WORKING CAPITAL MANAGEMENT OF NEPAL TELECOM

A THESIS

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DECLARATION

I, hereby, declare that the work reported in this thesis entitled **"WORKING CAPITAL MANAGEMENT OF NEPAL TELECOM "**submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the guidance and supervision of Prof. Dr. Gopi Nath Regmi, Lecturer of Central Department of Management Kirtipur, Kathmandu.

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ABBREVIATIONS

ACP	Average Collection Period
ADBL	Agricultural Development Bank Limited
ADSL	Asymmetric Digital Subscriber Line
ANOVA	Analysis of Variance
APPML	Andhra Pradesh Paper Mills Limited
CA	Current Assets
CCC	Cash Conversion Cycle
CDM	Central Department of Management
CDMA	Code Division Multiple Access
CL	Current Liabilities
CV	Coefficient of Variation
DDC	Dairy Development Corporation
FA	Fixed Assets
FTTH	Fiber To The Home
GSM	Global System for Mobile Communications
HUL	Hindustan Unilever Limited
ICP	Inventory Conversion Period
IT	Information Technology
L/C	Letter of Credit
MBA	Master of Business Administration
MBS	Master of Business Studies
NABIL	Nabil Bank Limited
NEPSE	Nepal Stock Exchange
NTA	Nepal Telecommunications Authority
NTC	Nepal Telecom
NWC	Net Working Capital
PDP	Payable Deferred Period
PE	Probable Error

PL	Profit and Loss
PSTN	Public Switched Telephone Network
RCP	Receivable Conversion Period
SCBNL	Standard Chartered Bank Nepal Limited
SD	Standard Deviation
SEBON	Security Board of Nepal
SPBL	Seshasayee Paper and Boards Limited
TA	Total Assets
TU	Tribhuvan University
UTL	United Telecom Limited
WC	Working Capital

CHAPTER I

INTRODUCTION

1.1   Background of the Study

Working capital is a common measure of a company's liquidity, efficiency, and overall health. Because it includes cash, inventory, accounts receivable, accounts payable, the portion of debt due within one year, and other short-term accounts, a company's working capital reflects the results of a host of company activities, including management, debt management, revenue collection, and payments to suppliers.

Positive working capital generally indicates that a company is able to pay off its short-term liabilities almost immediately. Negative working capital generally indicates a company is unable to do so. This is why analysts are sensitive to decreases in working capital; they suggest a company is becoming overleveraged, is struggling to maintain or grow sales, is paying bills too quickly, or is collecting receivables too slowly. Increases in working capital, on the other hand, suggest the opposite. There are several ways to evaluate a company's working capital further, including calculating the inventory-turnover ratio, the receivables ratio, days payable, the current ratio, and the quick ratio.

Working capital refers to the resources of a firm that are used to conduct day-to-day operations work that makes the business successful. Without cash, bills cannot be paid, without receivables; a firm cannot allow timing difference between delivering goods or services and collecting the money to pay for them. Without inventories a firm cannot engage in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets, the management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of a firm which can be converted into cash within a year. It includes cash and marketable securities, receivables, inventories and current liabilities with an objective of maximizing overall value of a firm.

Gross Working Capital: "It is simply called Working Capital and refers to a firm's investment in current assets. Current Assets are the assets which can be converted into cash within an accounting year (or operating cycle). It includes cash, marketable securities, inventory, accounts receivable and debtors" (Pandey, 1999: 239).

Net Working Capital: This is of critical importance to a firm. Working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long term funds. It focuses on the liquidity position of a firm.

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

Proper financial decision making is extremely important for its efficiency and profitability. Most of the financial decisions of a bank are concerned with current assets and current liabilities.

There are various types of assets and liabilities in every enterprise to run smoothly. One of the most important assets is current assets, which is required to meet the daily or short-term obligation. Like equipment, manpower, etc. working capital is the major component for daily operation. In the absence of working capital other things are useless. Working capital is that portion of total assets, which circulates from one to another in the ordinary conduct of business. Working capital management is a crucial aspect of financial management including the administration of all aspects of the current asset and current liabilities, which plays vital role for success or failure of organization.

This study focuses on the various aspects of working capital management of Nepal Telecom. This study covers the current assets management policy, current assets utilization and current assets structure. Moreover, this study focuses on the finding of this enterprise for achieving goals.

Brief Introduction of Nepal Doorsanchar Company Limited (Nepal Telecom).

Nepal Doorsanchar Company Limited (with its brand name as Nepal Telecom) is Nepal's leading telecommunication service provider, which includes voice and value added services, using state of the art technologies. It is registered under the erstwhile Companies Act 2053, being incorporated on Magh 2060 (February 2004). Governments of Nepal and Citizen Investment Trust have been the principal promoters of the company. Paid up capital of the company is NPR 15 billion. Government of Nepal, who substantially owns the company, disinvested certain portion of its holdings in favor of the company employees and general public. The company has its registered office at Bhadrakali Plaza, Kathmandu with its branches spread throughout the country. It has made all efforts for nationwide reach, from urban to most remote locations in providing its valued customer a quality service that has assisted in the socio economic development of the urban as well as rural areas. The company has been providing range of telecommunication services likes as GSM, CDMA, PSTN, FTTH, ADSL etc.

1.2   Statement of the Problem

In order to assist the economic development of the country; it is very essential to development a healthy capital market by increasing investment in the productive organization. Working capital plays vital role in the manufacturing company as well as trading company for smooth production and market operation. The large holing of current assets consumes more funds, which cannot be used for other purpose and thus involve high opportunity cost but strengthens firm's liquidity position, reduces risk and overall profitability, as idle investment earns nothing. Both excessive and inadequate level of working capital is not desirable because excessive carrying costs and the risk of liquidity. Inadequate level of working capital obstructs the flow of production as well as market operation. So the both situation should be avoided by maintaining optimum level of working capital.

Investment in current assets should be just adequate, neither more nor less to the needs of business firm. It should be realized that the working capital needs of the firm nay be fluctuating with changing business activity or for any other reasons, arrangement should make quickly. Similarly, if suddenly some surplus funds arise,

they should not be allowed to remain idle, but should be invested in short-term securities.

In Nepal, it is found that least attention has been given to this important segment. Working capital management in Nepal is probably the weakest aspect of manufacturing/trading companies. It is not in common practice in Nepalese industries for controlling physical as well as financial dimension of working capital. Nepal Telecom is a telecom service provider company, so the company may suffer from working capital management problems. The study has tried to address the following research questions:

      i.   What is the relationship between sales and debtors, purchase and creditors of working capital?

     ii.   What is the level of inventories, receivable, cash, advances, creditors maintained by Nepal Telecom at different time period?

   iii.   What is the relationship between working capital and profitability?

1.3   Objectives of the Study

The basic objective of the study is to analyze and evaluate the working capital position of Nepal Telecom. The followings are the specific objectives, which are as follows:

      i.   To analyze the Receivables Turnover, Payable Turnover, Inventory Turnover and Working Capital Turnover ratios of Nepal Telecom.

     ii.   To identify working capital position and liquidity position of Nepal Telecom.

   iii.   To identify the effect of working capital on profitability of the company.

1.4   Significance of the Study

Working capital management is a major function of any business firm. Organizations cannot be successfully operated without effective handling of working capital in manufacturing/trading organization as well thus to achieve its goals. Effective handling of working capital helps the organization reduce its operation costs.

It can be notice that most of business firms invest huge amount of their capital in current assets but systematic and scientific management system of current assets is rarely found. As a result, the firm has to bear inadequate holding cost of current assets and face sometime over costs (underutilization) and sometime unable to meet even short needs situation and misses excellent opportunities. Both of such situations are harmful to the firm.

It is all known that investment in working capital is significant; Enterprises are severely affected by the poor working capital management system. So, Nepal Telecom is selected for the study topic. The study is centered on analysis of the system followed and situation faced by Nepal Telecom in current assets and current liabilities management as well as to provide valuable some facts that the company might give more emphasis.

1.5   Limitations of the Study

Each research study has its own limitations; the study has also following limitations:
   i.   This study is concerned only with the working capital management function of the Nepal Telecom and ignores other managerial functions.
   ii.   Basically, financial statement provided by the Nepal Telecom are used in analysis, hence they are secondary in nature.
   iii.   The study period is limited for only five fiscal years from 2069/70 to 2073/74.
   iv.   The study is highly dependent in the data given by the concern persons of the Nepal Telecom.
   v.   The study has focused mainly on financial and statistical tools are embodied for analyzing the Working Capital management of Nepal Telecom.
   vi.   Although there are various aspects of financial management, this is mainly concerned with the working capital aspects.
   vii.   Final result may or may not be applicable in other study or other organization or other research.

1.6   Organization of Study

This study has been organized in to five chapters, which are as follows.

Chapter I: Introduction

It includes general background of the study, introduction of Nepal Telecom, statement of problems, objectives of the study, need of the study, limitation of study and organization of the overall study.

Chapter II: Conceptual Framework and Review of Literature

This chapter deals with "Review of literature" and has been divided in to two parts. The first part is concerned with reviews the concept and theory of working capital management frame work from various books journals articles. The second part reviews previous related studies and have been reviewed the thesis related to working capital management.

Chapter III: Research Methodology

This chapter deals with "Research methodology" and consists of introduction, research design, nature and source of data, data collecting method and analytical techniques employed.

Chapter IV: Results

It is the main part of this study and deals with the presentation and analysis of data through the way of designed methodology and interpreted by the help of available data, various tools and techniques. The major findings of the data analysis are also presented in this chapter.

Chapter V: Conclusion

It includes summary, conclusion and recommendations of the study that have been presented.

Bibliography and appendix have also been incorporated at the end of the study.

CHAPTER II
LITERATURE REVIEW

Review of literature is an essential part of the studies. It is way to discover what other research in the area of the problem has uncovered, which is also a way to avoid investigating problems that have already been definitely answered. This chapter explains about review of related literature of the study which covers published, unpublished literature e.g. books, journals, newspaper, different thesis, dissertations, business reports and government publications. It also provides insight into the findings of earlier studies through the review of books journals, publication and previous studies. The literature review helps to find out what research studies have been conducted in once chosen field of study, and what remaining to be done, which provide the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing.

2.1 Theoretical Review

2.1.1 Concept of Working Capital

Working capital is the amount of fund that is needed to finance the current assets of the firm. Since the current assets are normally converted into cash within one year. Working capital helps revolving within one year or less through different current assets. Once the fund is converted into current assets, it is constantly converted into cash and cash out flow in exchange for other current assets (Weston, 1981).

The cash and marketable securities are respectively considered purely liquid and near liquid assets, whereas account receivables and inventories are not. However, they can be liquidated as and when necessary within a period of less than one year. In a like manner, the current liabilities comprising sundry debtors, trade creditors, accounts payable, short-term bank loan and outstanding expenses etc. must be paid within one year as they become due.

Working capital management is concerned with the determining the firm's level of investment in current assets and financing pattern of the current assets (Baral, Gautam, Paudel & Rana, 2009). It covers all decisions of an organization involving

cash flows in the short run with emphasis on the management of investment in current assets and their financing. The basic objective of working capital management is to manage current assets and current liabilities in such a way that an optimal level of working capital is maintained. The optimum working capital insists on maintaining a tradeoff between profitability and cost associated with current assets investment and financing policy of the firm.

The study of gross and net concept of working capital in Nepalese public enterprises assumes greater significance. It is not known what the position of investment in gross and net working capital including their components in these enterprises and whether there have been any significant changes taking place in their size and structure over a period of time.

2.1.1.1 Gross Concept of Working Capital

The gross concept of working capital refers to total current assets. It refers to the total amount invested into current assets. Current assets are those assets, which in ordinary course of business can be converted into cash within short period of normally one accounting year. Current assets include: -

- a. Cash in hand
- b. Cash at bank
- c. Sundry debtors
- d. Inventories or Stock
- e. Short term Investment
- f. Loan and advances
- g. Accrued income

Supporters of this concept argue that the real working operation of public enterprise solely relies on current assets. Moreover, there is a logical reasoning that explains if fixed assets imply fixed capital, then current assets will be implied into working capital. Adam smith called "circulating capital" for current assets. In the word of Adam smith, "the goods of the merchant yield him no revenue in profit till he sells them for money and the money yields him a little till it is again exchanged for goods. His capital is continuously going from him in once shape and returning him in another and its only by means of such circulation's or successive exchange that can yield very

him any profit. Such capital therefore may properly be called circulating capital. As working capital is evaluated in terms of utilization of current assets, it is naturally on current assets only. Current liabilities are not entered into picture while judging the turnover of current assets. But reformer of this concepts states that this is a concept incomplete in itself. The management of working capital gives mistaken result if public enterprises do not consider current liabilities. Again, if they rely on this concept, the true financial position of the enterprise will not be disclosed.

2.1.1.2 Net Concept of Working Capital

According to net concept, net working capital refers to the difference between current assets and current liabilities. Current assets and current liabilities both play a vital role in operation cycle of business, so all the current liabilities must be considered rather than current assets alone. Since working capital is current assets, it includes all those assets, which in the normal course of business return to the firm, as cash within a short period. Ordinary investments, which may be readily converted into cash upon need, are also current assets. The current liabilities include those debts that mature within a year. If public enterprises fail to consider current liabilities, the management of working capital gives misleading results (Pandey, 1999: 257).

The concept of net working capital considers both current assets and current liabilities. As against the current assets, the company in turn has current liabilities like credit facilities through its accounts payable or sundry creditors (Pandey, 1999: 257).

The gross concept is a financial or going concern concept whereas net working capital concept is as accounting concept of working capital. Proper management of working capital must ensure adequate amount of working capital as per the need of business firms. It should be in good health and circulated. To have adequate healthy and efficient circulation of working capital it is necessary that working capital be properly determined an allocated to its various segments, effectively controlled and regularly reviewed.

2.1.2 Need for Working Capital

The need for working capital or current assets cannot be overemphasized. The objective of financial decision making is to maximize the shareholder's wealth. To

achieve this, it is necessary to generate sufficient profits. The extent to which profit can be earned will naturally depend upon the magnitude of the sales among other things. A successful sales program is in other words, necessary form earning profit by any business extremes. However, sales do not convert into cash instantly; there is invariably a time lag between the sales of goods and receipt of cash (Pandey, 1999: 258).

Most of the firms' aim is to maximize shareholder's wealth. The firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sale among the other things. For constant operation of the business, every firm need to hold the working capital components like cash, receivable, inventories etc. therefore, every firm needs working capital to meet the following motives (Pandey, 1999: 224).

i. The transactional motive

According to transaction motive, a firm holds cash and inventories to facilitate smooth production and sales operation in regular. Thus, the firm needs the working capital to meet the transaction motive.

ii. The precautionary motive

Precautionary motive is the need to hold cash and inventories to guard against the risk of unpredictable change in demand and supply forces and supply forces and other factors such as strike, failure of important customer, unexpected slowdown in collection of accounts receivable, cancellation of some order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet any contingencies in future (Pandey, 1999: 259).

iii. The speculative motive

Speculative motive refers to the desire of a firm to take to take advantages of following opportunities:

- Opportunities of profit making investment
- Opportunities of purchasing raw materials at a reduced price on payment of immediate cash

- Speculate on interest rate and

- Make purchases at favorable price etc.

Therefore, there is a need for working capital in the form of current assets to deal with the problem arising out of the lack of immediate realization of cash against goods sold. Sufficient working capital is necessary to sustain sale activity.

2.1.3 Nature of Working Capital

Working management is focused with the problem that arises in attempting to manage the current and current liabilities. The concept of working capital has undergone a change. Formerly, it was considered a margin safety for short-term creditors. i.e. meeting obligations as and when they fall due working capital is required for caring on the day-to-day operations of a firm and should not be taken merely as a margin of softy for short term creditors (Jain &Narang, 1989:289).

The nature of working capital is described with the help of nature of cash cycle or operation cycle of the organization. The operation cycle is the firm duration required to convert sales after the conversion of resources into inventories into cash (Pandey, 1995:465). Working Capital Cycle can be shown as follows:

Figure 2. 1

Working Capital Cycle
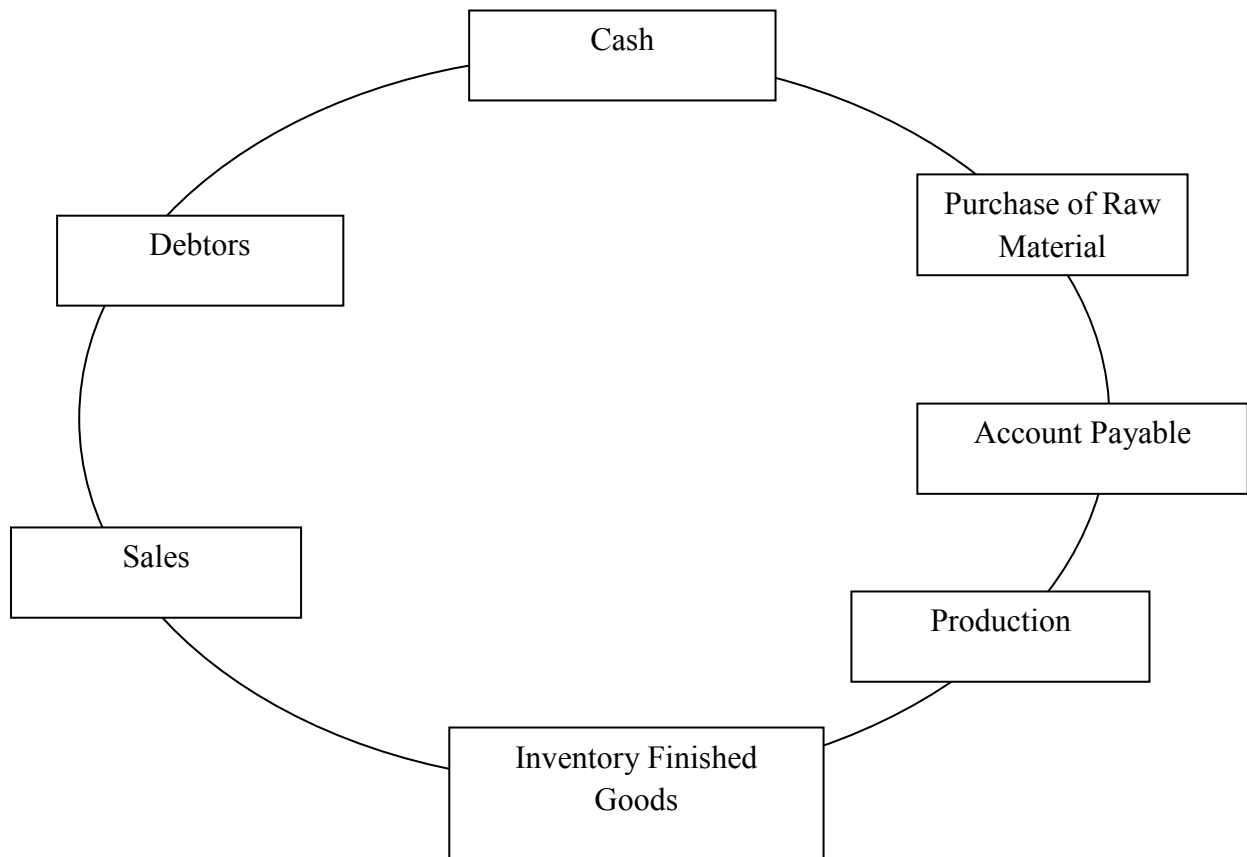
Reference: Pandey, 1995:465

In order to reduce the requirement of working capital, the management should try to reduce the period of the operating cycle.

2.1.4   Determinations of Working Capital

There is no formula to determine the working capital requirements of the firm. A number of factors influence the working capital necessary of the firm. Working capital requirement must be sufficient to achieve maximum profit and the successful run of the business enterprises so that it must be inadequate volume. Total working capital requirement, a wide variety of factors are into the existence. However, the following factors determinate working capital.

     i.   Nature and size of business: The nature and size of business affects the amount of working capital required. In tracing and manufacturing

concerns, the amount of working capital required can be more as compared to public utility concerns because of the fact that former concern is required to invest substantially in inventories and debtors as compared to public concern.

ii.   Production policy: Such policies have an important impact on amount of working capital. The amount of inventories is mostly determined by the production policies. In such labor intensive industries, the amount of working capital required can be more. In those concerns where the work is mostly done by automatic machine, the amount of working capital can be less than former.

iii.   Length of the production cycle: if the manufacturer has to carry raw materials and supply for a longer period in the processing stage with the additional expenditure of labor and service cost before finished goods are finally obtained, the amount of working capital will be more. If the production cycle is shorter, the amount of working capital required will be less.

iv.   Period of credit allowed and granted: If the form can enjoy more liberal credit from the supplier of goods, the amount of working capital required can be less. And liberal credit policy tends to increase in working capital requirements more than the strict policy does.

v.   In both periods of boom and depression, the requirements of working capital can be more than the normal firms. In periods of boom, a business naturally produces more of its products for which more stock of raw materials has to be maintained. For additional quantities of raw materials stock, more working capital is needed. When market goes dull and producers are required to carry large quantities of all types of stock, it refers to the more amount of working capital.

vi.   If the supplies are available regularly, less amount of working capital can be needed. But if supplies are irregular, the business can be require to have large quantities of stock in order to ensure uninterrupted flow of production. This can be requiring more amount of working capital.

vii.   In case of seasonal industries as in the case of woolen, textile, hosiery etc., more working capital can be required as stock of finished goods

must be ready before the season comes as most of the amount is spent on raw material labor and other expenses.

viii. Rising price level can be require a firm to maintain higher amount of working capital.

ix. If a firm is looking forward its growth, it naturally costs more and working capital will be needed.

x. There are also other factors as dividend policy, profit level, financing change, etc. (Jain &Narang, 1989:292)

2.1.5 Working Capital Policies

A firm's net working capital position is not only important as an index of liquidity but it is also used as measure of the firm's risk. Risk, in this regard, means changes chances of the firm being unable to meet its obligations on due date (Pandey, 1989:738). Working capital management involves deciding upon the amount and composition of current assets and how to finance these assets.

These decisions involve trade of between risk and profitability. The greater the relative proportion of liquid assets, the lesser the profitability as well as the risk of running out of cash all other things being equal. The longer the composite maturity schedule of securities used to finance the firm, the lesser the risk of cash insolvency all other things being equal.

2.1.5.1 Current Assets Investment Policy

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policies Fat Cat, Loan and Mean and Moderate Policy (Weston et. all, 1996:334).

i. Fat Cat Policy

This is known as Relaxed Current Assets Investment Policy. In this policy, the firm holds relatively large amount of cash, marketable securities, inventory and receivable to support a given level of sales. This policy creates longer inventory and cash conversion cycles. It also creates the longer receivable collection period due to the

liberal credit policy. Thus, this policy provides the lowest expected return on investment.

ii. Lean and Mean Policy

This is also known as Restricted Current Assets Investment Policy. In lean and mean policy, a firm holds the minimum amount of cash, marketable securities, inventory and receivable to support a given of sales. This policy tends to reduce the inventory and receivable conversion cycle. Under this policy firm allows a tight credit policy and bears the risk of losing sales (Weston et. all, 1996: 334).

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.

2.1.5.2 Current Assets Financing Policy

It is the manners 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. There are three variants aggressive, conservative and matching policies of current assets financing (Weston, et. all, 1991: 224).

i. Aggressive Policy

In as 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 not only temporary current assets but also a part of permanent current assets with short term financing. Figure 4 shows that short term financing finance 50% of the permanent current assets.

ii. In general, interest rate increases with time i.e. shorter the time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under financing, if the firm finances its permanent current assets by short term finance rather than long term financing, then it runs the risk of renewing the borrowing again. This continued financing exposes the firm to

certain risk. It is because, in future the expenses will fluctuate wide and also, it may be difficult for the firm to raise the fund during the stringent periods. In conclusion, there is higher risk, higher return and low liquidity position under this policy (Weston, et.al. 1991: 226).

iii. Conservative Policy

In this policy, the firm uses long term financing to finance not only fixed assets and permanent assets but also a part of the temporary current assets. This policy leads to high level of current assets, with long conversion cycle low level of current liabilities and higher interest cost. The risk and return are lower that of aggressive policy and liquidity position is higher than that of aggressive one. The risk adverse management follows this policy:

iv. Moderate Policy

In this policy the firm finances the permanent current assets with long term financing and temporary with short term financing. It lies in between the aggressive and conservative policies. It leads to neither high nor low level of current assets and current liabilities. Figure-2.6 shows temporary working capital is financed by short term financing and long term by long-term financing. Thus, working capital is zero under this policy.

2.1.6   Sources and Applications of Working Capital

Generally, the sources of Working Capital are as follows:

a) Funds from operations

The major source of working capital is the funds from operation, which refer to those funds which are generated by carrying out the central operations of a business.

b)   Proceeds from the sale of non-current assets

Sale of non-current assets tantamount to conversion of non-current assets to current assets and is a source of fund regardless of the fact whether the assets is sold for a gain or loss.

c)   Long-term borrowing

Long-term borrowing such as issue of debentures and convertible bonds results in the increase of current assets (cash) and therefore an increase in the working capital. In case of short-term borrowing, the increase of current assets is offset by an increase in the current liability and therefore results in no change in working capital.

d)   Issue of shares for cash

Issue of shares results in an inflow of current assets and is, therefore, a source. In the case of sole proprietorship and partnership concerns additional capital introduced is a source of funds.

e)   Non-operating income

Incomes like dividends, interest received from operations outside the framework of the central operation of a business results in an inflow of current assets and, therefore, to be shown as a source (Pandey, 1999: 227).

Applications of Working Capital are as follows:

a)   Purchase of fixed assets

The purchase of long-term assets, such as plant & equipment, land & building either reduces current assets and or increase current liabilities. Consequently, the working capital is reduced.

b)   Redemption or payment of long –term debt

Repayment of short-term debt is not considered as the uses of funds, since both current assets and current liabilities are reduced by the same amount. But the payment of a long-term results in the reduction of a current assets and, is therefore, use of fund.

c)   Redemption of preference share or investment made

When cash is paid to redeem preference shares or to purchase securities as investment, working capital is reduced and therefore is use of fund.

d)   Loss from operations

Any loss from the operation results in more outflows of funds as compared to inflow of funds and is, therefore use of funds.

e)   Payment of dividend, tax etc.

Any dividend or tax amount paid in cash results outflows of current assets, therefore, an application of funds.

f)   Investment

Investment also requires cash outflows of current assets. So, working capital is used for making investment.

2.1.7   Theoretical Framework

The theoretical framework is a summary of a particular problem that is developed through a review of previous research on the variables involved. It identifies a plan for investigation and interpretation of the findings. The theoretical framework involves a well-supported rationale and is organized in a manner that helps the reader understand and assess your perspective. The purpose is to demonstrate that the relationships you propose are not based on your personal instincts or guesses, but rather formed from facts obtained from authors of previous research. . The following dependent and independent variables have been considered in this research for analysis purpose.

Table 2. 1 List of Dependent and Independent Variables

Dependent Variables	Independent Variables
Net Profit Return on Assets	Current Ratio
	Receivable Turnover Ratio
	Current Assets
	Total Assets
	Cash
	Net Working Capital

The following Relationship between Variables and Profit has been considered in this research for analysis.

Table 2. 2 Relationship between Variables and Profit

Variables	Condition	Profit
Current Ratio	Increase	Increase
Receivable Turnover Ratio	Increase	Increase
Current Assets	Increase	Decrease
Total Assets	Increase	Increase
Cash	Increase	Decrease
Net Working Capital	Increase	Decrease

Source: (Pandey, 1999: 227).

2.2   Review of Related Studies

2.2.1   Review of Journals/Articles

Articles, journals and bulletins are of great significance of thesis writing, so various published articles by different management experts and journals/bulletins relating to working capital have been considered.

Varghese & Dhote (2014 AD) found that "Risks involved in capital investment are very high; the firms give little importance to the issues related with working capital". The company must improve its present liquidity position to remain stable at the time of discrepancies or recession. The company must keep an optimum balance between liquidity and profitability for efficient use of its working capital. The objectives of the

study were to analyze the Working capital position of HUL Ltd, to analyze the effect of liquidity on profitability, to analyze the effect of risk on profitability. In this study the sample company named HUL has been taken for analysis of Working Capital position. Present study is based on secondary data i.e. published annual reports of the company. The major findings of the study were as follows:

- The Net working Capital of HUL during the period of study was not satisfactory as it showed frequent fluctuations in its values.

- Liquidity position of the firm was not adequate because the average value of this Current Ratio was only 0.87 times which is well below the ideal ratio of 2:1 times.

- The cash position ratio of the firm was also not satisfactory as it was not able to generate adequate amount of cash from its assets.

- The profitability position of the firm was not satisfactory because it operating profitability position was 13.34% of its turnover, which is near the risk free bank rate.

Hoque, et.all (2015 AD) found ″The positive correlation between working capital efficiency and profitability ratios″. The main objectives of their study were to examine and evaluate the correlation between working Capital Management and Profitability as well as to determine the impact of working capital components on profitability. The researchers select only listed cement industries as a sample for present study. The study covered a period of three years from 2010 to 2012. Secondary data have been collected from periodical reports and other published documents of the sample cement industries. The collected data were analyzed and interpreted with the help of different financial ratios, statistical tools like Mean, Standard Deviation (S.D.), Correlation Coefficient and Regression analysis. The major findings of the study were as follows:

- Both current ratio & quick ratio is positively correlated with profitability ratios such as Gross profit margin, operating profit ratio, Net profit margin and return on assets.

- Cash conversion cycle is negatively Correlated with all profitability ratios such as Gross profit margin, operating profit ratio, Net profit margin and return on assets

- Profitable industries either accelerate their receivables from debtors or delay their payment towards their creditors.

- There exists positive correlation between working capital efficiency and profitability ratios.

Onodje (2014 AD) found that "working capital management is an important determinant of manufacturing performance". The objectives of the study were to determine whether the internal factor of working capital management could be adduced as an additional reason for the low level of manufacturing performance. He extracted over the period 2002-2011 from the published financial statements of a panel of 75 manufacturing firms quoted on the Nigerian Stock Exchange (NSE). Major findings of the study were as follows:

- Efficient working capital and debt management are critical to improved manufacturing performance.

- There should be liberal approach to the management of cash receivable portfolio of manufacturing firms in order to maximize sales revenue.

- There should be aggressive inventory control policy to take advantage of emerging opportunities while minimizing stock-out costs.

- Deferral of creditors and accrued charges should be held at the minimum to enhance corporate credibility and market share.

- Effort should be made by manufacturing firms with support from the government to ensure that the debt profiles of manufacturing firms are kept at optimum levels.

Madhavi (2011 AD) found necessary steps that should be taken to idle "cash and bank balances in attractive investment or to pay back in short term liabilities". The objectives of the study were to investigate the impact of working capital Management on profitability of Paper mills. The field investigation was conducted from 1st April 2012 to June 2012. The personal interview method was adopted. The primary data collected through discussions and the secondary data obtained from published source.

Major findings of the study were as follows:

- The low quick ratio may also have liquidity position, if it has fast moving inventories.

- Cash ratio is not satisfactory in APPML as compared to SPBL and it needs the attention of the management to induce effective utilization of cash and bank balances.

Singh (2012 AD) found "The positive relationship between working capital turnover, current ratio, sales to total asset ratio and profitability". The study investigated the relationship between working capital management and profitability of IT and telecommunication industry in India. He had selected 11 firms, 05 belong to information technology industry and the remaining are from the telecommunication industry. He has collected financials of the companies for 12 years from 1999 to 2010. The major findings of the study were as follows:

- Day's inventory outstanding shows a negative relationship with profitability. There is positive relationship between current ratio and profitability.

Shrestha (2013AD) found that there is a lack of suitable "financial planning for determining their working capital needs in PEs and PEs were unable to give attention to working capital management". In this article he had selected ten PEs to measure their working capital. He focused on the liquidity, turnover and profitability position of that PEs. Major findings of the study were as follows:

- Four PEs had maintained adequate liquidity position; Two PEs had excessive liquidity position and rest four enterprises had failed to maintain desirable liquidity position.

- There exists no proper consistency between liquidity position and turnover of assets.

- PEs being unable to show positive relationship between turnover and return on net working capital.

- Six PEs are operating at losses and four of them are being able to achieve some percentage of profit.

2.2.2 Review of Previous Research Work

Besides review of available books and research studies, a number of studies have been made by students of MBS & MBA relating to working capital management in different entities.

Thapa (2015 AD) carried out research on "Working Capital Management of Nepal Telecom". The main objectives of the research were to analyze and evaluate the working capital management of Nepal Telecom and to show the efficiency of management of working capital through the turnover ratios. He has used secondary data of five years for the analysis. The major findings of the research were:

- The receivables turnover ratios are moderately fluctuating and vary from the lowest 2.34 times and the highest 3.35 times.
- Likewise, the cash turnover ratio has been moderately fluctuating and varies the lowest 0.51times to 0.89 times during the study period since the rate of increase in the sales volume is lower than that of cash& bank balance.
- In the three years, cash & bank balance are exceeding net sales by a significant amount. Hence the result is dissatisfactory.
- The average net working capital turnover is 0.488 times. Since the ratio has decreased from 0.58 times to 0.36 times during the study period, we can say that the company is not utilizing its net working capital effectively.
- The amount of working capital is exceeding net sales every year.

Shiwakoti (2014 AD) carried out research on ″Working Capital Management of Nepal Telecom″. The main objectives of the research were to examine the effects of working capital on revenue, composition of working capital and impact of working capital on liquidity and profitability position of Nepal Telecom. He has used secondary data of five years for the analysis. The major findings of the research were:

- The size and current assets were increasing rapidly then the fixed assets which indicate the conservative policy in financing current assets of NTC.
- There is low positive correlation between working capital and Net profit of Nepal Telecom.

Chaudhary (2018 AD) carried out research on *"Working Capital Management of the Hulas Steel Ind. Limited".* The main objectives of the research were to analyze and evaluate the working capital position of Hulas Steel Ind. Limited. He has used secondary data of five years for the analysis. The major findings of the research were:

- Cash management of the Hulas is satisfactory.
- There is no sound inventory management system as proportion of inventory is high.
- Average Collection Period is 52 days which is satisfactory.
- The proportion of working capital with respect to sales in HSIL is in decreasing trend during the study period.

Shrestha (2013 AD) carried out research on ″Working Capital Management of Nepal Dairy Development Corporation″. The main objectives of the research were to appraise the working capital management of DDC and to study the relationship between sales and different variables of working capital. He has used secondary data of five years for the analysis. The major findings of the research were:

- The major components of current assets are involuntary cash and bank balance, sundry debtors and miscellaneous current assets in which inventory hold the major position and cash hold the smallest position.
- Company's investment in form of working capital has been increasing. The average investment in current assets in lower with aspects to net fixed asset during the study period and DDC has on clean vision about the investment in current assets to fixed assets position.
- There is growing tendency of investment are current assets.
- Liquidity position of the company is not well because current and quick ratios are below standard value.
- Because of high collection, period turn over position of the company in weak.

Bansal (2014 AD) carried out a research on ″Working Capital Management of Commercial Bank″. The main objectives of the research were to highlight and examine the management of working capital in standard chartered Bank Nepal Ltd. and Himalayan Bank Limited. He has used secondary data of five years for the analysis. The major findings of the research were:

- The net working capital of both banks is positive. The liquidity position of both bank is increasing trend. It shows the satisfactory level of working capital.

- The major components of current assets of both banks are cash and bank balance, loan& advance and government securities.

- The trend value of interest earned to total assets ratio on banks are decreasing.

- In case of profitability position, both banks have constant level of growth in profitability during the study period.

Yogi (2015AD) carried out a research on ″Working Capital Management of Unilever Nepal Limited″. The main objectives of the research were to analyze the liquidity, composition of working capital, assets utilization and profitability position, of the company. He has used primary and secondary data of five years for the analysis. The major findings of the research were:

- The liquidity position of the company is fluctuation year by year.

- The proportion of current assets is affected by the sales. In other words, the sales affected the management of current assets.

- The insignificant relationship between liquidity and profit margin.

Lamsal (2016 AD) conducted research on ″Comparative Study of Working Capital Management of Nabil and Standard Chartered Bank Nepal Limited″. The main objectives of the research were to analyze the current assets and current liabilities and their impact on liquidity and profitability, to analyze the liquidity, assets utilization, long term solvency and profitability position of both banks and to analyze the comparative study of working capital management between NABIL and SCBNL. He has used secondary data of five years for the analysis. The major findings of the research were:

- The major components of current assets in NABIL and SCBNL are cash and bank balance, loan and advance and government securities.

- The liquidity position of SCBNL is better than NABIL

- The turnover position of NABIL has better than SCBNL. The NABIL has better utilization of deposits in income generating activity than SCBNL.

- Long term debt to net worth ratio of NABIL is always higher than SCBNL on that study period.

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

2.3   Research Gap

All the above studies were conducted with the research title working capital management. Some researcher has selected various different companies and some have concentrated on only one company for research. In the above research, some important issues are not included in the study even they might influence the company's working capital activities such as working capital investment and financing policies, risk and return analysis, cost trade-off, credit, cash, inventory management policies etc.

In this research, an attempt has been made to analyze the efficiency and effectiveness of working capital management of Nepal Telecom. In this research secondary data for fiscal years 2069/70 to 2073/74 have been considered where as other pervious research is only up to fiscal year 2072/73. In this research, it is tried to carry out the distinct from other previous research in terms of sample size, nature of sample, methodology & statistical tools used. Further, in the previous research, ratio analysis, standard deviation and correlation analysis have been used but in this research in addition to above statistical tools, regression analysis is also used as main model of study with the view to obtain the relevant & accurate result. So, it has been believed that the research can be different than earlier one. Therefore, this research can be helpful for researchers, students and academicians.

CHAPTER III
RESEARCH METHODOLOGY

3.1   Introduction

All the procedures, methods and techniques used during the course of conducting research are known as research methodology. The main objectives of this study are to analyze, examine highlight and interpret the working capital management of Nepal Telecom and recommend suggestions improvements for the betterment of working capital management. The study covers a period of 5 years for fiscal year 2069/70 to 2073/74. The methodology for obtaining above objectives consists of identifying source of data, data collection procedure and tools and techniques of analysis.

3.2   Research Design

Research design is an overall plan of completing the research. It helps to collection, measurement and analysis of data. Selection of appropriate research design is necessary to meet the objective any research. Descriptive approach is adopted to conduct this study. Descriptive approach is used mainly to analyze the working capital management practices in Nepal telecom.

3.3   Nature and Source of Data

Generally, It can be classified the data into primary and secondary. Primary data are those which are taken from the interview of the concerned person of the company. Secondary data can be obtained from published and unpublished sources. These data are essential and important for the study at the time of research. This study is based on secondary data, which were published by the company for the fiscal year 2069/070 to 2073/074. For the study purpose, 5 years audited balance sheets, profit & loss accounts and other related documents were collected from the company.

3.4   Populations and Sample

Population is the aggregative or totality of statistical data forming a subject of investigation. Population is a total unit about which we are going to study or research whereas sample is the number of representatives about of total population. It is

difficult to analyze all the published financial statement of the population. There are 6 telecom companies in Nepal (www.nta.gov.np). Out of them Nepal Telecom is one. Therefore, the existing number of telecom companies in Nepal refers to the population and Nepal Telecom is the sample, selected using judgmental sampling method. A sample has been chosen for the study which represents the total population. Nepal Telecom has been selected due to highest profit and largest telecom service provider. The research has taken only 5 years' data from fiscal year 2069/070 to 2073/074 which is very important for the study.

3.5 Procedures of Analysis

To achieve the pre-determined objective of the study, some of the secondary data are used which include audited Financial Statement (The balance sheets and income statements) of the Nepal Telecom for 5 years' period from fiscal year 2069/70 to 2073/74 are collected for the convenience of the study. Then all the raw data (information and ideas) are properly arranged, synthesized, tabulated, processed and presented in tabular form in accordance with the requirement of the study with the help of simple arithmetic rules. Most of the data have been compiled in one form, processed, and interpreted as per the need of the study. The secondary data have been presented for the analytical purpose after the tabulation of the data.

3.6 Tools for Analysis of Data

To achieve the objectives of the study, various financial and statistical tools have been used in this study. Simple analytical statistical tools such as Karl Pearson's coefficient of correlation and regression analysis are adopted in this study. The ratio analysis is the major tools for analysis of the study. They establish the quantitative relationship between two variables of the financial statements. Following are the brief introduction of the financial and statistical tools used in this study:

3.6.1 Financial Analysis

3.6.1.1 Ratio Analysis

An arithmetical relationship between two figures is known as ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number

expressed in terms of another. It is the relationship between financial variables contained in the financial statements (i.e. balance sheet and income statements). It helps the related parties to spot out the financial strength and weaknesses of the firm.

3.6.1.2 Composition of Working Capital

The composition of working capital is analyzed though following ratios:

1.   Current Assets to Total Assets (CATA)

The ratio of current assets to total assets indicates that percentage of the company's total assets invested in the form of current assets. The higher CATA ratio shows the risk & decreasing the profitability and vice versa. It studies proportion of current assets to total assets of Nepal Telecom during the study Period (Pandey, 1999). It is calculated as follows:

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

2.   Cash and Bank to Current Assets (CBCA)

This ratio shows the relationship between cash and bank to level of current assets. It also indicates the percentage of current assets invested in form of cash and bank. The working capital directly affected by the level of cash and bank balance. As the ratio decreases causes increase in efficiency and sound management of cash and bank and vice-versa. It studies the proportion of cash and bank balances to current assets of Nepal Telecom during the study Period (Pandey, 1999). It is calculated as follows:

$$\text{Cash and Bank to Current Assets} = \frac{\text{Cash and Bank}}{\text{Current Assets}} \times 100\%$$

3. Inventories to Current assets (ICA)

This ratio shows percentage of current assets in the form of inventory. Inventory affects the working capital directly so increase in this ratio indicates increase in working capital volume and the company is following liberal inventory policy. If the ratio is small the firm has lower volume of working capital. It studies the proportion

of inventories to current assets of Nepal Telecom during the study Period (Pandey, 1999). It is calculated as follows:

$$\text{Inventories to Current assets} = \frac{\text{Inventory}}{\text{Current Assets}} \times 100\%$$

4. Receivables to Current Assets Ratio

This ratio shows percentage of current assets in the form of receivables. Higher the percentage show higher opportunity cost of carrying the receivables. It is therefore desired that a firm need to carry the least percentage of receivables as possible without affecting the sales volume. It studies the proportion of receivables to current assets of Nepal Telecom during the study Period (Pandey, 1999). It is calculated as follows:

$$\text{Receivables to Current assets} = \frac{\text{Receivables}}{\text{Current Assets}} \times 100\%$$

5. Current Liabilities to Total Liabilities Ratio

The current to total liabilities ratio measures the percentage of total current liabilities to total liabilities. An increasing current to total liabilities ratio is usually a negative sign and vice versa. The proportion of Current Liabilities to Total Liabilities of Nepal Telecom during the study Period is as follows (Pandey, 1999). It is calculated as follows:

$$\text{Current Liabilities to Total Liabilities} = \frac{\text{Current Liabilities}}{\text{Total Liabilities}} \times 100\%$$

3.6.1.3 Turnover Analysis

Turnover analysis measures the effectiveness with which a firm uses its available resources in form of inventories. By calculating following ratios, the firm's efficiency is analyzed:

1. Inventory Turnover (IT)

This ratio establishes the relationship between sales and inventory used in the firm. It is computed dividing sales by cost of goods sold or inventory to measure the ability of

firm to utilize the inventory. It indicates the speed with which the inventory is converted into sales (Pandey, 1999). It is calculated as follows:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold (Sales)}}{\text{Average Inventory}}$$

2. Inventory Conversion Period

The inventory conversion period is defined as the total time period required converting the entire inventory into sales. It can be defined as a relationship between the total number of days in financial period and the inventory turnover ratio. It measures the length of time on average between the acquisition and sale of merchandise (Pandey, 1999). It is calculated as follows:

$$\text{Inventory Conversion Period} = \frac{\text{Days in a year}}{\text{Inventory Turnover Ratio}}$$

3. Receivables Turnover (RT)

This ratio establishes a relationship between credit sales and receivables. It is computed dividing net credit sales by average receivables to determine the efficiency with which the debtors are managed (Pandey, 1999). It is calculated as follows:

$$\text{Receivable Turnover Ratio} = \frac{\text{Net Credit Revenue}}{\text{Receivables}}$$

4. Average Collection Period

Average collection period is the time between the sale of the final product on credit and cash receipts for the accounts payable. It measures the average number of days it takes for the company to collect revenue from its credit sales (Pandey, 1999). It is calculated as follows:

$$\text{Average Collection Period} = \frac{\text{Days in a year}}{\text{Receivable Turnover Ratio}}$$

5.   Working Capital Turnover Ratio

The working capital turnover ratio measures how well a company is utilizing its working capital to support a given level of sales. A high turnover ratio indicates that management is being extremely efficient in using a firm's short-term assets and liabilities to support sales (Pandey, 1999). It is calculated as follows:

$$\text{Working Capital Turnover Ratio} = \frac{\text{Net Credit Revenue}}{\text{Net Working Capital}}$$

6.   Current Assets Turnover Ratio

Current Asset Turnover ratio measures the firm's ability of generating sales through its current assets (cash, inventory, accounts receivable, etc.). It indicates how efficiently a firm is using its current assets to generate revenue. A high current assets turnover ratio indicates the capability of the organization to achieve maximum sales with the minimum investment in current assets (Pandey, 1999). It is calculated as follows:

$$\text{Current Assets Turnover Ratio} = \frac{\text{Net Credit Revenue}}{\text{Current Assets}}$$

7.   Payable Deferral Period (PDP)

Payable Deferral Period (PDP) is a company's average payable period that measures how long it takes a company to pay its invoices from trade creditors, such as suppliers. The ratio depicts how well a company is managing its cash out flows during an accounting period in paying the account payables (Pandey, 1999). It is calculated as follows:

$$\text{Payable Deferral Period} = \frac{\text{Days in a year}}{\text{Payable Turnover Ratio}}$$

3.6.1.4 Liquidity position

This ratio establishes a relationship between current assets and current liabilities. A relatively high value of current ratio is considered as an indication that the firm is

liquid and has the ability to pay its bills. As a conventional rule, a current ratio of 2:1 or more is considered satisfactory.

1. Current Ratio (CR)

This ratio establishes a ratio between Current Assets and Current Liabilities. It is computed dividing Current Assets by Current Liabilities to measure the short-term safety margin available for current obligations. A relatively high value of current ratio is considered as an indication that the firm is liquid and has the ability to pay its bills (Pandey, 1999). It is calculated as follows:

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

2. Quick (Liquid) Ratio (QR)

This ratio establishes a relationship between liquid assets and current liabilities. It is computed dividing quick assets by current liabilities (Pandey, 1999). It is calculated as follows:

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

3.6.1.5 Profitability Analysis

1. Net Profit Margin Ratio

It is used to analyze the profitability position of a firm. Higher ratio indicates high profitability and vice-versa (Pandey, 1999). It is calculated as follows:

$$\text{Net Profit Margin Ratio} = \frac{\text{Net Profit After Tax}}{\text{Sales}}$$

2. Return on Equity

It measures how profitable a company is for the owner of the investment, and how profitably a company employs its equity (Pandey, 1999). It is calculated as follows:

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Equity}}$$

3. Return on Total Assets Ratio (ROA)

Return on total assets explains the contribution of assets to generate net profit. This ratio indicates efficiency towards assets mobilization. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm (Pandey, 1999). It is calculated as follows:

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

3.6.2 Statistical Analysis

The help of statistical tool is essential to measure the relationship of two or more variable. In this study, the following statistical tools are used:

3.6.2.1 Arithmetic Mean (Average)

The arithmetic mean is the most popular and commonly used measure of central tendency, which represents the entire data by a single value. The arithmetic mean of values of a variable is defined as the ratio of the total values to the number of values (Bajracharya, 2053). It can be calculated as follows:

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

Whereas:

$\sum X$ = Sum of the values

$\overline{X}$ = Mean value, N= Number of the value.

3.6.2.2 Standard deviation (S.D)

Standard Deviation is the most popular and most useful measures of dispersion and gives uniform, correct and stable result. The chief characteristic of Standard Deviation is based on mean (Bajracharya, 2053). The formula of Standard Deviation is as follow:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{N}}$$

Where,

σ = Standard Deviation

x = Variables

N = Number of observation

$\overline{X}$ = Actual mean of the variable

3.6.2.3 Co-efficient of Variation (CV)

Standard Deviation is the absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the co-efficient of Standard Deviation. The percentage of measure of Co-efficient of Standard Deviation is called Coefficient Variation (Bajracharya, 2053). It is calculated as:

$$CV = \frac{\sigma}{\overline{X}} * 100\%$$

3.6.2.4 Correlation Coefficient (r)

Correlation Coefficient is defined as the association between the dependent variable and independent variable. It is a method of determining the relationship between these two variables. If the two variables are so related the change in the value of independent variable causes the change in value of dependent variable them, it is said to have correlation coefficient. The Correlation Analysis between Return on Assets, Current Ratio, Receivables Turnover Ratio, Quick Ratio, Current Assets Turnover Ratio and Payable Turnover Ratio of Nepal Telecom for the study period. The formula for calculating simple correlation Co-efficient (r) by Karl Person's method is.

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

To interpret the value of correlation, the relationship between variables is positive if the value of 'r' is greater than 0 and it is negative if the relationship between variables is less than 0. Similarly, if the value of 'r' is +1, the relationship is perfect positive and

if it is -1, the relationship is perfectly negative. If the value of 'r' is o, the relationship between variables is zero (Bajracharya, 2053).

3.6.2.5 Regression Analysis

Regression analysis is a set of statistical processes for estimating the relationships among variables. It helps one understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed. It is also used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships (Bajracharya, 2053).

i. The Regression Analysis of dependent variable Return on Assets and independent variable Current Ratio and Receivables turnover Ratio of Nepal Telecom for the study period.

ii. The Regression Analysis of dependent variable Net Profit and independent variable Current assets and Total Assets of Nepal Telecom for the study period.

iii. The Regression Analysis of dependent variable Net Profit and independent variable Cash and Net Working of Nepal Telecom for the study period.

Regression line of y on x_1 & x_2 (Used to estimate value of y from the value of x_1 and x_2)

It is given by:

$$y = a + b_1 x_1 + b_2 x_2$$

Where,

y = Dependent Variable i.e. Net Profit

x_1 & x_2 = Independent Variables

a = Constant

b_1 = the partial regression coefficient of y on x_1 keeping x_2 constant

b_2 = the partial regression coefficient of y on x_3 keeping x_2 constant

CHAPTER IV
RESULTS

The previous chapter mainly emphasized the research methodology to be followed to carry out the study. This chapter sheds light on the presentation and analysis part of the collected data in detail.

As the main objective of the study is to analyze the working capital management of Nepal Telecom, the necessary financial facts and figures as well as descriptive information are gathered through the financial statement. The major variables for the study are cash, receivables and inventories. Current assets turnover position, profitability position and liquidity position have been analyzed. All these are in detail and presented in tabular form below:

4.1 Position of Current Assets and Current Liabilities

Current assets are those assets, which are required to run day-to-day business activities. The requirements of current assets vary as per the nature and size of the organization. A firm needs cash to purchase raw materials, pay salary, wages and other clear other liabilities. This is because of not perfect matching between cash inflow and outflow. The firm has to invest enough funds in current assets for the success of the business activities. The stocks of raw materials are kept in order to ensure smooth productions and to protect the risk of non-availability of raw materials. To meet this obligation cash is also needed. Every business organization aims to maximize return on shareholders' investment. In order to accomplish this objective, the business organization should earn sufficient return for its operations. Earning a steady amount of profit requires successful sales. As the sales do not convert into cash instantly, the extra amount of working capital is needed. The major components of current assets are cash, receivables, inventories etc. Hence, the proper management of these current assets is necessary to achieve the principle objective of any business organization, to earn maximum profit and ultimately to maximize shareholder's wealth.

The following table 4.1 presents the position of Current Assets and Current Liabilities of Nepal Telecom during the study Period.

Table 4. 1

Position of Current Assets and Current Liabilities

(Rs. in million)

Fiscal Year	Total Current Assets (a)	Total Current Liabilities (b)	Net Working Capital (a-b)
2069/070	37,000.82	14,585.78	22,415.04
2070/071	50,492.13	15,828.08	34,664.05
2071/072	61,182.29	15,532.95	45,649.34
2072/073	62,121.11	16,646.70	45,474.41
2073/74	63,741.11	15,115.55	48,625.57
Total	**274,537.46**	**77,709.06**	**196,828.41**

Source: Annual Reports of the Company

Net working capital is the difference between current assets and current liabilities. The determinate of working capital management should be as accurate as possible. It means money invested on working capital should be neither more nor less because the position of working capital affects not only liquidity but also profitability of the organization. The above table-4.1 presents the Net Working Capital position and Net Investment trend in Current Assets of Nepal Telecom. The table shows that investment in Net Working Capital trend is increasing up to F/Y 2071/72 but decreased in F/Y 2072/73 by Rs.174.93 million and again increased in F/Y 073/74 by Rs. 3,151.16 million. From the table, it can be concluded that current assets are in fluctuating trend in increasing way.

The figures 4.1 of Table 4.1 can also be shown in a diagram, which is as follows:

Figure 4. 1

Position of Current Assets and Current Liabilities
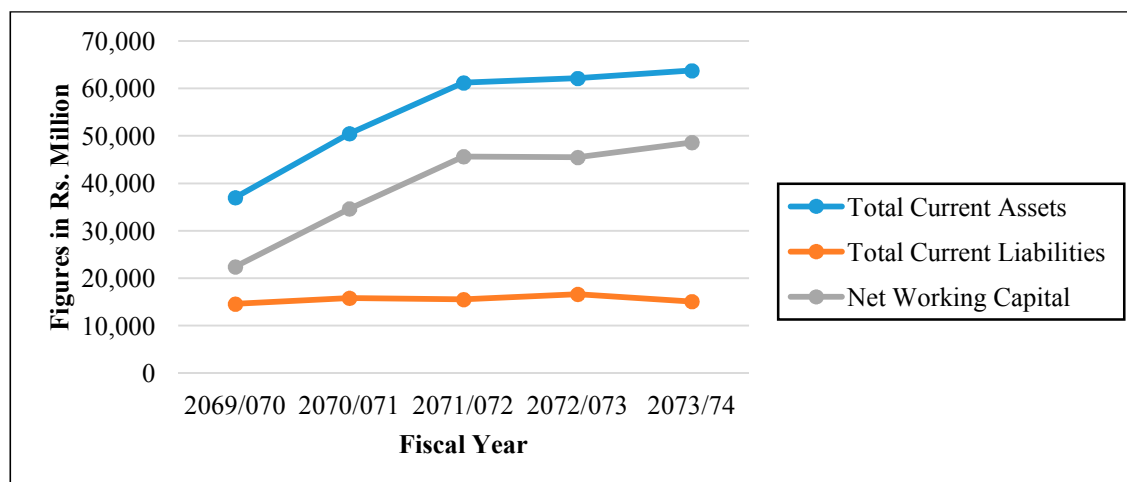
From the figure 4.1 it was found that, current asset is increasing trend and current liabilities are in fluctuating.

4.2   Analysis of Working Capital

Working capital, also known as net working capital, is the difference between a company's current assets and current liabilities. Working capital measures how many liquid assets available to a company to build its business. The composition of working capital is analyzed with the help of ratios between various components of Working Capital, which are as follows:

4.2.1 Current Assets to Total Assets Ratio

Most of the firm, invest major portion of Total Assets in Current Assets. So it is in integral part of the firm and has greater impact to maximization of owners' investment. As the requirement of the current assets depends upon the nature of the business, it is required to run day to day activities. Higher percentage of current assets in total assets denotes greater liquidity position of the firm as well as lowers the risk being insolvent and vice-versa.

The following table 4.2 presents the ratio of Current Assets to Total Assets of Nepal Telecom during the study Period.

Table 4. 2

Current Assets to Total Assets Ratio

(Rs. in million)

Fiscal Year	Current Assets	Total Assets	Ratio %
2069/070	37,000.82	92,241.68	40.11
2070/071	50,492.13	95,574.90	52.83
2071/072	61,182.29	111,305.51	54.97
2072/073	62,121.11	115,258.67	53.90
2073/74	63,741.11	121,606.82	52.42
Total	**274,537.47**	**535,987.59**	**51.22**
Average	54,907.49	107,197.52	50.84
S.D.	10,095.41	11,386.38	5.44
C.V.%	18.39	10.62	10.70

Source: Annual Reports of the Company

The figures 4.2 also can be shown in a diagram, which is as follows:

Figure 4. 2

Current Assets and Total Assets Ratio
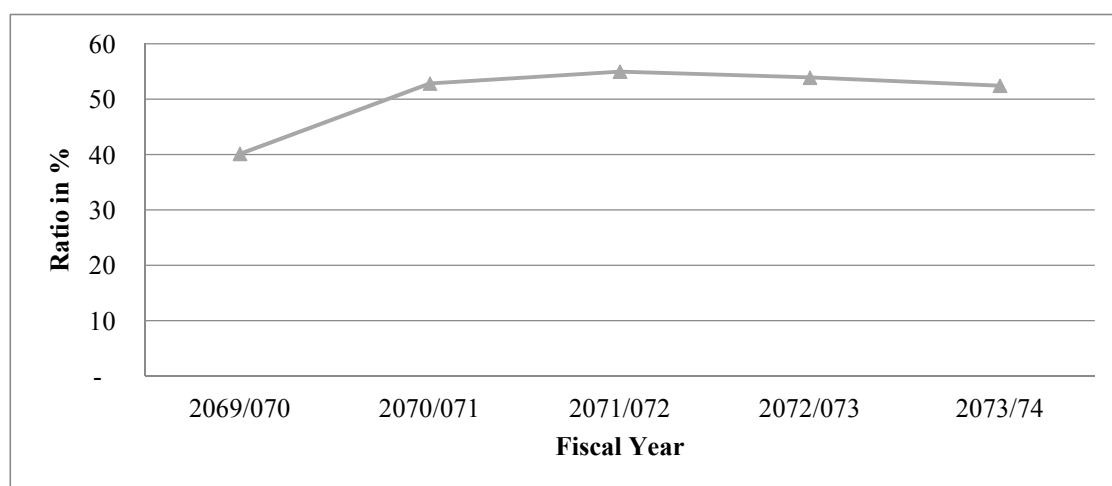
The table 4.2 shows the current assets and total assets of Nepal Telecom during the fiscal year 2069/070 to 2073/074. The proportion of current assets of total assets of Nepal Telecom is fluctuating. The ratio is highest in FY 2071/072 and lowest in FY 2069/070. The current assets to total assets ratio of Nepal Telecom is 40.11 % in the

fiscal year 2069/070 and 52.42 % in the fiscal year 2073/074. The average ratio of Currents Assets to Total Assets is 50.84% and coefficient of variation is 10.70%

The relation between current assets and total assets are positive and uniform. Higher level of current assets indicates good liquidity position but it adversely affects the profitability of the company because idle money earns nothing.

4.2.2 Cash and Bank Balance to Current Assets Ratio

Cash and Bank balances are the liquid form of assets and very important component of Working Capital. Every business firm should hold cash with a view to perform day-to-day activities, to meet immediate payments and for precautionary as well as speculative motives. Cash and Bank balance both are liquid assets, which assure the sale increase or decrease.

The following table 4.3 presents the Ratio of Cash and Bank Balance to Current Assets of Nepal Telecom during the study Period.

Table 4. 3

Cash and Bank Balance to Current Assets Ratio

(Rs. in million)

Fiscal Year	Cash & Bank	Current Assets	Ratio %
2069/070	26,774.79	37,000.82	72.36
2070/071	41,263.47	50,492.13	81.72
2071/072	43,520.90	61,182.29	71.13
2072/073	35,395.14	62,121.11	56.98
2073/74	24,255.21	63,741.11	38.05
Total	**171,209.50**	**274,537.47**	**62.36**
Average	34,241.90	54,907.49	64.05
S.D.	7,644.92	10,095.41	15.21
C.V.%	22.33	18.39	23.75

Source: Annual Reports of the Company

The figures 4.3 also can be shown in a diagram, which is as follows:

Figure 4. 3

Cash and Bank Balance to Current Assets Ratio
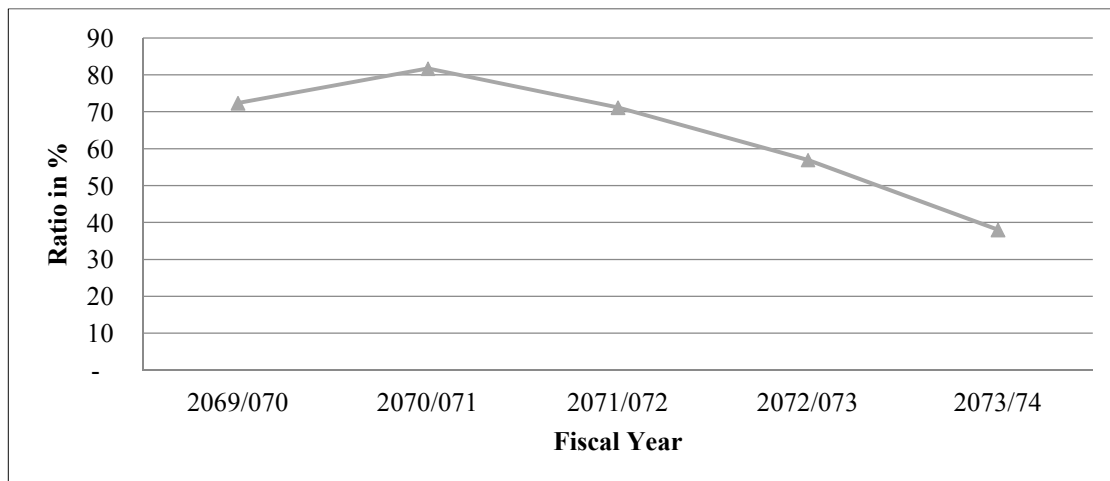
The table 4.6 and figure 4.5 shows the cash and bank to current assets ratio of Nepal Telecom during the fiscal year 2069/070 to 2073/074. The cash and bank to current assets ratio of Nepal Telecom are in decreasing trends and ranged from 81.72 % in the fiscal year 2070/071 to 38.05% in the fiscal year 2073/074. The average cash and bank balance to current assets ratio is 64.05% with the coefficient of variation 23.75%. As the ratio of holding Cash and Bank Balance is decreased from the average holding, it indicates there are good points in cash management system. It is an indicator of sound cash management of Nepal Telecom.

4.2.3Inventory to Current Assets Ratio

Raw material, work in progress and spare parts are required to ensure smooth and regular production while finished goods inventory is needed to facilitate sales. Therefore, a firm should invest optional in inventory to ensure its production and sales. The shortage of any kinds of inventory results irregular production, high manufacturing costs etc. In the other hand, excess inventory causes unnecessary holding of working capital, which earning nothing. So, the level of inventory holding should be optimum so that it arises to neither excess nor shortage of inventory problem.

The following table 4.4 presents the proportion of Inventory to Current Assets of Nepal Telecom during the study Period.

Table 4. 4

Inventory to Current Assets Ratio

(Rs. in million)

Fiscal Year	Inventory	Current Assets	Ratio %
2069/070	1,385.96	37,000.82	3.75
2070/071	508.86	50,492.13	1.01
2071/072	562.82	61,182.29	0.92
2072/073	400.42	62,121.11	0.64
2073/74	459.03	63,741.11	0.72
Total	**3,317.11**	**274,537.47**	**1.21**
Average	663.42	54,907.49	1.41
S.D.	365.24	10,095.41	1.18
C.V.%	55.05	18.39	83.57

Source: Annual Reports of the Company

The figures 4.4 also can be shown in a diagram, which is as follows:

Figure 4. 4

Inventory to Current Assets Ratio
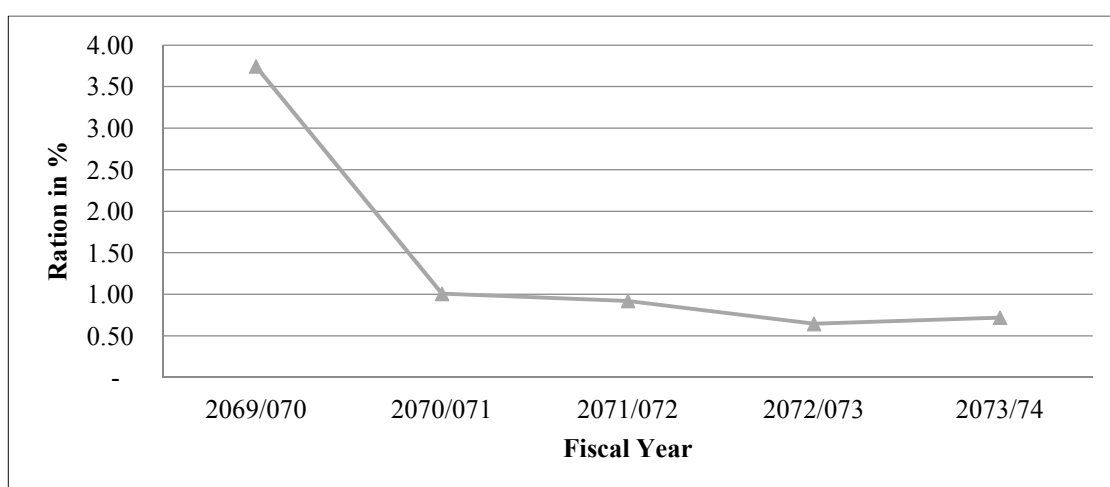
The table 4.4 and 4.4 figure shows the proportion of Inventories to its Current Assets. In F/Y 2069/70, the ratio is 3.75% and reached to 0.72% in FY 2073/74. The average

ratio of Inventory to Current Assets is 1.41% with coefficient of variation is 83.57% which shows that portion of inventory in current assets is very low and it is decreasing every year. In general, the lower the ratio indicates good management of the inventory.

4.2.4   Receivables to Current Assets Ratio

Receivables as a percentage of current assets show the size of receivables in current assets and the opportunity cost associated with it. Higher the percentage show higher opportunity cost of carrying the receivables. It is therefore desired that a firm need to carry the least percentage of receivables as possible without affecting the sales volume.

The following table 4.5 presents the proportion of Receivables to Current Assets of Nepal Telecom during the study Period.

Table 4. 5

Receivables to Current Assets Ratio

(Rs. in million)

Fiscal Year	Receivables	Current Assets	Ratio %
2069/070	3,189	37,000.82	8.62
2070/071	2,923	50,492.13	5.79
2071/072	2,622	61,182.29	4.29
2072/073	2,931	62,121.11	4.72
2073/74	2,674	63,741.11	4.19
Total	**14,338.53**	**274,537.47**	**5.22**
Average	2,867.71	54,907.49	5.52
S.D.	204.11	10,095.41	1.65
C.V.%	7.12	18.39	29.87

Source: Annual Reports of the Company

The figures 4.5 also can be shown in a diagram, which is as follows:

Figure 4. 5

Receivables to Current Assets Ratio
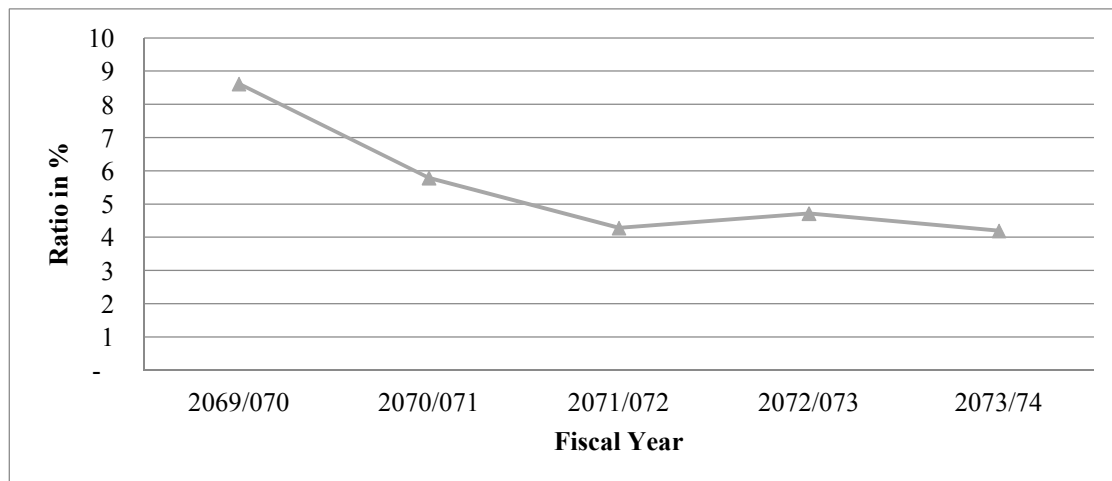
The table 4.5 and figure 4.5 shows the proportion of Receivables to its Current Assets. In F/Y 2069/70, the ratio is 8.62% and reached to 4.19% in FY 2073/74. The average ratio of Receivables to Current Assets is 5.52% with coefficient of variation is 29.87% which shows that portion of receivables in current assets islow and it is decreasing every year. In general, the lower the ratio indicates good management of the receivables.

4.2.5   Current Liabilities to Total Liabilities Ratio

The current to total liabilities ratio measures the percentage of total current liabilities to total liabilities. An increasing current to total liabilities ratio is usually a negative sign. A decreasing current to total liabilities ratio is usually a positive sign, showing the company's proportion of current liabilities are decreasing compared to its total liabilities.

The following table 4.6 presents the proportion of Current Liabilities to Total Liabilities of Nepal Telecom during the study Period.

Table 4. 6

Current Liabilities to Total Liabilities Ratio

(Rs. in million)

Fiscal Year	Current Liabilities	Total Liabilities	Ratio %
2069/070	14,585.78	38,605.98	0.38
2070/071	15,828.08	38,098.17	0.42
2071/072	15,532.95	30,307.07	0.51
2072/073	16,646.70	29,230.80	0.57
2073/74	15,115.55	30,275.97	0.50
Total	**77,709.05**	**166,517.99**	**0.47**
Average	15,541.81	33,303.60	0.47
S.D.	692.60	4,143.35	0.07
C.V.%	4.46	12.44	14.56

Source: Annual Reports of the Company

The figures 4.6 also can be shown in a diagram, which is as follows:

Figure 4. 6

Current Liabilities to Total Liabilities Ratio
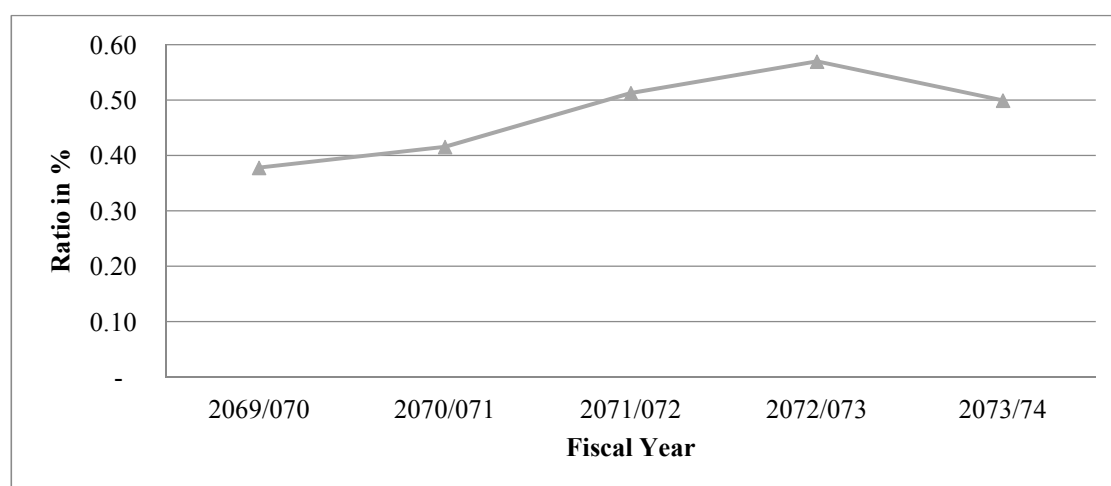
The table 4.6 and figure 4.6 shows that current liabilities to Total Liabilities are increasing trend except in fiscal year 2073/74. An increasing Current to Total Liabilities ratio is usually a negative sign and company's current to total liabilities are in increasing trend so it is not good for the company.

4.2.6 Payable Deferral Period (PDP)

Payable Deferral Period (PDP) is a company's average payable period that measures how long it takes a company to pay its invoices from trade creditors, such as suppliers. The ratio depicts how well a company is managing its cash out flows during an accounting period in paying the account payables. An increase in accounts payable is a source of cash as the company takes longer to pay its vendors and suppliers. A decrease in accounts payable signifies a use of cash as whenever a company settles its bills which reduces working capital.

The following table 4.7 presents the Payable Deferral Period of Nepal Telecom during the study Period.

Table 4. 7

Payable Deferral Period

(Rs. in million)

Fiscal Year	Payable	Expenditure	PDP in Days
2069/070	38,605.98	23,727.23	585.7
2070/071	38,098.17	24,452.39	560.9
2071/072	30,307.07	22,628.48	482.2
2072/073	29,230.80	25,984.70	405.0
2073/74	30,275.97	24,013.13	453.9
Total	**166,517.99**	**120,805.92**	**496.22**
Average	33,303.60	24,161.18	497.53
S.D.	4,143.35	1,092.65	67.09
C.V.%	12.44	4.52	13.48

Source: Annual Reports of the Company

The figures 4.7 also can be shown in a diagram, which is as follows:

Figure 4. 7

Payable Deferral Period
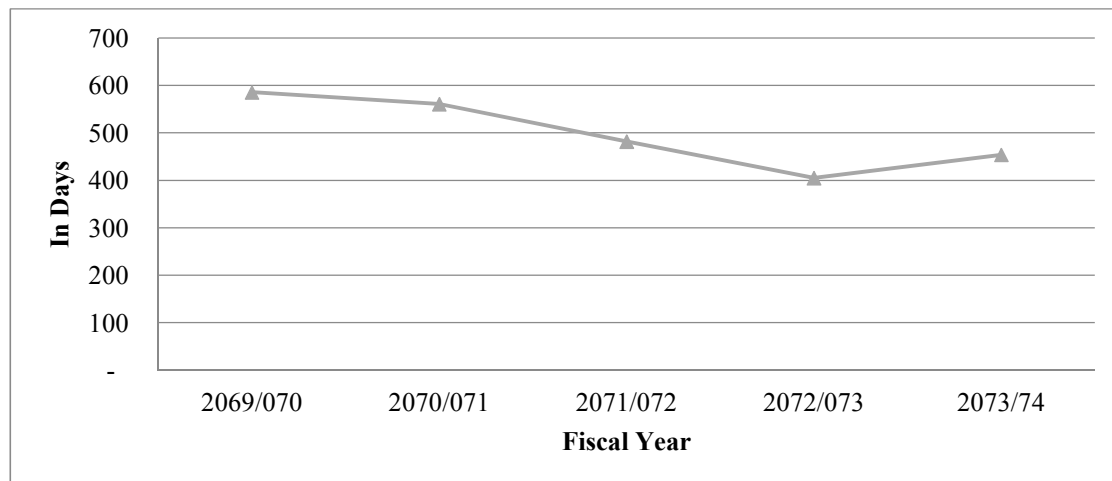
The Average Payable Deferral Period is found fluctuating over the period in decreasing trend. In an average, the payable period of the Nepal Telecom is 497.53 i.e. 498 days. Higher average payable deferral period means company is settling its liabilities very delay. Average payable deferral period of Nepal Telecom is in decreasing trend; hence it was found that company is trying to make payment on time.

4.2.7 Working Capital Turnover Ratio

The working capital turnover ratio measures how well a company is utilizing its working capital to support a given level of sales. Working capital is current assets minus current liabilities. A high turnover ratio indicates that management is being extremely efficient in using a firm's short-term assets and liabilities to support sales. Conversely, a low ratio indicates that a business is investing in too many accounts receivable and inventory to support its sales, which could eventually lead to an excessive amount of bad debts and obsolete inventory.

The following table 4.8 presents the Working Capital Turnover Ratio of Nepal Telecom during the study Period.

Table 4. 8

Working Capital Turnover Ratio

(Rs. in million)

Fiscal Year	Revenue	Working Capital	Times
2069/070	38,858	22,415	1.73
2070/071	39,695	34,664	1.15
2071/072	42,638	45,649	0.93
2072/073	44,209	45,474	0.97
2073/74	44,589	48,626	0.92
Total	**209,990.12**	**196,828.41**	**1.07**
Average	41,998.02	39,365.68	1.14
S.D.	2,331.25	9,715.72	0.31
C.V.%	5.55	24.68	26.96

Source: Annual Reports of the Company

The figures 4.8 also can be shown in a diagram, which is as follows:

Figure 4. 8

Working Capital Turnover Ratio
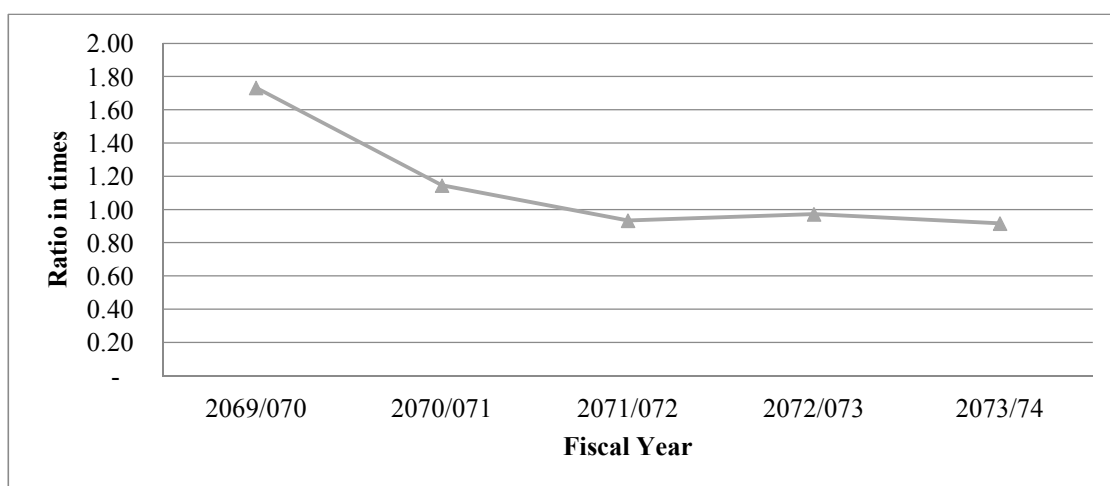
Average working capital turnover ratio of Nepal Telecom is in decreasing trend. Low ratio indicates that a company is investing in too many accounts receivable and inventory to support its revenue. The average working capital turnover ratio of Nepal Telecom is 1.14 times with coefficient of variation 26.96% which shows

that company has invested its most of the funds in the form of current assets like as cash & receivables. So that opportunity cost of cash and receivables for the company is increasing. There is also chance of bad debts due to increase in receivables.

4.2.8 Current Assets Turnover Ratio

Current Asset Turnover ratio measures the firm's ability of generating sales through its current assets (cash, inventory, accounts receivable, etc.). It indicates how efficiently a firm is using its current assets to generate revenue. A high current assets turnover ratio indicates the capability of the organization to achieve maximum sales with the minimum investment in current assets.

The following table 4.9 presents the Current Assets Turnover Ratio of Nepal Telecom during the study Period.

Table 4. 9

Current Assets Turnover Ratio

(Rs. in Million)

Fiscal Year	Revenue	Current Assets	Times
2069/070	38,858	37,000.82	1.05
2070/071	39,695	50,492.13	0.79
2071/072	42,638	61,182.29	0.70
2072/073	44,209	62,121.11	0.71
2073/74	44,589	63,741.11	0.70
Total	**209,990**	**274,537**	**0.76**
Average	41,998.02	54,907.49	0.79
S.D.	2,331	10,095	0
C.V.%	5.55	18.39	17.07

Source: Annual Reports of the Company

The figures 4.9 also can be shown in a diagram, which is as follows:

Figure 4. 9

Current Assets Turnover Ratio
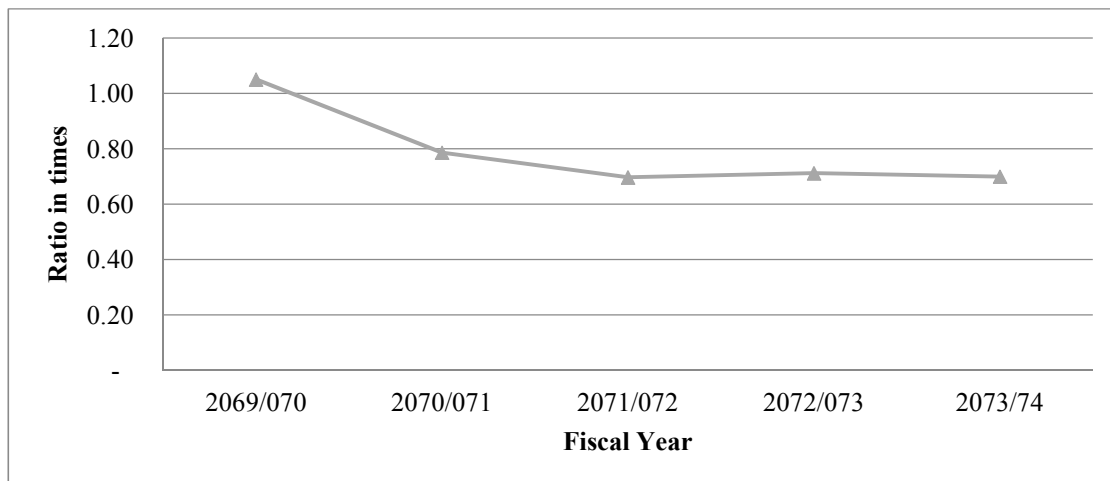
Current assets turnover ratio of Nepal Telecom is in decreasing trend during the study period. The ratio is highest at 1.05 in FY 2069/70 and lowest at 0.70 in FY 2073/74. Average current turnover ratio is 0.79 with coefficient of variation 17.07%. Low ratio indicates that the company is able to generate more revenue from minimum investment in current assets.

4.2.9 Inventory Turnover Ratio

Inventory is the major and important component of Working Capital, which should be maintained effectively and efficiently. Inventory comprises of stock of raw materials, work in progress, finished goods and material required for smooth operation of the business. Stock of raw material should be adequate to meet the requirement of optimum production level so that the company can met its production and sales target. Level of Inventory, production and sales are interrelated. Inventory turnover ratio indicates the number of times inventory is replaced during the years. It measures the relationship between sales and the inventory level. The inventory turnover ratio tests the efficiency on inventory management. It is a valuable measure of selling efficiency and inventory quality.

The following table 4.10 shows the inventory turnover ratio of Nepal Telecom during the study Period.

Table 4. 10

Inventory Turnover Ratio

(Rs. in million)

Fiscal Year	Revenue	Inventory	Times
2069/070	38,858.26	1,385.96	28.04
2070/071	39,695.24	508.86	78.01
2071/072	42,638.37	562.82	75.76
2072/073	44,209.25	400.42	110.41
2073/74	44,588.99	459.03	97.14
Total	**209,990.12**	**3,317.11**	**63.31**
Average	41,998.02	663.42	77.87
S.D.	2,331.25	365.24	27.99
C.V.%	5.55	55.05	35.95

Source: Annual Reports of the Company

The figures 4.10 also can be shown in a diagram, which is as follows:

Figure 4. 10

Inventory Turnover Ratio
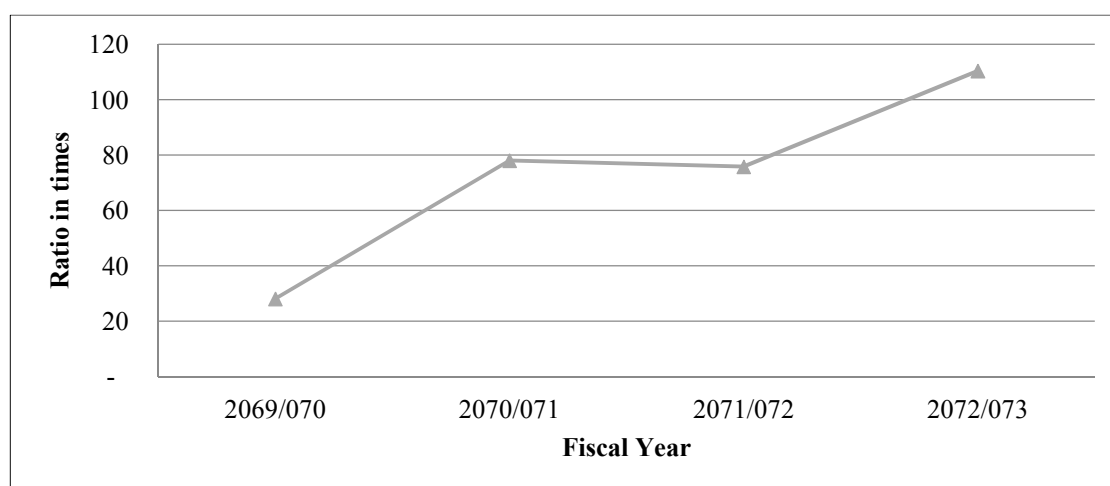
The table 4.10 shows the Inventory Turnover Ratio or number or times Inventory replaced during the five years. The inventory turnover ratio is in increasing during the study period. The ratio is minimum at 28.04 times in the fiscal year 2069/070 and highest 110.41 times in the fiscal year 2072/073. Inventory has decreased in FY

2072/73 due to capitalization of inventory and written off. The average total revenue to inventory ratio of Nepal Telecom are 77.87 times with the 35.95% of coefficient of variation. Inventory turnover measures how fast a company is selling inventory and is generally compared against industry averages. A low turnover implies weak sales and, therefore, excess inventory. A high ratio implies either strong sales and/or large discounts. Inventory turnover ratio of Nepal Telecom is very high so that it is very good.

4.2.10 Receivables Turnover Ratio

Receivable Turnover Ratio is an accounting measure used to measure how effective a company is in extending credit as well as collecting debts. The receivables turnover ratio is an activity ratio, measuring how efficiently a firm uses its assets. It is the relationship between net sales and average debtors. It measures how many times a business can turn its accounts receivable into cash during a period. This ratio shows how efficient a company is at collecting its credit sales from customer.

The following table 4.11 shows The receivable turnover ratio of Nepal Telecom during the study Period.

Table 4. 11

Receivables Turnover Ratio

(Rs. in million)

Fiscal Year	Revenue	Receivables	Times
2069/070	38,858.26	3,188.95	12.19
2070/071	39,695.24	2,923.14	13.58
2071/072	42,638.37	2,621.81	16.26
2072/073	44,209.25	2,930.81	15.08
2073/74	44,588.99	2,673.82	16.68
Total	**209,990.12**	**14,338.53**	**14.65**
Average	41,998.02	2,867.71	14.76
S.D.	2,331.25	204.11	1.68
C.V.%	5.55	7.12	11.36

Source: Annual Reports of the Company

The figures 4.11 also can be shown in a diagram, which is as follows:

Figure 4. 11

Receivables Turnover Ratio
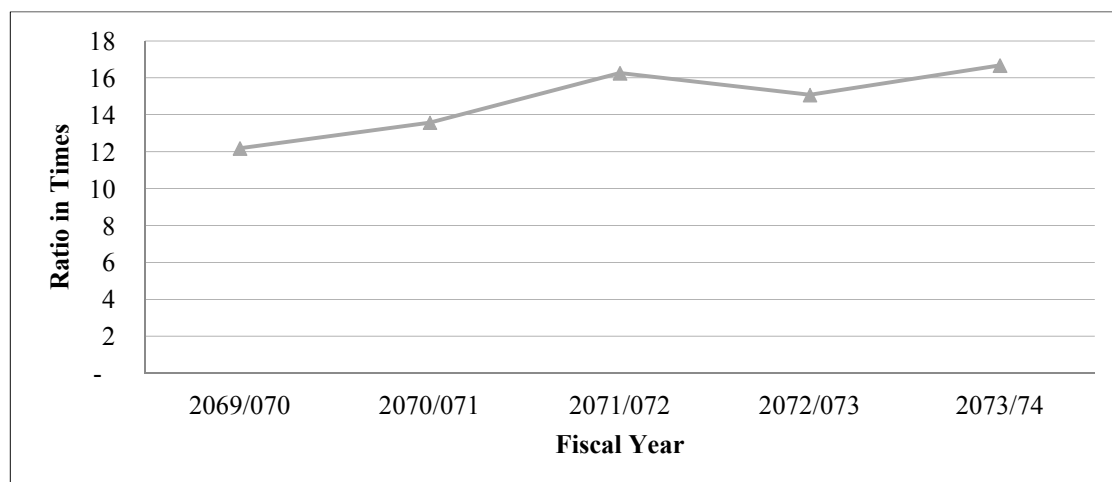
The table 4.11 and figure 4.11 shows the receivable turnover ratio of Nepal Telecom during the study period. Receivable Turnover Ratio is found in increasing trend. In the F/Y 2069/60, the ratio is 12.19 times and increased to 16.68 times in F/Y 2073/74. The Average Receivable Turnover Ratio is 14.76 times with the 11.36 % of coefficient of variation. Higher turnover ratios indicate shorter collection period. In conclusion, the company is able to collect its credit revenue in short period if the company is able to maintain higher turnover ratio.

4.2.11 Average Collection Period

Average collection period is the time between the sale of the final product on credit and cash receipts for the accounts payable. It measures the average number of days it takes for the company to collect revenue from its credit sales.

The following table 4.12 shows the average collection period of Nepal Telecom during the study Period.

Table 4. 12

Average Collection Period

(Rs. in million)

Fiscal Year	Debtors	Revenue	ACP in Days
2069/070	3,188.95	38,858.26	29.54
2070/071	2,923.14	39,695.24	26.51
2071/072	2,621.81	42,638.37	22.14
2072/073	2,930.81	44,209.25	23.87
2073/74	2,673.82	44,588.99	21.59
Total	**14,338.53**	**209,990.12**	**24.58**
Average	2,867.71	41,998.02	24.73
S.D.	204.11	2,331.25	2.96
C.V.%	7.12	5.55	11.95

Source: Annual Reports of the Company

The figures 4.12 also can be shown in a diagram, which is as follows:

Figure 4. 12

Average Collection Period
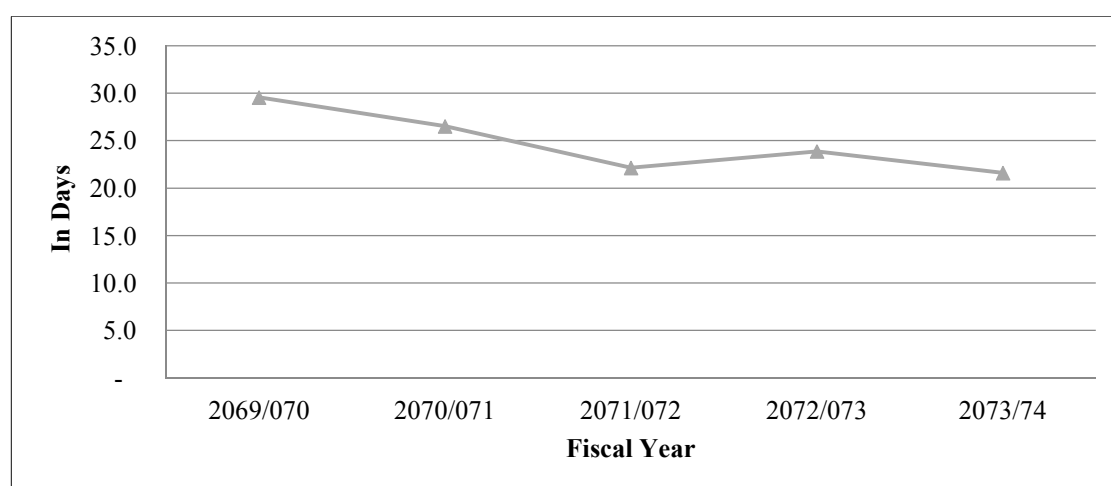
The Average Collection Period of Credit Revenue has been found fluctuating over the period in decreasing trend caused by change in volume of revenue and receivable in different years. In an average, the collection period of the Nepal Telecom is 24.73 i.e. 25 days. Lower average collection period means company is able to realize credit

revenue in short period. Average collection period of Nepal Telecom is in decreasing trend; hence we can say that credit management of Nepal Telecom is good.

4.3 Analysis of Liquidity Ratio

The ability of a firm to meet its obligation in the short-term is known as liquidity. It reflects the short-term financial strength of the organization. Liquidity position shows ability to pay the bills. Liquidity fulfills the current need of money. The most important objective of adopting appropriate and optimum liquidity is to enable the company to meet current or short-term obligations when they become due for payment. A firm should ensure that it does not suffer from lack of liquidity and also that it has not too much liquidity. The failure of a company to meet its obligations due to lack of liquidity will result in bad credit ratings, loss of creditor's confidence, or even in lawsuits resulting the closure of the company. A very high degree of liquidity is also bad as idle assets earn nothing. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity. Liquidity position of the company can be analyzed based on the following ratios.

4.3.1 Current Ratio

The current ratio shows the ability for payment of current debt from current assets. It measures the liquidity position of the company. This ratio is calculated by dividing current assets by current liabilities. This ratio shows the availability of current assets in Rupees for every one Rupee of current liabilities. As a conventional rule, a current ratio of 2:1 of more is considered satisfactory. The higher the current ratio means greater the margin of safety and the larger the amount of current assets in relation to current liabilities, the more the firm's ability to meet its obligations and strong working capital position.

The table 4.13 presents the Current Ratio during the study period of Nepal Telecom, which is as follows:

Table 4. 13

Analysis of Current Ratio

(Rs. in million)

Fiscal Year	Current Assets	Current Liabilities	Ratio (Times)
2069/070	37,000.82	14,585.78	2.54
2070/071	50,492.13	15,828.08	3.19
2071/072	61,182.29	15,532.95	3.94
2072/073	62,121.11	16,646.70	3.73
2073/74	63,741.11	15,115.55	4.22
Total	**274,537.47**	**77,709.05**	**3.53**
Average	54,907.49	15,541.81	3.52
S.D.	10,095.41	692.60	0.60
C.V.%	18.39	4.46	16.94

Source: Annual Reports of the Company

The figures 4.13 also can be shown in a diagram, which is as follows:

Figure 4. 13

Analysis of Current Ratio
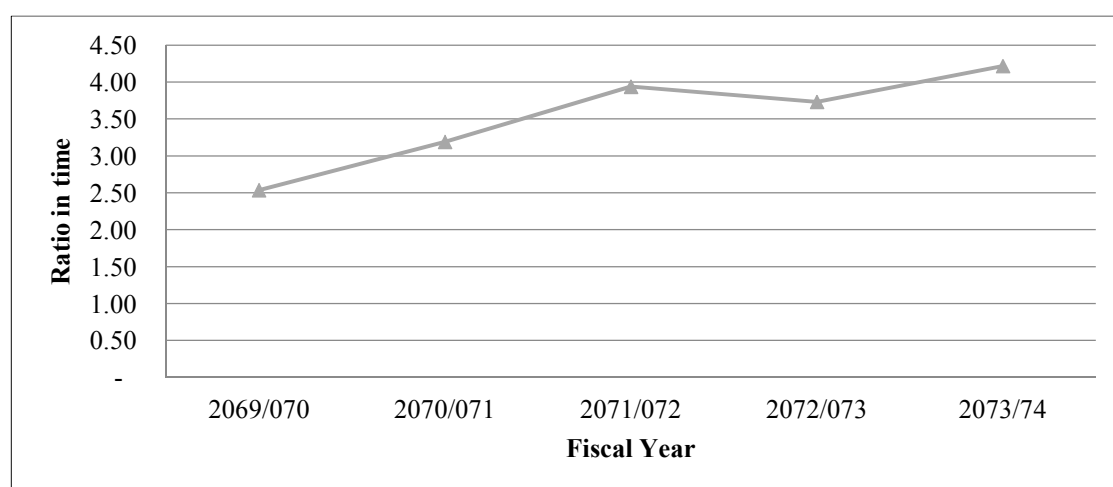
The table 4.13 shows that the highest ratio is 4.22 times in F/Y 2073/74 and the lowest ratio is 2.54 times in F/Y 269/070; however, ratios are fluctuating in increasing

trend. From FY 2069/70 to FY 2071/72 ratio has increased and decreased in FY 2072/73 and further increased in FY 2073/74. The average Current Ratio is 3.52 with 16.94% coefficient of variation. Higher current ratio (more than 2:1) is good for the company and current ratio of Nepal Telecom is higher so, the Nepal Telecom's solvency position is very good.

4.3.2 Acid-Test Ratio/Quick Ratio

Quick ratio or Acid test ratio is the relationship between quick assets and current liabilities. It is the measurement of company's ability to convert its current assets, quickly into cash in order to meet its immediate liabilities. It mainly concentrates mainly on cash, marketable securities and receivables in relation to current obligations and thus provides more reliable measure of liquidity than the current ratio does. Higher current ratio may not be regarded well because holding of more amounts of inventories may bring shortage of cash and the company may hinder of paying current obligations. This ratio should be greater than one for the sound liquidity position of the company.

The table 4.14 presents the Quick Ratio during the study period of Nepal Telecom, which is as follows:

Table 4. 14

Analysis of Quick Ratio

(Rs. in million)

Fiscal Year	Quick Assets	Current Liabilities	Ratio (Times)
2069/070	35,614.86	14,585.78	2.44
2070/071	49,983.27	15,828.08	3.16
2071/072	60,619.47	15,532.95	3.90
2072/073	61,720.69	16,646.70	3.71
2073/74	63,282.08	15,115.55	4.19
Total	**271,220.36**	**77,709.05**	**3.49**
Average	54,244.07	15,541.81	3.48
S.D.	10,425.29	692.60	0.62
C.V.%	19.22	4.46	17.77

Source: Annual Reports of the Company

The figures 4.14 also can be shown in a diagram, which is as follows:

Figure 4. 14

Analysis of Quick Ratio
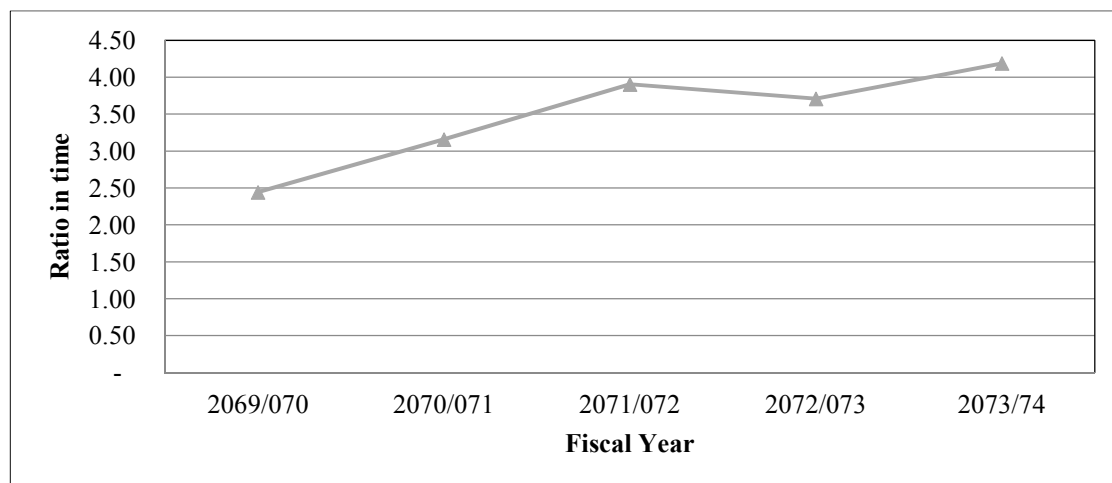
The table 4.14 and figure 4.14 show that quick ratio is in the increasing trend during the study period. The quick ratio of Nepal Telecom is ranged from 2.44 times in the fiscal year 2069/070 to 4.19 times in the fiscal year 2073/074. The average quick ratio is found 3.48 times with 17.77% of coefficient of variation. The quick ratios calculated above are observed more than standard level (1:1) each year. So the Quick Ratio of the company is very good. This is all owing to the holding of more amounts of cash and bank balances.

4.4 Profitability Position

4.4.1 Net Profit Margin Ratio

Net profit is the profit, which comes after deducting operating expenses and income tax from gross profit. Net Profit Margin Ratio is the percentage of net profit relative to the revenue earned during a period. This ratio shows the ability of management to operate business with sufficient success. The ratio of net profit to sales essentially expresses the cost price effectiveness of the operation. The operating expense mainly affects the net profit of the company.

The table 4.15 presents the Net Profit Margin Ratio during the study period of Nepal Telecom, which is as follows:

Table 4. 15

Analysis of Net Profit Margin

(Rs. in million)

Fiscal Year	Net Profit	Revenue	Ratio %
2069/070	11,299.18	38,858.26	29.08
2070/071	11,553.72	39,695.24	29.11
2071/072	14,556.34	42,638.37	34.14
2072/073	13,681.16	44,209.25	30.95
2073/74	15,372.76	44,588.99	34.48
Total	**66,463.16**	**209,990.12**	**31.65**
Average	13,292.63	41,998.02	31.55
S.D.	1,616.94	2,331.25	2.35
C.V.%	12.16	5.55	7.46

Source: Annual Reports of the Company

The figures 4.15 also can be shown in a diagram, which is as follows:

Figure 4. 15

Analysis of Net Profit Margin
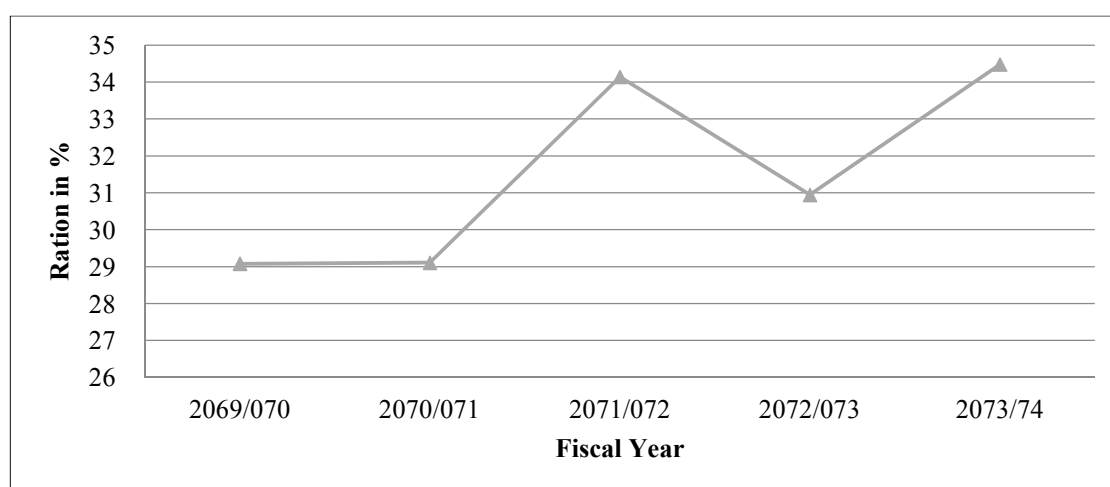
The table 4.15 shows the net profit margin of the Nepal Telecom for FY 2069/70 to FY 2073/74. The net profit of the company is in fluctuating trends whereas the

revenue is in increasing trends. Net profit margin is the highest in the fiscal year 2073/074 as 34.48% and the lowest 29.08% in the fiscal year 2069/070. The average net profit is 31.55% with 7.46% coefficient of variation which is very good. The company had given voluntary retirement to its staff during the FY 2072/73 so that staff expenses had increased and net profit margin in FY 2072/73 has decreased due to increase in the expenses. On the basis of the company's net profit margin ratio, it can be concluded that, at present, the company's overall efficiency is very good.

4.4.2 Return on Equity

Return on equity is the amount of net income returned as a percentage of shareholder's equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Return on equity is one of the most important financial ratios and profitability metrics. It measures how profitable a company is for the owner of the investment, and how profitably a company employs its equity.

The table 4.16 presents the Return on Equity during the study period of Nepal Telecom, which is as follows:

Table 4. 16

Return on Equity

(Rs. in million)

Fiscal Year	Net Profit	Equity	Ratio %
2069/070	11,299.18	53,635.69	21.07
2070/071	11,553.72	57,476.73	20.10
2071/072	14,556.34	80,998.44	17.97
2072/073	13,681.16	86,027.88	15.90
2073/74	15,372.76	91,330.85	16.83
Total	**66,463.16**	**369,469.59**	**91.87**
Average	13,292.63	73,893.92	18.37
S.D.	1,616.94	15,373.18	1.94
C.V.%	12.16	20.80	10.58

Source: Annual Reports of the Company

The figures 4.16 also can be shown in a diagram, which is as follows:

Figure 4. 16

Return on Equity
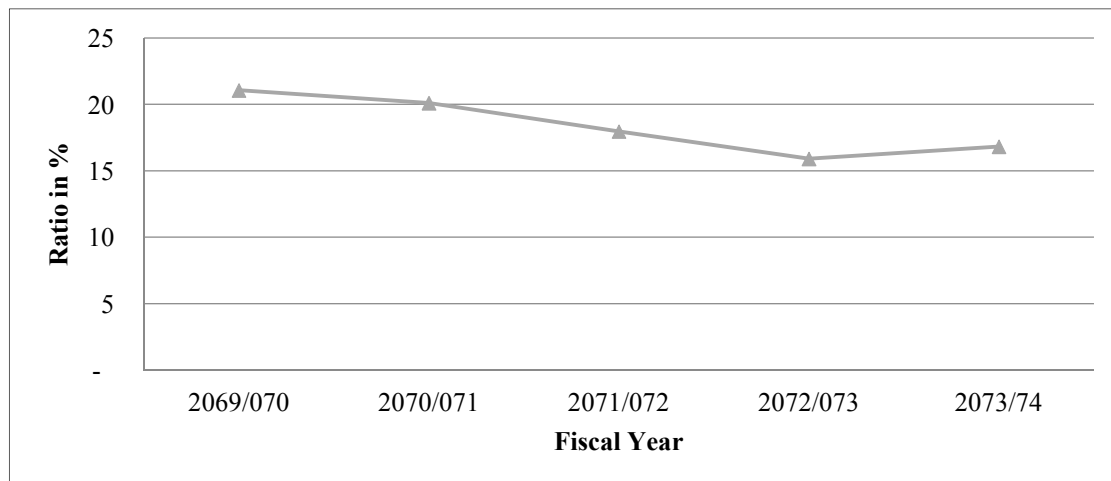
The table 4.16 and figure 4.16 shows the return on equity of Nepal Telecom over the study period 2069/070 to 2073/074. The table shows that the returns on equity of the Nepal Telecom are in decreasing trend. It is due to increase in the equity every year. The ratio is ranged from 15.90% in fiscal year 2072/073 to 21.07% in the fiscal year 2069/070. The average return on equity ratio of Nepal Telecom is 18.37% and the variation on such ratio is 10.58%. Average return on equity is good and coefficient of variation is also low. So that it can be said that overall performance of the company is satisfactory.

4.4.3 Return on Total Assets

Return on Total Assets Ratios provides analysts with an indication of management efficiency in utilizing company assets to create profits. It is a financial ratio that shows the percentage of profit that a company earns in relation to its overall resources (total assets). Return on assets is a key profitability ratio which measures the amount of profit made by a company per dollar of its assets. It shows the company's ability to generate profits before leverage, rather than by using leverage. So, return on assets gives an idea as to how efficiently management use company assets to generate profit, but is usually of less interest to shareholders than some other financial ratios such as return on equity.

The table 4.17 presents the Return on Total Assets during the study period of Nepal Telecom, which is as follows:

Table 4. 17

Return on Total Assets

(Rs. in million)

Fiscal Year	Net Profit	Total Assets	Ratio %
2069/070	11,299.18	92,241.68	12.25
2070/071	11,553.72	95,574.90	12.09
2071/072	14,556.34	111,305.51	13.08
2072/073	13,681.16	115,258.67	11.87
2073/74	15,372.76	121,606.82	12.64
Total	**66,463.16**	**535,987.59**	**61.93**
Average	13,292.63	107,197.52	12.39
S.D.	1,616.94	11,386.38	0.43
C.V.%	12.16	10.62	3.46

Source: Annual Reports of the Company

The figures 4.17 also can be shown in a diagram, which is as follows:

Figure 4. 17

Return on Total Assets
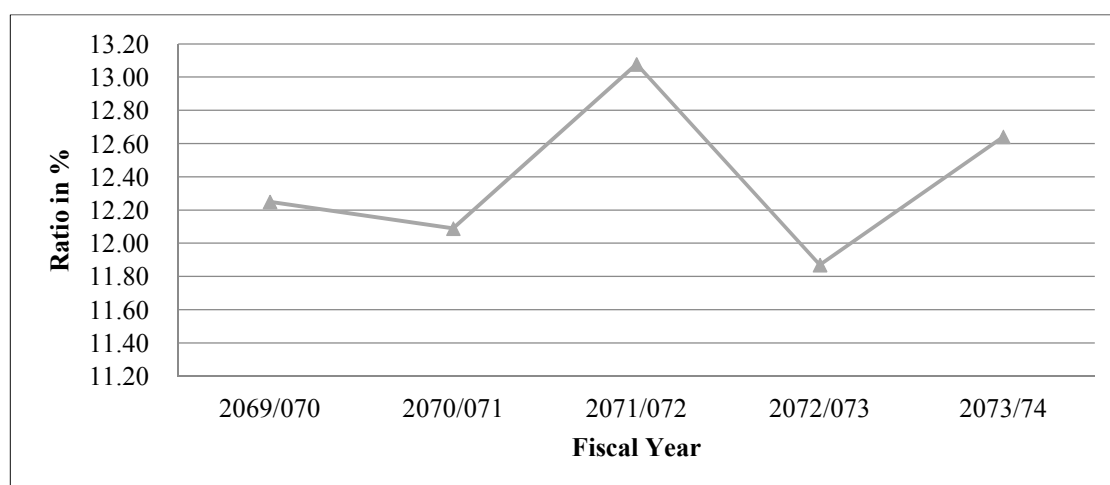
The table 4.17 and figure 4.17 shows analysis of return on total assets of the Nepal Telecom over the study period 2069/070 to 2073/074. The ratio of the Nepal Telecom is in fluctuating trends and the ratios ranged from 11.87% in the fiscal year 2072/73 to 13.08% in the fiscal year 2071/072. The average ratio and coefficient of variation of the Nepal Telecom are 12.39% and 3.46%respectively.

4.5 Correlation Analysis

Correlation analysis deals with determining the degree of relationship between two variables. This analysis describes not only the magnitude of relationship but also its direction. It is often misunderstood that correlation analysis determines cause and effect; however, this is not the case because other variables that are not present in the research may have impacted on the results. The measure of correlation coefficient summarizes in one figure, the direction and degree of correlation. Thus, correlation analysis refers to the techniques used in measuring the relationship between the variables. If there is correlation found, depending upon the numerical values measured, this can be either positive or negative. Positive correlation exists if one variable increases simultaneously with the other, i.e. the high numerical values of one variable relate to the high numerical values of the other. Negative correlation exists if one variable decreases when the other increases, i.e. the high numerical values of one variable relate to the low numerical values of the other.

The table 4.19 (A) presents the Correlation Analysis between Return on Assets, Current Ratio, Receivables Turnover Ratio, Quick Ratio, Current Assets Turnover Ratio and Payable Turnover Ratio of Nepal Telecom for the study period, which is as follows:

Table 4. 18

Correlation Matrix (A)

Particulars	Return on Assets	Current Ratio	Receivables Turnover Ratio	Quick Ratio	Current Asset Turnover Ratio	Payable Turnover Ratio
Return on Assets	1.00					
Current Ratio	0.46	1.00				
Receivables Turnover Ratio	0.57	0.99	1.00			
Quick Ratio	0.45	1.00	0.99	1.00		
Current Asset Turnover Ratio	(0.28)	(0.93)	(0.89)	(0.94)	1.00	
Payable Turnover Ratio	(0.06)	0.76	0.71	0.76	(0.73)	1.00

Source: Annual Reports of the Company

From the table 4.18 it was found that there is positive correlation between Return on Assets and Current Ratio (0.46), Receivables Turnover Ratio (0.57)& Quick Ratio (0.45) but there is negative correlation between Return on Assets and Current Assets Turnover Ratio (-0.28)& Payable Turnover Ratio (-0.06) for the fiscal year 2069/70 to 2073/74. This shows high degree of correlation between Return on Assets and Current Ratio, Receivables Turnover Ratio & Quick Ratio. Hence, from above correlation matrix it can be concluded that with the increase in Current Ratio, Receivables Turnover Ratio and Quick Ratio,there is an increase in Return on Assets and Vice Versa.

The table 4.20 (B) presents the Correlation Analysis between Net Profit, Cash, Net Working Capital, Current Assets, Current Liabilities and Total Assets of Nepal Telecom for the study period, which is as follows:

Table 4. 19

Correlation Matrix (B)

Particulars	Net Profit	Cash	NWC	Current Assets	Current Liabilities	Total Assets
Net Profit	1.00					
Cash	(0.10)	1.00				
NWC	0.91	0.18	1.00			
Current Assets	0.89	0.21	1.00	1.00		
Current Liabilities	0.17	0.55	0.52	0.57	1.00	
Total Assets	0.96	(0.15)	0.93	0.92	0.35	1.00

Source: Annual Reports of the Company

From the table 4.19 it was found that there is positive correlation between Net Profit and Net Working Capital (0.91), Current Assets (0.89), Current Liabilities (0.17) & Total Assets (0.96) but there is negative correlation between Net Profit and Cash (-0.10)) for the fiscal year 2069/70 to 2073/74. This shows high degree of correlation between Net Profit and Net Working Capital, Current Assets & Total Assets. Hence, from above correlation matrix it can be concluded that with the increase in Net Working Capital, Current Assets, Current Liabilities& Total Assets, there is an increase in Net Profit and Vice Versa.

4.6   Regression Analysis

Regression is the most widely used statistical technique, estimates relationships between independent (predictor or explanatory) variables and a dependent (response or outcome) variable. Regression models can be used to help understand and explain relationships among variables; they can also be used to predict actual outcomes.

4.6.1 Regression Analysis of Return on Assets and Current Ratio and Receivables Turnover Ratio.

The table 4.21 (A) presents the Regression Analysis of dependent variable Return on Assets and independent variables Current Ratio and Receivables Turnover Ratio of Nepal Telecom for the study period,

Table 4. 20

Regression Analysis (A)

SUMMARY OUTPUT				
Regression Statistics				
Multiple R	R Square	Adjusted R Square	Standard Error	Observations
0.95	0.91	0.81	0.21	5.00
ANOVA				
	Df	SS	MS	F	Significance F
Regression	2	0.83	0.42	9.76	0.09
Residual	2	0.09	0.04		
Total	4	0.92			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	3.72	2.02	1.85	0.21	(4.95)	12.40
Current Ratio	(3.87)	1.10	(3.52)	0.07	(8.60)	0.86
Receivables Turnover Ratio	1.51	0.39	3.86	0.06	(0.17)	3.19

Source: Appendix II

The table 4.20 shows that independent variables (R^2) explains 91% of the variation in profitability of Nepal Telecom. The significance value of **F** (0.09) is greater than 0.05 which shows that there is insignificant impact of working capital ratios on profitability of Nepal Telecom. If **P** value is less than 0.05 then it has statistically significant impact on profitability. In the above table **P** value is greater than 0.05 so that it has statistically insignificant impact on profitability. For each unit increase in Current Ratio, profitability decreases with 3.87 units and for each unit increase in Receivables Turnover Ratio, profitability increase with 1.51 units.

4.6.2 Regression Analysis of Net Profit and Current Assets and Total Assets.

The table 4.22 (B) presents the Regression Analysis of dependent variable Net Profit and independent variables Current Assets and Total Assets of Nepal Telecom for the study period, which is as follows:

Table 4. 21

Regression Analysis (B)

SUMMARY OUTPUT				
Regression Statistics				
Multiple R	R Square	Adjusted R Square	Standard Error	Observations
0.96	0.92	0.84	720.59	5.00
ANOVA				
	Df	SS	MS	F	Significance F
Regression	2.00	12,034,015.63	6,017,007.81	11.59	0.08
Residual	2.00	1,038,507.12	519,253.56		
Total	4.00	13,072,522.74			
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	(1,215.21)	4,084.59	(0.30)	0.79	(18,789.76)	16,359.35
Current Assets	0.0030	0.08	0.04	0.97	(0.35)	0.36
Total Assets	0.13	0.07	1.82	0.21	(0.18)	0.45

Source: Appendix II

The table 4.21 shows that independent variables (R^2) explains 92% of the variation in profitability of Nepal Telecom. The significance value of **F** (0.08) is greater than 0.05 which shows that there is insignificant impact of Current Assets and Total Assets on profitability of Nepal Telecom. If **P** value is less than 0.05 then it has statistically significant impact on profitability. In the above table **P** value is greater than 0.05 so that it has statistically insignificant impact on profitability. For each unit increase in Current Assets, profitability increase with 0.0030 units and for each unit increase in Total Assets profitability increase with 0.13 units.

4.6.3 Regression Analysis of Net Profit and Cash and Net Working Capital.

The table 4.22 (B) presents the Regression Analysis of dependent variable Net Profit and independent variables Cash and Net Working Capital of Nepal Telecom for the study period, which is as follows:

Table 4. 22

Regression Analysis (C)

SUMMARY OUTPUT					
Regression Statistics					
Multiple R	R Square		Adjusted R Square	Standard Error	Observations
0.95	0.90		0.80	813.59	5.00
ANOVA					
	Df	SS	MS	F	Significance F
Regression	2.00	11,748,657.53	5,874,328.76	8.87	0.10
Residual	2.00	1,323,865.22	661,932.61		
Total	4.00	13,072,522.74			
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	8,948.41	2,057.50	4.35	0.05	95.70	17,801.12
Cash	(0.06)	0.05	(1.17)	0.36	(0.26)	0.15
NWC	0.16	0.04	4.19	0.05	(0.00)	0.32

Source: Appendix II

The table 4.22 shows that independent variables (R^2) explains 90% of the variation in profitability of Nepal Telecom. The significance value of **F** (0.10) is greater than 0.05 which shows that there is insignificant impact of Cash and Net Working Capital on profitability of Nepal Telecom. If **P** value is less than 0.05 then it has statistically significant impact on profitability. In the above table **P** value is greater than 0.05 so that it has statistically insignificant impact on profitability. For each unit increase in Cash, profitability decrease with 0.06 units and for each unit increase in Net Working Capital, profitability increase with 0.16 units.

4.7   Major Findings of the Study

Major findings from the study and analysis of the above the data of Nepal Telecom for five years are shown as follows:

i.   It is found that total financing, more amounts are financed form long term sources of fund i.e. share capital and reserves and surplus. The fixed assets, permanent current assets and some portion of temporary current assets are financed from long term fund and other remaining portion of temporary current assets are financed by short-term sources of fund.

ii.   Major portion of Gross working capital is invested in cash & bank balances and then Debtors. Portion of the cash balance is 38.05% of the total current assets. The cash and bank to current assets ratio of Nepal Telecom are in decreasing trends and ranged from 81.72 % in the fiscal year 2070/071 to 38.05% in the fiscal year 2073/074. The average cash and bank balance to current assets ratio is 64.05% with the coefficient of variation 23.75%. As the ratio of holding Cash and Bank Balance has decreased from the average holding, it indicates there are good points in cash management system. However still cash management system of the company is not good.

iii.   Percentage of average current assets to total assets is 50.84% which indicates that the investment in Current Assets is considerably high. Higher level of current assets indicates good liquidity position but it adversely affects the profitability of the company because idle money earns nothing.

iv.   The Average Receivable Turnover Ratio is 14.76 times with the 11.36 % of coefficient of variation. Higher turnover ratios indicate shorter collection period. Average collection period of the Nepal Telecom is 24.73 i.e. 25 days. Lower average collection period means company is able to realize credit revenue in short period. Average collection period of Nepal Telecom is in decreasing trend; hence we can say that credit management of Nepal Telecom is good.

v.   The average Current Ratio of Nepal Telecom is 3.52 times with 16.94% coefficient of variation. Higher current ratio (more than 2:1) is good for the company and current ratio of Nepal Telecom is higher so, the Nepal Telecom's solvency position is very good.

vi. The average quick ratio of Nepal telecom is 3.48 times with 17.77% of coefficient of variation. The quick ratios calculated above are observed more than standard level (1:1) each year. So that liquidity position of the company is very good.

vii. An increasing Current to Total Liabilities ratio is usually a negative sign and company's current to total liabilities are in increasing trend so it is not good for the company. Payable Deferral Period is very high; it shows that company is delaying its payment. Delay payment is not good in long-term for the company as the supplier may not happy.

viii. The average working capital turnover ratio of Nepal Telecom is 1.14 times with coefficient of variation 26.96% which shows that company has invested its most of the funds in the form of current assets like as cash & receivables. So that opportunity cost of cash and receivables for the company is increasing. There is also chance of bad debts due to increase in receivables.

ix. The average net profit margin is 31.55% with 7.46% coefficient of variation. On the basis of the company's net profit margin ratio, it can be concluded that, at present, the company's overall efficiency is very good.

x. The average return on equity ratio of Nepal Telecom is 18.37% and the variation on such ratio is 10.58%. Average return on equity ratio is not so high so that overall performance of the company is not satisfactory.

xi. The return on total assets ratio of the Nepal Telecom is in fluctuating trends and the ratios ranged from 11.87% in the fiscal year 2072/73 to 13.08% in the fiscal year 2071/072. The average ratio and coefficient of variation of the Nepal Telecom are 12.39% and 3.46%respectively. Average return on total assets ratio is not so high so that performance of the company is not satisfactory.

xii. There is positive correlation between Return on Assets and Current Ratio (0.46), Receivables Turnover Ratio (0.57) & Quick Ratio (0.45) but there is negative correlation between Return on Assets and Current Assets Turnover Ratio (-0.28) & Payable Turnover Ratio (-0.06). So, with the increase in Current Ratio, Receivables Turnover Ratio and Quick Ratio there is an increase in Return on Assets and Vice Versa.

xiii.   There is positive correlation between Net Profit and Net Working Capital (0.91), Current Assets (0.89), Current Liabilities (0.17) & Total Assets (0.96) but there is negative correlation between Net Profit and Cash (-0.10)).So, with the increase in Net Working Capital, Current Assets, Current Liabilities & Total Assets, there is an increase in Net Profit and Vice Versa.

xiv.   There is insignificant impact of working capital ratios on profitability of Nepal Telecom. For each unit increase in Current Ratio, profitability decrease with 3.87 units and for each unit increase in Receivables Turnover Ratio, profitability increase with 1.51 units. For each unit increase in Current Assets, profitability increase with 0.003 units and for each unit increase in Total Assets profitability increase with 0.13 units. Similarly, for each unit increase in Cash, profitability decrease with 0.06 units and for each unit increase in Net Working Capital, profitability increase with 0.16 units.

CHAPTER V
CONCLUSIONS

This chapter summarizes the whole study, draws the major findings, conclusion and forwards the recommendation for more efficient working capital management of Nepal Telecom.

5.1   Summary

The term "working capital management" is a very sensitive area of financial management abundantly used by trading sectors to improve their efficiency for the betterment of their organization "A study of working capital management of Nepal Telecom" is an exciting and challenging study. The basic objective of this study is to examine the management of working capital position of Telecom Company.

The introductory chapter of this study presents the brief introduction of the study, industrialization and its role in Nepal, its importance in Nepal and Nepalese industrial enterprises and the brief introduction of Nepal Telecom. The theoretical concept of Working Capital, role and its importance in Service Company like Nepal Telecom are also included in this chapter. The statement of problem of this study in light of Nepal Telecom, objective of the study and limitation within which the study is circled are also the basic parts of the first chapter. Lastly the organization of the study is prepared according to the chapters that are planned for the study report.

The second chapter i.e. review of literatures gives the basic concept of working capital, where different views of various different authors are reviewed, then the journals and articles which are available, published by different management experts, are also reviewed in order to fulfill the basic need of study. Further the available dissertations in the context of management of working capital from different researchers are also reviewed. Main findings and conclusions, tools used for analysis and recommendations are included from the dissertations of the researchers. The review of literatures tries to find out the gap and this study tires to fulfill this gap to some extent.

The basic objective of this study is to examine the management of working capital in Nepal Telecom to fulfill this objective and other specific objectives stated in chapter one, an appropriate research methodology has been developed which includes the ratio analysis as a financial tools and correlation coefficient as a statistical tool. The major ratio analysis consists of the composition of Working Capital position, turnover position, and liquidity position. Chapter four includes various ratios under the main ratios of working capital position, turnover position and profitability position. Karl Pearson's Correlation Coefficient (r) is calculated in order to test the relationship in between the various components of working capital as well as P.E. is calculated to find out the significance of their relationship and the results are analyzed in this chapter.

The necessary data are derived from the balance sheet and income statement of Nepal Telecom for the period of five years' form F/Y 2069/70 to F/Y 2073/74. These data are presented, tabulated and analyzed in chapter four with the help of methodology described in chapter three. Finally, in chapter five, an attempt has been made to present summery of findings, conclusions and some suggestions for Nepal Telecom as recommendations.

5.2   Conclusion

After the study and analysis of working capital management of Nepal Telecom following conclusions have been drawn:

The Average Receivable Turnover Ratio is 14.76 times and average collection period of the Nepal Telecom is 24.73 i.e. 25 days. Lower average collection period means company is able to realize credit revenue in short period. Average collection period of Nepal Telecom is in decreasing trend; hence we can say that credit management of Nepal Telecom is very good. Payable Deferral Period is very high; it shows that company is delaying its payment. Delay payment is not good in long-term for the company as the supplier may not happy. The average working capital turnover ratio of Nepal Telecom is 1.14 times with coefficient of variation 26.96% which shows that company has invested its most of the funds in the form of current assets like as cash & receivables. So that opportunity cost of cash and receivables for the company is increasing. There is also chance of bad debts due to increase in receivables. The

Inventory Turnover Ratios of Nepal Telecom are 77.87 times and average inventory conversion period is 5.83 days. A high ratio implies either strong sales and/or large discounts. Inventory turnover ratio of Nepal Telecom is very high so that it is very good. Nature of business, size of business, credit policy; operating efficiency and level of competition are the major factors affecting working capital.

Working Capital Management of the Nepal Telecom is not good. Major portion of Gross working capital is invested in cash & bank balances. The average cash and bank balance to current assets ratio is 64.05%. Similarly, percentage of average current assets to total assets is 50.84% which indicates that the investment in Current Assets is considerably high. Therefore, working capital management of the company is very poor. It is found that liquidity position of the Nepal Telecom is very good. The average Current Ratio of Nepal Telecom is 3.52 times. Higher current ratio (more than 2:1) is good for the company and current ratio of Nepal Telecom is higher so, the Nepal Telecom's solvency position is very good. An increasing Current to Total Liabilities ratio is usually a negative sign and company's current to total liabilities are in increasing trend so it is not good for the company.

There is positive relationship between Working Capital and Current Assets with profitability. Hence, increase in working capital and current Assets results increase in profitability of the company. However, there is negative relationship between cash and profitability.

5.3   Implications

Based on findings of the analysis mentioned above, the researcher has forwarded some practicable recommendation for the improvement of the working capital management of Telecom Company.

I.   The proportion of current assets of total assets of Nepal Telecom is fluctuating and it is increasing trend. So, that company should form and implement suitable working capital management policy. The company should keep optimum size of investment in current assets and current liabilities and regular review of working capital.

II.   The average cash and bank balance to current assets ratio is 64.05%. So, the company should invest cash balance in profitable sector to minimize the opportunity cost of holding cash.

III.   Nepal Telecom is service providing company. For Service Company, investment in fixed assets should be high but it is not seen in case of Nepal Telecom. So, that Nepal Telecom should manage its asset to improve the performance of the company.

IV.   Based on return on total assets of the Nepal Telecom, overall performance of the company is good. However, it is fluctuating. So that the company should utilize its resources to maintain stable performance.

V.   Recommendations for further Researchers

This research is conducted of Nepal Telecom and the data were collected for five years only. Further research could be conducted on different telecom companies and data for more than five years as well. The research is conducted on Nepal Telecom only, however there are number of the companies in the Nepal. Analysis of working capital management of organization in different sectors could also be conducted to know the impact of working capital management on performance of the company. This research study is concerned only with the working capital management function of the Nepal Telecom. Further research could be study other managerial functions. This research has been conducted based on secondary data. Further research could be conducted based on primary data.

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APPENDIX – I

Calculation of Major Financial Ratios of Nepal Telecom

Fiscal Year	Inventory	Debtors	Cash & Bank	Loan and Advance	Investment	Total Current Assets
2069/070	1,385,963,902	3,188,946,955	26,774,785,622	4,838,972,583	812,150,000	37,000,819,062
2070/071	508,861,884	2,923,139,294	41,263,465,147	4,724,611,360	1,072,050,000	50,492,127,685
2071/072	562,824,582	2,621,810,462	43,520,904,779	1,866,656,019	12,610,095,483	61,182,291,325
2072/073	400,423,766	2,930,810,266	35,395,139,319	2,182,258,844	21,212,480,000	62,121,112,195
2073/74	459,033,801	2,673,822,703	24,255,209,289	1,963,299,128	34,389,750,000	63,741,114,921
Total	**3,317,107,935**	**14,338,529,680**	**171,209,504,156**	**15,575,797,934**	**70,096,525,483**	**274,537,465,188**
Mean	663,421,587	2,867,705,936	34,241,900,831	3,115,159,587	14,019,305,097	54,907,493,038
S.D.	365,244,597	204,110,802	7,644,920,617	1,365,116,385	12,733,758,461	10,095,411,775
C.V.%	55.05	7.12	22.33	43.82	90.83	18.39
Fiscal Year	Total Current Assets	Current Liabilities	NWC	Total Liabilities	Expenditure	PDP in Days
2069/070	37,000,819,062	14,585,781,679	22,415,037,383	38,605,984,702	23,727,228,414	585.75
2070/071	50,492,127,685	15,828,075,856	34,664,051,829	38,098,172,499	24,452,390,121	560.90
2071/072	61,182,291,325	15,532,947,400	45,649,343,925	30,307,066,965	22,628,476,134	482.16
2072/073	62,121,112,195	16,646,701,963	45,474,410,232	29,230,795,206	25,984,695,367	404.97
2073/74	63,741,114,921	15,115,545,860	48,625,569,061	30,275,974,935	24,013,133,774	453.89
Total	**274,537,465,188**	**77,709,052,758**	**196,828,412,430**	**166,517,994,307**	**120,805,923,810**	**496.22**
Mean	54,907,493,038	15,541,810,552	39,365,682,486	33,303,598,861	24,161,184,762	497.53

S.D.	10,095,411,775	692,604,390	9,715,720,821	4,143,348,202	1,092,650,395	67.09
C.V.%	18.39	4.46	24.68	12.44	4.52	13.48
Fiscal Year	**Current Assets**	**Total Assets**	**Ratio in %**	**Revenue**	**Current Assets**	**Times**
2069/070	37,000,819,062	92,241,679,530	40.11	38,858,260,979	37,000,819,062	1.05
2070/071	50,492,127,685	95,574,899,978	52.83	39,695,244,364	50,492,127,685	0.79
2071/072	61,182,291,325	111,305,510,407	54.97	42,638,371,803	61,182,291,325	0.70
2072/073	62,121,112,195	115,258,672,540	53.90	44,209,249,937	62,121,112,195	0.71
2073/74	63,741,114,921	121,606,823,164	52.42	44,588,989,122	63,741,114,921	0.70
Total	**274,537,465,188**	**535,987,585,619**	**51.22**	**209,990,116,205**	**274,537,465,188**	**0.76**
Mean	91,512,488,396	107,197,517,124	50.84	41,998,023,241	91,512,488,396	0.79
S.D.	82,368,437,776	11,386,379,964	5.44	2,331,247,374	82,368,437,776	0.13
C.V.%	90.01	10.62	10.70	5.55	90.01	17.07
Fiscal Year	**Inventory**	**Current Assets**	**Ratio in %**	**Revenue**	**Inventory**	**Times**
2069/070	1,385,963,902	37,000,819,062	3.75	38,858,260,979	1,385,963,902	28.04
2070/071	508,861,884	50,492,127,685	1.01	39,695,244,364	508,861,884	78.01
2071/072	562,824,582	61,182,291,325	0.92	42,638,371,803	562,824,582	75.76
2072/073	400,423,766	62,121,112,195	0.64	44,209,249,937	400,423,766	110.41
2073/74	459,033,801	63,741,114,921	0.72	44,588,989,122	459,033,801	97.14
Total	**3,317,107,935**	**274,537,465,188**	**1.21**	**209,990,116,205**	**3,317,107,935**	**63.31**
Mean	1,105,702,645	54,907,493,038	1.41	41,998,023,241	663,421,587	77.87
S.D.	1,043,662,949	10,095,411,775	1.18	2,331,247,374	365,244,597	27.99
C.V.%	94.39	18.39	83.57	5.55	55.05	35.95

Fiscal Year	Cash & Bank	Current Assets	Ratio in %	Current Assets	Current Liabilities	Ratio in %
2069/070	26,774,785,622	37,000,819,062	72.36	37,000,819,062	14,585,781,679	2.54
2070/071	41,263,465,147	50,492,127,685	81.72	50,492,127,685	15,828,075,856	3.19
2071/072	43,520,904,779	61,182,291,325	71.13	61,182,291,325	15,532,947,400	3.94
2072/073	35,395,139,319	62,121,112,195	56.98	62,121,112,195	16,646,701,963	3.73
2073/74	24,255,209,289	63,741,114,921	38.05	63,741,114,921	15,115,545,860	4.22
Total	**171,209,504,156**	**274,537,465,188**	**62.36**	**274,537,465,188**	**77,709,052,758**	**3.53**
Mean	57,069,834,719	54,907,493,038	64.05	54,907,493,038	15,541,810,552	3.52
S.D.	51,519,674,273	10,095,411,775	15.21	10,095,411,775	692,604,390	0.60
C.V.%	90.27	18.39	23.75	18.39	4.46	16.94
Fiscal Year	Net Profit	Revenue	Ratio in %	Revenue	Debtors	Times
2069/070	11,299,175,997	38,858,260,979	29.08	38,858,260,979	3,188,946,955	0.08
2070/071	11,553,724,269	39,695,244,364	29.11	39,695,244,364	2,923,139,294	0.07
2071/072	14,556,338,378	42,638,371,803	34.14	42,638,371,803	2,621,810,462	0.06
2072/073	13,681,157,866	44,209,249,937	30.95	44,209,249,937	2,930,810,266	0.07
2073/74	15,372,764,124	44,588,989,122	34.48	44,588,989,122	2,673,822,703	0.06
Total	**66,463,160,634**	**209,990,116,205**	**31.65**	**209,990,116,205**	**14,338,529,680**	**0.07**
Mean	13,292,632,127	41,998,023,241	31.55	41,998,023,241	2,867,705,936	0.07
S.D.	1,616,942,964	2,331,247,374	2.35	2,331,247,374	204,110,802	0.01
C.V.%	12.16	5.55	7.46	5.55	7.12	11.95
Fiscal Year	Net Profit	Total Assets	Ratio in %	Debtors	Revenue	RCP in days
2069/070	11,299,175,997	92,241,679,530	12.25	3,188,946,955	38,858,260,979	29.54

Fiscal Year						
2070/071	11,553,724,269	95,574,899,978	12.09	2,923,139,294	39,695,244,364	26.51
2071/072	14,556,338,378	111,305,510,407	13.08	2,621,810,462	42,638,371,803	22.14
2072/073	13,681,157,866	115,258,672,540	11.87	2,930,810,266	44,209,249,937	23.87
2073/74	15,372,764,124	121,606,823,164	12.64	2,673,822,703	44,588,989,122	21.59
Total	**66,463,160,634**	**535,987,585,619**	**12.40**	**14,338,529,680**	**209,990,116,205**	**24.58**
Mean	22,154,386,878	178,662,528,540	12.39	2,867,705,936	41,998,023,241	24.73
S.D.	19,870,386,009	160,138,317,267	0.43	204,110,802	2,331,247,374	2.96
C.V.%	89.69	89.63	3.46	7.12	5.55	11.95
Fiscal Year	**Quick Assets**	**Current Liabilities**	**Ratio in %**	**Inventory**	**Revenue**	**ICP in days**
2069/070	35,614,855,160	14,585,781,679	2.44	1,385,963,902	38,858,260,979	12.84
2070/071	49,983,265,801	15,828,075,856	3.16	508,861,884	39,695,244,364	4.61
2071/072	60,619,466,743	15,532,947,400	3.90	562,824,582	42,638,371,803	4.75
2072/073	61,720,688,429	16,646,701,963	3.71	400,423,766	44,209,249,937	3.26
2073/74	63,282,081,120	15,115,545,860	4.19	459,033,801	44,588,989,122	3.71
Total	**271,220,357,253**	**77,709,052,758**	**3.49**	**3,317,107,935**	**209,990,116,205**	**5.69**
Mean	54,244,071,451	15,541,810,552	3.48	663,421,587	41,998,023,241	5.83
S.D.	10,425,288,962	692,604,390	0.62	365,244,597	2,331,247,374	3.55
C.V.%	19.22	4.46	17.77	55.05	5.55	60.78

Note: Mean, Standard Deviation, Coefficient of Variation, Correlation and Regression have been calculated by using Microsoft Excel Formulae.

Sources: Annual Reports of Nepal Telecom (2069/070 to 2073/074)

APPENDIX – II

Regression Analysis of dependent variable Return on Assets and independent variables Current Ratio and Receivables Turnover Ratio.

Fiscal Year	Dependent Variable	Independent Variables	
	Return on Assets	Current Ratio	Receivable Turnover Ratio
2069/070	12.25	2.54	0.08
2070/071	12.09	3.19	0.07
2071/072	13.08	3.94	0.06
2072/073	11.87	3.73	0.07
2073/74	12.64	4.22	0.06

Regression Analysis of dependent variable Return on Assets and independent variables Current Assets and Total Assets.

Figures in Rs. Million

Fiscal Year	Dependent Variable	Independent Variables	
	Net Profit	Current Assets	Total Assets
2069/070	11,299	37,001	92,242
2070/071	11,554	50,492	95,575
2071/072	14,556	61,182	111,306
2072/073	13,681	62,121	115,259
2073/74	15,373	63,741	121,607

Regression Analysis of dependent variable Return on Assets and independent variables Cash and Net Working Capital.

Figures in Rs. Million

Fiscal Year	Dependent Variable	Independent Variables	
	Net Profit	Cash	NWC
2069/070	11,299	26,775	22,415
2070/071	11,554	41,263	34,664
2071/072	14,556	43,521	45,649
2072/073	13,681	35,395	45,474
2073/74	15,373	24,255	48,626

A THESIS PROPOSAL ON

WORKING CAPITAL MANAGEMENT OF NEPAL TELECOM

Submitted by:

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Central Department of Management

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Contents

1. Introduction

1.1 Background of the Study

Industrialization is the major instrument of progress, modernization and social development of Nepal. The economy of Nepal is based on Agriculture, the industrial development is important for economic prosperity because it helps the country in the various ways; it contributes to National Income, provide employment, lessens the dependence of imports and promotes exports. Telecommunications service has seen both quantitative and qualitative growths together with rise in the number of telecommunication service providers and service users along with access to ultramodern and sophisticated technological telecommunication facilities. Currently, Nepal has become progressive and competitive telecommunication market. Nepal's telecommunications industry has reflected many of the global trends, with rapid growth observed in mobile broadband and internet subscriptions across the country. "Public enterprises is an institution operating a services of an economic or social character on behalf of the government, but as independent legal entity, largely autonomous in its management through responsible to the public, through government and parliament and subject to some direction by the government, equipped on the other hand with independent and separate funds of its own legal and commercial attributer of a commercial enterprise" (Weston and Brigham, 1990).

Public enterprises are established for rapid socio-economic development of the country. Public enterprises in Nepal constitute a vital instrument for socio-economic development. It enjoys a strategic and crucial position in our mixed economy. They have been established in many sectors for the overall development of the country with different goals and objectives.

Realizing the importance of industrialization in the country Nepal government has given due emphasis to the industrial sector. The Economic Survey Report (1990/91) focus that "The emphasis on industrialization for the creation of enough job opportunities for the people and for the people and for raising their economic levels through a sizeable increase in GDP appears quite relevant, at a time, when the growth of population of the country is pushing the rural economy down to the subsistence level" (MOF, 2009:17).

Development plans of Nepal are prioritizing the development of industries in both public and private sectors. Government impressed to private sector to contribute in industrial development and declare the partner relationship between public and private sector. After the government policy was changed to open market economy, individuals also started to established industries. Such industries were mostly, Nepal Telecom, United Telecom Limited, Ncell Pvt Ltd, Smart Telecom Pvt Ltd, CG Communications Pvt Ltd etc.

Brief Introduction of Nepal Doorsanchar Company Limited (Nepal Telecom).

Nepal Doorsanchar Company Limited (with its brand name as Nepal Telecom) is Nepal's leading telecommunication service provider, which includes voice and value added services, using state of the art technologies. It is registered under the erstwhile Companies Act 2053, being incorporated on Magh 2060 (February 2004). Government of Nepal and Citizen Investment Trust have been the principal promoters of the company. Paid up capital of the company is NPR 15 billion. Government of Nepal, who substantially owns the company, disinvested certain portion of its holdings in favor of the company employees and general public. The company has its registered office at Bhadrakali Plaza, Kathmandu with its branches spread throughout the country. It has made all efforts for nationwide reach, from urban to most remote locations in providing its valued customer a quality service that has assisted in the socio economic development of the urban as well as rural areas. The company has been providing range of telecommunication services likes as GSM, CDMA, PSTN, FTTH, ADSL etc.

1.2 Focus of the Study

Working capital management practices in Nepalese service enterprises provide totally a different picture. The past trend of many companies had given emphasis in fixed asset. Therefore, they are facing financial problem all the time. The government policy to concentrate more in fixed assets 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 fixed capital. While deciding the structure of the companies, recently short-term financial decision has never received much attention in the literature of

finance. Because of earlier emphasis of financial management was more long-term financial decision, which led to growth and development of many useful theories concerning these decisions as compared to short-term financial decision.

Working capital is lifeblood of enterprises. The inefficient management of working capital will lead to loss of profits in the short-run, but it will lead to down fall of the enterprises in the long- run. A deeper understanding of the importance of working capital and its satisfactory provision can lead to not only material saving as well as economic use of capital but can also assert in furthering the ultimate aim of business.

So maintaining the optimal level of working capital is the crux problem as it is strongly related to the trade off between risk and return. The aspect of determining appropriate proportion of working capital in the structure of total assets comes under the preview of working capital policy. The unnecessary blocking of working capital, administrative negligence in day-to-day operation and serious liquidity problem are the main causes to failure the companies of Nepal. Most of Nepalese companies are operating in loss though they are following aggressive approach of working capital management.

In most Nepalese enterprises, the management of working capital has been misunderstood as the "Management of Money" and the managers are found over conscious about the working of money rather than its efficient utilization. At the same time, they never think of the source of working capital and usually depend on Government for some of Enterprises have used depreciation fund and utilized surpluses to overcome the scarcity of working capital.

1.3 Statement of the Problem

Working capital is the management of all current assets and all current liabilities used in the business. It plays vital role in the manufacturing company as well as trading company for smooth production and market operation. The large holing of current assets consumes more funds, which cannot be used for other purpose and thus involve high opportunity cost but strengthens firm's liquidity position, reduces risk and overall profitability, as idle investment earns nothing. Where as inadequate investment in current assets looses some profitable opportunities and can threaten solvency of the firm because of its inability to meet some obligation that to be matured in short period

as well, should bear bad image in market. Both excessive and inadequate level of working capital is not desirable because excessive carrying costs and the risk of liquidity. Inadequate level of working capital obstructs the flow of production as well as market operation. So the both situation should be avoided by maintaining optimum level of working capital.

Nepal Telecom is a service based company, so the company may suffer from working capital management problems. Therefore, this study aims to present and analyze the working capital position and shows out the problems facing by this company by analyzing the following queries:

1. What is the relationship between working capital and profitability?
2. What is the level of inventories, receivable, cash, advances, creditors maintained by Nepal Telecom at different time period?
3. What is the relationship between sales and debtors, purchase and creditors and other variables of working capital?

1.4 Objectives of the Study

The basic objective of the study is to analyze and evaluate the working capital position of Nepal Telecom. The followings are the specific objectives, which are as follows:

1. To identify the effect of working capital on profitability of the company.
2. To identify working capital position and liquidity position of Nepal Telecom.
3. To analyze the Receivables Turnover, Payable Turnover, Inventory Turnover and Working Capital Turnover ratios of Nepal Telecom.

1.5 Significance of the study

Working capital management is a major function of any business firm. Organizations cannot be successfully operated without effective handling of working capital in manufacturing, service and trading organization as well thus to achieve its goals. Effective handling of working capital helps the organization reduce its operation costs.

It is all known that investment in working capital is significant; Enterprises are severely affected by the poor working capital management system. So, Nepal Telecom is selected for the study topic. The study is centered on analysis of the system followed and situation faced by Nepal Telecom in current assets and current liabilities management as well as to provide valuable some facts that the company might give more emphasis.

1.6 Limitations of the Study

Each research study has its own limitation; the study will have following limitations:

This study will be concerned only with the working capital management function of the Nepal Telecom and ignores other managerial functions. Basically that of financial statement provided by the Nepal Telecom will be used in analysis; hence they will be secondary in nature. Some how the researcher will try to analyze the primary data as received form direct interview with related personnel of Nepal Telecom.

1.7 Organization of Study

This study will be organized in to five chapters, which are as follows.

Chapter I: Introduction

Chapter II: Review of Literature

Chapter III: Methodology

Chapter IV: Results

Chapter V: Conclusions

## 2. Literature Review and Conceptual Framework

2.1 Literature Review

Literature Review is an essential part of the studies. It is way to discover what other research in the area of the problem has uncovered, which is also a way to avoid investigating problems that have already been definitely answered. This chapter explains about review of related literature of the study which covers published,

unpublished literature e.g. books, journals, newspaper, different thesis, dissertations, business reports and government publications. It also provides insight into the findings of earlier studies through the review of books journals, publication and previous studies. The literature review helps to find out what research studies have been conducted in once chosen field of study, and what remaining to be done, which provide the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing.

2.2 Conceptual Framework

Working capital is the amount of fund that is needed to finance the current assets of the firm. Since the current assets are normally converted into cash within one year. Working capital helps revolving within one year or less through different current assets. Once the fund is converted into current assets, it is constantly converted into cash and cash out flow in exchange for other current assets (Weston, 1981). Working capital management is concerned with the determining the firm's level of investment in current assets and financing pattern of the current assets (Baral, Gautam, Paudel & Rana, 2009). It covers all decisions of an organization involving cash flows in the short run with emphasis on the management of investment in current assets and their financing. The basic objective of working capital management is to manage current assets and current liabilities in such a way that an optimal level of working capital is maintained. The optimum working capital insists on maintaining a tradeoff between profitability and cost associated with current assets investment and financing policy of the firm.

Figure 2. 1Cash Conversion Cycle
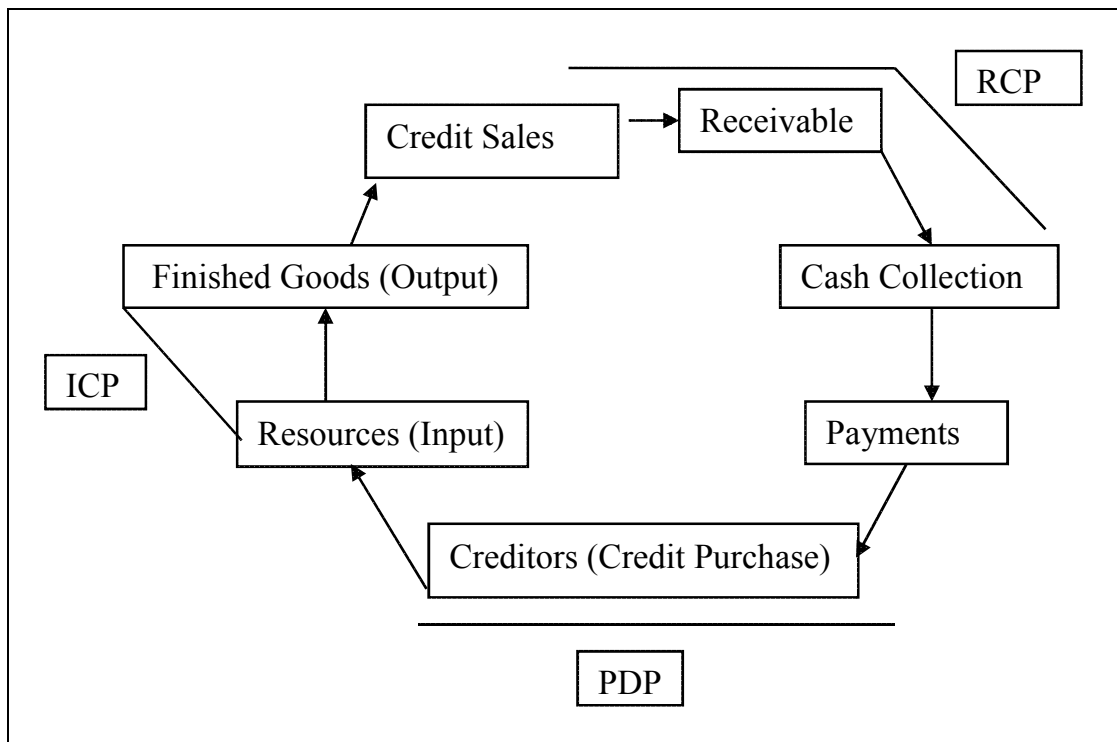
2.3 Research Methodology

Research methodology describes the scientific and systematic procedure applied in entire study for solving the given problem or for spreading some knowledge. The research essentially requires the various steps to be adopted by a researcher in studying a problem with certain objectives. So a research methodology should be carried out with the pre-mentioned objective of the study.

2.3.1 Research Design

The design applied in this study will be based on descriptive. This study will be an examination and evaluation of working capital management practice in the operation of Nepal Telecom. The information and data will be presented in an analytical method.

2.3.2 Nature and Source of Data

The data used in this study will be secondary in nature. However, the ideas and information about policy and system employed in the company will be collected through personal interviews and discussion with the financial and accounting officers

as required of the study. So, the sources of data for the study will be primary as well as secondary.

2.3.3 Populations and Sample

There are six public service enterprises in Nepal, out of them Nepal Telecom is one of them. Therefore, the existing number of public service enterprises in Nepal refers to the population and Nepal Telecom is the sample. Similarly, all the employees of Nepal Telecom will be the population.

2.3.4 Procedures of Analysis

To achieve the pre-determined objective of the study, some of the secondary data will be used which include audited Financial Statement (The balance sheets, income statements and annual reports) of the Nepal Telecom will be collected for the convenience of the study. Then all the raw data (information and ideas) will be properly arranged, synthesized, tabulated, processed and presented in tabular form in accordance with the requirement of the study with the help of simple arithmetic rules.

2.3.5 Tools for Analysis of Data

To achieve the objectives of the study, various financial and statistical tools will be used in this study. For analyzing the data, different items from the balance sheet and other statements will be tabulated. Simple analytical statistical tools such as standard deviation, coefficient of variation, Karl Pearson's coefficient of correlation and regression analysis will be adopted in this study. The ratio analysis is the major tools for analysis of the study.

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