

A STUDY ON INVENTORY MANAGEMENT OF NEPAL TELECOM

Submitted By:

Mona Jalan

ST. XAVIER'S COLLEGE

TU REGD. NO. : 7-2-282-359-2003

A thesis submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

*In partial fulfillment of the requirement for the degree of
Masters of Business Studies (M.B.S)*

Kathmandu, Nepal

January, 2010

DECLARATION

I hereby declare that the work reported in this thesis entitled “WORKING CAPITAL MANAGEMENT OF NEPAL TELECOM” submitted to Office of the Dean, faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of Mr. Shankar Thapa, St. Xavier’s College.

MONA JALAN

Researcher

T.U. Registration No. 7-2-282-359-2003

ACKNOWLEDGEMENT

This study “Working Capital Management of Nepal Telecom” has been prepared as a partial fulfillment of the requirement of the degree of Master of Business Studies (MBS) under the guidance of honorable supervisor Mr. Shankar Thapa of St. Xaviers’ College.

This product of research, definitely is my original work, would not have been possible without the sincere help and continuous encouragement from different respectable persons. I feel my duty to remember and express my heartfelt acknowledgement to those all.

First of all, I would like to extend my cordial thanks and gratitude to honorable supervisor Mr. Shankar Thapa for his sincere guidance throughout the research work.

My sincere thanks also go to all those who directly or indirectly helped me with my thesis. I am also grateful to all the staffs of Nepal Telecom, Bhadrakali for providing the information and necessary data sincerely and timely.

I am very much grateful to all my family members who always encouraged and inspired me to prepare this research work. I am also indebted to my friends and family members for their valuable suggestions and active support during preparation of this thesis. To error is mankind. I am solely responsible for any kind of mistake or deficiency that might have remained in my research work.

TABLE OF CONTENTS

Page No.

Acknowledgement

Table of Contents

List of Tables

List of Figures

Abbreviations

CHAPTER-1

INTRODUCTION

1.1 Background of the Study	1
1.1.1 Brief Introduction of Nepal Telecom	2
1.2 Statement of Problem	3
1.3 Objectives of the Study	4
1.4 Importance of the Study	5
1.5 Limitation of the Study	5
1.6 Organization of the Study	5

CHAPTER-2

REVIEW OF LITERATURE

2.1 Conceptual Framework	7
2.1.1 Historical Development of Telecommunication in Nepal	7

2.1.2 Meaning and Concept of Working Capital	9
2.1.3 Classification of Working Capital	11
2.1.4 Factors Affecting Working Capital	12
2.1.5 Need and Importance of Working Capital	14
2.1.6 Techniques of Forecasting Working Capital	16
2.1.7 Working Capital Policy	18
2.1.8 Financing of Working Capital	20
2.2 Review of Previous Studies	22
2.2.1 Review of Books and Reports	23
2.2.2 Review of Relevant Dissertations	24
2.3 Research Gap	31

CHAPTER-3 RESEARCH METHODOLOGY

3.1 Research Design	32
3.2 Population and Sample	33
3.3 Nature and Sources of Data	33
3.4 Tools for Analysis	33
3.4.1 Financial Tools	33
3.4.1.1 Liquidity Ratios	34

3.4.1.2 Profitability Ratios	35
3.4.1.3 Turnover Ratios	36
3.4.2 Statistical Tools	38

CHAPTER-4 DATA PRESENTATION AND ANALYSIS

4.1 Analysis of Composition of Working Capital	42
4.1.1 Size of Working Capital	43
4.1.2 Structure of Working Capital	51
4.1.3 Financing of Current Assets	62
4.1.4 Growth of Working Capital	65
4.1.5 Efficiency of Working Capital Management	66
4.1.6 Analysis of Liquidity Position	71
4.1.7 Analysis of Profitability Position	76
4.1.8 Relationship between Liquidity and Profitability	80
4.1.9 Trend Analysis	82
4.1.10 Sector-wise Management of Current Assets	94
4.1.11 Analysis of Sources and Uses of Funds	96
4.2 Major Findings	96

CHAPTER-5 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	101
5.2 Conclusion	102
5.3 Recommendations	103

Bibliography

Appendix

LIST OF TABLES

Table No.	Title	Page No.
4.1	Current Assets as Percentage of Total Assets	44
4.2	Current Assets as Percentage of Fixed Assets	45
4.3	Current Assets as Percentage of Sales	47
4.4	Net Working Capital as Percentage of Current Assets	49
4.5	Net Working Capital as Percentage of Sales	50
4.6	Cash and Bank Balance as Percentage of Current Assets	52
4.7	Cash and Bank Balance as Percentage of Current Liabilities	54
4.8	Inventory as Percentage of Current Assets	56
4.9	Receivables as Percentage of Current Assets	57
4.10	Miscellaneous Current Assets as Percentage of Current Assets	58

4.11	Investment as Percentage of Current Assets	60
4.12	Financing Mix Showing Risk Return Trade-off	62
4.13	Calculation of Risk	63
4.14	Growth Trend of Current Assets, Total Assets and Sales	65
4.15	Calculation of Receivable/Debtor Turnover and Average Collection Period	66
4.16	Analysis of Cash Turnover Ratio	68
4.17	Current Assets Turnover Ratio	69
4.18	Net Working Capital Turnover Ratio	70
4.19	Calculation of Current Ratio	72
4.20	Calculation of Quick Ratio	74
4.21	Calculation of Absolute Liquidity Ratio	75
4.22	Calculation of Return on Current Assets	77
4.23	Calculation of Return on Working Capital	78
4.24	Calculation of Return on Investment	79
4.25	Liquidity (Current Ratio) and Profitability (Return on Working Capital)	81
4.26	Correlation Coefficient between Liquidity and Profitability	82
4.27	Trend Values of Current Assets	83
4.28	Trend Values of Current Liabilities	85

4.29	Trend Values of Cash and Bank Balance	86
4.30	Trend Values of Receivables	87
4.31	Trend Values of Inventory	88
4.32	Trend Values of Total Assets	90
4.33	Trend Values of Net Sales	91
4.34	Trend Values of Net Working Capital	93

LIST OF FIGURES

Figure No.	Title	Page No.
4.1	Percentage of Current Assets to Total Assets	45
4.2	Composition of Current Assets and Fixed Assets	46
4.3	Percentage of Current Assets to Sales	48
4.4	Relationship between Current Assets and Net Working Capital	50
4.5	Net Working Capital as Percentage of Sales	51
4.6	Cash and Bank Balance and Current Assets of Nepal Telecom	53
4.7	Ratio of Cash and Bank to Current Liabilities	55
4.8	Inventory as Percentage of Current Assets	56
4.9	Receivables to Current Assets Ratio	58
4.10	Miscellaneous Current Assets and Total Current Assets	59
4.11	Investment as Percentage of Current Assets	61
4.12	Structure of Current Assets of Nepal Telecom	61
4.13	Graphical Presentation of Trade off between Risk-Return	64

4.14	Turnover Ratios	71
4.15	Liquidity Ratios	76
4.16	Profitability Ratios	80
4.17	Chart Showing Trend Values of Current Assets	84
4.18	Chart Showing Trend Values of Current Liabilities	85
4.19	Chart Showing Trend Values of Cash and Bank Balance	87
4.20	Chart Showing Trend Values of Receivables	88
4.21	Chart Showing Trend Values of Inventory	89
4.22	Chart Showing Trend Values of Total Assets	90
4.23	Chart Showing Trend Values of Net Sales	92
4.24	Chart Showing Trend Values of Net Working Capital	93

ABBREVIATIONS

A/P	=	Accounts Payable
A/R	=	Accounts Receivable
CA	=	Current Assets
CL	=	Current Liabilities
CR	=	Current Ratio
CV	=	Coefficient of Variation
E.g.	=	Example
EOQ	=	Economic Order Quantity
F/Y	=	Fiscal Year
FA	=	Fixed Assets
GDP	=	Gross Domestic Product
GM	=	General Manager
i.e.	=	That Is
ISD	=	International Subscriber Dialing
ITU	=	International Telecommunication Union
NPAT	=	Net Profit After Tax
NT	=	Nepal Telecom
NWC	=	Net Working Capital
PE	=	Probable Error

PEs = Public Enterprises
QR = Quick Ratio
ROE = Return on Equity
ROI = Return on Investment
STD = Subscriber Trunk Dialing
Std. Dev= Standard Deviation
TA = Total Assets
TU = Tribhuvan University
VDC = Village Development Committee
WC = Working Capital
WLL = Worldwide Local Loop
WTO = World Trade Organization