

WORKING CAPITAL MANAGEMENT OF UNILEVER NEPAL LIMITED

(With Special Reference to Unilever Nepal Ltd.)

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RECOMMENDATION

This is to certify that the thesis
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WORKING CAPITAL MANAGEMENT
(A case study of Unilever Nepal Limited)

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DECLARATION

I hereby declare the work reported in this thesis entitled "**WORKING CAPITAL MANAGEMENT (A Case Study of Unilever Nepal Limited)**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Masters in Business Studies (M.B.S.) under the supervision of Mr. Birodh Adhikari, Mr. Khemenanda Aryal and Mr. Surendra Regmi of Shaheed Smriti Multiple Campus.

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LIST OF ABBREVIATIONS

CA	=	Current Assets
CBB	=	Cash and Bank Balance
CCC	=	Cash Conversion Cycle
CR	=	Current Ratio
CV	=	Coefficient of Variation
FA	=	Fixed Assets
FY	=	Fiscal Year
GDP	=	Gross Domestic Product.
ICP	=	Inventory Conversion Period
LAD	=	Loan, Advance & Deposit
LTD	=	Limited
MBS	=	Masters in Business Studies
NWC	=	Net Working Capital
PDP	=	Payable Deferral Period
PE	=	Probable Error
QR	=	Quick Ratio
r	=	Correlation Coefficient
RCP	=	Receivable Collection Period
TA	=	Total Assets
TCA	=	Total Current Assets
TU	=	Tribhuvan University
UNL	=	Unilever Nepal Limited
WC	=	Working Capital

CHAPTER I

INTRODUCTION

1.1 General Background

Working capital is said to be lifeblood of business. If managed well, the company remains healthy and strong but if mismanaged, the company goes into the fathom of difficulties to the point of return. Working capital, the most important field of finance is very crucial for smooth and healthy operation of all kinds of business. Among all the options, proper management of working capital is the best possible option to improve organization operational viability. In other words, working capital deals with the matrix of current assets and current liabilities. Every manufacturing firm needs various types of assets to run the production process without any interruption. Some assets are required to meet the needs of regular production and some to meet the expenses and short-term obligation of a firm, so management has to manage properly different types of assets especially required to run the major components, of the success or failure of any organization depends on its strategy, which is affected by working capital management.

There are two concepts of working capital, net concept and gross concept. A net concept of working capital is excess of current assets over current liabilities. Gross concept is the total current assets. It is particularly useful for business in deciding the size of the investment in each type of current assets, inadequate investment in working capital threatens the solvency of the companies where as excessive investment affects firm's profitability. The working capital is the lifeblood of the business. The excess and short of working capital is harmful for business. Therefore, proper use of working capital is necessary for the organizations.

This is a descriptive and explorative study on "working capital management". This study is focused on the theoretical and empirical study in relation to working capital management of Unilever Nepal Limited by employing statistical and financial tools, this study will try to give valuable recommendations and measures for correcting deviations. This study will be of great significance for the Unilever Nepal Limited and similar nature of enterprises and concerned parties.

1.2 Focus of the Study

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

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

1. Profitability and liquidity position of Unilever Nepal Limited.
2. Analysis of working capital structure and utilization on Unilever Nepal Limited.
3. Cash conversion cycle of Unilever Nepal Limited.
4. Analysis the relation of working capital variables.

1.3 Statement of the Problem

Working capital management decisions is the most sensitive for every firm. It is wider activity in the working capital decision. It has various factors affecting the decisions; it should maintain optimal level of working capital. Determining the optimum level of working capital is the major problems of every business organization. it constrained to maintain the trade- off between risk and return. In the context of Nepal, enterprises face the various problems to manage the working capital due to the unproductive manpower, unclear financial market, unclear government policies etc. Managers still focus their attention on their procurement aspect of working capital but, there is not on the efficient utilization of funds defined information on working capital, there is no budgeting in enterprise for the next year, clear market research and other scenario for the future planning. In the unclear vision every business decision puzzle the management of working capital decision and other business decision, every enterprise wants to earn on their investment. The working capital management not only attacks profitability position in the short run but it also effects the survival in the long run of

the organization, so every firm must maintain the sound working capital components for the effective and efficient for the utilization of funds in business organizations. Nepalese business industrialization process is in a very slowly process. In spite of various attractive policies of government is respect to industrialization, new investment on industrial sector is not satisfactory.

The established manufacturing industries, financial composition and performance of Nepalese enterprises are not so satisfactory most of the industries were operating in losses and such condition discourages the new investment. The poor performance of manufacturing industrial atmosphere affects various reasons in the internal, external and financial environment. Such problem should be investigated and solve form the organization. It is the most important to corrective measurement for the improvement of their performance. Without effective and efficient financial management the firm can't get success.

The following research questions have been raised in this study.

1. What are the major factors affecting the management of working capital in Unilever Nepal Limited?
2. Is the overall profitability of firm satisfactory?
3. Are there sound liquidity positions in manufacturing companies like Unilever Nepal limited?
4. What are the inventory conversions, receivable collection and payable deferral period?
5. How working capital is being financed in Unilever Nepal Limited?
6. How far is the company being able to utilize its current assets properly?

1.4 Objectives of the Study

The main objective of this study is to examine the working capital management of Unilever Nepal Limited. The specific objectives of this study are as follows:

1. To assess the liquidity and profitability position of Unilever Nepal Limited.
2. To determine the composition and utilization of working capital of Unilever Nepal Limited.
3. To evaluate the working capital policy of Unilever Nepal Limited.

1.5 Significance of the Study

This study is concerned with the theoretical, explanation and practical application of working capital management in Unilever Nepal Limited. Working capital involves the large portion of the firm's total assets. On the other hand, financial manager is used to killing long time span in managing of working capital. Investment in fixed assets can be reduced through renting and leasing but the investment in current assets are unavoidable. This study might be helpful for Unilever Nepal Limited in relation to the working capital management.

This study will helpful for:-

1. It will help other similar nature of manufacturing enterprises to determine and manage working capital.
2. It will be useful for government to formulate appropriate economic policy for enterprises with in the countries.
3. It will help for new finance manager or new business to take decision about working capital management.
4. This study will helpful to evaluate impact of working capital on profitability of enterprises like Unilever Nepal Limited.
5. This study might be valuable for the researcher, scholars and students who want to know about working capital management.

1.6 Limitations of the Study

Limitations exist in every research work and this study is not an exception. Most of the private companies' financial data may be invalid in Nepalese context. In other words, financial statements may not disclose the true financial data and information. Followings are some limitations under which this study has been conducted.

1. This study covers the time period of five years from 2064/065 to 2068/069.
2. The major sources of the secondary data are financial statement of Unilever Nepal Limited, which are extracted from the progress report of Unilever Nepal Limited, Nepal Stock Exchange and other published and unpublished sources.
3. The constraint of time and financial resource is another limitation of the study.

4. Literature review is the major job for every research work. Due to lack of library, sufficient books, journals, and the research has done limited literature review.

1.7 Organization of the Study

This study has been divided into five major chapters. These are as follows.

Chapter I Introduction:- This chapter deals with background, a brief overview of UniLever Nepal Limited, focus of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

Chapter II Review of Literatures: - This chapter deals with the review of related literatures and available studies written and conducted by different experts and researchers in the field of working capital management.

Chapter III Research Methodology: - This chapter presents the methodology used in this study. It deals with research design, population and sample, sources of data, data processing, financial & statistical tools used for the study.

Chapter IV Presentation and Analysis of Data: - This chapter fulfills the objective of the study by presenting the data and analyzing them with the help of various statistical as well as finance tools followed by methodology.

Chapter V Summary, Conclusions & Recommendations: - The last chapter summarizes the whole study. Moreover, it draws the conclusions and forwards the recommendation for the improvement of working capital management of Unilever Nepal Limited and such other enterprises.

CHAPTER II

REVIEW OF LITERATURE

The main objective of this chapter is to review the available literature on different magazine, journals, newspaper and books about working capital management in the context of Nepalese enterprises. The purpose of reviewing the literature is to develop some idea as at the research and see what new contribution can be made, and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation to the present study.

2.1 Conceptual Framework

Working capital management is concerned with the problem that arises in the management of the current assets & current liabilities. It affects the overall functional areas of the firm. Thus, the success of any manufacturing firms virtually depends upon the efficiency of working capital management. So; it is the lifeblood of any firm.

Working capital is a firm's investment in short-term assets which is known as current assets. This can be converted into cash within short period of time. The current assets are cash, short-term securities, account receivables and inventories. In simple language, working capital represents that portion of total assets, which circulates from one to another form of business assets. "Working capital is defined as all the short-term assets used in daily operation, these consists primarily of cash, marketable securities, account receivables and inventory". (Hampton; 1998). "It is also known as circulating capital" (Kuchhal; 1998).Circulating capital represents that part of fund, which circulates from one item of current assets to another business assets. The idea embraces the recurring transaction from cash to inventories then to receivables to cash. "The working capital is the capital needed to conduct day-to day operation of business."(Pradhan; 1986). "In practice, the term working capital refers not only to both current assets, but working capital will use this term more broadly to refers to both current assets and current liabilities" (Jain; 1996).The current liabilities are those liabilities, which have to be paid in ordinary course of business within an accounting year. It includes bank overdraft, account payable, outstanding expenses, bills payable etc. Two types of working capital –gross and net are in practice. Gross working

capital refers to the current asset and net working capital refers total current assets minus total current liabilities.

Working capital management is concerned with the management of current assets and current liabilities in optimum level for day-to-day operation. “Working capital management involves the administration, within policy guidelines of current assets and current liabilities” (Weston, Basley and Brigham; 1996). Working capital management seeks proper policy for management of current assets and current liabilities and practical techniques for maximizing the benefits from managing working capital. “An effective management of working capital is the primary means of achieving the firm’s goal of adequate liquidity” (Hampton; 1998). “Working capital management is concerned with the problem that arises within organization attempting to manage the current assets, the current liabilities and the inter-relationship that exists between them.”(Khan; 1990). Working capital management policy influences the determination of the appropriate level of current assets and their efficient use as well as the choice of the method of financing them, keeping in a view of liquidity. Working capital management is not only concerned with current assets and current liabilities but it is also concerned with “all kinds of problems that arise in attempting to manage the current assets, current liabilities and interrelation ship that exist between them.”(Pradhan; 1998).

The enterprise depends on the quality of Working Capital Management “working capital management involves decision regarding the account and composition of current assets and to finance these assets. These decisions involve trade-off between risk and profitability” (Kuchhal; 1998). Both excess working capital and less working capital are harmful to the business. Higher the relative proportion of liquid assets, lesser the risk if all other being equal, however profitability also will be less because idle investment on working capital earns nothing. The result of inadequate amount of working capital threatens the solvency of organization, if it fails to meet current obligation.

Therefore, working capital management is a continuous process requiring crucial and critical decision. Working capital management involves deciding upon the amount and composition of current assets and financing them. The investing and financing decision on working capital management is planning, utility and controlling its current

assets in terms of the requirement of the company, and is basically concerned with profitability and liquidity position of the enterprise.

2.1.1 Concept of Working Capital

Generally, there are two concepts of working capital. Gross and net concept.

2.1.1.1 Gross Concept

The gross working capital concept refers to the capital invested in current assets and financing of current assets. It includes cash, short-term securities, inventory, and account receivables. This concept is also known as quantitative concept because it does not concern with the current liabilities. Gross concept indicates the total sum of current assets. “The gross concept is represented by current assets appearing on the asset side of balance sheet” (Sharma; 1967). This concept emphasizes that excessive investments in current assets affect the profitability as idle investment yields nothing. From the management view point “gross concept deals with the problems of individual assets in the day-to-day operation.” (Kuchhal; 1998). Symbolically gross working capital is:

Gross working capital = Total Current assets.

The gross working capital concept focuses the attention on general two aspects of working capital (current assets) management which are:

- a) Optimum investment in current assets and
- b) Financing mix of current assets.

The level of investment in current assets should be just adequate. The level of current assets may be fluctuating with the changing business activity. Thus, this concept can help earning more profit through maximum utilization of current assets.

2.1.1.2 Net Concept

The net concept refers to the difference between current assets and current liabilities. Current liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business within an accounting year. Net concept is also

known as qualitative concept of working capital. This shows the liquidity position Net working capital can be positive or negative. A positive net concept will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets” (Pandey; 1999). Net working capital is that portion of firm’s current assets, which is financed with long term funds.

Symbolically net working capital is:

$$\text{Net working capital} = \text{Total Current Assets} - \text{Total Current Liabilities.}$$

The net working capital concept helps to determine optimum mixture of short-term capital and long term capital of business organization, which is used to analyze the profitability, liquidity and risk –return position of organization. “The net concept is more useful, if the purpose is to find out liquidity position of enterprise.”(Pradhan; 1986). So, short-term creditors want an enterprise to maintain current asset at a higher level as compared to current liabilities. This concept is more useful for running business.

2.1.2 Types of Working Capital

There are two type of working capital in manufacturing company. These are Permanent Working Capital and Variable Working Capital.

2.1.2.1 Permanent Working Capital

The amount of working capital required for the business to maintain a minimum level of current assets for the whole period is called permanent working capital. Permanent working capital is also known as fixed working capital. It is comprises of minimum cash balance, minimum level of inventory etc. The nature of this capital is similar to the capital invested in the fixed assets. Both these capital cannot be withdraws from the business. Financing of this working capital by using short- term sources needs to renew the loan respectively. If the suppliers of fund of disagree to renew the loans, firm has to go for fresh loan to repay the exiting short-term debt. The compulsion of taking loan within a short period may cause an increase in the rate of interest. Much of the time of financial manager will spent on the renewal and management of loan. Therefore, it is desirable to finance the permanent working capital by using long- term

sources like long –term debt or equity. Requirement of permanent working capital may increase due to inflation or growth in sales. This incremental requirement of permanent working capital can be financed by using internal sources.

2.1.2.2 Variable Working Capital

In most business the required of working capital may be high during a particular season and it comes down during other periods. This additional portion of working capital which is required during peak business season is known as variable or temporary or seasonal working capital. Variable working capital is required during peak season only. This portion of working capital can withdraw from the business after end of such season. Therefore, it is desirable to finance the temporary working capital from short- term external sources like trade credit, commercial paper, arrangement of other short term loan from the bank. Because such short- term loan can easily repaid after the peak business season. If this portion of this working capital is financed through permanent or long- term sources, this fund will either remain idle or invested in marketable securities earning at a lower rate. As a result the earning of the company will be adversely affected.

2.1.3 Sources of Working Capital

The required of the working capital depends upon the organizational objectives, situation and time period. This suggests that dependence on only one or specific sources of capital may create obstacles and problems. Therefore, the enterprise has to use combination of one or more sources of capital are managing working capital. After ascertaining the amount of working capital needed to the enterprises, permanent capital can be collected from capital market where as working capital collected from money market. According to nature of working capital, following sources may be available (Kuchhal; 1998).

2.1.3.1 Sources of Permanent or Fixed Working Capital

Long term sources are used to meet the requirement for permanent or fixed working capital. Main sources are described as follows:

1. **Issues of shares:** The enterprises can issues ordinary and preference share taking consideration on capital structure of enterprises for the collection of permanent working capital. Issues of preference share is better than issue ordinary share to collect working capital because a redeemable preference share can be returned when firm does not need it.
2. **Issue of debenture:** When the working capital requirement is permanent and non seasonal, the corporation can issue debenture, being a fixed burden on corporate earning. The management board will be free from debenture-holders who have no any right on management and control of enterprises.
3. **Public deposit:** The reputed enterprises accept deposit from public for several years. On these deposits certain predetermined interest should be paid in certain time.
4. **Plouging back of profit:** These important sources of permanent working capital are generated from the business operation in profit. Required permanent working capitals are fulfilled from the retained earning which is the same portion of profit without distributing to shareholders.
5. **Special financial institution:** The reliable sources of permanent working capital are commercial banks, financial institution and other organized institution. They provide short term or mid-term loan facilities.

2.1.3.2 Sources of Temporary or Variable Working Capital

The short term sources are used to meet the requirement of working capital. Some special variable working capital sources are as follows:

1. **Private loans:** Taking loans from personal or private sources fulfills the working capital need of the organization. Firm takes short loans from personal investor, businessmen, landlords, friends and relatives.
2. **Commercial banks:** Commercial bank collects small scattered saving from various people and firms, which are invested in industries and business. They provide short term loans in the form of cash credit, overdraft facilities, discounting of bills of exchange, etc.

3. **Ploughing back of profit:** It can be the source of seasonal working capital in addition to permanent working capital. It is very popular and quick source of working capital financing.
4. **Public deposit:** Public deposit can also be the sources of variable working capital by collecting small scattered saving for operating business.
5. **Financial institution:** Financial institutions are established with certain objectives, such as Nepal Industrial Development Bank, Agriculture Development Bank, Nepal Bangladesh Bank, Nepal Bank Limited etc. which provides short term, mid term and long term loans as per required for the enterprises.
6. **Trade credit:** The trade credit is the most popular sources of working capital. Sellers provide credit to buyers for short period without any mortgage, which is termed as trade credit. “The trade credit means providing credit by one business to another business. The supply of goods or services by producers to other firms like retail traders for some time without making immediate payment is an example to trade credit”(Joshi and Dongol;2056).

2.1.4 Issues of Working Capital Management

The management spends time and resources on working capital management. But some enterprises are successful to earn more profit through balance working capital policy. Generally, working capital management faces the following issues: (Pradhan; 1992).

1. Size of working capital: Definition of each type of current assets.
2. Source of financing: Short term, long term, and debt or equity financing.
3. Cost of financing: Cost of short term Vs long term financing.
4. Risk: Associated with types of financing trade off between cost and risk.
5. Maintain of current ratio: Minimizing the risk of cash flow problem.

2.1.5 Goals of Working Capital Policies

Working capital policies are the basis guidelines or strategies to achieve target financial performance in relation to working capital. Following are the firm’s goals of working capital (Hampton; 1998).

2.1.5.1 Adequate Liquidity

The most important goal of working capital policy is to achieve adequate liquidity for the conduct of day-today operation. With the lack of sufficient cash to pay their bills when due, they will experience continuing problems.

2.1.5.2 Minimization of Risk

Relatively current liabilities are the source of financing which may involve low costs. The firm must ensure that these near term obligations (current liabilities) do not become excessive compared to the current asset on hand to pay them. The matching of assets and liabilities among current is a task of minimizing the risk.

2.1.5.3 Contribute to Maximum Firm's Value

The firm retains working capital for the some purpose as it holds any other assets to maximize the present value of common stock and value of the firm. The investment of excess cash, minimization of inventories, speedy collection of receivables, and elimination of unnecessary and costly short-term financing all contribute to maximizing the value of the firm.

2.1.6 Needs of Working Capital

Most of firms aim at maximizing the wealth of shareholders. The firms should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among the other thins. Specially, working capital required to spend on raw materials, salary, wages, rent, electricity, advertisement and other sales related expenses. The need for working capital can be categorized into the following ways.

1. Transaction Motive

A business firms holds cash for smooth running of business. The 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 transaction smoothly, they have to keep inventory of raw materials and finished goods. Generally, a business firm invests on marketable securities that can be converted into cash in a short time. It is temporary investment. So, to run business smoothly in an uninterrupted basis, a business firm has to manage working capital for transaction motive.

2. Compensation Balance Motive

The commercial bank performs many functions for business firms. Sometimes, firm pays service charge by direct fee and sometimes by maintaining compensation balance. Compensation balance is the advance deduction bank on loan. It represents that the firm agrees to maintain in its checking account with the bank. With this assurance, the bank can provide such funds as long term loan.

3. The Precautionary Motive

Precautionary motive is the need to hold cash and inventories to guard against the risk of unpredictable change in demand and supply forces and other factors such as strike, failure of important customers, unexpected slow down in collection of account receivable, cancellation of some order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet any contingencies in future.

4. 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.

- a) An opportunity to purchase raw material at a reduced price on payment of immediate cash.
- b) To speculate on interest rate and
- c) To purchase at favorable price, etc.
- d) To grab these opportunities, the business enterprises have to manage cash and marketable securities. It also represents 'war chest' or pool of funds which a firm may draw quickly to meet a short term opportunity, including acquisition.

2.1.7 Approaches to Estimating Working Capital Needs

To determine working capital needs, some useful methods are applied in practices. Some appropriate methods of calculating working capital needs of a firm are as follows (Pandey; 1999).

5. Current Assets Holding Period

It is to estimate working capital requirement on the basis of average holding period of current assets and relating them to costs based on the company's experience in the previous years. This method is essential based on the operating cycle concept.

6. Ratio of Sales

It is to estimate working capital requirement as a ratio of sales on the assumption that current asset with sales.

7. Ratio of Fixed Investment

It is to estimate working capital requirement as a percentage of fixed investment

2.1.8 Liquidity Vs Profitability: Risk-Return Trade Off

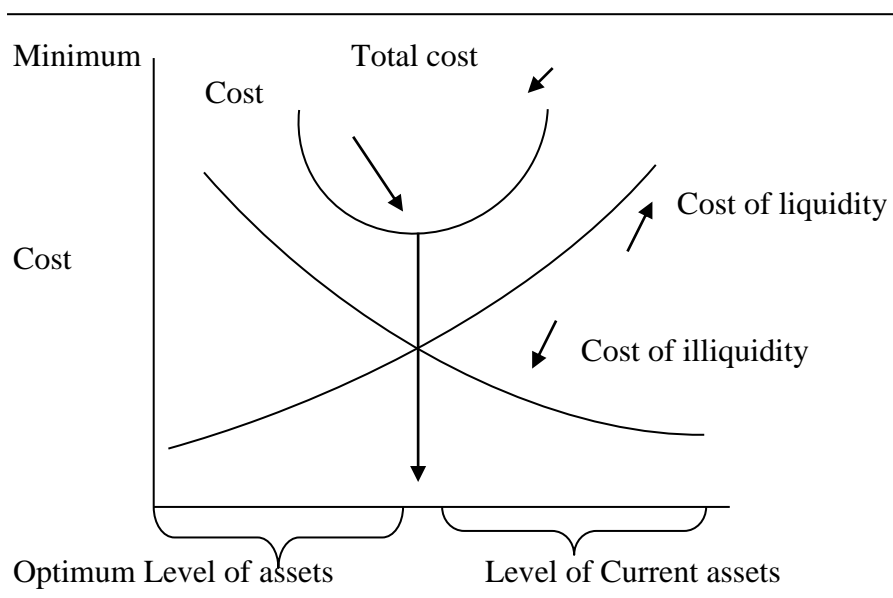
The firm may follow a conservative or an aggressive policy which involves risk-return trade off. "Determination of the appropriate level of investment in the different components of current assets and the size of current liabilities involves decision concerning the trade off between liquidity, profitability and risks." (Gopal, 1996). The objective of conducting risk-return analysis is to know whether the firms are following an aggressive, a conservative or a moderate approach. When a firm has followed an aggressive approach, the current liabilities are used to finance a position of fixed asset. In the conservative approach the firm uses only long-term funds to finance all kind of current assets and fixed assets without making use of any of the current liabilities. On the moderate approach firm uses long-term funds to finance a portion of current assets. When current assets holding at the minimum level would mean interrupted production, sales and solvency. "Its current assets holding will

depend on its working capital policy. These policies involve risk return trade-offs.”(Pandey; 1999).

2.1.9 The Cost of Trade-Off

Working capital management involves decision upon the amount and composition of current assets and how to finance these assets. This decision involves trade-off between risk and reputability, cost of maintaining a particular level of current assets. These costs are: the cost of liquidity and the cost of illiquidity. “The cost of liquidity increased with the level of current assets. The cost of liquidity is the cost of holding insufficient current asset”(Pandey;1992). The greater the relative proportion of liquid assets, the lesser the risk of running out of cash if all things are equal, result will be less profitability. “In determining the optimum level of current assets, the firm should balance the profitability-solvency tangent by minimizing total cost –cost of liquidity and cost of illiquidity.” (Pandey; 1999).

Figure 2.1: the Cost of Trade Off



The figure shows the level of current assets and cost of liquidity. In the figure when the cost of liquidity increases, cost of liquidity decrease and vice-versa. The firm should maintain its current assets at the level where the sum of cost of liquidity and cost of illiquidity are minimum.

2.1.10 Working Capital Cycle

The working capital cycle can be defined as the period of time, which gaps between the points at which, cash begins to be expended on the production of a product and the collection of from customers. Cash flows with cycle into, around out of business. Every manager's primary task is to help keep it flowing, and to use the cash flow to generate profits. If a business is operating profitably, then it should, in theory, generate cash surpluses. If it does not generate surpluses, the business will eventually run out of cash and expire. The faster a business expends the more cash it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within business. Good management of working capital will generate cash will help improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits. There are two element in the business cycle that absorb cash-inventory (stocks and work-in progress) and receivables (debtors owing money). The main sources of cash are payables (our creditors) and equity loans.

Each component of working capital (namely inventory, receiveables and payables) has two dimensions time and money. If you get money to move faster around the cycle (e.g. collect monies due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales),the business will generate more cash or it will need to borrow less money to fund working capital. Consequently, you could reduce the cost of bank interest or you have additional free money available to support additional sales growth or investment. Similarly, if you can negotiate improved terms with suppliers e.g.. get longer credit or an increased credit limit; you effectively create free finance to help fund future sales.

You	Then...
<ul style="list-style-type: none"> • Collect receivables (debtors) Faster. 	You release the cash from the cycle.
<ul style="list-style-type: none"> • Collect receivables (debtors) Slower. 	Your receivables soak up cash.
<ul style="list-style-type: none"> • Get better credit (in terms of duration or amount) from suppliers. 	You increase your cash resources.
<ul style="list-style-type: none"> • Shift inventory (stocks) faster. 	You free up cash.
<ul style="list-style-type: none"> • Move inventory (stocks) slower. 	You consume more cash.

It can be tempting to pay cash, if available, for fixed assets e.g. computers, plants, vehicles etc., if you do pay cash, remember that this is now larger available for working capital. Therefore, if cash is tight, consider other ways of financing capital investment, loans, equity, leasing etc. Similarly, if you pay dividends or increase drawings, these are cash outflows and, like water flowing down a plughole, they remove liquidity from the business.

2.1.11 Working Capital Policy

The component of the working capital constitutes the current assets and their way of financing i.e. current liability. In an enterprise, the level and the quality of the current assets and current liabilities is guided by the working capital policy and management adopted by it. Working capital management involves all aspects of the administration of current assets and current liabilities. In other word, “Working capital management is concerned with the problem that arise in attempting to manage the current assets and current liabilities, and the interrelationship that exist between them”.(Smith;1974). Working capital policy refers to decision relating to the target level investment and the financing mix of current assets working capital policy concern with two basic issues among firms balance sheet item. These two policies are regarding; “a) What is the approximate level of current assets, both in the total and by specific accounts, and b) how the required level of current assets should be financed?”(Weston, Basley and Brigham; 1996).

The issues, in the working capital management, are that firm has to determine how much funds should be invested in working capital in gross concept. Every firm adopts different financing policy according to the financial manager's attitude toward the risk-return trade-off. One of the most important decisions of financial manager how much current liabilities should be used to finance current assets. So working capital policy is related to the level of each category of current assets and financing of current liabilities on it.

2.1.11.1 Current Asset Investment Policy

Current asset investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policy which are follows (Weston, Basley and Brigham; 1996).

- **Fat-Cat or Relaxed Working Capital Policy**

In this policy, the firm holder relatively large amount of cash, marketable securities, inventory and receivables to support a given level of sales. This policy creates longer inventory and cash conversion cycle. It also create the longer receivables collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with lower risk.

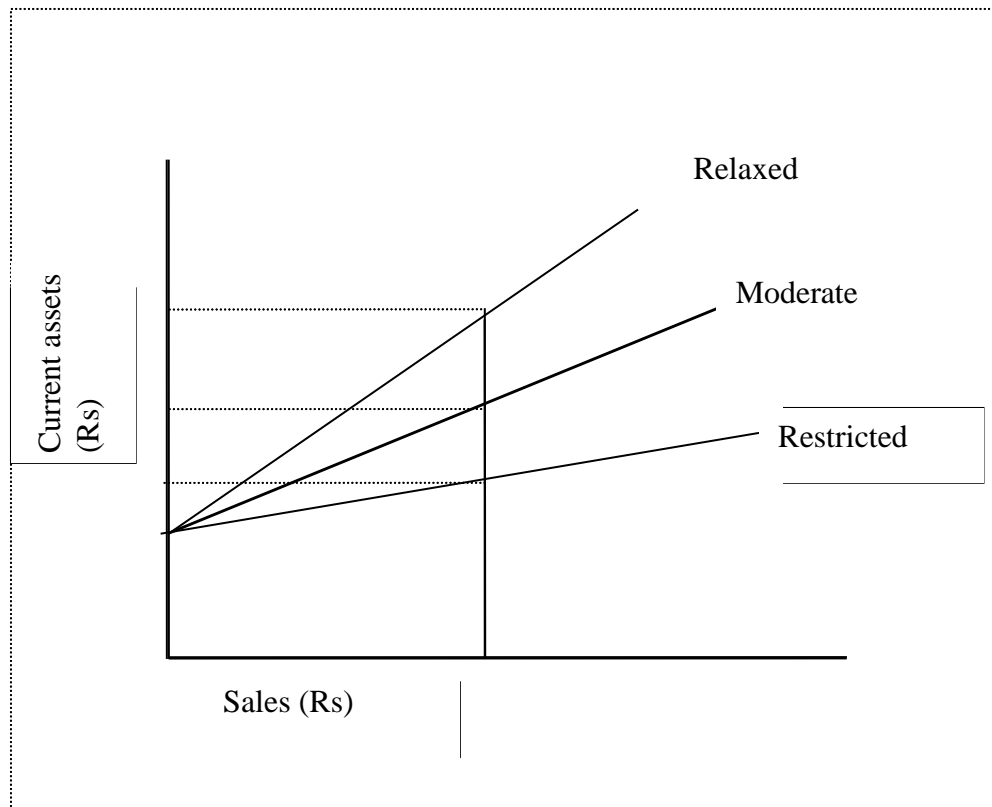
- **Lean and Mean Policy or Restricted Current Asset Investment Policy**

In this WC investment policy, a firm holds the minimum amount of cash, marketable securities, inventory and receivable to support a given level of sales. This policy trends to reduce the conversion cycle. Under this policy, firm follows to tight credit policy and bears risk of losing sales.

- **Moderate Current Assets Investment Policy**

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

Figure 2.2: Current Assets Investment Policy.



Sources Weston, Basley and Brigham, Essential of Managerial Finance; 1996

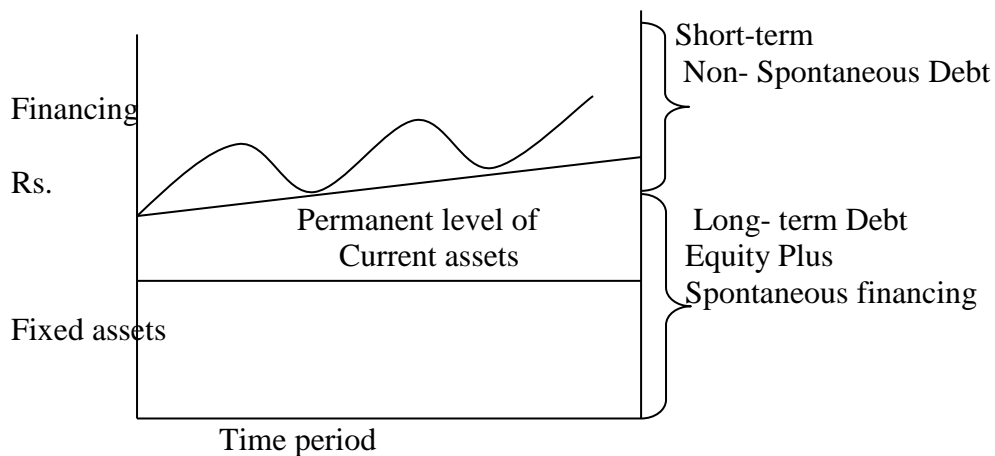
2.1.11.2 Current Assets Financing Policy

Financing the long term or short term funds to current assets has significant impact on an enterprises risk or return, liquidity and profitability. “Deciding how should current liabilities be used to finance current assets is one of the most important decisions concerning working capital management” (Pradhan; 1986). Long term as well as short term funds involves cost and cost of financing is a deciding factor in the use of different type of funds. Financing policy deals with the optimum financing mix of short term and long term liabilities. Depending upon attitude towards risk, liquidity and profitability, the management can follow following three alternative working capital financing approaches.

1. Aggressive or Tight Working Capital Financing Approach

In this policy, the firm finances not only temporary current assets but also a part of the permanent current assets with short-term financing sources and rest with long term financing sources. In other word, the firm finances not only temporary current asset but also a portion of permanent current asset with short term financing. Some aggressive firms may even finance a part of their fixed asset with short-term financing. Hence, this sort of mix financing increases the profitability and expense toward risk by financing relatively larger position of its assets through lower cost short term borrowing. Under this policy, higher the risk, higher the return and low liquidity position.

Figure 2.3: Aggressive Financing Policies.



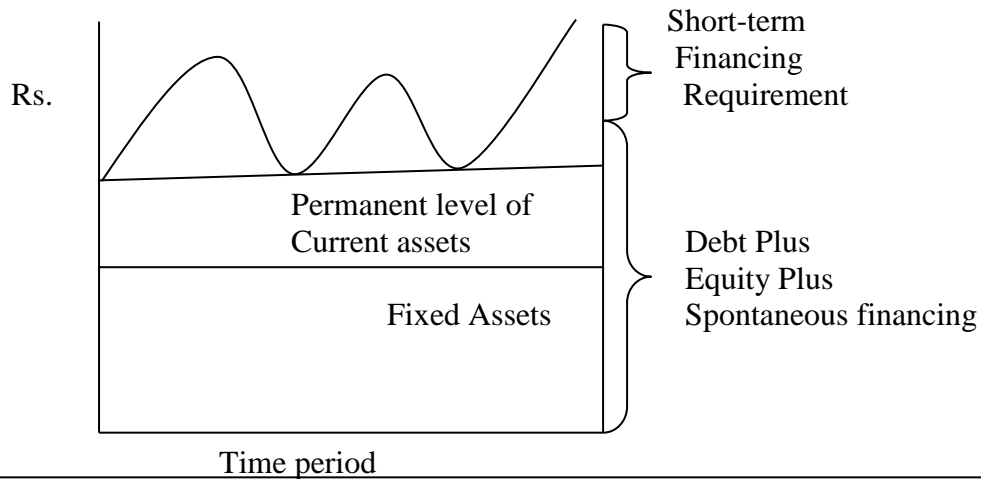
Sources Weston, Basley and Brigham, Essential of Managerial Finance; 1996.

2. Conservative Policy

Conservative approach “refers to a financing mix which is less risky leading to low profitability and high liquidity, the approach would be to finance all funds required from long term funds”(Pradhan; 1986). The financing policy of firm is said to conservative when it depend more on long term funds for financing needs. “Under this financing policy, the firm finances its permanent assets and a part of temporary current assets with long term financing” (Pandey; 1999). This policy leads to high level of current assets, with long term conversion cycle, low level of current liabilities

and higher interest cost. The risk and return are lower than that of aggressive one. The risk adverse management follows this policy.

Figure 2.4: Conservative Policy

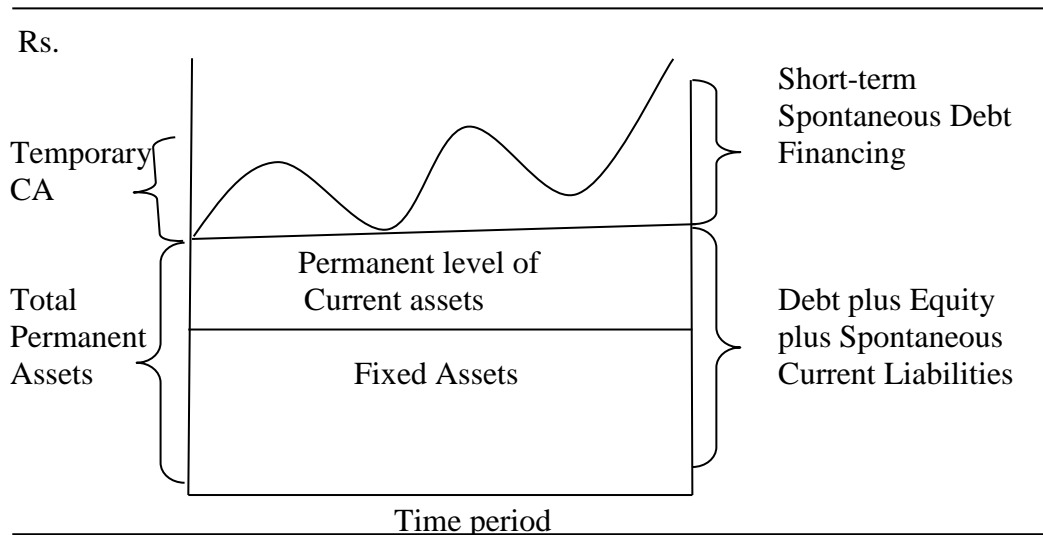


Sources Weston, Basley and Brigham, Essential of Managerial Finance; 1996

3. Maturity Matching/Hedging/Self Liquidity/Moderate Approach

This approach of working capital policy entails moderate risk with moderate returns. This firm can adopt a financial plan which involves the matching of the expected life of assets with the expected life of the sources of funds raised to finance assets. When the firm follows matching approach, long term financing will be used to finance fixed assets and permanent current assets and short-term financing to finance temporary or variable current assets (Pandey; 1999). This approach tries to achieve trade off between profitability and liquidity with neither too risky nor least risky by financing mix. “It lies in between a low-liquidity, high profitability case and a high –liquidity low profitability case” (Pradhan; 1986).

Figure 2.5: Moderate Policy



Sources Weston, Basley and Brigham, Essential of Managerial Finance; 1996.

In conclusion, conservative or loose working capital policy refers to that policy under which a firm keeps high level of investment in working capital variables like high level of receivable throughout liberal policy, high inventory and cash/bank balance while aggressive or tight working capital policy just follows the reverse policy that of former policy. But moderate policy follows the medium way between aggressive and conservative working capital policy.

2.1.12 Determinants of Working Capital

The importance of efficient working capital management is an aspect of over all financial management. Thus a firm plans its operation with adequate working capital requirement. But there are no sets of rules or formulae 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. A number of factors affect different firm in different ways. Internal policies and environment change also affect the working capital. Generally, the following factors affect the working capital requirements of the firm.

1. Nature and Size of Business

The working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is larger, then it requires more working capital. While

small firm needs less working capital. Trading and financial require larger amount of working capital relatively to public utilizes.

2. Manufacturing Cycle

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

3. Production Policy

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

4. Credit Policy

Credit policy also affects the working capital of a firm. Working capital requirement depends on term of sales. Different term may be followed to different customers according to their credit worthiness. If the firm follows the liberal credit policy, then it requires more working capital. Conversely, if a firm follows the stringent credit policy, it requires less working capital.

5. Availability of Credit

Availability of credit facility is another factor that affects the working capital requirements. If the creditors avail a liberal credit terms, then the firm will need less working capital and vice-versa. 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.

6. Growth and Expansion

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

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

8. Operating Efficiency

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

9. Profit Margin

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

10. Level of Taxes

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

11. Cash Requirements

Cash is one of the current assets, which is essential for the successful operations of the production cycle. Cash should be adequate and properly utilized. Adequate cash is also required to maintain good credit relation.

12. Business Fluctuations

This situation whether an organization operating is boom or recession or depression period also determine the working capital needs of the organization.

13. Change in Technology

Technology developments related to the production process have a sharp impact on the need for working capital. Change in technology will need additional amount of working capital due to fresh investment in new fixed assets.

2.2 Reviews of Journals /Articles

This section is an important for literature review of these researches. For the study of this section many latest information can be derived them related field. This part is mainly focused on the review of research articles and research studies conducted by different management experts about working capital management. They are presented as:

Joseph (1962) has presented the article on "Working Capital Concept". This article looks a fresh at the problem of determining working capital, and purpose a simple yet

comprehensive restatement of principle with respect to current assets and current liabilities. The working capital measures the liquidity, the fluidity of capital and serves as an indicator of balance sheet in the assets and liability structure of the company. Bank and the other short-term creditor are vitally interested in the amount of working capital from the stand point of evaluating the prospect of repayment of their claim against the company.

Nunn (1981) examined why firms have different level of working capital. The paper dealt with the strategic determinant of working capital (cash, short-term securities, account receivable and inventory) on a product line basis. The factors analysis is to test 1666 variables against the working capital policies of over 1700 business, or product lines, from 1971 to 1978. his final multiple regression models contained 19 variables pertaining to productions, sales, accounting, competitive position and industry factors.

Working Capital Model= Sales + Production + Accounting + Competitive Position +Industry factors.

This model was used to explain why working capital levels differ between firms both within and across industries.

Shrestha (1982) in his study “Working Capital Management in Public Enterprises and Study the Financial Results and Constraints” has considered ten-selected public enterprises and studied the working capital management of those public enterprises. The study states the managers often lack basis knowledge of working capital and its overall impact on the operative efficiency and financial viability of public enterprises. This study has focused on liquidity, turnover and profitability position of sampled enterprise. Based on those factors, the study has brought certain policy issues of Nepalese public enterprise. Such as lack of suitable financial planning, negligence toward working capital management, deviation liquidity and turnover of assets and inability to show positive relationship between turnover and return on net working capital. This study has suggested the measures to overcome such policy issues like identifications of needed funds, regular checks and development of management information system, positive attitude towards risk and profit and determination of

right combination of short-term and long-term sources to finance working capital requirements.

Pradhan and Koirala (1983) had jointly published an article on “Some Reflections of Working Capital Management in Nepalese Corporations”. This article aims to find out the difficulty, problems and importance of current assets management and also aims to find out the motive for holding cash and inventory. The study use only primary data to find out the basic constraints and distributed 200 questionnaires. For the purpose of study, they use both manufacturing public corporation as a sample companies. After analyzing the collected data the major findings of this study are as follows:

1. To provide a reserve for routine net outflows of cash is the major motive for holding cash in Nepalese corporation.
2. The major reason for holding inventories is to facilitate smooth operation of production and sales.
3. The major factor affecting the large investment in receivable is found to be the liberal credit policy followed by Nepalese corporation. The large paying practice of customer is also responsible for larger investment in receivable. However, corporations are reluctant to take inefficient collection of trade credit as one of the major factor affecting receivables.
4. In 1985 Acharya has published an article on “Problems and Impediment in The Management of Working Capital in Nepalese Enterprises”. This article has presented that working capital management; especially in public sector, has been a relatively weak area. The study has described operational problems as well as organizational problems faced by the Nepalese public enterprises regarding the working capital management. Some of these problems are:
 5. The operational problems are as follows
 6. Public enterprises has slow inventory turnover.
 7. Change in working capital has low impact on profitability.
 8. Current liabilities are increasing largely than current assets.
 9. They have not followed the conventional proportion of debt and equity as 1:1.
 10. Absent and apathetic information management system.

11. The performance evolution tools and techniques like break even analysis, fund flow analysis, ratio analysis, are either undone or inefficient in most public enterprises.
12. Monitoring the proper functioning of working capital management has never considered as managerial job.
13. Secondly, the organizational problems are:
14. Lack of regular evaluation of financial as well as regular internal and external audit system.
15. Most of public enterprises being unable to present their capital requirements with proper justifications.
16. Functioning of finance department was not satisfactory.
17. Some of public enterprises are facing the problem of under utilization of capital.
18. This study is not satisfied with the performance of enterprises. To make an efficient use of funds for minimizing the risk of loss. To make an efficient use of funds for minimizing the risk of loss to attain the profit objectives. This study has made some suggestion and recommendation.
19. Public enterprises should take care of negatively affecting policies directives from HMG Nepal itself.
20. Public enterprises should avoid fictitious holding of assets immediately.
21. Finance staff must be adequainted with the modern scientific tools used for the presentation and analysis of data.
22. Lastly, this study has suggested optimizing its level of investment because both of these situations will erode the efficiency of concern.

Weinurb and Visscher (1998) have carried out a study on industry practice relating to aggressive, conservative working capital policies. This study looked at ten diverse industry groups over an extend time period to examine the relative relationship between aggressive and conservative working capital practices. Results of strongly show that the industries had significantly different current assets management policies. Additionally the relative industry ranking of the aggressive /conservative liability management was also significantly different. Interestingly, it is used where there is a high and significant negative correlation between industry current assets and liability policies. Relatively aggressive working capital management seems balanced by conservative working capital financial management.

Zeng (2002) made an empirical study on the working capital channel and cross-sector co-movement. The paper studied cross-sector co-movement, one of the defining characteristic of business cycle, in a monetary framework. The study argues that monetary factors might be important for understanding this phenomenon through a working capital channel. The study showed that in a strictly portfolio adjustment model where firm borrow to finance working capital, appositive money supply shock drives the nominal interest rate down, thereby stimulating firm's borrowing and causing employment to rise in different sectors. A positive aggressive technology shock can also drive the nominal interest rate down upon impact and reduce co-movement when the elasticity of labour supply is large.

Mahat (2004) has published article relating to "Spontaneous Resources Working Capital Management". The article has defined the three major sources of working capital i.e. equity financing, debt financing and Spontaneous sources of financing, regarding the working capital management. Debt financing include short term, bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. where as spontaneous sources of working capital include trade credit, provisions and accrued expenses.

The articles has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such as environment should be enough to cope with the possible worst happening in future for working capital management. The study has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by the way of debt financing, the company should have to bear interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profit. Therefore, spontaneous sources of working capital will better to working capital in order to improve its performance.

Consequently in a changed economic scenario, ever company should realize that inability to manage working capital might land them in a vicious circle that can be hard to get out form. It is indeed essential for industries to tighten their belts and check their financial stability to face and stand in forth coming competitive day.

2.3 Review of Thesis

Besides the review of available books and research articles, a number of studies have been conducted by students of related to working capital management in different PEs and private companies of Nepal. This section will review some of those dissertations.

Sharma (1999) has done a research on “A Study on Working Capital Management of Nepal Battery Co. Limited”. Considering five years financial statement (i.e. balance sheet, profit and loss A/C and income statements, etc.) from 1994 to 1998 this study has used ratio analysis as tools for the purpose of analyze working capital management in Nepal Battery Company Ltd. The major objectives of this study are to analysis the liquidity composition of working capital, assets utilizations and profitability position of Nepal Battery Company Ltd. This study also focuses on relationship between sales and different variables of working capital of Nepal Battery Company Ltd. The findings of this study are as follows:

1. The major component of working capital of Nepal Battery Company Ltd are cash and bank balance, account receivable, inventory, miscellaneous current assets and inventory holds large portion of current assets. The proportion of current assets on total assets and fixed assets is increasing, it indicates that inventory in current assets is high with respect to its total assets and fixed assets.
2. Inventory to total assets ratio shows fluctuating trend and receivable to total asset position show increasing trend. The turnover position is in fluctuating trend and receivable conversion period and inventory conversation period is long which is unfavorable for the company.
3. Values of current and quick ratios are found nearly equal to standard inefficiency in operation can be seen through wide different between gross profit margin and net profit margin and high level of operating ratio.

This study has suggested the company to reduce the inventory level. This study recommends about receivable conversion period, which is necessary to reduce with concerning sales volume because reduction of this period may affect on sales volume. Lastly, this study mentions about operating cost, which must be reduced in proper way so that can maximize its profitability and shareholders return.

Kunwar (2002) has carried out a research on “Working Capital Management of Pharmaceutical Industry of Nepal with Reference to Royal Drugs Limited”. The study has used statistical as well as financial tools to analyze the annual statement. The main objective of this study is to analyze empirical testing affecting working capital of Royal Drugs Limited as well as to know whether adequacy of working capital depends upon the nature of financing current assets or not. The major findings of this study are:

1. It has used more long term sources of financing than short term sources and followed conservative working capital policy.
2. The major components of current assets in Royal Drugs Limited are cash and bank balance, receivable, inventory. Among these current assets inventory holds largest portion of current assets.
3. Company can not efficiency utilize current assets and there is also inefficient management of receivable policy.
4. Liquidity position is satisfactory where as return position is not satisfactory due to negative return.

This study has suggested that the company should determine appropriate financing sources. Company should reduce inventory and receivable level for adjusting with sales and production level. To balance them company should improve marketing and credit policy.

Aryal (2004) has done a research on “A Study on Working Capital Management of Nepal Telecommunication Corporation”. The specific objectives of this study are to know how far Nepal Telecommunication Corporation is able to utilize its current assets properly. This study has calculated various financial ratios by taking five years secondary data of Nepal Telecommunication Corporation.

From the analytical study, the study has found that:

1. There is high liquidity in Nepal Telecommunication Corporation
2. Cash and bank balance holds large amount of current assets
3. It has followed conservative financing policy.

4. Turnover ratios of company are not satisfied, profitability position is not satisfied but liquidity condition of Nepal Telecommunication Corporation is favorable.

On the basis of above finding, this study has suggested that the company should optimize its liquidity position, concentrate in the collection period. Again this study has given advice to apply cash management for the optimal cash balance and excess cash can be invested in marketable securities.

Ghimire (2005) has done a research on “Working Capital Management of Selected Manufacturing Company-Listed in Nepal Stock Exchange”. The study covers five years historical data from 1997 to 2001 of seven manufacturing companies. This study has focused on the issue of working capital management in relation to selected manufacturing companies. The main objectives of this study are to study working capital practices of listed Nepalese manufacturing companies, to analysis the variable affecting working capital management in Nepalese manufacturing companies and to determine the issue and gaps in working capital management of these companies.

For finding the solution to above problem, the study has employed quantitative and qualitative methods. In quantitative method, this study has used financial tools (ratio analysis, cash conversion cycle, predicting power of ratio of success/failure and DU point) and statistical tool (Karl Pearson’s correlation coefficient and simple linear regression). In the qualitative method, this study has used opinion survey method. From the comparative analysis of this study has found that:

1. Out of seven, five companies have followed a moderate working capital policy.
2. The overall average inventory, receivable, payable and cash conversion period are high.
3. Correlation coefficients between various components of working capital with sales are moderate
4. Overall profitability of these selected manufacturing companies is positive, on other hand he has found some issues and gaps i.e. inefficient current assets management, missing working capital policy, high level cost, excessive borrowing, weak liquidity position, high conversion cycle and management inefficiencies.

At last the study has suggested that manufacturing companies should make a quarterly working capital plan with effective working capital management. Further they should improve liquidity position, adopt appropriate financing policy, prepare effective sales plan, develop efficiency of personal and staff, and develop appropriate information system.

Gautam (2008) has conducted the research on “Working Capital Management of Soaltee Crowne Plaza”. This study has covered the period of five years (2002/003-2007/008). For the analysis of working capital this study has used different financial and statistical tools like ratio analysis, trend analysis, standard deviation and regression analysis. The main objective of this study is to examine working capital practices and profitability position of Soaltee Crowne Plaza. The major findings of this study are as given below:

1. The current ratio of Soaltee Crowne Plaza is in very poor condition because the current asset is than the current liabilities in each year of the study period. Comparing with standard ratio the calculated current ratio become too small. Therefore, the liquidity position of the company is not satisfactory. Quick assets are pure liquid in nature, but the calculated ratio shows the liquid is insufficient to pay its current payable as its ratio is below standard.
2. Company is loosing its ability in respect with investment policy because in the proceeding year it has positive return whereas in the later year it has negative return.
3. The fluctuation cash turnover implies that the Soaltee Crowne Plaza is inefficient in cash management.
4. The proportion of current assets to total assets is nearly consistent. The company has low investment in current assets.
5. Company has followed conservative policy of financing. The receivable turnover is more consistent. The utilization of current assets becomes unsatisfactory.

The study has suggested that the company should make the effective plan, which helps for immediate marketability and certainly decrease the problem of overstocking. Management should set proper credit policy and avoid unnecessary increase in the

volume of receivable, determine appropriate sources of financing and give proper attention toward the manpower. Hence, to service in present competitive marketing the industry has to improve overall working capital policy. This study has taken only one hotel (Soaltee Crowne Plaza) out of four listed hotels. There are various aspects of financial management but this study is concerned with only the working capital aspect of related hotel. This study recommend that government should make sound policy towards tourism but without increasing hotel's capacity and making good plan to attract the tourist, the government alone cannot do anything.

Shrestha (2009) has carried out his research on “A Study in Working Capital Management of Dairy Development Corporation.” The main objective of the study is to analyze the current assets and current liabilities and their impact and relationship to each other. The major findings of his study are as follows:

1. The major components of current assets in Dairy Development Corporation are inventory, cash and bank balance, sundry debtors and miscellaneous current assets in which inventory hold the major portion respectively in each year.
2. The company's investment in the form of working capital has been increasing. The average investment in current assets is lower with respect to fixed assets during the study period and Dairy Development Corporation has no clear vision about the investment in current assets to fixed assets portion.
3. The average receivable turnover and Average Collection Period is in fluctuating trend during the study period.
4. There is ineffective liquidity position and unsatisfactory profitability ratio in Dairy Development Corporation.
5. The overall return position Dairy Development Corporation is negative i.e. not in favorable condition. It is because of inefficient utilization of Current Assets, Total Assets and shareholder's wealth.

Yadav (2010) has conducted the research on “Working Capital Management of Listed in Nepal Stock Exchange”. The study has used financial as well as statistical tools. The study has also used primary and secondary sources of data. The main objective of this study is to apprise the working capital management of listed hotels

and to find out the relationship between the different variables of working capital. The major findings of this study are:

1. Yak and Yeti, Oriental and Soaltee Crowne Plaza are suffering from excess of current assets over the current liabilities.
2. Yak and Yeti has followed conservative financing policy whereas Soaltee and Oriented have followed aggressive financing policy.
3. The relationship between current assets and current liabilities, current assets and net sales, and net working capital, are found negative and receivables and net sales are positive of all selected hotels.
4. From the primary information, it has also found that Oriental and Yak and Yeti are not implying any credit standard policy and credit payable policy.
5. The liquidity and profitability position of all selected hotels is satisfactory.

This study has suggested that in the view of Oriental and Yak and Yeti, good financing planning is important to make better working capital management system. These three hotels should manage receivable and inventory conversion period by applying suitable credit policy. Lastly, this study mention about operating cost, which must be reduced in proper way so that the hotels can maximize their profitability and shareholder's return. This study, has taken only three hotels out of four hotels listed in Nepal stock exchange. If this study has directly collect primary information from related respondent not from the Human Resources Department then this study would be far better than others.

Gurung (2011) has carried out his research on “A Study on Working Capital Management of Unilever Nepal limited Limited. “The main objective of his study is to examine the working capital management of Unilever Nepal Limited. The major findings of his study are as follows:

1. Inventory holds the major portion of current assets followed by miscellaneous current assets, sundry debtors, cash and bank balance.
2. The liquidity position of Unilever Nepal Limited is satisfactory but not perfect though increasing trend implies that liquidity position can be expected to be good in future.

3. There is not trade off between liquidity and profitability: however profitability of Unilever Nepal Limited is satisfactory.

2.4 Research Gap

All the above studies are conducted with the research title “Working Capital Management”. Some researchers have selected various manufacturing companies for the research and some have concentrated in only one or two companies. As to research gap is concerned, there are many changes taken place in the working capital environment and production process as compared to the last few years. So, fresh study related to working capital management of Unilever Nepal Limited has been done in this research. During the period of gap, the company has renamed to Unilever Nepal Limited. from Nepal Lever Limited. The most of the studies has been considered many more objectives which made their study more complicated but in this research report only four objectives are taken into study. Some researcher uses both primary and secondary data but only secondary data are considered in this research. Both financial as well as statistical tools like ratio analysis, turnover, cash conversion cycle, mean, standard deviation, coefficient of correlation and probable error are used in this research. Almost all the ratios have been applied to cover the analytical part and fulfill the objective of this study. It involves more recent data of Unilever Nepal Limited for five years 064/65 to 068/69.

CHAPTER III

RESEARCH METHODOLOGY

This chapter describes the methodology employed in this study. Research methodology is a sequential procedures and methods to achieve the objectives of the study. A sound research study needs to follow a proper methodology in order to achieve predetermined objectives. Thus, this chapter deals with research design, population and sample, nature and sources of data and tools for analysis of data and definition of key terms.

3.1 Research Design

This study is based on research questions, and it is both the descriptive as well as analytical research. The process of accumulating the facts by identifying different variables, analyzing their behaviors and characteristics should include primary data. Besides this the study also consists of analysis of variables like liquidity, profitability, sales and current assets which is known as the analytical research.

3.2 Population and Sample

There are eight listed manufacturing companies in Nepal stock exchange but out of them only one is selected for the study Unilever Nepal Limited, which is a multinational company, and has been providing quality goods as well as creating employment opportunities to Nepalese economy. And Above that it has also brought sophisticated technology of producing goods with it. From this enterprise, data and information are taken only related to working capital and its management has been taken for the research purpose.

3.3 Nature and Sources of Data

This study is based on mainly secondary nature data, which are collected from corporate office of Unilever Nepal Limited. Supplementary primary data for the research has been collected through discussion with related key officials as well as from annual financial report of the company. The study covers five years secondary data from 2064/065 to 2068/069 of Unilever Nepal Limited.

3.4 Data Gathering Procedure

Required financial data has been collected from the corporate office of Unilever Nepal limited. Data used for the research has been collected through audited annual reports, face to face interview with related officials, published books and journals, bulletins and magazines.

3.5 Data Processing

In order to achieve the objective of this study, all collected data are properly arranged and synthesized, tabulated and calculated in accordingly. In this process, financial statement, other information and data are reviewed, grouped in different tables according to their nature and need of the study.

3.6 Method of Data Analysis

The collected data are analyzed by using various financial tools and statistical tools which are given below.

3.6.1 Financial Tools

Financial tools are used to find the financial indicators, which basically represent ratio analysis, which indicates mathematical relationship between two figures that are used for establishing the qualitative relationship between two variables. The ratio is useful to the decision about working capital.

In this study liquidity ratios, profitability ratios, leverage ratio and turnover ratios are used. They are explained below:

3.6.1.1 Liquidity Ratio

It is the most important part for the company. It shows the company to pay its current obligation. The liquidity position of the company is determined on the basis of current ratio and quick ratio.

1. Current Ratio

This ratio is computed as dividing current assets by current liabilities.

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

The high current ratio indicates good liquidity position of company i.e. it is able to pay its current obligation or bills. Generally, the current ratio of 2:1 is considered to be satisfactory. More ratios indicate the greater amount of working capital and vice-versa.

2. Quick Ratio

This is computed as dividing quick assets by current liabilities.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current liabilities}}$$

As the quick assets does not include the amount invested in the inventories. It is reliable to measure the company's liquidity. Generally, quick ratio of 1:1 of the company is considered to be sound position.

3.6.1.2 Activity or Turnover Ratio

Activity ratios are employed to evaluate efficiency which the firm manages and utilizes its assets. Turnover ratio indicates the speed of assets which are being converted or turned into sales. Activity ratio indicates the relationship between sales and assets. Activity ratios help to judge the effectiveness of asset utilization. They are as follows.

1. Inventory Turnover Ratio

The inventory turnover ratio shows how rapidly the inventory is turning into receivable through sales. It means the ratio shows the efficiency of the business concern in an inventory management. Inventory turnover ratio equals cost of goods sold or sales divided by average inventory or closing inventory.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$\text{Or,} = \frac{\text{Sales}}{\text{Closing inventory}}$$

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

2. Debtor (Receivable) Turnover Ratio

Debtor Turnover Ratio shows the relationship between sales and account receivable of the enterprises indicates the velocity of debt of collection of the firm. DTR is a test of liquidity position and collecting efficiency of a firm.

$$\text{Debtor Turnover Ratio} = \frac{\text{Sales}}{\text{Debtors}}$$

3. Current Asset Turnover Ratio

Current Assets Turnover Ratio indicates the number of times the Current Assets is turned over during the year. The ratio shows the requirement of working capital for one rupee of sales. It analyses how firm efficiency can utilize its Current Assets.

$$\text{Current Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Current Assets}}$$

As the Current Assets Turnover Ratio increase, it is utilization of Current Assets. If the ratio is low, a greater volume of working capital is there. Low ratio indicates greater working capital and high ratio indicates lower working capital.

4. Net Working Capital Turnover

Net Working Capital Turnover Ratio refers to the ratio between sales and Net Working Capital. Net Working Capital is the difference between Total Current Assets and Total Current Liability.

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

More ratios show the more utilization of net working capital and less ratio vice-versa.

5. Cash and Bank Turnover Ratio

Cash and Bank Turnover Ratio measures how rapidly cash can convert into sales of the company. It shows the effectiveness of management in case of application of each in ordinary course of business.

$$\text{Cash and Bank Turnover Ratio} = \frac{\text{Sales}}{\text{Cash and Bank Balance}}$$

The higher ratio indicates cash is rapidly converted into sales and efficient cash management. Low ratio indicates slow, weak and inefficient cash management.

3.6.1.3 Profitability Ratio

The main objective of each and every business concern is to earn maximum profit. The position of the profitability of the company is analyzed with the help of this ratio. The profitability ratio is used to measure the operating performance of the company.

1. Gross Profit Margin

Gross Profit Margin ratio indicates the percentage of profit after cost of production. This ratio is a measure of productive efficiency. A high gross profit margin reflects the higher cost of production. Gross margin ratio is given by:

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$$

$$\text{Or,} = \frac{(\text{Sales} - \text{Cost of Goods Sold})}{\text{Sales}} \times 100\%$$

2. Net Profit Margin

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 overall measurement of the company's ability to earn net profit. It computed by dividing net profit by sales and given by:

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Sales}} \times 100\%$$

3. Operating Expenses Ratio

This ratio is calculated to ascertain the relationship between operating expenses and volume of sales. The higher percentage of operating expenses ratio shows higher operating cost and vice-versa. It is given by:

$$\text{Operating Expenses Ratio} = \frac{\text{Cost of Goods Sold} + \text{Operating Expenses} \times 100\%}{\text{Sales}}$$

$$\text{Or,} = \frac{\text{Expenses (Administrative+Selling)}}{\text{Net sales}} \times 100\%$$

4. Return on Working capital

It measures the profitability position with respect to current asset. Working capital and current assets are synonyms.

$$\text{Return on Working Capital} = \frac{\text{Net Profit After Tax}}{\text{Current asset}} \times 100\%$$

$$\text{Or,} = \frac{(\text{Net Profit After Tax} + \text{Interest})}{\text{Current asset}} \times 100\%$$

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

5. Return on Total Assets

Return on Total Assets can be expressed as the relationship between net profit after taxes plus interest and total assets. Return on Total Assets measures the profitability of total fund or investment of the firm. But RTA is not sufficient for the analysis of profitability of different source of fund for financing the total assets.

$$\text{Return on total Assets} = \frac{\text{Net Profit After Tax}}{\text{Total assets}} \times 100\%$$

$$\text{Or,} = \frac{(\text{Net Profit After Tax} + \text{Interest})}{\text{Total assets}} \times 100\%$$

3.6.1.4 Structure of Working Capital Ratio

The analysis of structure of working capital enables management of an enterprise to know as to how the working capital is being administered. It also furnishes valuable information to short- term creditors and other regarding the strength of working capital of the undertaking. The structure of working capital can be analyzed by measuring the change of proportion of cash, receivable, inventory and other to the total current assets in course of time. The structure of working capital has been studies by analyzing the following ratios.

a) Working Capital Structure on Total Assets

It shows the portion of working capital on total assets. It can be also classified under as:

1. Current Assets to Total Assets

The ratio of current assets to total assets indicates what percentages of the company's total assets are invested in the form of current assets. It is calculated as:

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

As the ratio increase, the risk and profitability of the company would decrease. The low ratio indicates the small amount of working capital.

2. Current Assets to Fixed Assets Ratio

This ratio shows the relationship between the Current Assets and Fixed Assets. It can be calculated as:

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

If the ratio is large, it indicates higher the working capital and sound liquidity position.

3. Cash and Bank Balance to Total Assets

It measures what portion of cash and bank balance on total assets.

$$\text{Cash and Bank Balance to Total Assets} = \frac{\text{Cash and Bank Balance}}{\text{Total assets}} \times 100\%$$

The small ratio indicates the small size of cash and higher ratio indicates the high size of cash and bank balance on total assets.

4. Inventory to Total Assets

It measures the ratio of inventory on total assets. It can be calculate as:

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

Higher the ratio, higher the inventory and vice versa.

5. Receivable to Total Assets

It measures the ratio of receivable on total assets.

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

Higher the ratio, higher level of receivable on total assets.

6. Pre-paid Advance Loans and Deposit to Total Assets Ratio

It means the level of investment on pre-paid, advance, loan and deposit from the total assets.

Pre-paid Advance loans and Deposit to Total Assets

$$= \frac{\text{Prepaid Loan Advance and Deposit}}{\text{Total Assets}}$$

High ratio indicates high level of Prepaid Advance & Deposit to Total Assets and vice versa.

(b) Working Capital Component Structure on Total Current Assets

The aim of this ratio is to find out the portion of every working capital component on gross working capital. Which are classified as follows?

1. Inventory to Total Current Assets

It measures the level of inventory on total current assets.

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

Higher ratio indicates the high level of inventory on total current assets.

2. Receivable to Total Current Assets Ratio

It is the level of receivable on total current assets.

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

Higher the RTCA ratio high level of sale on credit portion and vice-versa.

3. Cash and Bank Balance to Total Current Assets Ratio

It measures the relationship between cash and total current assets composition.

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

4. Pre-paid Advance Loans and Deposit to Total Current Assets

It is the level of investment on pre-paid, advance, loan and deposit from the total current assets.

Pre-paid Advance Loans and Deposit to Total Current Assets

$$= \frac{\text{Prepaid Loan Advance and Deposit}}{\text{Total Assets}}$$

High ratio indicates the investment of current assets on unproductive sector and vice-versa.

3.6.1.5 Working Capital Cash Flow Cycle

Working capital cash flow cycle means the cash inflow and outflow periods of a company. In the business enterprises cash inflow and outflow are resistive process. It can be calculated in the following aspects.

1. Inventory Conversion Period (ICP)
2. Receivable Conversion Period (RCP)
3. Payable Deferral Period (PDP)
4. Cash Conversion Cycle (CCC)

1. Inventory Conversion Period

It defined as the length of time required to convert raw material into finished goods and then sell these goods. This period indicates the efficiency of the firm since it includes period from purchase of raw material to selling its product during a year.

$$\text{Inventory Conversion Period} = \frac{360\text{days}}{\text{Inventory Turnover}}$$
$$\text{Or,} = \frac{\text{Average Inventory}}{\text{Cost of Goods sold}} \times 360\text{days}$$

Lesser the ICP, better the inventory management means quick conversion inventory to sales.

2. Receivable Collection Period

Receivable Collection Period is also known as average collection period. Days Sales Outstanding shows the length of time to convert account receivable to cash, means that the period between credit sales and receipt of cash of these sales.

$$\text{Receivable Conversion Period} = \frac{360\text{days}}{\text{Receivable Turnover}}$$

$$\text{Receivable Turnover} = \frac{\text{Sales}}{\text{Debtor}}$$

$$\text{Or, Receivable Collection Period} = \frac{\text{Debtors(Receivable)}}{\text{Sales}}$$

3. Payables Deferral Period

It is also known as payable conversion period. It is defined as the average length of time between the purchase of raw materials and labour and payment of cash for them.

$$\text{Payables deferral Period} = \frac{\text{Account Payable}}{\text{Cost of Goods Sold}} \times 360\text{days}$$

$$\text{Or, Payables deferral Period} = \frac{\text{Account Payable}}{\text{Purchase}} \times 360 \text{ days}$$

Higher Payables deferral Period indicates the slow payment to creditors and vice-versa.

4. Cash Conversion Cycle

It is the length of time between paying for purchases and receiving cash from the sales of finished goods. The cash conversion cycle can be calculated as follows.

$$\text{Cash Conversion Cycle} = \text{Operation cycle period} - \text{Payable Deferral Period}$$

Or, Cash Conversion Cycle = Inventory Conversion Period + Receivable Collection period – Payable Deferral Period.

3.6.2 Statistical Tools

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 Standard Deviation

“Standard deviation is the most popular and most useful measures of dispersion and gives uniform, correct and stable result” (Joshi; 2001). The chief characteristic of standard deviation is based on mean. Mean doesn't give the clear picture about two distributions with same average because scattered ness may differ in those distributions. Therefore, a standard deviation is superior to the mean deviation, quartile deviation and range because it is used for further mathematical treatment. It is the positive square root of average sum of squares of deviation of observation from the arithmetic mean of distribution. Different formulae can be used to calculated standard deviation, among them following formulae has been used here.

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

3.6.2.2 Co- efficient of Variation

Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the co-efficient of standard deviation. “The co-efficient of dispersion based on standard deviation multiplied by 100 is known as the co-efficient of variation”. (Bajracharya; 2061).

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

It is used for comparing the homogeneity and the uniformity of two or more distribution. The less CV, measure the more uniformity and consistency and the more the CV measure the less the uniformity and consistency.

3.6.2.3 Correlation Coefficient (r)

Correlation coefficient is defined as the association between the dependent variable and independent variable. It is a method of determining the relationship between these two variables. If the two variables are so related that change in the value of independent variable causes the change in the value of dependent variable, then it is said to have correlation coefficient (Shrestha and Silwal; 2059). It can be calculated by using the method of Karl Pearson's Correlation Coefficient, which is a widely used mathematical method of correlation coefficient between two variables.

$$r = \frac{N\sum dx.dy - \sum dx. \sum dy}{\sqrt{N\sum dx^2 - \sum(dx)^2} \sqrt{N\sum dy^2 - \sum(dy)^2}}$$

Interpretation

1. If $r=0$, there is no relationship between the variable.
2. If $r<0$, there is negative relationship between the variable.
3. If $r>0$, there is positive relationship between the variable.
4. If $r=+1$, the relationship is perfectly positive.
5. If $r=-1$, the relationship is perfectly negative.

3.6.2.4 Probable Error (PE)

The probable error of the correlation co-efficient is applicable for the measurement of reliability of the computed value of the correlation co-efficient 'r'. it is also denote by P.E. it is calculated by the following formula.

$$\text{Probable Error (PE)} = \frac{0.6745 (1-r^2)}{\sqrt{N}}$$

Where,

r = Correlation Co-efficient.

N = Number of pairs of observation.

P.E. is used to interpret whether the calculated value of r is significant or not.

1. If $r < P.E.$, it is insignificant, i.e. there is no evidence of correlation.
2. If $r > 6P.E.$ it is significant.
3. If $P.E. < r < 6P.E.$ nothing can concluded.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

To achieve the objective set in this study, data are presented and analyzed in this chapter. On the whole, this chapter is related to quantitative analysis of various ratios. Some quality-oriented analysis has also been done in order to make the result realistic and complete to the possible extent. This chapter includes working capital structure, utilization of working capital, liquidity position, cash conversion cycle, profitability position of working capital components and working capital policy.

4.1 Structure of Working Capital

The working capital composition is affected by the nature of business and attitude of the management toward risk. There are various types of current assets that have been used in business organization. Some of them have held high amount in current assets and some of them have occupied low amount, which affects the profitability and liquidity positions. The major components of working capital of Unilever Nepal Limited are inventory, debtors, cash and bank balance, loan, advance and deposit. In this study section, analysis of working capital compositions in relation to current assets, fixed assets and total assets as ratios have been made.

4.1.1 Proportion of Total Current Assets on Total Assets and Fixed Assets

This structure expresses the gross working capital portion that is held in total assets and similarly in fixed assets, which shows the how many percentage of total assets and fixed assets has been invested on gross working capital. Following table presented the working capital structure on total assets and fixed assets of Unilever Nepal Limited.

Table No. 4.1
Proportion of Current Assets on Total Assets and Fixed Assets
(Rs. in Million)

F/Y	CA	TA	Ratio (%)	CA	FA	Ratio (%)
2064/65	557.96	703.74	79.28	557.96	145.78	382.74
2065/66	622.67	771.6	80.69	622.67	148.93	418.16
2066/67	761.38	901.59	84.44	761.38	140.21	543.02
2067/68	790.68	934.77	84.58	790.68	144.14	548.55
2068/69	758.97	919.81	82.51	758.97	160.84	471.87
Average			82.23			472.86
C.V.			2.53			13.96

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

Current Assets to Total Assets: The ratio represents the proportion current assets investment to total assets investment of Unilever Nepal Limited. During the study period percentage of current assets to total assets of UNL is not more fluctuating trend with on average of 82.23% F/Y 2064/065, the volume of current assets on its total assets are Rs. 557.96 million and it is 79.28% total assets It is least percentage of current assets on total assets during the study period. In the F/Y 2067/068 current assets are Rs. 790.68 and its ratio is 84.58%, which is higher percentage proportion over the period of time. The C.V is 2.53% of UNL. This means, the ratio of UNL has less variation because of minimum co-efficient of variation.

Current Assets to Fixed Assets: Current assets to fixed assets ratio of UNL is in increasing trend up to F/Y 2067/068. The lowest ratio is 382.74% of its fixed assets in F/Y 2064/065, and it has maximum of 548.55% ratio of its fixed assets in F/Y 2067/068. Because of high fluctuation, the average percentage of current assets to fixed assets is 472.86% The C.V. is 13.96% of UNL.

4.1.2 Proportion of Net working capital on Total Assets and Fixed Assets

Net working capital total assets ratio, measures the net working capital portion of total assets and similarly net working capital to fixed assets ratio measures how much net

working capital has been invested with respected to fixed assets. Net working capital is different between current assets and Current liabilities. Following table presents the structure of net working capital on total assets and fixed assets.

Table No. 4.2
Proportion of Net Working Capital on Total Assets and Fixed Assets

(Rs. in Million)

F/Y	NWC	TA	Ratio (%)	NWC	FA	Ratio (%)
2064/065	(184.27)	703.74	(26.18)	(184.27)	145.78	(126.40)
2065/066	(127.80)	771.6	(16.56)	(127.80)	148.93	(0.85)
2066/067	(53.18)	901.59	(5.90)	(53.19)	140.21	(37.92)
2067/068	283.33	934.77	30.31	283.33	144.14	196.56
2068/069	206.84	919.81	22.50	206.84	160.84	128.59
Average			0.83			31.99
C.V.			2556.62			363.15

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

Net Working Capital on Total Assets: The average portion of net working capital on total assets of company is 0.83%. In F/Y 064/065, 065/066, and 066/067 the proportion of net working capital to total assets is negative which indicates that, the current liabilities of these 3years is more than the current assets. The higher portions or ratio is 30.31% in F/Y 2067/068. The C.V. for net working capital to total assets is 2556.62% implies more variation because of maximum of C.V in comparison to ratio of net working capital to current assets.

Net Working Capital to Fixed Assets: The average portion of net working capital on fixed assets of company is 31.99%. Similarly on total assets, in F/Y 2064/065, 2065/066, and 2066/067, the ratio of net working capital to fixed assets is negative because due to more current liabilities than the current assets. The higher ratio is 196.56% in F/Y 2067/068. The C.V. for net working capital to total assets is 363.15% which implies more use of current liabilities than the current assets and is more variation due to maximum C.V.

4.1.3 Proportion of Inventory on Total Assets and Current Assets

Inventory is one of the major components to total assets and current assets respectively. Inventory structure of UNL is presented in the table below.

Table No. 4.3
Proportion of Inventory on Total Assets and Current Asset

(Rs. in Million)

F/Y	I	TA	Ratio (%)	I	CA	Ratio (%)
2064/065	256.17	703.74	36.40	256.17	557.96	45.91
2065/066	304.33	771.6	39.44	304.33	622.67	48.88
2066/067	410.11	901.59	45.48	410.11	761.38	53.86
2067/068	245.75	934.77	26.28	245.75	790.68	31.08
2068/069	443.17	919.81	48.18	443.17	758.97	58.39
Average			39.56			47.62
C.V.			19.46			19.52

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

Inventory to Total Assets: The average portion of inventories on Total assets of UNL is 39.56%. Inventory to total assets ratio is fluctuated due to fluctuation to sales. The largest portion of inventory to total assets is 48.18%. The smallest portion inventory to on total assets of UNL is 26.28 in financial year 2067/068. The C.V for inventories to total assets is 19.46%, which depicts less variation than inventory to current assets.

Inventory to Current Assets: The average portion of inventories on current assets of UNL has 47.62%. In the F/Y 2068/069 there is 58.39% proportion of inventories on current assets, which is the largest portion during the study period. 27.31% is the highest increasing rate in F/Y 2067/068 during the study period. The C.V. for inventories to current assets is 19.52% which depicts more variation than inventory to total assets.

4.1.4 Proportion of Debtors on Total Assets and Current Assets

This ratio is related to receivable management or sales policy. Debtors to total assets and debtors to current assets ratio measure the portion of debtor on total assets and current assets. This ratios show the arrangement of debtors on Total assets and current assets. Following table presents the debtors on total assets and current assets of UNL Company

Table No. 4.4
Proportion of Debtors on Total Assets and Current Assets

(Rs. in Million)

F/Y	Debtors	TA	Ratio (%)	Debtors	CA	Ratio (%)
2064/065	138.32	703.74	19.65	138.32	557.96	24.8
2065/066	136.45	771.6	17.68	136.45	622.67	21.91
2066/067	148.13	901.59	16.42	148.13	761.38	19.45
2067/068	138.86	934.77	14.85	138.86	790.68	17.56
2068/069	127.98	919.81	13.91	127.98	758.97	16.86
Average			16.50			20.11
C.V.			12.30			13.42

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

Debtors to Total Assets: The average debtors to total assets ratio of company is 16.5% during the study period. In the F/Y 2067/068 and 2068/069, they are below the average ratio and in the rest remaining three fiscal years, they are higher than average debtors on total assets ratio. The highest ratio is 24.8% in the F/Y 2064/065. The C.V. for debtors to total assets is 12.30% which depicts less variation than debtor to current assets.

Debtors to Current Assets: The average portion of debtors on current assets of company is 20.11% with 2.19% decreasing rate. The highest ratio is 24.79% in F/Y 2064/065. The C.V for debtor to current assets is 13.42% which depicts more variation than debtors to total assets.

4.1.5 Proportion of Cash and Bank Balance on Total Assets and Current Assets

Structure of Cash and Bank Balance on Total Assets and Cash and Bank Balance on Current Assets ratio is the portion of CBB on TA and CA of enterprise has been shown in the following table.

Table No. 4.5

Proportion of Cash & Bank Balance on Total Assets and Current Assets

(Rs. in Million)

F/Y	Cash & Bank Balance	TA	Ratio (%)	Cash& Bank Balance	CA	Ratio (%)
2064/065	59.02	703.74	8.38	59.02	557.96	10.58
2065/066	101.60	771.6	13.16	101.60	622.67	16.31
2066/067	98.98	901.59	10.97	98.98	761.38	13.0
2067/068	382.04	934.77	40.86	382.04	790.68	48.31
2068/069	163.26	919.81	17.74	163.26	758.97	21.51
Average			18.22			21.93
C.V.			64.37			32.10

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

Cash bank and Balance to Total Assets: The average cash and bank balance portion on total assets of UNL is 18.22%. There is only one ratio above the average ratio in financial year 2067/068. In the F/Y 2064/065, 8.38% is the lowest ratio during the study period. The C.V for cash and bank balance to total assets ratios is 64.37% which depicts highest variation due to fluctuation trends on ratios of cash and bank balance to total assets.

Cash bank and Balance to Current Assets: The smallest portion cash and bank balance of on current assets is 10.58% in F/Y 2064/065. Similarly high portion of cash and portion of 48.31% in F/Y 2067/068. The average ratio of current assets to cash and bank balance of UNL is 21.94%. The C.V. for cash and bank balance on

current assets is 32.10%, which depicts highest variation due to fluctuation trend on cash and bank balance to current assets.

4.1.6 Proportion of Loan, Advance and Deposit and Total assets and Current assets

The ratio of loan, advance and deposit to total assets indicates the portion of current assets which occupies the total assets and similarly loan, advance and deposit to current assets ratio indicates that portion of current assets component which occupies on Total Current Assets. Following table presents the loan, advance and deposit ratio of total assets and current assets.

Table No. 4.6

Proportion of Loan, Advance & Deposit on Total Assets and Current Assets

(Rs. in Million)

F/Y	Loan, Advance & Deposit	TA	Ratio (%)	Loan, Advance & Deposit	CA	Ratio (%)
2064/065	104.45	703.74	14.85	104.45	557.96	18.72
2065/066	80.92	771.6	10.49	80.92	622.67	13
2066/067	104.14	901.59	11.56	104.14	761.38	13.68
2067/068	28.96	934.77	3.10	28.96	790.68	3.67
2068/069	24.54	919.81	2.67	24.54	758.97	3.23
Average			8.54			10.47
C.V			56.67			58.64

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

Loans, Advance and Deposits to Total Assets: The average loan, advance and deposit portion on total assets of UNL is 8.54 %, which is in decreasing change rate 2.43. In the F/Y 2064/065, the volume of loan, advance and deposit is Rs. 104.45 million and it is high percentage of loan, advance and deposit on total assets during the study period in the F/Y 2068/069 loan, advance and deposit is Rs. 24.54 million and C.V. for loan, advance and deposit to total assets is 56.67%, which depicts variation due to fluctuations trend of loan, advance and deposit to total assets ratios.

Loans, Advance and Deposits to Current Assets: The average loan, advance and deposit to current assets ratio of UNL is 10.47% with decreasing change ratio 2.97%. The highest and lowest ratio are 18.72% and 3.23% in F/Y 2064/065 and 2068/069, respectively. The C.V. for loan, advance and deposit to current assets is 58.64%, which depicts variation due to fluctuation trend of loan, advance and deposit on current assets ratios.

4.1.7 Analysis of the Average Structure of WC Components on TA and CA.

This analysis represents the average from during the study period. The average structure of Working Capital and its components are presented in the following table.

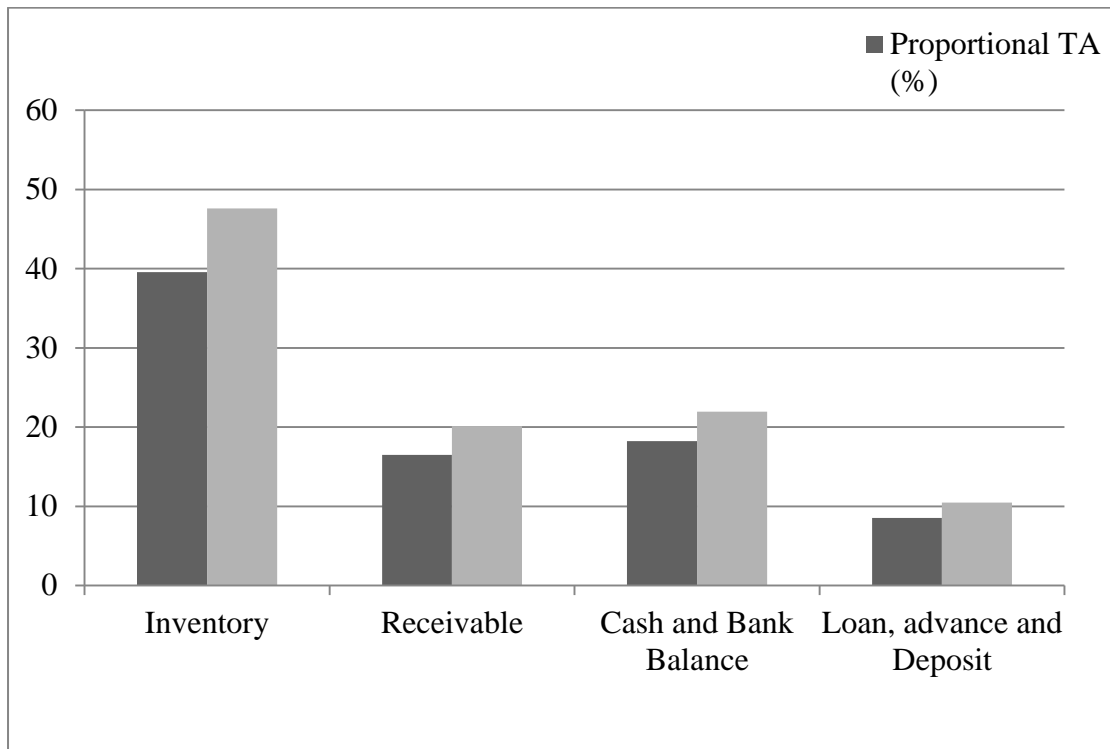
Table No. 4.7

Average Proportion of Components on Total Assets and Current Assets

Component of WC	Proportional TA (%)	Proportional TCA (%)
Inventory	39.56	47.62
Receivable	16.50	20.11
Cash and Bank Balance	18.22	21.93
Loan, advance and Deposit	8.54	10.46
Total (%)	82.82	100

The above table represents the working capital structure as a whole in average form during the study period with all the components. The company has inventory, debtors, cash and bank balance and loan, advance and deposit ratios are 39.56, 16.50 %, & 8.54% of Total Assets respectively, in aggregate 82.82% of Total Assets similarly, and the above table also shows the structure of working capital and the various proportions of the components on total current assets.

Figure No.4.1
Average Proportion of Components on TA and TCA



As above, mentioned figure shows a great part has been occupied by cash and bank balance on both proportions on total assets and proportion on current assets. After that a great part has been occupied by inventories on proportion on Total Assets and Current Assets. Debtors and Loan Advance and Deposit occupied less area as proportion on Total Assets and Current Assets.

4.2 Utilization of Working Capital

Only investing in working capital is not sufficient to get good results and return, it should efficiently be utilized. The behavior of WC utilization and improvement can be analyzed with the help of activity or turnover ratios. This reflects the speed and rapidity with which assets are converted into sales there by resulting in the efficiency of the enterprises. Though there is no standard or ideal measurement, generally a great turnover of regarded as efficient utilization of the assets. For this purpose, the advantage turnover of the factory itself may provide a standard measurement for comparison with the means of measurement, and this section examines the turnover position of the UNL.

4.2.1 Current Assets Turnover Ratio

Every business firm's main objective is to sell of products and services so; the sale is most important activity. The survival and growth of company depends on the sales of the product. The company should make their sales policy as per the resources availability and market demand. The sales policy directly affects the production policy, i.e. the requirement of total assets and working capital by the company to run it as per plan. Increase in sales certainly cause increase in production, which requires more inputs. To keep the stock of material, there should be adequate amount of working capital. The amount of working capital is also affected by sales policy; if the credit sales are increased more working capital will be required to meet the daily requirement. In other hand, if tight credit sales policy is applied the amount of working capital to replace the amount held by credit sales will be decreased. The ultimate effect will be decrease in working capital need.

Table No. 4.8
Current Assets Turnover Ratio

(Rs. in Million)

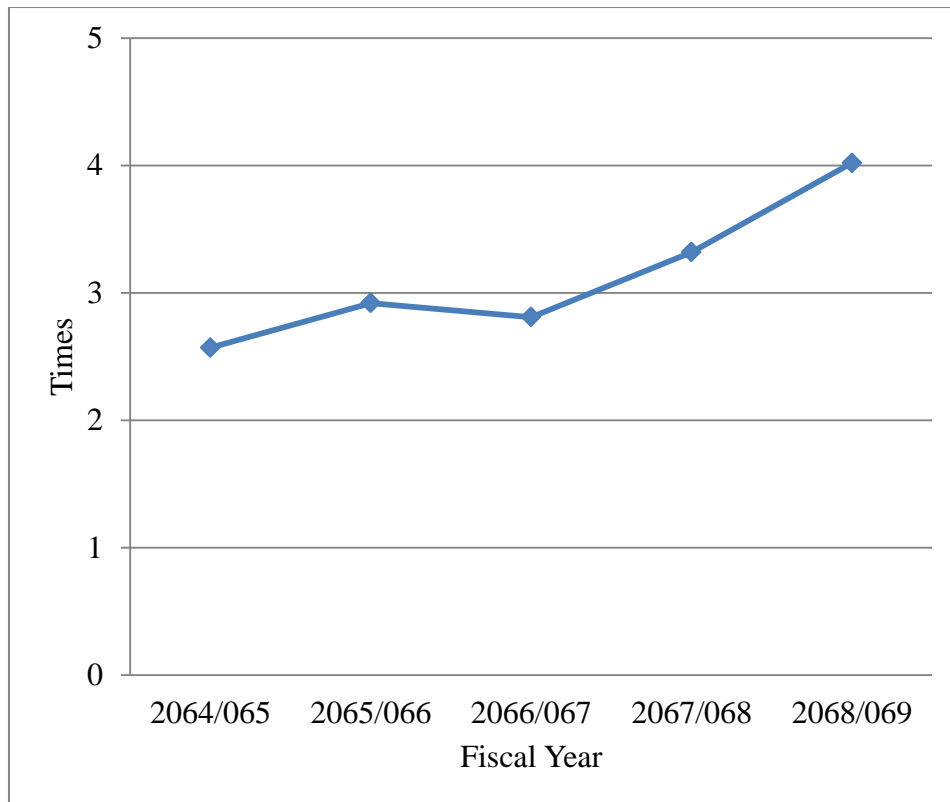
F/Y	Sales	C. A	Ratio (Times)	Change
2064/065	1434.94	557.96	2.57	---
2065/066	1818.42	622.67	2.92	0.35
2066/067	2144.58	761.38	2.81	(0.11)
2067/068	2625.82	790.68	3.32	0.51
2068/069	3055.07	758.97	4.02	0.7
Average			3.12	0.30
C.V			18.42	

Source: Annual Reports of Unilever Limited, Fiscal Years 2064/065-2068/069

The above table shows the current assets turnover ratio in times. Current assets turnover ratios for the F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 2.57, 2.92, 2.81, 3.32 and 4.02 times respectively. It is in increasing trend except in F/Y 2066/067. In fiscal year 2066/067 current assets turnover ratio is reduced by 0.11times with the comparison of last fiscal years. The average of the study period the current assets turnover position of the company is 3.12 times. The C.V for sales on

current assets is 18.42%, which depicts variation due to fluctuation trend in sales to Current assets.

Figure No. 4.2
Current Assets Turnover Ratio



4.2.2 Inventory Turnover Ratio

It has already been stated that the working capital, production and sales are correlated in general cases. The production should be increased to meet the high level of target sales. To produce more, more raw materials will be required. The stock level of production is here to fulfill the requirement of the company. It has to increase its working capital. In this way the inventory is affected by sales volume. The proportion of inventories to sales has been presented below. Higher turnover ratio is better than lower turnover ratio.

Table No. 4.9
Inventory Turnover Ratio

(Rs. in Million)

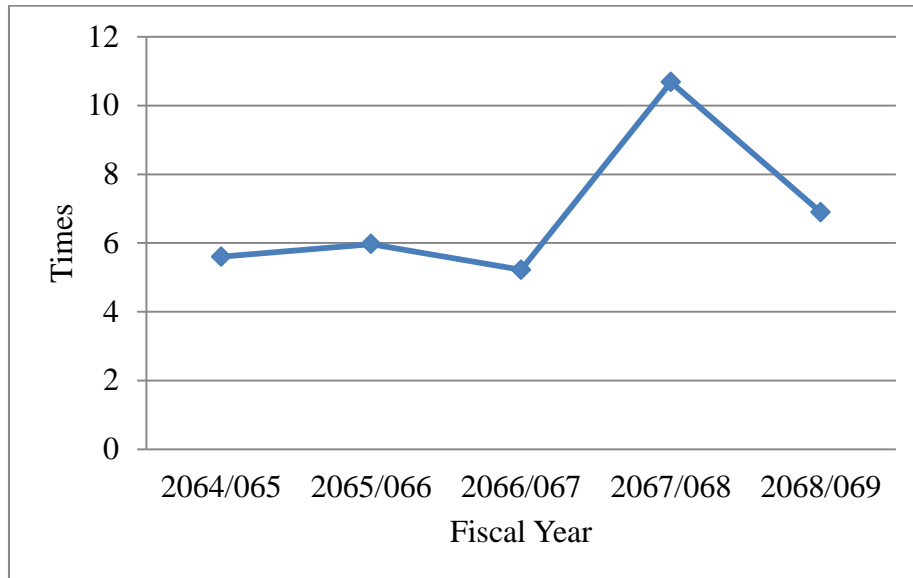
F/Y	Sales	Inventory	Ratio (Times)	Change
2064/065	1434.94	256.17	5.60	---
2065/066	1818.42	304.33	5.97	0.37
2066/067	2144.58	410.11	5.22	-0.75
2067/068	2625.82	245.75	10.68	5.46
2068/069	3055.07	443.17	6.89	(3.79)
Average			6.87	
C.V.			15.86	

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above table shows the ratio in times inventory replaced during the year period. The ratio of average inventory turnover during the study period has been 6.87 times. The inventory turnover period in F/Y 2064/065, 2065/066, 2066/067, 2067/068, 2068,069 are 5.60, 5.97, 5.22, 10.68 and 6.89 times. It fluctuates from 5.60 to 10.68 times. It has decreased in two years F/Y 2066/067 and 2068/069, by 0.75 and 3.79 times. It has increased by 0.35 times in F/Y 2066/067. The company has lowest and highest inventory turnover position in 5.60 times and 10.68 times in F/Y 2064/065 and 2067/068 respectively. The company's sales are in increasing order and inventory holding is in also increasing trend except fiscal year 2067/068. The C.V. of inventory turnover ratio is 15.86 times, which indicates less variation in figures of inventory turnover ratio in the given period.

Figure: 4.3

Inventory Turnover Ratio



4.2.3 Receivable Turnover Ratio

Receivable is one of the components of working capital in order to increase the business an activity, the company has to increase the sales volume. The sales volume can be increased by given products in credit to customers the level of receivable goes up, because generally receivable in credited by credit sales. The credit sales policy is applied to increase the sales level. Hence the increase in receivables should increase the sales volume. The proportion of receivable to sales presented here under.

Table No. 4.10

Receivables Turnover Ratio

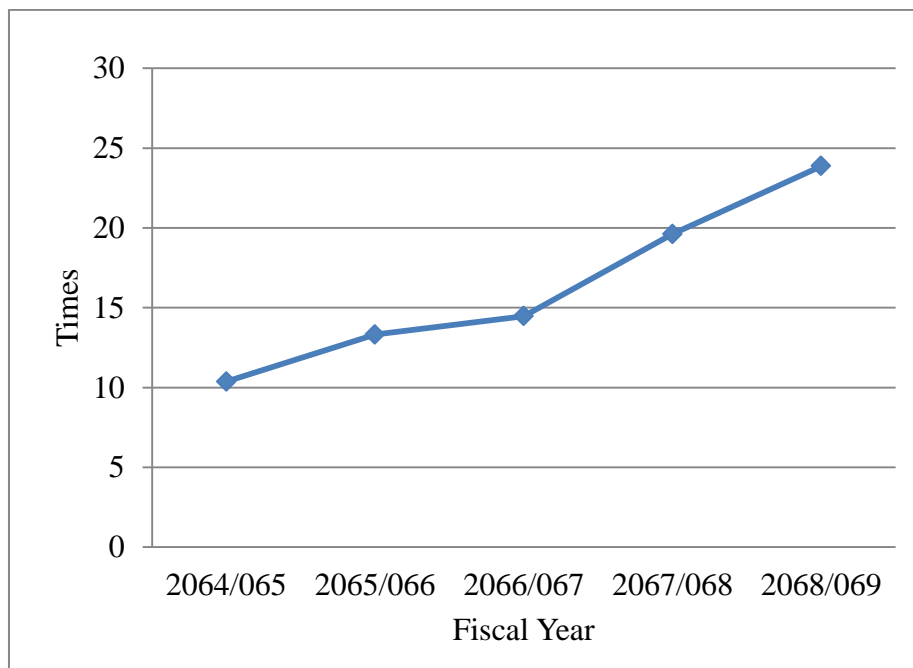
(Rs. in Million)

F/Y	Sales	Receivables	Ratio (Times)	Change
2064/065	1434.94	138.32	10.37	---
2065/066	1818.42	136.45	13.32	2.95
2066/067	2144.58	148.13	14.47	1.15
2067/068	2625.82	133.86	19.61	5.14
2068/069	3055.07	127.98	23.87	4.26
Average			16.32	
C.V.			29.42	

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above presented table shows the receivable turnover times in the five year study period. Receivable turnover ratio in five F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 is 10.37, 13.32, 14.47, 19.61 and 23.87 times respectively. The highest receivable turnover in the study period is 23.87 times in the F/Y 2068/069. In the F/Y 2064/065 has the lowest receivable turnover during the study period. The average turnover ratio is 16.32 the fluctuation ratio is sometimes very high and but sometimes it is very low. It shows the Receivable collection policy of UNL is changing year by year. That means company follows sometimes hard collection policy and sometimes liberal collection policy.

Figure No. 4.4
Receivable Turnover Ratio



4.2.4 Cash and Bank Balance Turnover Ratio

It is one of the main parts of current assets which have greatest value to meet the current obligations occurred in business. It should be just adequate to run the business and excess cash no meaning as it earns nothing. So, the company always seeks the risk return trade off to maintain the just adequate cash and bank balance. The following table shows the cash and bank balance turnover ratio of the UNL during the study period

Table No. 4.11
Cash and Bank Balance Turnover Ratio

(Rs. in Million)

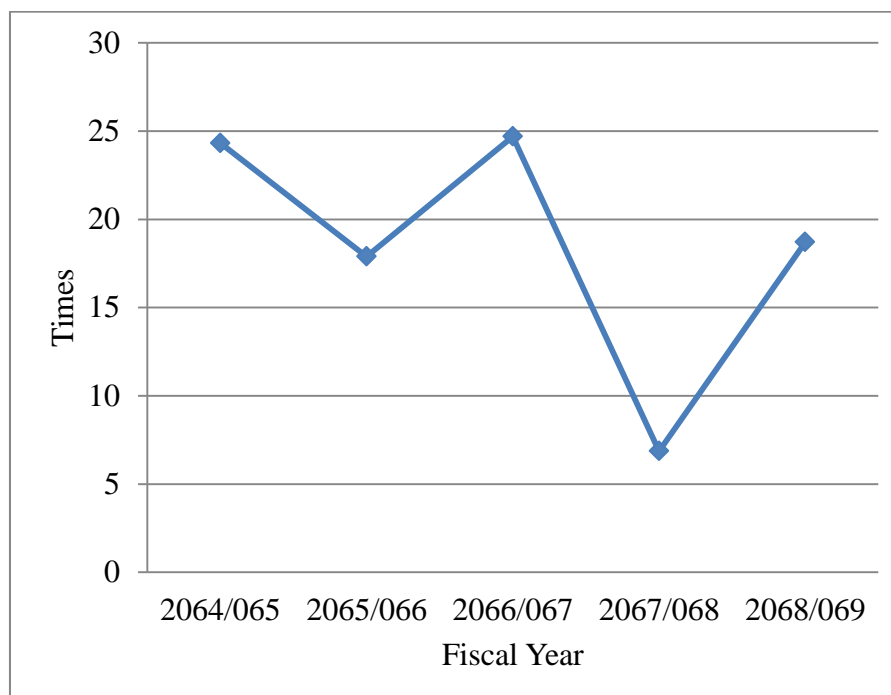
F/Y	Sales	Cash & Bank Balance	Ratio (Times)	Change
2064/065	1434.94	59.02	24.31	---
2065/066	1818.42	101.60	17.89	-6.42
2066/067	2144.58	98.98	24.69	6.8
2067/068	2625.82	382.04	6.87	-17.82
2068/069	3055.07	163.26	18.71	11.84
Average			18.49	
C.V.			34.89%	

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above table shows the cash and bank balance turnover ratio in times of UNL. The ratio indicates that a rupee invested in cash and bank balance generate in times. Cash and bank balance turnover ratio for the F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 24.31, 17.89, 24.69, 6.87, and 18.71 times respectively. It fluctuates from 6.87 times to 24.69 times. The highest times of cash and bank balance turnover ratio is 24.69 times in F/Y 2066/067 and lowest cash and bank balance turnover ratio is 6.87times in F/Y 2067/068. In F/Y 2067/068 cash and bank balance turnover ratio is highly positive change by 11.84 times as comparison to previous years. The average cash and bank balance turnover ratio during the study period is 18.49 times and the C.V is 34.89% which indicates less variation on cash and bank balance turnover ratio.

Figure No.4.5

Cash and Bank Balance Turnover Ratio



4.2.5 Net Working Capital Turnover Ratio

The net working capital turnover ratio measures how many times net working capital is used in relation to sales and the efficiency of the company. The net working capital turnover ratio is presented in the following table.

Table No. 4.12

Net Working Capital Turnover Ratio

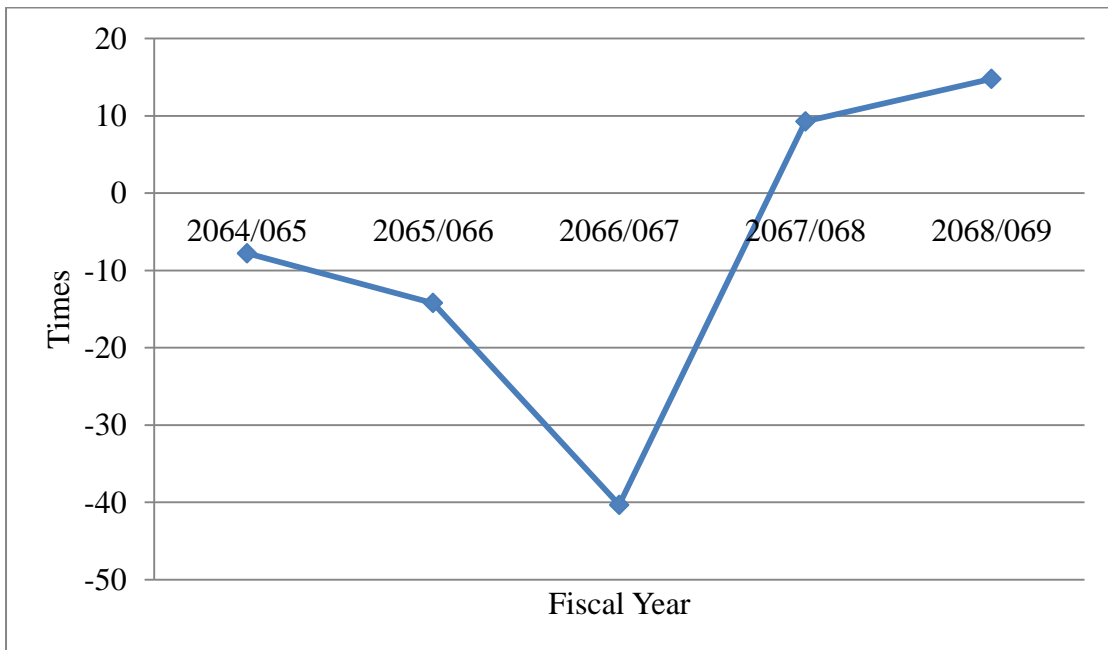
(Rs. in Million)

F/Y	Sales	Net Working Capital	Ratio (Times)	Change
2064/065	1434.94	(184.27)	-7.78	---
2065/066	1818.42	(127.80)	-14.22	---
2066/067	2144.58	(53.18)	-40.32	---
2067/068	2625.82	283.33	9.26	---
2068/069	3055.07	206.84	14.77	5.51
Average			-7.06	
C.V.			273.31	

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above table relevant that the net working capital turnover ratio in times of UNL. Net working capital turnover ratio for the F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 is -7.78,-14.22,-40.32, 9.26 and 14.77 times respectively. In two F/Y net working capital turnover ratio is in negative form which indicates that the financial position of the is poor for these years. In F/Y 2068/069 the net working capital turnover ratio is highest times i.e. 14.77 times. The average net working capital turnover ratio during the study period is -7.06 times the C.V. for the above ratio is 269.40%which depict very more variation due to fluctuation trend in the ratios.

Figure No. 4.6
Net Working Capital Turnover Ratio



4.2.6 Loan, Advance and Deposits turnover ratio

The loan advance and deposit turnover ratio measures the loan advance and deposit conversion period that has been contributed by different level of loan advance and deposit on sales. This is shown in the following table.

Table No. 4.13
Loan, Advance and Deposits Turnover Ratio

(Rs. in Million)

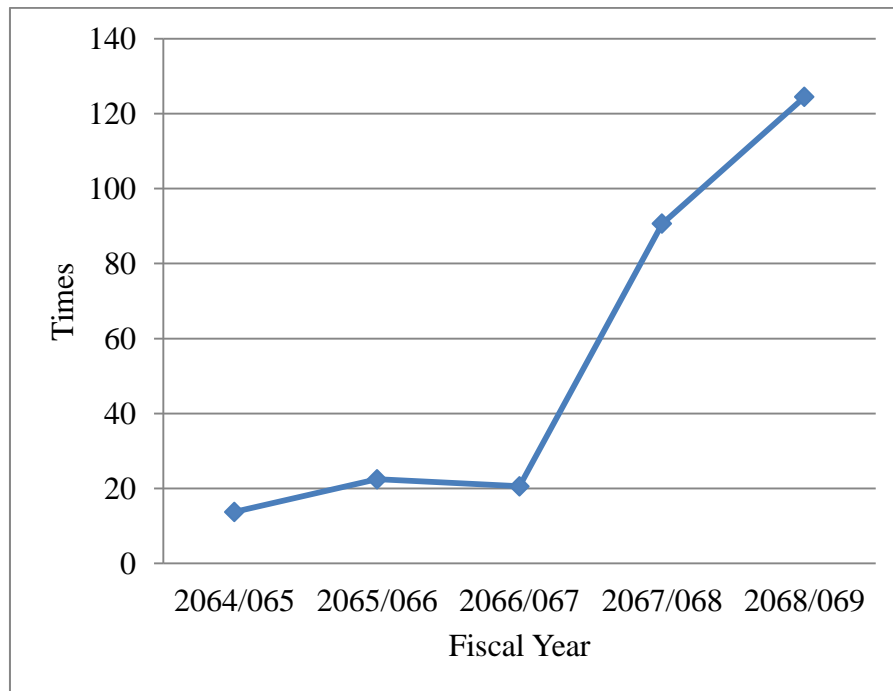
F/Y	Sales	LAD	Ratio (Times)	Change
2064/065	1434.94	104.45	13.73	---
2065/066	1818.42	80.92	22.47	10.74
2066/067	2144.58	104.14	20.59	-1.09
2067/068	2625.82	28.96	90.67	70.08
2068/069	3055.07	24.54	124.49	33.82
Average			54.39	
C.V.			82.40%	

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above table shows the loan, advance and deposit turnover ratio in times of company. The average loan, advance and deposits turnover ratio during the study period is 54.39 times with average changing rate 22.71times. In the F/Y 2067/068 there is the largest increasing ratio from just previous F/Y by 70.08 times. The highest and the lowest loan, advance and deposit turnover ratio are 124.49times and 13.73 times in F/Y 2068/069 and 2064/065 respectively and the C.V. is 82.40% variation during the study period.

Figure No. 4.7

Loan, Advance and Deposit Turnover Ratio



4.3 Liquidity Position

Liquidity position of the firm depends on its working capital policy. If the firm follows aggressive policy, it has low liquidity position, while conservative policy has to high liquidity position. So, to analysis of working capital policy of UNL with measure the liquidity position indicates the ability to pay of its short-term obligation. Liquidity position indicates the how many times the current assets are available to meet the one time of current liabilities. In this section current ratio and quick ratio are comparatively analyzed.

4.3.1 Current Ratio

Current Ratio serves a similar purpose and it is frequently used. It is also called working capital ratio. It is considered as an index of solvency of company. It indicates the ability of the company to meet its current obligations. Change in current ratio can however, be misleading. If a company raises money through commercial paper & invests the amount in marketable securities net working capital is unattached but the current ratio changes. A current ratio of 2:1 in generally considered satisfactory for

manufacturing company. It constitutes a rule of thumb for measuring liquidity. The ratios of UNL for the period of study are calculated in Table 4.14 as under.

Table No. 4.14
Current Ratio

(Rs. in Million)

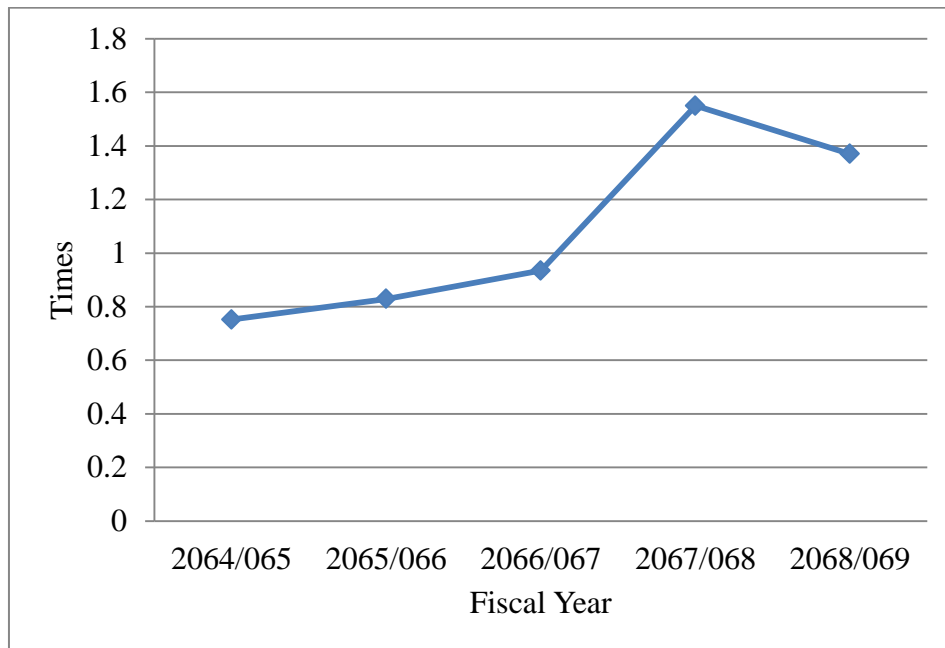
F/Y	Current Assets(CA)	Current Liabilities(CL)	Ratio (Times)	Change
2064/065	557.96	742.23	0.752	---
2065/066	622.67	750.47	0.829	0.077
2066/067	761.38	814.57	0.935	0.106
2067/068	790.68	507.23	1.55	0.615
2068/069	758.97	552.12	1.37	-0.18
Average			1.09	
C.V			29%	

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above table shows that the current ratio of UNL in the F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 0.752:1, 0.829:1, 0.935:1, 1.55:1 and 1.37:1 times respectively. The current ratio of 2:1 is generally, considered satisfactory for a manufacturing company. During the study period, the average current ratio of UNL is found 1.09:1 which is below the current ratio standard. So the company's current ratio has found to be not satisfactory. The C.V. of current ratio 29% which indicates less fluctuation on Current ratio.

Figure No. 4.8

Current Ratio



4.3.2 Quick Ratio

Quick ratio measures the liquidity position in net term. Current Ratio measures the short-term solvency in gross term which cannot measure the actual liquidity position due to inclusion of less liquid assets. Quick ratio indicates the availability of highly liquid assets which can be converted into cash within short-period as compared to current assets. The quick ratio is considered as perfect when the ratio come 1:1. Quick ratio does not consider inventories because they cannot be sold at anything above fire-sale price. The liquidity arises because finished goods cannot be sold for more than production cost.

Table No. 4.15**Quick Ratio**

(Rs. in Million)

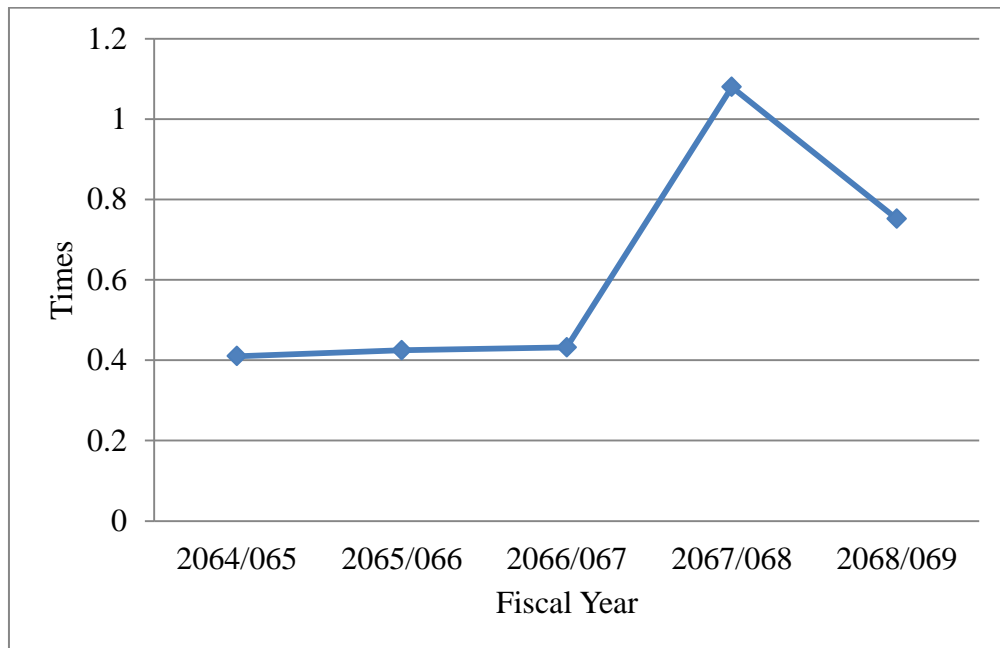
F/Y	Quick Assets(QA)	Current Liabilities(CL)	Ratio (Times)	Change
2064/065	301.79	742.23	0.410	---
2065/066	318.34	750.47	0.425	0.015
2066/067	351.26	814.57	0.432	0.007
2067/068	544.87	507.23	1.08	0.648
2068/069	315.79	552.12	0.752	-0.328
Average			0.62	
C.V			43.88	

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-068/069.

The above table shows the quick ratio of UNL where quick assets consist of cash & bank balance, sundry debtors, prepaid loan, advance and deposits. Quick ratio of the company is 0.410:1, 0.425:1, 0.432:1, 1.08:1 and 0.752:1 for the F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069. During the study period, quick ratio changing is in increasing upto 2067/068. Trend Further the study shows that the highest quick ratio of the company is 1.08:1 in F/Y 2067/068. In the F/Y 2068/069, there is decreasing ratio by 0.328%. The above table relevant that quick ratio of UNL has not meet standard (1:1) except F/Y 2067/068. The average quick ratio of the company is 0.6198 times which is below the standard. So the quick ratio of UNL is unfavorable. The C.V. of the quick ratio is 43.88% during the study period. This indicates less fluctuation on quick ratio.

Figure No. 4.9

Quick Ratio



4.4 Working Capital Cash Conversion Cycle

Working capital cash conversion cycle measures the total numbers of days from raw materials purchase to when cash is received from debtors. This shows the cash inflow and outflow period of company, inflow and outflow are repetitive process. Cash inflow and outflow period determines as available credit period. It can be analyzed by following aspects.

4.4.1 Inventory Conversion Period

Inventory conversion period refers, the time period for inventory to convert into sales. The short period indicates fast conversion of inventory to sales and long period indicates slow conversion period. Following table represents the Inventory Conversion Period.

Table No. 4.16
Inventory Conversion Period

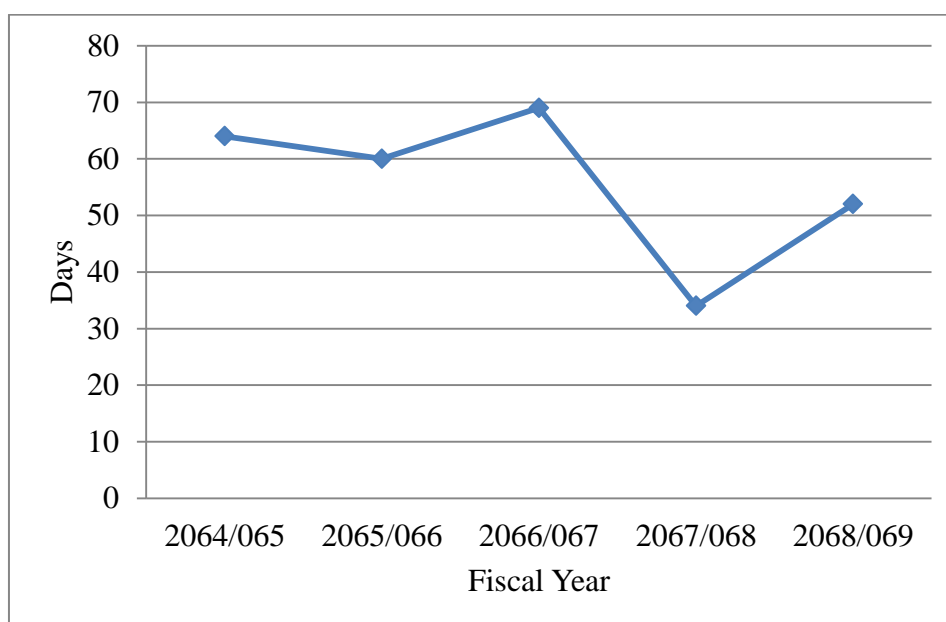
(Rs. in Million)

F/Y	Inventory	Sales	Days in Year	Inventory Conversion Period(Days)	Change
2064/065	256.17	1434.94	360	64.27=64	---
2065/066	304.33	1818.42	360	60.24=60	-4
2066/067	410.11	2144.58	360	68.84=69	9
2067/068	245.75	2625.82	360	33.69=34	-35
2068/069	443.17	3055.07	360	52.22=52	18
Average				55.85=56	
C.V.				77.70	

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

Above the table show that inventory conversion period in days. The inventory conversion period of the company in F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 64, 60, 69, 34 and 52 days respectively. Inventory conversion period is in decreasing trend up to 2066/067. The inventory conversion period in F/Y 2066/067 is 69 days which is highest conversion period during the study. The lowest inventory conversion period is 34 days in F/Y 2068/068. The average ICP is 55.85 days and co-efficient of variation is 77.70%, which indicates more fluctuation on Inventory Conversion Period.

Figure No. 4.10
Inventory Conversion Period



4.4.2 Receivable Collection Period

Receivable collection period is the average length of time required to convert the times receivable into cash. The receivable collection period is also called the day's sales outstanding. The table shows the receivable collection period of Unilever Nepal Limited in the five years study period.

Table No. 4.17
Receivables Collection Period

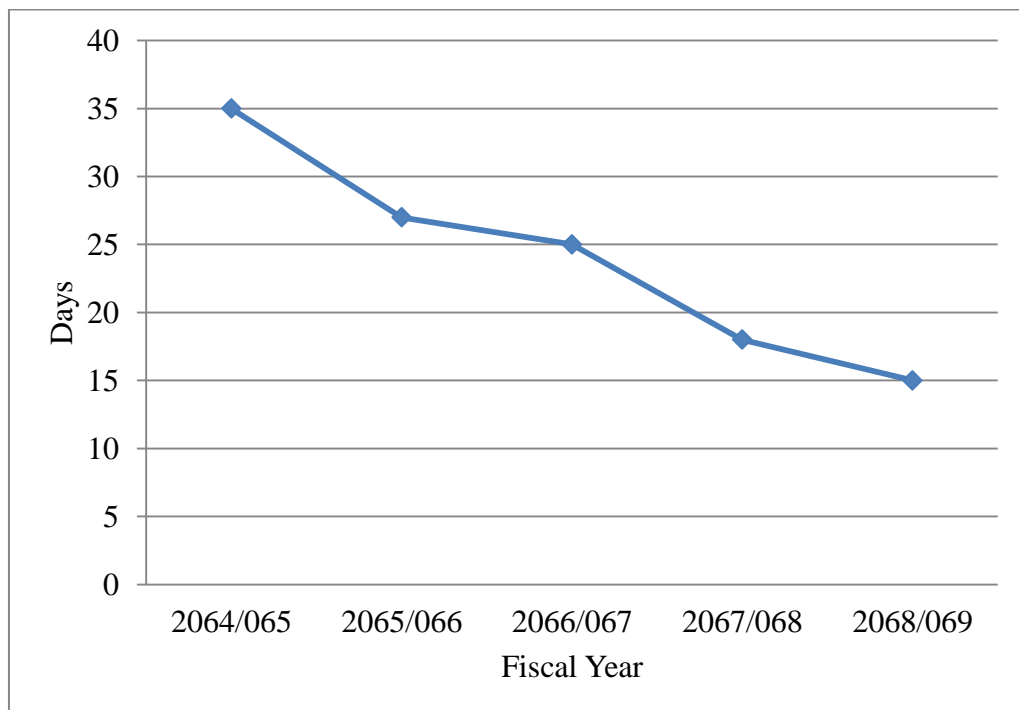
(Rs. in Million)

F/Y	Receivables	Sales	Days in Year	RCP (Days)	Change
2064/065	138.32	1434.94	360	34.70=35	---
2065/066	136.45	1818.42	360	27.01=27	-8
2066/067	148.13	2144.58	360	24.84=25	-2
2067/068	133.86	2625.82	360	18.35=18	-7
2068/069	127.98	3055.07	360	15.08=15	-3
Average				24	
C.V				29.37	

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above table shows the length of time of the receivable collection period in days. The receivable collection period in F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 is 35, 27, and 25, 18 and 15 days. Receivable collection period during the study period is decreasing trend during study period. The lowest days of receivable collection period is only 15 days in F/Y 2068/069 and the highest days of Receivable Collection Period is 35 days in F/Y 2064/065. The average RCP of UNL is 24 days with decreasing change rate by 4 days during the study period. It indicates the collection policy of UNL is adopted hard collection policy. The C.V. of company is 29.37%, which indicates more fluctuation on Receivable Collection Period.

Figure No. 4.11
Receivable Collection Period



4.4.3 Payable Deferral Period

The payable Deferral period measures the period of payment to the trade creditor of the company. It indicates the average length of time between the purchase of raw materials and labour and payment of cash for them. The payable Deferral period of UNL is presented in the following table.

Table No. 4.18
Payable Deferral Period

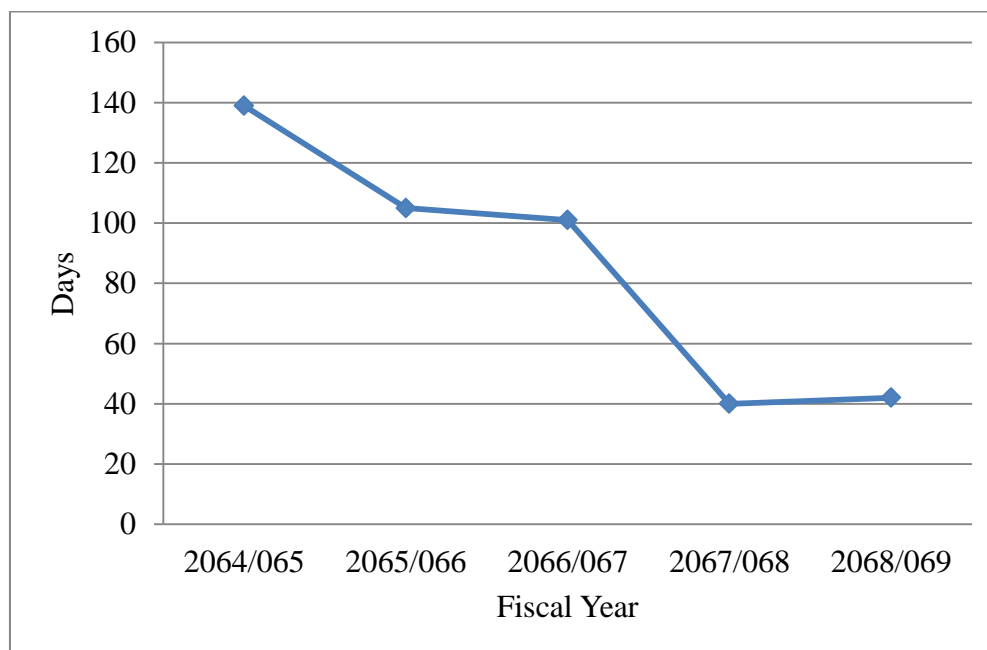
(Rs. in Million)

F/Y	Account Payable	Cost of Goods Sold	Days in Year	Payable Deferral Period(Days)	Change
2064/065	353.31	916.46	360	138.78=139	---
2065/066	368.49	1257.79	360	105.46=105	-34
2066/067	384.11	1370.21	360	100.92=101	-4
2067/068	190.56	1696.69	360	40.34=40	-61
2068/069	212.64	1812.85	360	42.22=42	2
Average				85.4=85	
C.V				14.35	

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 064/065-2068/069.

The above table shows the length of time of payable Deferral period in days. The payable deferral period in F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 is 139,105, 101, 40 and 42 days respectively. Payable Deferral period during the study period is in decreasing trend during study period up to 2067/068. In F/Y 2064/065 payable deferral period is largest change by 34 days. The lowest days of payable deferral period is only 42 days in F/Y 2068/069 and the highest days of PDP is 139 days in F/Y 2064/065. Payable Deferral Period is fluctuates from 42 days to 139 days over the study period. The average PDP is 85 days which is decreasing change rate by 19.4 days during the study period. The C.V. of company is 14.35%, which indicates less fluctuation on Payable Deferral Period.

Figure No. 4.12
Payable Deferral Period



4.4.4 Cash Conversion Cycle

The cash conversion is net time interval in days between actual cash expenditure of the firm on productive resources and ultimate recovery of cash. Following table represents the cash conversion cycle of UNL.

Table No. 4.19
Cash Conversion Cycle

(Period in Days)

F/Y	Inventory Conversion Period	Receivable Collection Period	Payable Deferral Period	CCC=ICP+RCP-PDP
2064/065	256	35	139	152
2065/066	60	27	105	-18
2066/067	61	25	101	-15
2067/068	334	18	40	312
2068/069	52	15	42	25
Average				91.2=91
C.V.				139.08

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above table shows that the average cash conversion cycle is 91 days. In all F/Y the cash conversion cycle of UNL is in positive form. The cash conversion cycle in F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 152,-18,-15,312 and 25 days respectively. The average cash conversion cycle of company is 91days which seems to be not satisfactory. It indicates that it has taken long time to conversion of cash. The C.V. is 139.08%. This indicates that variation of UNL is very high with negative. UNL hasn't been able to make consistency on cash conversion cycle.

4.5 Profitability Position

An ability to earn maximum from the maximum use of available resources by the business organization is known as profitability. It is the measurers of efficiency. Working capital component has affected profitability position of the enterprises. The strong profitability position fulfills the aims of wealth maximization as well as profit maximization which motivate investor to invest. A study of profitability position is measured by net profit margin, gross profit margin, return on total assets, return on working capital and operating expenses ratio.

4.5.1 Net Profit Margin

Net profit margin shows the relationship between net profits and sales it indicates available ratio of profit margin for ownership capital. Following table shows the net profit margin of UNL.

Table No. 4.20
Net Profit Margin

(Rs. in Million)

F/Y	NPAT	Sales	Ratio (%)
2064/065	238.16	1434.94	16.59
2065/066	263.06	1818.42	14.46
2066/067	335.12	2144.58	15.62
2067/068	444.04	2625.82	16.92
2068/069	576.63	3055.07	18.87
Average			16.49
C.V			8.92

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above table shows that net profit margin is in fluctuating ratio due to fluctuating of net profit after tax and sales volume. 18.87% is the highest net profit margin in the overall study periods. Similarly 14.46% is the lowest net profit margin in the overall study periods. The net profit margin is in up to in F/Y 2067/068, then after in increasing trend. In F/Y 2065/066 net profit margin is decrease by 2.4 3 % as compared to previous years. The net profit margin of company is satisfactory for all fiscal years. The average net profit margin is 16.49% and C.V. of net profit margin ratio is 8.92% which indicates less variation net profit after tax to sales ratio.

4.5.2 Gross Profit Margin

Gross profit margin is the relationship between gross profit and sales. It measures the percentage return of gross profit out of total sales. Gross profit does not adjust operating and administrative expenses. Following table depicts the gross profit margin.

Table No. 4.21
Gross Profit Margin

(Rs. in Million)

F/Y	Gross Profit	Sales	Ratio (%)
2064/065	518.48	1434.94	36.13
2065/066	560.74	1818.42	30.83
2066/067	774.37	2144.58	36.10
2067/068	929.13	2625.82	35.38
2068/069	1242.21	3055.07	40.66
Average			35.82
C.V			8.45

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

In the above table, gross profit margin ratio of UNL is in from F/Y 2064/065 to 2065/066 by 36.13 % and 30.83 % respectively. The highest and lowest gross profit margin ratios are 40.66%, 30.83% respectively. The average gross profit margin is 35.82 % during the study period. The C.V. of gross profit margin is 8.45% which indicates less variation gross profit to sales ratio.

4.5.3 Return on Total Assets

Return on total assets is the relationship of net profit after tax and total assets. It measures the percentage of return on the overall total assets employed for every activity of the enterprises. The return on total assets employed of UNL is presented below in table.

Table No. 4.22
Return on Total Assets

(Rs. in Million)

F/Y	NPAT	Total Assets	Ratio (%)
2064/065	238.16	703.74	33.84
2065/066	263.06	771.6	34.09
2066/067	335.12	901.59	37.17
2067/068	444.04	934.77	47.50
2068/069	576.63	919.81	62.69
Average			43.05
C.V			26.39

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above table shows the return on total asset is increasing trend in F/Y 2064/065 to F/Y 2068/069. The highest and lowest return on total assets is 62.69% and 33.84% in F/Y 2068/069 and F/Y 2064/065 respectively. The average return on total assets during the overall study period is 43.05 with positive changing rate by 5.77%. The C.V. of return on total assets is 26.39% which indicate less variation on return on total assets.

4.5.4 Return on Working Capital

This is the rate of return on current assets or working capital employed. Return on working capital means the profit with respect to its total current assets; it shows the effectiveness of utilization of current assets. The table presented below shows the return on working capital of UNL.

Table No. 4.23
Return on Working Capital

(Rs. in Million)

F/Y	NPAT	Current Assets	Ratio (%)
2064/065	238.16	557.96	42.68
2065/066	263.06	622.67	42.24
2066/067	335.12	761.38	43.91
2067/068	444.04	790.63	56.16
2068/069	576.63	758.97	75.97
Average			41.6
C.V			38.26

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

Above table shows the return on working capital in percentage of UNL. The above table shows that the average return on working capital of UNL is 41.6% with positive changing rate is 6.68% during the study period. In F/Y 2068/069, the return on working capital of UNL has 75.97% very higher than that of following fiscal year. Return on working capital has increasing trend with the C.V of return on working capital is 38.26%.

4.5.5 Operating Expenses Ratio

The operating ratio establishes the relationship in between total operating expenses and sales volume. It is an important ratio that explains the change in the net profit margin ratio. It also measures the efficiency of the company as regards to minimizing cost. The table presented below shows to operating ratio of UNL during the study period.

Table No. 4.24
Operating Expense Ratio

(Rs. in Million)

F/Y	Cost of Goods Sold	Operating Expenses	Sales	Ratio (%)
2064/065	916.46	290.94	1434.94	84.15
2065/066	1257.79	302.96	1818.42	85.84
2066/067	1370.21	322.20	2144.58	78.92
2067/068	1696.69	396.40	2625.82	79.72
2068/069	1812.85	602.40	3055.07	79.06
Average				81.53
C.V				3.55

Source: Annual Reports of Unilever Nepal Limited, Fiscal Years 2064/065-2068/069.

The above table shows that the operating expenses ratio of UNL in the F/Y from 2064/065 to 2068/069. The ratio of F/Y from 20624/065 to 2068/069 is 84.15%, 85.84%, 78.92%, 79.72% and 79.06% respectively. The ratio fluctuates 'between' 85.84% to 79.06%. High ratio indicates the inefficiency of management and unable to manage the working capital of the company. In an average the company has 81.53% of operating ratio during the study period. C.V of operating expenses ratio is 3.55% which indicates less fluctuation on operating expenses ratio.

4.6 Analysis of Working Capital Relationship

In order to study the significance of various working capital variables Karl Pearson's Correlation Coefficient 'r' is applied. This measures the degree and importance of relationship between the variables. Following table presents the relationship between working capital and other variables of UNL.

Table No. 4.25**Correlation between Working Capital Variable Table changes**

Correlation Coefficient between	Unilever Nepal Limited			
	r	P.E	6P.E	Remarks
i) CA and TA	1.0	0.3	1.80	Nothing can be concluded
ii) CA and CL	-0.53	0.22	1.32	Insignificant
iii) CA and Its Components				
a. Inventory and CA	0.45	0.25	1.5	nothing can be concluded
b. Debtors and CA	-0.09	0.30	1.80	Insignificant
c. CBB and CA	0.68	0.17	1.02	Nothing can be concluded
d. LAD and CA	0.63	0.19	1.14	Insignificant
iv) WC and Sales	0.89	0.07	0.42	Significant
v) WC Components and Sales				
a. Inventory and Sales	0.09	0.30	1.80	insignificant
b. Debtors and Sales	-0.55	0.21	1.26	insignificant
c. CBB and Sales	0.60	0.22	1.32	nothing can be concluded
d. LAD and Sales	-0.87	0.07	0.42	Insignificant
vi) WC and Production				
a. WC components & Production	0.93	0.05	0.30	significant
b. Inventory and Production	0.16	0.30	1.80	insignificant
c. Debtors and Production	-0.54	0.22	1.32	Insignificant
d. CBB and Production	0.68	0.17	1.02	Nothing can be concluded
e. LAD and Production	0.40	0.25	1.5	Nothing can be concluded
f. Net Profit & Working Capital	0.83	0.20	1.20	Nothing can be concluded

Current Assets and Total Assets: The value of 'r' between current assets and total assets of UNL is 1.0 that means they have high degree of positive relationship. P.E and 6P.E ratios are 0.30 and 1.80 respectively. Since here, $PE < r < 6 P.E$ so, from the above calculation the relationship of them nothing can be concluded.

Current Assets and Current Liabilities: The 'r', P.E. and 6 P.E. between current assets and current liabilities are -0.53, 0.22 and 1.32 respectively. This means there is

negative relationship between current assets and current liabilities. Since, $r < PE$, So result is insignificant

Current Assets and Its Component: From the above correlation presentation table, the study finds that company has positive relationship between the inventory and current assets because the value of 'r' is calculated as 0.45. Similarly, there is negative relationship between debtors, and current asset. there is positive relationship between loan, advance and deposit and current assets. The value of 'r' is nothing can be concluded in case of cash and bank balance and current assets. Likewise, the value of 'r' is nothing can be concluded i.e. there is positive correlation between inventory, Loan Advance & Deposit and current assets. The relationship between debtor and current assets result insignificant because the value of PE, is less than 'r' and smaller than 6P.E. (i.e. $r < P.E.$)

Working Capital and Sales: the Value of 'r' between working capital and sales of Unilever Nepal Limited is 0.89 that means they have very low degree of positive relationship. P.E and 6P.E. ratios are 0.07 and 0.42 respectively. The value of 'r' is greater than P.E. that means the relationship is said to be significant.

Working Capital Components and Sales: Unilever Nepal Limited has positive 'r' between inventory and sales and cash and bank balance and sales. It has negative relationship two working capital components and sales. (I.e. debtors and Loan, Advance & Deposit). In the above table, working capital components and sales the value of 'r' is less than 6 P.E. in case of inventory and sales that means the relationship is said to be insignificant. Similarly the value of 'r' is less than P.E. in case of Cash and Bank balance and sales and Loan, Advance & Deposit and sales that means the relationship is said to be insignificant in Loan, Advance & Deposit no evidence in cash and bank balance. The relationship between debtors and sales is insignificant.

Working Capital and Production: The value of 'r', P.E and 6 P.E in between working capital and production are 0.93, 0.05 and 0.30 respectively. This means relationship is positive and significant because the value of 'r' is more than P.E.

Working Capital Components and Productions: Except in case of debtor and Production, all the other relationship have positive value of 'r'. The value of 'r' is greater than PE and less than 6 P.E in case of Cash and Bank Balance, Loan, Advance & Deposit and production, this means that there is no evidence relationship between Cash and Bank Balance, Loan, Advance & Deposit, and production. The value of 'r' is less than P.E (i.e. $r < P.E$) in case of debtors and production. So, insignificant between debtors and production.

4.7 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding the target level for each category of current assets and current liabilities. Working capital management refers to the administration of all assets and current liabilities policies, which affects the overall functional areas of the firm. Every firm wants to maximize its shareholder's wealth. In order to achieve the targeted goals, it has to perform many functions. For this purpose, firm has to determine the suitable current assets investment policy, maintain proper relation of current assets with fixed and total assets, and finance the current assets with short-term as well long-term sources. Thus, the better performance of current assets is the internal part of working capital management. There are two types of working capital policies.

4.7.1 Working Capital Investment Policy

It refers to the optimum level of working capital investment decision policy. It has three alternative policies. Fat-cat policy is that policy which has large amount of current assets and account receivable (credit sales), long Inventory Conversion Period and Receivable Collection Period and lower return on investment. Its vice-versa is lean and means policy, between these two policies has moderate policy. Following table measures working capital investment policy of the company.

Table No. 4.26

Analysis of Working Capital Investment Policy on Average Basis

Average indicator of during the study period	UNL
Average level of current assets on total assets (%)	82.23
Average level of credit sales on total sales (%)	16.5
Average return on working capital (%)	41.6
Average inventory conversion period (Days)	153
Average receivable collection period (Days)	24

From the above analytical table, Unilever Nepal Limited has large portion of current assets on total assets but there is high return on working capital, high average inventory conversion period, short average receivable collection period and low amount of credit sales which shows that Unilever Nepal Limited has followed lean and mean working capital investment policy.

4.7.2 Working Capital Financing Policy

There are three alternatives of financing mix policy. The aggressive financing mix policy is that policy where current liabilities are used to finance a portion of fixed assets in which total equities plus long term liabilities are more than total fixed assets or current liabilities is more than current assets (Negative Net Working Capital). The conservative policy is that policy which uses only long term fund to finance all kinds of current assets and fixed assets without making use of any current liabilities. In this the total of equity plus long term liabilities is equal to total of fixed assets plus current assets or current assets equal to zero (NWC is equal to total current assets). Moderate policy has long-term funds to finance a portion of current assets. In this total of equity plus long-term liabilities is greater than fixed assets and current liabilities is greater than zero (positive NWC). Following table shows the financing mix of the company.

Table No. 4.27**Calculation of Current Assets Financing Mix Policy**

(Rs. in Million)

F/Y	E+ LTL	FA	FA+ CA	NWC
2064/065	224.91	145.78	703.74	(184.27)
2065/066	234.79	148.93	771.6	(127.80)
2066/067	270.68	140.21	901.59	(53.18)
2067/068	687.86	144.14	934.77	283.33
2068/069	830.36	160.84	919.81	206.84
Average	449.72	147.98		24.99

The above table shows the working capital financing mix policy. UNL has equity plus long-term liabilities are greater than fixed assets in all fiscal year. Net working capital of company is negative except last two F/Y 2067/068 and 2068/069 respectively. Average total of equity and long-term liabilities is also greater than fixed assets and average net working capital seems to be positive. Therefore, from the above analytical table it is found that UNL has used moderate working capital financing mix policy.

4.8 Major Findings

1. **Working capital structure:** It has been found that Current Assets structure levels of UNL are stable, with some fluctuate. The Current Assets portion on Total Assets are ranged between 84.58% to 79.28% with the average portion 82.23% with fluctuating trend of 0.65% and similarly on Fixed Assets ranged between 548.55% to 382.74% with average portion 472.86% and fluctuating trend of 17.83%. The average Net Working Capital on TA and FA portion are 0.83% and 31.99% respectively. It has been found that in the CA, cash and bank balance holds the largest portion followed by inventory, debtors and loans advance and deposits with 21.93%, 47.62%, 20.11% and 10.46% respectively. The highest fluctuations are in cash and bank balance and inventories corresponding.
2. **Utilization of working capital:** Current assets turnover ratio has found increasing by 0.35 times due to slightly increasing trend. The average of inventory turnover ratio to sales is 6.87 times and C.V is 15.86% which indicate that UNL cannot

efficiently utilize the inventories and less variation in figure of inventory turnover ratio. The average receivable turnover ratio is 16.32%. It is found that the receivable turnover ratio is changing year by year. Company followed sometime hard collection and liberal collection policy during the study period. Cash and bank balance has found decrease by -1.12 times. The average turnover ratio is 18.49 times. Similarly it is found that the average of net working capital turnover ratio and loan advance and deposits turnover ratio is 17.67times and 54.39times.

3. **Liquidity position:** The liquidity position of Unilever Nepal Limited is analyzed with the current ratio and quick ratio. Current ratio of UNL is ranging in between 0.752:1 to 1.55:1. The company's average current ratio is 1.09:1 time during the study period, which is below the standard 2:1. It indicates poor liquidity position of UNL. The quick ratio of the company is ranging in between 0.41:1 times to 1.08 times and company's average 0.62:1, which is less than standard 1:1. It shows that company has not been able to convert current assets quickly in cash in order to meet current liabilities. Current ratio and quick ratio both revealed and unsatisfactory liquidity position of UNL and thereafter to increase the financial position for working capital.
4. **Working capital conversion cycle:** The inventory conversion period of Unilever Nepal Limited is ranging between 52 days in F/Y 2068/069 to 334 days in F/Y2067/068. It has the average inventory conversion period of 153 days. The receivable collection period of UNL decreasing trend. Receivable Collection Period varies from minimum of 15 days to maximum of 35 days. It has average RCP of 24 days. The payable deferred period varies from maximum of 139 days in F/Y 2064/065 to minimum 42 days in F/Y2068/69. The average is 85 days. The average cash conversion cycle of the UNL is in negative 91 days which seems dissatisfactory for short-run cash conversion cycle for three F/Y and satisfactory for two financial years. The analysis of UNL has shown that long Payable Deferral Period and Inventory Conversion Period, short Receivable Collection Period, and long Payable Deferral Period, which is unfavorable for the company but it will cause positive impact from its trade creditors and firm could get credit due to the company delay in obligations.
5. **Profitability Position:** Profitability position of Unilever Nepal Limited has been found that average Net Profit Margin, Gross Profit Margin, Return on Total Assets, Return on Working Capital and Operating Expenses Ratio are 16.49%,

35.82%, %, 43.05%, 41.6% and 81.53% respectively. Net profit margin and gross profit margin are in increasing trend except F/Y 2065/066 but return on total assets and return on working capital are in increasing trends that mean there is proper utilization of assets. It has been found that there is high gap between gross profit margin and net profit margin due to the high operating expenses 81.53% of sales with average decreasing rate of 6.24%.

6. **Relationship of Working Capital Components:** The correlation coefficient 'r' of current assets with total assets has found high degree of positive relationship but the correlation coefficient 'r' of current assets with current liabilities has found negative relationship. In component wise relationship between inventory and current assets is correlated where as Loan advance & Deposit has found positive correlation with current assets. Cash and Bank Balance and current assets have found no evidence relationship. In overall UNL has in significant of working capital components with sales except Cash and Bank Balance. Values of 'r' between working capital components and production are positively correlated with nothing can be concluded relationship. Working capital components and production are mostly positive except debtor and Loan, Advance & Deposit with sales and production. There is insignificant relationship between debtors and production where as there is nothing can be concluded relationship between other remaining working capital components and production. There has been insignificant between debtors and current assets, is found that the values of 'r' is less than P.E. and 6 P.E. (i.e. $r' < PE < 6 P.E.$)
7. **Working Capital Investment Policy:** Unilever Nepal Limited has been found that average return of working is 41.60%, high return on working capital which implies that the working capital investment policy of Unilever Nepal Limited has followed lean and mean policy, Unilever Nepal Limited has average total equity plus long-term liabilities is more than fixed assets (i.e. Rs. 449.72 > Rs147.98) with Rs.24.99 million positive net working capital. Therefore, Unilever Nepal Limited is following moderate working capital financing mix policy.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The manufacturing industries are the main pillar of Nepalese economy. The main motive of this study is to determine the working capital management and working capital policy of Unilever Nepal Ltd. In this study, working capital financing policy and working capital investment policy is studied. Elements of working capital are determined and various ratios are also calculated in this study to obtain result of this study. Various appropriate research methodology has been used which includes the various financial analysis as a financial tool with the help of various financial data available from the secondary data published by the company. The major ratio analysis consists of current ratio, quick ratio. Besides, every element of the current is also analyzed in reference to the total assets, fixed assets and current assets. The composition of working capital position, turnover position and liquidity position, current assets financing policy, investment policy have also been discussed and analyzed. The study has given focus on working capital analysis, percentage of working capital on cost of production and correlation coefficient between cost of production, sales and other variables. Giving equal importance and making the study more reliable, the study has focused on the percentage of current assets on sales determination and their analysis. Apart from this, Receivable Collection Period, Inventory Conversion Period, Payable Deferral Period, Cash Conversion Cycle, proportion of current assets to total assets, turnover position, margin analysis and profit and structure of working capital discussion have added a brick on making the study more reliable and significantly justifiable. Obviously, the study becomes resourceful and important from study point of view with inclusion of the above discussion and analysis that aims at meeting the objectives of the study.

The necessary data have been derived from the balance sheet and profit and loss account of UNL, for the periods of five years from F/Y 2064/065 to F/Y 2068/069. The obtained data have been described and analyzed with the help of statistical methodology in chapter four. Now in this chapter, an attempt has been made to present the conclusions and some suggestions to the company.

5.2 Conclusions

In conclusion, it can be said that working capital is the most important part of manufacturing companies and it should not be neglected. Manufacturing companies are not getting prosperous position due to their administrative negligence in day to day operation, unnecessary blockage of inventories and lack of specific working capital policy. While pinpointing the sample company, the study find the investment in current assets is high with respect net fixed assets. UNL has excess level of current assets with comparison to standard & total assets. The current assets turnover ratio of UNL is not in full satisfaction level. In comparison only inventory and trade and other receivable is more than other components of UNL. A huge amount of inventory is occupied as current assets of the company. Liquidity position of UNL shows it is unable to meet standard or it is below the standard value, which remains unsuccessful to meet the current obligation, which specific the liquidity position of UNL is poor.

The outcome of cash conversion cycle of UNL is not in satisfied condition for long run because analysis shows that there is long payable deferral period, short inventory conversion period and short receivable collection period, which is favorable only for short run and it will cause negative impact from its trade creditors in upcoming days of the company. Similarly, after analyzing the various profitability ratios, it can be concluded that there is operating inefficiency in sample Company and overall return position of company is also not in favorable condition because of inefficient utilization of current assets, total assets and shareholder's wealth. UNL has followed moderate financing policy with financing short- term loan current assets, remaining position of fixed assets with average minimum positive net working capital. Lean and mean policy is adopted by UNL to invest current assets with strict credit policy and high return on working capital rate. The correlation coefficients of the variables selected for the statistical analysis show that UNL has insignificant relationship and negative correlation with each other with debtors, Loan, Advance & Deposit with Current Assets, sales and production. As we know that positive correlation means both of the variables are moving towards the same directions, the finding suggest that UNL has strong relationship between each variables.

5.3 Recommendations

At the end of the research, the study without practicable, suggestion would be incomplete phenomenon. Therefore, the following recommendations have been made on the basis of foregoing analysis for further improvement of existing working capital management.

1. UNL should set the standard for the ratio of current assets to fixed assets. It has not any clear vision about the management of current assets to fixed assets.
2. The working capital should be arranged in such away that it should generate the maximum turnover. The working capital has not been fully utilized. The company should try to utilize its working capital to maintain sound turnover position.
3. UNL being a manufacturing company need an efficient liquidity position to operate its business but it has lower value than standard. Therefore, it should maintain the standard value of both current ratio and quick ratio to get the optimum solvency position.
4. There is extremely high operating ratio in the company, which indicates inefficiency and mismanagement of the company. So, the company to the position should reduce the operating expenses.
5. Negative net working capital represents the poor financial management of the company. Some study period shows the similar case in UNL while analyzing the data. Therefore, to eradicate these situations, suitable working capital should be formulated and implemented. Keeping optimum size of investment in current assets and current liabilities and regular check of working capital could do it.
6. Liquidity handling of the company is not satisfactory because it's in the highly fluctuating trend. There is absence of limit at which the cash and bank balance should be maintained. Therefore, the company should not adopt a proper managerial policy because holding of cash less than requirement gives no return to the company.
7. The management of working capital highly depends upon the effective inventory management. The company should make the effective sales plan, which is for immediate marketability and it certainly decreasing the problem of overstocking. The management must be given attention towards capacity

utilization, carrying cost, ordering cost and lead-time for effective inventory management. At this same time, to manage inventory and minimize the wastage there should be good storekeeping system, better materials handling system and timely inspection system.

8. The operating cycle of UNL indicates that there is negative cash conversion cycle due to poor collection and payable policy. Longer cash conversion cycle and negative cash conversion period both are not good for the company. So, the company should manage inventory conversion period, receivable collection period and payable deferral period by applying suitable credit policy.
9. The huge amount of receivables kept by the company should be reduces or the optimal level should be adjusted according to the sale and production. In this regard management is advised to improve its marketing policy and should be integrated with credit policy. The credit policy has highly influenced to the sales.
10. The optimum level of raw materials required for the targeted production. It should be determined in advance and maintain accordingly for ensuring economical and smooth running of production activities.
11. Company should develop appropriate management information system by preparing timely reports. This aids in determining the amount of working needs. They should recognize the value of management system.
12. Skilled and trained manpower is the basis needs and key of companies. The company should increase the efficiency of employees. Training programmed should be arranged for the higher and lower level of employees.

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Appendix -1
COMPARATIVE BALANCE SHEET

(RS in Million)

Particulars/Fiscal Year	2064/065	2065/066	2066/067	2067/068	2068/069
Capital And Liabilities					
1.Shareholders Funds					
a. Share Capital	92.07	92.07	92.07	92.07	92.07
b. Reserve and Retained Earning	132.84	142.72	178.61	595.79	738.29
Preference Share	---	---	---	---	---
Total	224.91	234.79	270.68	687.86	830.36
Assets: I Fixed Assets					
a. Gross Block	347.74	336.97	364.62	361.06	401.29
b. Less Dep	(203.56)	(209.08)	(229.73)	(239.42)	(248.29)
c. Net Block	144.18	127.88	134.88	121.63	152.99
d. Assets Under Construction	1.60	21.04	5.32	17.47	---
Total	145.78	148.92	140.20	139.1	152.99
2. Investment					
a. Government Securities	79.76	---	----	---	---
b. Fixed Deposit	183.65	213.65	183.65	248.65	448.65
Total	263.41	213.65	183.65	248.65	448.65
3. Current Assets					
a. Inventories	256.17	304.33	410.11	245.75	443.17
b. Trade & Other Receivables	138.32	136.45	148.13	133.86	127.98
c. Cash and Bank Balance	59.02	101.60	98.98	382.04	163.26
d. Pre Paid, Advance, Loan and Deposits	104.45	80.92	104.14	28.96	24.54
Total (A)	557.96	622.67	761.38	790.63	758.97
Less:- Current Liabilities & Provision					
a. Trade & Other Payables	353.31	368.49	384.11	190.56	212.64
b.Short Term Loans	NIL	NIL	NIL	NIL	NIL
c. Provisions	381.98	388.92	430.46	316.66	339.47
Total (B)	742.23	750.47	814.57	507.22	552.11
Net Current Assets (A-B)	(184.27)	(127.8)	(53.19)	283.41	206.86
Grand Total	224.91	234.79	270.68	687.86	830.36

Source: Annual Reports of Unilever Nepal Limited, Fiscal years 2064/065-2068/069

Appendix-2

COMPARATIVE PROFIT AND LOSS ACCOUNT

(RS in Million)

Particulars/Fiscal Year	2064/065	2065/066	2066/067	2067/068	2068/069
1. Net Sales	1443.94	1818.42	2144.58	2625.82	3055.07
Cost of Goods Sold	916.46	1257.79	1370.21	1696.69	1812.85
2. Stock Consumed	801.13	1115.55	1301.7	145.58	1744.55
(i) Opening Stock	229.76	256.17	304.33	266.93	172.05
(ii) Purchase	827.54	1163.71	1264.30	1363.25	1869.24
(iii) Closing Stock	(256.17)	(304.33)	(266.93)	(172.05)	(296.74)
3. Wages and Salaries	19.27	23.96	30.33	29.84	37.33
4. Direct Mfg. Expenses	96.06	140.30	160.50	155.47	183.29
5. Gross Profit	518.48	560.74	774.37	929.13	1242.21
6. General Expenses	269.57	282.38	352.20	396.46	602.35
7. Interest	1.79	1.06	0.12	0.027	1.61
8. Pre- Dep. Opt Profit	247.12	277.3	532.64	532.64	638.25
9. Depreciation	19.18	19.52	20.65	12.66	13.67
10. Operating Profit	227.54	257.78	511.99	519.98	624.58
11. Income from Other Sources	77.12	87.78	54.38	20.43	83.62
12. Pre- Tax Profit	304.66	345.56	566.37	539.81	708.2
13. Provision For Taxation	66.50	82.5	98.0	119.58	147.64
14. Net Profit	238.16	263.06	335.12	444.04	576.63
15. Transfer From Previous Year	124.84	132.84	142.71	188.41	595.79
16. Profit Distribution (%)					
(i) Equity Dividend (%)	230.18	253.19	299.12	36.66	434.13
(ii) Preference Dividend (%)					
(iii) Other (%)					
17. Profit Retained (%)	132.84	142.72	178.61	595.79	738.29

Source: Annual Reports of Unilever Nepal Limited, Fiscal years 2064/065-2068/069.