988:157).

Net working capital can be positive and negative. A negative networking capital occurs when current assets are in excess of current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets (Pandey, 199:808)

Net working capital = current assets-current liabilities

Net working capital is that portion of firms' current assets, which is financed with long term fund (K.C 2051:82). Networking Capital is different in the amount of working capital is financed by long term fund. This concept is also known as qualitative concept of working capital; it shows liquidity of business enterprises. This concept helps to determine optimum mixture of short term and long term capital of business enterprises (KC 2051:82). This concept is useful to running business, which is running in the present. It can analyze profitability, liquidity position, and risk return position of business enterprise (Kulkarni 1990:376).

The definition described above convey in some way or other, the same meaning. They virtually represent the characteristics of the Working Capital. It seems that there is consensus on the following special characteristics of the working capital. (Mathule, 1979:96-97)

2.3 Characteristics of Working Capital

2.3.1 Short Life

Assets with a life span of less than 1 year of characterize Working Capital. Such as cash, marketable securities, account receivable and inventories etc.

This short life span leads to high volatility in the level of investment require financing Working Capital.

2.3.2 Nearness of cash or liquidity

The basic characteristic constitutes the first line of defense against technical insolvency. Cash is the most liquid asset having zero conversion period time and 100% conversion rate. But, for inventory and marketable securities two factors i.e. nearness to cash or amount of time required converting assets in to cash price realized on conversion must be considered.

2.3.3 Lack of Synchronization

Since the enterprise cannot produce on order only and cannot insist on cash payments, there are always the problems of synchronization in cash receipt and disbursement. It is also due to the level of investment in working capital that is affected by the sales volume, production policies and collection policies.

The basic characteristics of WC as mentioned above indicate that it is a term of capital intended to be kept moving or circulating and its potential for earning income from movements. Though the expenditures controlled and planned its income is usually subject to random variation and is not controllable (Gallagher, 1979: working capital management seminar cum workshop on financial management", Kathmandu: CEDA, T.U)

2.4 Types of Working Capital

Working Capital can be classified into two parts; permanent (fixed working capital) and fluctuation working capital. These two types of working capital are necessary for continuous production and sales without any interruptions.

2.4.1 Fixed or Permanent Working Capital

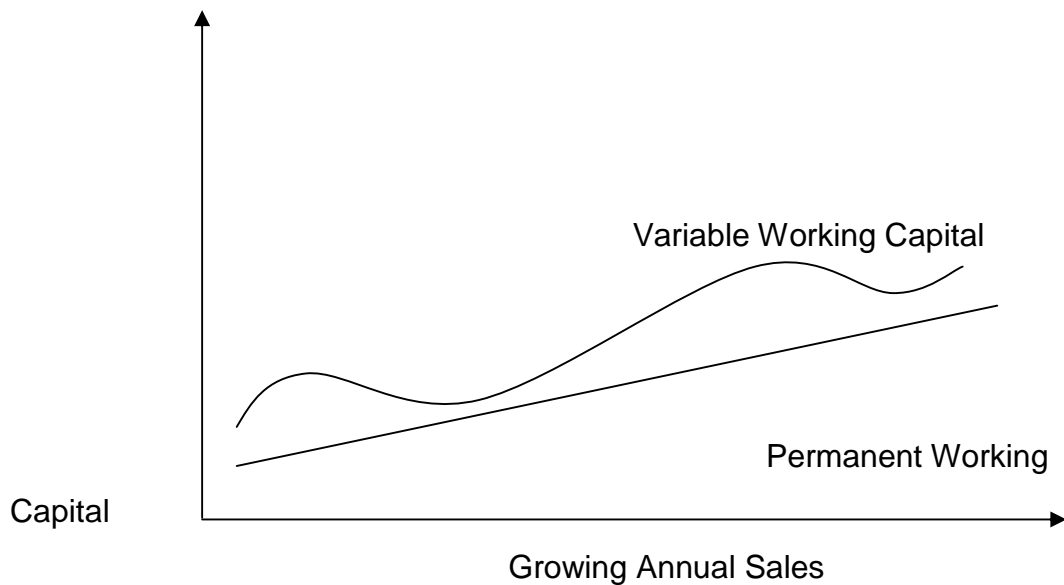
A firm permanent capital is amount of current assets required to meet long term minimum needs. One might call this “bare bones” working capital it is that amount of fund required to product that goods and services necessary to satisfy demand at its lowest point such capital possesses the following characteristics. Unlike fixed assets, retain their form over a long period of time; permanent working capital is constantly changing from one asset to another. The value of fund representing permanent working capital never leaves the business cease to exist as long as firm experiences growth, the size of the working capital account will increase (Van Horne and John m, 1996:207)

2.4.2 Temporary or Variable Working Capital

Variable working capital represents that portion of working capital, which is required over permanent working capital. If the nature of production and sales of a firm is directly related to seasonal variation it should stock extra raw materials, work in process and inventory of finished goods. Therefore, this portion of working capital depends upon the nature of firms’ production, related between labor and management fig 1 shows clearly about this portion

of working capital, it can easily win the other competitors in the cutthroat of the market. (Western Scot Beasley and Brigham, 1996:333)

Figure No. 2.4: Types of Working Capital



(Adopted from: Pandey 2000, Financial Management)

2.5 Determinants of Working Capital

The importance of efficient working capital management is an aspect of over all financial management. Thus, a firm plans its operations with adequate working capital requirement or it should have neither too excess nor too inadequate working capital. But, there are not set of rules or formula to determine the working capital requirement of the firm. It is because of a large number of factors that influence the working capital requirement of the firm. A number of factors effects different firm in different ways. Internal policies and environment changes also affects the working capital. Generally, the following factors affect the working capital requirement of the firm.

2.5.1 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. While a small firm needs less working capital, trading a financial firms require larger amount of working capital relatively to public utilities, while manufacturing concern lies between these two extremes.

2.5.2 Manufacturing Cycle

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

2.5.3 Production policy

Working capital requirement is also determined by its product in policy. If a firm produces seasonal goods, then it sells its products in a certain month of the year in this situation, it can either confine its production only that period when goods are sold or follow a steady production policy. Though the year produce goods at level to meet the peak demand, the former policy does not needs more working capital then the later does.

2.5.4 Growth and Expansion

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

2.5.5 Price Level Change

Working capital requirement is also affected by price level changes. Generally, a firm requires maintaining the higher amount of working capitals if the price level

rises. Because the same level of current assets needs more funds due to the increasing price. In conclusion, the implications of changing price level on working capitals position will vary firm to firm depending on the nature and the other relevant consideration of the concerned firms.

2.5.6 Operating Efficiency

Operating efficiency is also important factor, which influences the working capital requirement of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus, financial manager can contribute to strong working capitals otherwise it requires large amount of working capitals.

2.5.7 Profit Margin

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

2.5.8 Level of Taxes

The level of taxes also influences working capital requirement. The amount of taxes to be paid in advance is determined by the prevailing tax regulations. But the firm's profit is not constant, or can't be predetermined. Tax liability in a sense of short-term liquidity is payable in cash. Therefore, the provision for

tax amount is one of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capitals and vice versa. (Hampton, 1998:182)

2.6 Working Capital Policy

Working capital policy refers to the firm's basic regarding (1) target levels for each category of current assets and (2) how current assets will be financed (Weston Beseley and Brigham, 1996:333). So, first of all in working capital management, firms have 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 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. Any firm has to find out the different sources of funds for working capital. Thus, working capital policies regarding to the level of each category of current assets and their financing are discussed.

2.6.1 Current Assets Investment Policy

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policies; fat cat, lean and mean policy and moderate policy. (Western, Beseley and Brigham, 1996:344)

(i) Fat Cat Policy

This policy 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 longer receivable collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with lower risk.

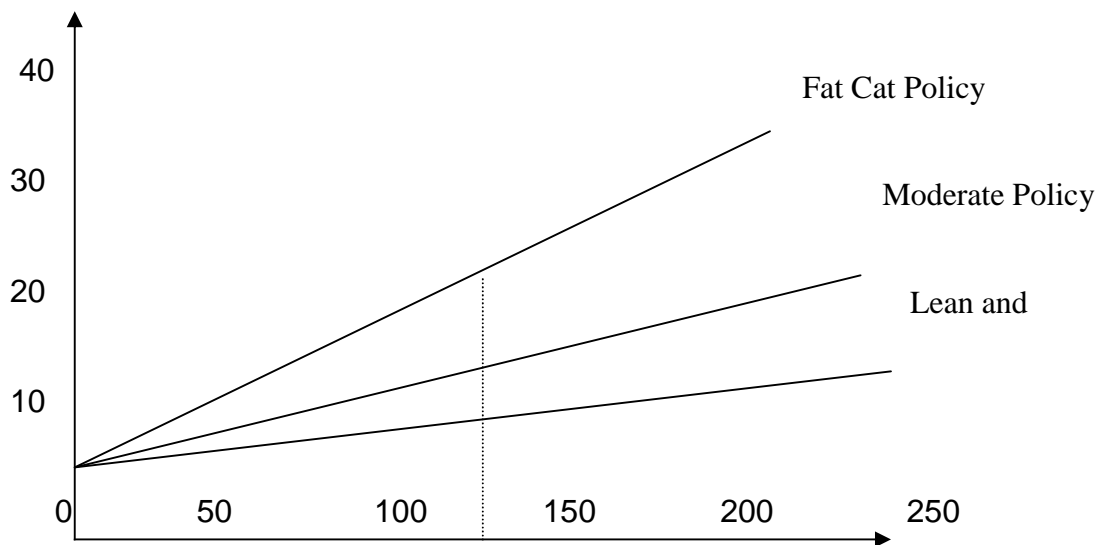
(ii) Lean and Mean Policy

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

(iii) Moderate policy

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

Fig No. 2.6.1: Current Assets Investment Policy



Adopted from Weston, Besley and Brigham, Essential of Management finance, p. 354

2.6.2 Current assets Financing Policy

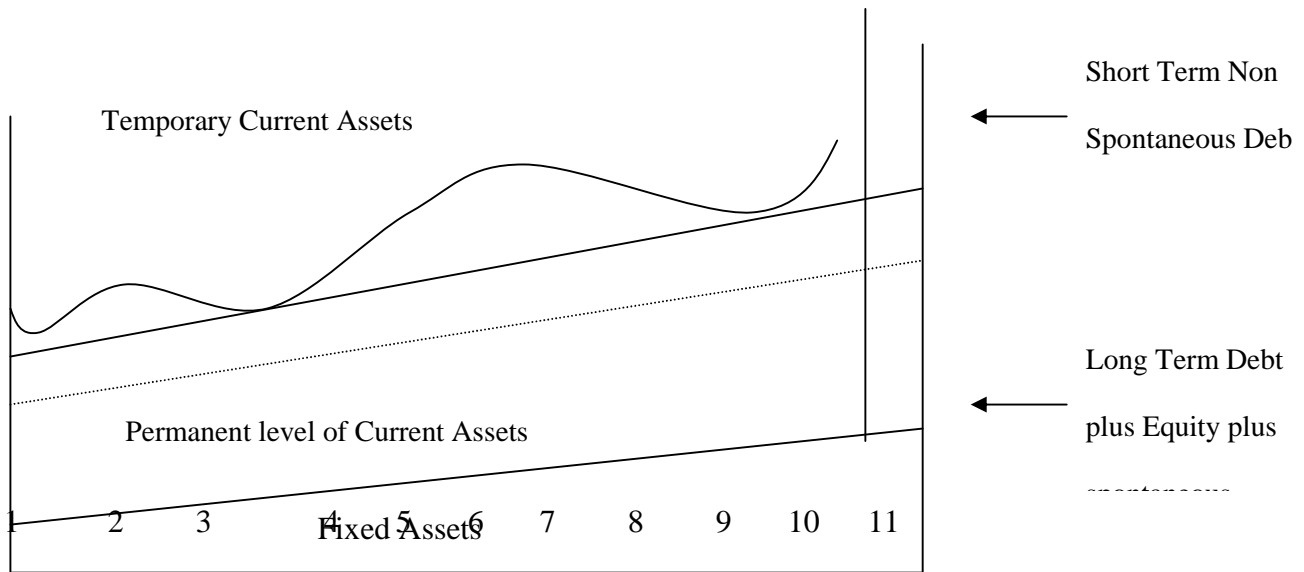
It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Thus, current assets financing policy should clearly outline the sources of financing of current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

(i) Aggressive Policy

In aggressive 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 are not only temporary current assets but also a part of permanent current assets with short term financing. Fig. 3 shows that, 50% is the permanent current assets with short term financing. In general, interest rate increases with time i.e. the shorter the time the lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal condition, the firm borrows on the short term financing rather than long term financing. On the other side if the firm finance its permanent current assets by short term financing, it runs the risk of renewing the borrowing again. This continued

financing exposes the firm to certain risk. It is because, in future interest expenses will fluctuate widely, and also it may be difficult for the firm to raise the funds during the stringent credit period. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

Figure No. 2.6.2.a: Aggressive Financing Policy

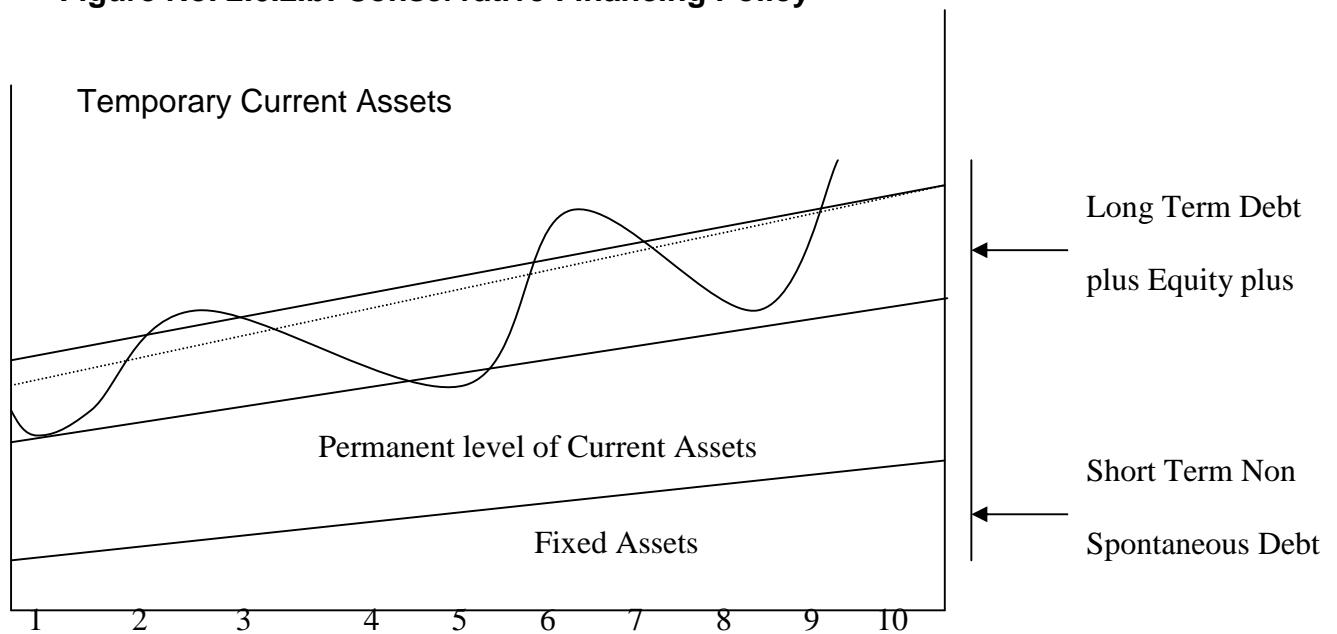


(Adopted from: Weston, Besley and Brigham, Essential of Managerial Finance, P. 347)

(ii) Conservative Policy

In conservative policy, the firm uses long term financing to finance not only fixed and permanent current assets, but also part of the temporary current assets. In other words, with short-terms financing, it means that the firm depends upon the long term sources for financing needs (Pandey; 2000:823). This policy leads to high level of current liabilities and higher than that of aggressive one. The risk adverse management follows this policy.

Figure No. 2.6.2.b: Conservative Financing Policy

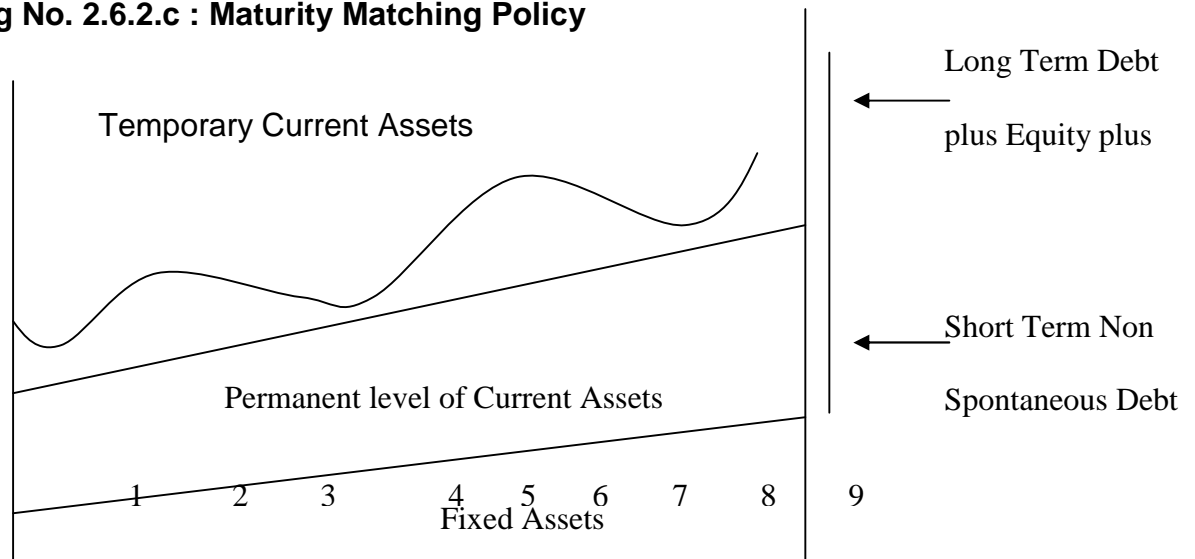


(Adopted from: Weston, Besley and Brigham, Essential of Managerial Finance, p. 347)

(iii) Maturing Matching Policy

It is self-liquidating approach. In this policy, the firm finances the permanent current assets with long-term financing and temporary with short-term financing. It means that the firm matches the maturity of financing source with an assets useful life. It lies in between the aggressive and conservative policies. It leads to neither high nor low profitability. Fig 5 shows temporary working capital is financed by long term funds. Hence, net working capital is zero under this policy (George E, 1990)

Fig No. 2.6.2.c : Maturity Matching Policy



(Adopted from: Weston, Besley and Brigham, Essential of Managerial Finance, p. 347)

2.7 Need and Importance of Working Capital

Every business firms needs working capital to operate day to day transactions. It helps to meet daily requirement of business. Especially, it is required to spend on raw material, salary, wages, rent, electricity, advertisement and other sales related expenses etc (K.C 5052:85). Before starting the production, a firm needs to purchase raw material and keep stock if they want to continue the production. It has to pay salary and wages to its staff/labour. After the production of finished goods, it has to wait for the demand of market and to manage the finished goods stock (KC, 2051:85). Beside this, the business enterprises have to spend on advertisement and promotion of the market, which helps in sales of products, which helps in sales of the product (K.C., 2051:85). To operate all above processes, the business firm has to invest enough funds in current assets. Therefore, every business firm needs working capital to meet following motives;

2.7.1 The Transactions Motive

A business firm holds current assets for its transaction motives. The firm holds cash inventories and marketable security for a smooth running of the business. The principle motive for holding cash is to enable the firm to conduct its ordinary business, making purchases and sales. In long run business, where billing is predictable cash, inflows can be scheduled and synchronized with the need for the cash outflow (Western and Copeland, 2990:768). The seasonality of businesses may give rise to a need for the cash to purchase inventory. Business firms have to keep inventory of raw material and finished goods to operate regular transactions. Generally, a business firm invests on marketable security that can be converted into cash in a short time. It is temporary investment (Western and Brigham, 1982:439). Their current assets helps business firm to operate in the competitive market without any interruption. Therefore, a business firm has to manage work without any interruption. Therefore, a business firm has to manage working capital for its transaction motives.

2.7.2 The Precautionary Motive

The precautionary motive is the need to hold cash and inventory to guard against the risk and unpredictable change in demand and supply and other factors such as strike, failure of important customer's unexpected slowdown in collection of account receivable, cancellation of order and some unexpected emergency. Thus, the firm needs the working capital to meet any contingencies in future.

2.7.3 The Speculative Motive

The firm's cash and marketable securities accounts may raise to rather sizable levels on a temporary basis as funds are accumulated to meet specific future needs (Weston and Brigham, 1982:441). The working capital is needed

to meet the speculative motive, which refers to the desires of a firm to desire advantage of the following opportunities;

- i) Opportunities of profit making investment
- ii) An opportunity to purchase raw material at a reduced price on payment of immediate cash.
- iii) To speculate on interest rate, and
- iv) To purchase at favorable price etc.

To grab these opportunities, the business has to manage cash and marketable securities, it also represent “war chest” or pool of funds from which a firm may draw quickly to meet a short term opportunity, including acquisition. Therefore, cash and marketable securities are needed for speculative motives.

2.7.4 Compensation Balance Requirement

The commercial banking system performs many functions for business firms. Business firms pay for this service in part by direct fees and sometimes in part by maintaining compensation balances at the bank. Compensation balances represent the minimum levels that the firms agree to maintain in its checking account with the bank. With this assurance, the bank can loan such on a long run basis, earning a return, which is an indirect fee to the bank (Kuchhal, 1988, 163)

2.8 Financing of Working Capital

Every manufacturing concern or industry requires additional assets whether they are instable or growing conditions. When the growing firm wants to generate sustainability, it normally requires fixed capital as well as working capital. Additional portion of working capital is approximately dominated by the same rate as sales. But this portion of capital requirement depends upon the nature of the firm (Panday, 2000:823). Therefore, the most important function of financial manager is to determine the level of working capital and

to decide how it is financed. Financing of any assets is concerned with two major factors; cost and risk. Therefore, the financial manager must determine an appropriate financing mix, or decide how current liabilities should be used to finance current assets. However, a number of financing mixes are available to the financial manager. There are generally three kinds of financing.

Long term financing

) Short term financing

) Spontaneous financing

2.8.1 Long Term Financing

Long term financing has high liquidity and low profitability ordinary share, debenture, preference share, retained earning and long term debt from financial institution which are the major sources of long term financing. We can have retained earning and long term debt from Nepal industrial development corporation and long term from other commercial banks too.

2.8.2 Short Term Financing

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

(a) Trade Credit

It refers to the credit that a customer gets from suppliers of goods in the normal course of business. The buying firms do not have to pay cash immediately and it is granted on an open account basis. Another form of trade credit is bill payable. It depends upon the term of credit (Van home, 2998:471)

(b) Bank Credit

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

(c) Loan arrangement

Under this arrangement the entire amount of loan is credited by the bank to the borrower's account, and the loan is returned on installment, interest is payable on actual balance outstanding.

(d) Overdraft arrangement

Under this arrangement the borrower is allowed to overdraw on his current account with the bank up to a stipulated limit. Within this limit any number of drawings are permitted; repayment should be made in short period.

(e) Commercial papers

Only well established high quality companies use it. The evidence of debts are in unsecured short term promissory notes sold in the money market. It is sold either through dealers or directly to investors. Besides the above, banks provide loans against warehouse receipts, inventory, and receivables. In our context, most popular sources of short term financing are short term loans from public deposits; this is also a major source of working capital financing in our country.

2.8.3 Spontaneous Financing

Spontaneous financing arises from the normal operation of the firm. The two major sources of such financing are re-trade credit (i.e. credit and bills payable) and accruals. Whether trade credit is free of cost or not actually depends upon the terms of trade credit. Financial manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practice aspect, the real choice of current assets financing is either short term or 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 the management attitude towards the risk return. (Pradhan, 1992:153)

2.9 Review of Related Studies

This section is mainly focused on the review of both national and international journals, articles and theses published by the different management experts in working capital management. The review is done for last 10 years i.e. from 1999 till 2008.

It is not possible to estimate working capital needs accurately, the firm must decide about levels of current assets to be carried. The current holding of the firm will depend upon the working capital policy. It may follow a conservative or an aggressive policy. These policies have different risk return implications (Van Horne, 1970:50-80). Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivable, inventories, and the administration of current liabilities. It means the working capital management is concerned with the problems that arise in attempting to manage current assets. Also, the current liabilities, current assets and the interrelationship that exists between them. (Van Horne, 1970:82)

The financial manager should determine the optimum level of current assets so that the wealth of shareholders will be maximized. In fact, optimum level of each type of current assets should be fixed. (Walker,1964:21-35). The value represented by current assets circulates amount, several balance sheet account, cash issued to pursue raw material and pay the labour and the other manufacturing costs to produce product, which are then carried as inventories. When the inventories are sold, account receivables are created. The collection of the receivable brings cash into the firm and process starts over again. Because of the circulating nature of the current assets, working capital is inter-changeable; used as circulating assets. (Hampton, 1 986:159)

Pradhan, Radhe Shyam(1988) *The Demand for Working Capital by Nepalese Corporation*, Vol.8, No.1)

Pradhan studied on "The demand for working capital by Nepalese Corporation"(Vol.8, No.1. For the analysis nine public enterprises were selected within 12 years data from 1973 to 1984. For the analysis the regression equation has been adopted. From the study, he concluded that the pooled regression results show the presence of economics of scale with respect to the demand for WC and its various components. The regression result suggest strongly that the demand for WC and its various components are function of both sales and their capital costs. The estimated result show that the inclusion of capacity utilization variable in the model seems to have contributed to the demand functions of cash and WC only.

Pradhan, Radhe Shyam(1986) *Management of Working Capital*, New Delhi, National Book Organization

Pradhan explains the concept of working capital management briefly. He has selected nine Nepalese manufacturing PEs. The main objectives of this study is to conduct risk-return analysis of liquidity position of WC position, to assess the short term financial liquidity position of enterprises, to assess the structure

and utilization of WC, and to estimate the transactions demand functions of working capitals and its various companies.

His major findings were that the listed companies were neither of conservative nor aggressive approach, have poor liquidity position resulting negative EBT, the economic scale of inventories have been high, level of WC and its components and enterprises desire to hold depends not sales but holding costs also. The study showed that WC Management is the weakest or neglected part of financial management in most of the PEs in Nepal. It seems that Nepalese manufacturing PEs are following conservative approach in financing as well as investing working capital. The study has not mentioned the recommendation for any suggestion to solve the finding problems.

Shrestha, M. K. (1982) "Working Capital Management in PEs: A Study on Financial results and constraints, *Vol. 8, No. 1 – 4, A Quarterly IDOC Bulletin, Kathmandu*

Shrestha has considered ten selected PEs to study WC management of these PEs. He has focused on the liquidity, turnover and profitability position of those enterprises. From the analysis he found that two PEs have maintained adequate liquidity position, two PEs had excessive and the remaining four PEs had failed to maintain desirable liquidity position; tow PEs have negative WC turnover, four have adequate turnover and one have high turnover and remaining three had not satisfactory turnover on NWC. His major findings were that there is lack of suitable financing planning, negligence of WC Management, Inability to show positive relationship between turnover and return NWC. He has also recommended (i) identification of needed funds, (ii) regular checks of accounts, (iii) development of management information system (iv) positive attitude toward risk and profit, and (v) determination right combination of short-term and long-term sources of funds to finance WC needs.

Acharya, D. K. (1985), Problems and Implements in the Management of Working Capital in Nepalese Enterprises, *Bulletin of ISC, Vol. 10. No. 3*

The text article Acharya has described the two major problems, (i) operational problems and (ii) organizational, regarding the WC management in Nepalese PEs. From the analysis, he has listed in first part about the operational problem finding which includes increase of CLs then CAs, not allowing the CR 2:1 and slow turnover of inventory; change in WC in relation to fixed capital had very low impacts over the profitability; absent of apathetic management information system; break-even analysis, funds flow analysis and ration analysis were either undone and ineffective for performance evaluation.

In the second part, he has listed the organizational problem finding, which are: (i) lack of regular internal and external audit system as well evolution of financial results (ii) unable to present their capital requirement (iii) functioning of finance department is not satisfactory and some PEs are facing the under utilization of capacity. At last, Dr. Acharya has made some suggestions to correct the above deviation, are (i) The PEs should avoid the system of crisis decision which prevailed frequently in their operation (ii) avoid fictitious holding of assets (iii) The finance staff should be acquainted with the modern scientific tools used for the presentation and analysis of data and (iv) to make optimum working capital policy.

The synthesized report on the performance of public enterprises states as the management of working capital has been regarded as one of the contributing factors in decision-making issue. It is very difficult to point out as to how much working capital is needed by a particular company, but it is very essential to analyze and find out the solution to make an efficient use of funds to maximizing risk of loss attain profit objective. (CCC.HMG/ and ISC 1985,:252).

The basic goal of working capital management is to manage the firm's current assets and current liabilities in such a way that a satisfactory level of working

capital is maintained. Neither over nor under investment in working capital is desired by the management of an enterprise because both of these situations will erode the efficiency of the concern. (The Bulletin, ISC Publication Nepal.).

Sharma, Y.P. (1999). *A Study on Working Capital Management of selected Manufacturing Companies: An unpublished Thesis, MBA, T.U.*

Yam Prasad Sharma (1999) has carried out a study on working capital management of selected manufacturing companies. He had selected sixteen companies, which are listed in Nepal stock exchange. He had taken 15 years (1981-1996) for analysis. He focused to analyze the empirical testing of the variable effecting in Nepalese manufacturing companies based on the variables such as; current assets, current liabilities, scales net profit and total assets. He used financial and statistical tools such as; ratio analysis, cash conversion cycle, coefficient of correlation, probable error and simple regression model.

He found that many companies followed conservative policy. He has analyzed that Nepalese PEs are suffering from sickness and they must determine the appropriate financing mix. He recommended that they must follow and undertake measure like; identification of need funds, regular check, development of marketing information system, right combination of short term and long term sources of funds to finance combination of investment in CA, minimizing operating cost, preparing effective sales, plan, specific working capital policy, improving liquidity position and speedy cash conversion period and the major ways to make healthy efficient management of WC of manufacturing PEs of Nepal.

Yogi, D.N. (1999), *A Study on Working Capital Management of Nepal Lever Limited: An unpublished Thesis, MBA, T.U. Kathmandu*

Dhruba Hath Yogi (1999) has carried out another study related to working capital management. He focused to analyze the liquidity position of working capital assets and utilization and profitability of Nepal Lever. His main objective of this study was to analyze the current assets policy of Nepal lever and to examine the relationship between liquidity and profitability of Nepal Lever.

Major findings of this study were: all components of current assets of Nepal Lever are highly fluctuating during the study period (2051/2052-2055/2056). He used the ratio analysis and correlation and probable error as tools. Different companies of current liabilities were not related to each other. It means that Nepal Lever has not taken seriously about the sources of financing. Its current liabilities are greater than current assets in fiscal year 2051/52, 2052/053 and 2054/055. It has used the long term financing policy. Nepal Lever has negative net working capital in the first three years period. Current ratio of NL is less than 1 times than others. Finding of this study is NL takes high risk. But, co-efficient co relation between various liquidity ratio and net profit margin in general is not significant. This implies that there is not trade off between liquidity and profitability. It is recommended that NL should fix the financing policy and the volume of sales should be increased and the proportion of CAS should be maintained according to its sales volume. The huge amount of inventory and receivable kept by NL should be reduced or the optimum level should be adjusted according to the sales and production. Therefore, management should be improving its marketing policy and should be integrated with credit policy.

Narware, P.C. (2001). *Working Capital and Profitability – An empirical analysis*. (n.p)

P. C. Narware(2001) has done research paper on working capital and profitability of one of the fertilizer producer company. The impact of working capital on profitability has been examined by computing co-efficient of

correlation and regression between profitability ratio and working capital ratio. His conclusion on the study was working capital management and profitability of the company disclosed both negative and positive association. However, the fertilizer company data showed that the increase in the profitability of the company was less than the proportion to decrease in working capital.

Filbeck, G., & Krueger, T.(2001). *An analysis of Working Capital Management Results Across Industries* (n.p.)

Kruger and Filbeck has done research on WCM across industries by using CFO Magazine's annual WCM Survey. They have provided insights into the performance of surveyed firms across key components of WCM. They have discovered that the significant differences exist between industries in WC measure across time. Also, they discovered that WC measures, themselves, change significantly within industries across time. However, since their data is only for four years, there is the potential for degrees of freedom issues when using sophisticated model. This paper provides insight to WC performance across time, and shine light on WCM across industries.

Shrestha, B.D. (2002), *A Study on Working Capital Management of Daily Development Corporation: An unpublished Thesis, MBA, T.U. Kathmandu*

Basudev Shrestha has done the research on "A study on working capital management of Daily Development Corporation (2002). He has shown working capital and its management for five year period of corporation and has used the secondary data that is used for calculating various financial and statistical tools. He has found that (i) inventory holds large amount of major component of CAs of DDC (ii) the overall proportion of current assets on total assets is in decreasing trend but proportion of CA to FA was found in increasing trend during his study period (iii) DDC used conservative working capital policy (iv) liquidity and turnover are not satisfied situation (v)

profitability position is very poor and (vi) the company hasn't able to efficiently utilize its CAs and TAs.

He has suggested that DDC have to minimize its CAs by adjusting on inventory and cash balance. It should increase production capacity by avoiding unnecessary manpower and expenses.

Aryal, B.R. (2003), *A Study on Working Capital Management of Pharmaceutical Industry of Nepal: An unpublished Thesis, MBA, T.U. Kathmandu*

Aryal has done study on "Working capital management of Pharmaceutical industry of Nepal" (2003) a case study on Royal Drug Limited (RDL). His study is based on 8 years financial statement from them FY 2049/50 to 2057/58.

The main objectives of the study are; (i) To find the liquidity turnover and profitability ratio and their comparison with trend; and (ii) give the recommendations to achieve organizational goal. He has used various statistical tools i.e. correlation and probable error and financial tools (i.e. ratio analysis to get the research findings. His major findings were that RDL is using conservative working capital policy, more inventories in CA, CA conversion period are high and profitability is not satisfactory. He has also made suggestions that management should formulate effective WC Management policy to improve turnover position, minimize the operating cost, prepare effective attitude towards risk and increase the efficiency of personal and staff.

Shrestha, P (2004), *A Study on Working Capital Management of Hotels: A comparative study of Yak & Yeti and Soaltee Crowne Plaza: An unpublished Thesis, MBA, T.U. Kathmandu*

Shrestha has focused her study on WCM of these two hotel in relation to appropriateness of investment in CAs, financing mix, liquidity position and utilization of CAs. This study covers the four years data from 2054/55 to 2058/59. The specific objectives of the study are; (i) to analyze the composition of WC, liquidity, profitability, and cash conversion cycle, (ii) to analyze the relationship between sales and different variables of WC or turnover position and (iii) to know current assets financing and investment is correct or not. She has used financial as well as statistical tools for data analysis.

From the study she found that (i) the liquidity position of both hotels in the weak condition (ii) the profitability ratio is decreasing and fluctuating in the study period of both hotel but Yak & Yeti is able to earn more profit compared to Soaltee Crowne Plaza Hotel,(iii) both hotel gross profit and sales have perfectly positive relationship (iv) Soaltee have followed highly aggressive financing policy and it has negative net WC, and (v) Current Asset of Yak and Yet has not been properly utilized. She has recommended some suggestions to overcome these weaknesses; which are (i) Soaltee should follow mix financing policy not only aggressive policy (ii) operating expenses should be reduced (iv) receivable and inventory conversion period should be managed by applying suitable credit policy.

Rajbhandari, Anisha (2004). *Comparative Study of Working Capital Management (A Study of Unilever Nepal and Dabur Nepal Pvt. Ltd.)* Unpublished Master's Thesis, Central Department of Management, Tribhuvan University

Rajbhandari has done this study to find out on the investment policy opted by both the organizations. She has also done investment analysis and on cash holdings on both the organization and its impact on overall performance of the organization. She found that both companies followed conservative policy as well as aggressive policy. She recommends that the organizations must

determine the appropriate financing mix. She also recommends that they must follow and undertake measure like; identification of need funds, regular check, development of marketing information system, right combination of short term and long term sources of funds to finance combination of investment in CA, minimizing operating cost, preparing effective sales, plan, specific working capital policy, improving liquidity position and speedy cash conversion period and the major ways to make healthy efficient management of WC of manufacturing PEs of Nepal.

Dhakal, P.P. (2005). *Working Capital Management of Nepal Telecommunications*. Unpublished Master's Thesis, Central Department of Management, Tribhuvan University

Dhakal has concluded his research by saying that NT hasn't opted appropriate working capital policy as well as current asset management. Also, sales strategy of the company has played the significant role to determine the effectiveness of working capital management. He has strongly recommended Nepal Telecommunications to adopt stable working capital, level of working capital to be increased, maintain proper level of current asset and current liability to increase the profitability situation of the organization.

Sigdel, R. (2005). *Working Capital Management of Nepalese manufacturing companies*, Unpublished Master's Thesis, Central Department of Management, Tribhuvan University

Sigdel has examined the working capital practices of listed NMCs, analyzed the variables affecting WCM and their empirical relationship, evaluated the effects of WC to the profitability of NMCs, analyzed the risk in relation to the WCM of the NMCs. She has concluded by writing that Nepalese manufacturing companies have not adopted appropriate working capital policies. She recommends that NMCs should opt appropriate working capital policies to maximize turnover position, increase profitability position, should

shorten cash conversion cycle as well as inventory conversion and receivable collection period.

Shrestha, K. B. (2006), *A Study on Working Capital Management of PEs: A comparative study of Biratnagar Jute Mills and Arun Vanaspati Udhyog: An unpublished Thesis, MBA, T.U. Kathmandu*

Shrestha has focused his study on WCM of these two organizations in relation to appropriateness of investment in CAs, financing mix, liquidity position and utilization of CAs. This study covers the four years data from 2055/56 to 2059/60. The specific objectives of the study are; (i) to analyze the composition of WC, liquidity, profitability, and cash conversion cycle, (ii) to analyze the relationship between sales and different variables of WC or turnover position and (iii) to know current assets financing and investment is correct or not. She has used financial as well as statistical tools for data analysis.

From the study he found that (i) the liquidity position of both organization in the weak condition (ii) the profitability ratio is neither decreasing nor increasing but fluctuating in the study period of both the organization but Arun Vanaspati is able to earn more profit compared to Biratnagar Jute Mills,(iii) both organisation gross profit and sales have perfectly positive relationship (iv) Arun Vanaspati have followed highly aggressive financing policy and it has negative net WC, and (v) Current Asset of Biratnagar Jute Mills has not been properly utilized. he has recommended some suggestions to overcome these weaknesses; which are (i) Arun Vanaspati should follow mix financing policy not only aggressive policy (ii) operating expenses should be reduced (iv) receivable and inventory conversion period should be managed by applying suitable credit policy.

Bajracharya. B (2006) *Working Capital Management and Profitability – A Study of NEPSE Listed Companies*. Unpublished Master's Thesis, Central Department of Management, Tribhuvan University

Bajracharya has done research study on 3 PEs listed in NEPSE; Arun Vanaspati Udhyog, Biratnagar Jute Mills and Raghupati Sugar Factory from the year 1999 to 2005 for the period of 5 years.

She have studied the effect of different variables of working capital management including the Average collection period, inventory turnover in days, average payment period, cash conversion cycle and current ratio on the Net operating profitability of these organizations. Her major findings showed that there is a strong positive relationship between variables of the working capital management and profitability of the firm. She found that there is a significant negative relationship between liquidity and profitability. She also claimed that there is a positive relationship between size of the firm and its profitability. There is also a significant negative relationship between debt used by the firm and its profitability. Hence, these companies must pay attention in their overall financial performance and recommends reviewing the financial policy to bring the change and increase the profitability.

Gautam, K. (2006). *A comparative study on Working Capital Management of National Trading Limited and Salt Trading Corporation Limited*, Unpublished Master's Thesis, Central Department of Management, Tribhuvan University

Gautam has done his research on WCM of National Trading Limited and Salt Trading Corporation Limited. He has highlighted on major factors affecting WC of the two companies, examined the relationship between liquidity and profitability of 2 companies, examined if the companies have maintained optimum level of WC or not. His conclusion on his research was that for the efficient and effective management of the company the unnecessary blockage of inventory should be avoided, as well as mixed financial policy should be

opted instead of aggressive financial policy. The company should introduce effective inventory control techniques for collections of receivables, suitable working capital policy should be formulated and implemented, reduce the operating expenses.

Padachi, K. (2006). Trends in Working Capital Management and its Impact on Firms' Performance: An analysis of Mauritian Small Manufacturing Firms. *International Review of Business Research Papers* Vo. 2 No. 2, Pp. 45 -48

Padachi has done analysis on trends of WCM and its impact on firms performance on Mauritian Small Manufacturing Firms. He has highlighted the importance of cash as an indicator of continuing financial health which should not be surprising in view of its crucial role within the business. He has done regression analysis to investigate the impact of WCM on profitability. He has concluded his research paper by highlighting on WC needs of an organization change over time as does its internal cash generation rate, as such, the small firms should ensure a good synchronization of its assets and liabilities.

Peel, M.J. & Wilson, N.(2006) Working Capital and Financial Management Practices in the Small Firm Sector. *International Small Business Journal*, Vol. 14, No.2, 52-68, SAGE Publications

Peel & Wilson have presented the paper on the results on study on the working capital and financial management practices of a sample of small firm sector in the north of England. In general, the results of the survey indicated that a relatively high proportion of small firms in the sample claimed to use quantitative capital budgeting and working capital techniques and to review various aspects of their companies' working capital. In addition, the firms which claimed to use the more sophisticated discounted cash flow capital budgeting techniques, or which had been active in terms of reducing stock levels or the debtors' credit period, on average tended to be more active in respect of working capital management practices. It is hoped that the issues

raised will stimulate further theoretical and empirical contributions on this neglected and important area of small business research.

Kieschnick, R. & LaPlante, M. & Moussawi, R. (2006). *Corporate Working Capital Management: Determinants and Consequences*. (n.p.)

Kieschnick and Moussawi have examined the implications of a corporations' working capital management for its valuation. They have focused on what factors influence corporate working capital management. They found that industry practices, firm size, future firm sales growth, the proportion of outsider directors on a board, executive compensation(current portion), and CEO share ownership significantly influence the efficiency of a company's working capital management. Overall, our evidence suggests that managers respond positively to incentives and monitoring in managing their firm's working capital. They have also found out that the inefficiency of a firm's working capital management is positively correlated with firm size and uncorrelated with its industry's concentration.

Raheman, A. & Nasr, M. (2007). Working Capital Management and Profitability – Case of Pakistani Firms. *International Review of Business Research Papers*. Vol.3 No.1. March 2007, Pp: 279 – 300

Raheman and Nasr has done working capital management and profitability – case of Pakistani firms, they have selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of 6 years from 1999 – 2004. They have studied the effect of different variables of working capital management including the Average collection period, inventory turnover in days, average payment period, cash conversion cycle and current ratio on the Net operating profitability of Pakistani firms. Debt ration, size of the firm (measured in terms of natural logarithm of sales) and financial assets to total assets ratio have been used as control variables. Pearson's correlation and regression analysis (Pooled least square and general least square with cross

section weight models) have been used for analysis. The results show that there is a strong negative relationship between variables of the working capital management and profitability of the firm. It means that as the cash conversion cycle increases it will lead to decreasing profitability of the firm, and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level. We find that there is a significant negative relationship between liquidity and profitability. We also find that there is a positive relationship between size of the firm and its profitability. There is also a significant negative relationship between debt used by the firm and its profitability.

Garcia-Teruel, P. J. & Martinez-Solano, P. (2007). Effects of Working Capital Management of SME Profitability. *International Journal of Managerial Finance*, Vol. 3, Issue: 2, Pp: 164-177

Garcia-Teruel and Martinez-Solano has done research paper to provide empirical evidence on the effects of working capital management on the profitability of a sample of small and medium-sized Spanish firms. They have collected a panel of 8872 small to medium-sized enterprises (SMEs) covering the period 1996-2002. The authors tested the effects of working capital management on SME profitability using the panel data methodology. The results, which are robust to the presence of endogeneity, demonstrate that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle also improves the firm's profitability. This work contributes to the literature in two ways. First, no previous such evidence exists for the case of SMEs. Second, unlike previous studies, in the current work robust test have been conducted for the possible presence of endogeneity problems. The aim is to ensure that the relationships found in the analysis carried out are due to the effects of the cash conversion cycle on corporate profitability and not vice versa.

Over these years, many studies have been taken place and many articles, journals have been published on working capital management. But, there are many aspects of working capital management such as policy, current assets, current liabilities, inventory, accounts receivables, cash, sales, profit, etc. Here, I have focused on policy, current assets, sales and profit of the company. I am confident that my study will help to throw light on the working capital management issues of Bottlers Nepal Private Limited and Jyoti Spinning Mills Limited. I have tried to do the hypothesis test too, and tried to analyze the relation between terms using both financial and statistical tools.

CHAPTER THREE

RESEARCH METHODOLOGY

The introduction, working capital theories, objectives, limitations of the study as well as statement of the problem has been already highlighted in the first chapter. Relevant literatures of concerning manufacturing companies, articles, research papers, related journals have been reviewed in second chapter. A systematic research studies need to follow a proper methodology in a sequential procedure and methods to be adopted in systematic study. The proper analysis of the study can be meaningful only on the right choice of research tools that helps to overcome meaningful conclusion. In this chapter, the research focus on research design, nature and sources of data, sample and sources of data, sample and population tools used for analysis and definition of key terms has been done.

3.1 Research Design

Research design is the plan, structure and strategy for the collection and analysis of data. It includes definite procedures and techniques, which guide to sufficient way for analyzing and evaluating the study. In order to achieve the predetermined objectives of the study, secondary data have been used. This study tries to make comparison and establish relationship between two or more variables. So, it could be termed as analytical and descriptive study. To facilitate this research, we collect data of concerned manufacturing companies and are tabulated and different financial tools and statistical tools are used to analyze and find out real condition of working capital.

3.2 Nature and Sources of Data

This research is mainly based on the secondary data because of lack of time and unavailability of key persons in the company to give the correct information. The secondary data have been collected from financial statement, annual report, unpublished official records of concerned companies and from the official web site of

Nepal Stock Exchange Limited. All the collected data and information have been properly synthesized, arranged, tabulated and calculated to arrive at the realistic analytical conclusion.

3.3 Population and Samples

This study is concerned with working capital management of Nepalese manufacturing companies listed in Nepal Stock Exchange Limited. There are altogether twenty-nine manufacturing companies listed in NEPSE. Out of them, only two manufacturing companies have been taken for these studies due to difficulties in getting the reports and information, which are producing different products. It may help to know the contribution of different manufacturing companies in manufacturing sector. Data are collected for five years to analyze the working capital management of concerned manufacturing companies.

The samples of manufacturing companies selected are as follows:-

- ❖ Jyoti Spinning Mills Limited
- ❖ Bottlers Nepal Pvt. Limited

3.4 Methods of Data Analysis

Only Quantitative method have been used for analyzing the working capital management in 2 sample Nepalese manufacturing companies due to unavoidable circumstances to do the qualitative analysis.

3.4.1 Quantitative Method

In quantitative method, for measuring the effectiveness of working capital management of Nepalese manufacturing companies, two important tools can be applied; they are financial tools and statistical tools.

(i) Financial tools

Various financial tools are used to analyze the effectiveness of working capital management of manufacturing companies. Ratio analysis and predicting power of ratio determines failure or success of the company.

(i.i) Financial ratio analysis

An arithmetical relationship between two figures is known as ratio. Ratio analysis is a technique of analysis and interpretation of financial statement. Ratio analysis is widely used tools for financial analysis, which establishes the numerical or quantities relationship between two items. It is useful to make financial expression more meaningful and appropriate conclusion from them.

Under the ratio analysis, the following ratios can be analyzed.

(a) Percentage of Current Assets to Total Assets (CATA)

It shows the proportion of current assets and total assets. It is calculated as:

$$\text{CATA} = \frac{\text{Current Assets}}{\text{Total Assets}} \times 100$$

As the percentage increases in CATA, the risk and profitability of enterprises would decrease.

(b) Ratio of Cash to Current Assets (CCA)

This ratio shows the proportion of cash and bank balance in current assets and it calculated as:

$$\text{CCA} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}} \times 100$$

Higher ratio indicates the poor cash management and vice versa.

(c) Ratio of Inventories to Current Assets (ICA)

It shows percentage of inventories to current assets and it is calculated as;

$$\text{ICA} = \frac{\text{Inventories}}{\text{Current Assets}} \times 100$$

Higher ratio indicates the weak current assets managements of the companies.

(d) Ratio of Receivable to Current Assets (RCA)

This ratio shows the percentage of current assets in form of receivables. It is calculated as follows;

$$RCA = \frac{\text{Receivable}}{\text{Current Assets}} \times 100$$

Higher percentage of receivables to current indicates the liberal credit policy followed by the companies.

(e) Ratio of Other Current Assets to Current Assets

It is calculated as follows:

$$OCACA = \frac{\text{Other Current Assets}}{\text{Current Assets}} \times 100$$

Higher percentage of other current assets to current assets indicates the weak current assets management.

(i.ii) Liquidity Position

It is most important part for the company. It shows the ability of the company to pay its current obligations. The liquidity position can be computed by analyzing current ratio and quick ratio.

(a) Current Ratio (CR)

It is the relationship of current assets and current liabilities. This shows the solvency and financial strength of the firm. Current ratio is basic yardstick of measuring the solvency and liquidity position of the firm. It is determined by the following way;

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

The higher the ratio indicates the position of the company is in liquidity and able to pay its bills. Generally the current ratio of 2: 1 is considered to be satisfactory. Higher ratio indicates the greater amount of working capital and vice versa.

(b) Current Assets Turnover Ratio (CATR)

It shows the efficiency of utilizing current assets the ratio shows the requirement of working capital for one R.S of sales. It is relationship between sales and current assets.

$$\text{CART} = \frac{\text{Sales of the year}}{\text{Current Assets}}$$

Whenever ratio is increased, it indicates good utilization of current assets.

(c) Net Profit (Loss) Margin (NPM)

$$\text{NPM} = \frac{\text{Net Profit (loss) After Tax}}{\text{Total Assets}} \times 100$$

The ratio measures the overall firm ability to turn each rupee of sales into net profit.

(d) Return on total assets (ROA)

It is useful measure of the profitability of all financial resources invested in the firms Assets. It is calculated as:

$$\text{ROA} = \frac{\text{Net Profit (loss) After Tax}}{\text{Net Assets}} \times 100$$

The increase in the ratio indicates the good utilization of total assets or efficiency of the enterprises.

(e) Return on Working Capital (RWC)

It measures the profit with respect to current assets and can be calculated as:

$$\text{RWC} = \frac{\text{Net Profit(loss)afterTax}}{\text{Net Working Capital}} \times 100$$

Higher the ratio indicates higher the utilization on of current assets to earn profit and vice versa.

(f) Rate of Return on Assets (RRA)

When uncertainty is introduced into the analysis, current asset management involves (i) determination of the minimum required balances of each type of asset and (2) addition of safety stock to account for the fact that forecasts are imperfect.

To find out what investment policy the company have adopted; calculation of return on assets can help us. Beside evaluating the status of different working capital variables; we can calculate what exactly policy the company is closer to. To calculate rate of return, the formula is;

$$\text{Rate of Return on assets} = \frac{\text{EBIT}}{\text{Total Assets}}$$

Under conservative current asset policies, relatively large balances of cash and marketable securities are maintained, large amounts of inventories are kept on hand, and sales are stimulated by the use of a credit policy that provides liberal financing to customers and that results in a high level of accounts receivables. In this policy, the holdings of cash, receivables and inventories are sharply restricted.

Current assets holdings are the highest at any output level under the conservative policy and lowest under the aggressive policy. The aggressive policy requires the smallest investment, but the return on investment in current assets depends upon the degree to which the more restrictive asset management policies reduce sales levels below those that would be achieved under other policies.

For decision making purpose; we calculate both EBIT rate and Rate of Return on Assets. The EBIT Rate is calculated as;

$$\text{EBIT Rate} = \frac{\text{EBIT}}{\text{Total Assets}}$$

Sales

If the Rate of Return on Assets(RRA) is greater than Earning before Interest and Tax(EBIT) then, the company is observed to have Aggressive Policy. If the RRA is less than EBIT then, the company is said to have Conservative Policy and if the RRA equals to EBIT, then, the company is said to have moderate policy. All these can be observed as;

If, $RRA > EBIT$ Rate then, Aggressive Policy

If, $RRA < EBIT$ Rate then, Conservative Policy

If, $RRA = EBIT$ Rate then, Moderate Policy

(ii) Statistical Tools

Various financial tools are mentioned above to analyze the working capital management of Nepalese manufacturing companies. However, without doing statistical analysis, the study will not meet its objective; hence statistical analysis using Data Analysis Tool Package will be done. At first, descriptive analysis will be done to study the working capital management of the selected manufacturing enterprises and then relationship between the variables will be studied. Here, a brief introduction of the statistical tools used in this study is given below.

(a) Descriptive Statistical Analysis

Descriptive Statistical Analysis will be done to analyze the working capital variables of the two enterprises. After doing financial analysis and finding out the trend of the working capital management by ratio analysis; we need to further observe if the result shown by the financial analysis is really relevant or not. For that we need to analyze the following statistical terms;

The Weighted Mean

The weighted mean enables us to calculate an average that takes into account the importance of each value to the overall total. To analyze the five years data and to find out Standard Deviation and Coefficient of Variation (CV) we must find out the mean.

Standard Deviation (SD)

The population standard deviation, or σ , is simply the square root of the population variance. Because the variance is the average of the squared distances of the observations from the mean, the standard deviation is the square root of the average of the squared distances of the observations from the mean. While the variance is expressed in the square of the units used in the data, the standard deviation is in the same units as those used in the data. The S.D. will tell us an average distance of any observations in the data set from the mean of the distribution.

In this study, we also analyze the variables of working capital management by calculating their Standard Deviation.

The Coefficient of Variation (CV)

The SD is an absolute measure of dispersion that expresses variations in the same units as the original data. However, the SD cannot be the sole basis for comparing two distributions. If we have SD of 10 and mean of 5, the values vary by an amount twice as large as mean itself. On the other hand, if we have a S.D. of 10 and mean of 5,000, the variation relative to the mean is insignificant. Therefore, we cannot know the dispersion of a set of data until we know the standard deviation, the mean and how the S.D. compares with the mean.

The coefficient of variation (CV) is one such relative measure of dispersion. It relates the standard deviation and the mean by expressing the standard deviation as a percentage of the mean. The unit of measure, then, is "percent" rather than the same units as the original data. For a population, the formula for the coefficient of variation is;

Coefficient of Variation

$$CV = \frac{S.D}{\text{Mean}} = \frac{\sigma}{\mu}$$

A comparative analysis between the two companies has been done for each working capital variables to analyze the overall policy opted by the individual companies.

b) Further Statistical Analysis

Using Data Analysis Tool Pack, the Correlation Coefficient(r), t-stat value and p-value will be calculated. The regression analysis will show the positive or negative relationship between the variables, and t-stat will further strengthen the relationship and p-value will let us know if the results shown by regression analysis and t-test is significant or not.

Coefficient of Correlation by Karl Pearson's Method

The coefficient of correlation is another measure that we can use to describe how well one variable is explained by another. When we are dealing with samples, the sample coefficient of correlation is denoted by r and is the square root of the sample coefficient of determination.

The mathematical method for measuring the intensity or the magnitude of linear relationship between two variable series was suggested by Karl Pearson(1867-1936). Karl Person's method is most widely used method of measuring the relationship between two variables. The value of the coefficient lies always between + 1 to -1, if the value of the coefficient is +1, it shows the perfect positive correlation, where as if it is -1, it shows the negative correlation. More over if the coefficient correlation has a zero value, then it means that there exists no correlation between the variable under study according to Karl Pearson which can be calculated as follows:

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

Interpretation of 'r'

$r = +1$ implies that there is perfect positive correlation between the variables. If $r = -1$, there is perfect negative correlation between the variables. If $r = 0$, the variables are uncorrelated (there is no relationship between the variables). For other values of r lying between $+1$ and -1 , there are no set guidelines for its interpretation. The maximum we can conclude is that nearer is the value of r to 1 , the closer is the relation between the variable and nearer is the value of r to 0 , the less close is the relationship between them. (SC Gupta, Fundamentals of Statistics, 1980).

In this study simple linear regression is used for the estimation of sensitivity of Current Assets on Sales and also Current Assets on Profitability of JSML and BNL. In this regard theoretical statement is framed as:

$$\text{Sales} = f(\text{CA}) \dots \dots \dots (i)$$

$$\text{Profitability} = f(\text{CA}) \dots \dots \dots (ii)$$

The equation to be estimated has therefore been specified as,

$$Y_t = b_0 + b_1 X_t + \mu_t$$

$$\text{Sales} = b_0 + b_1 (\text{CA}) + \mu_t \dots \dots \dots (i), \text{ and}$$

$$\text{Profitability} = b_0 + b_1 (\text{CA}) + \mu_t \dots \dots \dots (ii)$$

Where,

$Y_t = \text{Sales/Profitability}$ = the response variable

$X_t = \text{EM}$ = Equity multiplier represented as Current Assets, the explanatory variable

b_0 = Regression coefficient, the sample Y intercept

b_1 = Regression coefficient, the sample slope

μ_t = the error term

The objective of this study is to see the relationship between current assets to profitability and also the relationship between current assets to sales. Hence, to determine the existence of a significant linear relationship between sales and current assets, as well as profitability and current assets, following hypothesis has been formulated;

Hypothesis 1:

Null Hypothesis (H): $r_1 = 0$ (There is no linear relationship) = There is no significant relationship between Sales and Current Assets. That means, if the current assets increases, the Sales will decrease and vice-versa.

Alternative Hypothesis (H_A): $r_1 \neq 0$ (There is a linear relationship) There is a significant relationship between Sales and Current Assets. That means, if the current asset increases, the Sales will also increases.

Hypothesis 2:

Null Hypothesis (H): $r_2 = 0$ (There is no linear relationship) = There is no significant relationship between Profitability and Current Assets. That means, if the current assets increases, the profit will decrease and vice-versa.

Alternative Hypothesis (H_A): $r_2 \neq 0$ (There is a linear relationship) = There is significant relationship between Profitability and Current Assets. That means, if the current assets increases, the profit will also increase and vice-versa.

Since it is easy to observe the relationship by calculating the values in Data Analysis Tool Pack in Microsoft Excel Sheet. It has been done accordingly and result will be interpreted. Also, for closer analysis the breakdowns of Current Assets will be done as Inventories, Cash & Bank Balance and Account Receivables and regression analysis will be done for each variables with Sales and Profitability to observe as to which variables have made how much impact to increase or decrease the sales and profit.

(c) Test of Hypothesis (t-test for significance of an observed sample correlation coefficient)

The correlation coefficient has been calculated by Karl Pearson's analysis. However, to test whether the 'r' is significant of any correlation between the variables in the

population or is it just due to fluctuations of sampling, we need to see that the variables are uncorrelated in the population.

After calculating the intercept value of CA to sales; we need to find out if the value is significant or not. If we observe that the t-stat value is less than t-critical value, then, we will know that there is no relationship between the variables and vice-versa and hence null hypothesis needs to be accepted. The same can be computed as follows;

t-stat value < t-critical value(table value) then null hypothesis to be accepted

t-stat value > t-critical value(table value) then alternative hypothesis to be accepted.

(d) Calculation and Interpretation of P-Value

After observing relationship from regression analysis and further analyzing the same from t-stat value, we have observed the p-value which will help us to further see if the values are significant or not. If the p-value is less than 0.05(degree of significance) then we know that the observation we have done through regression analysis and t-stat is not significant and we will accept the null hypothesis and vice-versa. The same is computed as follows;

P-Value < 0.05(degree of significance) then null hypothesis to be accepted

P-Value > 0.05(degree of significance) then alternative hypothesis to be accepted

The following hypothesis have been set for the above observations;

Hypothesis 3:

Null Hypothesis (H₀): $\beta_3 = 0$ (There is no linear relationship) = There is no significant relationship between the variables (sales and current assets) OR (profitability and current assets).

Alternative Hypothesis(H_A): $\beta_3 \neq 0$: (There is a linear relationship) = There is significant relationship between the variables (sales and current assets) OR (profitability and current assets).

All the calculations have been done through Data Analysis Tool Package in Microsoft Excel Worksheet.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

The main objective of the study is to examine the working capital management of Nepalese manufacturing companies listed in Nepal Exchange Limited, analysis and presentation of empirical data with the help of various statistical tools. This chapter will present the analysis of components of working capital of selected manufacturing companies i.e. Bottlers Nepal Limited and Jyoti Spinning Mills Limited. The major variables for this study are current assets, current liabilities, inventory, cash, receivables, net profit, total assets and sales. First the researcher has dealt about the working capital policy followed by listed manufacturing companies, then the financial ratios and statistical analysis to meet the set objectives.

4.1 Working Capital Policy

4.1.1 Financial Analysis

To fulfill the first objective of this study, which is to find out the working capital investment policy adopted by Bottlers Nepal Limited and Jyoti Spinning Mills Limited, the researcher will find out the working capital policy, which might be one of the three policies like Fat Cat Policy, Lean and Mean Policy or Moderate Policy. Every firm can adopt different investment policies according to the financial managers' attitude towards business environment. It can be easily done by finding out the investment trend used over 5 years period. To evaluate the policy, the researcher have calculated different ratios like Percentage of Current Assets to Total Assets Ratio, Cash to Current Assets, Inventory to Current Assets, Receivable to Current Assets, Current Assets to Current Liabilities (Current Ratio) which is very essential calculations to analyze working capital management.

To find out the policy adopted by the respective companies; the structure are presented and analyzed below. The balance sheet and other financial structures are presented in Appendixes.

TABLE 4.1
Percentage of Current Assets to Total Assets

(Rs. in '000,000)

Year	Jyoti Spinning Mills Ltd.			Bottlers Nepal Limited		
	CA Rs.	TA Rs.	CATA %	CA Rs.	TA Rs.	CATA %
2003	264.63	766.38	34.53	248.48	590.94	42.05
2004	280.84	756.86	37.11	259.59	463.01	56.07
2005	293.69	743.87	39.48	298.69	618.92	48.26
2006	662.83	1299.18	51.02	225.15	418.77	53.76
2007	90.17	1314.08	68.65	328.61	497.46	66.06

Table 4.1 presents the percentage of current assets to total assets (CATA) of Bottlers Nepal Limited and Jyoti Spinning Mills Limited. The table explains the portion of investment in current assets relatively. For Jyoti Spinning Mills Limited, it is observed that over the years the CATA is slightly increasing. In 2003, its 34.53 and its increasing year after year and in 2007 it is 68.65. This figure shows that the risk and profitability of enterprises is decreasing every year.

For Bottlers Nepal Limited, we can observe that over the years the CATA is in increasing status. In 2004 it has increased from previous year but again reduced in 2005 and again from 2005 onwards it has increased till 2007. Hence, it can be concluded from this analysis that BNL's risk and profitability is decreasing every year.

It can be observed from the Figure 4.1 that JSML is in increasing trend however, BNL's CATA has increased in 2004, again declined in 2005 and again in increasing trend till 2007.

The CATA calculations can be observed in the trend diagram below;

FIGURE 4.1

Chart showing the structure of CATA for JSML and BNL

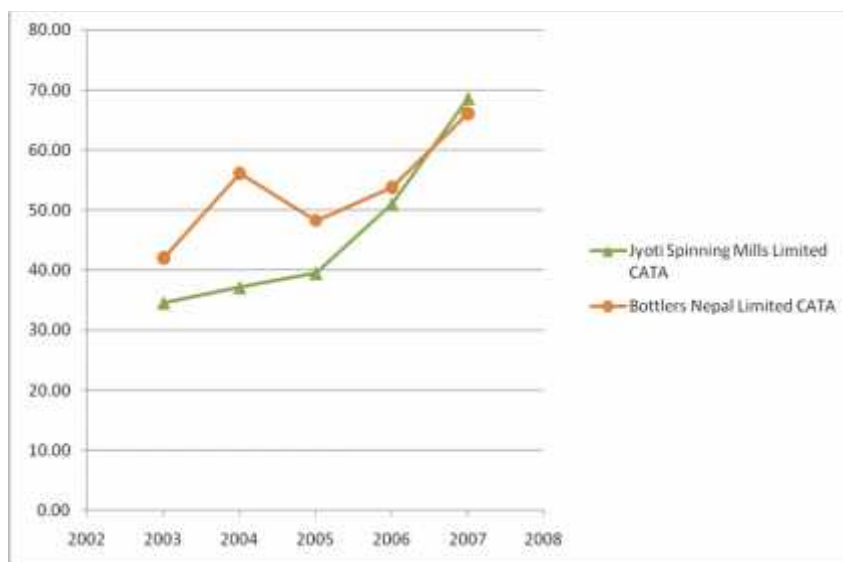


TABLE 4.2

Percentage of Cash to Current Assets (CCA)

(Rs. in '000,000)

Year	Jyoti Spinning Mills Limited			Bottlers Nepal Limited		
	C & B Balance Rs.	CA Rs.	CCA %	C & B Balance Rs.	CA Rs.	CCA %
2003	2.47	264.63	0.93	19.54	248.48	7.86
2004	11.41	280.84	4.06	14.83	259.59	5.71

2005	7.63	293.69	2.60	14.86	298.69	4.97
2006	4.53	662.83	0.68	21.47	225.15	9.54
2007	10.49	902.17	1.16	26.52	328.61	8.07

In the Table 4.2, the researcher has calculated the percentage of cash to current assets (CCA) of both Bottlers Nepal Limited and Jyoti Spinning Mills Limited. As mentioned in Chapter Three, the percentage of cash to total assets will tell us the ratio and higher ratio will indicate the poor cash management and vice versa.

For Jyoti Spinning Mills Limited, it is observed that the ratio is fluctuating. It has increased in 2004 than 2003 and again decreased in 2004, decreased in 2005 and 2006 and again increased in 2007. This shows that cash management policy of the company has not changed dramatically however it has managed to be in good level.

For Bottlers Nepal Limited, it is observed that over the years the CCA have reduced from 2003 to 2005; it has again increased in 2006 and slightly reduced in 2007. It indicates that Bottlers Nepal Limited has managed to have good cash management if it can be evaluated for 5 years.

The trend of CCA can be seen more clearly in the below chart. It can be observed in above Figure 4.2 that in the case of JSML, the CCA has inclined in 2004 and again declined through 2006 and again slightly inclined in 2007. However, for BNL the trend seems different, it has declined from 2003 till 2005, inclined in 2006 and again declined in 2007. The cash management can be seen as average management for both the enterprises.

FIGURE 4.2

Chart showing the structure of CCA for JSML and BNL

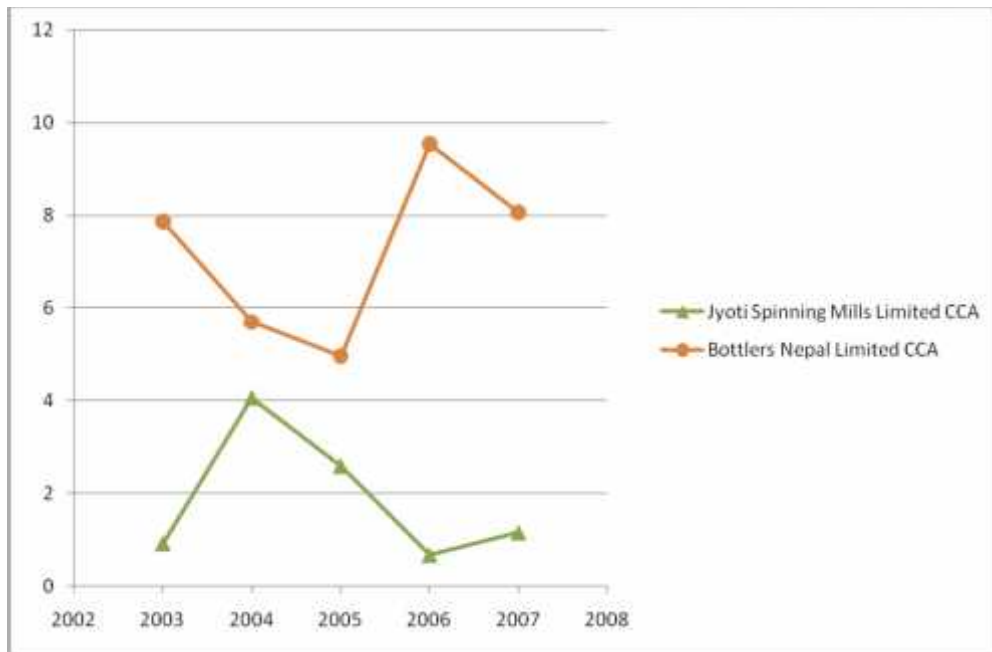


TABLE 4.3

Percentage of Inventory to Current Assets

(Figure in '000,000)

Year	Jyoti Spinning Mills Limited			Bottlers Nepal Limited		
	Inventory	CA	ICA	Inventory	CA	ICA
2003	141.96	264.63	53.65	143.87	248.48	57.90
2004	154.50	280.84	55.01	123.43	259.59	47.55
2005	184.91	293.69	62.96	119.27	298.69	39.93
2006	165.62	662.83	24.99	108.42	225.15	48.15
2007	179.54	902.17	19.90	100.10	328.61	30.46

In the Table 4.3, the researcher has calculated the percentage of inventory to current assets (ICA) of both Bottlers Nepal Limited and Jyoti Spinning Mills Limited.

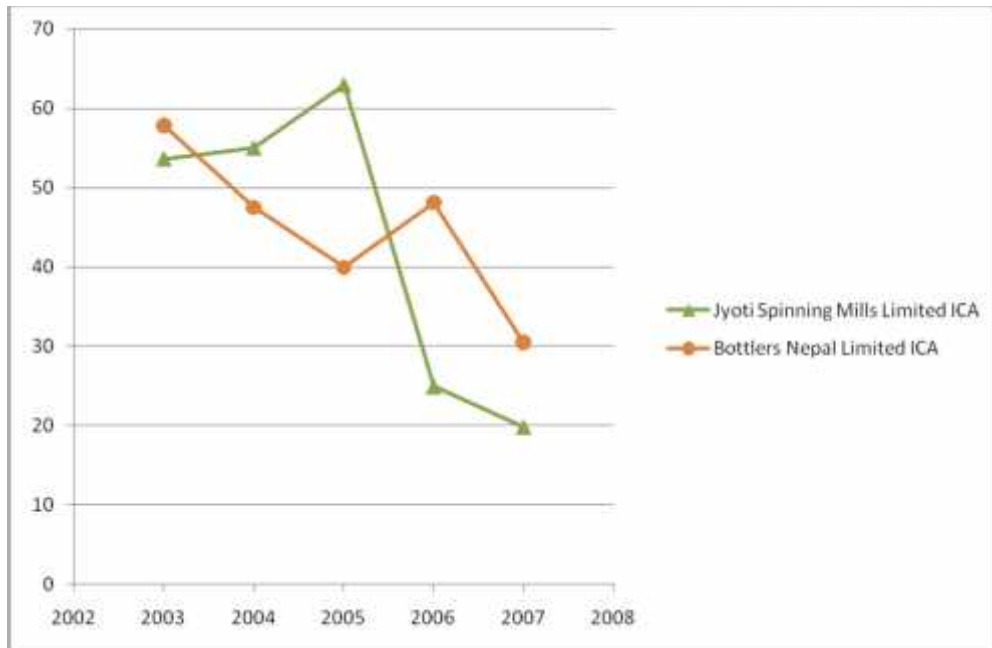
As mentioned in Chapter Three, the percentage of inventory to current assets will show the ratio and higher ratio will indicate the poor inventory management and vice versa.

For Jyoti Spinning Mills Limited, it is observed that the ratio is in increasing trend from 2003 till 2005. However, it has dramatically declined on 2006 and again in 2007. This shows that inventory management policy was weak but now it has managed to be in good level.

For Bottlers Nepal Limited, it is observed that over the years the ICA have reduced from 2003 to 2005; it has again increased in 2006 and considerably reduced in 2007. It indicates that Bottlers Nepal Limited has managed to have good inventory management if we evaluate for 5 years. It can be observed from the chart below; which will show the trend more clearly;

FIGURE: 4.3

Chart showing the structure of ICA for JSML and BNL



The JSML shows increase in ICA and then sudden decline in 2006 and again on 2007; which shows good management decision in inventory management.

For BNL, we observe that the ICA is in declining trend from 2003 till 2005 and again has increased in 2006 and again declining in 2007. So, the conclusion is that the inventory management is in good condition of BNL.

TABLE 4.4

Percentage of Receivables to Current Assets

(Figures in '000,000)

Year	Jyoti Spinning Mills Limited			Bottlers Nepal Limited		
	Receivables	CA	RCA	Receivables	CA	RCA
2003	23.24	264.63	8.78	39.74	248.48	15.99
2004	29.03	280.84	10.34	43.76	259.59	16.86
2005	2.52	293.69	0.86	57.25	298.69	19.17
2006	12.21	662.83	1.84	16.41	225.15	7.29
2007	1.65	902.17	0.18	10.70	328.61	3.25

In the Table 4.4, the researcher has calculated the ratio of Receivable to Current Assets of both Bottlers Nepal Limited and Jyoti Spinning Mills Limited

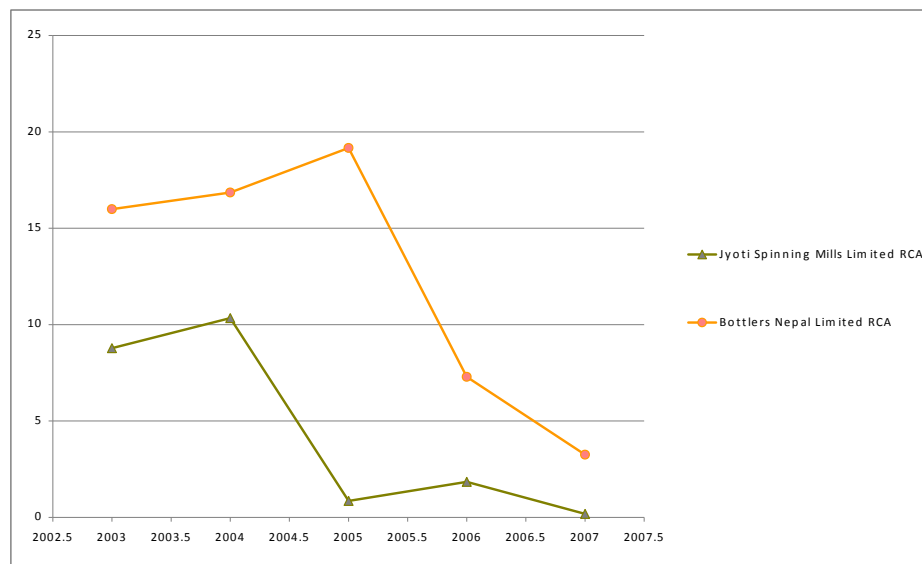
As mentioned in Chapter Three, the percentage of receivables to total assets will let us evaluate credit policy followed by the companies.

For Jyoti Spinning Mills Limited, it has been observed that the ratio has increased on 2004 in comparison to 2003 and heavily reduced on 2005, again increased in 2006 and again decreased in 2007. It can be observed from this trend that the credit policy was not under control in first 2 years and there seem strong control in the year 2005 and bit loosen in the year 2006 and again tighten in 2007.

For Bottlers Nepal Limited, it has been observed that over the years the RCA have increased from 2003 to 2005; but in decreasing trend from 2006 onwards. It indicates that Bottlers Nepal Limited adopted liberal credit policy in the beginning and have started tighten it.

FIGURE: 4.4

Chart showing the structure of RCA for JSML and BNL



The trend of credit policy of both enterprises can be observed more clearly in the above chart. It is observed that JSML's RCA has slightly increased in 2004 and

highly declined in 2005 and then after JSML have maintained their credit policy. Likewise, for BNL the trend is increasing in first 3 years even though its not so big; however in the year 2006 RCA have declined dramatically which shows that the management of BNL changes its credit policy.

TABLE 4.5
Percentage of Current Assets to Current Liabilities (Current Ratio)

(Figures in '000,000)

Year	Jyoti Spinning Mills Limited			Bottlers Nepal Limited		
	Current Assets	Current Liabilities	Current Ratio	Current Assets	Current Liabilities	Current Ratio
2003	264.63	15.34	17.25	248.48	195.43	1.27
2004	280.84	14.17	19.82	259.59	225.97	1.15
2005	293.69	16.72	17.57	298.69	236.34	1.26
2006	662.83	18.20	36.42	225.15	155.99	1.44
2007	902.17	20.32	44.39	328.61	215.58	1.52

Table 4.5 shows the calculation of current ratio i.e. ratio of current assets to current liabilities. Current ratio measures the short-term solvency of the firm. This is the crude measurement of liquidity position of the firm. Higher the liquidity position, the lesser the need for additional working capital. Hence, it will be better for the companies to have the best use of existing liquidity position.

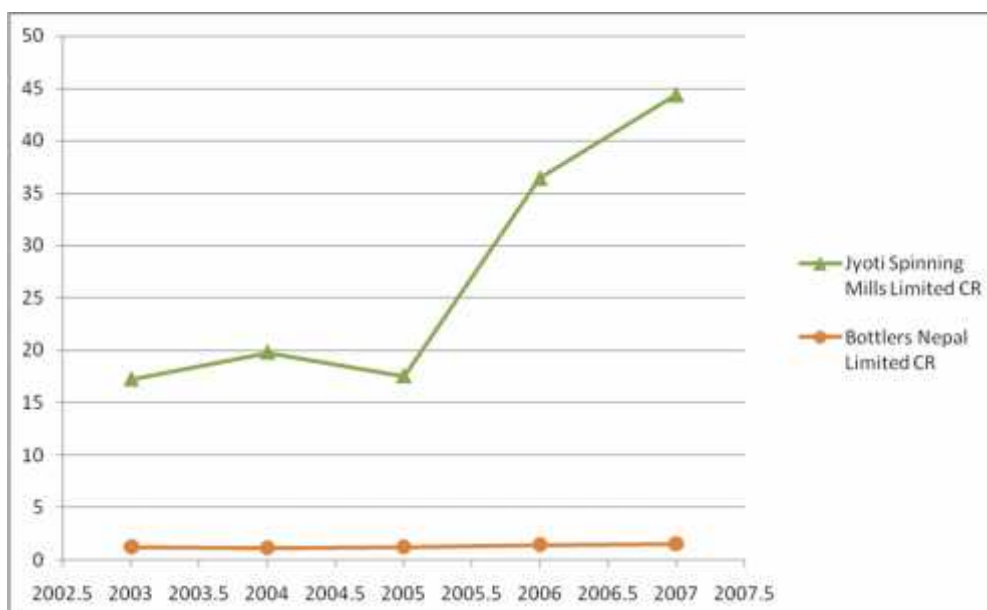
For Jyoti Spinning Mills Limited, it has been observed that the ratio is seen really high. However, we can observe that from the year 2003 to 2004 it is in increasing trend and again decreased in 2005 and again increased in 2006 and more increased in 2007. The liquidity position of the company is considerably high throughout the years; even though there are changes.

For Bottlers Nepal Limited, we can observe that over the years the Current Ratio have been neither decreasing nor increasing considerably. However, the ratio is less than 2:1 which indicates the liquidity position of the company is low. Since, it was observed that BNL have low CR, the company must raise the amount of working capital to save them from serious future liquidity crisis.

The below chart shows the data more clearly. The following chart shows more clearly. We can observe from below chart that the CR of JSML is in increasing trend after 2005, which shows that the company is inclining towards liquidity and able to pay its bills.

FIGURE: 4.5

Chart showing the structure of CR for JSML and BNL



Unlike JSML, the CR trend of BNL is seen more or less constant throughout 5 years, but observing the figure which is less than 2:1 ratio which is taken as satisfactory, the sales is low in comparison to CA investment.

In the Table 4.6 below, the researcher has calculated the Current Assets Turnover Ratio of both Bottlers Nepal Limited and Jyoti Spinning Mills Limited.

As mentioned in Chapter Three, Sales to Current Assets will measure the ratio to see the utilization of current assets. Whenever the ratio is increased, it indicates good utilization of current assets.

TABLE 4.6
Percentage of Sales to Current Assets
(Current Assets Turnover Ratio)

(Figures in '000,000)

Year	Jyoti Spinning Mills Limited			Bottlers Nepal Limited		
	Sales	CA	CATR	Sales	CA	CATR
2003	725.04	264.63	2.74	452.85	248.48	1.82
2004	718.95	280.84	2.56	398.35	259.59	1.53
2005	85.53	293.69	0.29	401.32	298.69	1.34
2006	73.09	662.83	0.11	354.10	225.15	1.57
2007	772.26	902.17	0.86	484.99	328.61	1.48

In the above table, it can be observed that for Jyoti Spinning Mills, the CATR is in decreasing trend from 2003 till 2006 and slightly increased in 2007 compared to 2006. This shows that there has been no proper utilization of current assets.

For BNL, the CATR is observed to be also in decreasing trend. From 2003 till 2005, it's continuously decreasing, slightly increased in 2006 and again decreased in 2007. It shows that BNL has not done proper utilization of current assets. The below chart shows the trend more clearly.

It is observed that the CATR of JSML has decreased from 2004 to 2005 and again slightly increased in 2007. JSML must ensure that it maintains its CATR to utilize current assets effectively.

However, for BNL, is seen not so heavily fluctuating. As described above, its slightly decreasing, and increasing and again in decreasing trend, but its not changing in huge difference.

FIGURE: 4.6

Chart showing the structure of CATR for JSML and BNL

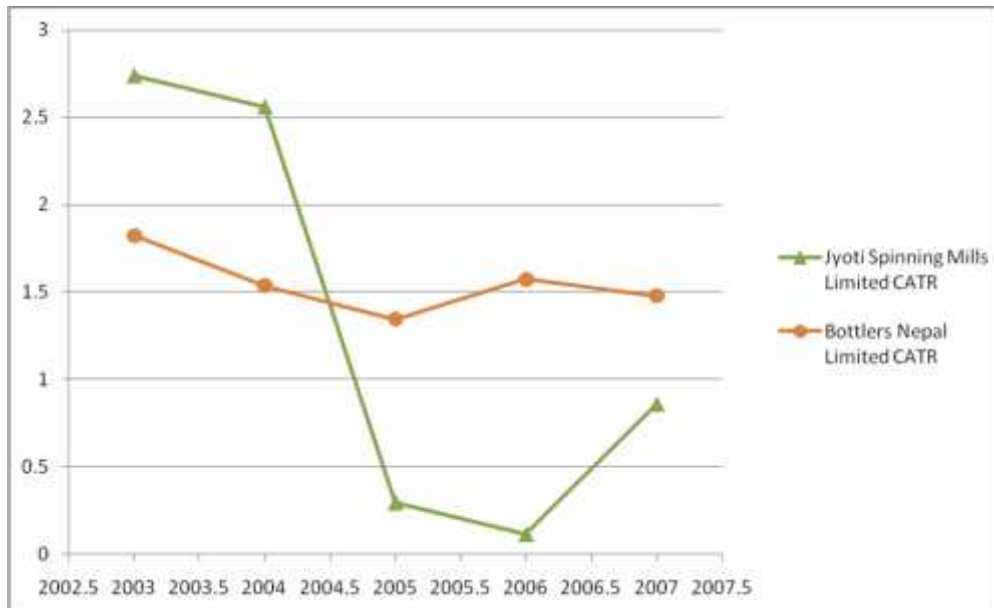


TABLE 4.7

**Percentage of Net Profit/Loss after Tax to Total Assets
(Net Profit Margin)**

(Figures in '000,000)

Year	Jyoti Spinning Mills Limited			Bottlers Nepal Limited		
	NPAT	TA	NPM	NPAT	TA	NPM
2003	(275.39)	766.38	(0.36)	18.45	590.94	0.031
2004	(275.79)	756.86	(0.36)	20.62	463.01	0.044
2005	(171.18)	743.87	(0.23)	15.63	618.92	0.025
2006	(40.10)	1299.18	(0.03)	(26.02)	418.77	(0.062)
2007	(75.45)	1,314.08	(0.06)	24.80	497.46	0.049

In the Table 4.7, the researcher has calculated the Net Profit Margin of both Bottlers Nepal Limited and Jyoti Spinning Mills Limited.

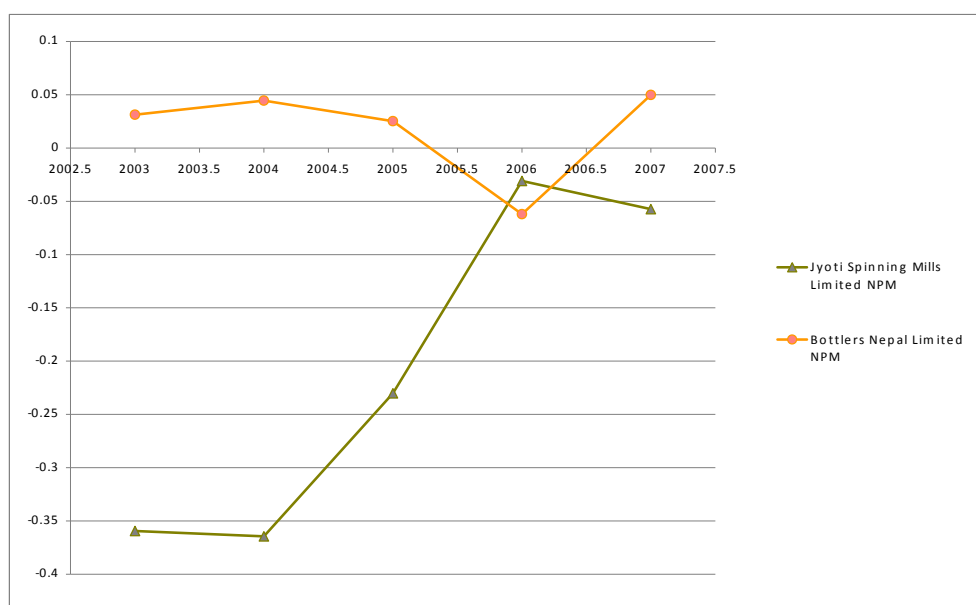
As mentioned in Chapter Three, Net Profit Margin will measure the overall firm ability to turn each rupee of sales into net profit. For Jyoti Spinning Mills Limited, we can

see that there is loss throughout 5 years period and NPM is in negative. However, the loss is decreasing over the years.

For Bottlers Nepal Limited, it is observed that from the year 2003 till 2005, the company has maintained its profit margin but suddenly in the year 2006, the profit is in negative which the company has managed to cover by getting 24.80 NPAT. It indicates that Bottlers Nepal Limited has taken good step to increase profit margin in the year 2007.

FIGURE: 4.7

Chart showing the structure of NPM for JSML and BNL



It is observed from above chart 4.7 that JSM is in negative NPM over 5 years period, however, BNL is observed to have negative NPM in the year 2005 and again it has maintained it NPM.

From Table 4.8, Return on Assets has been calculated, which is useful tool to measure the profitability of all financial resources invested in the firm's assets.

For JSML, it is observed that all the figures are in negative over 5 years period though the negative figure is slightly decreasing, which indicates very bad utilization of total assets.

TABLE 4.8
Percentage of NPAT to Net Assets (Return on Assets)

(Figures in '000,000)

Year	Jyoti Spinning Mills Limited			Bottlers Nepal Limited		
	NPAT	NA	RoA	NPAT	NA	RoA
2003	(275.39)	249.29	(1.10)	18.45	53.06	0.35
2004	(275.79)	266.67	(1.03)	20.62	33.63	0.61
2005	(171.18)	276.97	(0.62)	15.63	62.35	0.25
2006	(40.10)	844.63	(0.05)	(26.02)	69.16	(0.38)
2007	(75.45)	881.85	(0.09)	24.80	113.02	0.22

For BNL, the trend is also in declining stage showing negative figure in the year 2006 which is also indication of inefficient management of the enterprises.

It is observed from below figure 4.8 that JSML is in negative ROA but slowing improving. Also, BNL is seen to be decreasing its ROA and has gone in negative figure in the year 2005. Both enterprises are observed to have inefficient management of total assets.

FIGURE: 4.8

Chart showing the structure of ROA for JSML and BNL

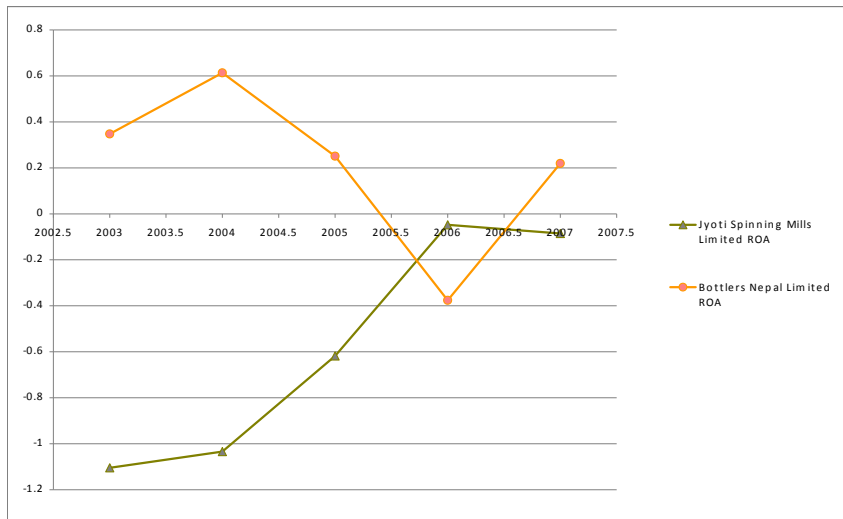


TABLE 4.9

Percentage of Other Current Assets to Current Assets (OCCA)

(Figures in '000,000)

Year	Jyoti Spinning Mills Limited			Bottlers Nepal Limited		
	Other CA	CA	OCCA	Other CA	CA	OCCA
2003	96.96	264.63	36.64	45.34	248.48	18.24
2004	85.91	280.84	30.59	77.59	259.59	29.89
2005	98.63	293.69	33.58	107.31	298.69	35.93
2006	680.47	662.83	102.66	78.85	225.15	35.02
2007	710.49	902.17	78.75	191.29	328.61	58.21

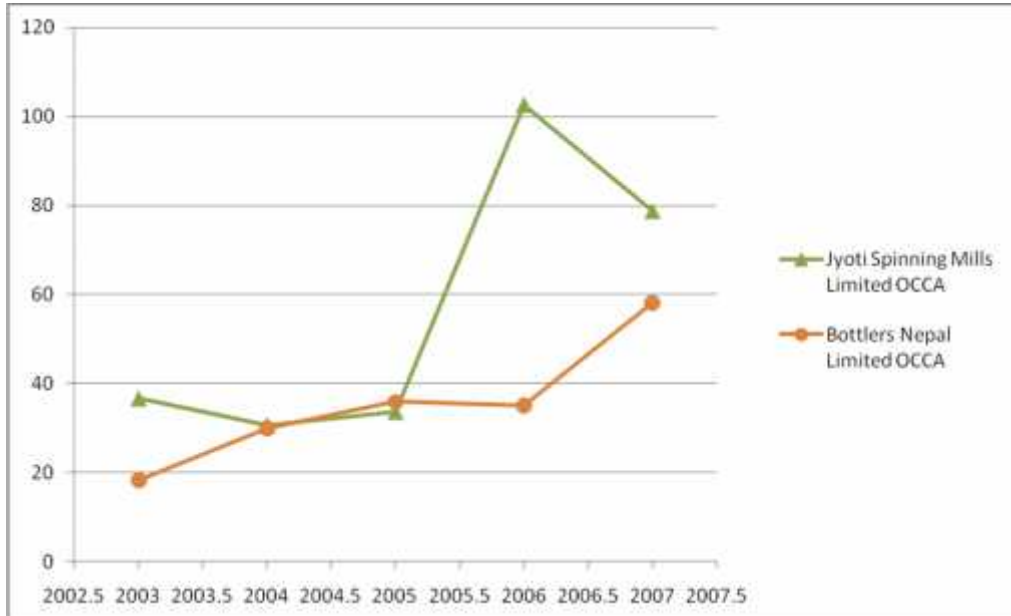
The Table 4.9 shows the 5 years data on Other Current Assets. It is helpful to find out the current assets management of the enterprise; higher percentage of Other Current Assets indicates the weak Current Assets Management and vice-versa.

For JSML, it is observed from the above table that OCCA over the years have been changing dramatically. From 2003 to 2004 to 2005, there is decline which indicates good management but suddenly in 2006 it has increased hugely which shows very weak current assets management in that year and again in the year 2007 it has gone down which means the management decided to monitor the current assets management.

For BNL, the OCCA is in increasing trend not even declining once, which shows weaker current assets management each year.

FIGURE 4.9

Chart showing Other CA to CA of JSML and BNL



The Figure 4.9 has been helpful to see the trend of both JSML and BNL in good way. It is clearly seen in the figure that for JSML, the OCCA has suddenly inclined very high in the year 2006 and again declined in 2007. We can assume that JSML is trying to maintain the good current assets management trend in the company. Whereas, in BNL, the trend is going up; every year the OCCA is increasing which means the management hasn't paid much attention to monitor its current assets management.

TABLE 4.10

Percentage of Net Profit/Loss after Tax to Net Working Capital

(Return on Working Capital)

(Figures in '000,000)

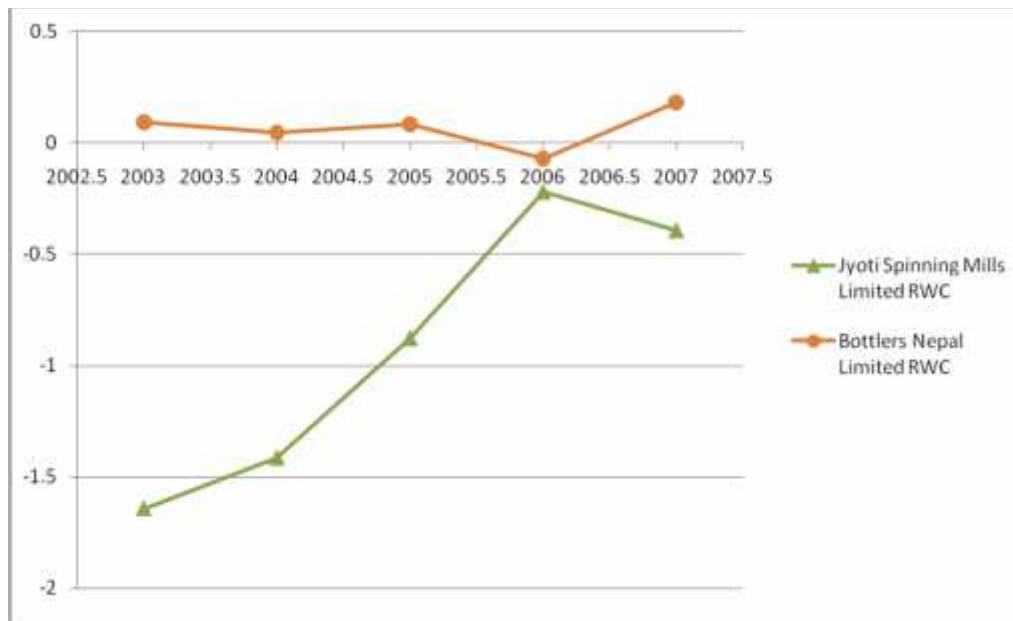
Year	Jyoti Spinning Mills Limited			Bottlers Nepal Limited		
	NPAT	NWC	RWC	NPAT	NWC	RWC
2003	(275.39)	167.67	(1.64)	18.45	203.15	0.09
2004	(275.79)	194.93	(1.41)	20.62	441.60	0.05
2005	(171.18)	195.06	(0.88)	15.63	191.38	0.08
2006	(40.10)	182.37	(0.22)	(26.02)	371.45	(0.07)
2007	(75.45)	191.68	(0.39)	24.80	137.32	0.18

The table 4.10 shows 5 years data for JSML and BNL on Working Capital and shows Return on Working Capital, which helps to measure the profit with respect to Current Assets; higher ratio of RWC indicates higher utilization of current assets to earn profit and vice-versa.

The table 4.10 indicates that RWC of JSML is negative over 5 years; which is slowly decreasing in figure over the years; which means the JSML management is trying to improve its utilization on Current Assets but till 2007, its seen that there has been no proper utilization of Current Assets resulting Net Loss over the years. For BNL, the ratio has increased from 2003 to 2004, again increased in 2005 but in negative in 2006 and again increased in 2007; which means the management of BNL is trying their best to utilize their current assets; however right now its not in satisfactory position.

FIGURE 4.10

Chart showing NPAT to NWC of JSML and BNL



The Figure 4.10 shows the figure more clearly below. The scatter diagram shows that all the RWC of JSML is negative though its slowly coming towards positive line over the years. It needs to focus on proper utilization of current assets to gain profit. For BNL, in the year 2006, it's seen to be in negative slope, which the management have managed to come back in positive figure next year i.e. 2007.

4.1.2 Descriptive Statistics of Variables of Working Capital

The financial analysis has been done in earlier section of the chapter of different variables of Working Capital in simple manner to find out if the companies selected have opted good working capital investment policy or not. However, the financial analysis is not enough to decide that the respective companies have opted good

working capital investment policy or not, we need to do the descriptive analysis from which we will calculate mean, standard deviation, maximum and minimum data of the observed samples as descriptive statistics are pertinent tools to have ideas of distributions of the variables. As mentioned in chapter three, the calculations have been done from Data Analysis Tool Package by feeding data in Microsoft Excel Worksheet. The Appendix shows the detailed extract taken out using the tool. However, in the below table (Table 4.11) we list out different variables of working capital and analyze the data accordingly.

TABLE 4.11

Descriptive Statistics of Working Capital Variables of JSML

S.N.	Variable	Mean	S.D.	CV	Min	Max
1.	CATA	46.16	14.07	0.30	34.53	68.65
2.	CCA	1.89	1.42	0.75	0.68	4.06
3.	ICA	43.30	19.45	0.50	19.90	62.96
4.	RCA	4.40	4.78	1.09	0.18	10.33
5.	CR	27.09	12.52	0.46	17.25	44.39
6.	CATR	1.31	1.25	0.96	0.11	2.74
7.	NPM	(0.20)	0.16	(0.77)	(0.36)	(0.03)
8.	ROA	(0.58)	0.50	(0.87)	(1.10)	(0.05)
9.	OCCA	56.45	32.47	0.56	30.59	102.66

10.	RWC	(0.91)	0.62	(0.68)	(1.64)	(0.22)
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TABLE 4.12

Descriptive Statistics of Working Capital Variables of BNL

S.N.	Variable	Mean	S.D.	CV	Min	Max
1.	CATA	53.24	8.98	0.17	42.05	66.06
2.	CCA	7.23	1.86	0.26	4.97	9.54
3.	ICA	44.80	10.24	0.23	30.46	57.90
4.	RCA	12.52	6.86	0.55	3.25	19.17
5.	CR	1.33	0.15	0.11	1.15	1.52
6.	CATR	1.55	0.18	0.11	1.34	1.82
7.	NPM	0.02	0.05	2.58	(0.06)	0.05
8.	ROA	0.21	0.36	1.72	(0.38)	0.61
9.	OCCA	35.46	14.54	0.41	18.24	58.21
10.	RWC	0.07	0.09	1.37	(0.07)	0.18

Table 4.11 and Table 4.12 provide average values of the different major variables that are focused in this study along with standard deviation and coefficient of variation (C.V.). Different variables of working capital are analyzed below;

Current Assets to Total Assets (CATA)

For JSML, the mean value of CATA (measured as Current Assets to Total Assets) is 46.16 whereas SD is 14.07. The minimum value observed is 34.53 and maximum value is 68.65. However, the CV is observed only 0.30. However, in the case of BNL the mean is 53.24, the standard deviation has been observed less in comparison to JSML which is 8.98 and also CV is also low in comparison to JSML which is 0.17. Hence, the risk taken and profitability gained by JSML seems consistent and in comparison to JSML, BNL's CATA is more consistent, based on the results.

Cash & Bank Balance to Current Assets (CCA)

For JSML, the mean value have been observed as 1.88 from minimum value of 0.68 and maximum value of 4.06 and standard deviation is observed low i.e. 1.42 whereas CV is 0.75. However, BNL's mean is observed as 7.23 from minimum value of 4.97 and maximum of 9.54, however SD is observed low in comparison to JSML which is 1.86 and also CV is lower than JSML which is 0.25. The data observed shows that the cash management done by JSML is above average and the results shows consistency. However, the BNL's data is more reliable and shows that BNL is below average in cash management.

Inventory to Current Assets (ICA)

The mean value for JSML in Table 4.11 is 43.30 and S.D. 19.45. The minimum value observed is 19.90 and maximum is 63.96. The CV is 0.50 i.e. 50%. The volatility is observed with respective SD and CV. As for BNL, the mean value is 44.79

but SD is only 10.24 which are low in comparison to JSML and also the CV is 0.23. The minimum value observed is 30.46 and maximum is 57.90.

Both the companies are seen doing average inventory management. However, the BNL's data have been observed as more reliable in comparison to JSML.

Receivable to Current Assets (RCA)

The mean value of RCA of JSML in Table 4.1.1 is 4.40. The minimum and maximum value is 0.18 and 10.33 respectively. However, the S.D. is observed 4.78 which is very high (higher than mean value) and variation is low observed as 1.08, the results show no consistency. However, for BNL, the mean value is 12.51 and S.D. is 6.86 and variation is low which is observed as 0.54. The minimum and maximum value is 3.25 and 19.17 respectively.

In comparison to JSML, BNL's results shows consistency. Volatility is seen in results of JSML as SD is observed higher than mean value. However, we can interpret that JSML has taken average credit policy and BNL is in above average in taking liberal credit policy.

Current Assets to Current Liabilities

For JSML, the mean is observed as 27.09 and SD is 12.51 and the variation is low as 0.46. The minimum and maximum value is observed as 17.25 and 44.39 respectively. Whereas, for BNL the mean value is 1.33 and SD is 0.15 and the variation is 0.11 which is low. The minimum and maximum value is 1.15 and 1.52 respectively.

It can be interpreted that the JSML's CR seems consistent and high; which means the company is in liquidity and able to pay its bills. However, the BNL's CR is low and the descriptive analysis shows that the data is not volatile.

Sales to Current Assets (Current Assets Turnover Ratio – CATR)

For JSML, the mean is observed as 1.31 and SD is 1.25 and variation is 0.96. The minimum value and maximum value is 0.11 and 2.74. Whereas, for BNL the mean is 1.54 and SD is 0.17 which is low. Also, the variation is observed as 0.11. Hence, compared to JSML the BNL's CATR is seen consistent. However, both companies do not seem to have done the proper utilization of current assets.

Net Profit Margin

The mean value of JSML is (0.20) and SD is 0.16 and the coefficient of variation is (0.77). The minimum value and maximum value is (0.36) and (0.03) respectively. Whereas, the mean value of BNL is 0.018 and SD is 0.046 and the variation is observed as 2.58. The data of BNL is seen more consistent than JSML. However, compared to JSML, BNL have more ability to turn each rupee of sales into net profit.

Net Profit/Loss after Tax to Net Assets (Return on Assets)

It is observed here that for JSML the mean value is (0.58) and Standard Deviation is 0.50 and the variation is (0.87). The minimum and maximum value observed is (1.11) and (0.05) respectively. But for BNL, the mean is 0.21 and standard deviation is 0.36 and the variation is 1.72. The minimum and maximum value observed is (0.38) and 0.61. Since, the mean and CV is in negative, there is volatility in the observations of JSML and the data of BNL seems consistent compared to JSML. However, the ROA is in negative for JSML and BNL is positive.

Other Current Assets to Current Assets

The mean value for JSML is 56.45 and SD is 32.64 and the variation is 0.57. The minimum and maximum value observed is 30.59 and 102.66 respectively. As for BNL, the mean value is 35.45 which is lower than JSML. The SD is 14.54 and the variation is 0.41 which is lower than of BNL. The minimum and maximum value observed for BNL is 18.24 and 58.21 respectively. Both companies have average current assets management from other current assets management perspective.

Net Profit (Loss) after Tax to Net Working Capital (Return on Working Capital)

The mean value of JSML is (0.91) and SD is 0.62 and the variation is (0.68). The minimum and maximum value observed is (1.64) and (0.21) respectively. Whereas, for BNL, the mean is 0.06 and SD 0.09 and the variation is 1.37. We can calculate from above observations that the data of BNL is more reliable than of JSML since JSML's figure is in negative.

The JSML have negative Return on Working Capital whereas for BNL it is positive; hence BNL is seen to have higher utilization of current assets to earn profit.

TABLE 4.13

Descriptive Statistics of JSML and BNL to observe WC Policy

Year	Jyoti Spinning Mills		Bottlers Nepal Limited	
	EBIT Rate	RRA Rate	EBIT Rate	RRA Rate
2003	0.26	0.15	0.09	0.07
2004	0.28	0.15	0.11	0.09
2005	0.32	0.17	0.12	0.08
2006	0.17	0.05	0.09	0.08

2007	0.05	0.02	0.15	0.15
Mean	0.21	0.11	0.11	0.09
S.D.	0.11	0.07	0.03	0.03
C.V.	0.51	0.66	0.24	0.36
Minimum	0.05	0.02	0.09	0.07
Maximum	0.32	0.17	0.15	0.15

Results:

Table 4.13 presents the EBIT Rate and RRA Ratio over the 5 years period. From the above table; we can see that for JSML the mean RRA is less than mean EBIT rate i.e. $RRA(0.11) < EBIT\ Rate(0.21)$ i.e. the result shows that JSML have adopted Conservative Policy over the years. The S.D. is only 0.11 for EBIT 0.07 for RRA and the CV is 0.51 for EBIT and 0.66 for RRA. So, the evaluation of other variables of Working Capital Policy is also required; which will be evaluated through Descriptive Statistical Analysis.

For BNL, it is observed that the mean EBIT Rate is slightly greater than RRA i.e. $RRA(0.09) < EBIT\ Rate(0.11)$ which means BNL have also adopted Conservative Policy. The S.D. for EBIT is 0.03 for both EBIT and RRA and C.V. is 0.23 for EBIT and 0.36 for RRA. Hence, to ensure that the result is significant, the observation of the working capital variables of BNL through descriptive statistical analysis is the next step.

4.2 Relationship between Profitability and Current Assets:

Regression Analysis

As done in earlier chapter, here the sensitivity between Profitability and Current Assets has been measured. Normally, Current Assets comprises of Account Receivables, Cash & Bank Balance and Inventories. When these variables increases the Sales should also increase and thus Profit should also increase. The function of Profitability as dependent variable can be computed as;

Profitability = f(Current Assets)

To examine the relationship between profitability and CA simple linear regression model is used to estimate the linear regression equation:

$$Y_t = b_o + b_1X_t + \mu_t$$

$$\text{Profitability}_t = b_o + b_1(\text{CA}_t) + \mu_t$$

where,

Y_t = Profitability = Profit, the response variable

X_t = CA, the explanatory variable

b_o = Regression Coefficient, the sample Y intercept

b_1 = Regression Coefficient, the sample slope

μ_t = the error term

Table 4.14 exhibits a regression and corresponding inferential statistic from the data processed from financial statements of Jyoti Spinning Mills Limited and Bottlers Nepal Limited from the year 2003 till 2007. The table shows the coefficients of the regression equation measuring the sensitivity of Current Assets on Sales of JSML and BNL.

TABLE 4.14

Estimation of sensitivity of Current Assets on Profitability of JSML and BNL

The estimation is based on the following regression model:

$$\text{Profitability}_t = b_0 + b_1(\text{CA}_t) + \mu_t$$

Company	Dependant Variable	Intercept	Regression Coefficient of CA	R	R ²	t-stat	P-value
JSML	Profit	(323.29)	0.324	0.85	0.72	2.8118	0.067
BNL	Profit	(82.86)	0.344	0.68	0.47	1.618	0.204

Results:

As theory of financial management indicates the more NPM of the firm shows more ability to turn each rupee of sales into net profit. Hence, the Profit of both JSML and BNL is expected to increase with the level of current assets the companies have invested.

Table 4.14 is the results of the regression equation of profit on current assets; where current asset is taken as independent variable and the same is regressed on dependent variable, profit. The table reveals the effect on profit due to current assets investment. As table presents, there exists a positive relationship between profit and current asset as the coefficient is found to be positive.

As table presents, the Y i.e. Profit, intercept b_0 is computed (323.29) percent for JSML and (82.86) percent for BNL. It simply represents the average value of Profit when X i.e. CA equals zero. The slope b_1 is computed as +0.324 for JSML and +0.344 for BNL. It represents for each increase of 1 time in CA, the expected Profit is estimated to increase by 0.324 percent in JSML and 0.344 in BNL. The correlation coefficient R is +0.85 for JSML and +0.68 in BNL, which indicates a strong and positive relationship between current assets and profit of JSML and BNL respectively. Coefficient of determination R^2 has been used to measure of variation in Profit that is explained by the independent variable Current Asset. As presented in table, R^2 is +0.72 for JSML and +0.47 for BNL. It represents 72 percent the variation in Profit can be explained by the variability in the current assets for JSML and 47 percent for BNL.

To determine the existence of a significant linear relationship between two variables, current assets and profit, null and alternative hypothesis has been formulated as mentioned below;

Null Hypothesis (H₀): $\beta_2 = 0$ (There is no linear relationship) = There is no significant relationship between Profitability and Current Assets.

Alternative Hypothesis (H_A): $\beta_2 \neq 0$ (There is a linear relationship) = There is significant relationship between Profitability and Current Assets.

Using 5 % level of significance (95% confidence interval) and 3 i.e. (n - 2) degree of freedom, t-stat as well as P-value has been computed. The calculated value of t is presented in the Table 4.2 for both JSML and BNL. For JSML, the result of t-stat is 2.8118. Because t-stat = 2.8118 < t₃ critical value = 3.182, H₀ is accepted.

Accordingly, P-Value results 0.067 which is also presented in Table 4.2. The P-Value 0.067 is more than level of significance = 0.05. It also supports to accept H₀.

As for BNL, the result of t-stat is 1.618. Because t-stat = 1.618 < t₃ critical value = 3.182, H₀ is accepted. Accordingly, P-Value results 0.204 which is more than level of significance = 0.05. It also supports to accept H₀. Hence, it is concluded that for both JSML and BNL that there is no significant relationship between Profit and Current Assets.

4.3 Breakdown Analysis: Relationship between Profit and variables of Current Assets through Regression Analysis

The descriptive analysis between profit and variables of current assets has been done in earlier section; here we will measure the sensitivity between Profit and different variables of Current Assets. We have already accepted the result that there is no linear relationship between Profit and Current Assets. However, to analyze the result more clearly, the researcher have done the breakdown analysis through regression for 3 different variables of Current Assets(Account Receivables, Cash & Bank Balance and Inventory) with Profit which will help us to know as to which variables of current asset have larger impact on profit. The function of Profit as dependent variable can be computed as;

$$\text{Profit} = f(\text{Accounts Receivables})\dots\dots\dots(i)$$

$$\text{Profit} = f(\text{Cash \& Bank Balance})\dots\dots\dots(ii)$$

$$\text{Profit} = f(\text{Inventory})\dots\dots\dots(iii)$$

To examine the relationship between profit with accounts receivables, cash & bank balance and inventory; simple linear regression model is used to estimate the linear regression equation. The equations will be as follows;

$$Y_t = b_0 + b_1X_t + \mu_t$$

$$\text{Profit}_t = b_0 + b_1(\text{Accounts Receivables}_t) + \mu_t\dots\dots\dots(i)$$

$$\text{Profit}_t = b_0 + b_1(\text{Cash and Bank Balance}_t) + \mu_t\dots\dots\dots(ii)$$

$$\text{Profit}_t = b_0 + b_1(\text{Inventory}_t) + \mu_t\dots\dots\dots(iii)$$

where,

Y_t = Profitability = Profit, the response variable

X_t = Accounts Receivables, C&B Balance, Inventory; the explanatory variable

b_0 = Regression Coefficient, the sample Y intercept

b_1 = Regression Coefficient, the sample slope

μ_t = the error term

Table 4.15, Table 4.16 and Table 4.17 exhibits a regression and corresponding inferential statistic from the data processed from financial statements of Jyoti Spinning Mills Limited and Bottlers Nepal Limited from the year 2003 till 2007. The table shows the coefficients of the regression equation measuring the sensitivity of Current Assets variables (Accounts Receivables, Cash & Bank Balance, Inventory) on Profit of JSML and BNL.

TABLE 4.15

Estimation of sensitivity of Accounts Receivables (AR) on Profit of JSML and BNL

The estimation is based on the following regression model:

$$\text{Profit}_t = b_0 + b_1 (\text{Accounts Receivables}_t) + \mu_t$$

Company	Dependant Variable	Intercept	Regression Coefficient of AR	R	R ²	t-stat	P-value
JSML	Profit	(77.02)	(6.59)	0.73	0.54	(1.88)	0.16
BNL	Profit	(1.96)	0.377	0.35	0.12	0.65	0.56

Results:

As theory of financial management indicates the more Accounts Receivables of the firm shows more sales which will eventually turn into profit. Hence, the Profit of both JSML and BNL is expected to increase with the level of accounts received increased.

Table 4.5.a is the results of the regression equation of profit on accounts receivables; where account receivables is taken as independent variable and the same is regressed on dependent variable, profit. The table reveals the effect on profit due to accounts receivables. As table presents, there exists a negative relationship between profit and accounts receivables for JSML as the coefficient is found to be negative; whereas, there exists a positive relationship between profit and accounts receivables for BNL as the coefficient is found to be positive.

As table presents, the Y i.e. Profit, intercept b_0 is computed (77.02) percent for JSML and (1.96) percent for BNL. It simply represents the average value of Profit when X i.e. AR equals zero. The slope b_1 is computed as (6.59) for JSML and +0.38 for BNL. It represents for each increase of 1 time in AR, the expected Profit is estimated to

decrease by 65.9 percent in JSML and increase by 0.38 in BNL. The correlation coefficient R is +0.74 for JSML and +0.35 in BNL, which indicates a strong and positive relationship between accounts receivables and profit of JSML and BNL respectively. Coefficient of determination R^2 has been used to measure of variation in Profit that is explained by the independent variable Accounts Receivables. As presented in table, R^2 is +0.5415 for JSML and +0.12 for BNL. It represents 54.15 percent the variation in Profit can be explained by the variability in the account receivables for JSML and 12 percent for BNL. This result indicates the state of good positive relationship.

To determine the existence of a significant linear relationship between two variables, accounts receivables and profit, null and alternative hypothesis has been formulated as mentioned below;

Null Hypothesis (H_0): $\rho = 0$ (There is no linear relationship) = There is no significant relationship between Profit and Accounts Receivables.

Alternative Hypothesis (H_A): $\rho \neq 0$ (There is a linear relationship) = There is significant relationship between Profit and Accounts Receivables.

Using 5 % level of significance (95% confidence interval) and 3 i.e. (n - 2) degree of freedom, t-stat as well as P-value has been computed. The calculated value of t is presented in the Table 4.15 for both JSML and BNL. For JSML, the result of t-stat is (1.88). Because t-stat = (1.88) < t_{3} critical value = 3.182, H_0 is accepted. Accordingly, P-Value results 0.15 which is also presented in Table 4.15. The P-Value 0.15 is more than level of significance = 0.05. It also supports to accept H_0 . As for BNL, the result of t-stat is +0.65. Because t-stat = +0.65 < t_{3} critical value = 3.182, H_0 is

accepted. Accordingly, P-Value results 0.56 which is more than level of significance = 0.05. It also supports to accept H_0 . Hence, it is concluded that for both JSML and BNL that there is no significant relationship between Profit and Accounts Receivables.

TABLE 4.16

Estimation of sensitivity of Cash & Bank Balance (CBB) on Profit of JSML and BNL

The estimation is based on the following regression model:

$$\text{Profit}_t = b_0 + b_1(\text{Cash \& Bank Balance}_t) + \mu_t$$

Company	Dependent Variable	Intercept	Regression Coefficient of CBB	R	R ²	t-stat	P-value
JSML	Profit	(169.68)	0.29	0.0099	0.0000099	0.017	0.987
BNL	Profit	19.23	(0.43)	0.104	0.010763	(0.18)	0.868

Results:

As theory of financial management indicates the more Cash & Bank Balance of the firm shows more sales which will eventually turn into profit. Hence, the Profit of both JSML and BNL is expected to increase with the level of cash and bank balance increased.

Table 4.16 is the result of the regression equation of profit on CBB; where a CBB is taken as independent variable and the same is regressed on dependent variable, profit. The table reveals the effect on profit due to CBB. As table presents, there exists a positive relationship between profit and CBB for JSML as the coefficient is found to be positive; whereas, for BNL there exists a negative relationship between profit and CBB.

As table presents, the Y i.e. Profit, intercept b_0 is computed (169.68) percent for JSML and +19.23 percent for BNL. It simply represents the average value of Profit when X i.e. CBB equals zero. The slope b_1 is computed as +0.28 for JSML and (0.44) for BNL. It represents for each increase of 1 time in CBB, the expected Profit is estimated to increase by 28 percent in JSML and decrease by 44 percent in BNL. The correlation coefficient R is +0.0099 for JSML and +0.104 in BNL, which indicates a strong and positive relationship between CBB and sales of JSML and BNL respectively. Coefficient of determination R^2 has been used to measure of variation in Profit that is explained by the independent variable CBB. As presented in table, R^2 +0.0000099 for JSML and +0.0107 for BNL. It represents 0.0009 percent the variation in Profit can be explained by the variability in the CBB for JSML and 0.107 percent for BNL. This result indicates the state of good positive relationship.

To determine the existence of a significant linear relationship between two variables, CBB and profit, null and alternative hypothesis has been formulated as mentioned below;

Null Hypothesis (H₀): $\beta_2 = 0$ (There is no linear relationship) = There is no significant relationship between Profit and Cash and Bank Balance.

Alternative Hypothesis (H_A): $\beta_2 \neq 0$ (There is a linear relationship) = There is significant relationship between Profit and Cash & Bank Balance.

Using 5 % level of significance (95% confidence interval) and 3 i.e. (n - 2) degree of freedom, t-stat as well as P-value has been computed. The calculated value of t is presented in the Table 4.5.b for both JSML and BNL. For JSML, the result of t-stat is +0.01729. Because t-stat = 0.01729 < t₃ critical value = 3.182, H₀ is accepted.

Accordingly, P-Value results 0.987 which is also presented in Table 4.15. The P-Value 0.987 is more than level of significance = 0.05. It also supports to accept H₀.

As for BNL, the result of t-stat is (0.18). Because t-stat = (0.18) < t₃ critical value = 3.182, H₀ is accepted. Accordingly, P-Value results 0.868 which is more than level of significance = 0.05. It also supports to accept H₀. Hence, it is concluded that for both JSML and BNL that there is no significant relationship between Profit and Cash & Bank Balances.

TABLE 4.17

Estimation of sensitivity of Inventory on Profit of JSML and BNL

The estimation is based on the following regression model:

$$\text{Profit}_t = b_0 + b_1(\text{Inventory}_t) + \mu_t$$

Company	Dependant Variable	Intercept	Regression Coefficient of Inventory	R	R ²	t-stat	P-value
JSML	Profit	(825.101)	3.98	0.64	0.41	1.45	0.24
BNL	Profit	(28.02)	0.33	0.26	0.068	0.47	0.67

Results:

As theory of financial management indicates the more Inventories of the firm shows more sales which will eventually turn into profit. Hence, the Profit of both JSML and BNL is expected to increase with the level of inventory.

Table 4.17 is the results of the regression equation of profit on Inventory; where a Inventory is taken as independent variable and the same is regressed on dependent variable, profit. The table reveals the effect on profit due to Inventory. As table presents, there exists a positive relationship between profit and Inventory as the coefficient is found to be positive.

As table presents, the Y i.e. Profit, intercept b_0 is computed (825.10) percent for JSML and (28.92) percent for BNL. It simply represents the average value of Profit

when X i.e. Inventory equals zero. The slope b_1 is computed as +3.98 for JSML and +0.325 for BNL. It represents for each increase of 1 time in Inventory, the expected Profit is estimated to increase by 39.8 percent in JSML and 3.25 percent in BNL. The correlation coefficient R is +0.64 for JSML and +0.2603 in BNL, which indicates a strong and positive relationship between Inventory and profit of JSML and BNL respectively. Coefficient of determination R^2 has been used to measure of variation in Profit that is explained by the independent variable Inventory. As presented in table, R^2 is +0.41 for JSML and +0.067 for BNL. It represents 41 percent the variation in Profit can be explained by the variability in the Inventory for JSML and 0.67 percent for BNL. This result indicates the state of good positive relationship.

To determine the existence of a significant linear relationship between two variables, Inventory and profit, null and alternative hypothesis has been formulated as mentioned below;

Null Hypothesis (H_0): $\rho = 0$ (There is no linear relationship) = There is no significant relationship between Profit and Inventory.

Alternative Hypothesis (H_A): $\rho \neq 0$ (There is a linear relationship) = There is significant relationship between Profit and Inventory.

Using 5 % level of significance (95% confidence interval) and 3 i.e. (n - 2) degree of freedom, t-stat as well as P-value has been computed. The calculated value of t is presented in the Table 4.17 for both JSML and BNL. For JSML, the result of t-stat is 1.45. Because t-stat = 1.45 < t_3 critical value = 3.182, H_0 is accepted. Accordingly, P-Value results 0.24 which is also presented in Table 4.5.c. The P-Value 0.243 is more than level of significance = 0.05. It also supports to accept H_0 . As for BNL, the result

of t-stat is (0.3353). Because t-stat = (0.3353) < t₃ critical value = 3.182, H₀ is accepted. Accordingly, P-Value results 0.672 which is more than level of significance = 0.05. It also supports to accept H₀. Hence, it is concluded that for both JSML and BNL that there is no significant relationship between Profit and Inventory.

4.4 Relationship between Sales and Current Assets:

Regression Analysis

As mentioned in earlier chapter, the sensitivity between Sales and Current Assets will be measured in this section. Normally, Current Assets comprises of Account Receivables, Cash & Bank Balance and Inventories. When these variables increases the Sales should also increase. The function of Sales as dependent variable can be computed as;

$$\text{Sales} = f(\text{Current Assets})$$

To examine the relationship between sales and CA simple linear regression model is used to estimate the linear regression equation:

$$Y_t = b_0 + b_1X_t + \mu_t$$

$$\text{Sales}_t = b_0 + b_1(\text{CA}_t) + \mu_t$$

Where,

Y_t = Sales = Sales, the response variable

X_t = CA, the explanatory variable

b_0 = Regression Coefficient, the sample Y intercept

b_1 = Regression Coefficient, the sample slope

μ_t = the error term

Table 4.18 exhibits a regression and corresponding inferential statistic from the data processed from financial statements of Jyoti Spinning Mills Limited and Bottlers Nepal Limited from the year 2003 till 2007. The table shows the coefficients of the regression equation measuring the sensitivity of Current Assets on Sales of JSML and BNL.

TABLE 4.18

Estimation of sensitivity of Current Assets on Sales of JSML and BNL

The estimation is based on the following regression model:

$$\text{Sales}_t = b_0 + b_1(\text{CA}_t) + \mu_t$$

Company	Dependant Variable	Intercept	Regression Coefficient of CA	R	R2	t-stat	P-value
JSML	Sales	442.95	0.066	0.053	0.0028	0.092	0.932

BNL	Sales	188.26	0.845	0.683	0.4665	1.62	0.204
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Results:

As theory of financial management indicates the more CATR of the firm shows the efficiency and good utilization of current assets. Hence, the Sales of both JSML and BNL is expected to increase with the level of current assets the companies have invested.

Table 4.18 is the results of the regression equation of sales on current assets; where a current asset is taken as independent variable and the same is regressed on dependent variable, sales. The table reveals the effect on sales due to current assets investment. As table presents, there exists a positive relationship between sales and current asset as the coefficient is found to be positive.

As table presents, the Y i.e. Sales, intercept b_0 is computed 442.95 percent for JSML and 188.26 percent for BNL. It simply represents the average value of Sales when X i.e. CA equals zero. The slope b_1 is computed as +0.066 for JSML and +0.845 for BNL. It represents for each increase of 1 time in CA, the expected Sales is estimated to increase by 0.066 percent in JSML and 0.845 in BNL. The correlation coefficient R is +0.053 for JSML and 0.68 in BNL, which indicates a strong and positive relationship between current assets and sales of JSML and BNL respectively. Coefficient of determination

R^2 has been used to measure of variation in Sales that is explained by the independent variable Current Asset. As presented in table, R^2 is +0.0028 for JSML and +0.466 for BNL. It represents 0.028 percent the variation in Sales can be explained by the variability in the current assets for JSML and 46.6 percent for BNL. This result indicates the state of good positive relationship.

To determine the existence of a significant linear relationship between two variables, current assets and sales, null and alternative hypothesis has been formulated as mentioned below;

Null Hypothesis (H₀): $\rho = 0$ (There is no linear relationship) = There is no significant relationship between Sales and Current Assets. That means, if the current assets increases, the Sales will decrease and vice-versa.

Alternative Hypothesis (H_A): $\rho \neq 0$ (There is a linear relationship) There is a significant relationship between Sales and Current Assets. That means, if the current asset increases, the Sales will also increases.

Using 5 % level of significance (95% confidence interval) and 3 i.e. (n - 2) degree of freedom, t-stat as well as P-value has been computed. The calculated value of t is presented in the Table 4.2 for both JSML and BNL. For JSML, the result of t-stat is 0.092. Because t-stat = 0.092 < t3 critical value = 3.182, H₀ is accepted. Accordingly, P-Value results 0.932 which is also presented in Table 4.18. The P-Value 0.932 is more than level of significance = 0.05. It also supports to accept H₀. As for BNL, the result of t-stat is 1.62. Because t-stat = 1.62 < t3 critical value = 3.182, H₀ is accepted. Accordingly, P-Value results 0.204 which is more than level of significance = 0.05. It also supports to accept H₀. Hence, it is concluded that for both JSML and

BNL that there is no significant relationship between Sales and Current Assets i.e. if the Current Assets increases the Sales will decrease and vice-versa.

4.5 Major Findings of the Study

TABLE 4.19
Summary of financial and statistical analysis

Analysis	Variables	JSML Results	BNL Results	Remarks
Financial	CATA	Increasing	Fluctuating	
	CCA	Fluctuating	Fluctuating	
	ICA	Fluctuating	Decreased	
	RCA	Fluctuating	Fluctuating	
	CR	Increased	Increased	
	CATR	Decreasing	Fluctuating	
	NPM	Decreasing	Decreasing	
	RoA	Decreasing	Fluctuating	
	OCCA	Fluctuating	Increasing	
	RWC	Fluctuating	Decreasing	JSML data all negative
	WC Policy	Conservative	Conservative	RRA < EBIT
(Descriptive Analysis)	CATA	Mean 46.16 SD 14.07 CV 0.30	Mean 53.24 SD 8.98 CV 0.17	BNL have less relative variation

	CCA	Mean 1.89 SD 1.42 CV 0.75	Mean 7.23 SD 1.86 CV 0.26	BNL have less relative variation
	ICA	Mean 43.30 SD 19.45 CV 0.50	Mean 44.80 SD 10.24 CV 0.23	BNL have less relative variation
	RCA	Mean 4.40 SD 4.78 CV 1.09	Mean 12.52 SD 6.86 CV 0.55	BNL have less relative variation
	CR	Mean 27.09 SD 12.52 CV 0.46	Mean 1.33 SD 0.15 CV 0.11	BNL have less relative variation
	CATR	Mean 1.31 SD 1.25 CV 0.96	Mean 1.55 SD 0.18 CV 0.11	BNL have less relative variation
	NPM	Mean (0.20) SD 0.50 CV (0.87)	Mean 0.02 SD 0.05 CV 2.58	BNL have less relative variation

	RoA	Mean (0.58) SD 0.50 CV (0.87)	Mean 0.21 SD 0.36 CV 1.72	BNL have less relative variation
	OCCA	Mean 56.45 SD 32.47 CV 0.56	Mean 35.46 SD 14.54 CV 0.41	BNL have less relative variation
	RWC	Mean (0.91) SD 0.62 CV (0.68)	Mean 0.07 SD 0.09 CV 1.37	BNL have less relative variation

The various output of the analysis done in chapter 4 is presented in this topic. The certain findings based on the analysis conducted under analytical section have been revealed in the above table under each objective set. The first objective is to observe working capital investment policy for which Table 4.19 can be observed.

From the above table, it can be observed that in comparison to JSML; BNL have less variation. From RRA, it is seen that both JSML and BNL have adopted Conservative Policy. However, upon analyzing CATA, ICA, RCA and CCA which are major determinants of WC Management, it can be computed that for JSML the management has not taken one policy and the figures are fluctuating. For BNL, the figures are also observed to be fluctuating for all variables. Since RRA shows that both organization have taken conservative policy, it can be concluded by observing the fluctuating data that both organization have adopted conservative policy though not too conservative because the RRA rate and EBIT rate have not too much difference. Also, because Aggressive policy adopts tight current assets policy but both organization is not observed to have tight current assets figures over the years.

The second objective of this study is to examine the relationship between sales and current assets and the third objective is to examine relationship between Profit and

Current Assets. To fulfill these objectives, regression analysis has been done. The researcher has also done regression analysis of 3 major variables of current assets (Accounts Receivables, Inventory and Cash & Bank Balance) with Profit. The table 4.20 shows the summary of the results.

It has been observed from above table that Sales and Current Assets have negative relationship for both JSML and BNL.

Also, for objective 3 of this study; which is to examine the relationship between Profit and Current Assets; same results are observed. For both JSML and BNL, the relationship between Profit and Current Assets is observed to be negative.

TABLE 4.20
Summary of Regression Analysis

Analysis		JSML Results	BNL Results	Remarks
Regression Analysis (Sales and Current Assets)	Correlation of Coefficient	Positive	Positive	
	T – Stat	Negative	Negative	
	P - Value	Negative	Negative	
Regression Analysis (Profit and Current	Correlation of	Positive	Positive	

Assets)	Coefficient			
	T – Stat	Negative	Negative	
	P - Value	Negative	Negative	

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Working Capital Management is one of the very important parts in any type of organization. WCM directly concerns with success or failure of the organization. In Nepalese context, we see that the organizations have not given much attention to this subject over the years; but slowly they are realizing the importance of working capital management since working capital management contains all the short term assets used in day to day operation of the organizations.

Many studies have been done on working capital by national and international experts on working capital management from different aspects. Some has done on investment analysis and some has done financial analysis. Some has done from the aspect of inventory, cash, profit, sales, etc, etc. The findings of previous related articles all concludes that WCM should be taken care in the organization and proper measures must be taken to improve the management. Either its decision on expanding Sales, gaining profit; increasing current assets, increasing cash in hand, increasing inventory, increasing/decreasing investments, WCM influences the results and overall performance of the organization.

Simple research methodology was opted, also because of the time constraints, nature of the study and not enough cooperation from the concerned organization. Only quantitative data analyses have been done and the study is satisfactory.

This study have focused on two major aspects of working capital management; profit and sales influence to current assets after finding the working capital policy opted by the concerned organization. There are many

variables of working capital management like inventory management, cash management, etc.

Related figures for the study were abstracted from the financial statements and the complete financial statements have been shown as Appendix. Data Analysis Tool in Microsoft Excel Sheet was used to do statistical analysis and Microsoft Excel Worksheet was used to do simple financial analysis to maintain accuracy. Financial Analysis helped to find the out the first objective; which was to find out the policy adopted by the organization and statistical analysis (Regression Analysis, t-test and p-value test) helped to fulfill second and third objective.

Major findings are seen interesting and satisfactory based on time spent and research methodology chosen.

5.2 Conclusion

In the context of slow growth of organization's policy on financial decision from conservative to moderate to aggressive; one shouldn't be surprised if the old reputed organization is still adopting same old financial policy inspite there is room for improvement. From the previous studies reviewed before starting this study; it was observed that the organization seem to stick to one financial policy though there is impact on their financial performance and they are not able to gain profit or not able to fulfill the objective of the organization. Regular monitoring is seen missing. For example; if the monitoring is done quarterly on working capital management and the opted policy and found irrelevant for organization's objective the management must be able to change their approach to may be conservative to aggressive; or aggressive to moderate or depending on business environment.

Both Bottlers Nepal and Jyoti Spinning Mills is seen adopting conservative policy inspite of their NFAT decreasing continuously over the last five years; and Jyoti Spinning Mills is in negative NFAT throughout five years. There seems no monitoring and mentoring as to why it happened and may be there is possibility of changing their investment policy.

Bottlers Nepal is observed to have increased their CA which is negatively related to NFAT; i.e. they are increasing CA investment year after year and NFAT is not showing proper effect, In fact it is negative in the year 2006. Hence, we concluded that the CA and NFAT is negatively correlated; which was also shown by statistical analysis.

In the case of Jyoti Spinning Mills, the NFAT is in negative from 2003 which is decreasing year after year but still in negative figure. The statistical analysis showed that there is no linear relationship i.e. there is negative relationship between CA and NFAT; like Bottlers Nepal.

Since the profit is going down for Bottlers Nepal Limited; may be they can monitor the causes of the same and decide to increase the CA investment or any other factor which will eventually increase their profit.

Since Jyoti Spinning Mills is in loss instead of profit over the last 5 years; there seems to be room for improvement since the loss is less each year. The management must review their policy to obtain the drastic change.

In the case of observing the relationship between sales and CA of each organization; it was observed that the sales for Jyoti Spinning Mills have considerably decreased over 4 years period and again increased. However, it can pick up the market to again increase their sales. However, it was interesting to observe that inspite of increasing investment in CA continuously, the sales have decreased. So, we can see that there are also other factors which influence sales; hence regular monitoring and mentoring of the financial policies is very important.

Bottlers Nepal Limited also showed negative relationship between CA and Sales. But, the figures have not large differences; so the p-value showed that the regression analysis which showed positive relationship is not significant; so we concluded that the relationship is negative. However, Bottlers Nepal seems to have balanced their investment on CA in relation to Sales; and it seems that they are monitoring and reviewing their sales strategy to compete with the market.

5.3 Recommendations

After summarizing and conclusion, there are few recommendations to make;

1. Both Jyoti Spinning Mills and Bottlers Nepal Limited must revise their financial policy with respect to revising their financial performance quarterly and monitoring and mentoring the performance. Decision must be taken to change the working capital policy in case found not suitable to the organization and organization is in loss.
2. Both Jyoti Spinning Mills and Bottlers Nepal Limited must change their working capital policy as soon as possible as both companies are in loss. Jyoti Spinning Mills have negative NFAT throughout the study period. However, the negative figure is decreasing year after year, the organization not seem to gain much profit. The organization is observed to have conservative policy but can come little bit ahead and try and opt aggressive policy; if not, moderate policy.
3. The sales of Jyoti Spinning Mills have decreased from 2003 till 2006 but in the year 2007 it has increased drastically. The Current Asset investments have increased over the years though. But this must not be the only factor; hence the management should revise the Sales Strategy also considering other factors which influence the figure.
4. The sales of Bottlers Nepal Limited are observed to be in decreasing trend and then increasing. It is seen satisfactory since it is in increasing trend; however the figures over the years have no big difference; hence the management can revise their sales strategy to maximize their sales.
5. In breakdown analysis; it was observed that all variables of WC have negative relationship with Sales and Profit for both organizations; which shouldn't have happened. Both JSML and BNL must strictly revise their investment policy.

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Year	Jyoti Spinning Mills			Bottlers Nepal Limited		
	Current Assets	Current Assets	Current Assets	Current Assets	Current Assets	Current Assets
2003	264.63	766.38	0.35	248.48	590.94	0.42
2004	280.84	756.86	0.37	259.59	463.01	0.56
2005	293.69	743.87	0.39	298.69	618.92	0.48
2006	662.83	1299.18	0.51	225.15	418.77	0.54
2007	902.17	1314.08	0.69	328.61	497.46	0.66

	Mean	S. D.	C. V.	Minimum	Maximum
Jyoti Spinning Mills Limited	46.16	14.07	0.30	34.53	68.65
Bottlers Nepal Limited	53.24	8.98	0.17	42.05	66.06