WORKING CAPITAL MANAGEMENT AND PROFITABILITY: A STUDY ON NEPAL TELECOM

A Thesis

Submitted

By

Oshina Rawal

Central Department of Management

Exam Roll No: 3880/18

T.U. Regd. No: 7-2-0163-0039-2013

Submitted in partial fulfillment of the requirements for the degree of

Master of Business Studies (MBS)

In the

Faculty of Management

Tribhuvan University

Kirtipur, Kathmandu

May, 2021

Certification of Authorship

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

……..

Oshina Rawal

May, 2021

Report of Research Committee

Ms. Oshina Rawal has defended research proposal entitled Working Capital Management and Profitability: A study on Nepal Telecom successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Prof. Dr. Govind Tamang and submit the thesis for evaluation and viva voce examination.

……..……

Prof. Dr. Govind Tamang

Thesis Supervisor

Dissertation Proposal Defended Date:

…….

……..……

Prof. Dr. Govind Tamang

Thesis Supervisor

Dissertation Submitted Date:

…….

……

Prof. Dr. Sanjay Kumar Shrestha

Chairperson, Research Committee

Dissertation Viva Voce Date:

…….

Approval Sheet

We have examined the thesis entitled **Working Capital Management and Profitability: A Study on Nepal Telecom** presented by Oshina Rawal, a candidate for the degree of **Master of Business Studies** (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

……

Prof. Dr. Govind Tamang

Thesis Supervisor

……

Asso. Prof. Dr. Achyut Gyawali

Internal Examiner

……..…

Santosh Kumar Ghimire

External Examiner

……

Prof. Dr. Sanjay Kumar Shrestha

Chairperson, Research Committee

……

Prof. Dr. Ramji Gautam

Head of the Department, Central Department of Management

Date: …….

Acknowledgements

This study entitled "**Working Capital Management and Profitability: A Study on Nepal Telecom"** has been conducted to satisfy the partial requirements for the degree of Master of Business Studies, Tribhuvan University.

A study of this kind would not have been possible without the help of all those who contributed in diverse ways towards its success. Without the continued emotional support provided by my family, I may have not reached the end of this journey. During my study, there were times when work commitments and intermittent stress made me believe that I would not be able to see this journey through. It was during these times, and many others, that their words of encouragement and confidence in my ability gave me the motivation to persist. No words of thanks can adequately express the depth of my appreciation.

I would like to extend my immense gratitude to my supervisor Prof. Dr. Govind Tamang for his valuable supervision and guidance in completing this study. I cannot express the extent to which his patience and understanding allowed me to reach the end of this journey. His encouragement, support, and, above all, his prompt, constructive and greatly appreciated criticism and feedback, were invaluable to the research, writing, and completion of this study.

I wish to acknowledge all lecturers and facilitators of Central Department of Management for the various roles each one of them played towards the successful completion of this thesis. I am grateful to Prof. Dr. Ramji Gautam, Department Head, and Prof. Dr. Sanjay Kumar Shrestha, Research Committee Head, for timely supervision and guidance to complete this work. Similarly, I would like to express gratitude to my all friends including Narendra Saud for their advice, encouragement, and cooperation while preparing this thesis.

Last but not least, I heartily respect my family members who morally supported, encouraged, and provided time for study. My thesis would never have been completed without their support.

Oshina Rawal

May, 2021

Table of Contents

List of Tables

List of Figures

Abbreviations

ACP	:	Average Collection Period
ADSL	:	Asymmetric Digital Subscriber Line
APPML	:	Andra Pradesh Paper Mills Ltd.
B.S	:	Bikram Sambat
BOD	:	Board of Directors
CA	:	Current Assets
CATA	:	Current Assets to Total Assets
CATR	:	Current Assets Turnover Ratio
CBCA	:	Cash and Bank to Current Assets
CCC	:	Cash Conversion Cycle
CDMA	:	Code Division Multiple Access
CL	:	Current Liabilities
CR	:	Current Ratio
CV	:	Coefficient of Variation
EDVO	:	Evolution-Data Optimized
FY	:	Fiscal Year
GSM	:	Global System for Mobile Communication
ICA	:	Inventories to Current Assets
ICP	:	Inventory Conversion Period
ITR	:	Inventory Turnover Ratio
KSE	:	Karachi Stock Exchange
LR	:	Liquidity Ratio
Ltd	:	Limited
NDCL	:	Nepal Doorsanchar Company Ltd
NLIC	:	Nepal Life Insurance Company
NPM	:	Net Profit Margin
NSE	:	Nigerian Stock Exchange
NT	:	Nepal Telecom
NTC	:	Nepal Telecom Company
NWCTR	:	Net Working Capital Turnover Ratio
PDP	:	Payable Deferral Period
PSTN	:	Public Switched Telephone Network

PTR	:	Payable Turnover Ratio
QA	:	Quick Assets
QR	:	Quick Ratio
r	:	Correlation Coefficient
ROA	:	Return on Assets
ROE	:	Return on Equity
SD	:	Standard Deviation
SPSS	:	Statistical Package for the Social Sciences
STCL	:	Salt Trading Corporation
TU	:	Tribhuvan University
WC	:	Working Capital
WCM	:	Working Capital Management
WiMAX	:	Worldwide Interoperability for Microwave Access

Abstracts

This study investigates the Working Capital Management and Profitability of Nepal Telecom. The major purposes of this study are; to analyze the liquidity position of Nepal Telecom, to analyze the working capital position of Nepal Telecom, to analyze the relationship between working capital and profitability and to determine the turnover ratios (i.e. Receivable Turnover, Inventory Turnover, Payable Turnover and Working Capital Turnover ratios) of Nepal Telecom. To meet these purposes of the study descriptive research design was used and the sample was collected by using the convenience sampling method. Nepal Telecom was selected as a sample for the study between the fiscal years 2066/67 to 2075/76. Data were obtained from the respective company's annual report. Data were analyzed using the correlation coefficient technique and regression analysis to examine the nature and extent of the relationship between the variables and determine whether any cause and effect relationship between them. Variables used were Average Collection Period, Current Ratio, Inventory Conversion Period, Payable Deferral Period, and Net Working Capital Turnover Ratio as the independent variable and Return on Assets as the dependent variable. The findings of the study show that there is a low degree positive correlation between ROA and Working Capital Turnover Ratio and a high degree of positive correlation between ROA and Average Collection Period. The study shows a low degree of negative correlation between Inventory Conversion Period, Current Ratio and ROA and a moderate degree of negative correlation between Return on Assets and Current Ratio, Inventory Conversion Period and Payable Deferral Period.

From the analysis, it is revealed that NT has an excess amount of working capital in comparison to the revenue since the amount of working capital is exceeding net revenue this cannot be considered as the sign of efficient working capital management. The results of model summary shows that ACP, CR, ICP, PDP and NWCTR are responsible for change in return on assets of Nepal Telecom rest of change depends on other factors. It shows strong relationship between all independent variables and dependent variables. This means ACP, CR, ICP, PDP and NWCTR have significant impact in ROA of Nepal Telecom. Independent variables ACP, CR, ICP, PDP and NWCTR do not have significant results and shows that there is positive relationship between the independent and dependent variables.

CHAPTER I
INTRODUCTION

1.1 Background of the study

Working capital is a financial metric, which represents the operating liquidity available to a business. Along with fixed assets such as plants and equipment, working capital is considered as a part of the company's operating capital, referring to current assets. To measure the efficiency of a company's working capital, people often use net working capital, which is defined as the difference between current assets and current liabilities. If current assets are higher than current liabilities, this company has working capital efficiency, explaining the company's ability to continue its operations and to have sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses (Maharjan, 2018).

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 can 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 (Chaudhary, 2018).

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 to maximize the overall value of a firm. Another way of defining working capital is that portion of the firm's current assets financed with the 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. (Chaudhary, 2018).

Working capital is that portion of total assets, which circulates from one to another in the ordinary conduct of business. Working capital is the life-blood and controlling nerve center for any type of business organization because without the proper control upon it no business can run smoothly. It is a crucial aspect of financial management including the administration of all aspects of the current asset and current liabilities, which plays a vital role in the success or failure of an organization (K.C, 2010).

1.2 Problem statement

Working capital management is regarded as one of the important factors in the decision-making process. The management of working capital is synonymous with the management of short-term liquidity. Working capital is regarded as the lifeblood and nerve of a business concern and is essential to accommodate the smooth operations of any organization. Both excessive and inadequate levels of working capital are harmful to an enterprise to achieve its primary objectives. The excessive level of current assets of a firm means to use more long-term funds, which is costlier than current liabilities. On the other hand, the inadequate level of current assets may lead the firm into technical bankruptcy. Hence, the goal of working capital management is to manage the firm’s current assets and current liabilities in such a way that an optimal level of working capital is maintained. However, it is difficult to point out how much working capital is needed by a particular business organization. The requirement of working capital may vary from firm to firm due to the unpredictable nature of cash inflows. In this context, working capital management is challenging for them. As working capital is the size of investment each type of current

assets should be managed efficiently and effectively. It is because decision regarding working capital not only affects profitability of the organization in the short-run but also affects the survival in the long-run.

The basic theme of working capital management is to provide adequate support for the smooth and efficient functioning of day-to-day business operations by striking a trade between the three proportions of working capital. They are liquidity, profitability and risk.

Working capital is an important part of finance having a decisive influence on liquidity, which is regarded as the lifeblood of a business that plays a vital role in keeping the wheels of a business. The large holding of current assets consumes more funds, which cannot be used for other purposes and thus involve high opportunity cost but strengthens the firm's liquidity position, reduces risk and overall profitability. Whereas inadequate investment in current assets loses some profitable opportunities and can threaten the solvency of the firm because of its inability to meet some obligation to be matured in a short period as well, should bear a bad image in the market. Both excessive and inadequate level of working capital is not desirable because of excessive carrying costs and the risk of liquidity. An inadequate level of working capital obstructs the flow of production as well as market operation. So both situations should be avoided by maintaining the optimum level of working capital.
Therefore, this study present and analyze the working capital position and shows the problems this company faces by analyzing the following queries:

i. What is the liquidity position of Nepal Telecom?
ii. What is the working capital position of Nepal Telecom?
iii. What is the relationship between working capital and profitability?
iv. What is the level of inventories, receivables, payables and working capital maintained by Nepal Telecom?

1.3 Objectives of the study

Balanced working capital is most important for every organization. The excess and inadequate working capital are very harmful. The success and failure of the organization depend upon the amount of working capital. The main objective of this study is to examine the overall working capital management of Nepal Telecom. Every

research study is conducted with a view of achieving some objectives. The major objective of this study is to evaluate the working capital position of Nepal Telecom. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestions about how to manage the working capital of Nepal Telecom from the long-range viewpoint. The specific objectives are as follows:

i. To analyze the liquidity position of Nepal Telecom.
ii. To analyze the working capital position of Nepal Telecom
iii. To analyze the relationship between working capital and profitability.
iv. To determine the turnover ratios (i.e. Receivable Turnover, Inventory Turnover, Payable Turnover and Working Capital Turnover) of Nepal Telecom.

1.4 Rationale of the study

Working capital management is a crucial part of the financial decision-making process of a business enterprise. Poor working capital management affects adversely on liquidity, turnover and profitability. It is required to measure the financial position of the enterprise periodically to ensure the smooth function of an enterprise. Working capital management assists in identifying the major strengths and weaknesses of a business enterprise. It indicates whether a firm has enough funds to meet the obligation, reasonable accounts receivable collection period, an efficient inventory management policy, sufficient plant property and equipment and adequate capital structure, all of which are necessary if a firm is to achieve the goal of maximizing shareholder's wealth. Working capital management can also be used to assess a firm's viability as an ongoing enterprise and to determine whether a satisfactory return on investment is being earned for the risks taken.

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 the analysis of the system followed and the situation faced by Nepal Telecom in current assets and current liabilities management. This study will also help as literature for the future study about the relating topic, apart from this organization can also follow the suggestion of this study to make their policy and strategy more practical and scientific.

1.5 Limitations of the study

Research is a vast perceived investigation of the subject matter for solving perceived research problems. Every study has its own limitation. No one can be free from constraints. The present study of working capital has the following assumptions and limitations:

i. This study covers only the relevant data of ten years i.e. from fiscal year 2066/67 to 2075/76.
ii. Due to time constraints, not all the related areas are possible to cover in-depth.
iii. The data published in the annual reports have been assumed to be correct and true.
iv. This study is limited to the working capital management of Nepal Telecom and ignores other managerial functions.
v. Basically, the data and financial statement provided is secondary in nature.

1.6 Chapter plan

The whole study is divided into five main chapters:

Chapter I. Introduction

Chapter one deals with the general background of the study with the subject matter of the study. This chapter consists of the background of the study, brief introduction of Nepal Telecom, problem statement, objectives of the study, rationale of the study, and limitations of the study.

Chapter II. Literature Review

This Chapter is a brief review of the literature related to this study. It includes a discussion on the conceptual framework and review of the major studies and research gap.

Chapter III. Research Methodology

This chapter deals with research design, research methods, sources of data, data collection techniques and data analysis tools to be used and methods of analysis are included.

Chapter IV. Results and Discussions

This chapter deals with the data requirements for the study which is presented, analyzed and interpreted by using various tools and techniques to present the result relating to the study.

Chapter V. Summary and Conclusion

The fifth chapter is the final chapter of the study that contains a summary of this research. This chapter tries to fetch out a conclusion from the finding of the study and attempts to offer analytical and critical views on the performance of the selected company and present various suggestions and recommendations for present and prospective investors.

Finally, references and appendices are also included at the end of the study.

CHAPTER II
LITERATURE REVIEW

2.1 Introduction

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

2.2 Theoretical review

2.2.1 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 to revolve 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 outflow in exchange for other current assets. 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 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 (Poudel, 2019).

Working capital is a controlling nerve of the center of every business organization because no business can run smoothly without the proper control upon it. Thus, it plays a crucial role in the success and failure of the organization. Working capital management is concerned with determining the firm's level of investment in current assets and the financing pattern of the current assets. It covers all decisions of an organization involving cash flows in the short run with the 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 trade-off between profitability and cost associated with the current assets investment and financing policy of the firm (Poudel, 2019).

The working capital is the capital needed to conduct the day-to-day operations of the business. Working capital is therefore a broader term and chances of misunderstanding it. If business enterprises' managers clear cut the concept of working capital, a liquidity crisis could have been avoided. The deficiency of knowledge about working capital concepts has often brought a lot of liquidity crises. There are two concepts of working capital.

(i) Gross concept

(ii) Net concept

2.2.1.1 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 the ordinary course of business can be converted into cash within a short period of normally one accounting year. Current assets include cash in hand, cash at bank**,** sundry debtors inventories or stock**,** short term investments**,** loan and advances**,** accrued income, etc. (Chaudhary, 2018).

Supporters of this concept argue that the real working operation of public enterprise solely relies on current assets. Moreover, there is 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 one shape and returning him in another and it's only through such circulation 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 the picture while judging

the turnover of current assets. But reformer of this concept states that this is a concept incomplete in itself. The management of working capital gives mistaken results 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 (Poudel, 2019).

2.2.1.2 Net concept of working capital

Net working capital is commonly defined as the difference between current assets and current liabilities. Current assets and current liabilities both play a vital role in the 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 (Poudel, 2019).

The term net working capital can be defined in two ways.

i. The most common definition of net working capital is the difference between current assets and current liabilities.
ii. And Alternative definition of working capital is that portion of a firm's current assets, which is financed with long-term funds. Current liabilities are those liabilities that are intended to be paid in the ordinary course of business within a short period of normally one accounting year out of current assets or the income of the business. Current liabilities Includes Bills payable, Sundry creditors, Accounts payable, Accrued outstanding expenses, Short-term loan, Advantages and deposit, Dividend payable, Bank Overdraft, etc. (Poudel, 2019).

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 an adequate amount of working capital as per the need of business firms. It should be in good health and circulated. To have an adequate healthy and efficient circulation of working capital: working capital must be properly determined and allocated to its various segments, effectively controlled and regularly reviewed (Chaudhary, 2018).

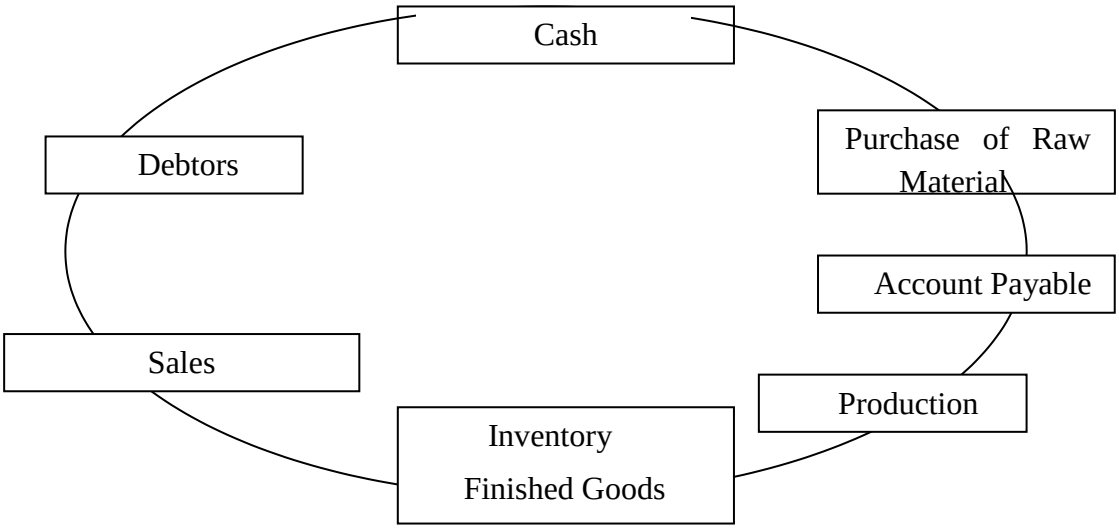
2.2.2 Nature of working capital

Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and the relationship that exists between them. The nature of working capital is described with the help of the nature of the cash cycle or operation cycle of the firm. Current assets are usually converted into cash within an accounting year (operation cycle). Conversion of current assets into cash in the subject matter of the cash cycle. The process of cash starts when a firm uses cash to purchase raw material and pay for other manufacturing costs to produce goods. These goods are carried as inventory for some time till they are sold. These goods are either sold on cash or accounts receivable are created. Account receivable is collected from the debtor which brings cash into the firm. In this way, the cash cycle is complete and the new process of the cash cycle starts again. The major current assets are cash, marketable securities, accounts receivable, inventories, etc. Current liabilities are those liabilities that are expected to mature for payment within an accounting year. The basic current liabilities are the account payable, creditors, bills payable, bank overdraft and outstanding expenses. Nature and interrelationship of working capital can be best understood by the operating cycle of the firm. A firm begins with cash that is used for the purchase of raw materials and bought-in components. Materials and other operating supplies can also be purchased on credit which in turn generates accounts payable. Further cash is extended to pay the labor and other manufacturing costs and further trade-credit obtained to enable the production of finished goods; which are eventually sold on credit giving rise to account receivables. The collection of receivables brings cash into the firm and creditors are paid. The average time, which elapses between the acquisitions of materials or services entering into cash, realization constitutes an operating cycle (Poudel, 2019).

The operating cycle can be depicted as given below:

Figure 2.1

Working capital cycle



(Source: Pandey, 1999)

2.2.3 Types of working capital

Working capital can be classified into two parts: permanent (fixed working capital0 and fluctuating working capital. Those two types of working capital are necessary for continuous production and sales.

(i) Permanent working capital

Permanent working capital refers to that level of current assets, which is required continuously over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital. Therefore, a manufacturing concern holds a certain minimum amount of working capital to ensure uninterrupted reduction and sales function. This portion of working capital is directly related to the firm's expansion of the operation capacity. This minimum working capital a firm has to provide out of long – term sources, such as,

i. Issue of share
ii. Issue of debenture
iii. Retention in various forms (i.e., plugging back of profits, general reserves, etc.) (K.C, 2010).

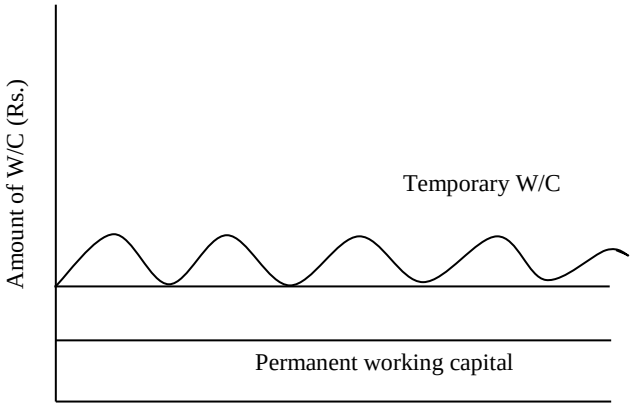
(ii) Variable working capital

Variable working capital represents the portion of working capital, which is required over permanent working capital. Therefore, this portion of working capital depends upon the nature of the firm's production, the relation between labor and management. The firms, which are seasonal in their business, need a large amount of capital for holding inventory during the peak period. But, as soon as the peak period is over, their working capital becomes idle. Therefore, firm's having seasonality in their business find it convenient to meet their working capital requirements by resorting to short – term sources, such as:

a) Bank loan
b) Public deposits
c) Trade credit and other payables
d) Provision for taxation
e) Depreciation provision etc. (K.C, 2010).

Figure 2.2

Permanent/Variable Working Capital



Source: (K.C, 2010)

Permanent working capital is stable over time or fairly constant while temporary working capital is fluctuating. Sometimes increasing and sometimes decreasing. However, the permanent capital line need not be horizontal if the firm's requirement for permanent capital is increasing or decreasing over a period.

2.2.4 Working capital policy

Working capital policy refers to the firm's basic policies regarding (i) target levels for each category of current assets and (ii) how current assets will be finished. So, of all, in working capital management, the firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt a different financing policy according to the financial manager's attitude towards the risk-return trade-off. One of the most important decisions of finance managers is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds for working capital (K.C, 2010).
The goals of working capital policies are as follows

i. Adequate liquidity

If a firm lacks sufficient cash to pay its bills when due, it will experience continuing problems. The most important goal is to achieve adequate liquidity for the conduct of day-to-day operations**.**

ii. Minimization of risk

In selecting its sources of financing, payables and other short-term liabilities may involve relatively low costs. The firm must ensure that these near-term obligations do not become excessive compared to the current assets on hand to pay them. The matching of assets and liabilities among current accounts is a task of minimizing the risk of being unable to pay bills other obligations.

iii. Contribute to maximizing firm's value

The firm holds working capital for the same purpose as if holds any other asset, which is to maximize the present value of common stock and the value of the firm. It should not hold idle current assets any more than idle fixed assets. The investment of excess cash, minimizing of inventories, and speedy collection of receivables and elimination of unnecessary and costly short-term financing all contribute to maximizing the value of the firm. In working capital management the firm has to determine how much funds to invest in working in gross concept i.e. in current assets and how much should be financed in working capital through different sources of funds. The funds can be raised from long-term sources and short-term sources. So, the firm should decide

how much of long term and short term funds to be financed in working capital (K.C, 2010).

2.2.4.1 Current assets investments policy

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

(i) Fat cat policy

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

(ii) Lean and mean policy

In lean and mean policy, a firm holds the minimum amount of cash, cash marketable securities, inventory and receivable to support a given level of sales. This policy trends to reduce the inventory and receivable conversion cycle. Under this policy, the firm follows a light credit policy and bears the risk of losing sales (Chaudhary, 2018).

(iii) Moderate policy

In moderate policy, a firm holds the number of current assets in between the relaxed and restrictive policies. Both risk and return are moderate in this policy (Chaudhary, 2018).

2.2.4.2 Current assets financing policy

It is the policy 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, the current assets financing policy should clearly outline the sources of financing. There are three types of policies.

(i)Aggressive policy:

In an aggressive policy, the firm finances a part of its permanent current assets with short-term financing and the rest with financing. In other words, the firm finance not only temporary current assets but also a part of the permanent current assets with

short-term financing. In general, the interest rate increases with time i.e. shorter the time lower the interest – rate. It is because lenders are risk-averse and risk generally increases with the length of the leading period. Thus, under normal, the firm borrows on short-term financing rather than financing. On the other side, the firm finances its permanent current assets by short-term financing, then it runs the risk of renewing the borrowing again and again. In conclusion, there is higher risk, higher return and low liquidity position under this policy (Chaudhary, 2018).

(ii) Conservative policy:

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

(iii) 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 a high nor low level of current assets and current liabilities (Chaudhary, 2018).

2.2.5 Financing of working capital

Every firm requires additional assets whether they are in stable or growing conditions. The most important function of the financial manager is to determine the level of working capital and to decide how it is to be financed. Financing of any assets is concerned with two major factors: cost and risk. Therefore, the financial manager must determine an appropriate financing mix, or decide how current liabilities should be used to finance current assets. However, some financing mixes are available to the financial manager. He can resort generally to three kinds of financing (K.C, 2010).

(i) Long-term financing

(ii) Short-term financing

(iii) Spontaneous financing

(i) Long-term financing:

Long-term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earnings and long-term debt from the financial institutions are the major sources of long-term financing.

(ii) Short – term financing:

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

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

b. Bank credit: Bank credit is the primary institutional source for working capital financing. For bank credit, the amount of working capital requirement has to be estimated by borrows and banks are approached with the necessary supporting data.After available of this data, the bank determines the maximum credit based on the margin requirement of the security. The types of loan provide by commercial banks are loan arrangement. Overdraft arrangement, commercial papers, etc. (K.C, 2018).

(iii) Spontaneous financing:

Spontaneous financing arises firm the normal operation of the firms. The two major sources of such financing are trade credit (i.e. creditor and bill payable) and accruals. Whether trade credit is the free cost or not, actually depends upon the terms of trade credit. The financial manager of the firm would like to finance its working capital with spontaneous source as much as possible. In the practical aspect, the real choice of current assets financing is either short-term or long-term sources. Thus, the financial manager concentrates his power on short-term versus financing. Hence, the financing of working capital depends upon the working capital policy, which is

perfectly dominated by management attitude towards the risk and return. The firm's working capital assets policy is never set in a vacuum it is always established in conjunction with the firm working capital financing policy. The real choice of financing current assets is between short-term and long-term sources which are different regarding the cost and flexibility (K.C, 2010).

So, far as the financing mix of these two sources is concerned there are three approaches: Hedging or Matching Approach, Conservative Approach and Aggressive Approach.

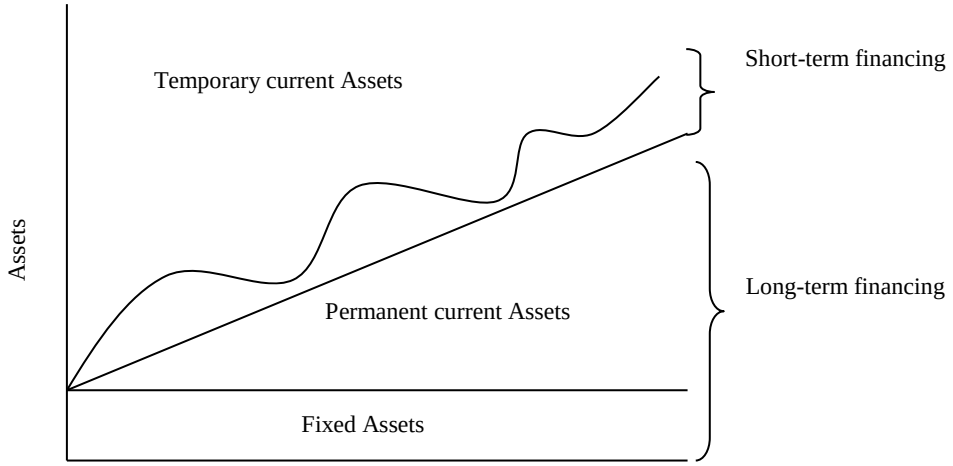
i. Hedging (Matching) approach

Under this approach, a firm uses long-term financing to finance fixed assets and permanent current assets and short-term financing to finance temporary or variable assets. In other words, concerning an appropriate financing mix, the term hedging can be said to refer to a process of matching maturities of debt with the maturities of financial need.

The justification for the exact matching is that since the purpose of financing is to pay for assets, the financing should be relinquished when the assets are expected to be relinquished using long-term financing, for short-term, assets are expensive as the funds will not be utilized for the full period. Similarly, financing long-term assets with long-term financing is costly as well as inconvenient as the arrangement for the new short-term financing will have to be made as a continuing for the new short-term financing will have to make as a continuing basis. Thus, when the firm follows the matching approach long-term financing will be used to finance fixed assets and permanent assets and short-term financing to finance temporary or variable current assets. But this situation may not be realized due to the uncertainty about the expected lives of assets. So, this approach is not practical (Poudel, 2019).

Figure 2.3

Financing under Hedging Approach



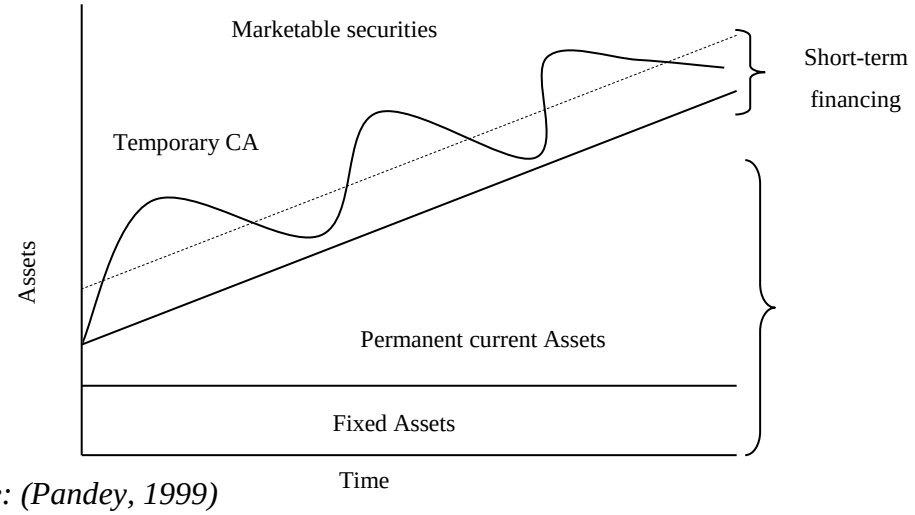
Source: (Pandey, 1999)

ii. Conservative approach

This approach suggests that the estimated requirement of total funds should be met from long-run sources, the use of short-term funds should be restricted to the only emergency, or when there is an unexpected outflow of funds. Under a conservative plan, the firm finances its permanents with long-term financing. This, in periods when the firms have not temporary current assets; stores liquidity by investing surplus funds into marketable securities. The conservative plan relies heavily on long-term financing and therefore, is less risky (Poudel, 2019).

Figure 2.4

Financing under Conservative Approach



Source: (Pandey, 1999)

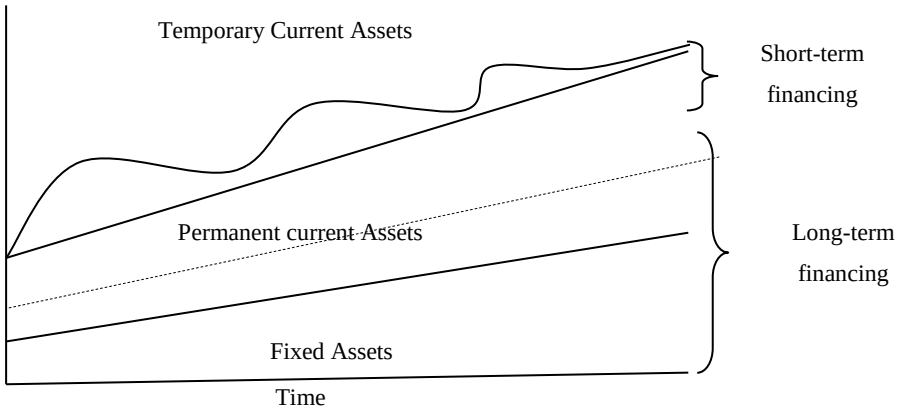
iii. **Aggressive approach**

Under an aggressive policy, the firm finances a part of its permanent current assets with short-term financing. The greater the portion of the permanent fund requirement finances with short-term debt, the more aggressive the financing is said to be as there is more risky.

Working capital management involves deciding upon the amount and composition of current assets low to finance these assets. These decisions involve a trade-off between risk and profitability. The greater the relative proportions of liquid assets the lesser the risk of running out of cash all other things being equal. Profitability, unfortunately, also will be a loss. The longer the composite maturity schedules of securities risk of the cash insolvency, all other things being equal. Again the profits of the firm are likely to be less. Resolution of the trade-off between risk and profitability concerning those decisions depends upon the risk preference of management (Poudel, 2019).

Figure 2.5

Financing under Aggressive Approach



Source: (Pandey, 1999)

2.2.9 Need for working capital

Most of the firms aim at maximizing the wealth of shareholders. The firm should earn sufficient returns from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among other things. Especially, working capital required to spend on raw materials, salary, wages, rent, electricity, advertisement and other sales-related expenses (Maharjan, 2018).

The need for working capital can be categorized into the following ways.

i. Transaction motive

A business firm holds cash for the smooth running of a business. To conduct its ordinary business and making purchases and sales, working capital is needed. In the business, where billings are predictable cash inflows, can be scheduled and synchronized with the need for the cash outflow. In a seasonal business more cash may be needed and if firms want to operate transactions smoothly, they have to keep an inventory of raw materials and finished goods. Generally, a business firm invests in marketable securities that can be converted into cash in a short time. It is a temporary investment. So, to run a business smoothly on an uninterrupted basis, a business firm has to manage working capital for transaction motive (Maharjan, 2018).

ii. The precautionary motive

Precautionary motive refers to holding cash as a safety margin to act as a financial reserve. A firm should also hold some cash for the payment of unpredictable or unanticipated events. It is the need to hold cash and inventories to guard against the risk of unpredictable change in demand and supply forces and other factors such as strike, failure of important customers, unexpected slow down in a collection of account receivable, cancellation of some order for goods and some other emergency. Thus, the firm needs the working capital to meet any contingencies in the future. The precautionary needs for holding cash usually are satisfied by holding near-cash items such as investment in marketable securities (Maharjan, 2018).

iii. The speculative motive

The working capital is needed to meet the speculative motive which refers to the desires of a firm to take advantage of the following opportunities.

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

To grab these opportunities, the business enterprises have to manage cash and marketable securities. It also represents a war chest or pool of funds that a firm may

draw quickly to meet a short-term opportunity, including acquisition (Maharjan, 2018).

2.2.6 Determinants of working capital

The importance of efficient working capital management is an aspect of overall financial management. Thus, a firm plans its operations with an adequate working capital requirement or it should have neither too excess nor too inadequate working capital. But there are no sets of rules or formulas to determine the working capital requirements of the firm. It's because of a large number of factors that influence the working capital requirement of the firm. Several factors affect the different firms in different ways. Internal policies and environmental change also affect the working capital. Generally, the following factors affect the working capital requirements of the firms (K.C, 2010):

i) Nature and size of business

The working capital requirements of the firm are related to the size and nature of the business. If the size of the firm is bigger, then it requires more working capital. While small firm needs less working capital. Trading and financial firms require a larger amount of working capital relative to public utilities.

ii) Manufacturing cycle

The working capital requirements of enterprises are also influenced by the manufacturing or production cycle. It refers to the time involved to make the finished goods from the raw materials. During the process of manufacturing cycle funds are tied – up. The longer manufacturing cycle, working capital requirement larger and vice – versa.

iii) Production policy

Working capital requirement is also determined by its production policy. If a firm produces seasonal goods, then its production and sales volume fluctuate with different seasons. This type of fluctuation production policy affects the working capital policy of the firm.

iv) Credit policy

Credit policy also affects the working capital of a firm. Working capital requirement

depends on the term of sales. The different terms may be followed by different customers according to their creditworthiness. If the firm follows the liberal credit policy, then it requires more working capital. Conversely, if a firm follows a stringent credit policy, it requires less working capital.

v) Availability of credit

Availability of credit facilities is another factor that affects the working capital requirements. If the creditors benefit from open-minded credit terms, then the firm will need less working capital. In other words, the firm can get credit facility easily on favorable conditions. Thus, it requires less working capital to run the firm otherwise more working capital is required to operate the firm smoothly.

vi) Growth and expansion

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

vii) Price level change

Price level change also affects the working capital requirement of a firm generally, a firm requires maintaining the higher amount of working capital it the price level raises. Because the same level of current assets needs more funds due to the increasing price. In conclusion, the implications of changing price level on working capital position will differ from firm to firm depending on the nature and other relevant considerations of the operation of the concerned firm.

viii) Operating efficient:

Operating efficiency is also an important factor, which influences the working capital requirement of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus, a financial manager can contribute to a strong working capital position through operating efficiency. If a firm has strong operating efficiency then it needs a lesser amount of working capital and vice–versa.

ix) Profit margin:

The level of profit margin differs from firm to firm. It depends upon the nature and quality of product, marketing management and monopoly power in the market. If the

firm deals with high-quality products and has sound marketing management and enjoyed monopoly power in the market then it earns a quite high profit. Profit is the source of working capital because it contributes towards the working capital as a pool by generating more internal funds.

x) . Level of taxes:

The level of taxes also influences working capital requirements. The amount of taxes to be paid in advance is determined by the prevailing tax regulation. But the firm's profit is not constant, or can't be predetermined. Tax liability in a sense of short-term liquidity is payable in cash. Therefore, the provision for tax amount is one of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capital (K.C, 2010).

2.3 Empirical review

2.3.1 Review of related articles

Madhavi (2011), conducted a research study on "Working Capital Management of Paper Mills" and 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 financial performance through ratio analysis of Paper mills in Andhra Pradesh Paper Mills Ltd. (APPML) and Seshasayee Paper and Boards Ltd (SSPBL). 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 the published source. Major findings of the study were as follows:

i. The low quick ratio may also have a liquidity position if it has fast-moving inventories.
ii. The cash ratio is not satisfactory in APPML as compared to SSPBL and it needs the attention of the management to induce effective utilization of cash and bank balances.

Saghir, Mehmood and Nehal (2011), in their article "Working Capital Management and Profitability: Evidence from Pakistan Firms", analyzed that working capital management is an important part of firm financial management decisions. Improper management of Working capital, that is, too much or too low working capital may

suffer firms, so an optimum level of working capital is the key to a smooth inflow of profit. In this paper, they investigated the relationship between profitability and working capital management. They used a sample of 60 textile companies listed at Karachi Stock Exchange (KSE) from 2001 to 2006. The purpose of this study was to establish a relationship that is of statistical significance between profitability, the cash conversion cycle and its components (Number of days Accounts receivables, Number of days Accounts payables and Number of days Inventory). Major findings of the study were:

i. The operational profitability dictates how managers or owners will act in terms of managing the working capital of the firm.
ii. Lower profitability is associated with an increase in the number of days of account payable.
iii. The less profitable firms wait longer to pay their bills taking advantage of the credit period granted by the suppliers.
iv. The negative relationship between accounts receivables and a firm's profitability suggests that less profitable firms will pursue a decrease of their accounts receivables in an attempt to reduce the cash gap.
v. The negative relationship between the number of days in inventory and profitability suggests that in case of a sudden drop in sales accompanied by mismanagement of inventory will lead to tying up excess capital at the expense of profitable operations.
vi. It showed that there is a statistically negative significance between profitability, measured through Return on Asset, and the cash conversion cycle. Moreover, managers can create profits for their companies by handling correctly the cash conversion cycle and keeping the Number of days Accounts receivables, Number of days Accounts payables and Number of days Inventory to an optimum level.

Hoque, Mia and Anwar (2015), in their research “Working Capital Management and Profitability: A Study on Cement Industry in Bangladesh” found a 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 selected only listed cement industries as

a sample for their 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:

i. 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.
ii. 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
iii. Profitable industries either accelerate their receivables from debtors or delay their payment towards their creditors.
iv. There exists a positive correlation between working capital efficiency and profitability ratios.

Varghese and Dhote (2014), in their research " Impact of Working Capital Management on Firm Profitability: A Case Study of HUL Ltd., India" 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. This study was based on secondary data i.e. published annual reports of the company. The major findings of the study were as follows:

i. The net working capital of HUL during the period of study was not satisfactory as it showed frequent fluctuations in its values.
ii. 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.

iii. The cash position ratio of the firm was also not satisfactory as it was not able to generate an adequate amount of cash from its assets.
iv. The profitability position of the firm was not satisfactory because its operating profitability position was 13.34% of its turnover, which is near the risk-free bank rate.

Onodje (2014), "Working Capital Management and Performance of Selected Nigerian Manufacturing Companies" 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:

i. Efficient working capital and debt management are critical to improved manufacturing performance.
ii. There should be a liberal approach to the management of the cash receivable portfolio of manufacturing firms to maximize sales revenue.
iii. There should be an aggressive inventory control policy to take advantage of emerging opportunities while minimizing stock-out costs.
iv. Deferral of creditors and accrued charges should be held at the minimum to enhance corporate credibility and market share.
v. 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

2.3.2 Review of the previous thesis

Besides the review of research studies, several studies have been made by students of MBS & MBA relating to working capital management in different entities.

Chaudhary (2018 A.D), carried out research on "Working Capital Management of Nepal Telecom". The main objectives of the research were to identify the liquidity and working capital position and to identify the effect of working capital on the profitability of the company. He had used secondary data five fiscal years from 2069/70 to 2073/74. The major findings of the research were:

i. The average collection period of Nepal Telecom was in decreasing trend; hence the credit management of Nepal Telecom was good.
ii. The payable Deferral Period is very high; it showed that company was delaying its payment. Delay payment is not good in long-term for the company as the supplier may not be happy
iii. The company had invested most of the funds in the form of current assets like cash & receivables. So the opportunity cost of cash and receivables for the company is increasing. There may be also a chance of bad debts due to an increase in receivables.
iv. Nature of business, size of business, credit policy; operating efficiency and level of competition are the major factors affecting working capital.
v. Working Capital Management of Nepal Telecom is not good. The major portion of Gross working capital is invested in cash & bank balances.
vi. There is a positive relationship between Working Capital and Current Assets with profitability. Hence, an increase in working capital and current Assets increases the profitability of the company. However, there is a negative relationship between cash and profitability.

Sharma (2014), carried out research on "Working Capital Management of Nepal Doorsanchar Company Limited". The main objectives of the research were to analyze the liquidity and working capital position and to identify the relationship between working capital on profitability of the company and examine the inventory policy of the company.

She has used secondary data for five fiscal years from 2064/65 to 2068/69. The major findings of the research were:

i. The proportion of current assets to total assets and net fixed assets in NDCL shows that current assets absorb a high percentage of those total assets, as the higher ratio indicates the greater amount of working capital which will decrease risk and profitability. It is due to a higher proportion of cash and cash equivalent and receivables
ii. There is a positive correlation between current assets and total assets as well as statically significant and there is a significant difference between the two variables which could adversely affect the firm's wealth maximization goal in the long run.

iii. There is a positive correlation between current assets and inventory. But the management of inventory is unsound.
iv. Cash constitutes an important part of the assets of the firm. The profitability position of the NDCL during the study period is satisfactory.

K.C (2010), carried out research on "Working Capital Management of Nepal Telecom". The main objectives of the research were to evaluate the trend of current or total assets position, to study how far Nepal Telecom is being able to utilize its Current Assets properly, to study the working capital position of NTC, to analyze working capital NTC to cash, receivables and inventory management. She had used secondary data five fiscal years from 2004/05 to 2008/09. The major findings of the research were:

i. The overall financial management of NTC is quite satisfactory during the study period since it has a sound liquidity position and positive growing profitability.
ii. There was a sufficient amount of current assets to meet the current obligations of the company which is a sign of a good liquidity position.
iii. The company had invested its considerable amount in current assets by increasing the investment on it every year.
iv. The largest portion of current assets was being unproductive by lying in absolute liquid from which is the indication of the inefficiency of management in using its assets in productive payment of current liabilities.
v. A significant amount of receivables was tied up which resulted in an unnecessary amount held up of working capital.
vi. The company is facing a serious problem with outstanding debt collection.

Poudel (2019), carried out research on "A Study on Working Capital Management of Salt Trading Corporation Limited". The main objectives of the research were to analyze the liquidity and working capital position of the company, To find out the need to control investment in each type of current assets over the study period and to analyze the effect of working capital on liquidity and profitability. This study was primary based upon secondary data. Which were published by the company during the fiscal year 2069/70 to 2073/74. The data were collected from annual reports of Salt Trading Corporation and other related information has been collected through the direct

interview and question arises with the company's account officer The major findings of the research were:

i. The liquidity position of STCL is weak; it shows that there are not excess current assets.
ii. The overall return position of the company is also not in favorable condition because of inefficient utilization of current assets, total assets and shareholders' wealth.
iii. The correlation coefficient of the variables selected for the statistical analysis shows that STCL has a significant and positive correlation with each other except with net profit and net working capital and sales.
iv. The main sources of cash of STCL are the sale of goods and loans from the bank. Besides this, the corporation receives miscellaneous income like interest, commission, dividend and sale of fixed assets.
v. STCL holds a weak Liquidity position. In each year current ratio is lower than the standard level.

Maharjan (2018), carried out research on "A Study on Working Capital Management of Nepalese Manufacturing Company". The main objectives of the research were to examine the influence of working capital management on the company's profitability, to analyze the liquidity position and composition of working capital of selected enterprises and to analyze the utilization of working capital of selected. Out of various manufacturing companies, this study is concerned with the only three manufacturing companies of Nepal, Unilever Nepal Ltd, Dabar Nepal Ltd, and Himalayan Distillery Ltd. This study was based on secondary data which were published by the company during the fiscal year 2011 to 2015. The major findings of the research were:

i. The results showed the liquidity position of all sample companies is not satisfactory.
ii. The turnover ratio shows Himalayan Distillery Ltd has the highest turnover ratio than other sample companies.
iii. The profitability shows Unilever Nepal Ltd has the highest level of ROA and NPM which indicates that Unilever Nepal Ltd is doing better operation in comparison to other sample companies.
iv. The correlation result showed cash conversion cycle had a significant positive impact on return on assets, implying that an increase in CCC leads to an increase in profitability of Nepalese manufacturing companies.

v. The results showed a positive relationship with sales growth, the negative relation between the ratio of current liabilities to total assets, which indicates an increase in sales, leads to an increase in profit, and aggressive financing policy leads to negative return.

Pyakurel (2010), carried out research on "Working Capital Management of Nepal Life Insurance Company Ltd.". The main objectives of the research were to analyze the size and structure of working capital and the relationship between them, to analyze the relationship between operating income and different variables of working capital or turnover position of NLIC, to check the efficiency of the working capital of NLIC, to see the trend of different variables of working capital and their composition with others and to know whether the adequacy of working capital depends upon the nature of financing current assets or not. This study was based on secondary data which were published by the company during the fiscal year 2061/62 to 2065/66. The major findings of the research were:

i. The overall working capital management of NLIC's is satisfactory level during the five years study period.
ii. There is a sufficient amount of current assets to meet the current obligation of the company which is a sign of a good liquidity position. The company has a sound liquidity position and there is no probability of technological insolvency.
iii. The corporation has a conservative working capital policy since it has needed low level of working capital and working capital is permanent the corporation has conservative working capital policy since it has needed low level of working capital and working capital is of permanent nature.
iv. The company has effective working capital, good profitability & sufficient current assets.
v. A large portion of the long-term fund is invested in current assets where more than half of current assets are financed by long-term sources.
vi. There is a positive correlation between current assets and total assets but the correlation of current assets with operating income is a high degree of negative.
vii. The working capital is not always dependent on operating income but the study shows that working capital is dependent upon total assets.

viii. The profitability and liquidity position of the company is good but they are negatively correlated. Trend indices show increasing current assets and total assets but the current liability, net working capital and receivable are in fluctuating trend.

2.4 Research gap

All the above mentioned studies in empirical review were conducted with the research title working capital management. Researcher (K.C, 2010) has done research on the topic Working capital management of Nepal Telecom, after studying the dissertation it was found that that researcher had analyzed the data of FY 2004/2005 to 2008/09 and had not taken regression analysis to show the relationship between the variables. Sharma (2014), had done research on the topic Working capital management of Nepal Doorsanchar Company ltd, the researcher had analyzed the data of FY 2064/65 to 2068/69. Chaudhary (2018), had done the topic Working capital management of Nepal Telecom, researcher had analyzed the data of FY 2069/70 to 2073/74.

In this research, an attempt has been made to analyze the efficiency and effectiveness of working capital management of Nepal Telecom. This research has tried to carry out the distinct from these mentioned research in terms of years of data and research methodology. In this research secondary data for fiscal years, 2066/67 to 2075/76 (i.e. 10 years) have been considered whereas the above mentioned research had considered data for five years. Both financial, as well as statistical tools like ratio analysis, turnover, mean, standard deviation, coefficient of variance, correlation and regression analysis are used in this research which were not included in the research of K.C (2010).IBM SPSS Version 25.0 is used for data analysis which was not used by K.C (2010), Sharma (2014), and Chaudhary (2018). The independent variables included in this research are also different from Sharma (2014), K.C (2010) and Chaudhary (2018).

Almost all the ratios have been applied to cover the analytical part and fulfill the objective of this study. Therefore, this research can be helpful for researchers, students and academicians.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Introduction

The main objectives of this study are to analyze, examine highlight and interpret the working capital management of Nepal Telecom and recommend suggestions for improvements for the betterment of working capital management. The study covers a period of 10 years for the fiscal year 2066/67 to 2075/76.

In the previous chapter, the researcher has discussed about working capital and the review of related literature concerned with working capital management. In this chapter, population and sample size, research design, research method, sources of data and collection strategy, analysis of data and tools used and methods of data analysis are included.

3.2 Research design

The selection of appropriate research design is necessary to meet the objective of any research. To answer the research questions i.e. to fulfill the research objectives, descriptive research design has been used and based mainly on this research to extract more pertinent information. Descriptive research has been used to analyze the facts of collection data, its classification and correlated data to describe the existence, even though it does not predict and explain the phenomena behave as they do in the entire process of planning and carrying out a research study. The research design asks what approach the problem should be taken. What methods will be used? What strategies will be most effective? Identification, selection, and formulation of a research problem may be considered as the planning stage of research. The remaining activity refers to the designs, operation, and completion of the research study.

3.3 Population and sample

There are six 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. A sample has been chosen for the study which represents the total population. Nepal Telecom has been selected due to

its highest profit and largest telecom service provider. The research has taken only 10 years of data from the fiscal year 2066/67 to 2075/76 which is very important for the study.

3.3.1 Brief introduction of Nepal Telecom

In Nepal, operating any form of telecommunication service dates back to 94 years in B.S. 1970. But formally telecom service was provided mainly after the establishment of MOHAN AKASHWANI in B.S. 2005. Later as per the plan formulated in the First National Five-year plan (2012-2017); Telecommunication Department was established in B.S.2016. To modernize the telecommunications services and to expand the services, during the third five-year plan (2023-2028), Telecommunication Department was converted into Telecommunications Development Board in B.S 2026. After the enactment of the Communications Corporation Act 2028, it was formally established as a fully owned Government Corporation called Nepal Telecommunications Corporation in B.S. 2032 to provide telecommunications services to Nepalese People. After serving the nation for 29 years with great pride and a sense of accomplishment, Nepal Telecommunication Corporation was transformed into Nepal Doorsanchar Company Limited from Baisakh 1, 2061. Nepal Doorsanchar Company Limited is a company registered under the Companies Act 2053. The government of Nepal and Citizen Investment Trust have been the principal promoters of the company. The company is known to the general public by the brand name Nepal Telecom as a registered trademark. The company has its registered office at Bhadrakali Plaza, Kathmandu with its branches spread throughout the country (ntc.net.np).

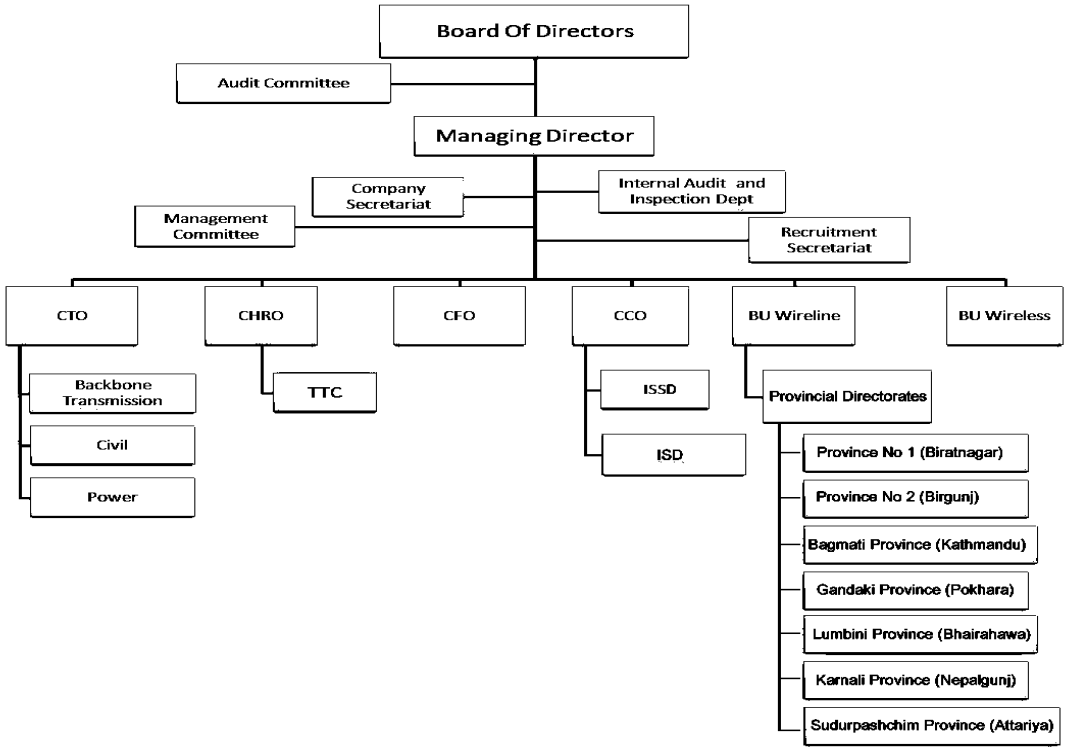
According to the annual report (2075-76) of Nepal Telecom, Nepal Telecom has the authorized capital of Rs 25 Billion allocated to 250 million shares of each Rs100 Par. Issued and paid-up capital is Rs 15 Billion. The company at its topmost level has seven members as Board of Directors (BOD). The Chairman is the secretary of the Ministry of information and Communication; Members are representatives from the Ministry of information and communication, Ministry of Finance, Ministry of Law, Justice and Parliamentary Affairs and Citizen Investment Trust. Other members are the Managing Director and representatives from employees (Article of memorandum-

20). The total no of working manpower in Nepal Telecom at present is 4,179, out of which 1,910 are Officers and 2,269 are of Assistant level (ntc.net.np).

Following figure no. 3.1 shows the organizational structure of Nepal Telecom:

Figure 3.1

Organizational Structure of Nepal Telecom



(Source: ntc.net.np)

Nepal Telecom (Nepal Doorsanchar Company Limited) is one of the main telecom operators in Nepal. 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 a range of telecommunication services like GSM, CDMA, PSTN and data services like 3G, 4G, EVDO, WiMAX, ADSL, etc.

3.4 Nature and sources of data

This study is based on secondary data, which were published by the company for the fiscal year 2066/67 to 2075/76. For the study purpose, 10 years of audited balance

sheets, profit & loss accounts and other related documents were collected from the company's website.

3.5 Data collection and processing procedures

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 Nepal Telecom for 10 years period from the fiscal year 2066/67 to 2075/76 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 under the requirement of the study. 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 Data analysis tools and techniques

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

3.6.1 Financial analysis

Ratio analysis

In financial analysis, the ratio is used as an index of yardstick for evaluating the financial position and performance of the firm.

3.6.1.1 Composition of working capital

Our main focus of the research is working capital management. Thus we have to discuss the management of funds and the relationship between them. Their relation can be analyzed by the comparison of various individual assets to total assets and total current liabilities. The comparison of individual assets to current assets and fixed assets as follow:

1. Current assets to total assets (CATA)

The ratio of current assets to total assets indicates the 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 the proportion of current assets to total assets of Nepal Telecom during the study period. It is calculated as follows:

$$\text{Current assets to total current assets} = \frac{\text{Total current assets}}{\text{Total assets}} \times 100\%$$

If this ratio increases, the risk and the profitability of the firm would decrease and decreasing ratios indicate the higher risk and profitability.

2. Cash and bank to current assets (CBCA)

This ratio shows the relationship between cash and bank to the level of current assets. It also indicates the percentage of current assets invested in form of cash and bank. The working capital is directly affected by the level of cash and bank balance. As the ratio decreases it causes an 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. It is calculated as follows:

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

A higher ratio indicates idle cash is collected in the firm. So, a higher ratio implies the poor cash management of the firm.

3. Inventories to current assets (ICA)

This ratio shows the percentage of current assets in the form of inventory. Inventory affects the working capital directly so an increase in this ratio indicates an increase in working capital volume and the company is following a liberal inventory policy. If the ratio is small the firm has a lower volume of working capital. It studies the proportion of inventories to current assets of Nepal Telecom during the study period. It is calculated as follow

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

A higher ratio indicates the liberal inventory policy followed by the firm and a lower ratio indicates the tight inventory policy followed by the firm.

4. Receivables to current assets ratio

This ratio shows the percentage of current assets in the form of receivables. A higher percentage shows a 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. It is calculated as follows:

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

Increases in the ratio show the inability of the firm to collect the receivables quickly and the decreasing ratio is preferable which shows the ability of the firm to collect receivables quickly.

5. Current liabilities to total liabilities

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 It is calculated as follows:

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

The low percentage indicates the greater working capital and vice-versa. If the percentage is greater, the firm is unable to collect receivables promptly.

3.6.1.2 Activity/Turnover analysis

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

1. Current asset turnover ratio (CATR)

The current Asset Turnover ratio measures the firm's ability to generate sales through its current assets (cash, inventory, accounts receivable, etc.). It indicates how efficiently a firm is using its current assets to generate revenue. It is calculated as follows:

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

As the CATR increase, it shows the utilization of CA. If the ratio is low, a greater volume of working capital is there. A low ratio indicates greater working capital and a high ratio indicates lower working capital.

2. Inventory Turnover Ratio (ITR)

The inventory turnover ratio measures how quickly inventory can be converted into sales. It is calculated as:

$$\text{Inventory Turnover Ratio} = \frac{\text{Sales /Revenue}}{\text{Inventory}}$$

This ratio shows the number of times inventory is replaced during the year. Higher inventory turnover indicates good inventory management and lower turnover suggests the management should manage its inventory properly

3. Receivable/Debtor turnover ratio (RTR)

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

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

It indicates the number of times the receivables are turned over during the year. It gives the general measure of the productivity of the receivables investment. The higher ratio indicates the higher amount of working capital and lower ratio vice-versa. A higher ratio is preferable than the lower ratio as it reflects better management of debtors or receivables.

4. Payable turnover ratio

The payable turnover ratio measures how quickly a business makes payments to creditors and suppliers that extend the line of credit. A high accounts payable ratio signals that the company is paying its creditors and suppliers quickly, While a low ratio suggests the business is slower in paying its bills. It is calculated as follows:

$$\text{Payable Turnover Ratio} = \frac{\text{Net Credit Revenue}}{\text{Payables}}$$

5. Net 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. It is calculated as follow:

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

A higher ratio shows the utilization of net working capital and vice-versa.

6. Inventory conversion period

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

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

7. 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. It is calculated as follows:

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

8. Payable deferral period

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 outflows during an accounting period in paying the account payables. It is calculated as follows:

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

3.6.1.3 Liquidity ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. A firm should ensure that it does not suffer from a lack of liquidity, and also that it is not too highly liquid. The most common ratio, which indicates the extent of liquidity, is:

1. Current ratio (CR)

The current ratio is calculated by dividing current assets by current liabilities. This shows the solvency and financial strength of the firm. It is a basic yardstick of measuring the solvency and liquidity position of the firm. It is determined by the following way.

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

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

2. Quick ratio

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

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

3.6.1.4 Profitability analysis

This ratio shows the result of business activities. The overall efficiency of business concerned profitability if the main factor to measure how effectively a firm is operated and have managed. Under this, the following ratio are analyzed.

1. Net profit margin ratio

Net profit margin is estimated after deducting all operating expenses and income tax from gross profit. It shows the percentage of net profit out of total sales. This ratio shows as an overall measurement of the company's ability to earn a net profit. It computed by dividing net profit by sales and given by:

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

A higher ratio is an indication of the higher overall efficiency of the business and better utilization of total resources. Poor financial planning and low efficiency is the indication of a lower ratio.

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. It is calculated as follows:

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

3. Return on assets

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

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

3.6.2 Statistical analysis

Under the secondary data analysis, the percentage, mean, median, standard deviation maximum and minimum results i.e. each variable have been described in a clear way for the detailed analysis about its significance. The help of statistical tools is essential to measure the relationship of two or more variables. 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. It can be calculated as follows:

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

Where,

$\sum x$ = Sum of the values

$\overline{X}$= Mean value,

N= Number of the value.

3.6.2.2 Standard deviation (S.D)

The standard deviation is the square root of the average of the square distances of the observation from the mean. The standard deviation enables us to determine, with a

great deal of accuracy, where the values of a frequency distribution are located with the mean.

It is the most popular and most useful measure of dispersion and gives uniform, correct and stable results. The formula of Standard Deviation is as follow:

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

Where,

σ = Standard Deviation

x= variables

$\overline{X}$= mean of the variable, N= No. of variables

3.6.2.3 Coefficient 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 which is defined as the ratio of the standard deviation to the mean expressed in percent. It is used for comparing the variability of two series or set of data with the same of different units and is expressed in percent since it is independent of units. So, two distributions can bitterly be compared with the help of coefficient of variance for their variability. Less the C.V. more will be the uniformity; consistency etc. and more the C.V. less will be the uniformity, consistency, etc.

$$\text{C.V.} = \frac{\sigma}{\overline{X}} \text{ X } 100\%$$

3.6.2.4 Correlation coefficient (r)

A correlation coefficient is defined as the association between the dependent variable and an independent variable. It is a method of determining the relationship between these two variables. If the two variables are so related to the change in the value of the independent variable, it causes the change in the value of the dependent variable then, it is said to have a correlation coefficient. The Correlation Analysis between Return on Assets, Current Ratio, Receivables Turnover Ratio, Average collection period, Inventory Conversion period, Inventory Turnover Ratio, Payable Deferral Ratio Payable Turnover Ratio of Nepal Telecom, etc, are analyzed for the study period.

To calculate the Pearson correlation analysis SPSS version 25.0 database is used for tabulation and data analysis. Simple statistical tools like mean, standard deviation were analyzed.

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 perfectly positive and if it is -1, the relationship is perfectly negative. If the value of 'r' is 0, the relationship between variables is zero.

3.6.2.5 Multiple regression analysis

Multiple regression analysis is a logical extension of the simple linear regression analysis. Instead of single independent variable, two or more independent variables are used to estimate the unknown values of a dependent variable. However the fundamental concept in the analysis remains the same. Multiple regression is defined as statistical device which is used to estimate (or predicts) the most probable value of dependent variable on the basis of known value of two or more independent variables. The following multiple regression equation is analyzed.

Multiple Regression Model

$\hat{Y}_{ROA} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + ei.$

Where,

$\hat{Y}_{ROA}$ = Dependent variable

X_1 = ACP

X_2 = CR

X_3 =ICP

X_4 =PDP

X_5 = NWCTR

α = Constant

β_i = Beta Coefficient of slope of regression model and

ei = Error term

3.7 Research framework and definition of variables

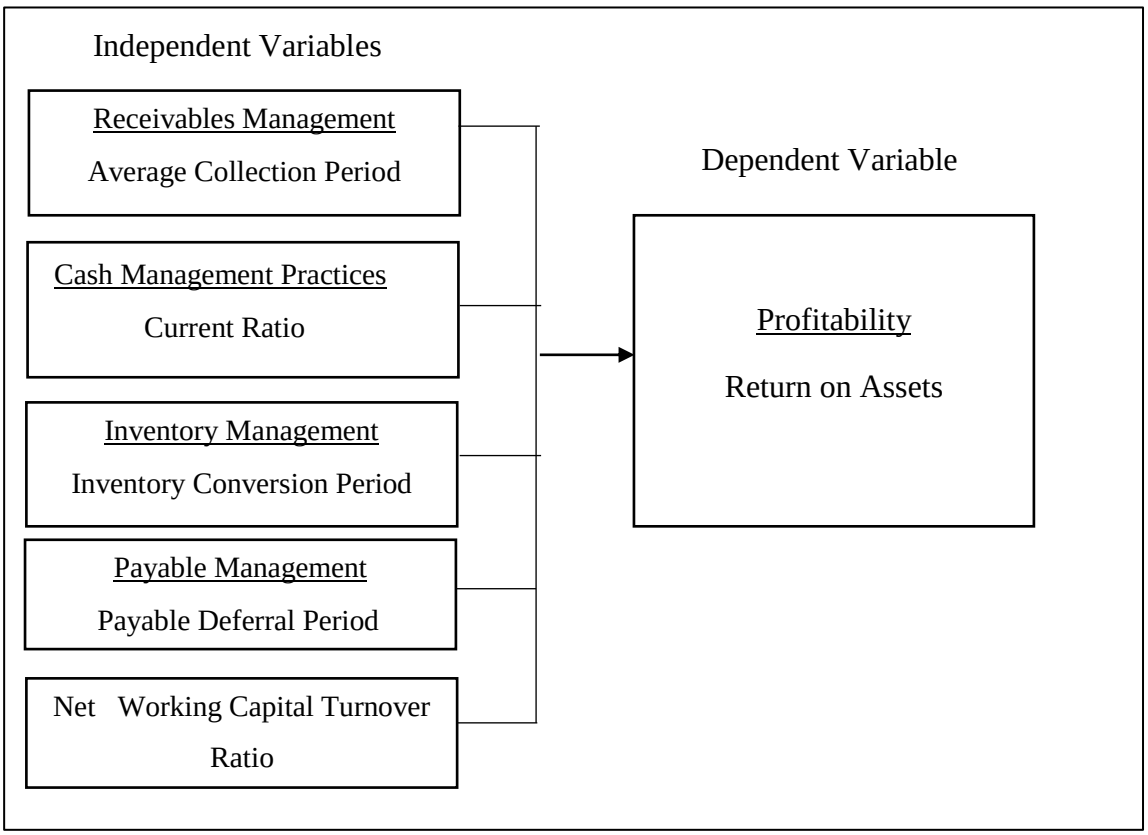
Working capital management refers to the proper management of a firm's current assets and current liabilities. It is concerned with all decisions and acts that influence

the determination of the appropriate level of current assets and their efficient use as well as the choice of the methods of financing them, keeping because of liquidity. It is needed to run the organizations, day to day in an efficient manner. Thus, working and total current assets are synonymous. It is also called circulating capital since it keeps on circulation, the course of business operation. Business starts with cash, which is converted into inventory after some time. Inventory may be of raw materials, semi-finished goods and finished goods. The inventory is converted into receivables and receivables into cash again. Thus the cycle becomes complete. This kind of cycle keeps on operating the organization

Working capital in common parlance is the difference between current assets and current liabilities. Current assets usually consist of cash, marketable securities, receivables and inventory. A major component of current liabilities, on the other hand, is the payables. Management of working capital refers to the practices and techniques designed to control all the items of current assets and current liabilities. In the ordinary sense, working capital management is the function that involves effective and efficient use of all the components of current assets and current liabilities to minimize total cost. The study developed a conceptual framework to show the relationship between the dependent and independent variables. The independent variables are the components of working capital. These include receivables management practices, cash management practices, payables management and inventory management. The dependent variable is the firm's profitability. This is determined in terms of the inventory holding period, accounts receivable period, the payables deferral period, current ratio and working capital turnover ratio.

Figure 3.2

Research Framework



Adapted from (Mbakara, 2017)

The variables can be defined as:

Cash management

Cash is one of the important components of current assets. It is needed for performing all the activities of a firm, i.e. from the acquisition of raw materials to the marketing of finished goods. Therefore, a firm needs to maintain an adequate cash balance. One of the important functions of the finance manager is to match the inflows and the outflows of cash to maintain adequate cash. Shortage of cash put an obstruction in the process production. The holding of excess cash contributes nothing to the profitability of the firm because idle cash earns nothing.

Receivable management

The term receivable is defined as any claim for money owed to the firm from customers arising from the sale of goods or services in the normal course of business. The term account receivable represents sundry debtors of a firm. It is one of the

significant components of working capital next to cash and inventories.

The total volume of accounts receivable depends on its credit sales and debt collection policy- these two significantly influence the requirement of working capital. Liberal credit policy increases the volume of sales but at the same time, it also increases the investment in receivables. Therefore, examination costs and benefits associated with credit policy is one of the important tasks of a finance manager. Receivable management is that aspect of a firm's working capital management, which is concerned with determining optimum credit policy associated with a firm as such that the benefit from an extension of credit is greater than the cost of maintaining investment in account receivable.

Inventory management

Inventory constitutes a major part of total working capital. Efficient management of inventory results in maximization of earnings of the shareholders. Efficient inventory management consists of managing two conflicting objectives: Minimization of investment in inventory on the one hand and maintenance of the smooth flow of raw materials for production and sales on the other. Therefore, the objective of a finance manager is to calculate the level of inventory where these conflicting interests are reconciled.

Investment in inventory should neither be excessive nor inadequate. It should just be optimum. Maintaining an optimum level of investment in inventory is the basic issue of inventory management. Excessive investment in inventory results in a higher cost of funds being tied up so that it reduces profitability. Inventories may be misused, lost, damaged and hold a cost in terms of more space and others. At the same time, insufficient investment in inventory creates stock-out problems, interruption in production and sales. Therefore, financial managers should always try to hold neither excessive nor inadequate investment in inventory. S/he should maintain the optimum level of inventory to run the production and sales operation smoothly.

Accounts payable management

Payables or creditors are one of the important components of working capital management. Payables provide a spontaneous source of financing of working capital.

Payable Management is very closely related to cash management. Effective payable management leads to a steady supply of materials to a firm as well as enhances its reputation.It is generally considered a relatively cheap source of finance as suppliers rarely charge any interest on the amount owed. However, trade creditors will have a cost as a result of the loss of enjoying cash discounts on cash purchases (www.yourarticlelibrary.com).

CHAPTER IV
RESULTS AND DISCUSSIONS

The main objective of this study is to analyze the working capital management of Nepal Telecom. This chapter has been organized to present the results, analyze, and interpret them accordingly. The presentation and analysis of the data in this study have been done to evaluate the working capital position through the financial reports from the fiscal year 2066/67 to 2075/76.

Efforts have been made to analyze working capital management in terms of the composition of current assets, turnover position, liquidity position, and profitability position of Nepal Telecom. The composition of current assets is analyzed by making a relationship of each component of current with total assets, etc. The turnover position is analyzed with the help of current assets turnover, net working capital turnover, turnover of cash, receivables, and inventory. The liquidity position is analyzed with the help of net profit margin, return on total assets, and return on equity.

Data collected for the analysis of working capital management are presented in tabular form and they are analyzed with the help of financial tools and techniques and statistical tools.

4.1 Position of current assets and current liabilities

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 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 to ensure smooth production 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. To accomplish this objective, the business organization should earn sufficient returns for its operations. Earning a steady amount of profit requires successful sales. As the sales do not convert into cash instantly, an 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 principal objective of any business organization, to earn maximum profit and ultimately to maximize shareholder's wealth.

Table 4.1

Position of Current Assets (NRS. In Millions)

Year	Inventory	Loan Advance Deposit	Receivables	Cash and Bank	Miscellaneous	**Total Current Assets**
2066/67	172.27	6959.84	4296	21611.54	1975.71	**35015.36**
2067/68	958.05	8747.04	3904.74	16769.2	0	**30379.04**
2068/69	1049.69	22421.6	4339.42	25220.62	224.82	**53256.15**
2069/70	1385.96	26822.42	3188.95	26774.79	812.15	**58984.27**
2070/71	508.86	4724.61	2923.14	41263.47	1072.05	**50492.13**
2071/72	562.82	1701.2	2621.81	43520.9	12775.55	**61182.29**
2072/73	400.42	1009.04	2930.81	35395.14	22385.7	**62121.11**
2073/74	459.03	592.43	2673.83	24255.21	35760.63	**63741.11**
2074/75	425	515.24	2711.49	23411	42964.31	**70027.03**
2075/76	278.05	341.39	2165.13	19007.03	44219.98	**66011.58**

Table 4.2

(NRS. In Millions)

Position of Current Liabilities and Working Capital

Year	**Current Assets**	**Current Liabilities**	**Net Working Capital**
2066/67	35015.36	13661.07	21354.29
2067/68	30379.04	14941.66	15437.38
2068/69	53256.15	30845.21	22410.94
2069/70	58984.27	36569.23	22415.04
2070/71	50492.13	15828.08	34664.05
2071/72	61182.29	15532.95	45649.34
2072/73	62121.11	16646.7	45474.41
2073/74	63741.11	15115.55	48625.56
2074/75	70027.03	17023.97	53003.06
2075/76	66011.58	21736.69	44274.89
Total	**551210.07**	**197901.11**	**353308.96**
Average	**100220.01**	**35982.02**	**64237.99**
Standard Deviation	**12478.27**	**7360.85**	**13052.57**

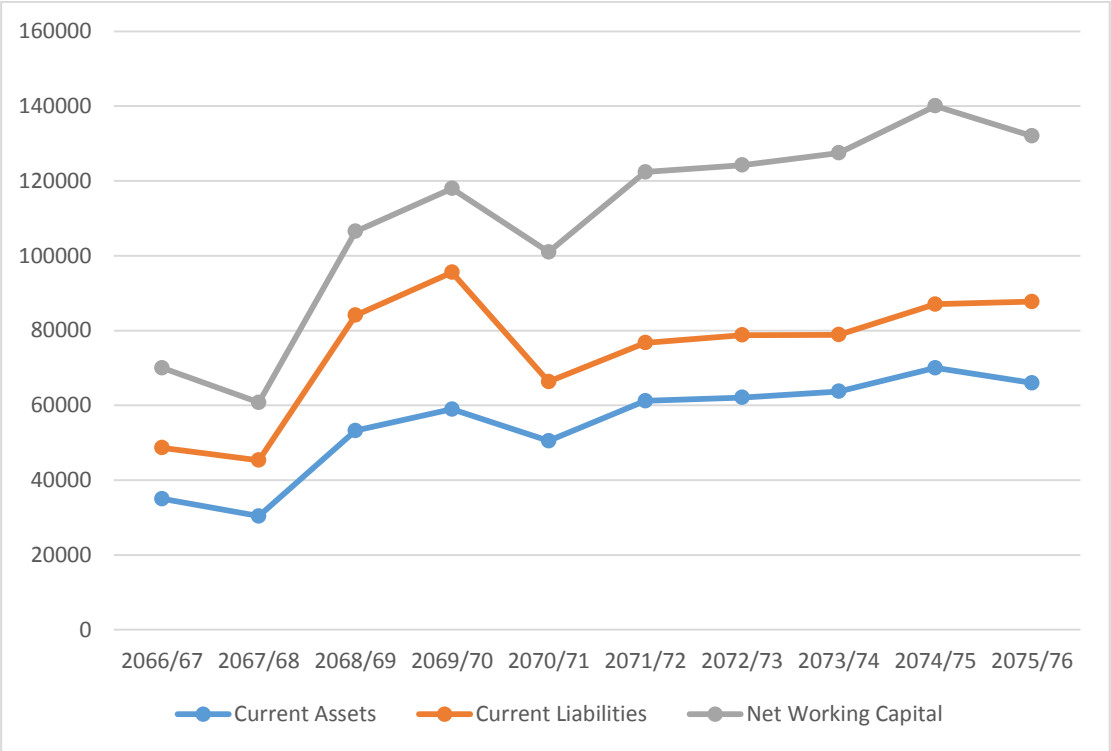
Source: Annual Reports of the Company and IBM SPSS 25

Net working capital is the difference between current assets and current liabilities. The determinants of working capital management should be as accurate as possible. It means money invested in working capital should be neither more nor less because the position of working capital affects not only the liquidity but also the profitability of the organization. The above table 4.1 and 4.2 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 fluctuating during 2066/67 to 2068/69 but after that is in increasing trend up to F/Y 2074/75 but decreased in F/Y 2075/76 by Rs.8728.17 million. From the table, it can be concluded that current assets are in fluctuating trend in increasing way. The current liabilities of Nepal telecom are fluctuating in these ten years. The current liabilities of NT was highest in FY 2069/70 with 36569.23 million

Table 4.2 can also be shown in a diagram as follow:

Figure 4.1

Position of Current Assets, Liabilities and Net Working Capital



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 are 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 firms, invest a major portion of Total Assets in Current Assets. So it is an integral part of the firm and has a greater impact on the 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. A higher percentage of current assets in total assets denotes a greater liquidity position of the firm as well as lowers the risk of being insolvent and vice-versa.

The following table 4.2 presents the ratio of Current Assets to Total Assets of Nepal Telecom:

Table 4.3

Current Assets to Total Assets Ratio (NRS. In Millions)

Year	**Current Assets**	**Total Assets**	Current Assets to Total Assets
2066/67	35015.36	52504.65	66.69%
2067/68	30379.04	76021.56	39.96%
2068/69	53256.15	105918.33	50.28%
2069/70	58984.27	114225.13	51.64%
2070/71	50492.13	95574.9	52.83%
2071/72	61182.29	111305.51	54.97%
2072/73	62121.11	115258.67	53.90%
2073/74	63741.11	121606.82	52.42%
2074/75	70027.03	131892.18	53.09%
2075/76	66011.58	136074.42	48.51%
Average			**52.43%**
Std. Deviation			**7%**
Coefficient of Variation			**12.53%**

Source: Annual Reports of the Company and IBM SPSS 25

Figure 4.2

Current Assets to Total Assets Ratio

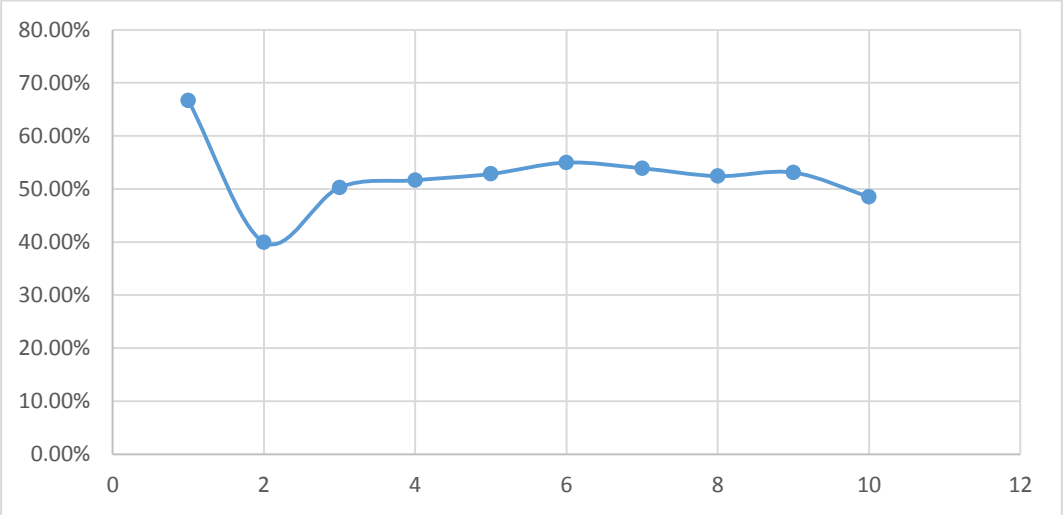


Table 4.3 shows the current assets to total assets ratio of Nepal Telecom during the fiscal year 2066/67 to 2075/76. The proportion of current assets of total assets of Nepal Telecom is fluctuating. The ratio is highest in FY 2066/67 and lowest in FY 2067/68. The average ratio of Currents Assets to Total Assets is 52.43% and the coefficient of variation is 12.53%

The relation between current assets and total assets is positive and uniform. The higher level of current assets indicates a 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 a very important component of Working Capital. Every business firm should hold cash 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 4.4 presents the Ratio of Cash and Bank Balance to Current Assets of Nepal Telecom:

Table 4.4

Cash and Bank to Current Assets Ratio

(NRS. In Millions)

Year	Cash and Bank	Current Assets	Cash And Bank to Current Assets
2066/67	21611.5	35015.4	61.72%
2067/68	16769.2	30379	55.20%
2068/69	25220.6	53256.2	47.36%
2069/70	26774.8	58984.3	45.39%
2070/71	41263.5	50492.1	81.72%
2071/72	43520.9	61182.3	71.13%
2072/73	35395.1	62121.1	56.98%
2073/74	24255.2	63741.1	38.05%
2074/75	23411	70027	33.43%
2075/76	19007	66011.6	28.79%
Average			**51.98%**
Std. Deviation			**17%**
Coefficient of Variation			**32.21%**

Source: Annual Reports of the Company and IBM SPSS 25

Figure 4.3

Cash and Bank to Current Assets Ratio

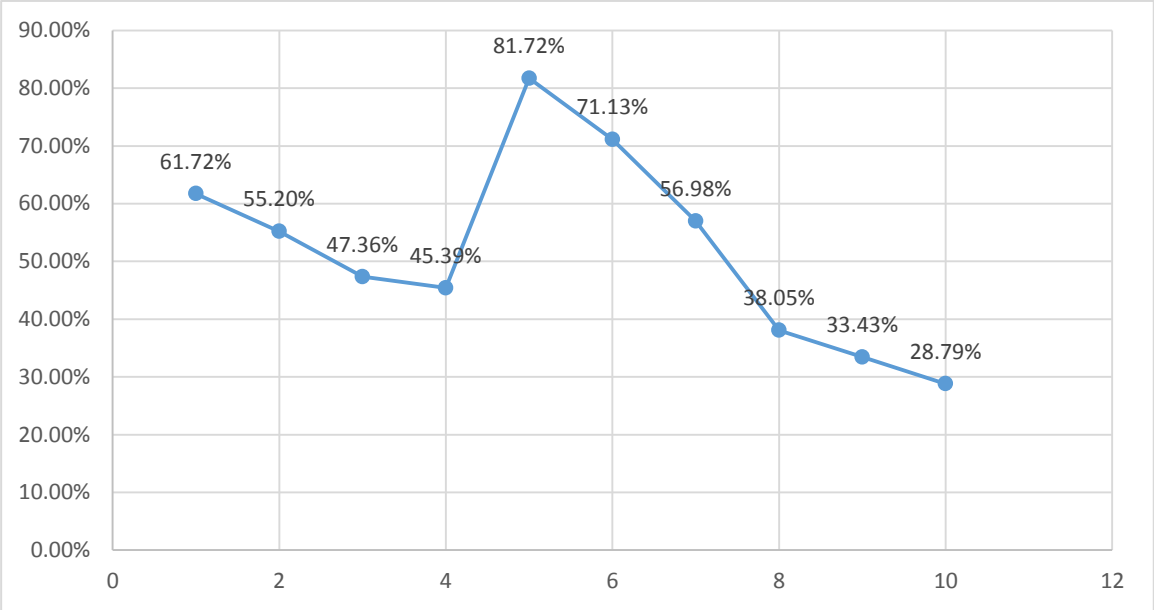


Table 4.4 and figure 4.3 show the cash and bank to current assets ratio of Nepal Telecom during the fiscal year 2066/67 to 2075/76. The cash and bank to current

assets ratio of Nepal Telecom is in decreasing trends from the fiscal year 2066/67 and ranged to 81.72 % in the fiscal year 2070/071 and decreased afterward to 28.79% in the fiscal year 2075/76. The average cash and bank balance to current assets ratio is 51.98% with the coefficient of variation of 32.21%. Since this ratio is too high, it can be stated that the company is facing situations of excess cash and bank balance held idle which is unfavorable for a company.

4.2.3 Inventory 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 kind of inventory results in irregular production, high manufacturing costs, etc. On the other hand, excess inventory causes unnecessary holding of working capital, which earns 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 4.5 presents the proportion of Inventory to Current Assets of Nepal Telecom:

Table 4.5

Inventory to Current Assets Ratio

(NRS. In Millions)

Year	Inventory	Current Assets	Inventory to Current Assets
2066/67	172.27	35015.36	0.49%
2067/68	958.05	30379.04	3.15%
2068/69	1049.69	53256.15	1.97%
2069/70	1385.96	58984.27	2.35%
2070/71	508.86	50492.13	1.01%
2071/72	562.82	61182.29	0.92%
2072/73	400.42	62121.11	0.64%
2073/74	459.03	63741.11	0.72%
2074/75	425	70027.03	0.61%
2075/76	278.05	66011.58	0.42%
Average			**1.23%**
Std. Deviation			**0.93%**
Coefficient of Variation			**75.95%**

Source: Annual Reports of the Company and IBM SPSS 25

Figure 4.4

Inventory to Current Assets Ratio

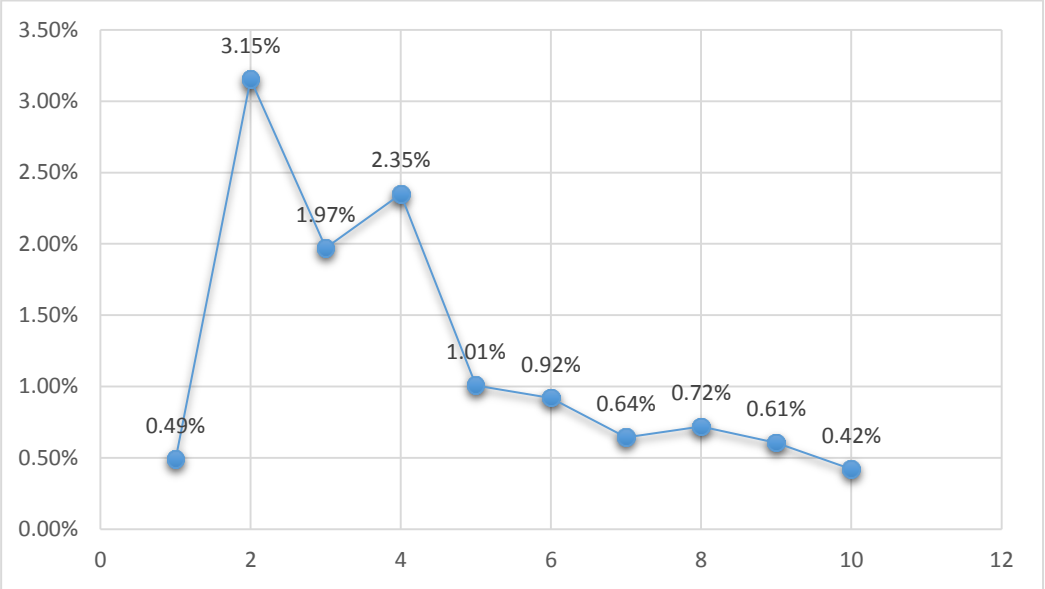


Table 4.5 and figure 4.4 shows the proportion of Inventories to its Current Assets. In F/Y 20666/67, the ratio is 0.49% and reached 0.42% in FY 2075/76. The Average ratio of Inventory to Current Assets is 1.23% with a coefficient of variation is 75.95% which shows that portion of inventory in current assets is very low and 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. A higher percentage shows a 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 4.6 presents the proportion of Receivables to Current Assets of Nepal Telecom:

Table 4.6

Receivables to Current Assets Ratio (NRS. In Millions)

Year	Receivables	Current Assets	Receivables to Current Asset
2066/67	4296	35015.36	12.27%
2067/68	3904.74	30379.04	12.85%
2068/69	4339.42	53256.15	8.15%
2069/70	3188.95	58984.27	5.41%
2070/71	2923.14	50492.13	5.79%
2071/72	2621.81	61182.29	4.29%
2072/73	2930.81	62121.11	4.72%
2073/74	2673.83	63741.11	4.19%
2074/75	2711.49	70027.03	3.87%
2075/76	2165.13	66011.58	3.28%
Average			**6.48%**
Std. Deviation			**3.48%**
Coefficient of Variation			**53.63%**

Source: Annual Reports of the Company

Figure 4.5

Receivables to Current Assets Ratio

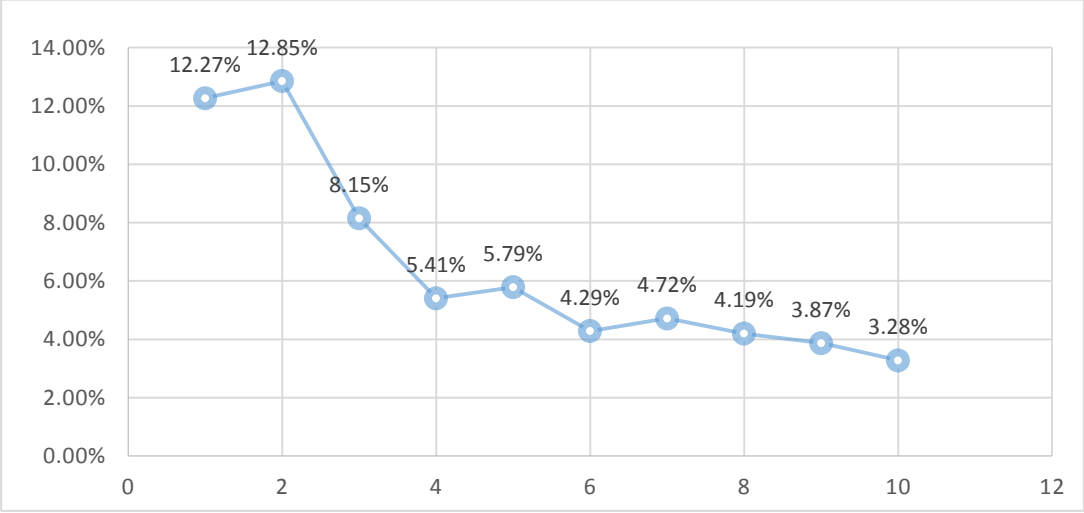


Table 4.6 and figure 4.5 show the proportion of Receivables to the Current Assets. In F/Y 2066/67, the ratio is 12.27% and reached 3.28% in FY 2075/76. The average ratio of Receivables to Current Assets is 6.48% with a coefficient of variation is 53.63% which shows that the portion of receivables in current assets is low 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

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 is decreasing compared to its total liabilities.

The following table 4.7 presents the proportion of Current Liabilities to Total Liabilities of Nepal Telecom:

Table 4.7

Current Liabilities to Total Liabilities (NRS. In Millions)

Year	Current Liabilities	Total Liabilities	Current Liability to Total Liability
2066/67	13661.07	19016.12	71.84%
2067/68	14941.66	22127.68	67.52%
2068/69	30845.21	56443.77	54.65%
2069/70	36569.23	60589.43	60.36%
2070/71	15828.08	38098.18	41.55%
2071/72	15532.95	30307.07	51.25%
2072/73	16646.7	29230.79	56.95%
2073/74	15115.55	30275.98	49.93%
2074/75	17023.97	32227.07	52.83%
2075/76	21736.69	44162.94	49.22%
Average			**55.61%**
Std. Deviation			**9.00%**
Coefficient of Variation			**16.18%**

Source: Annual Reports of the Company

Figure 4.6

Current Liability to Total Liability

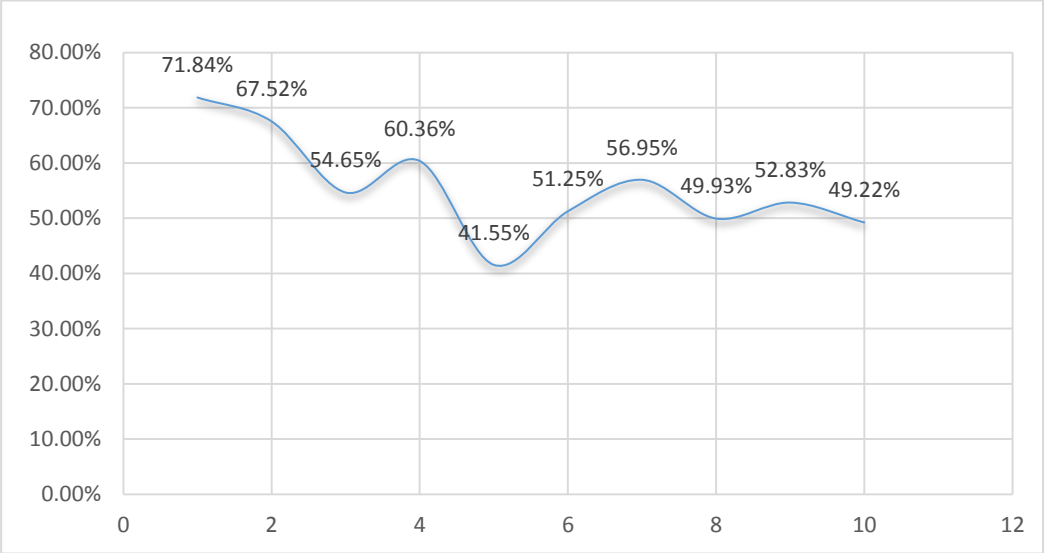


Table 4.7 and figure 4.6 show that Current Liabilities to Total Liabilities are in fluctuating trend. An increasing Current to Total Liabilities ratio is usually a negative sign. The average ratio of Current Liability to Total Liability is 55.61% with a coefficient of variation is 16.18%. Since the company's current to total liabilities are fluctuating (i.e keep increasing and decreasing), the ratio for FY 2075/76 is 49.22% which is relatively low than other fiscal years shows a good position of the company than the previous FY.

4.2.6 Current assets turnover ratio

The current Asset Turnover ratio measures the firm’s ability to generate 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 4.8 presents the Current Assets Turnover Ratio of Nepal Telecom:

Table 4.8

Current Assets Turnover Ratio (NRS. In Millions)

Year	Revenue	Current Assets	Current Assets Turnover Ratio
2066/67	27221.07	35015.36	0.78
2067/68	29849.16	30379.04	0.98
2068/69	36791.82	53256.15	0.69
2069/70	38858.26	58984.27	0.66
2070/71	39695.24	50492.13	0.79
2071/72	42638.37	61182.29	0.70
2072/73	44209.25	62121.11	0.71
2073/74	44588.99	63741.11	0.70
2074/75	45269.48	70027.03	0.65
2075/76	43839.04	66011.58	0.66
Average			**0.73**
Std. Deviation			**0.10**
Coefficient of Variation			**14%**

Source: Annual Reports of the Company

Figure 4.7

Current Assets Turnover Ratio

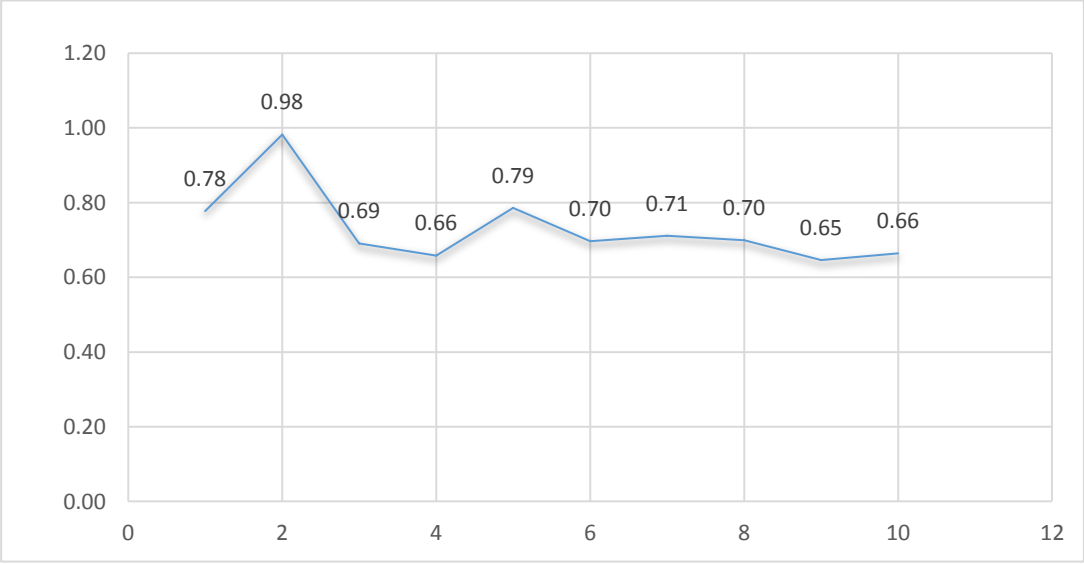


Table 4.8 and figure 4.7 show the current assets turnover ratio of Nepal Telecom is in decreasing trend during the study period. The ratio is highest at 0.98 in FY 2067/68 and lowest at 0.65 in FY 2074/75. The average current turnover ratio is 0.73 with a

coefficient of variation of 14%. A low ratio indicates that the company can generate more revenue from minimum investment in current assets.

4.2.7 Inventory turnover ratio

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

The following table 4.9 shows the inventory turnover ratio of Nepal Telecom during the study:

Table 4.9

Inventory Turnover Ratio (NRS. In Millions)

Year	Revenue	Inventory	Inventory Turnover Ratio
2066/67	27221.07	172.27	158.01
2067/68	29849.16	958.05	31.16
2068/69	36791.82	1049.69	35.05
2069/70	38858.26	1385.96	28.04
2070/71	39695.24	508.86	78.01
2071/72	42638.37	562.82	75.76
2072/73	44209.25	400.42	110.41
2073/74	44588.99	459.03	97.14
2074/75	45269.48	425	106.52
2075/76	43839.04	278.05	157.67
Average			**87.78**
Std. Deviation			**47.80**
Coefficient of Variation			**54%**

Source: Annual Reports of the Company

Figure 4.8

Inventory Turnover Ratio

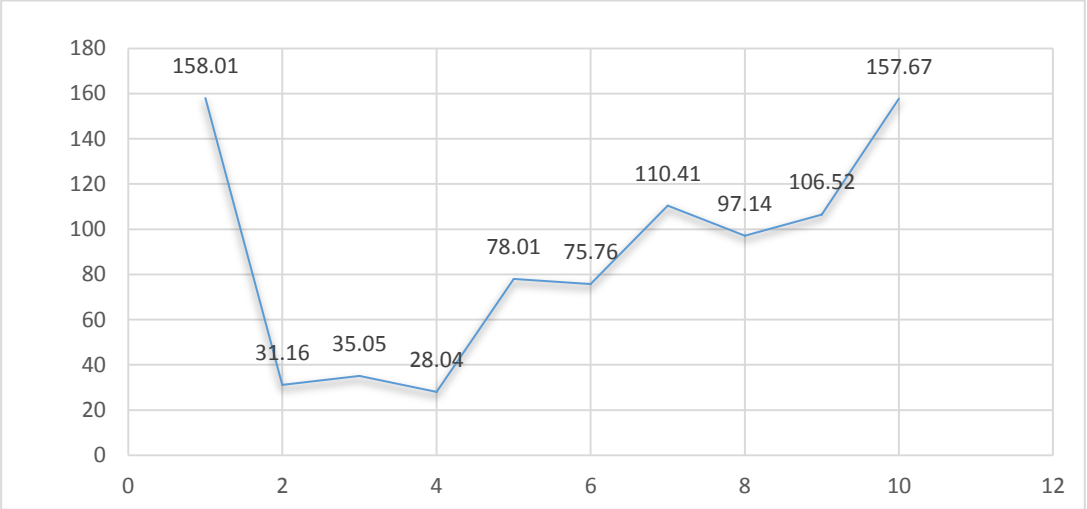


Table 4.9 and figure 4.8 show the Inventory Turnover Ratio or the number of times Inventory replaced during the ten years. The inventory turnover ratio is in increasing during the study period. The ratio is minimum at 28.04 times in the fiscal year 2069/70 and highest 158.01 times in the fiscal year 2066/67. Inventory has decreased in FY 2071/72 due to capitalization of inventory and written off. The average total revenue to inventory ratio of Nepal Telecom is 87.78 times with 54% of the 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. The inventory turnover ratio of Nepal Telecom is very high so that it is very good.

4.2.8 Receivable 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 the customer. The following table 4.10 shows the receivable turnover ratio of Nepal Telecom:

Table 4.10

Receivable Turnover Ratio (NRS. In Millions)

Year	Revenue	Receivables	Receivable Turnover Ratio
2066/67	27221.07	4296	6.34
2067/68	29849.16	3904.74	7.64
2068/69	36791.82	4339.42	8.48
2069/70	38858.26	3188.95	12.19
2070/71	39695.24	2923.14	13.58
2071/72	42638.37	2621.81	16.26
2072/73	44209.25	2930.81	15.08
2073/74	44588.99	2673.83	16.68
2074/75	45269.48	2711.49	16.70
2075/76	43839.04	2165.13	20.25
Average			**13.32**
Std. Deviation			**4.57**
Coefficient of Variation			**34.33%**

Source: Annual Reports of the Company

Figure 4.9

Receivables Turnover Ratio

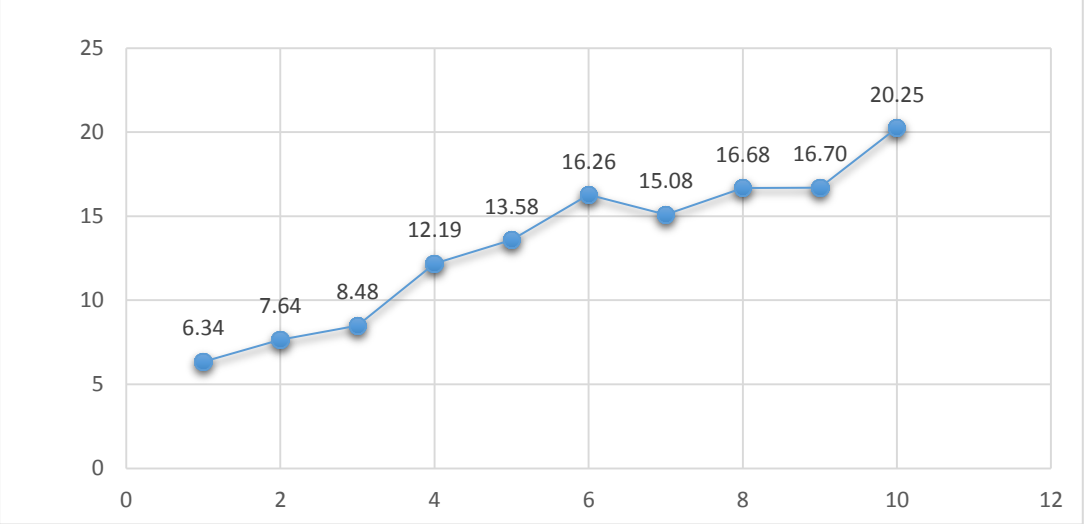


Table 4.10 and figure 4.9 shows the receivable turnover ratio of Nepal Telecom during the study period. Receivable Turnover Ratio is found in increasing trend. In the FY 2066/67, the ratio is 6.34 times and has increased to 20.25 times in FY

2075/76. The Average Receivable Turnover Ratio is 13.32 times with 34.33% of the coefficient of variation. Higher turnover ratios indicate a shorter collection period. In conclusion, the company is able to collect its credit revenue in a short period of time.

4.2.9 Net 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 4.11 presents the Working Capital Turnover Ratio of Nepal Telecom:

Table 4.11

(NRS. In Millions)

Net Working Capital Turnover Ratio

Year	Revenue	Net Working Capital	Net Working Capital Turnover Ratio
2066/67	27221.07	21354.29	1.27
2067/68	29849.16	15437.38	1.93
2068/69	36791.82	22410.94	1.64
2069/70	38858.26	22415.04	1.73
2070/71	39695.24	34664.05	1.15
2071/72	42638.37	45649.34	0.93
2072/73	44209.25	45474.41	0.97
2073/74	44588.99	48625.56	0.92
2074/75	45269.48	53003.06	0.85
2075/76	43839.04	44274.89	0.99
Average			**1.24**
Std. Deviation			**0.39**
Coefficient of Variation			**31.56%**

Source: Annual Reports of the Company

Figure 4.10

Net Working Capital Ratio

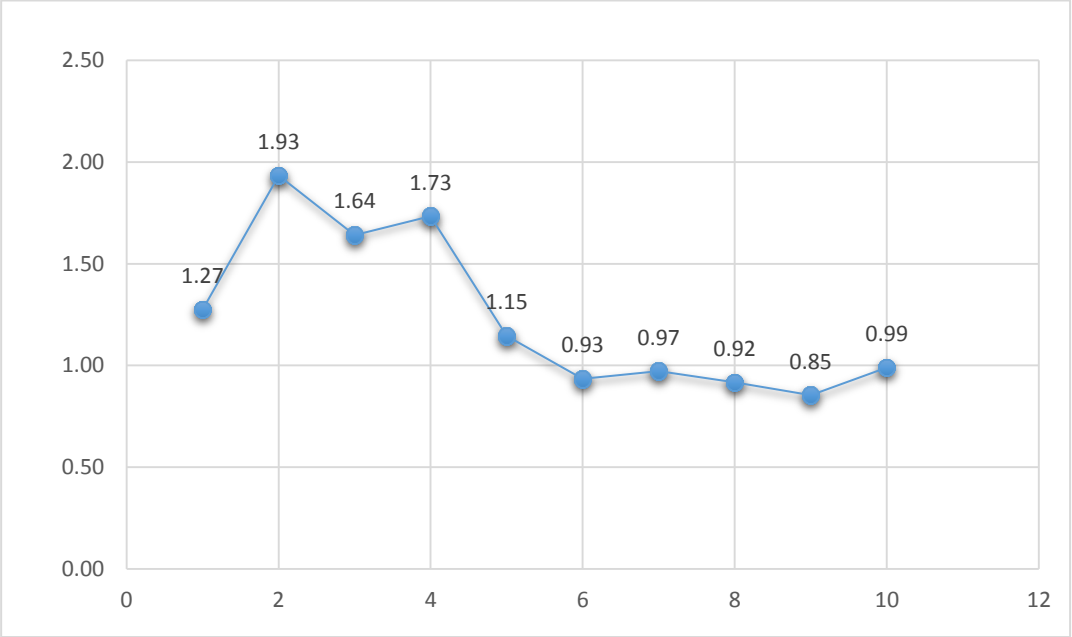


Table 4.11 and figure 4.10 show the net working capital turnover ratio of Nepal Telecom is in decreasing trend from FY 2070/71. The ratio in FY 2066/67 is 1.27 times and increases in FY 2067/68. The Ratio keeps fluctuating during the ten years. A low ratio indicates that a company is investing in too many accounts receivable and inventory to support its revenue. The average working capital turnover ratio of Nepal Telecom is 1.24 times with a coefficient of variation of 31.56% which shows that company has invested most of the funds in the form of current assets like cash & receivables. So the opportunity cost of cash and receivables for the company is increasing. There is also a chance of bad debts due to an increase in receivables.

4.2.10 Inventory conversion period

It measures the length of time on average between the acquisition and sale of merchandise. A high Inventory Conversion Period shows the blockage of money in inventory whereas, a low ICP shows the improvement of blockage of money in the inventory. Less Inventory Conversion Period is better because it shows the company can convert its inventory into sales fastly and there will be less chance of obsolescence and paying of overstocking cost. The following table 4.12 presents the Inventory Conversion Period of Nepal Telecom:

Table 4.12

Inventory Conversion Period (NRS. In Millions)

Year	Revenue	Inventory	ICP
2066/67	27221.07	172.27	2.31
2067/68	29849.16	958.05	11.71
2068/69	36791.82	1049.69	10.41
2069/70	38858.26	1385.96	13.02
2070/71	39695.24	508.86	4.68
2071/72	42638.37	562.82	4.82
2072/73	44209.25	400.42	3.31
2073/74	44588.99	459.03	3.76
2074/75	45269.48	425	3.43
2075/76	43839.04	278.05	2.31
Average			**5.98**
Std. Deviation			**4.09**
CV			**68%**

Source: Annual Reports of the Company

Figure 4.11

Inventory Conversion Period

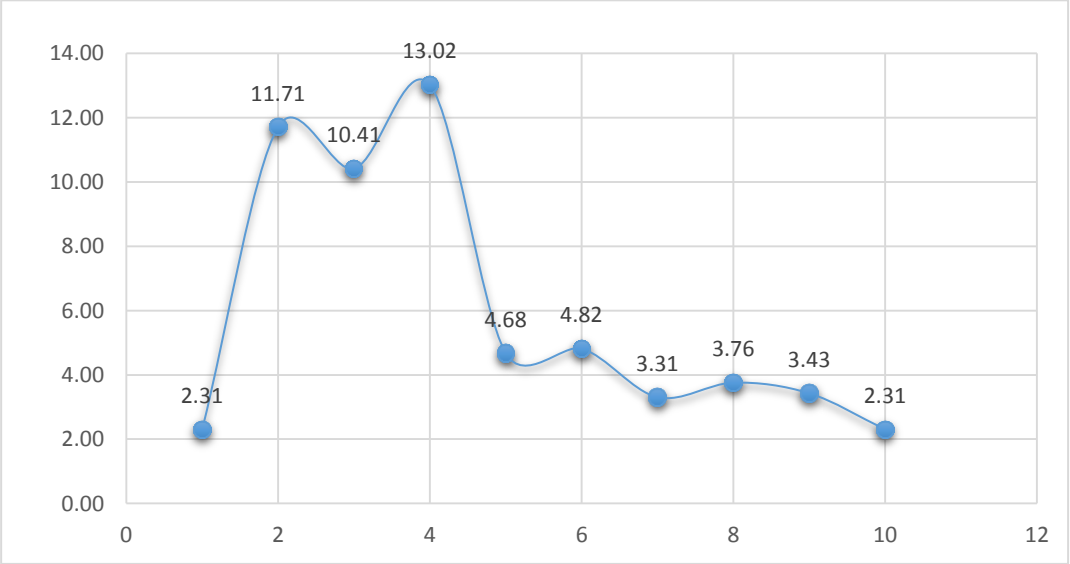


Table 4.12 and figure 4.11 show the average Inventory Conversion Period of Nepal Telecom is in decreasing trend from FY 2069/70. A low conversion period indicates that a company is converting its inventory into sales quite fastly. The ICP is highest at

13.02 days in FY 2069/70 and lowest at 2.31 days in FY 2075/76. The average Inventory Conversion Period of Nepal Telecom is 5.98 days with a coefficient of variation of 68% which shows that the company has converted its inventory into sales and there is less chance of paying the overstocking cost.

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 4.13 shows the average collection period of Nepal Telecom:

Table 4.13

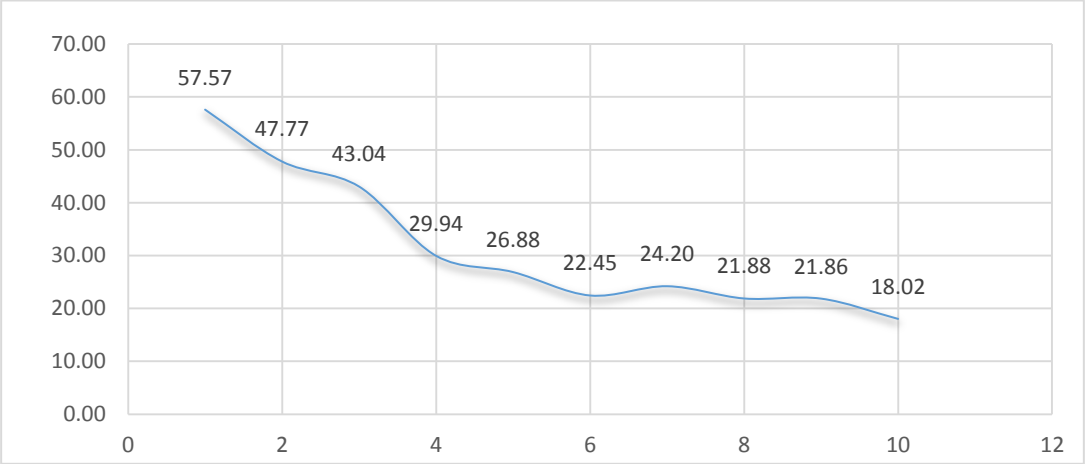
Average Collection Period (NRS. In Millions)

Year	Revenue	Receivables	Average Collection Period
2066/67	27221.07	4296	57.57
2067/68	29849.16	3904.74	47.77
2068/69	36791.82	4339.42	43.04
2069/70	38858.26	3188.95	29.94
2070/71	39695.24	2923.14	26.88
2071/72	42638.37	2621.81	22.45
2072/73	44209.25	2930.81	24.20
2073/74	44588.99	2673.83	21.88
2074/75	45269.48	2711.49	21.86
2075/76	43839.04	2165.13	18.02
Average			**31.36**
Std. Deviation			**13.35**
Coefficient of Variation			**42.56%**

Source: Annual Reports of the Company

Figure 4.12

Average Collection Period



The Average Collection Period of Nepal Telecom has been found fluctuating over the period in decreasing trend caused by the change in volume of revenue and receivables in different years. On average, the collection period of Nepal Telecom is 31.36 i.e. 31 days. A lower average collection period means the company is able to realize credit revenue in a short period. The average collection period of Nepal Telecom is in decreasing trend; hence we can say that the credit management of Nepal Telecom is good.

4.2.12 Payable turnover ratio

The payable turnover ratio measures how quickly a business makes payments to creditors and suppliers that extend the line of credit. A high accounts payable ratio signals that the company is paying its creditors and suppliers quickly, while a low ratio suggests the business is slower in paying its bills.

The following table 4.14 shows the average collection period of Nepal Telecom:

Table 4.14

Payable Turnover Ratio

(NRS. In Millions)

Year	Revenue	Payable	Payable Turnover Ratio (Times)
2066/67	27221.07	220.15	123.65
2067/68	29849.16	172.14	173.40
2068/69	36791.82	-9.88	-3723.87
2069/70	38858.26	309.01	125.75
2070/71	39695.24	482.16	82.33
2071/72	42638.37	426.44	99.99
2072/73	44209.25	549.69	80.43
2073/74	44588.99	-3.18	-14021.69
2074/75	45269.48	406.06	111.48
2075/76	43839.04	2722.95	16.10
Average			**-1693.24**
SD			**4264.99**
CV			**-2.52**

Source: Annual Reports of the Company

Figure 4.13

Payable Turnover Ratio

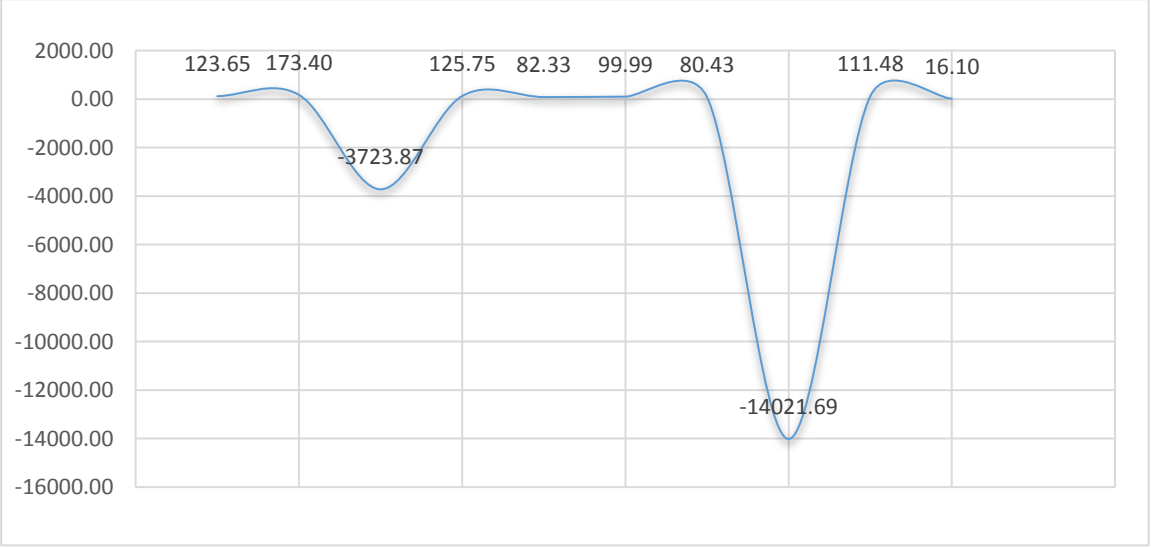


Table 4.14 and figure 4.13 show the Payable Turnover Ratio of Nepal Telecom is in fluctuating trend. A high accounts payable ratio signals that the company is paying its

creditors and suppliers quickly, while a low ratio suggests the business is slower in paying its bills. The ratio is highest at 173.40 times in FY 2067/68 and lowest at -14021.69 times in FY 2073/74. The average Payable Turnover Ratio of Nepal Telecom is -1693.24 times with a coefficient of variation of -2.52 times which shows that the company is slowly paying its bills.

4.2.13 Payable Deferral Period

The ratio depicts how well a company is managing its cash outflows 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 the use of cash as whenever a company settles its bills which reduces working capital.

The following table 4.15 presents the Payable Deferral Period of Nepal Telecom:

Table 4.15

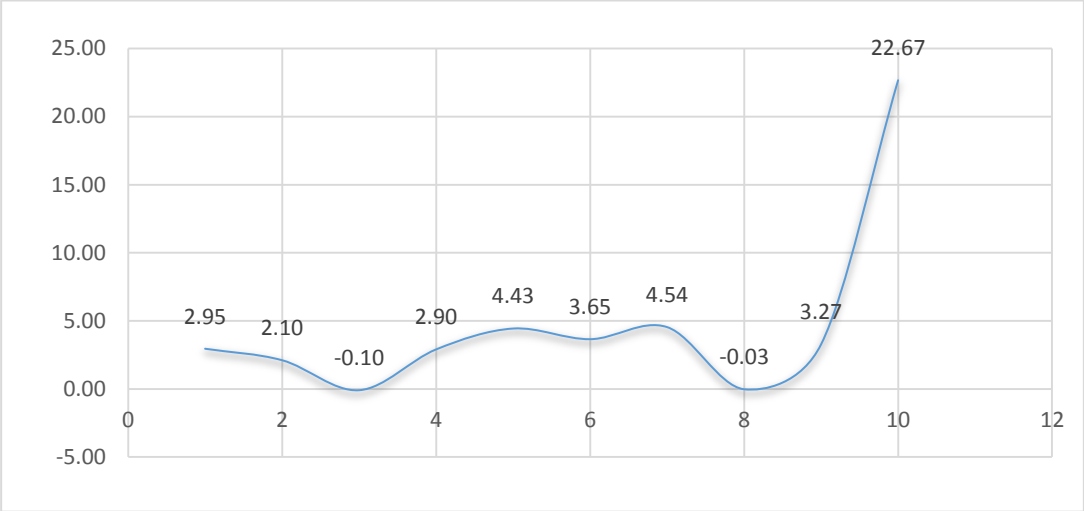
Payable Deferral Period (NRS. In Millions)

Year	Revenue	Payable	Payable Deferral Period (Days)
2066/67	27221.07	220.15	2.95
2067/68	29849.16	172.14	2.10
2068/69	36791.82	-9.88	-0.10
2069/70	38858.26	309.01	2.90
2070/71	39695.24	482.16	4.43
2071/72	42638.37	426.44	3.65
2072/73	44209.25	549.69	4.54
2073/74	44588.99	-3.18	-0.03
2074/75	45269.48	406.06	3.27
2075/76	43839.04	2722.95	22.67
Average			**4.64**
SD			**6.20**
CV			**133.64**

Source: Annual Reports of the Company

Figure 4.14

Payable Deferral Period



The Average Payable Deferral Period is found fluctuating over the period. On average, the payable period of Nepal Telecom is 4.64 i.e. 5 days. A higher average payable deferral period means the company is settling its liabilities very delay. The average payable deferral period of Nepal Telecom is in decreasing trend; hence it was found that the company is trying to make payment on time.

4.3 Analysis of liquidity ratio

Liquidity position shows the ability to pay the bills. Liquidity fulfills the current need for 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 a 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 in 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. The liquidity position of the company can be analyzed based on the following ratios.

4.3.1 Current ratio

The current ratio shows the ability to pay the 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 is considered satisfactory. The higher the current ratio means greater the margin of safety and the larger the number of current assets to current liabilities, the more the firm's ability to meet its obligations and strong working capital position. Table 4.15 presents the Current Ratio during the study period of Nepal Telecom:

Table 4.16

Current Ratio

(NRS. In Millions)

Year	Current Assets	Current Liabilities	Current Ratio
2066/67	35015.36	13661.07	2.56
2067/68	30379.04	14941.66	2.03
2068/69	53256.15	30845.21	1.73
2069/70	58984.27	36569.23	1.61
2070/71	50492.13	15828.08	3.19
2071/72	61182.29	15532.95	3.94
2072/73	62121.11	16646.7	3.73
2073/74	63741.11	15115.55	4.22
2074/75	70027.03	17023.97	4.11
2075/76	66011.58	21736.69	3.04
Average			**3.02**
Std. Deviation			**0.99**
CV			**32.86%**

Source: Annual Reports of the Company

Figure 4.15

Current Ratio

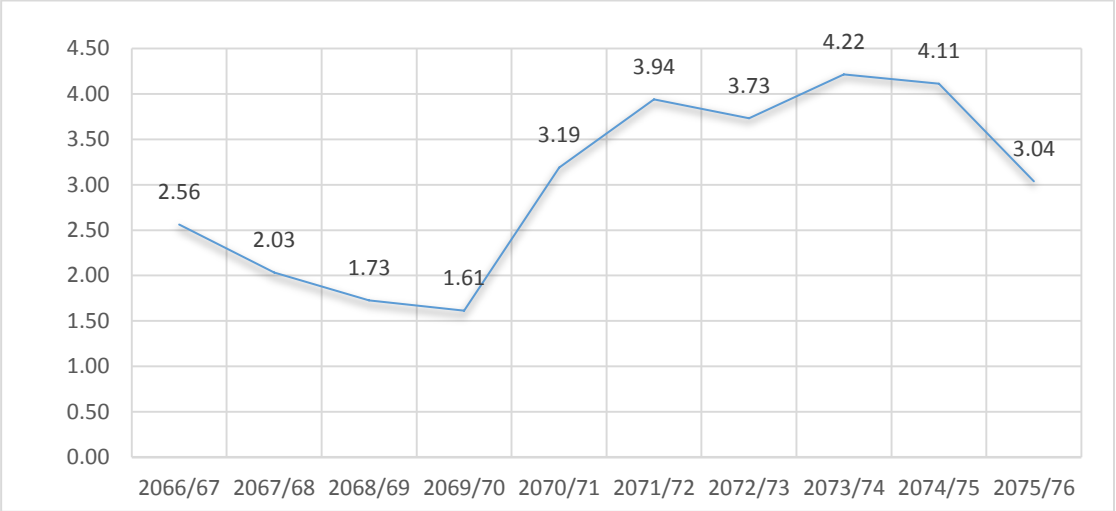


Table 4.16 and figure 4.15 show that the highest ratio is 4.22 times in F/Y 2073/74 and the lowest ratio is 1.61 times in F/Y 269/070; however, ratios are fluctuating in an increasing trend. From FY 2066/67 to 2075/76 ratio has been in increasing and decreasing. The ratio has been decreasing from FY 2066/67 to FY 2069/70 and starts to increase from FY 2070/71 to FY 2073/74 and have decreased to 3.04 times in FY 2075/76. The average Current Ratio is 3.02 with a 32.86% coefficient of variation. A higher current ratio (more than 2:1) is good for the company and the current ratio of Nepal Telecom is higher so, Nepal Telecom's solvency position is very good.

4.3.2 Acid-Test ratio/Quick ratio

Quick ratio mainly concentrates on cash, marketable securities and receivables concerning current obligations and thus provides a more reliable measure of liquidity than the current ratio does. The higher current ratio may not be regarded well because the holding of more amounts of inventories may bring a shortage of cash and the company may hinder paying current obligations. This ratio should be greater than one for the sound liquidity position of the company. Table 4.14 presents the Quick Ratio of Nepal Telecom:

Table 4.17

Quick Ratio (NRS. In Millions)

Year	Quick Assets	Current Liabilities	Quick Ratio
2066/67	34843.09	13661.1	2.55
2067/68	29420.99	14941.7	1.97
2068/69	52206.46	30845.2	1.69
2069/70	57598.31	36569.2	1.58
2070/71	49983.27	15828.1	3.16
2071/72	60619.47	15533	3.90
2072/73	61720.69	16646.7	3.71
2073/74	63282.08	15115.6	4.19
2074/75	69602.03	17024	4.09
2075/76	65733.53	21736.7	3.02
Average			**2.99**
Std. Deviation			**1.00**
CV			**33.38%**

Source: Annual Reports of the Company

Figure 4.16

Quick Ratio

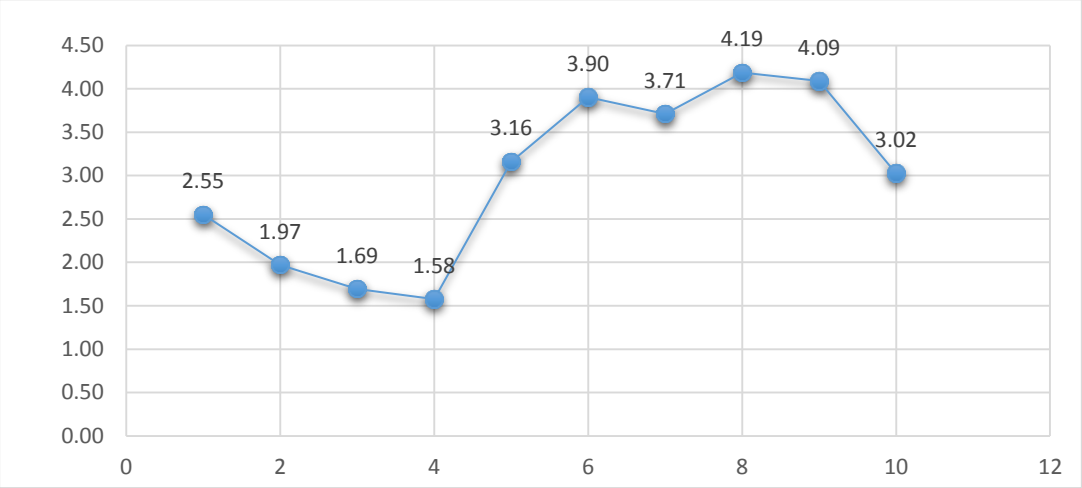


Table 4.17 and figure 4.16 show that the quick ratio is in the increasing trend during the study period. The highest ratio is 4.19 times in F/Y 2073/74 and the lowest ratio is 1.58 times in F/Y 269/070; From FY 2066/67 to 2075/76 ratio has been in increasing and decreasing. The ratio has been decreasing from FY 2066/67 to FY 2069/70 and

starts to increase from FY 2070/71 to FY 2073/74 and have decreased to 3.02 times in FY 2075/76. The average quick ratio is 2.99 times with 33.38% of the coefficient of variation. The quick ratios calculated above are observed more than the standard level (1:1) each year. So the Quick Ratio of the company is very good. This is allowing to the holding of more amounts of cash and bank balances.

4.4 Profitability position

The working capital component has affected the profitability position of the enterprises. The strong profitability position fulfills the aims of wealth maximization as well as profit maximization, which motivates the investor to invest.

Profit is an important factor that determines the firms' expansion and diversification. A required level of profit is necessary for the firms' growth and survival in the competitive environment. Various ratios can be developed upon the profit under different circumstances. These different ratios are called profitability ratios, which are required to support the purpose of the study:

4.4.1 Net profit margin ratio

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 the 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. Table 4.18 presents the Net Profit Margin Ratio of Nepal Telecom:

Table 4.18

Net Profit Margin Ratio (NRS. In Millions)

Year	Net Profit After Tax	Revenue	Net Profit Margin Ratio
2066/67	10775.15	27221.07	39.58%
2067/68	12120.3	29849.16	40.61%
2068/69	11605.27	36791.82	31.54%
2069/70	11299.18	38858.26	29.08%
2070/71	11553.72	39695.24	29.11%
2071/72	14556.34	42638.37	34.14%
2072/73	13681.16	44209.25	30.95%
2073/74	15372.76	44588.99	34.48%
2074/75	17483.8	45269.48	38.62%
2075/76	9757.58	43839.04	22.26%
Average			**33.04%**
Std. Deviation			**0.06**
CV			**17.14%**

Source: Annual Reports of the Company

Figure 4.17

Net Profit Margin Ratio

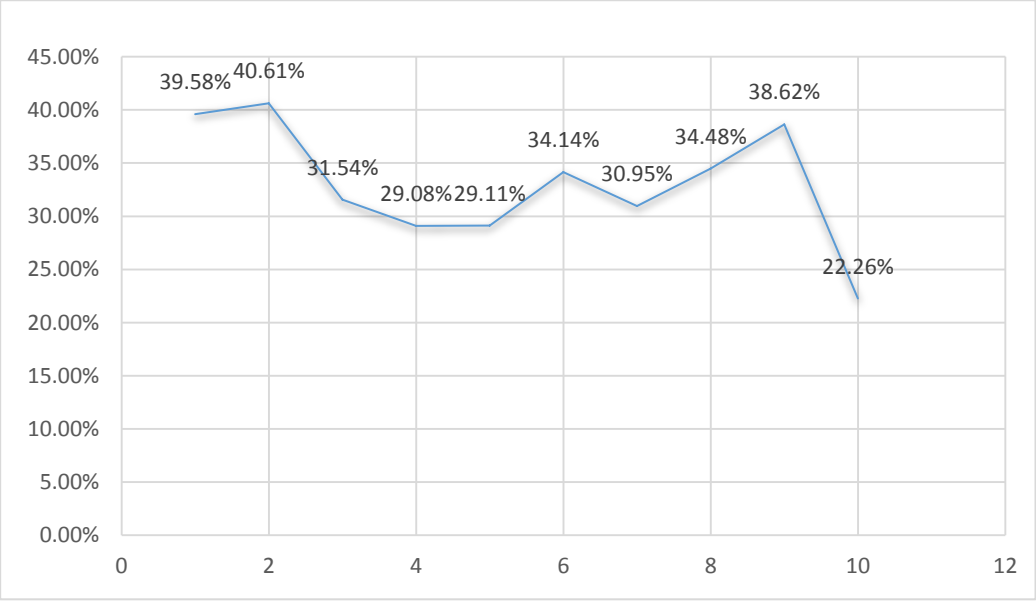


Table 4.18 and figure 4.17 show the net profit margin of Nepal Telecom for FY 2066/67 to FY 2075/76. The net profit of the company is in fluctuating trends whereas the revenue is in increasing trends. Net profit margin is the highest in the fiscal year 2067/68 as 40.61% and the lowest 22.26% in the fiscal year 2075/76. The average net profit is 33.04% with a 17.14% coefficient of variation which is very good. Based on the company's net profit margin ratio, it can be concluded that the company's overall efficiency is very good.

4.4.2 Return on 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. Table 4.19 presents the Return on Equity during the study period of Nepal Telecom:

Table 4.19

Return on Equity (NRS. In Millions)

Year	Net Profit After Tax	Equity	Return on Equity
2066/67	10775.15	47149.6	22.85%
2067/68	12120.3	53893.89	22.49%
2068/69	11605.27	49474.56	23.46%
2069/70	11299.18	53635.69	21.07%
2070/71	11553.72	57476.73	20.10%
2071/72	14556.34	80998.44	17.97%
2072/73	13681.16	86027.88	15.90%
2073/74	15372.76	91330.85	16.83%
2074/75	17483.8	99665.12	17.54%
2075/76	9757.58	91911.48	10.62%
Average			**18.88%**
Std. Deviation			**0.04**
Coefficient of Variation			**20.89%**

Source: Annual Reports of the Company

Figure 4.18

Return on Equity

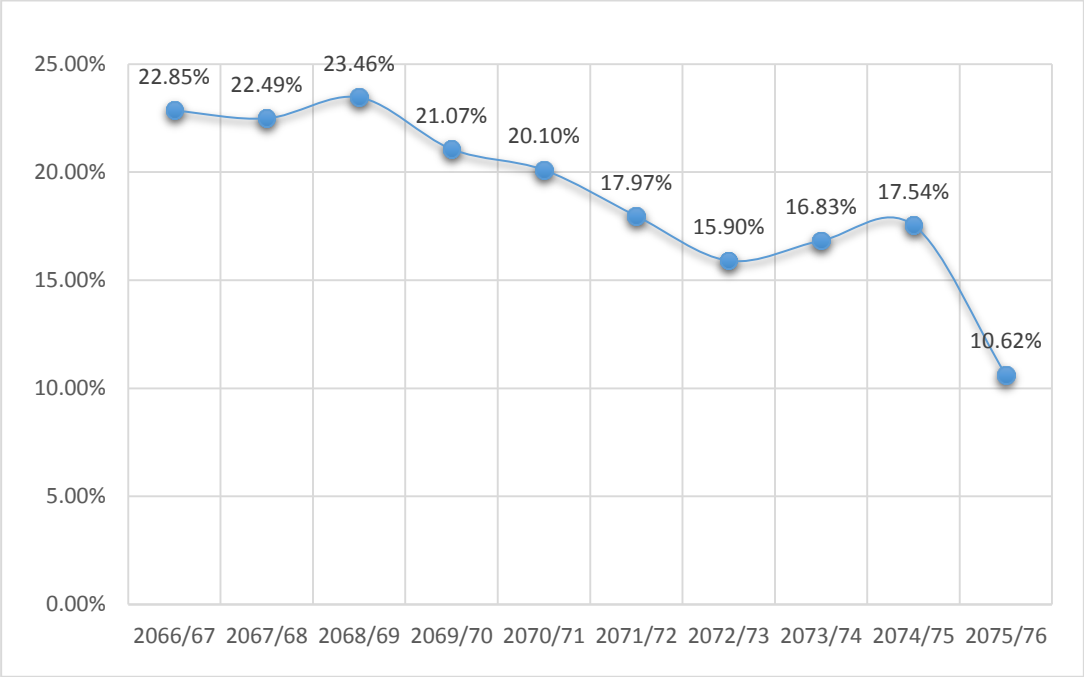


Table 4.19 and figure 4.18 show the return on equity of Nepal Telecom over the study period 2066/67 to 2075/76. The table shows that the returns on equity of Nepal Telecom are in decreasing trend. It is due to an increase in equity every year. Return on Equity is the highest in the fiscal year 2068/69 as 23.46% and the lowest 10.62% in the fiscal year 2075/76. The average return on equity ratio of Nepal Telecom is 18.88% and the variation on such ratio is 20.89%. The average return on equity ratio is not so high so the overall performance of the company is not satisfactory

4.4.3 Return on assets

Return on 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 from its overall resources (total assets). Return on assets is a key profitability ratio that 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 efficient 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. Table 4.20 presents the Return on Assets during the study period of Nepal Telecom:

Table 4.20

Return on Assets

(NRS. In Millions)

Year	Net Profit After Tax	Total Assets	Return on Assets
2066/67	10775.2	52504.7	20.52%
2067/68	12120.3	76021.6	15.94%
2068/69	11605.3	105918	10.96%
2069/70	11299.2	114225	9.89%
2070/71	11553.7	95574.9	12.09%
2071/72	14556.3	111306	13.08%
2072/73	13681.2	115259	11.87%
2073/74	15372.8	121607	12.64%
2074/75	17483.8	131892	13.26%
2075/76	9757.58	136074	7.17%
Average			**12.74%**
Std. Deviation			**0.04**
Coefficient of Variation			**28.02%**

Source: Annual Reports of the Company

Figure 4.19

Return on Assets

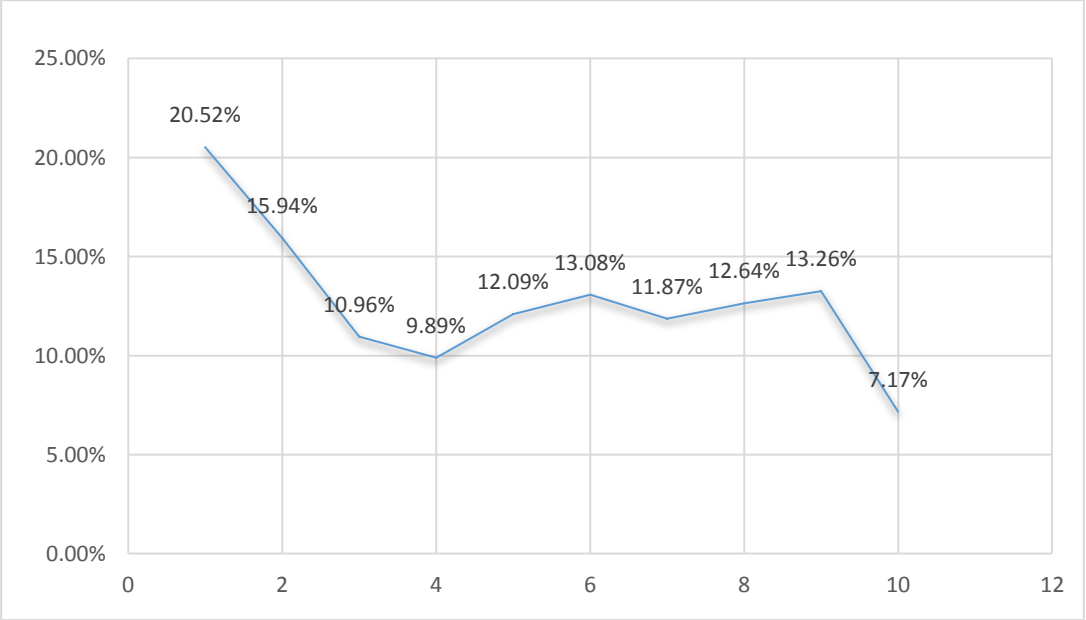


Table 4.20 and figure 4.19 show an analysis of the return on total assets of Nepal Telecom over the study period 2066/67 to 2075/76. Return on Assets is the highest in the fiscal year 2066/67 as 20.52% and the lowest 7.17% in the fiscal year 2075/76. The average return on assets of Nepal Telecom is 12.74% and the variation on such ratio is 28.02% 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 the 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 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 a correlation found, depending upon the numerical values measured, this can be either positive or negative. A 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. A 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.

Table 4.21 presents the correlation analysis between the independent and dependent variables of working capital i.e. return on assets, current ratio, inventory conversion period, average collection period, payable deferral period and working capital turnover ratio of Nepal Telecom for the study period, which is as follow:

Table 4.21

Correlation Matrix

	Return on Assets	Inventory Conversion Period	Average Collection Period	Payable Deferral Period	Current Ratio	Working Capital Turnover Ratio
Return on Assets	1					
Inventory Conversion Period	-0.122	1				
Average Collection Period	.737*	0.344	1			
Payable Deferral Period	-0.517	-0.383	-0.397	1		
Current Ratio	-0.016	-.776**	-.650*	0.070	1	
Working Capital Turnover Ratio	0.139	.897**	.667*	-0.291	-.921**	1

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

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

Source: IBM SPSS 25

To measure the firm profitability, ROA has been chosen as a dependent variable. It equals net profit after tax divided by total assets. To measure the WCM's efficiency of a company, the research chooses, current ratio, inventory conversion period, average collection period, payable deferral period and working capital turnover ratio as independent variables.

Table 4.21 shows that there is a negative correlation between Return on Assets and Current Ratio (-0.016), Inventory Conversion Period (-0.122)& Payable Deferral Period (-0.517) but there is a positive correlation between return on assets and average

collection period (.737) & working capital turnover ratio (0.139) for the fiscal year 2066/67 to 2075/76. The negative correlation between return on assets and current ratio, inventory conversion period and payable deferral period show that these variables have an opposite and inverse relationship between them and the positive relationship between ROA and Average Collection Period, Working Capital Turnover Ratio shows the positive and the direct relationship between the variables.

The outcome shows there is a very low degree of negative correlation between inventory conversion period, current ratio and ROA and a moderate degree of negative correlation between payable deferral period and ROA. There is a low degree of positive correlation between ROA and the working capital turnover ratio. There is a high degree of positive correlation between ROA and the average collection period.

4.6 Model summary

Table 4.22

Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.963[a]	.927	.836	1.44644

(Source: SPSS Version 25)

a. Predictors: (Constant), ACP ,CR, ICP, PDP, NWCTR
b. Dependent Variable: ROA

Model summary indicates the R- square also known as coefficient of determination which can help in explaining variance. The value of R-square in as evident from table 4.22 is 0.927 which means 92.7% variation in ROA of Nepal Telecom is explained by ACP, CR, ICP, PDP and NWCTR. However, the remaining 7.3% (100% - 92.7%) is explained by other factors which have not been explained in this study.

Similarly, adjusted R-square 0.836 which means 83.6% variation in ROA of Nepal Telecom is explained by ACP, CR, ICP, PDP and NWCTR after adjusting degree of freedom (df). This shows strong relationship between all independent variables and dependent variables. This means ACP, CR, ICP, PDP and NWCTR have significant impact in ROA of Nepal Telecom.

Model summary also indicates the standard error of estimate is 1.44644 which shows the variability of the observed value of factors influencing the working capital management/Profitability from regression line is 1.44644units.

4.7 Regression Analysis

Table 4.23

Regression Model

Variables	B	Std. Error	Beta	t	sig
(Constant)	-10.516	10.266		-1.024	0.364
Average Collection Period	0.357	0.155	1.335	2.303	0.083
Current Ratio	3.640	1.714	1.011	2.124	0.101
Inventory Conversion Period	0.194	0.816	0.223	0.238	0.823
Payable Deferral Period	0.012	0.186	0.023	0.067	0.950
Working Capital Turnover Ratio	-0.106	9.455	-0.012	-0.011	0.992

(Source: IBM SPSS Version 25)

a. Dependent Variable: ROA

Based on the coefficients, the regression equation for the working capital management of Nepal Telecom can be written as:

$\hat{Y}_{ROA} = -10.516 + 0.357X_1 + 3.640X_2 + 0.194X_3 + 0.012\ X_4 - 0.106\ X_5 + ei$

Regression coefficient based on ACP, CR, ICP, PDP and NWCTR are 0.357, 3.640, 0.194, 0.012 and -0.106 respectively.

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. The table 4.23 also shows that independent variables ACP, CR, ICP, PDP and NWCTR do not have significant results since its p-value is greater than 0.05.

This illustrates that 1 unit increase in ACP, CR, ICP, PDP and NWCTR lead to are 0.357, 3.640, 0.194, 0.012 and -0.106 increments in ROA of Nepal Telecom.

4.8 Findings

Findings from the study and analysis of the above data of Nepal Telecom for ten years are shown as follows:

i. The average ratio of current assets to total assets is 52.43% which indicates that the investment in current assets is considerably high. A higher level of current assets indicates a good liquidity position but it adversely affects the profitability of the company because idle money earns nothing.

ii. The average cash and bank balance to current assets ratio is 51.98% with the coefficient of variation of 32.21%. Since this ratio is too high, it can be stated that the company is facing situations of excess cash and bank balance held idle which is unfavorable for a company.

iii. The average ratio of inventory to current assets is 1.23% with a coefficient of variation is 75.95% which shows that portion of inventory in current assets is very low and is decreasing every year. In general, the lower the ratio indicates good management of the inventory.

iv. The average ratio of receivables to current assets is 6.48% with a coefficient of variation is 53.63% which shows that the portion of receivables in current assets is low and it is decreasing every year. In general, the lower the ratio indicates good management of the receivables.

v. The average current assets turnover ratio is 0.73 with a coefficient of variation of 14%. A low ratio indicates that the company can generate more revenue from minimum investment in current assets.

vi. The average inventory ratio of Nepal Telecom is 87.78 times with 54% of the 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. The inventory turnover ratio of Nepal Telecom is very high so that it is very good

vii. The average receivable turnover ratio is 13.32 times with 34.33% of the coefficient of variation. Higher turnover ratios indicate a shorter collection period. In conclusion, the company is able to collect its credit revenue in a short period of time.

viii. The average working capital turnover ratio of Nepal Telecom is 1.24 times with a coefficient of variation of 31.56% which shows that company has invested most of the funds in the form of current assets like cash & receivables. So the opportunity cost of cash and receivables for the company is increasing. There is also a chance of bad debts due to an increase in receivables.

ix. The average inventory conversion period of Nepal Telecom is 5.98 days with a coefficient of variation of 68% which shows that the company has converted its inventory into sales and there is less chance of paying the overstocking cost.

x. The average collection period of Nepal Telecom is 31.36 i.e. 31 days. A lower average collection period means the company is able to realize credit revenue in a short period. The average collection period of Nepal Telecom is in decreasing trend; hence we can say that the credit management of Nepal Telecom is good.

xi. The average payable turnover ratio of Nepal Telecom is -1693.24 times with a coefficient of variation of -2.52 times which shows that the company is slowly paying its bills.

xii. The average Current Ratio is 3.02 with a 32.86% coefficient of variation. A higher current ratio (more than 2:1) is good for the company and the current ratio of Nepal Telecom is higher so, Nepal Telecom's solvency position is very good.

xiii. The average quick ratio is 2.99 times with 33.38% of the coefficient of variation. The quick ratios calculated above are observed more than the standard level (1:1) each year. So the liquidity position of the company is very good. This is allowing to the holding of more amounts of cash and bank balances.

xiv. The average net profit is 33.04% with a 17.14% coefficient of variation which is very good. Based on the company's net profit margin ratio, it can be concluded that the company's overall efficiency is very good.

xv. An increasing Current Liability to Total Liabilities ratio is usually a negative sign. The average ratio of current liability to total liability is 55.61% with a coefficient of variation is 16.18%. Since the company's current to total liabilities are fluctuating (i.e. keep increasing and decreasing), the ratio for FY

2075/76 is 49.22% which is relatively low than other fiscal years shows a good position of the company in present than the previous FY.

xvi. The average return on equity ratio of Nepal Telecom is 18.88% and the variation on such ratio is 20.89%. The average return on equity ratio is not so high so the overall performance of the company is not quite satisfactory

xvii. The average return on assets of Nepal Telecom is 12.74% and the variation on such ratio is 28.02% respectively. The average return on total assets ratio is not so high so the performance of the company is not quite satisfactory.

xviii. There is a very low degree of negative correlation between inventory conversion period (-12%), current ratio (-2%) and ROA and a moderate degree of negative correlation between payable deferral period (-52%) and ROA. The negative correlation between return on assets and current ratio inventory conversion period and payable deferral period show that these variables have an opposite and inverse relationship between them.

xix. There is a low degree of positive correlation between ROA and the Working Capital Turnover Ratio (14%). There is a high degree of positive correlation between ROA and the Average Collection Period (73.7%). The positive relationship between ROA and Average Collection Period, Working Capital Turnover Ratio shows the positive and the direct relationship between the variables.

xx. The results of model summary shows that ACP, CR, ICP, PDP and NWCTR are responsible for 92.7% change in return on assets of Nepal Telecom rest of change depends on other factors.

xxi. Adjusted R-square 0.836 which means 83.6% variation in ROA of Nepal Telecom is explained by ACP, CR, ICP, PDP and NWCTR after adjusting degree of freedom (df). This shows strong relationship between all independent variables and dependent variables.

xxii. Independent variables ACP, CR, ICP, PDP and NWCTR do not have significant results since its p-value is greater than 0.05. Therefore, the regression analysis shows that there is a positive relationship between independent and dependent variables.

4.9 Discussion

The liquidity analysis of the company shows that the average Current Ratio is higher than the standard level so, Nepal Telecom's solvency position is very good. The average quick are observed more than the standard level (1:1) each year. So the liquidity position of the company is very good. This is allowing to the holding of more amounts of cash and bank balances. This outcome is consistent with the findings provided in Chaudhary (2018), and K.C (2010), Madhavi (2014).

The Profitability analysis of the company shows that the average return on total assets ratio is not so high so the performance of the company is not quite satisfactory. This outcome is consistent with the findings provided in Chaudhary (2018) and Hoque, Mia and Anwar (2015).The net profit margin is quite good which shows that the company's overall efficiency is good. This outcome is consistent with the findings provided in Chaudhary (2018), Maharjan (2018).

It can be advocated that the correlation analysis shows a low degree of positive correlation between ROA and the Working Capital Turnover Ratio. There is a high degree of positive correlation between ROA and the Average Collection Period. The positive relationship between ROA and Average Collection Period, Working Capital Turnover Ratio shows the positive and the direct relationship between the variables. The results can be explained as an increase in Working Capital Turnover Ratio and low Average Collection period will bring a significant increase in Return on Assets. This outcome is consistent with the findings provided in Hoque, Mia and Anwar (2015) where it has been observed that there exists a positive correlation between working capital efficiency and profitability ratio and profitable industries either accelerate their receivables from debtors or delay their payment towards their creditors

Another empirical finding from correlation analysis shows that there is a very low degree of negative correlation between Inventory Conversion Period, Current Ratio and ROA and a moderate degree of negative correlation between Payable Deferral Period and ROA. The negative correlation between Return on Assets and Current Ratio Inventory Conversion Period and Payable Deferral Period show that these variables have an opposite and inverse relationship between them. This outcome is

consistent with the findings provided in Saghir, Mehmood and Nehal (2011) where it has been observed the number of days in inventory and profitability suggests that in case of a sudden drop in sales accompanied by mismanagement of inventory will lead to tying up excess capital at the expense of profitable operations.

The inventory turnover ratio of Nepal Telecom is very high and good. It shows the company is selling inventory fastly. A high ratio implies either strong sales and/or large discounts. The average Inventory Conversion Period of Nepal Telecom is low which shows the better performance of the company. It shows that the company has converted its inventory into sales and there is less chance of paying the overstocking cost. This outcome is consistent with the findings provided in Chaudhary (2018), Maharjan (2018), and Hoque, Mia and Anwar (2015).

The Average Receivable Turnover Ratio of Nepal Telcom is high, Higher turnover ratios indicate a shorter collection period. It shows the company can collect its credit revenue in a short period of time. The average collection period of Nepal Telecom is low. A lower average collection period means the company is able to realize credit revenue in a short period. The average collection period of Nepal Telecom is in decreasing trend; hence we can say that the credit management of Nepal Telecom is good. This outcome is consistent with the findings provided in Chaudhary (2018), Maharjan (2018). The average Payable Turnover Ratio of Nepal Telecom is very low which shows that the company is slowly paying its bills.

The average working capital turnover ratio of Nepal Telecom shows that the company has invested most of the funds in the form of current assets like cash & receivables. So the opportunity cost of cash and receivables for the company is increasing. There is also a chance of bad debts due to an increase in receivables. This outcome is consistent with the findings provided in Chaudhary (2018), Hoque, Mia and Anwar (2015).

The results of model summary shows that ACP, CR, ICP, PDP and NWCTR are responsible for 92.7% change in return on assets of Nepal Telecom rest of change depends on other factors and adjusted R-square 0.836 which means 83.6% variation in ROA of Nepal Telecom is explained by ACP, CR, ICP, PDP and NWCTR after adjusting degree of freedom (df). This shows strong relationship between all independent variables and dependent variables. Independent variables ACP, CR, ICP,

PDP and NWCTR do not have significant results since its p-value is greater than 0.05. The regression analysis shows that the independent variables is statistically insignificant at 5% level which means there exists positive relationship between the independent and dependent variable. There is insignificant impact of working capital ratios on profitability of Nepal Telecom. For each unit increase in Current Ratio, Average Collection Period, Inventory Conversion Period, Payable Deferral Period and Net Working Capital Ratio ROA also increase with the resulted units. The outcome about Current Ratio is consistent with the findings provided in Chaudhary (2018) as there were different independent variables considered for the study.

CHAPTER V
SUMMARY AND CONCLUSIONS

This chapter targets to summarize the main content of the thesis and to draw a conclusion based on empirical findings. This study is carried out to assess the working capital management and profitability of Nepal Telecom. 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

Working capital is a financial metric, which represents the operating liquidity available to a business. Along with fixed assets such as plants and equipment, working capital is considered as a part of the company's operating capital, referring to current assets. Both excessive and inadequate level of working capital is not desirable because of excessive carrying costs and the risk of liquidity. An inadequate level of working capital obstructs the flow of production as well as market operation. So both situations should be avoided by maintaining the optimum level of working capital. This study present and analyze the working capital position and shows the problems this company faces by analyzing the queries like: What is the liquidity position of Nepal Telecom? , What is the working capital position of Nepal Telecom?, What is the relationship between working capital and profitability?, What is the level of inventories, receivables, payables and working capital maintained by Nepal Telecom? To serve the purpose of the study some specific objectives have been formulated; to analyze the liquidity position, working capital position, relationship between working capital and profitability and to determine the turnover ratios of Nepal Telecom.

Working capital management assists in identifying the major strengths and weaknesses of a business enterprise. It indicates whether a firm has enough funds to meet the obligation, reasonable accounts receivable collection period, an efficient inventory management policy, sufficient plant property and equipment and adequate capital structure, all of which are necessary if a firm is to achieve the goal of maximizing shareholder's wealth. This study covers only the relevant data of ten years i.e. from fiscal year 2066/67 to 2075/76. Due to time constraints, not all the related areas are possible to cover in-depth. The data published in the annual reports have been

assumed to be correct and true. This study is limited to the working capital management of Nepal Telecom and ignores other managerial functions. Basically, the data and financial statement provided is secondary in nature

To answer the research questions i.e. to fulfill the research objectives, descriptive research design has been used and based mainly on this research to extract more pertinent information. Descriptive research has been used to analyze the facts of collection data, its classification and correlated data to describe the existence, even though it does not predict and explain the phenomena behave as they do in the entire process of planning and carrying out a research study. Various financial and statistical tools have been used in this study. A simple analytical statistical tool such as Karl Pearson's coefficient of correlation and regression analysis is adopted in this study. The ratio analysis is the major tool for the analysis of the study. They establish the quantitative relationship between two variables of the financial statements.

The findings of the study show that there is a low degree positive correlation between ROA and working capital turnover ratio and a high degree of positive correlation between ROA and average collection period. The study shows a low degree of negative correlation between inventory conversion period, current ratio and ROA and a moderate degree of negative correlation between return on assets and current ratio, inventory conversion period and payable deferral period.

From the analysis, it is revealed that NT has an excess amount of working capital in comparison to the revenue since the amount of working capital is exceeding net revenue this cannot be considered as the sign of efficient working capital management. The results of model summary shows that ACP, CR, ICP, PDP and NWCTR are responsible for change in return on assets of Nepal Telecom rest of change depends on other factors. It shows strong relationship between all independent variables and dependent variables. This means ACP, CR, ICP, PDP and NWCTR have significant impact in ROA of Nepal Telecom. Independent variables ACP, CR, ICP, PDP and NWCTR do not have significant results and shows that there is positive relationship between the independent and dependent variables.

The outcome of liquidity analysis of the company is consistent with the findings provided in Chaudhary (2018), and K.C (2010), Madhavi (2014). The outcome of

profitability analysis and average working capital turnover ratio is consistent with the findings provided in Chaudhary (2018) and Hoque, Mia and Anwar (2015). The net profit margin outcome is consistent with the findings provided in Chaudhary (2018), Maharjan (2018). The outcome of correlation analysis between ROA and the working capital turnover ratio, ROA and average collection period, is consistent with the findings provided in Hoque, Mia and Anwar (2015). The outcome of correlation analysis between inventory conversion period, current ratio and ROA and payable deferral period and ROA is consistent with the findings provided in Saghir, Mehmood and Nehal (2011). The inventory turnover ratio outcome is consistent with the findings provided in Chaudhary (2018), Maharjan (2018), and Hoque, Mia and Anwar (2015). The outcome of average receivable turnover ratio is consistent with the findings provided in Chaudhary (2018), Maharjan (2018).

5.2 Conclusion

In conclusion, it can be said that working capital is an important part of every company and it should not be neglected. The need for working capital to run day-to-day business activities operations cannot be emphasized. Working capital management has been looked upon as the driving seat of the finance manager. Efficient management of working capital not only maintains proper liquidity but also increases profitability. After the study and analysis of the working capital management of Nepal Telecom following conclusions have been drawn:

The liquidity analysis of the company shows that the average Current Ratio is higher than the standard level (2:1) so, Nepal Telecom's solvency position is very good. The average quick are observed more than the standard level (1:1) each year. So the liquidity position of the company is very good. An increasing Current to Total Liabilities ratio is usually a negative sign and the company's current to total liabilities are in an increasing trend so it is not good for the company.

The Profitability analysis of the company shows that the average return on total assets ratio is not so high so the performance of the company is not quite satisfactory. The net profit margin is quite good which shows that the company's overall efficiency is good. Working Capital Management of Nepal Telecom is not good. The average working capital turnover ratio of Nepal Telecom shows that the company has

invested most of the funds in the form of current assets like cash & receivables. So the opportunity cost of cash and receivables for the company is increasing. There is also a chance of bad debts due to an increase in receivables. The investment in Current Assets is considerably high. A higher level of current assets indicates a good liquidity position but it adversely affects the profitability of the company because idle money earns nothing. The average cash and bank balance to current assets ratio is too high, it can be stated that the company is facing situations of excess cash and bank balance held idle which is unfavorable for a company.

The Average Receivable Turnover Ratio of Nepal Telecom is high, Higher turnover ratios indicate a shorter collection period. It shows the company can collect its credit revenue in a short period of time. The average receivables to current assets ratio is low which shows good management of receivables. The average collection period of Nepal Telecom is low. A lower average collection period means the company can realize credit revenue in a short period. The average collection period of Nepal Telecom is in decreasing trend; hence we can say that the credit management of Nepal Telecom is good. The average Payable Turnover Ratio of Nepal Telecom is very low which shows that the company is slowly paying its bills.

The inventory turnover ratio of Nepal Telecom is very high and good. It shows the company is selling inventory fast. A high ratio implies either strong sales and/or large discounts. The average Inventory to current assets is very low which indicates good management of inventory. The average Inventory Conversion Period of Nepal Telecom is low which shows the better performance of the company. It shows that the company has converted its inventory into sales and there is less chance of paying the overstocking cost.

The correlation analysis shows a low degree of positive correlation between ROA and the Working Capital Turnover Ratio. There is a high degree of positive correlation between ROA and the Average Collection Period. The positive relationship between ROA and Average Collection Period, Working Capital Turnover Ratio shows the positive and the direct relationship between the variables. The results can be explained as an increase in Working Capital Turnover Ratio and low Average Collection period will bring a significant increase in Return on Assets.

There is a very low degree of negative correlation between Inventory Conversion Period, Current Ratio and ROA and a moderate degree of negative correlation between Payable Deferral Period and ROA. The negative correlation between Return on Assets and Current Ratio Inventory Conversion Period and Payable Deferral Period show that these variables have an opposite and inverse relationship between them. The results can be explained as an increase in Inventory Conversion Period, Current Ratio and Payable Deferral Period will bring a significant decrease in Return on Assets and vice-versa.

The results of model summary shows that ACP, CR, ICP, PDP and NWCTR are responsible for change in return on assets of Nepal Telecom rest of change depends on other factors. Adjusted R-square shows variation in ROA of Nepal Telecom is explained by ACP, CR, ICP, PDP and NWCTR after adjusting degree of freedom (df). This shows strong relationship between all independent variables and dependent variables. This means ACP, CR, ICP, PDP and NWCTR have significant impact in ROA of Nepal Telecom. Independent variables ACP, CR, ICP, PDP and NWCTR do not have significant results since its p-value is greater than 0.05 and shows that there is positive relationship between the independent and dependent variables.

5.3 Implications

Based on findings of the study, and taking into considerations of the relevant issues, the following appropriate recommendations have been carried out:

Implications for Improvements

i. Maintain optimum current assets variables and current liabilities every year. Study showed that besides cash and bank, other variables of current assets and current liabilities also fluctuate moderately. Optimization of this variable is therefore recommended which would maintain sound liquidity. NTC, being a service-oriented firm, does not need so higher liquidity position. Thus it is recommended to stabilize its current ratio near 2:1. It is better for NTC to invest such excess amounts of current assets in fixed assets to increase its capacity rather than tying up a large amount in current assets.
ii. 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 a

suitable working capital management policy. The company should keep the optimum size of investment in current assets and current liabilities and regular review of working capital.

iii. Determine the optimum level of cash balance to hold every year applying cash management techniques. The study also revealed that a large portion of current assets is being unproductive by lying in absolute liquid form in NT. This indicates the inefficiency of the management of cash. The major portion of current assets is held by cash. Therefore, it is recommended to determine the optimum level of cash and bank balance to hold each year. It should invest its excess cash and cash equivalents in short-term investments which would earn a return till the funds can be utilized in the firm. The function of investment in money assets is to meet operational requirements in day-to-day business, to provide a reserve of liquidity for major schedule outflows of cash, to exploit opportunities, to avoid unexpected drains of cash and so on. There are many ways of effective management of excess cash in such as investment in marketable securities, new technological projects, etc. If cash appears more than the requirement, the company can invest such ideal fund in a different service area such as hydropower plant, spare parts production company for portfolio diversification to minimize the risk of being uncompetitive in the market

iv. There should be neither over investment nor lower investment in receivable. These policies involving receivable management involve a trade-off between risk and return. The main determinants of the size of investment are terms of sale, the selection of customers to give credit, efficiency in collecting receivables and so on. Collection of the excess bill of customer who left the service and take new number or line should be cross-checked.

v. Extensive knowledge and use of financial tools can enhance the situation of the organization. Likewise, use of statistical tools for forecasting purposes may be used wherever applicable.

vi. Manage optimum liquidity in the firm. The study revealed that the NT is holding more than enough liquid assets to meet their current payment which indicates mismanagement of liquid assets since optimum liquidity is the necessity of a firm. There is an inverse relationship between profitability and

liquidity since there is a negative correlation between liquidity and profitability. Hence, it is recommended NT to maintain optimum liquid assets.

vii. From the analysis, it is revealed that NT has an excess amount of working capital in comparison to the revenue since the amount of working capital is exceeding net revenue this cannot be considered as the sign of efficient working capital management. Hence it is recommended to NTC to maintain an optimum level of working capital.

Implications for future researchers

i. This research is conducted on Nepal Telecom and the data were collected for ten years only. Future research can be done by taking latest data of more than ten years.

ii. Further research can be done by taking other telecom companies as sample or by being specific to analyze the financial position of particular telecom company.

iii. For the future study in the same research, the researcher are recommended to focus more on financial analysis tools rather than statistical analysis tools. The more use of financial analysis tools on the sample will provide more accurate findings in the working capital management.

iv. The future study can be conducted by using more sample size, advanced, methodology.

v. 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.

vi. This research study is concerned only with the working capital management function of the Nepal Telecom. Future research can be conducted considering other managerial functions.

vii. This research has been conducted based on secondary data. Future research could be conducted based on primary data.

References

Chaudhary, A. S. (2018). *Working capital management of Nepal Telecom.,* An Unpublished Master Level Thesis submitted to Central Department of Management, Faculty of Management. Kathmandu: Tribhuvan University.

Google Scholar. (n.d.). Retrieved from Google Scholar: scholar.google.com

Hoque, M. A., Mia, M. A., & Anwar, S. R. (2015). Working capital management and profitability: A study on Cement Industry in Bangladesh. *Research Journal of Finance and Accounting, 6*(7).

K.C., R. (2010). *Working capital management of Nepal Telecom.,* An Unpublished Master Level Thesis submitted to Shanker Dev Campus, Faculty of Management. Kathmandu: Tribhuvan University.

Madhavi, K. (2014). Working capital management of Paper Mills. *International Journal of Research in Business Management, 2*(3), 63-72.

Maharjan, M. (2018). *A study on working capital management of Nepalese Manufacturing Company.,* An Unpublished Master Level Thesis submitted to Central Department of Management, Faculty of Management. Kathmandu: Tribhuvan University.

Mbakara, P. W. (2017). Effect of working capital management practices on profitability of construction firms listed in Nairobi Securities Exchange, Kenya. *International Journal for Innovative Research in Science and Technology, 4*(4).

Nepal Telecom. (n.d.). Retrieved from Nepal Telecom: ntc.net.np

Onodje, M. A. (2014). Working capital management and performance of selected Nigerian Manufacturing Companies. *Global Journal of Management and Business Research: B Economics and Commerce, 14*(3).

Pandey, I. (1999). *Financial Management.* India: Vikas Publishing House Pvt. Ltd.

Pant, P. R. (2018). *Social Science Research and Thesis Writing.* Kathmandu: Buddha Publications Pvt. Ltd.

Paudel, R. B., Baral, K. J., Joshi, P. R., Gautam, R. R., & Rana, S. B. (2018). *Financial Management.* Kathmandu: Asmita Books Publisher and Distributors (P) Ltd

Poudel, T. (2019). *A study on working capital management of Salt Trading Corporation Limited.,* An Unpublished Master Level Thesis submitted to Central Department of Management, Faculty of Management. Kathmandu: Tribhuvan University.

Pyakurel, D. (2010). *Working capital management of Nepal Life Insurance Company Ltd.,* An Unpublished Master Level Thesis submitted to Shanker Dev Campus, Faculty of Management. Kathmandu: Tribhuvan University.

ResearchGate. (n.d.). Retrieved from ResearchGate: www.researchgate.net

Saghir, A., Hashmi, F. M., & Hussain, M. N. (2011). Working capital management and profitability: evidence from Pakistan Firms. *Interdisciplinary Journal of Contemporary Research in Business, 3*.

Sharma, S. B. (2014). *working capital management of Nepal Doorsanchar Company Limited.,* An Unpublished Master Level Thesis submitted to Saptagandaki Multiple Campus, Chitwan, Faculty of Management. Kathmandu: Tribhuvan University.

TUCL Digital Repository. (n.d.). Retrieved from TUCL Digital Repository: 107.170.122.150

Varghese, T., & Dhote, K. K. (2014). Impact of working capital management on firm profitability: A case study of HUL Ltd., India. *International Journal of Financial Management, 4*(4).

Your Article Library. (n.d.). Retrieved from Your Article Library: www.yourarticlelibrary.com.