WORKING CAPITAL MANAGEMENT PRACTICE

IN

LISTED MANUFACTURING COMPANY OF NEPAL

(A CASE STUDY OF BOTTLERS NEPAL LTD. BALAJU)

A THESIS SUBMITTED BY:

NAGENDRA RATNA KOIRALA
SHANKERDEV CAMPUS
CAMPUS ROLL NO. 1035 /062
T.U. REG. NO.: 5-1-61-105-98

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RECOMMENDATION

This is to certify that the thesis

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Nagendra Ratna Koirala

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has been prepared as approved by this department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

Prof. Dr. Kamal Deep Dhakal	Prof. Bisheshwar Man Shrestha	Prof. Dr. Kamal Deep Dhakal
(Thesis Supervisor)	(Head of Research Department)	(Campus chief)

Lecturer Ghanendra Fago
(Thesis Supervisor)

VIVA- VOCE SHEET

We have conducted VIVA-VOCE Examination of the thesis presented

By

Nagendra Ratna Koirala

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

MASTER DEGREE OF BUSINESS STUIES (MBS)

VIVA- VOCE COMMITEE

Head, Research Department

..

Member (Thesis Supervisor)

..

Member (Thesis Supervisor)

..

Member (External Expert)

...

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……………………………….

Nagendra Ratna Koirala

Researcher

Shanker Dev Campus

Campus Roll No. 1035 /062

T.U. Reg. No.: 5-1-61-105-98

DECLARATION

I hereby declare that the work reported in this thesis entitled " **Working Capital Management Practice in Listed Manufacturing company of Nepal (A case study of Bottlers Nepal Limited, Balaju)"** submitted to Faculty of Management, Tribhuwan University is my original work done in the form of partial fulfillment of the requirement for the Master's degree in Business Studies under the guidance and supervision of **Prof. Dr. Kamal Deep Dhakal & Lecturer Mr. Ghanendra Fago**, Shanker Dev Campus, Tribhuwan University, Kathmandu, Nepal

Date: 26 August 2011

……. …………………………….

Nagendra Ratna Koirala

Researcher

Shankerdev Campus

Campus Roll No. 1035 /062

T.U. Reg. No.: 5-1-61-105-98

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LIST OF ABBREVIATIONS

ATR	:	Acid-Test Ratio
BN Ltd.	:	Bottlers Nepal Limited
CA	:	Current Assets
CATA	:	Current Assets to Total Assets
CCA	:	Cash to Current Assets
CR	:	Current Ratio
CT	:	Cash Turnover
CTA	:	Cash to Total Assets
GPM	:	Gross Profit Margin
IT	:	Inventory Turnover
ITA	:	Inventory to Total Assets
NPM	:	Net Profit Margin
NWCT	:	Net Working Capital Turnover
OR	:	Operating Ratio
PE	:	Public Enterprise
PDP	:	Payable Deferred Period
QR	:	Quick Ratio
RCP	:	Receivable Collection Period
RCA	:	Receivable to Current Assets
RNW	:	Return on Net Worth
RT	:	Receivable Turnover
RTA	:	Receivable to Total Assets
RWC	:	Return on Working Capital
STA	:	Sales to Total Assets
TA	:	Total Assets
TCA	:	Turnover to Current Assets

CHAPTER-I

INTRODUCTION

1.1 Introduction

Every firm wants to maximize the value of the firm. It is the main goal of the enterprise. In this context, the firms always concentrate on providing quality product and service in the timely manner. In addition, they must do effective job in marketing, employees' relation, and so forth. It is also concentrate in financial prospective because it affects (1) the value of the firm, (ii) Investment decision, (iii) Financing decision- making process of all the enterprise. So, the working capital management is being practiced in enterprises. Financial decision on working capital is necessary to operate the enterprise's ordinary business activity but it is not so easy to manage.

The working capital concerns to adjust in change of firm's level of sales activiti es by seasonable, cyclical and random factors and to contribute the maximizing value of the firm. So, the working capital management perform significant role in the overall business areas. Moreover, the working capital is called circulating capital as it keeps on circulating in the course of business operation. Firstly, business starts by cash, which is converted into inventory after some time. Inventory is raw material, semi-finished goods and finished goods. By sale, finished goods are converted into receivable and receivable into cash.

The management of working capital involves the maintaining liquidity position, turnover position and profitability position although it's adverse effect; the raising the cost of money and capital expenditures usually become a primary target for cutback. So the working capital management is concerning the liquidity position, turnover position and profitability position of the firms. It also analyzes the tradeoff between risk and return. The financial manager often overlooks the area of working capital where effective cost saving control can be applied (Coscino, 1979). For the effective management of working capital is concerning the operating and combination of current assets and current liabilities, and its efficiency measurement from the risk return tradeoff between them. This process is continuing for the management of working capital.

All the corporate whether public/private manufacturing or non-manufacturing should have just adequate working capital to survive in competitive market. Working capital is dangerous form on the firm's point of view. Excess investment of working capital affects a firm's profitability; just an ideal investment yields nothing. In the same way, inadequate investment in working capital affects the liquidity position of the company and lead to financial failure of the company. Thus, the amount of working capital invested should be as optimal as possible. However, there are various factors which affect the size of working capital such as nature of business, time lag on operational cycle, purchasing capacity of company and so on. Financial manager must be able to manage their working capital in optimum way so that highest profit can be made on lowest cost.

In the context of Nepal, working capital management is not satisfactory. Reports relating the performance of public enterprises have found that managers often lack basic knowledge of working capital. It effects on the operating efficiency and financial viability of the enterprise (George, 1990), effective utilization of resources, efficiency of the firm, profitability position and maximizing of shareholders' wealth. This situation leads towards the poor liquidity position of the firm due to the inefficient management of working capital. So, the working capital management plays the crucial role in the success and failure of the enterprise. The management of working capital in private sector is not satisfied but comparatively satisfactory than public enterprises. The study of working capital management is important for the Nepalese enterprise. It is most necessary to involve in the study the working capital management for healthy industrial and business organizations. It has affected by the various factors. All of these affection reasons have not succeeded to include in this study.

In this study attempt has been made to search the affecting reasons for the sound management of working capital from the case study of Bottlers Nepal Limited. The study of working capital management is important due to following reasons, (i) there should be adequacy of investment in current assets otherwise it would seriously erode the liquidity position (ii) they must select proper current assets to raise their operating efficiency (iii) they are required to ascertain the turnover of current assets that greatly determine the profitability of the enterprise (iv) they must find out the appropriate sources of funds using to finance current asset (Shrestha, 1982)

1.2 Introduction of the Company

Bottlers Nepal Ltd. Company is one of the manufacturing and processing companies, which is manufacturing the soft drinks under the brand name of the Coca Cola Company. The company also makes the sales of the soft drinks under the registered trademark of the Coca Cola Company that is managed by Singapore based F & N Coca Cola Pvt. Company Ltd. Its registered office is located at Balaju, Kathmandu, and the head office being the same.

The Company is located in Balaju in an area of 10,648 sq. m. of space and the buildings of the company covers 5,823 sq. m. The company covers roughly 90% of the Nepalese market when compared with other brands of the similar products. This figure is inclusive of the subsidiary c.o.'s figure (Annual Report BN Ltd)

Share Capital of the Company:

The company has authorized share capital of Rs. 500,000 thousands and paid up value per share is Rs. 100/-, and issued capital of Rs. 370,000 thousands among shareholders. The paid of capital is Rs. 194,889 thousands and value per share is Rs. 100.

BN Ltd is one of the good company listed in the NEPSE in terms of the market capitalization. This company produces fine varieties of soft drinks that are **Coke, Fanta, Fanta Lemon, Lime, Sprite, Soda and drinking water**. This company is managed by F & N Coca-Cola Pvt. Company Ltd. Based in Singapore in Nepal; there are two factories under Coca-Cola Company. This study is about Bottlers Nepal Limited located at Balaju. There is also subsidiary company known as Bottlers Nepal (Terai) Ltd. at Chitwan District of Nepal.

BN Ltd. distributes its product throughout the Bagmati Zone. Companies don't have policy of direct distribution. Company uses two types of distribution channel i.e. through the dealer & retailer to the consumers. This company is using two types of plant for production process. The old line has capacity of 220 bottles per minute and the recently installed one is able to produce 430 bottles per minute. To maintain the leadership in the marketer, the company always concentrates for its raw material from approved suppliers that are decided from head office. Raw material like concentrate Crown crooks, sugar are imported from international as well as National market and CO_2 gas is produced in Factory. The whole process i.e. raw material to finished good is prepared by company secretly and sold without disclosures after introducing new package, the company has increased sales effort; Recently company is also looking for new area of distribution but want to have more profit from the competition market. The company has its planning system but they don't forecast the sales. In last few years data we can see that sales has been increasing. The company has been able to increase the production efficiency of the plant giving better outputs as compared to the previous year. The newly installed line is now in full operation giving better yields and lower breakage rate. With installation of new line the company is now able to fulfill the market demand without any production constraints. The company has introduced new packages of its products to counter the competition. In order to stay ahead of the competition the company has been launching various types of promotional activities with financial and technical support from the Coca-Cola Company. The company is putting its full efforts into increasing the per capital consumption of its beverage in the market.

1.3 Statement of the Problem

Working capital management decision is the most sensitive for every firm. It has various factors affecting the decision; it should maintain optimal level of working capital. Determining the optimal level of working capital is the crux problem of every business organization. It constrained to maintain the tradeoff between risk and return.

Highlights of the current assets and current liabilities of BN Ltd (Balaju)

S.N.	Fiscal Year	Current assets	Current Liabilities
1	2002/2003	544,183	184100
2	2003/2004	447,831	117199
3	2004/2005	553,157	164399
4	2005/2006	436,045	210702
5	2006/2007	511,066	743338
6	2007/2008	434,557	432637
7	2008/2009	505,070	501179

Source: - Annual Report of BN Ltd.

The present study intends to improve the following basic questions section to bridge the present gap in the literature of BN Ltd.

- What is the structure of working capital?

- Which policy is followed by BN Ltd.?
- What are the sizes of investment in each type of current assets?
- What are the needs to control over investment in current assets?
- What are the changes in investment in the current assets over a period of time?
- What are the relationship between the current assets with current liabilities and total liability?

1.4 Objectives of the Study

The main objective of this study is to examine the working capital management of Bottlers Nepal Limited Company. Working capital plays the crucial role of success or failure of any enterprises; the excess working capital as well as inadequate working capital both are harmful for business.

The specific objectives of this study are as follows:

- To examine the structure of working capital in BN Ltd.
- To know the working capital policy followed by BN Ltd.
- To analyze the size of investment in different types of current assets.
- To analyze the short term liquidity, asset utilization and profitability position of the Bottlers Nepal Limited.
- To identify the relationship between the current assets with current liabilities and total liability

1.5 Significance of the Study

Working capital depends on the nature of the business. Every firm determines the working capital according to its nature. The essential factors of the working capital of a firm are operator of its current assets and various concepts of the working capital to focus the profitability of the enterprise and success of the business guideline by the effective management of working capital. It is the most crucial area in enterprise management because many instances have shown that regardless of excellent products, efficient marketing, efficient production, wide fixed assets management may a management has lost the control of its firm because liquidity crisis resulted in takeover by creditor forced margin or bankruptcy (Burton,1983).

Working capital management is important due to following reasons:

- The basic decision regarding working capital not only affects profitability of the firm in the short term but also it affects the survival in the long run.
- There is poor liquidity position of most of the enterprises. This poor liquidity position has been noticed as the enterprises have either negative cash flows or negative earning before tax or they have excessive net current debts, which cannot be paid within a year.
- Proportionally half or more than half of the total assets are typically invested in current assets.
- The relationship between sales and working capital increase the need to invest in current asset directly.
- Investment in fixed assets may be reduced by renting or leasing, but in inventories and receivables are usually unavoidable.

So, inquiry into the working capital management and its association with performance of manufacturing enterprise in Nepal. In the present context, this study is timely relevant. This research report is prepared to evaluate & examine the trend and contribution of working capital management in manufacturing company of Nepal. Every firm will know the weakness in current assets mix and financing in the form of financial performance period to indicate and show the way by the help of the study.

1.6 Limitation of the Study

Every research has its own limitations. The main focus of this study is to point out the working capital management of BN Ltd. Company.

In spite of the data is acute, the most of the private companies financial data may be inconsistent. In other words, financial statement may not disclose the true financial data and information. In the case of companies set up in private sector access to internal information for outsider is not possible, preparation of multiple financial statements is open, secret and common practice in private sector. So the conclusion is based on the available financial statement might not be correct in reality.

Similarly conclusion of this study might not be application to other manufacturers because of the possibility of the gross variation in financial data. However, following factors are the limited scope of the study.

- The research design followed for this study is based on historical data which covers the period of last seven years from F/Y 2002/03 to 2008/09.
- The analysis will be based on the secondary data only, which was provided from the Annual report of BN Ltd. Company.
- Time and resources constraints may limit the area covered by the study.
- The major sources are the secondary data of financial statement of BN Ltd which are extracted from the progress report of BN Ltd.
- This study is limited to study only selected manufacturing company.
- There are findings and conclusions only not recommendations and suggestions for solving the problems.

1.7 Organization of the Study

This study has been organized into following chapters.

Chapter one; introduction: This chapter deals with the general background of the study with the subject matter of the study. Likewise, it consist the statement of the problem, objectives of the study, needs and importance of the study, limitations of the study and organization of the study.

Second chapter; literature review: It deals with the review of literature includes conceptual framework, review of journal & articles and review of previous related thesis, journals etc. with a brief profile of BN Ltd. and research gap.

Chapter three: It deals with research methodology adopted to achieve the objectives of the study research questions, on research design, nature & scope of data and data techniques and tools for analysis of working capital.

Chapter four: It is the heart of the study and deals with presentation and analysis of relevant data & information through a definite course of research methodology.

The fifth chapter summarizes the whole study. Moreover, it draws the conclusions are forwards the recommendation of the improvement of working capital management of BN Ltd.

At the last, an appendix has been included Income statement & Balance sheet of BN Ltd. Balaju. Bibliography cards have also been included according to the literatures, are reviewed.

Every firm will know the weakness in current assets mix and financing in the firm of financial performance period to indicate and show the way by the help of the study.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Conceptual Framework

This chapter deals with literature review that includes conceptual framework, review of references, journals & articles and review of previous thesis, references, journal & articles related to the study.

2.1.1 Introduction of Working Capital

The main purpose of this chapter is to provide an insight in the working capital and give a bird eye of different experts' thought regarding theory of working capital. It's implication while making review of related literatures of working capital management the researchers have gone through different financial books, bulletins, documents, reports and journals. This chapter aims to review the available literature on working capital management in the context of Nepalese enterprises including available literature on Bottlers Nepal Limited.

Working capital is firm's investment in short term assets such as cash, short term security, account receivables and inventories. It is used to mean current assets minus current liabilities. It is often used to refer to the firm's current assets (primarily cash, marketable securities, account receivables and inventory). Working capital may be defined more particularly as the assets held for current use within a business less the amount due those who await settlement in the short term in whatever from. The term deals with the matrix of current assets and current liabilities. The conversion process of current assets that include cash, inventories and account receivables etc. must be quick as possible to get readily available cash with one year to meet current obligations. In a like manner, the current liabilities comprising sundry creditor, trade creditors, account payables, short term bank loans, outstanding expenses etc. must be paid within one year as they become due.

Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities, and the interrelationships exist between them. The current assets refers to those assets, which in ordinary course of business can be or will be turned into cash within one year without undergoing a diminution in value and without disruption the operations of the firm. Most decisions with respect to working capital and its components have their impact over weeks and months rather than years. For this reason working capital management is often referred as short term finance. Working capital management is essential for day to day operation of business. So it is very sensitive activity. Its operation involves say to a year activity arrangement, which is very difficult to manage; hence it is controlling nerve of business. The success and failure of any enterprise depends upon the management of working capital. So far as the management of working capital in Nepalese companies is concerned, different management experts have undertaken a number of studies and students of MBS have described the working capital management of various enterprises.

2.1.2 Concept of Working Capital

There are two concepts of working capital, gross and net.

Gross Working Capital: The term Gross working capital refers to the firm's investment in current assets. Current assets are assets, which can be converted into cash within an accounting year (or operation cycle) and include cash short term securities, debtors, account receivables or book debts, bills receivables and stock (inventory). The gross working capital management analyzes to optimize investment in current assets and investment in current assets should be just adequate, neither more nor less to the needs of the business firm. And, another aspect of gross working capital is to need of arranging fund to finance current assets.

Net Working Capital: The term "Net Working Capital" can be defined in two ways. (i) The most common definition of net working capital is the difference between the firm's current assets and its current liabilities. (ii) Alternatively it can be defined as the portion of the firm's current assets financing with long term, the sum of long term debt and stockholder's equity. Since current liabilities, represent the firm' source of short term funds as long as current assets exceed current liabilities, the amount of the excess must be financed with long term funds. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets. Net working capital is a qualitative concept. It indicates the liquidity position of the firm and suggests the extent to which working capital needs may be financed by permanent source of funds.

The definitions described above convey in same way or other, the same meaning. They virtually represent the characteristics of the working capital. It seems that there is consensus on the following special characteristics of the working capital.

- **Short Life: -** Working capital is characterized by assets with a life span of less than one year such as cash, marketable securities, account receivables, and inventories etc. This short life span leads to high volatility in the level of investment required to finance working capital.
- **Nearness to Cash or Liquidity**: **-** This basic characteristic constitutes the first line defense against technical insolvency. Cash is the most liquid asset having zero conversion time and 100 percent conversion

rate. But for inventory and marketable securities two factors i.e. (i) nearness to cash or amount of time required converting asset into cash and (ii) price realized on conversion must be considered.

- **Lack of Synchronization**: **-** Since the enterprise cannot produce on order only and cannot insist on cash payments there is always the problem of synchronization in cash receipts and disbursements. It is also due to level of investment in working capital that is affected by sales volume, production policies and collection policies.

The basic characteristics of working capital as mentioned above indicate that it is a term of capital intended to be kept moving or circulating and its potential for earning comes from movements. Though the expenditures can be controlled and planned its incomes is usually subject to random variation and not controllable.

2.1.3 Determination of Working Capital

The factors that influence the working capital requirement may be internal or external. Internal factors are those, which are within the control and competence of management, and external factor are those beyond the control of management. Internal factors include turnover of receivables and inventories, terms of purchase and sales and credit rating. External factors consist of nature of business, volume of production and sales and business conditions.

The importance of efficient working capital management is an aspect of overall financial management. Thus a firm plans its operations with adequate working capital requirement or it should have neither to excess nor to inadequate working capital. But there are set of rule or formulae to determine the working capital requirement of the firm. It is because of large number of factors that influence the working capital requirement of the firm. Number factors affect different firm in different ways. Internal policies and environment changes also affect the working capital. Generally, the following factors determine he working capital requirement of the firm (Pandey, 1994).

- **Volume of Sales**: **-** A firm maintains the current assets because they are needed to support the operational activities, which result in sales. As the volume of sales increase, there is an increase in the investment of working capital, in the cost of operation, in inventories and in receivables. The increase in current assets will result in increase in the requirement of working capital.

- **Manufacturing Process**. In the manufacturing process in an industry entails a longer period because of its complex character, more working capital is required to finance the process. An extended manufacturing time span means a large tie-up of funds in inventories and higher amount of working capital.

- **Nature of Business: -** A company's working capital requirement is basically related to the king of business it conducts. Public utilities have the lowest requirement for current assets because they have only cash sales and supply services, not products. In manufacturing companies' stock- in – trade represent a large investment. Trading and financial firms require a large sum of money as working capital.

- **Size of Business: -** The size of business also has an important bearing in determining working capital needs of a firm. A Firm with large- scale operations will need more working capital than a smaller firm.

- **Terms of Purchase and Sales**: **-** The credit term of purchases is more favorable and those of sales less liberal, less cash will be invested in inventory. A firm, which can get credit easily on favorable conditions, will require less amount of working capital than a firm without such facility.

- **Business Fluctuation: -** Business variations affect the working capital requirement especially the temporary working capital requirement of the firm. In a boom period the sales will increase. Correspondingly, the firm investment in inventories and book debts will also increase an additional investment in fixed assets may be made by some firms. This act of the firm will require sales will fall and consequently the level of inventories and book debts will also fall. So the need of working capital will be less in the period.

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

- **Turnover of Circulating Capital**:- The speed with which the working capital completes its round i.e. conversion of cash into inventories of raw materials into cash accounts plays an important role in judging the requirement of the working capital.

- **Inventory Turnover**: **-** With a better inventory control a firm is able to reduce its working capital requirement. If the inventory turnover is high the working capital requirement will be low.

- **Growth and Expansion of Business**: **-** A growing firm has to invest funds in fixed assets in order to sustain its growing production and sales. This will increase investment in current assets to support enlarged scale of operations; it will require more working capital.

- **Profit Margin and Profit Appropriation**: **-** The net profit is a source of working capital. A high net profit margin contributes towards the working capital pool. The requirement of the working capital is influenced by the tax liabilities and the firm's policy to retain or distribute profits. A high tax liability will impose an additional strain on the working capital. Payment of dividend consumes cash resources and therefore reduces the firm's working capital to the extent.

- **Cash Requirement**: **-** Cash is one of the current assets, which is essential for the successful operation of the production cycle. Cash should be adequate and properly utilized. Adequate cash is also required to maintain good credit relations.

- **Other Factors: -** Absence of co-ordination in production and distribution policies in a company leads to a high demand for working capital. The import policy of the government may also affect the requirement of the working capital for the company as they have to arrange for funds for importing goods at specified times.

Hampton (1993) has suggested that firm's working capital requirements are affected by some factors which are as follows:

Sources of Changes in Working Capital Needs

Sources of Changes	Working Capital Affected	Reasons
Sales Volume	Permanent	Different level of cash receivable and inventory need at new sales level.
Seasonal and cyclic factors	Variable	Receivables and inventory must be available on temporary basis
Technology	Permanent	Level of inventory must support the new production capability
Policies of firm	Permanent and Variable	Some Policies tie up working capital others free it.

2.1.4 Components of Working Capital

The working capital comprises two components of times view of firm.

1. Permanent Working Capital: - Permanent Working capital refers to that level of current assets, which requires on a continuous basis over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital. Therefore the manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted productions and sales functions. This portion of working capital is directly related to the firm's expansion of operation capacity.

2. Variable working capital; - This represents additional assets required at certain times during the year. Added inventory must be maintained to support peak selling period. Receivables will increase and must be financed after a period of high sales. Extra cash may be needed to pay for increased supplies preceding high activity.

2.1.5. Sources of Working Capital

There are various sources to finance in the working capital. The financing depends upon the need for working capital in the enterprise. The need of a firm in working capital involves the volatility nature of the funds. Machiraju,1997 defined the sources of finance as follows.

Working capital may be obtained from different sources such a raising funds from capital market through issued of share and debentures borrowing from bank directors shareholders and trade credit. Internal source such as retained earnings and depreciation may be good for and established unit. In the case of a new unit a portion of working capital, working capital margin, may be financed by equity.

The firm’s financing requirements can be separated into a permanent and a seasonal need.

a. **Permanent Need: -** Permanent need financing requirement for the firm’s fixed plus the permanent portion of the firm’s current asset requirements remain unchanged over the year. The permanent working capital is also knows working capital or core current asset. This type of working capital is required to ensure continuous production in the minimum level. The core current asset financed from the permanent nature of source, which are issue of share, issue of debentures, retained earnings and long term loan.

b. **Variable or Seasonal Need**: Seasonal need financing requirement for temporary current asset, which vary throughout the year. The source of variable working capital could be financed from spontaneous and secured and unsecured sources of short term financing and long term source of financing. The decision to finance in variable working capital depends on the financing policy of a firm. The variable or seasonal short term sources are spontaneous source of short term financing, unsecured sources of short term loans, commercial papers and secured source of short term financing. The source are account payables, accrual (spontaneous source), bank loans, commercial paper (unsecured source), collateral and terms, accounting receivable as collateral, inventory as collateral, warehouse receipt loans trust receipt, in entry loan, floating inventory liens etc. (secured term loan)

2.1.6 Purpose of Working Capital Management

Firms intended two important aims of working capital management are; profitability and solvency. Solvency is used in the technical sense, refers to the firm’s continuous ability to meet maturing obligations. The solvency refers to another words the liquidity. Profitability of the firm related to the profit maximizing. To have higher profitability, the firm may sacrifice solvency and maintain relatively low level of assets. When the firm does so, its profitability will improve as fewer funds are tied up in idle current assets, but its solvency would be threatened and would be exposed to greater risk or cash shortage and stock out.

2.1.7 Liquidity:-

Liquidity define the money and assets that readily convertible into money. Liquidity can be used analyzing idea to manage the working capital policy. There may be exhibit different degree of liquidity on the nature of assets. Money itself is, by definition, the most liquid of assets; other assets have varying degree of liquidity, depending on the ease with which they can be turned into cash. Marketable securities, which are short term investment for excess cash, are highly liquid, and account receivable are less liquid than marketable securities, Inventory is often less liquid than accounts receivable. Liquidity is an important factor in determining a firm's working capital policy. It is function of current asset and liability levels and composition, and the ability to raise cash when needed. Liquidity has two major aspects- ongoing liquidity and protective liquidity. Ongoing liquidity refers to the inflows and outflows of cash through the firm as the product acquisition, production, sales, payment, and collection process takes place overtime. Protective liquidity refers to the ability to adjust rapidly to unforeseen cash demand, and to have backup means available to raise cash. The firm's ongoing liquidity is function of its cash cycle.

2.1.8 Working Capital Policy

Working capital policy involves the adequate level of current asset financing depend the policy of the firm. Policy refers to the firm's appropriate level for current assets and working capital policy involve the adequate level of current asset financing depend on the policy followed by the firm. Working capital involves two basic questions (i) what is the appropriate level for current asset both in total and by specific amount? (ii) How should current asset be financed? Or how current liability will be used to finance current assets? The working capital policy interested to solve the arising questions by the firm. There are two alternative policies (i) current asset investment policies (ii) current assets financing policies.

Working capital management has to determine how funds should be invested in working capital in gross concept. Every can adopt different financing policy according to the financial managers attitude towards, the risk return trade-off one of the most important decision of finance current asset, any firm has to find out the different sources of funds for working capital. Thus working capital policies regarding to the level of each category of current assets and their financing are discussed in the insuring part of the section.

2.1.8.1 Current Assets Financing Policy

It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets of financing of current assets. There are three variants aggressive, conservative and Matching policies of current assets financing (Pandey, 1994).

a) Conservative Approach

This approach suggests that the estimated requirement of total funds should be get from long term source; the use of short term funds should be restricted to only emergency situations or when there is an unexpected outflow of funds. Under a conservative plan, the firm finances it's permanent assets and a part of temporary current assets with long term financing. Thus in periods when the firm has no temporary current assets, it stores liquidity by investing surplus funds into marketable securities. The conservative plan relies heavily on long term financing and therefore is less risky.

Short-term Financing Requirements

Marketable
Securities

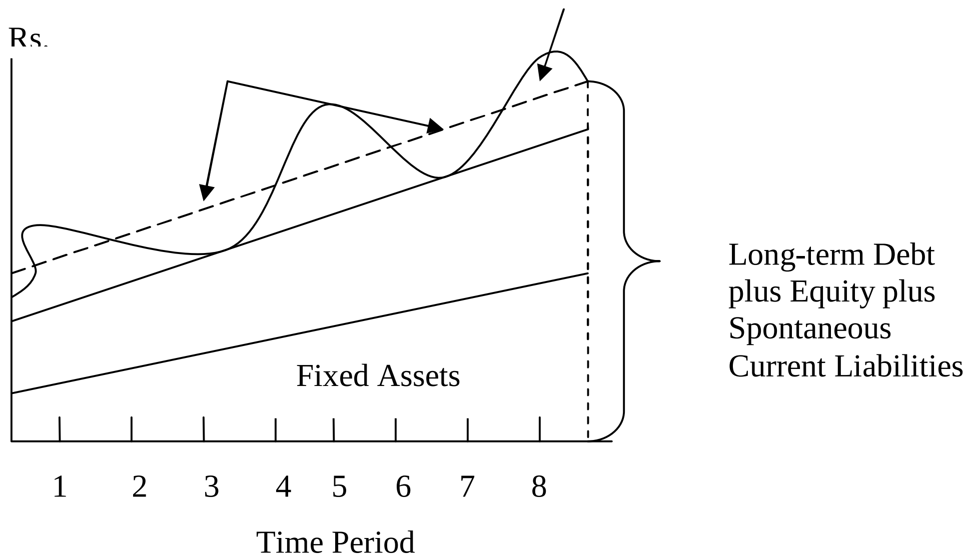

Figure: - 2.1 Conservative Approach

b. Aggressive Approach

In aggressive policy, the firm finances a part of its permanent current assets with short-term financing and rest with long –term financing. In other words, the firm finances mot only temporary current assets but also a part of the permanent current assets with short-term financing. Figure 3 show that short-term financing finances 50% of the permanent current assets. In general, interest rate increases with time i.e. lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus under normal, the firm borrows on a short-term financing rather than long-term financing. On the other hand, the firm finances its permanent current assets by short-term financing, than it runs the risk of renewing the borrowing again and again. This continued financing exposes the firm to certain risk. It is because, in future, interest expensive will fluctuate widely, and also it may be difficult for the firm to raise the funds during the stringent credit period, in conclusion, there is higher risk, higher return and low liquidity position under this policy.

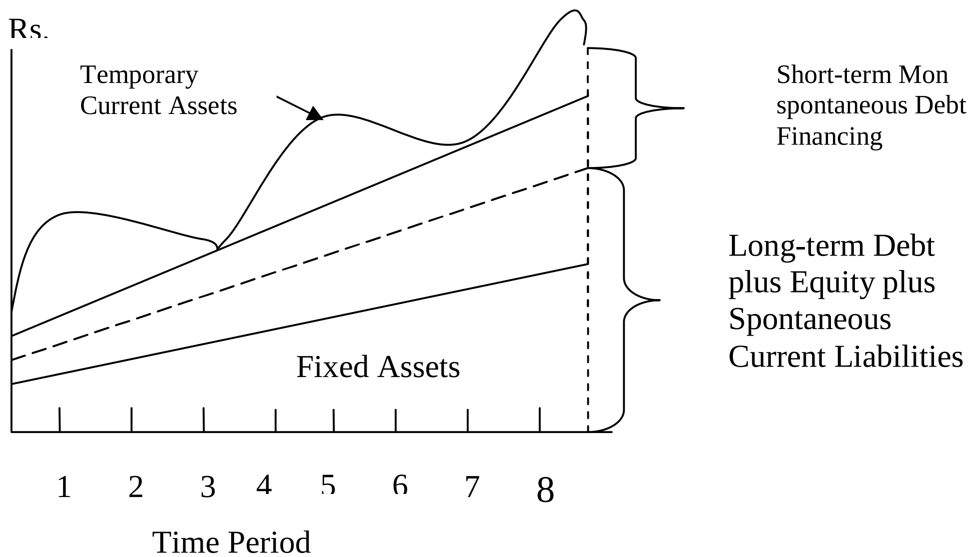

Figure: - 2.2 Aggressive Approach

c) Maturity matching or "Self Liquidating" Approach

Under this approach, unlike the aggressive strategy, the conservative strategy requires the firm to pay interest on unneeded funds. The lower cost of aggressive strategy therefore makes it more profitable than the conservative strategy; however the aggressive strategy involves much more risk. For most firms a trade-off between the externs represented by these to strategies should result in an acceptable financing strategy.

The justification of the exact matching is that since the purpose of financing is to pay for assets, the financing should be relinquished. When the asset is expected to be relinquished using long-term financing for short-term is expensive, as the funds will not be utilized for the full period similarly, financing long-term assets with long-term financing is costly as well as inconvenient as arrangement for the short-term financing will have to be made as continuing basis.

Thus when the firm follows matching approach long-term financing will be used to finance fixed assets and permanent assets and short-term financing to finance temporary current assets

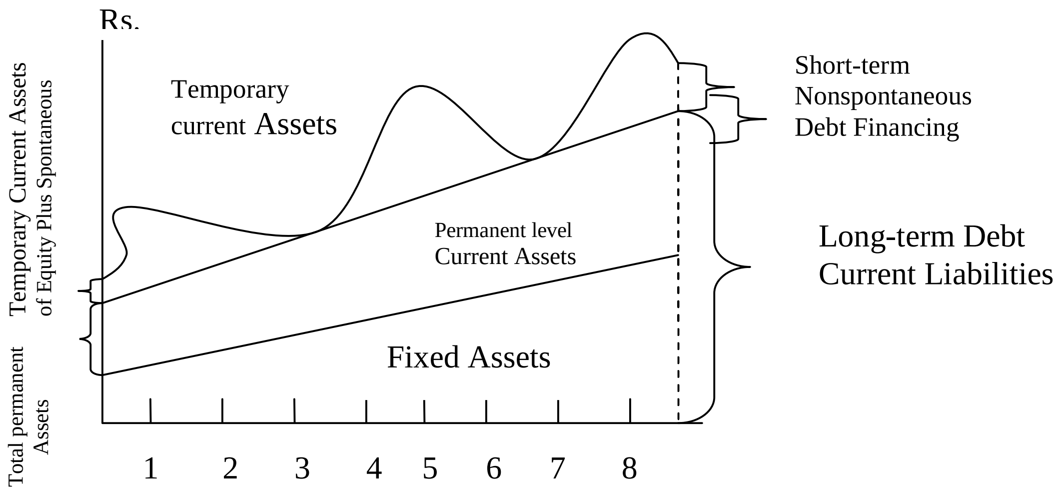

Figure: - 2.3 Maturity Matching

Conclusion:

Conservation 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 receivables through liberal policy, high inventory and cash and bank balance. While aggressive working capital policy follows the minimum way between aforementioned two extreme working capital policies.

a) Aggressive b) Conservative c) Matched

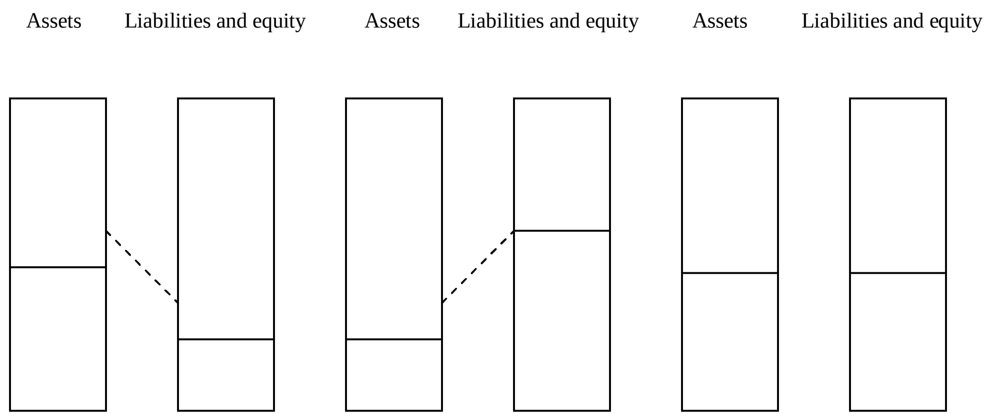

Figure: - 2.4, Working Capital Policy

Lawrence J. Gitman classified the three assumptions in evolution the profitability trade-off.

i. The type of firms under consideration in a manufacturing.

ii. The firm can earn more on fixed assets than the current assets. In other words, the firm's investment in fixed assets is more profitable than current assets.

iii. Current liabilities are cheaper than the long-term financing

2.1.9 Effect of Changes in Working Capital on Profitability and Risk

Profitability is the relationship between revenue and cost. Profit can be increase in two ways (i) by increasing revenues, or (ii) decreasing costs. Risk is the probability that the firm will be unable to pay its bill as they come due. The firm is technically insolvent means it will be unable to pay its bills. If there was perfect certainty, the firm would make just enough investment in current asset or current holding would mean a low rate of return and excess investment in current assets will not earn enough return. Current assets holding will depend upon its working capital policy. These policies involve risk return trade-off. The risk of becoming technically insolvent commonly measured using either current ration or the amount of networking capital. The greater the amount of net working capital a firm has less at risk the firm is. In other words, the more the working capital, more liquid the firm is.

The net working capital affects both profitability and risk. Increase or decrease in the working capital can increase or decrease the profitability and risk of an enterprise also off. A trade-off exist deducting all expenses, the remainder known as profit of a firm and can be increased either by maximizing sales or minimizing costs. The next term is risk, which has been defined as the profitability that a firm will become technically insolvent so that it will not be able to meet its obligations, which they become due for payment.

The risk can be measured by net working capital. We have already defined that working capital is the difference between current assets and current liabilities. The working capital increase in two conditions, either by increasing in current asset or decrease in current liabilities. So it is assumed that the grater the amount of working capital the less risky the firm is. By increasing the working capital the firm will be in more liquidity position. The chances of insolvent will be low in that case. In the same way if the working capital decreases, the risk increase and side by side there will be more chance of insolvent.

2.1.9.1 Effect of Changes in Current Assets on Profitability and Risk

The effect of changing in level of current assets on its profitability risk trade off can be demonstrated the ration of current assets to total assets. The current asset ratio indicates the percentage of total assets that is current.

I. Effect of Decrease in Ratio: - If the ratio decreases, the risk increases and profit also increase. The investment in current assets decrease and investment in fixed asset increase assuming that the level of total cost remains unchanged.
The return on fixed assets investment will be more than that of current assets. So the profitability of the firm increases.

II. Effect on Increase in Current Asset: **-** The increased ratio shows that the risk of firm is decreasing and side the profitability will also be decrease current assets are less profitable than the fixed assets.

Increasing the investment or current assets increases the working capital the investment on fixed assets decreased as a result the profit also decrease.

2.1.9.2 Effect of Changing Current Liabilities on Profitability and Risk

The profitability risk trade off can be demonstrated using the ration or current liabilities to total assets. The effect of current liabilities on profitability risk trade off can be shown by current liability ration. Current liability ratio is the ratio of current liability to total asset. Assuming that the total assets remains unchanged, the ratio indicates the percentage or the firm's total assets that have been financed by current liabilities, current total assets ratio.

I. Effect of Increase in Current Liabilities Ratio: When the ratio increase, the profitability increase because the firm uses more long-term financing and the risk also increase.

II. Effect of Decreasing in Current Liabilities Ratio: When the ratio decrease, the profitability decrease, risk also decrease and increase in net working capital. The long-term financing must be raised in current asset, which are more expense for the business, as a result it will leads to decrease in profitability.

Effect of Changing Ratios on Profits and Risk

Ratio	Change in Ratio	Effect on Profit	Effect on Risk
Current assets	Increase	Decrease	Decrease
Total assets	Decrease	Increase	Increase
Current Liabilities	Increase	Increase	Increase
Total assets	Decrease	Decrease	Decrease

Source: Adopted from Gitman(1988)

Working capital management gives focus to optimum combination of current assets and fixed assets portfolio in the business. This decision involves trade of between risk and profitability. There are two types of cost in valued. The cost of liquidity and the cost illiquidity, if the firm's level of current assets very high, it has excessive liquidity.

Its return on assets will be low, as funds tied up in ideal cash and stock nothing and high level of debtors reduce profitability. Thus the cost of liquidity (though low rates or return) increases with the level of current assets.

The cost of illiquidity is the cost of holding insufficient current assets. The firm will not be in position to honor its obligation if it carries too little cash. This may force the firm to borrow at high rate of interest. This will also adversely affect the current worthiness of the firm and it will face difficulties in obtaining funds in future. All this may force the firm into insolvency.

Similarly, the low level of stock will result in less of sales and customers may shift to competitors. Also low level of bank debts may be due to fight credit policy, which would impair sales further.

Optional level of current assets, the firm should balance the “profitability solvency tangle by minimizing the total costs and cost of liquidity.”

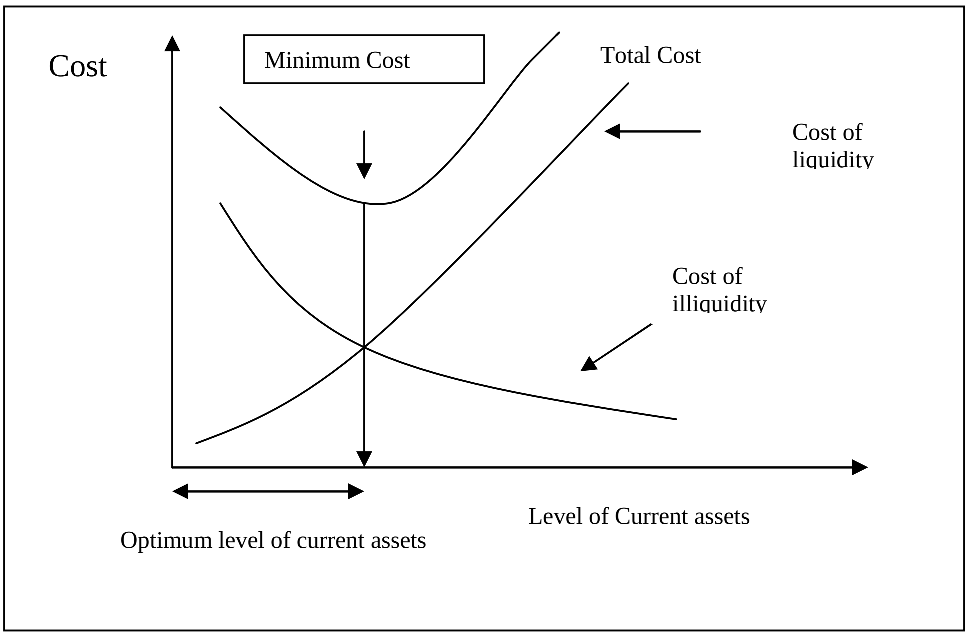

Figure: - 2.5, Cost Trade-off

Source: Adopted from Pandey ***(1994)***

It is in indicated in the figure that with level of current assets the cost of liquidity increase while the cost of illiquidity decrease and vice versa. The firm should maintain its current assets at that level where the sum of these two costs is minimized. The minimum cost point indicates the optimum level of current assets in the figure.

2.1.10. Need for Working Capital

Effect of firm's financing mixture decision is maximization his shareholders' wealth. In there working capital cannot assets. Working capital management is the administration of current assets and liability. Current assets and liability administration always focus the best utilization of funds which is financed in current assets and borrowing in current liability. The firm should earn sufficient returns from its operation. The extents to which profit can be earned naturally depend upon the magnitude of sales among the other things.

The firm has to invest enough funds in current assets for the success of sales magnitude current assets are needed because sales do not convert into cash instantaneously. There is always an operating cycle involved in the conversion of sales into cash.

Operating Cycle: Operating cycle is the time duration required to convert sales, after the conversion of resources into inventoried, into cash, the operating cycle of a manufacturing company involves three phases:

i. Acquisition of resources such as raw materials, labor, power and fuel etc.
ii. Manufacturing of the product which includes conversion of raw materials into work-in-progress into finished goods.
iii. Sales of the product either for cash or on credit. Credit sales create book debts for collection.

These phases affect cash flows which most of time are neither synchronized nor certain. They are not synchronized because cash outflows usually over before cash inflows. They are not certain because sales and collections, which give rise to cash inflows, are difficult to forecast accurately. Cash out flows on the other hand are relatively certain. The firm is therefore required to invest in current assets for a smooth, uninterrupted functioning. It needs to maintain liquidity to purchase raw materials and pay expenses such as wages and salaries, other manufacturing administrative and selling expenses and taxes as there is hardly a matching between cash inflows and outflows. Cash is also held to meet any future exigencies. Stocks of raw material and work in progress are kept to ensure smooth production and to guard against non-availability of raw material and other components. The firm holds stock of finished goods to meet the demands of customers on continuous basis and sudden demand from some customers. Book debts are created because goods are sold on credit for marking and competitive reasons. Thus a firm makes adequate investment in inventories and book debts for a smooth and uninterrupted production and sales. The length of the operating cycle of a manufacturing firm is the sum of (i) inventory conversion period (ICP) and (ii) Debtors conversion period (DCP). The inventory conversion period is the total time needed for producing and selling the product. Typically, it includes (a) raw materials conversion period (RMCP) (ii) Work in progress conversion period (WIPCP) (iii) Finished goods conversion period (FGCP). The debtors conversion period is the time required to collect outstanding amount from customers. The total of inventory conversion period and book debts conversion period is sometimes referred to as gross operation cycle (FOC).

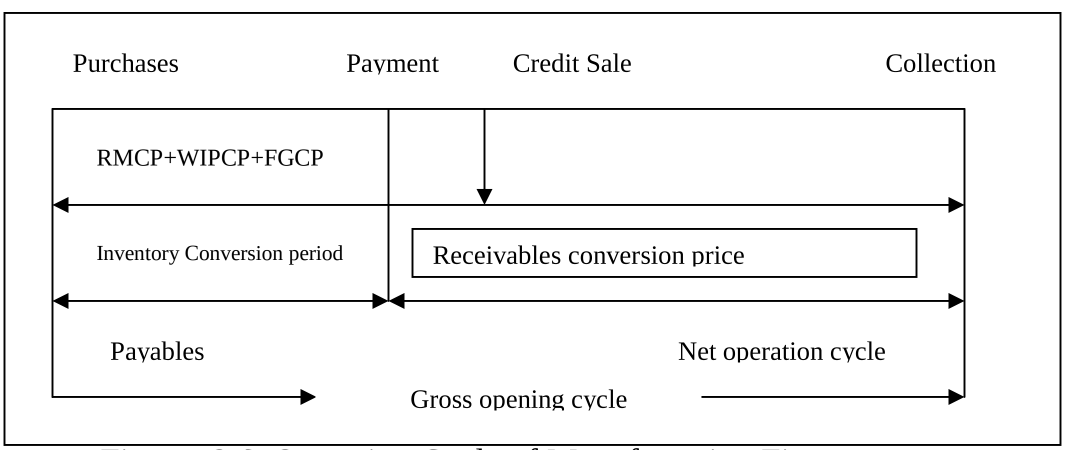

Figure:-2.6, Operating Cycle of Manufacturing Firm

In Practice, firm may acquire resource on credit and temporarily postpone payment of certain expenses. Payables, which the firm can defer, are spontaneous sources of capital to finance investment in current assets. The Payables Deferred Period (PDP) is the length of time the firm is able to defer payment on various resource purchases. The difference between (gross) operating cycle and payables deferred period is Net Operating Cycle (NOC). If depreciation is excluded from expenses in the computation of operating cycle, the Net Operation Cycle also represents cash conversion cycle. It is not the time interval between cash payments for resources acquired by the firm. It also represents time interval over which additional funds, called working capital should be obtained in order to carry out the firm's operations. The firm has to negotiate working capital from sources such as commercial banks. The negotiated sources is not operation cycle of a firm increase, it means further need for negotiated working capital.

2.2 Review of Journals/ Articles

This part is mainly focused on the review of journals/articles published by different management experts in working capital management.

In many study reports and journals it is clear that the proper management of working capital is a neglected factor in most of the public enterprises. In number of public enterprises, there are dazzling instances of inefficient cash management, defective inventory policy and tax account receivable management. Taken together one common thread joining all of the public enterprises is the lack of appropriate working capital policy to determine the liquidity needs of and sources of financing them. In dealing with management of working capital the problem common to all public enterprises, as we use the term "triangular" convey the message that not only these public utilities are experiencing inefficient cash management but at times, extended to existence of defective inventory policy and account receivable management.

Public utilities are fund to be operationally sick not only because of managerial imprudence in one determinant factor of such sickness but at times, caused by lack of operational approach in the management of working capital. Since public management is dependent on government support for financing the working capital needs. Shrestha (1983) found in the study the fact that the payment, the managerial failure to maintain tangible net working capital and rough and ready operational plan of working capital.

Determining the desired investment in account receivables is proving to be one of the weakest decision variables in most of the public enterprises. In fact, no other problem is as serious as the collection of account receivables. It is stated in the report that the non-existing of effective collection policy is the fundamental reason behind the increment of doubtful and bad debts losses in public enterprises.

The auditor's report are, for instance providing frequent remarks every year regarding the defective credit planning and monitoring policy to the extent the continuous default in payment had raised the size of bad debts losses. As a result of negligent attitude of the management towards the account receivables planning and collection temptation, there is not only constant drag on the availability of working capital but also bringing financial irregularities that are beyond the control

The study on cash management in public enterprises conducted by Shrestha (1987) concluded that cash turnover has been a neglected factor. In most of the public enterprises it is evident that lack of positive approach often put PEs to rely heavily on government support for meeting additional funds without making best utilities of existing cash balance. In determining the cash management in the public corporations, opinion survey has been made by Dr. Shrestha. The researcher found that many of PEs did most maintain yearly cash budget properly. The operational inefficiency in respect of cash management failure to control cash budget both shortage and excess of cash of different times.

An empirical observation of twelve selected PEs has have been conducted by Shrestha (1983). In this article the researcher has descried the conceptual ingredients concerning the working capital, such as conceptual setting sources of working capital and types of working capital. From the analysis he found that the liquidity position of selected PEs differ widely in view of the differences is their nature of business. There were also above normal acid test ration, while analyzing the turnover of those selected PEs showed wide deviation. Based on the sales value four out of the seven PEs had normal inventory turnover, the other three had not need satisfactorily maintained and in some of them inventory had exceeded sales. The collection period relation to the selected PEs exhibited marked difference ranging from 32 days to 755 days. The profitability position was analyzed through return on net working capital was positive for 8 PEs, negative for PEs and the rest two had not may return since they were in establishment phase.

During the analysis he observed some problems like of far sighted liquidity adjustment strategy in most of the PEs no guiding criteria to ascertain the satisfactory maintenance of acid test ratio and working capital needs. Large blocking of capital in inventories cause low capacity utilization. All these were due to inefficient management of working capital in that PEs.

Similarly study by Shrestha (1987) on receivable management in selected PEs has found that the receivable turnover calculated varied from his test level of 25.7 times to the lowest 0.09 times and was less than favorable in selected companies and those revealing favorable turnover have still faced the problem of managing account receivables. The researcher indicated that they did not record a certain credit policy to improve collection that would have helped a lot in raising the researcher receivable turnover. The average collection periods recorded a variation from a minimum of 14 days to maximum of 4027 days. In the same way, the schedule of PEs has uniform patterns and the outstanding receivables in the many instances were very old even exceeding twelve years or so forth. It was grouped under above three years old receivables. In the selected enterprises the ration of receivables CA's varied from a minimum of 0.15 times 1 to maximum 0.9 times 1. He also found that most of the PEs have larger share of receivables to CA's. In most of them extension of additional relaxed credit was a usual phenomenon and they did not have larger amount of receivables outstanding. They had not taken seriously the task to speed up the collection of long outstanding receivables by devising suitable credit monitoring policy. The study thus was concluded that determining the desired investment in account receivables was least considered in most of the PEs, which was supported by lax account of receivable management in such PEs.

Another article relating to working capital is by Acharya (1988) which is based on the finding and conclusions of his D. Phil. Thesis, In the study The researcher has focused his study on the working capital management of Nepal Tea Development Corporation (NTDC) for eight years from 1975/76 to 1982/83 A.D. The researcher has also made the comparison of the findings with the other five selected PEs. In the study the researcher found that the net working capital of NTDC was negative due to increase in current liabilities of the current assets, inventory held the largest portion and it was accumulating in the corporation. It had inventories up to 26 months sales. The size of aggregate receivable of NTDC has also been increasing and it exceeded by 16 times during the study period. Cash balance held by the corporation was insufficient to meet the routine work since current assets were less than current liabilities. While comparing to other selected PEs the researcher found that the turnover of inventory, receivables, and current assets in NTDC were below the average, thereby reflecting high investment in each of them irrespective of the sales achieved. The break even analysis revealed that the NTDC had been selling mostly below that break even and had incurred variable cost sometimes even higher than sales price. The suggestion The researcher made on this article are proper planning of production and sales, low credit policy, action against delinquent dealers, issue of shares and debentures and obtaining loans from any individual or financing institutions.

…….. (1988) described major problem, operational problems and organizational problems regarding the working capital management in the Nepalese Public Enterprises. The operational problems, the researcher found are listed in the first part, which are increase of current liabilities then current assets, but allowing the current ratio 2:1 and show turnover of inventory. Similarly change in working capital in relation of fixed capital had very low impact over the profit abilities, thin transmutation of capital employed to sales, absent of apathetic management information system, break even analysis, and ration analysis, funds flow analysis were either undone or ineffective for performance evaluation. Finally monitoring of the proper functioning of working capital management had never been considered a managerial job.

In the second part, the researcher has listed the organizational problems in the PEs. In most of the PEs there is lack of regular internal and external audit systems as well as of financial results, similarly very few PEs have been able to present their capital requirement, functioning of finance department is not satisfactory and some PEs are even facing the underutilization of capacity.

Maximization the risk of loss to attain profit maximization objective depend of the effective utilization of funds, the researcher has some advice in this purposes. The

PEs should avoid the system of crisis decision which prevailed frequently in their operation, avoid fictitious of assets, the finance staff should be acquainted with the modern scientific tools used for the presentation and analysis of data and lastly, The researcher has suggested optimizing its level of investment at a point of time. Neither over nor under or just adequate investment in working capital is desired by the management of an enterprise because both of these situations will erode the efficiency of the concern.

A study was conducted by the management consultant and company on the performance of PEs of Nepal. In the study it was concluded that the assets management in general and current assets management in particular was the weakest position in the Nepalese PEs. It has not received due and serious attention as yet. It was pointed out that financial performances of the PEs were poor and indicative mismanagement of the resources. The report also pointed out that because of the lack of operational objectives, application of long range planning , use of modern management tools, capital budgeting and efforts towards cost control had not been made so far. The study thus opined that there is poor CA management and mismanagement of resources in PEs of Nepal thereby causing poor financial performance.

In a research jointly conducted by Pradhan and Koirala (1942), they focus on evaluating the working capital position of selected manufacturing and non-manufacturing for the fiscal year 2031/32 and 2035/36.Mainly the problems were size of investment, trend of investment and need to control investment in current assets as well as significance of current assets management, motive for holding cash, inventory and factors affecting investment. They concluded that investment in current assets had declined over the period of time in both types of corporation. Due to more liberal and less consistent credit policies, the MPEs has consistently more investment in cash and receivables as compared to non-manufacturing corporations. Inventory management is of great importance to manufacturing enterprises and the cash and receivables of non-manufacturing enterprises.

The major motive for holding inventories was to facilitate smoothly operation of production and sales and motives for holding cash in Nepalese enterprises was to provide a reserve for routine net out flows. In this study they found that working capital was more difficult to manage than fixed capital. The inventory, cash and receivables were problematic to manage for manufacturing and non-manufacturing enterprises. With reference to above they recommended the need to control investment in working capital as a whole for manufacturing enterprises as the average proportion of working capital to sales increased over time. Since manufacturing and non-manufacturing enterprises had been trying to control over the investment in receivables. In this study the main focus is on the control of investment in cash and inventory. Ultimately they concluded that manufacturing enterprises should pay sufficient attention to control the investment in inventory.

Pradhan (1986) studied on the demand of working capital by Nepalese corporations for the analysis mine manufacturing public corporations were selected with the 12 years data from 1975 to 1984. He had studied about the various aspects of the working capital management in manufacturing PEs of Nepal.

Study is concerned with interrelationship exists between managing CAs and CLs. The study mange sot focuses on net working capital concept. The study has employed ratio analysis, discriminate analysis and econometric models for its analysis.

These studies show that working capital management is the weakest or neglected part of financial management in most of the PEs in Nepal. It seems that Nepalese firms are slowing conservative approach in financing as well as investing working capital.

A comparison of financial performance of MPEs and private manufacturing enterprises was made by Sharma (1986). In 1985 altogether 6 textile industries, three from each public and private sector were selected for the study. In the study it was concluded that the each public and private sector, although fluctuation had positive WC. There was very high liquidity position of public sector industries whereas majority of private sector industries has adverse situation. Among cash there was encouraging use of cash and bank. Though inventory covers the largest share (more than 60%) of the total assets in the both sectors. The inventory turnover in public sector industries was relatively lower than that of private sectors which debtors turnover was more or less similar in both sectors. He also found that trade credit and other internal provisions through fluctuation in nature were the main sources of financing working capital in both sectors. All majorities of private sector industries had relatively better use of fixed assets than other industries. Moreover that earning power of public senator textile industries were very low and even negative for many years while that of private sectors was quite encouraging. He also pointed out that both sectors seemed to have neither any sort of divided policy nor did the pay any sort of dividend. Thus there was negligible direct contribution of textile industries in the revenue generation of government during the period under study.

2.3 Review of Related Dissertations

A number of studies have been made by students of MBS relating the working capital management in different enterprises in Nepal. This section hence will review some of them.

Tamrakar (1978) in the thesis named “A study of Management of working capital in National Trading Ltd.” has studied the working capital management and its significance in National Trading Ltd. This study has covered the span of six years (2028/029 to 2033/034). The objectives of this study were to analyze the importance of the proper management of working capital and relation between the different components of the current assets and current liabilities. The researcher has used financial rations as the major tools for analysis. In this study, The researcher found very low inventory turnover and collecting period of outstanding debts, further The researcher found the improper financing of current assets and low earning capacity from the study he has drawn the conclusion that the working capital management of NT: in general is poor. He also tried to the management of working capital’s affect in long run.

Another study made by Giri (1986) on working capital management. “A case study on Balaju Textile Industry Ltd”. He observed five years data from 036/037 to 2040/041 for the analysis of working capital. He used ration analysis as tools for this analysis. From the study he concluded that the low utilization of plant capacity and lack of efficient management of the corporation push it to bear loss. Poor utilities owner’s funds. The researcher also found that there was no efficient and productive use of working capital. From these finding, the researcher recommended that the corporation should make regular checks to identify both excess and deficit of current assets. There should be need to finance current assets from the appropriate combination of short term and on term sources. It should take actions for dispensing of huge inventory, which tied up working capital and involved huge carrying costs, and risk of losses, the long term marketing strategies should be formulated. Lastly it should strengthen its production capacity with the help of sound inventive schemes to workers and preferable wages incentive plan.

Aryal (1997) has carried out an analysis of working capital management of Hetauda Textile Ltd. The objective of this study of analysis the liquidity, solvency, utilization and profitability position, and overall comparison of working capital management of both textile companies. The researcher has used ratio analysis and T-test. The findings of this study are as follows:

- The liquidity position of Hetauda Textile Ltd was better than that of Balaju Textile Ltd. But both companies have not followed a proper working capital policy.
- Cash balance maintained by Balaju Textile Ltd was better than that of Hetauda Textile Ltd.
- Total assets turnover of both were not satisfactory and there was not significance difference of total assets turnover.
- Solvency position of Hetauda Textile was better than that of Balaju Textile.
- Profitability position of Hetauda Textile was better than that of Balaju Textile; however both companies have not good profitability position during the study period.

Pradhan (1989) in the study on working capital policy of manufacturing PEs in Nepal sought to sort out the problems of low economic performance and poor financial managements in MPEs. The researcher also examined is there any association between the various aspects of working capital policy in financial management and the poor financial performance of MPEs. Hence the study dealt with liquidity position, utilization of working capital, profitability position, sources of financing of current assets and determination of working capital in MPEs. The main findings of his study are as follows:-

- The selected MPEs has sufficient liquidity

- The use of current assets in selected MPEs was satisfactory and there was high
- Most of the MPEs were incurring losses and were unable to meet even the operation expenses with their sales revenue.
- There was higher use of long term funds by trade creditors, short term bank loans and operating profits in current assets financing.

Ultimately, the researcher has made some suggestions for the improvement of working capital management and efficient of MPEs. The researcher MPEs should follow aggressive working capital policy.

Shrestha (2008) has further recommended about The Bottlers Nepal Limited. The main objective of this study is to have an insight into the inventory management and control system of Bottlers Nepal Limited. To achieve this objective, the following specific objectives have been set forth for the study:

- To identify the present inventory position of BNL.
- To assesses the inventories and their impact on profitability of BNL.
- To know the relationship of sales and inventories with identifying their trends.

Performance is the measurement to make healthy efficient management of working capital of manufacturing PEs of Nepal.

Thapa (2008) has studied about Working Capital Management of Bottlers Nepal Ltd. The main objective the study is

- To identify the significances of current assets in management.
- To analyze long term solvency of BN ltd.

2.4 Research gaps

In course of preparing this research report, various books, dissertations, reports and articles have been reviewed. The reviewed books are taken mainly based on the syllabus requirement of Tribhuvan University. Different reports, articles, journals and relevant information are collected from different sources.

Almost dissertations were written in different aspects of working capital management of Bottlers Nepal Limited. The previous researchers had conducted their research about the effectiveness and contribution of working capital management in Nepal but this research report is prepared to evaluate examine the trend and contribution of working capital management in manufacturing company of Nepal.

CHAPTER- III

RESEARCH METHODOLOGY

This chapter deals with research design, nature of data processing procedures and tools used for analysis. The objective of this chapter is to show the financial ration from which liquidity structure of working capital and utilization of working capital of the factory can be measured. To achieve the mentioned objectives an appropriate research methodology has to be followed. Data of F/Y 2059/60 to 2065/66 have been presented and analyzed through financial ratios. With the help of this analysis, we can know the working capital management of Bottler's Nepal Ltd. (Balaju).

3.1 Research Design

Research design is highlighted for obtaining the basic objective of the study. It includes definite procedures and evaluating the study. This study attempts to make composition and establish the relationship between two or more variables. Thus, this study is analytical, informative, and descriptive in nature.

Efforts have been made to analyze the working capital management in terms of composition of current assets, turnover position, profitability position and liquidity position of BN Ltd. The compositions of current assets are analyzed by making relationship of each component of current assets as well as total assets. The turnover position is analyzed with the help of gross working capital turnover, net working capital turnover, turnover of cash, receivable turnover and inventory turnover. The liquidity position is analyzed through current ratio, quick ratio, cash conversion cycle and size of net working capital. Moreover, the profitability position is analyzed with the help of gross profit margin, net profit margin, operating ratio, return on net worth and return on working capital.

3.2 Nature and Scope of Data

The data used in this study are basically secondary in nature. The secondary data has been collected from annual reports of BN Ltd. All the collected data and information has been properly arranged tabulated and calculated to arrive at the realistic analytical steps. Data of F/Y 2059/60 to 2065/66 have been presented and analyzed through financial ratios, working capital policy, cash conversion cycle and conversion period of receivables and payables.

3.3 Techniques and Tools of Working Capital

Evaluation and analysis of the working capital management of a firm needs certain yardsticks. The following techniques have been used;

- Ratio Analysis
- Working Capital Policy
- Cash Conversion Cycle

3.3.1 Ratio Analysis

Ratio analysis is the widely used tools to identify the financial position of the enterprise. It is the essential tool in the financial analysis. The ratio is calculated by dividing one component to another to show their corresponding relationship with each other. The ration shows their relationship between only two components, which are depend on the calculated variable.

The ratios grouped into (i) liquidity ratio and cash conversion cycle applied to liquidity analysis; (ii) composition of working capital which ratio used in assessing the structure of working capital; (iii) activity or turnover ratios used in assessing working capital circulation or utilization.

3.3.1.1. Liquidity Position:

Liquidity position shows the ability in paying of its short term obligation. The liquidity position of BN Ltd are analyzing below.

Current Ratio (CR):- Current ratio is computed by dividing the total current assets by current liabilities. The result shows the number of times the current assets pay off the current liabilities.

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

It is considered as an index of a company. It indicates the ability of the company to meet its current obligations. A current ratio of 2:1 is generally considered satisfactory for a manufacturing company.

Quick Ratio (or Acid-Test Ratio):- Quick ratio is computed by dividing the quick assets by current liability.

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

It includes assets which can be quickly or immediately converted to cash. Investments are excluded because they cannot be sold at anything before for-sale prices. Generally, the quick ratio of 1:1 of company is considered to be sound.

3.3.1.2 Structure of Working Capital

The analysis of structure of working capital enables management of an enterprise to know as the how the working capital is being administered. It also furnishes valuable information to short term creditors and others 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 items to the total current assets in course of time.

The Structure of working capital has been studies by analyzing the following ratios:

1. **Ratio of Current Assets (CATA):-** The ratio of current asset to total assets indicates what percentage of an enterprise's total assets is invested in the form of current assets. It is calculated as:

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

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

2. **Cash to Total Assets Ratio (CTA):-** This ratio indicates what percentage of total assets is in the form of cash. It is defined as:

$$CTA = \frac{Cash}{\text{Total Assets}} \times 100$$

The increase in the ratio decreases the risk and profitability and vice versa.

3. **Receivable to Total Assets (RTA**):**-** What percentage of total assets is in the form of receivable is shown by this ratio. It is stated as:

$$RTA = \frac{Account\ Receivables}{\text{Total Assets}} \times 100$$

The increase in the ratio indicates the liberal credit policy followed by the enterprise.

4. Inventory to Total Assets (ITA):- This ratio is calculated as under:

$$ITA = \frac{Inventories}{\text{Total Assets}} \times 100$$

This ratio indicates the percentage of total assets invested in the form of inventories. Inventory is a part of working capital, so if the percentage increases, the working capital automatically increases. The increase in the ratio also indicates liberal inventory policy of blocking of materials in stock.

5. Cash to Current Assets (CCA):- What portion of current assets is in the form of cash is shown by this ratio.

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

This ratio should not be large because higher ratio indicates the poor cash management.

6. Receivable to Current Assets (RCA):- This ratio shows the share of receivables on current assets and is derived as:

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

An increase in the ratio shows that the management of receivable has an important bearing on the performance of the enterprise.

7. Inventory to Current Assets (ICA):- This ratio implies the percentage of current assets in the form of inventories and derived as:

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

3.3.1.3 Turnover Ratios used in Assessing Working Capital Circulation or Utilization

An analysis of circulation aspect throws light on the efficiency with which working capital is being utilized in the company. Various turnover ratios covering each component of current assets have been developed to analyses the efficiency in the use of working capital. The higher the turnover of these components, the lower will be the requirement of working capital. With the help of this ratio, we can easily know whether the funds have been used efficiently or not. It relationship between sales and various assets of the firm can be defined with the help of turnover ratio. Thus, the activity ratios are employed to evaluate the efficiency with the firm.

i. Inventory Turnover (ITR)

The inventory turnover ratio shows how rapidly the inventory into receivable through sales. This ratio is obtained by dividing the net sales in a year by the value of inventory at the end of the year. It is computed as:

$$ITR = \frac{\text{Sales}}{Inventory}$$

The higher turnover of inventory quickens the flow of funds from inventory. Allow turnover ratio indicates an over investment in inventory in relation to sales.

ii. Turnover of Current Assets (TCA):-

This ratio measures the turnover of total current assets used in business operations. The ratio is obtained by dividing the sales by total currents assets. It is specified as:

$$TAC = \frac{\text{Sales}}{Total\ Current\ Assets}$$

The lower turnover of current assets indicates tax utilization of working capital and reverse is the case with a higher turnover.

iii. Net Working Capital Turnover (NWCT)

The ratio is obtained by dividing net sales by working capital. This ratio shows the number of times the average net working capital turned over during the year. It is defined as:

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

The ratio indicates the efficiency with which the working capital has been used in the company. The higher turnover of working capital represents lower investment in it and greater profitability. But a very high turnover of working capital may also indicate the efficient utilization of working capital in the enterprise.

iv. Turnover of Cash (CT)

This ratio shows the turnover of times the average cash balance is turned over during the year. It is specified as:

$$CT = \frac{\text{Sales}}{Cash\ balance}$$

This ratio shows the relationship between cash balance plus other liquid assets and operating cost and expenses. It shows the adequacy of liquid assets to meet current operating needs. A high turnover of cash indicates an inefficiency of cash to provide for emergencies. A low turnover of cash shows that as excess cash balance is lying with the enterprise.

v. Receivables Turnover Ratio (RT)

This receivable turnover ratio is computed by dividing annual credit sales by total receivables.

$$RT = \frac{\text{Sales}}{Account\ receivables}$$

A declining turnover of account receivable indicates an over investment of funds in receivables which may raise the requirement of working capital of a firm.

3.3.1.4 Efficiency or Profitability Position

These ratios are employed to judge how efficiently a company is using its assets. It should, however, be noted that there is quite a bit of ambiguity about these rations.

i. Sales to Total Assets (STA)

This ratio shows how hard the firm's assets are being to put to use. The ratio is represented by

$$STA = \frac{\text{Sales}}{Average\ Total\ Assets}$$

This reveals how close a company is operating to capacity. A high ratio would imply that sales cannot be stepped up without an increase in capital invested in the company.

ii. Net Profit Margin (NPM)

The ratio helps in establishing the proportion if sales that finds its way into profits. It is computed by:

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

iii. Return on Total Assets (RTA)

The ratio of income to total assets is used to measure the performance of company.

$$RTA = \frac{\text{Net Profit After Tax}}{Total\ Assets} \times 100$$

The RTA is a useful measure of the profitability of all financial resources invested in the company's assets.

iv. Gross Profit Margin (GPM)

It is computed by dividing gross profit (Obtained by deducing cost of goods sold from net sales) by sales:

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

The gross profit margin ratio reflects the efficiency with which company produces each unit of product. The higher percentage indicates the better efficiency of the company.

v. Operating Ratio (OR)

The operating is an important ratio that explains the changes in the net profit margin ratio. This ratio is computed by dividing all operation expenses by sales:

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

Higher ratio indicated the lower efficiency of the company and vice versa. Higher operating ratio means small amount of operating income to meet interest, dividends etc.

vi. Return on Net Worth (RNW)

It is computed by dividing net profit after tax by net worth.

$$RNW = \frac{\text{Net Profit After Tax}}{Net\ Worth} \times 100$$

It indicates the return to the shareholders how well the firm has used the resources of the owners. It judged whether the firm has earned of satisfactory return for its shareholders or not. Higher the ratio, higher the return to the shareholders and vice-versa.

vii. Return on Working Capital (RWC)

It is computed by dividing net profit after tax by current assets (working capital).It measures the profit with respect to current assets.

$$RWC = \frac{\text{Net Profit After Tax}}{Curren\ Assets} \times 100$$

3.3.2 Approaches of Working Capital

Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets of financing of current assets. There are three variants aggressive, conservative and matching policies of current assets financing.

a) Conservative Approach

Under a conservative plan, the firm finances it's permanent assets and a part of temporary current assets with long term financing. Thus in periods when the firm has no temporary current assets, it stores liquidity by investing surplus funds into marketable securities. The conservative plan relies heavily on long term financing and therefore is less risky.

b) Aggressive Approach

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

c) Moderate Approach

Under a Moderate Approach, long-term financing will be used to finance fixed assets and permanent assets and short-term financing to finance temporary current assets.

3.3.3 Cash Conversion Cycle:

Conversion cycle is the length of time from the payment for the purchase of raw materials to manufacture a product until the collection of the account receivable associated with the sale of product. In simple term, the cash outflows from the business and it return by inflow in business in specified period is the cash conversion cycle.

Cash Conversion Cycle (CCC): **-** Cash conversion cycle can be exposed by this equation.

Cash Conversion Cycle = Inventory Conversion Period + Receivables Collection Period – Payables Deferred Period

Cash conversion cycle model focuses on the length of time between when the company makes payments, or invests cash inflows, or realizes a cash return from its investment in production.

The following terms are used in the model.

i. **The Inventory Conversion Period (ICP):-** The inventory conversion period is calculated by dividing inventory by the cost of goods sold per day. It is computed as

$$Inventory\ Conversion\ Period = \frac{Inventory}{Cost\ of\ goods\ sold/360}$$

The inventory conversion period is the average length of time required to convert materials into finished goods and then to sell these good; it is the amount of time the product remains in inventory in various stages of completion.

ii. **The Receivable Collection Period (RCP or DSO):-** It is calculated by dividing accounts receivable by the average credit sales per day.

$$Recievable\ Conversion\ Period = \frac{Recievables}{Credit\ Sales/360}$$

The receivable collection period is the average length of time required to convert the firm’s receivables into cash that is the collect cash following a sale.

iii. Payable Deferred Period (PDP):- It is computed by dividing accounts payable by the daily credit purchases. It is defined as:

$$Payable\ Deferred\ Period\ = \frac{\text{Account Payables}}{Cost\ of\ goods\ sold/360}$$

The payable deferred period is the average length of time between the purchase of raw materials and labor and the payment of cash for them.

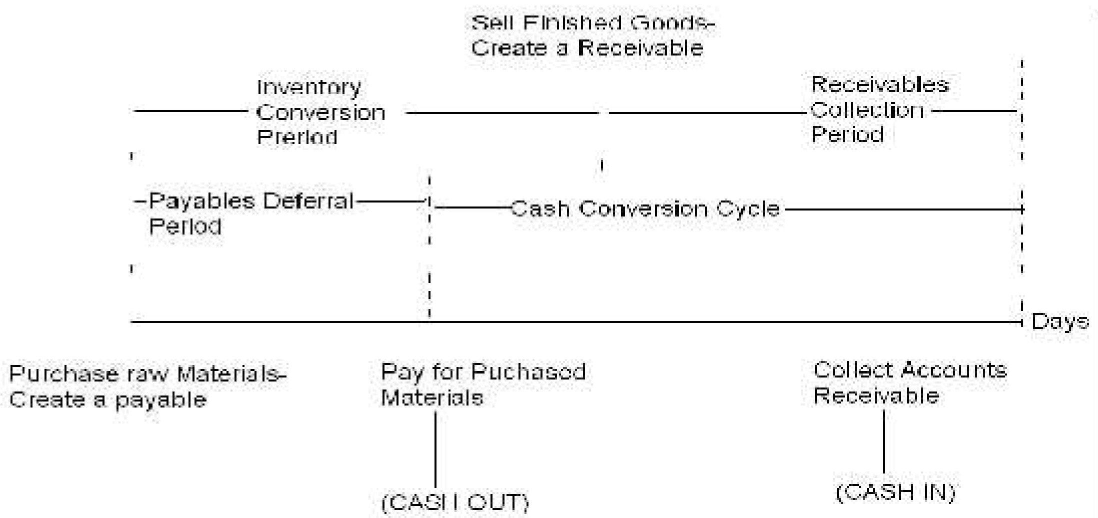

Figure:-3.1, Cash Conversion Cycle Brigham(1993)

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with presentation and analysis of data to access working capital management of Bottlers Nepal Ltd. In order to explain it, this chapter has been divided into three parts. The first deals with working capital policy, Secondly, financial values of working capital and finally major findings of the study.

4.1 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding the targeted level for each category of current assets and liabilities. Working capital management refers to the administration of all assets and current liability policies, which affect the overall functional areas of the firm.

Every firm wants to maximize its shareholders wealth. In order to achieve this objective, they have to perform many functions. For this purpose, firm has to determine the suitable currents assets investment policy, maintain proper relation of current assets with fixed and total assets, and finance the current assets with short term as well as long term sources. Thus, the better performance of current assets is the integral part of working capital management.

4.1.1. Current Assets Investment Policy

Every Firm needs to invest the current assets as well as fixed assets. Current assets policy refers to the policy regarding the total amount of current assets required to support the given level of sales. Firm may adopt the different investment policies according to their objectives. For this purpose, firm invests proper portion of current assets and fixed assets. The current assets policy has been analyzed here in the term of composition of different types of current assets in total assets and relationship between current assets with fixed assets.

Table No: 4.1

Portion of Current Assets in Total Assets (In Rs. '000)

S.N.	Fiscal Year	Total Assets Rs.	Current Assets Rs.	% of Current assets
1	2002/2003	1038408	544,183	52.41
2	2003/2004	886555	447,831	50.51
3	2004/2005	975264	553,157	56.72
4	2005/2006	1048353	436,045	41.59
5	2006/2007	1255758	511,066	40.70
6	2007/2008	1190149	434,557	36.51
7	2008/2009	1255745	505,070	40.22

Source: Annual Report of BN Ltd.

Current asset investment to total assets of BN Ltd. (Balaju) in fiscal year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 are 52.41, 50.51, 56.72, 41.59, 40.70, 36.51 and 40.22 respectively. Investment in current assets is fluctuating 36.51 to 56.72 percent with the average of 40.22 percent.

Company has been investing in loan and advance as current assets which can be converted into cash early such as investment in sundry debtors, other subsidiary companies, staff loans, advances for expenses, deposits others, letter of credit margins etc.

4.1.2 Current Assets Financing Policy

Table No. 4.2

Current Assets Financing Policy

(%)

F/Y	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Average
Current assets	52.41	50.51	56.72	41.59	40.7	36.51	40.22	45.52
Long term asset	47.59	49.49	43.28	58.41	59.3	63.49	59.78	54.48
Current Liabilities	32.1	19.6	23.5	26.3	64.3	42.7	48	36.64
Long term Liabilities	67.9	80.4	76.5	73.7	35.7	57.3	52	63.36

Source: - Annual Report of BN Ltd.

In Table No. 4.2 percentage of current assets to total assets in fiscal year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 are 52.41%, 50.51%, 56.72%, 41.59%, 40.7%, 36.51% and 40.22% respectively. Its ratios are fluctuating ranges from 36.51% to 56.72% with average of 45.52%. Similarly long term assets to total assets of respective fiscal year are 47.59%, 49.49%, 43.28%, 58.41%, 59.3%, 63.49% and 59.78% with average of 54.48%. It ranges from 43.28% to 63.49%. Likewise, current liabilities in fiscal year 2002/03, 2003/04, 2004/05, 2005/06 2006/07, 2007/08 and 2008/09 are 32.1%, 19.6%, 23.5%, 26.3%, 64.3%, 42.7% and 48% respectively with average of 36.64%. It ranges from 19.6% to 64.3%. Similarly long term liabilities of respective fiscal years are 67.9%, 80.4%, 76.5%, 73.7%, 35.7%, 57.3% and 52% with an average of 63.36%. It ranges from 35.7% to 80.4%.

Substituting the average percentage values of current assets, long term assets, current liabilities and long term liabilities the given figure is constructed.

Figure No.:4.1, Average values of Current Assets, Long Term Assets, Current Liabilities and Long Term Liabilities

Figure no. 4.1 shows that average the 45.52% of the assets is financed 36.64% from short term sources and remaining of which is from long term sources. Therefore, it can be said that BN Ltd. (Balaju) is following the conservative current assets financing policy.

4.1.3 Composition of Current Assets

Any firm has to maintain the appropriate level of current assets to run the business smoothly. As stated in conceptual Frame work, the major components of current assets are misc. current assets, inventory, cash and Bank balance and sundry debtors. The firm who followed the conservative current assets policy maintains the high liquidity of the firm by holding the large portion of liquid assets in total working capital. So, here composition of current assets has been analyzed in order to fix the current assets policy in terms of the holding of more liquid assets. A firm needs cash to purchase raw materials, pay expenses this is because of net perfect matching between cash inflow and outflow. Cash may also be held to meet future expenses. The stock of raw materials is kept in order to ensure smooth production and to protect the risk of non-available of raw materials. To meet this obligation cash is also needed. Any business organization aims to maximize return on shareholders' investment. In order to accomplish these objectives, the business organization should earn sufficient return from this operations which is depend upon the volume of sales. So, the firm has to invest enough funds in current assets in order to increase sale. As the sales do not convert into cash immediately, the extra amount of working capital in deeded. The efficient management of current assets is an integral part of overall part of financial management and has the greater impact on maximization of owner's capital. It is necessary to have proper analysis of current assets management. The proper analysis of current assets of industrial concern reflects the nature of performance and operation of its management. So the overall current assets are firstly analyzed.

Table No: 4.3

Composition of current assets

(In Rs. '000)

F/Y	Sundry Debtors		Inventories		Cash and Bank E		Prepaid, Adv., Loans &		Def.tax Asse	Tot. Cur. Assets
	Amt. Rs.	%	Amt. Rs.	%	Amt. Rs.	%	Amount Rs.	%		Amount Rs.
2002/03	88039	16.18	227223	41.75	5335	0.98	223586	41.09		544183
2003/04	124178	27.73	184980	41.31	13755	3.07	124918	27.89		447831
2004/05	158584	28.67	246278	44.52	1917	0.35	146378	26.46		553157
2005/06	63657	14.60	176936	40.58	35926	8.24	159526	36.58		436045
2006/07	52823	10.34	189256	37.03	3464	0.68	224159	43.86	41364	511066
2007/08	36802	8.47	144003	33.14	2428	0.56	204609	47.08	46715	434557
2008/09	30205	5.98	208754	41.33	3658	0.72	262453	51.96		505070
Total	554288		1377430		66483		1345629		88079	3431909
Average		15.99		39.95		2.09		39.28	2.57	

Source: Calculated from the data extracted from the balance sheet of B.N. Ltd

Table No. 4.3 shows the composition of current assets of Bottlers Nepal Limited (Balaju). In current assets and their investment fluctuate in the seven years period. As per the table, the major share investment in Misc. Current assets, the proportion of misc. current assets to total current assets are 41.09%, 27.89%, 26.46%, 36.58%, 43.86%, 47.08% and 51.96% respectively. It means investment in Misc. current assets cover major portion in the Seven year study period. Proportion of Misc. current assets has been fluctuating from 26.46% to 47.08%. The average percentage of miscellaneous current assets is 39.28%. Company's Misc. current assets include the investment to Troika Traders (Pvt.) Ltd, a subsidiary company, investment in Bottlers Nepal (Terai) Ltd. A subsidiary company, other related companies, staff loans, Advance for expenses (staff, managing director), Deposit others, Advance value Added Tax, letter of credit margin, Advance to suppliers, prepaid expenses, prepayment contains, Advance income tax and income tax deposit against appeal.

Inventory is another component of current assets. The proportions of inventory to total current assets are 41.71%, 41.31%, 44.52%, 40.58%, 37.02%, 33.14% and 41.33% respectively during the study period of 2002/03 to 2008/09. The average proportion of totals current assets to inventory is 33.14% to 44.52% during the study period. The average percentage of inventory is 39.95.

The third major component of current assets is cash and Bank balance, which is also fluctuating during the study period. The cash and Bank balance proportion are 0.98%, 3.07%, 0.35%, 8.24%, 0.68%, 0.56% and 0.72% in the fiscal year 2002/03 to 2008/09 respectively. The average percentage of cash holding is 2.09%.

The last investment proportion is sundry debtors to total current assets. It is 16.18%, 27.73%, 28.67%, 14.6%, 10.34%, 8.47% and 5.98% during observed fiscal year respectively. In 2008/09 investment in sundry debtors is lowest which is 5.98%. In the year 2004/05 it was 28.67% which is the highest investment in sundry debtors.

Composition of Current Assets in Average

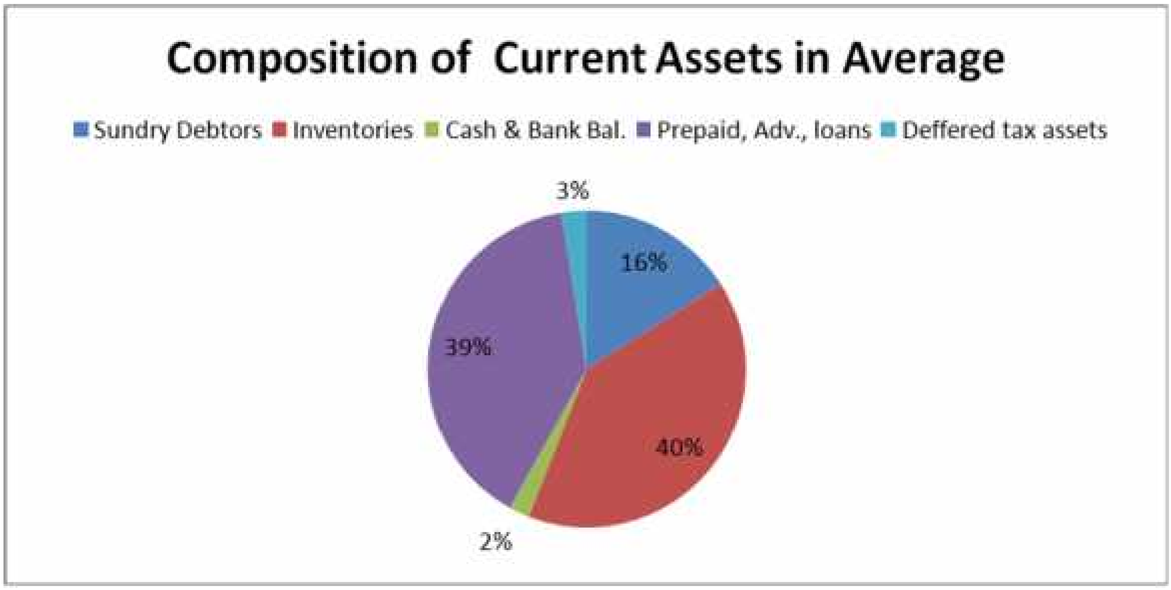

Figure:- 4.2, Composition of Current assets average

Figure 10 shows the components of current assets investment pattern of BN Ltd., in average in the study period, investment in sundry debtors, cash and bank balance holding are fluctuating is highly than the other current assets. The company invests average liquid assets, which is cash and Bank balance, misc. current assets and sundry debtors. It is the more liquid assets than other components of current assets. More investment is in inventory, which is less degree of liquid assets of all current assets holding by BN Ltd.

4.2 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. With measure the liquidity position indicates the ability to pay of its short term obligation. So, for the analysis of working capital policy of BN Ltd, liquidity position of BN Ltd. can be analyzed with help of these obligations. The liquidity position of BN Ltd. can be analyzed with help of these ratios-current ratio, acid test ratio

4.2.1 Current Ratio

Current ratio serves a similar purpose and is frequently used. It is also called working capital ratio. It is considered as an index of solvency of a company. It indicates the ability of the company to meet its current obligations. Changes in current ration however, are misleading. If a company raises money through commercial part invests the amount in marketable securities net working capital is unattached 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 ratio of BN Ltd. For the period of study is calculated in Table No. 4.4 as under.

Table No.: 4.4

Current Ratio (In Rs. '000)

S.N.	Fiscal Year	Current Assets Rs.	Current Liabilities Rs.	Ratio %	% Changes
1	2002/2003	544,183	184100	2.96	-
2	2003/2004	447,831	117199	3.82	0.87
3	2004/2005	553,157	164399	3.36	-0.46
4	2005/2006	436,045	210702	2.07	-1.30
5	2006/2007	511,066	743338	0.69	-1.38
6	2007/2008	434,557	432637	1.00	0.32
7	2008/2009	505,070	501179	1.01	0.00
	Total	3,431,909	2,353,554		
	Average	490272.7143	336222	2.13	

Source: - Annual Report of BN Ltd.

Table No. 4.4 shows that the current ratio of the BN Ltd. In fiscal year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 are 2.96:1, 3.82:1, 3.36:1, 2.07:1, 0.69:1, 1:1 and 1.01 respectively. The current ratio of the company has gone up to 3.82:1 which is the highest liquidity position maintained by the company during the study period. In the F/Y 2006/07 is 0.69:1, it is the lowest current ratio during the study period. In this way the average current ratio of BN

Ltd. is found 2.13:1. The current ratio of 2:1 is generally considered satisfactory for a manufacturing company. During the study period, the company maintains the current ratio is more than 2:1 so the company's current ratio has found to be satisfactory.

4.2.2 Quick Ratio

Quick ratio or acid test ratio is relationship in between current assets and current liabilities which measures immediate solvency. It includes assets which can be quick or immediately converted to cash. Such assets include only cash, marketable 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. The quick ratio of B.N. Ltd. during study period is presented in Table No.- 4.5

Table No.:4. 5

Quick Ratio (In Rs.'000)

Year	Quick Assets Rs.	Current Liabilities Rs.		Ratio (times)
2002/03	93374	184100	0.51	0.51:1
2003/04	137933	117199	1.18	1.18:1
2004/05	160501	164399	0.98	0.98:1
2005/06	99583	210702	0.47	0.47:1
2006/07	56287	743338	0.08	0.08:1
2007/08	39230	432637	0.09	0.09:1
2008/09	33863	501179	0.07	0.07:1
Total	620771	2353554	3.37	5.37:1
Average	88681.57	336222.00	0.48	0.48:1

Source: - Annual Report of BN Ltd.

The Table No. 4.5 shows that the quick ratio of BN Ltd. where quick assets consists of cash bank balance, sundry debtors, advance, loan and deposits, prepaid advance tax and other current assets. In fiscal year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 are 0.51:1, 1.18:1, 0.98:1, 0.47:1, 0.08:1, 0.09:1 and 0.07:1 respectively. It is decreasing due to the over decrease in Cash &

Bank Balances. The quick ratio is considered as perfect when the ratio comes 1:1. The company has able to meet his obligation during the study period. The average quick ratio under the period of observation is found 0.48:1. So the quick ratio of BN Ltd. is favorable.

4. 2.3 Structure of Working Capital

The management if current assets are of grater important the size of investment in current assets has been observed to be significant in the B.N. Ltd. The structure of working capital can be analyzed by measuring the change of proportion of cash, receivable, inventory and other items to the total assets and total current assets in course of time. The composition of working capital is analyzed by the help of the following ration.

4.2.3.1 Proportion of Current Assets to Total Assets

The requirement of the current assets depends upon the nature of the business; it is required to meet the working capital which is required to run the day to day activities. The Table No. 4.6 represents the percentage of current assets to total assets.

Table No: 4.6

Current Assets to Total Assets

(In Rs. '000)

S.N.	Fiscal Year	Current Assets Rs.	Total Assets Rs.	Ratio %	Change %
1	2002/03	544,183	1038408	52.41	-
2	2003/04	447,831	886555	50.51	-1.89
3	2004/05	553,157	975264	56.72	6.21
4	2005/06	436,045	1048353	41.59	-15.13
5	2006/07	511,066	1255758	40.70	-0.90
6	2007/08	434,557	1190149	36.51	-4.18
7	2008/09	505,070	1255745	40.22	3.71
Average		490272.7143	1092890.286	45.5232194	-1.74068

Source: - Annual Report of BN Ltd.

Table No. 4.6 shows the proportion of current assets to total assets investment of B.N Ltd. during the selected 7 years study period. The current assets to total assets ratio (in Percentage) has decreasing trend year after year except in F/Y 2004/05 & 2008/09. In F/Y 2002/03, it is observed 52.41% current assets of total assets which is lightly decreasing pattern at F/Y 2003/04. But in 2004/05, it is increased to 56.72%. In F/Y 2005/06 to 2007/08 the ratio is decreasing and reached at lowest point of 36.51%. Though declining in the ratio over continuous 3 years, it increased by 3.71% and observed 40.22%. The average of current assets is 45.52% of total assets. In the study periods the current assets to total assets observe the 56.72% is the highest observation percentage.

The Increasing pattern is affected by the investment increase in inventory and Misc. current assets.

4.2.3.2 Proportion of Cash and Bank Balance to Total Assets

The proportion of liquid cash in comparison to the total assets shows the investment in cash out of total assets. The more ration decrease the risk and provide more working capital but the excess cash earns nothing. The profitability would decrease. The Table No. 4.7 standing below shows the percentage of cash and bank balance to total assets.

Table No. No.:- 4.7

Cash and Bank Balance to Total Assets

(In Rs. '000)

S.N.	Fiscal Year	Cash and Bank Rs.	Total Assets Rs.	Ratio %	Change %
1	2002/03	5335	1038408	0.51	-
2	2003/04	13755	886555	1.55	1.04
3	2004/05	1917	975264	0.20	-1.35
4	2005/06	35926	1048353	3.43	3.23
5	2006/07	3464	1255758	0.28	-3.15
6	2007/08	2428	1190149	0.20	-0.07
7	2008/09	3658	1255745	0.29	0.09
Average		9497.57	1092890.29	0.92	-0.03

Source: - Annual Report of BN Ltd

Table No. No. 4.7 shows the investment in cash out of its total assets in BN Ltd. during the study periods. In the study period 2002/03, 2003/04, 2005/06 and 2008/09, it is observed the ratios 0.51%, 1.55% and 3.43% but in F/Y 2004/05, 2006/07 and 2007/08 is only o.20%, 0.28% and 0.20 of the Cash and Bank Balance to total assets. It shows that there is fluctuating trend in the ratios. In each year of study period cash holding ratio is fluctuating. Thus shows the management attitude towards risk during overall study period, the average ration is 0.92%.

4.2.3.3 Proportion of Inventory to Total Assets

Inventory is the important part of the current assets. Inventory of raw materials as well as spare parts are very important for the manufacturing industry like BN Ltd. The shortage of required inventory result irregular production, high manufacturing cost, unfavorable labor variance etc. caused. In the other hand excess inventory cause unnecessary holding of capital. It result increased in cost and nothing earn. So the inventory must be in optimum position so that neither it arise the excess inventory problem nor shortage inventory problem. The ratio calculated in following table shows the proportion of inventory to total assets.

Table No.: 4.8

Inventory to Total Assets

(In Rs. '000)

Year	Inventory Rs.	Total Assets Rs.	Ratio	Change
2002/03	227223	1038408	21.88	-
2003/04	184980	886555	20.87	-1.02
2004/05	246278	975264	25.25	4.39
2005/06	176936	1048353	16.88	-8.37
2006/07	189256	1255758	15.07	-1.81
2007/08	144003	1190149	12.10	-2.97
2008/09	208754	1255745	16.62	4.52
Total	1377430	7650232		
Average	196775.71	1092890.29	18.38	

Source: - Annual Report of BN Ltd

The Table No. 4.8 shows the percentage of inventory with respect to its total assets in F/Y 2002/03 to 2008/09. The percentage of investment on inventory is fluctuating during the study period. The low investment in inventory is 12.10% and highest is 25.25%. In F/Y 2002/03 it is observed 21.88% and then in 2003/04 decreased by 1.02% and observes 20.87%. Inventory to current assets ratios in F/Y 2004/05, investment in inventory is 25.25%, which is increase in inventory percentage by 4.39 and in 2005/06 decreased by 8.37% and observed 16.88%. In F/Y 2006/07 investment on inventory percent is 15.07%, Likewise it is found 12.07% & 16.62 % in F/Y 2007/08 and 2008/09 respectively. The average inventory ratio is 18.38%. The large amount of investment in inventory shows the liberal inventory policy.

4.2.3.4 Receivable to Total Assets

In the context of contemporary market situation credit sales plays vital role in development and expansion of market credit facilities should be given to customers to increase the sales. Hence the company has to arrange some working capital for this purpose. The nature and period of credit facilities should be determine in advanced, so that the company does not has to suffer from working capital deficiency. The arrangements of these all are known as receivable management. The receivable must be in optimal level. High degree of receivable results unnecessary had up to working capital, and in the other hand lower degree of receivable may case negative result in sales level. The receivables should be in perfect combination with current assets and total assets.

Table No: 4.9

Receivable to Total Assets (In Rs. '000)

Year	Receivables Rs.	Total Assets Rs.	Ratio	Change
2002/03	88039	1038408	8.48	-
2003/04	124178	886555	14.01	-5.53
2004/05	158584	975264	16.26	-2.25
2005/06	63657	1048353	6.07	10.19
2006/07	52823	1255758	4.21	1.87
2007/08	36802	1190149	3.09	1.11
2008/09	30205	1255745	2.41	0.69
Total	554288	7650232		
Average	79184.00	1092890.29	7.79	

Source: - Annual Report of BN Ltd

The Table No. 4.9 shows the proportion of investment in receivable to total assets. The proportion of investment in receivable during the study period are 8.48%, 14.01%, 16.26%, 6.07%, 4.21%, 3.09% and 2.41% respectively in F/Y 2002/03 to 2008/09. The tendency of receivables of the study period shows raise fall phenomena in the period of F/Y 2002/03 to 2008/09 with respect to total assets. The average ratio is 7.79% during the seven years study period. The investment in receivable is very low with comparison the other current assets. The low percentage indicates the hard credit policy of BN Ltd.

4.2.3.5 Proportion of Cash and Bank Balance to Current Assets

Every company must hold cash to meet its requirement. The reason for holding cash is for transactional motive, precautionary motive and speculative motive. The holding cash is to meet daily business requirement. Cash is necessary to pay bills, purchase raw material, to pay sundry creditors and other payable obligation. The optimum cash and bank balance has to maintain for the purpose of the above three motives and other daily requirements. The table shows the proportion to cash to current assets.

Table No.: 4.10

Cash and Bank Balance to Current Assets (In Rs. '000)

S.N.	Fiscal Year	Cash and Bank Rs.	Current assets Rs.	Ratio %	Change %
1	2002/03	5335	544,183	0.98	-
2	2003/04	13755	447,831	3.07	2.09
3	2004/05	1917	553,157	0.35	-2.72
4	2005/06	35926	436,045	8.24	7.89
5	2006/07	3464	511,066	0.68	-7.56
6	2007/08	2428	434,557	0.56	-0.12
7	2008/09	3658	505,070	0.72	0.17
Average		9497.57	490272.7143	1.61	

Source: - Annual Report of BN Ltd

Table No. 4.10 shows the proportion of cash to current assets. The ratio in F/Y 2005/06 is the highest ratio which the company holds the 35.926 million cash and its percentage is 8.24% of total current assets. In F/Y 2004/05 is the lowest cash hold in the study period, which ratio is 0.35% and cash hold is 1,917 thousand. The proportion in F/Y 2002/03 is 0.98% which is increased in F/Y 2003/04 with 2.09% and then in F/Y 2004/05 again decreases by 2.72% from F/Y 2003/04 cash to current assets ratio. After the year 2004/05 the ratio down readily. But in the F/Y 2005/06 increased by 7.89% because of increases of current assets in that period. In F/Y 2006/07 highly fall by 7.56% and observe only 0.68% current asset ratio. By this table figure shows the cash holding pattern is too much fluctuating during the study period. Likewise, in F/Y 2007/08 & 2008/09 ratios were 0.56% & 0.72% respectively which are in satisfactory level.

As the holding cash trend of BN Ltd.'s highest ration indicate the inefficient management of cash and bank balance. It seems there is not transparent vision in cash holding policy during the study period. The average cash and bank balance to current assets ratio is 2.694% during the Seven years study period.

4.2.3.6 Proportion of Receivables to Current Assets

Table No.: 4.11

Receivable to Current Assets (In Rs. '000)

S.N.	Fiscal Year	Receivable Rs.	Current Assets Rs.	Ratio %	Change %
1	2002/03	88039	544,183	16.18	-
2	2003/04	124178	447,831	27.73	11.55
3	2004/05	158584	553,157	28.67	0.94
4	2005/06	63657	436,045	14.60	-14.07
5	2006/07	52823	511,066	10.34	-4.26
6	2007/08	36802	434,557	8.47	-1.87
7	2008/09	30205	505,070	5.98	-2.49
Average		554288	490272.71	15.99	

Source: - Annual Report of BN Ltd

Table No. 4.11 shows the proportion of receivable to current assets for the F/Y 2002/03 to 2008/09 during the study period. The sundry debtors of BN Ltd. is observed very low which is 5.98% and seven years average is 15.99% only but in 2003/04 & 2004/05 are increased very high than the other six year period which observed 27.73% & 28.67% respectively of total current assets. The tendency of receivable of study period shows increase, decrease phenomenon, in study period. The average holding in receivable is 15.99% during the study period. It indicates the hard credit policy followed by BN Ltd. in 2005/06 and afterwards because of low sundry debtors

4.2.3.7 Proportion of inventory to Current Assets

Table No.: 4.12

Inventory to Current Assets (In Rs. '000)

Year		Inventory Rs.	Current Assets	Ratio	Change
2002/03	226861	227223	544,183	41.75	-
2003/04	184980	184980	447,831	41.31	-0.45
2004/05	224070	246278	553,157	44.52	3.22
2005/06	176936	176936	436,045	40.58	-3.94
2006/07	189256	189256	511,066	37.03	-3.55
2007/08	144003	144003	434,557	33.14	-3.89
2008/09	208754	208754	505,070	41.33	8.19
Total	1354860	1377430	3431909		
Average	193551.4	196775.71	490272.71	39.95	

Source: - Annual Report of BN Ltd

Table No. 4.12 shows the percentage of inventory with respect to its current assets. In F/Y 2002/03 it is 41.75% of current assets. Then it is found to be decrease by 0.45% over its current assets in the F/Y 2003/04. In F/Y 2004/05, it is increased by 3.22% over all its current assets and reached 44.52%, which is the highest inventory holding proportion during the study period because of highest current assets over the study period. In the F/Y 2005/06 to 2007/08 decreased by about 3% every year. Again it reached to 41.33% in F/Y 2008/09. The inventory holding proportion of BN Ltd. is increasing and decreasing phenomenon year by year during the study period. But investment in inventory is proportionally decreasing trend. The average percentage of inventory indicates the liberal inventory policy followed by the company.

4.2.4 Turnover Position or Utilization of Current Assets

Only investing in working capital is not sufficient get food and return, it should efficiently be utilized. The behavior of working capital 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 enterprise. Though there is no standard or ideal measurement, generally a greater 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; this section examines the turnover position of the BN Ltd.

4.2.4.1 Current Assets Turnover (Gross Working Capital Turnover)

Every business firm is main objective is to sell their product and services, so the sale is most important activity. The survival and growth of the company depends on the sales of the product. The company should make their sales policy as per the resource availability and market demand. The sales policy directly affects the production policy and in the same way the production policy affects the financial policy, i.e. the requirement of total assets and working capital by the company to run it as per plan. Hence there should always be co-ordination between these three units of the company so that every information should smoothly pass through these units. Increase in sales certainly causes increase in production, which requires more inputs. To deep the stock of material there should be adequate amount of working capital. The amount of working capital will be required to meet the daily requirement. In the 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 nee. The following table represents the current assets or gross working capital turnover during the study period in BN Ltd.

Table No.: 4.13

Current Assets Turnover

(In Rs. '000)

Year	Sales Rs.	Current Assets Rs.	Ratio	Change
2002/03	609654	544,183	1.120	-
2003/04	632114	447,831	1.412	0.29
2004/05	614739	553,157	1.111	-0.30
2005/06	621827	436,045	1.426	0.31
2006/07	634190	511,066	1.241	-0.19
2007/08	746582	434,557	1.718	0.48
2008/09	1002720	505,070	1.985	0.27
Total	4861826	3431909		
Average	694546.57	490272.71	1.43	

Source: - Annual Report of BN Ltd

Table No. 4.13 shows the current assets turnover ratio in times. Current assets are 1.12 times turnover the sales in the F/Y 2002/03. In the F/Y 2003/04 increase ratio 1.412 times, which is lightly increase from previous year. In next year 2004/05 it is 1.11 times. In F\Y 2005/06 is slightly increased in the ratio which is observed 1.426 times and then in 2006/07 decrease by 0.19 times and observed 1.241 times. From F/Y 2007/08 it is in slightly increasing. The average of the study period, the current assets turnover position of the company has financed the greatest amount in current assets with respect to the overall study period. Company cannot success to effective circulating the current asset.

4.2.4.2 Net working Capital Turnover

It is the excess amount of current assets over current liabilities. Such working capital is the margin of safety maintained by the company. In case of trading and financial times, the need of working capital depends upon production cycle and business cycle. The net working capital position maintained by the NB Ltd. is presented below in table 4.14.

Table No.: 4.14

Net Working Capital Turnover

(In Rs. '000)

Year	Sales Rs.	Current Assets Rs.	Current Liabilities Rs.	Net WC	Ratio	Change
2002/03	609654	544,183	332849	211,334	2.885	-
2003/04	632114	447,831	174022	273,809	2.309	-0.58
2004/05	614739	553,157	228989	324,168	1.896	-0.41
2005/06	621827	436,045	275483	160,562	3.873	1.98
2006/07	634190	511,066	807243	-296,177	-2.141	-6.01
2007/08	746582	434,557	507996	-73,439	-10.166	-8.02
2008/09	1002720	505,070	602213	-97,143	-10.322	-0.16
Average	739417.2	490272.71	418399.29	71873.43	-1.67	

Source: - Annual Report of BN Ltd

Table No. 4.14 shows the net working capital turnover position of BN Ltd. during the study period. Net working capital ratio of BN Ltd was fluctuating year after year. The ratio of 2002/03 is 2,885 times which has 211,334 thousands net working capital. But, in 2003/04 the ratio is decreased by 0.58 times and became 2.31 times. The highest ratio is 3.87 times during study period in 2005/06. In 2004/05, the ratio slightly decreased by 0.41 times than previous year, which is 1.896 times. From 2006/07, there are less total current assets than total current liabilities so there is not net working capital. That is why, ratio come in negative.

4.2.4.3 Permanent working Capital Turnover

It is the excess amount of fixed current assets over current liabilities. Such working capital is the lowest current assets maintained by the company. In case of trading and financial times, the need of permanent working capital is the minimum requirement of any business. The permanent working capital position maintained by the NB Ltd. is presented below in table.

Table No.: 4.15

Permanent Working Capital Turnover

(In Rs. '000)

Year	Sales	Current assets	Current Liabilities	Permanent \	Ratio	Change
2002/03	609654	544,183	332849	101,708	5.994	-
2003/04	632114	447,831	174022	331,048	1.909	-4.08
2004/05	614739	553,157	228989	261,284	2.353	0.44
2005/06	621827	436,045	275483	-275,483	-2.257	-4.61
2006/07	634190	511,066	807243	-807,243	-0.786	1.47
2007/08	746582	434,557	507996	-507,996	-1.470	-0.68
2008/09	1002720	505,070	602213	-602,213	-1.665	-0.20
Average	739417.2	490272.71	418399.29	-418,399	0.58	

Source: - Annual Report of BN Ltd

Table No. 4.15 shows the permanent working capital turnover position of BN Ltd. during the study period. Permanent working capital ratio of BN Ltd is decreasing every year. The ratio of 2002/03 is 5.994 times which has 101,708 thousands permanent working capital. But, in 2003/04 the ratio is highly decreased by 4.08 times and became 1.909 times. Slightly increase in ratio during study period in 2004/05. After 2005/06, there are less total current assets than total current liabilities so there is not net working capital. That is why, ratio come in negative.

4.2.4.4 Cash Turnover

It is one of the main parts of current assets which have greatest value to meet the current obligations occurred in the business. It should be just adequate to rung the business and excess cash on meaning as it earns nothing. So the company always sees the risk return trade off to maintain the just adequate cash balance. The following table shows the cash turnover position of the BN Ltd. during the study period.

Table No.: 4.16

Cash Turnover (In Rs. '000)

Year	Sales Rs.	Cash and Bank Rs.	Ratio	Change
2002/03	609654	5335	114.274	-
2003/04	632114	13755	45.955	-68.32
2004/05	614739	1917	320.678	274.72
2005/06	621827	35926	17.309	-303.37
2006/07	634190	3464	183.080	165.77
2007/08	746582	2428	307.488	124.41
2008/09	1002720	3658	274.117	-33.37

Source: - Annual Report of BN Ltd

Table No. 4.16 shows the cash turnover position of BN Ltd. The ratio indicate that a rupee invested in cash generate sales in times. In F/Y 2002/03 the ratio 114.27 times and in 2003/04, it decreased by 68.31 times and reached 45.96 times. In F/Y 2004/05, it jumped to 320.68 times which highly increased by 274.72 times and next year 2005/06 vastly decreased by 303.37 times and reached in 17.31 times. In 2006/07 again huge increased in ratio which is 183.08 times. Likewise in F/Y 2007/08 & 2008/09 it is observed 307.488 & 274.117 times. The turnover ratio is much fluctuated during the study period. In 2003/04 & 2005/06 highly decreased the ratio and 2004/05, 2006/07 & 2007/08 the ratio highly increased.

4.2.4.5 Receivable Turnover

Receivable is one of the components of working capital in order to increase the business activities the company has to increase the sales volume. The sales volume can be increased by given products in credit to customer the level of receivables 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 receivable should increase the sales volume. The proportion if receivable to sales presented here under.

Table No.: 4.17

Receivable Turnover

(In Rs. '000)

Year	Sales Rs.	Receivable Rs.	Ratio	Change
2002/03	609654	88039	6.925	-
2003/04	632114	124178	5.090	-1.83
2004/05	614739	158584	3.876	-1.21
2005/06	621827	63657	9.768	5.89
2006/07	634190	52823	12.006	2.24
2007/08	746582	36802	20.286	8.28
2008/09	1002720	30205	33.197	12.91
Average			13.021	

Source: - Annual Report of BN Ltd

Table No. 4.17 presents the receivable turnover in the seven year study period. In F/Y 2002/03 the receivable turnover ratio is 6.925 times. It is found to be decreased by 1.835 & 1.21 times in F/Y 2003/04 & 2004/05 and in F/Y 2005/06 it has increased by 5.89 times which is 9.768 times. From F/Y 2005/06 receivable turnover during the study period were increasing trend. In F/Y 2006/07, 2007/08 & 2008/09 turnover were observed 12.006, 12.286 & 33.197 times. The average receivable turnover is 13.21 times. The fluctuation ratio is sometimes very high and but sometimes it is very low. It shows the receivable collection policy of BN Ltd. is changing year by year. That means company follows sometimes hard collection policy and sometimes liberal collection policy. The looking one year period data it is hardly to say that company is adopted liberal collection policy. In other four year period company followed the hard collection policy.

4.2.4.6 Inventory Turnover

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 the company. It has to increase its working capital. In this way the inventory is affected by sales volume. The proportion of inventory to sales has been presented under.

Table No.:4.18

Inventory Turnover

(In Rs. ‘000)

Year	Sales Rs.	Inventory Rs.	Ratio	Change
2002/03	609654	227223	2.683	-
2003/04	632114	184980	3.417	0.73
2004/05	614739	246278	2.496	-0.92
2005/06	621827	176936	3.514	1.02
2006/07	634190	189256	3.351	-0.16
2007/08	746582	144003	5.184	1.83
2008/09	1002720	208754	4.803	-0.38

Source: - Annual Report of BN Ltd

Table No. 4.18 shows the ratio in times inventory replaced during the five year period. The ratio of average inventory turnover position in F/Y 2002/03 is 2.683 times. Inventory turnover is in other F/Y 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 are 3.417, 2.496, 3.514, 3.351, 5.084 and 4.803 times respectively. The company has lowest and highest inventory turnover position in 2.496 times and 3.514 times respectively. The company's sales are in increasing pattern also inventory holding is in increasing trend but in year 2004/05 & 2005/06 it decreased.

4.2.5 Profitability Position

Profitability is a measure of efficiently and the search for it provides an incentive to achieve efficiency. The profitability of a firm can be measured by its profitability ratios. For BN Ltd, the profitability position is analyzed with the help or following ratios.

4.2.5.1 Gross Profit Margin

Gross profit margin shows the relation between sales and gross profit margin. The ratio indicates the average spread between the cost of goods and sold and sales revenue. The action measures the efficiency. It is computed by dividing the gross profit by sales. The profit margin of BN Ltd. is presented in the following.

Table No.: 4.19

Gross Profit Margin (In Rs. '000)

Year	Gross Profit Rs.	Sales Rs.	Ratio	Change
2002/03	233391	609654	38.28	-
2003/04	273737	632114	43.31	5.02
2004/05	257389	614739	41.87	-1.44
2005/06	270748	621827	43.54	1.67
2006/07	244932	634190	38.62	-4.92
2007/08	291448	746582	39.04	0.42
2008/09	380827	1002720	37.98	-1.06
Total			282.64	
Average			40.38	

Source: - Annual Report of BN Ltd

Table No. 4.19 shows that the gross profit margin during the study period. The ratio is very fluctuating which is 37.98% to 43.54% range. In F/Y 2002/03 the ratio is 38.28% and increase to 42.31% in F/Y 2003/04 which is the highest increase in gross profit. In F/Y 2005/06 margin during the study period which is 43.54% which is highest ratio during study period. In F/Y 2004/05 is 41.87% which is slightly decreased from previous year. In 2008/09, the ratio is 37.98 which is lowest gross profit margin decrease from 2005/06 due to increase the cost of goods sold, cost of raw material. The average gross profit margin is 40.38% during the study period.

4.2.5.2 Net Profit Margin

Net profit shows the relationship between not only profits and sales, it indicates management efficiency in overall management function of the firm. It also indicates the firm's capacity to withstand adverse economics after deducting operating expresses and income tax from the gross profit. The ratio of net profit to sales essentially expresses the cost price effectiveness of the operation. The operating expenses mainly affect the net profit of company. The table shows the net profit margin of BN Ltd. during the study period.

Table No.: 4.20

Net Profit Margin

(In Rs. '000)

Year	Net Profit after tax Rs.	Sales Rs.	Ratio	Change
2002/03	19372	609654	3.18	-
2003/04	37800	632114	5.98	2.80
2004/05	34735	614739	5.65	-0.33
2005/06	24962	621827	4.01	-1.64
2006/07	-27,279	634190	-4.30	-8.32
2007/08	33415	746582	4.48	8.78
2008/09	20531	1002720	2.05	-2.43
Total			21.04	
Average			3.01	

Source: - Annual Report of BN Ltd

Table No. 4.20 shows that the net profit margin of the company in the study period. The ratio is fluctuates during the period. The fluctuation is between 5.98% to negative ratio 4.30% the range is very high. In F/Y 2002/03 is 3.18% and next is highly increase and absolve 5.98% which is the highest next profit margin during the study period. The ration is in decreasing trend from 2004/05 to 2006/07. In F/Y 2006/07 is the lowest net profit margin in the study period. But it is increased to 4.48% in 2007/08 and decreased to 2.05% in 2008/09. The average net profit margin is satisfactory. Although the net profit margin is decreasing trend, the average net profit margin is 3.01 maintain by company is satisfactory in the seven year.

4.2.5.3 Return on Total Assets

It measures the percentages of return on the overall total assets employed for every activities of the company. It gives the profit given efficient of the company in relation to total assets. The return on assets employed of BN Ltd. is presented below in table during the period of study.

Table No.: 4.21

Return on Total Assets

(In Rs. '000)

Year	Net Profit After Tax Rs.	Total Assets Rs.	Ratio	Change
2002/03	19372	1038408	1.87	-
2003/04	37800	886555	4.26	2.40
2004/05	34735	975264	3.56	-0.70
2005/06	24962	1048353	2.38	-1.18
2006/07	-27,279	1255758	-2.17	-4.55
2007/08	33415	1190149	2.81	4.98
2008/09	20531	1255745	1.63	-1.17
Total			14.34	
Average			2.05	

Source: - Annual Report of BN Ltd

The Table No. 4.21 shows that the return on total assets in the F/Y 2002/03 is 1.87% where the company has employed Rs. 1038408 thousand of total assets. Almost, return of an assets ratio has seen high return due to the high net profit after tax. The ratio is fluctuating trend during the study period. The ratio is 4.26% in F/Y 2003/04 which is the highest ratio during the study period. In F/Y 2004/05, the ratio decreased by 0.7% and observed 3.56%. After that, the ratio is going decrease year by year as 3.56%, 2.38% and -2.17% in F/Y 2004/05, 2005/06 and 2006/07 respectively. In F/Y 2007/08 it is 2.81% and again decreased to 1.63% in

2008/09. An average ratio of the study period is 2.05%. There is Net loss after tax in the F/Y 2006/07 so the ratio also in less than 0.

4.2.6 Operating 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 ration. It also measures the efficiency of the company as regards to minimizing costs i.e. operational efficiency. The table 23 presented below shows the operating ratio of NB Ltd. during the study period.

Table No.: 4.22

Operating Ratio (In Rs. '000)

Year	Cost of goods sold	Operating Exp.	Cgs+ operating exp.	Sales	Ratio	Change
2002/03	376263	154601	530864	609654	87.08	-
2003/04	358377	168771	527148	632114	83.39	-3.68
2004/05	357350	157197	514547	614739	83.70	0.31
2005/06	351080	172618	523698	621827	84.22	0.52
2006/07	389258	207816	597074	634190	94.15	9.93
2007/08	455134	243537	698671	746582	93.58	-0.56
2008/09	621894	279633	901527	1002720	89.91	-3.67
Average					88.00	

Source: - Annual Report of BN Ltd

Table No. 4.22 shows that the operating ratio of BN Ltd. in the fiscal year 2002/03 is 87.08% and nest year found to be decreased by 3.68% and reached to 83.39% in the F/Y 2003/04 which is the lowest ratio of the company during the study period. In F/Y 2004/05 it is found 83.70% and is increasing trend from 2004/05. In F/Y 2005/06 it is 84/22% and in F/Y 2006/07 it is 94.15% which is the highest ratio during the study period. High ratio indicate the in efficiency of management and unable to manage the working capital of the company. From the F/Y 2004/05 proportionally increasing trend of operating expenses of the study period, the company has increased the operating expenses. But it is in decreasing trend and found 93.58% & 89.91% in F/Y 2007/08 & 2008/09 respectively. In an average the company has 88% of operating ratio during the study period.

4.2.6.1 Return of Net Worth

Return on net worth the percentage return on the owner's capital invested. The conclusions drawn on the basis of preceding ration may not give true result because they give profit in sales and total assets i.e. net worth is needful to study. Table 24 presented below shows the ratio of return on owner's capital employed during the period of study in BN Ltd.

Table No.: 4.23

Return to Net Worth (In Rs. '000)

Year	Net Profit After Tax Rs.	Net Worth Rs.	Ratio	Change
2002/03	19372	705559	2.75	-
2003/04	37800	727154	5.20	2.45
2004/05	34735	761889	4.56	-0.64
2005/06	24962	704570	3.54	-1.02
2006/07	-27,279	448762	-6.08	-9.62
2007/08	33415	482177	6.93	13.01
2008/09	20531	539816	3.80	-3.13
Average			2.96	

Source: - Annual Report of BN Ltd

Table No. 4.23 shows that the ratio of return on net worth in the F/Y 2002/03 is 2.75%. In F/Y 2003/04, it is increased by 2.45% which is the second highest ratio on net worth during the study period. Further in the three fiscal year 2004/05, 2005/06 and 2006/07 the return on net worth is decreasing in trend which are 4.56%, 3.54% and –6.08% respectively. In last year 2006/07 is the lowest return which is the loss on net profit after tax is -27279 thousands. Here through the company has employed its retained earning it has unable to earn more profit, shows inefficiency of the company. The highest ratio is found in F/Y 2007/08 observed 6.93%. It is again decreased to 3.8% in 2008/09. Company's return on net worth is 2.96% only. So the return on net worth is not satisfactory of the company during the study period.

4.2.6.2 Return on Working Capital

This is the rate of return on current assets or working capital employed by the company. It measures the profit with respect to its total current assets. It gives the utilization of current assets effectiveness. The Table No. 4.24 presented below shows the relationship in between net profit after tax and current asset of BN Ltd. during the study period.

Table No.: 4.24

Return on Working Capital

(In Rs. '000)

Year	NPAT Rs.	Current Assets Rs.	Current Liabilities Rs.	Working Capital (C	Ratio	Change
2002/03	19372	544,183	184100	360,083	5.38	-
2003/04	37800	447,831	117199	330,632	11.43	6.05
2004/05	34735	553,157	164399	388,758	8.93	-2.50
2005/06	24962	436,045	210702	225,343	11.08	2.14
2006/07	-27,279	511,066	743338	-232,272	11.74	0.67
2007/08	33415	434,557	432637	1,920	1740.36	1728.62
2008/09	20531	505,070	501179	3,891	527.65	-1212.71
Average					330.94	

Source: - Annual Report of BN Ltd

The Table No. 4.24 shows that the percentage return the return on working capital has found to be 5.38% whereas it increased by 6.05% in F/Y 2003/04 due to the increase in net profit, though working capital also increased and found to be 11.43%. Though the working capital is increasing in trend, from 2003/04, the ratio is decreased and found 8.93%. The ratio is 11.08% and 11.74% in F/Y 2005/06 and 2006/07 respectively. In F/Y 2006/07 due to the decreasing the net profit the ratio also came in decreasing trend. In an average of the study period the BN. Ltd. has earned 330.94% return on its current assets due to the very high ratio in the year 2007/08 & 2008/09. The ratio shows the company has unable to utilized and inefficiently of management of working capital.

4.3 Cash Conversion Cycle:

4.3.1 Receivable Collection Period

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

Table No.: 4.25

Receivable Collection Period

(In Rs. '000)

Year	Receivables Rs.	Sales Rs.	Days in Year	RCP
2002/03	88039	609654	360	52
2003/04	124178	632114	360	71
2004/05	158584	614739	360	93
2005/06	63657	621827	360	37
2006/07	52823	634190	360	30
2007/08	36802	746582	360	18
2008/09	30205	1002720	360	11
Total	554288	4861826		311
Average		694546.5714	0	44

Source: - Annual Report of BN Ltd

The Table No. 4.25 shows the length of time of the receivable collection period in the study period. The receivable collection period in F/Y 2002/03 to 2006/07 is 11 to 93days. In 2004/05 is highly increased in collection period which is 93 days. In F/Y 2008/09 is very low which is11days. The company's receivable collection period is very low, but average collection periods in 44 days due to the high receivable collection period in 2002/03 to 2004/05. It indicate the collection policy of BN Ltd. is adopted the hard collection policy. In 2005/06 it adopted the liberal collection policy, but it is hardly to say that collection policy changed by company. Receivable is the lightly liquid assets of the company.

4.3.2 Inventory Conversion Period

Table No.:4.26

Inventory Conversation Period

(In Rs. '000)

Year	Inventory Rs.	CGS Rs.	Days in Year	ICP Days
2002/03	227223	376263	360	217
2003/04	184980	358377	360	186
2004/05	246278	357350	360	248
2005/06	176936	351080	360	181
2006/07	189256	389258	360	175
2007/08	144003	455134	360	114
2008/09	208754	621894	360	121
Total				1243
Average				178

Source: - Annual Report of BN Ltd

Table No. 4.26 shows that inventory conversion period in days. The inventory conversion period of the company in F/Y 2002/03 in 217 days and in F/Y 2003/04 it is slightly decease and observe 186 days. In F/Y 2004/05 it is increasing 226 days which is the highest inventory conversion period in the study period. In 2005/06 in decrease by 45 days and observe 181 days and last F/Y 2006/07 it is again decrease 6 days and observe 175 days. It is in decreasing trend and found 114 & 121 days in F/Y 2007/08 & 2008/09 respectively. In the average period of the year is 178 days. It shows that the inventory conversion period of the bottlers

Nepal Limited is very high. It indicates the inventory is less degree of liquidity. The inventory conversion times average in year only 2.02 times in a year.

4.3.3 Payable Deferral Period (PDP)

Table No.: 4.27

Payable Deferral Period

(In Rs. '000)

F/Y	Current liabilities	Cost of goods sold	Days in Year	PDP
2002/03	184100	376263	360	176
2003/04	117199	358377	360	118
2004/05	164399	357350	360	166
2005/06	210702	351080	360	216
2006/07	743338	389258	360	687
2007/08	432637	455134	360	342
2008/09	501179	621894	360	290
Total				1995
Average				285

Source: - Annual Report of BN Ltd

Table No. 4.27 shows that payable deferred period in days. The PDP of the company in F/Y 2002/03 in 176 days and in F/Y 2003/04 it is slightly decrease and observe 118 days. In F/Y 2004/05 it is increasing 166 days. In 2005/06 in increased by 50 days and observed 216 days and in F/Y 2006/07 it is observed 687 days which is the highest in the study period. After that it is in decreasing trend and found 342 & 290 days in F/Y 2007/08 & 2008/09 respectively. In the average period of the year is 285 days. It shows that the inventory conversion period of the bottlers Nepal Limited is very high.

Cash Conversion Cycle:

(Days)

F/Y	ICP	RCP	PDP	CCC
2002/03	217	52	176	93
2003/04	186	71	118	139
2004/05	248	93	166	175
2005/06	181	37	216	2
2006/07	175	30	687	-482
2007/08	114	18	342	-210
2008/09	121	11	290	-158
Total				**-441**
Average				**-63**

Calculated from tables 4.25, 4.26 & 4.27

4.4 Major Finding

Major finding of the studies are presented in the following paragraphs.

- The major components of current assets in BN Ltd are sundry debtors, inventory, miscellaneous current assets, cash and bank balance. During the study period the proportion of cash bank balance, sundry debtors, inventories and misc. current assets to current assets on an average are 2.09%, 15.99%, 39.95%, 41.58%. Misc. current assets hold the largest portion of the current assets. Inventory is the second largest portion holds of current assets followed by BN Ltd.

- The liquidity position of company is analyzed with current ratio, quick ratio and cash conversion cycle. The current ratio of the company is raging from 0.69:1 to 3.82:1 in fluctuating trend. The company has able to maintain its current ratio of 2.13:1 in an average of the study period. Though current ratio of 2:1 is generally considered satisfactory for a manufacturing company, but the ratio is less than 2:1 for last three years so the overall current ratio of the company is not satisfactory. The company is also maintained its quick ratio of 0.48:1 in an average of the study period. The overall quick ratio position of the company has found not favorable.

- It involves the three major components, which is inventory conversion period, receivable collection period and payable deferral period. The inventory conversion period is following 248 days to 114 days in fluctuating trend. The average period is 178 days. The inventory conversion period of the company is very high. It indicates the inventory is the low degree of liquid current assets. Receivable collection period of the BN Ltd. is not trustable but it is highly increased in the 2004/05 which is 22 days. After that it is highly decreased in the 2005/06 to think the company changes the collection policy.

- The overall proportion of current assets on total assets is fluctuating during the study period, from 56.72% to 36.51% with an average of 45.52%. Similarly the cash and bank balance to total assets are in fluctuating trend and ranging from 3.43% to 0.20 with 0.92% as average. This type of variation in cash and bank balance is due to the company's policy towards the investment of cash in Bottlers Nepal (Terai) Ltd and Troika Traders (Pvt.) Ltd. Subsidiary company and letter of credit margins.

- Of the current assets, the inventories to total assets position in Bottlers Nepal Limited in a fluctuating trend and ranging from 12.10% to 25.25%. The average increase in ratio is 4.52% in the last year. The average inventory occupied 18.38% in an average of total assets during the study period. The fluctuations of the investment in inventories are due to the fluctuating sales volume.

- The receivable position with respect to total assets in BN Ltd. in the seven years of the study period are found in increased, decrease, decrease and increase phenomenon year after year the position of receivable total assets ranging from 2.41% to 16.26% and occupied 7.79% in an average of the total assets.

- Of the current assets, cash and bank balance hold the third (or second last) smallest portion in BN Ltd. and has fluctuating in the first four years of the study period then found to the decreased in the next two year and in last year again increase. It is increase, decrease increased and decrease phenomenon during the study period. The ratio of cash and bank balance to current assets are ranging in 0.35% to 8.24% with an average of 1.61%. These types of variations in cash and bank balance in due to the company's policy towards the investment of cash in subsidiary company and letter of credit margins. Similarly the receivables position with respect to current assets in BN Ltd. in the seven years of the study period are found in fluctuating trend then increase, decrease, increase, decrease phenomenon till the end of the study period. The lowest ratio is 5.98% due the proportionally high provision for bad debt.

- In the current assets, the inventories hold the second largest portion of BN Ltd. The inventories to current assets poison in BN Ltd. Are ranging from 33.14% to 44.52% but the investment in inventory is proportionally in decreasing trend. The inventory is increase, decrease and decrease and increase phenomenon year by year during the study period.

- The turnover position of the BN Ltd. are in fluctuate trend. The gross working capital is slightly fluctuated trend which is ranging from 1.11 times to 1.985 times with an average of 1.43. The net working capital turnover in ranging from –10.17 to 3.87 times in fluctuating trend with an average -1.67 times. It indicated that the sales and cash balance of the company are not matching to each other. The receivable turnover position of the company is highly in fluctuating trend and ranging from 3.88% to

33.2 times with an average 13.02 times. It seems the receivable turnover position of company is very low and collection policy is hard. The highest turnover 33.2 times reached due to the proportionally high provision for bad debts than other fiscal years provision. In 2004/05 the turnover position is highly decrease and observed 3.876times it seems the company's credit policy is changed but the looking one year period data. It is hardly to say that company is changed the credit policy. It shows the receivable collection policy of BN Ltd. is changing year by year. That means company follows sometimes hard collection policy and sometimes liberal collection policy. The inventory turnover position of BN Ltd. is also fluctuating trend which ranges from 2.496 to 5.184 times. The average inventory turnover position of the company is found 4.803 times. It indicated that the inventory of BN Ltd. is not highly fluctuating and the product is reasonable so the low turnover inventory turnover position of the company. Inventory management system is satisfactory but turnover is not satisfactory.

- Profitability is the measure of efficiency. The profitability position of BN Ltd. has been analyzed from various angles. The gross profit margin and net profit margin of BN Ltd. are in increase decrease trend in the study period. The range of gross profit margin fluctuation is from 37.98% to 43.54% whereas net profit margin is from negative 4.301% to 5.98%. In an average the gross profit margin is found 40.93% and net profit margin is found 3.01%. The operating ratio is found increasing trend from 2004/05 and reached at highest point in 2006/07. The range of the operating ratio fluctuating is from 83.39% to 93.58% with an average 88%. The wide difference in gross profit margin for the corresponding year yields the high level of operating ratio indicated the operating inefficiency in The BN Ltd.

- The return on the total assets employed of BN Ltd. is in fluctuating trend which ranges from –2.17% to 4.26%. In an average the company has got return 2.05% on its total assets employed. The return on the net worth is also in fluctuating trend, which ranges from -6.08 to 6.93%. In an average the company has got 2.96% return on net worth. Both return on total assets and net worth are not favorable. The return or net worth and total assets are less than the government bond yield percentage. So the return on net worth and total assets are not favorable. The return on the working capital of BN Ltd. is also fluctuating trend. It ranges from 5.38% to 1740.36%. So, working capital of the company is not matching.

- The inventory conversion period is average length of time required to convert materials into finished goods and then to sell these goods; it is the amount of time the product remains in inventory in period stage or completion. It indicates the liquidity degree of inventory and how many times the inventory converts to sell these goods.

CHAPTER- V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The concept of working capital and its role & importance in manufacturing company like BN Ltd. are included. The statement of the problem of this study is also included by focusing the BN Ltd. Further the main objectives of this study and the devastation within which the study is circled are also included. Lastly, the scheme of the chapter is prepared according to the chapters that are planned. The second chapter i.e. reviews of literature gives the concept of working capital; where different views of different book writers are reviewed. Then the journals and articles published by different management experts who are available also reviewed in order to fulfill the basic need of the study. Furthermore, the available disserting in the context of management of working capital from previous researcher is reviewed where the main findings and conclusions, tools used for analysis and recommendations made are accordingly included. From this review the gap is tried to find out and this study is further freed to fulfill this gap so some extent.

The basic objective of this study is to examine the management of working capital in BN Ltd. To fulfill this objective and other specific objectives are describes in chapter one appropriate research methodology has developed which includes the ratio analysis as a financial tools. The major ratio analysis consists of the composition of working capital position, turnover position, liquidity position and profitability position. Under the main ratios various ratios position are studied in the chapter four.

The necessary data are derived from the balance sheet and Income Statements of BN Ltd. for the period of seven year from F/Y 2002/03 to 2008/09 with the help of methodology described in chapter three. These data are presented and analyzed in chapter four. Now in this chapter an attempt has been made to present summary of findings, conclusion and some suggestions for BN Ltd. as recommendation.

5.2 Conclusion

The conclusion, here are drawn from the above major finding in BN Ltd.

Nearly half of current assets is invested in total assets. In U.S Manufacturing company current assets investment for about 40% of total assets which has been followed by BN Ltd., (Balaju) as it is also under US management. Current assets and so invested that they could be early turned into cash. Therefore it can be said that the company has followed the relaxed current assets investment policy.

More than half of the current assets are financed by short term sources and rest by long term sources. So the company has following conservative assets financing policy.

- From the study of data taken into consideration, investment in cash is low and fluctuating year by year. Investment in receivables is very low which indicates that either the receivables collection policy of the company is hard or most of the sales of company are in cash.

- Company is holding of cash in relation to current asset. Cash holding is fluctuating. There is lack of concept at which level the cash to be hold. It shows that company has not adopted appropriate cash management techniques.

- Inventory covers average of forty percent of current assets. It implies that company has satisfactory inventory management form the analysis though technique adopted by company is not known.

- Investment in miscellaneous current assets covers major portion above the forty percent of current assets. Among the investment in miscellaneous current assets, investment in its subsidiary companies (BN Terai Ltd. & Troka Traders Pvt. Ltd.) and loan to the staff seems to generate interest. This covers lower percent of miscellaneous current assets. Investment in other miscellaneous current assets covers large portion and it does not generate interest in investment. Large investment in miscellaneous current assets may be its internal policy of managerial attitude. Advance in income tax shows large portion of misc. current asset.

- Sales to total current assets ratio is slightly above to one. Current assets turnover is thus satisfactory.

- Turnover position of net working capital is negative.

- Cash fluctuation over the period taken into the study shows that there is lack of certain limit of cash holding. In the first couple of years cash turnover was low which increased unexpectedly high, then went below near the first couple of fiscal years. Again in last three year it went high. Average ratio of cash turnover is satisfactory. Cash holding position does not match with respect to sales.

- Due to unavailability of credit sales data, receivable turnover do not represent actual turnover position of receivable.

- Assuming the sales is not credit; receivable turnover position is very high. Inventory turnover position of the company is satisfactory.

- Liquidity position of the company actually reveals the working capital management from the analysis current ratio was found good. Theoretically, current ratio is assumed to be good at 2:1.

- QR is found to be below to theoretical value 1:1. Due to the investment in miscellaneous current assets, proportion is high. Thus it can be said that liquidity position is not worst.

- Net profit is not consistent with sales though there is return on sales is average of 3.01%. Net profit margin in average seems to be reliable.

- Investment in total assets is gradually increasing while profit after tax is fluctuating, though the average return on total assets is 2.05%. Profit after tax ranges from negative to positive percent, therefore it could not be said to be reliable.

- Gross profit margin is consistent to sales. Gross profit margin of company is reliable.

- Operating ratio of the BN Ltd (Balaju) is satisfactory while is average of 88%. Ratio from the fiscal year 2006/07 is increased which has lessened the profit.

- Return on net worth is found to be fluctuating during the study period, which indicates that wealth maximization of shareholders has not given an emphasis. Sales and gross profit are increasing proportionately with the investment on net worth, but return on net worth has decreasing trends from the fiscal year 2004/05 and highest increment seen in F/Y 2007/08.

- Return on current assets in average is satisfactory. But net profit after tax seems to be fluctuating with the increase in investment in current asset.

- BN Ltd. is highly fluctuating in the range of ICP, it indicates the management of inventory is of BN Ltd. is not satisfactory during the study period.

- Receivable collection period of the company is in decreasing trend. Most of the sales are in cash the receivable period of the company is satisfactory, but the effect of collection policy may be decrease in the sales. The company followed the hard credit policy.

- Payable deferral period of the company is very fluctuating, it affects the company's credit. It is decreasing due to the late payment of sundry creditors. So, it is properly managed.

Cash conversion cycle of the company is also fluctuating. The high conversion period directly effects in the profitability and cash conversion cycle are increase and are decrease and vice versa. It also seems in the BN Ltd. during the study period so the company idle investment in current assets. It required decreasing cash conversion cycle by the effective management of working capital. Cash conversion cycle is not satisfactory. Because the conversion days are very fluctuating is it required to maintain that effect the cash conversion cycle is decrease and increase in profit of BN Ltd.

5.3 Recommendation

To achieve the stated objectives of BN Ltd, the effective and efficient management is necessary. Working capital management in BN Ltd is not only necessary but compulsory for better performance. The following recommendations are forwarded on the basis of analysis and interpretation of data and conclusion extracted to improve the existing working capital management system of BN Ltd.

- Instead of conservation policy by adopting matching financial policy, the company can improve in its profitability in the short-run as well as long run.

- Investment in miscellaneous current assets seems to be high i.e. it covers major person of current assets so it should be manage properly.

- Sundry debtors are very low in comparison with sales it shows that the company has strict credit sales policy. Low investment in receivable may decrease sales which is turn affected profitability those the company has to review its credit policy.

- Cash and handling proportional of the company is not satisfactory because it’s highly fluctuating. There is absence of limit at which the cash balance to be maintained. Therefore the company has to adopted proper management policy because holding of cash more than requirement plays not return.

- The working capital should be arranged in such way that it should generate maximum turnover. The working capital and networking capital are not fully utilized. The company should try to utilize its working capital to maintain sound turnover position.
- Net working capital is financed by long term source, which is costly but less risky. In the Nepalese context, long term interest rate is greater than short term interest rate. If the net working capital was financed by short term sources, it should have costly than long term financing but it cost less if it used for short term period such as peak season of sales.

- Operating Ratio from the fiscal year 2006/07 is increased which has lessened the profit. Higher operating ratio indicates lower efficiency i.e. cost of production and administrative and other expenses are very high in the company.

- Management of investment is one of the important parts of the manufacturing company. The excess inventory causes unnecessary working capital blockage and short investment results irregular manufacturing process. Here, the inventory should be kept optimum, so that neither is excess nor short. The inventory conversion cycle is increase inventory also increasing.. Thus, the company has to pay serious attentions to avoid the idle investment in inventory by reducing the conversion period.

- Good records will help monitor the progress of the company. Therefore record keeping system should be scientific so that the corporation can be located the past records. To keep the record scientifically, BN Ltd should establish a good management information system which is capable to produce result and report in timely manner.

- Accounting provides valuable information to the decision makers, which can serve the controlling function if the record are classified and properly kept. Costing of different factors related to inventory of company required sound classification and definition activities.

- Every organization has to cope with latest technology to produce quality products with least producing cost. Marketing of BN Ltd. is growing so to capture huge market share, BN Ltd should have major programs to take advantage from the latest techniques and technology. Further, the company should clearly state its objectives and should have in depth analysis of company's strength and weakens. Since Nepal entered in WTO, more international companies are extending its product to Nepalese market, as well as local company is also launching similar product which somehow affect the business of BN Ltd. Therefore, BN Ltd, should have periodically analyzed its strength and weakness over local market to compete with international and local companies which offering similar range of products.

- Today almost all organization has political interference and it is the reason for downfall of the performance company. Therefore, BN Ltd. should try to avoid political interference in decision making and only competent and capable person should be involved in decision making level

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