CHAPTER-ONE

1.1 General Background:

Nepal is a poor and developing country. About 83% of the people depend on agriculture so that the economic condition of also depends agriculture. Economic growth in recent year is very slow where as population is growing rapidly. Per capita income and per capita GDP of Nepalese people are $276 and $240 respectively which are very low as compared to other neighboring countries. Income distribution is also uneven. Few rich people are very rich so that they all are living very luxurious life whereas poor people as still under absolute poverty line."[1] The living standard of the people of any country to large extent is determined by the economic development of that country. Being the people of poor country, the living standard of the Nepalese people is also low. The basic function of the economy is to allocate scare resource to produce goods and services demanded by the society. The production of goods and services require the transformation of resource – Land, Labor, Capital, Technology, Managerial skill and information. Among these resources capital is considered the most important and is known as the life blood of the business for the production of goods and services. Among the three sectors of economy (household, business, and government), business sector produces goods and services which helps in economic development."[2] household sectors (individual and family) save the money which can be used as capital for business sector. Without adequate capital business sector could not foster and hence economic development becomes difficult. So, the capital mobilization is necessary to develop the economy and to raise the living standard. The role of financial intermediaries is vital for the economic development because they collect scattered funds from savers and

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1 Nend '*Economic report 2001/2002*, Nepal Rastra Bank, p. 9

2 Basyal, Tula Raj *"Nepal Rastra Bank Samachar"* , 2009

provide that to productive use .Now the world has become a global village but even there exists barter system in the rural areas of Nepal. Development of economy is very difficult unless it is monetized and financial institution play major role to monetize the economy

Banks are intermediaries between the saving units and investing units in the economy. In other words, they act as bridges between the surplus units and deficit units. Small amounts of scattered savings are pooled together which are then lent for the purpose of investments and facilitating other transaction. So, a well - regulated, soundly- operating and properly – directed banking system plays a catalytic role in the transformation of the economy. Through their activities of attracting or financializing the savings allocating the pooled resources into the credit worthy and component sector and facilitating the payment process, the banks helps the economy to augment its level of efficiency, productivity and competitiveness. An efficient role of the bank in tapping the resource mobilization and investment prospects of the economy thus, fasters saving, investment employment and economic growth. The banks themselves offer employment opportunities to a large number of educational and skilled hands. The banks are run in accordance with specialized legislation, which in Nepal is presently called the Banks and financial institutions Act ,2006. Current 25 commercial Banks, 59 development banks, 78 finance companies and 13 rural development banks are in operating taking license from Nepal Rastra Bank.

Earlier banks were different from modern commercial banks in many respects. The banks, which operated in the past, combined central banking functions such as issues of currency with commercial banking function like accepting deposit and financing business. In course of time this practice was abandoned and specialized instruction for the central banking function were created. Now a central bank can be easily distinguished from a commercial bank due to their objectives and unique functions .Modern commercial banks can be identified by different names such as Business Banks, Retail Banks Clearing Banks, Joint venture Banks and Merchant

Banks etc .No matter what names we give to banks, they all perform the same basic function i.e.they provide a link between the lender and the borrower.

Basically by charging a rate of interest to the borrowers slightly higher than they pay to the lenders, the banks make their profits. This is known as financial intermediation.

Commercial banks are the suppliers of finance for trade and industry and play a vital role in the economic and financial life of the economy. By investing the saving in the productive areas, they help in the formation of capital. The qualitative credit policy ensures certain portion of the credit of bank invested in the productive and priority areas so that there may not be shortage of resources in such areas. In additional flexible monetary and credit policy improve the prevailing slow down in the economic activities to alleviate sluggish credit expansion to the private sector from the banking sector. Rural people of undeveloped counties like Nepal need various banking facilities. In most of the countries, the rural sector is neglected due to risk and low return. But the main source of national income of developing countries comes from the very rural sectors. In fact the rural development is key to the economic development which other sectors of the economy cannot be flourished.

Proper financial decision – making is extremely important in banking transaction for efficiency and profitability. Most of the financial decisions of the banks are concerned with current assets and current liabilities. The working capital management of a bank different from other type of business enterprises. A bank plays a significant role to the requirement of working capital of other type of enterprises. A bank plays a significant role to fulfill the requirement of working capital of other type of business enterprises. It also needs efficiently manage its own working capital. Investment in working capital of other business enterprises is a part of current assets of banks working capital and we can consider deposits and short- term borrowing as a part of current liabilities.

1.2 Joint venture banks

In global perspective, joint ventures are made up of trading through partnership and with negotiation between countries industries enterprises traders and mercantile to achieve mutual exchange of goods service and modern technology for sharing comparative advantage and benefits.

A joint venture bank is joining of force between two or more enterprises for carrying out specific operation. [3]

HMG deliberate policy of allowing joint venture banks to operate in Nepal is basically targeted to encourage local traditionally run commercial bank to exchange their bankable capacity through competition, efficiency, modernization and mechanization via computerization and prompt customer service.

All the Nepalese joint venture banks established under the commercial bank Act 2031, they are operated under the rules regulation and guidance of Nepal Rastra Bank. Nepal Rastra Bank has issued a certain directive to those banks for an example regarding the mandatory credit allocation to the priority sector. The Nepal Rastra Bank has directed to the government owned banks to invest 3% and the JVBS to invest 0.5% of their total outstanding credit to the poverty stricken community.

Objectives of Joint Venture Bank

- To provide new service
- To create competitive investment
- To introduce new method & technology in banking service.
- To provide more sources for investment

In order to achieve the above mentioned objectives the JVBs should concentrate in their trust area, viz; corporate banking, retail and private banking investing

3Gupta, D.P. "*The Banking System, its role in export development*., the financing of exports from developing countries, International trade center. UNCTAD GATT, Geneva 1998, p,15.

banking credit cards and technology and at the same time they most maintain their asset quality by keeping intact their lending standards.

1.3 Profile of Sample of commercial Banks

In this study, performance of Nabil Bank limited and Siddhartha Bank limited are compare in the field of working capital management. Here short glimpses of these commercial banks are given below:

NABIL BANK

The arrival of Nabil Bank in Nepal on the 12th of July 1984 through first a joint venture with Dubai Bank Ltd. Under a Technical Service Agreement (TSA) marks a new down in the Nepalese banking industry. What is more admirable is with the opening of then Nepal Arab bank Ltd., customer service or marketing took a U-turn. That is substance accelerated the evolution in banking products and services thereafter in Nepal. The bank commenced with a team of about 50 staff members and Rs. 28 million as capital.

Today Nabil entering the 25th year of operation has proved that it has through its past progressions and through different phases in the banking industry achieved two things we can take pride in : first it has a large clientele base and supportive stakeholders, secondly , it has succeeded in positioning itself robustly in the market for which the credit goes to Team Nabil .Today the Bank has established itself as the Bank of 1st choice. We are the largest bank in terms of the network and number of branches amongst the commercial bank with wide network of ATMs and offering including a range of diversified service products. We have a number of domains in our precedence of excellence that mirrors where we stand in the market. In this span of 24 year of banking operation, Nabil has already distributed rich cash dividends, spectacular returns on assets and equity even during the most trying times. All of which indorses the strength and drive with which Nabil proceeds.

We in order to make our presence felt in every walk of life and serve people across well social strata and segment, have expanded our network by adding 9 more branches that at total 28 points of representation in the nation. We have diversified our realms of business in the interests of our customers and are also being inspired by the noble cause of adding value to economic development. We have multiple sectors in focus to serve host of entrepreneurs as our new strategies are to expand dynamically, exploring new avenues and opportunities. We thus have packaged our service product in to well diversify range consisting of corporate banking, trade finance along with customer and retail banking services specifically, card product, micro finance and the like to reach out to the masses.

We have been able to reach where we are today having lived our values of being C.R.I.S.P at all times. We have teamed together, built on our strength, taking lager strides as our Surge Ahead- Faster – Further together in the years ahead to be the first choice provider of Complete Financial Solution of all our stakeholders.

The Memorandum and annual report of associate bank show the capital structure of the bank at present as:

a) Capital structure

Authorized Capital:		1600000000
16000000 ordinary shares of Rs. 100 each.	1600000000	
Issued Capital:		965747000
9657470 ordinary shares of Rs.100 each.	965747000	
Paid up Capital:		965747000
9657470 ordinary shares of Rs. 100 each.	965747000	

b) Shareholders:

Promoters - 70%

a) Other Entities	-	11.75%
b) Individuals	-	58.25
General public	-	30%.

Products & Services

Deposit service

- Nabil Lok Bachat
- Nabil bachat
- Nabil Nari Bachat
- Nabil Jestha Nagarik Bachat
- Nabil Bal Bachat
- Nabil Student saving
- Current Deposit
- Call Deposit
- Fixed Deposit

Remittance Product

- Western Union
- Nabil Remit
- Foreign Inward Remittance
- SWIFT Transfer
- Travelers Cheques
- Demand Drafts
- Any Where Branch Banking

Business Banking

- Working Capital and Project Service
- Trade Finance

- riority & Deprived sector Financing or Refinancing
- Mortgage Loan

Other Services

- Privilege Lounge
- Any Branch Banking Service
- Extended Banking Hours
- Internet Banking Service
- Addition Services (Issuing Balance Certificate, Good for payment etc.)
- Personal Lending
- ATM (Visa card, SCT card, Master card)[4]

SIDDHARTHA BANK

Siddhartha bank Ltd. (SBL) started its operation in the year 2002, led by a group of distinguished business personalities and respected Nepali Citizens with the objective of providing excellence and professional banking services. The promoters and public are holding 70% and 30% stake of the bank respectively.

In a short period of seven years, SBL has been able t establish itself as a ‘one stop stop, to its customers. Customers can enjoy a host of modern banking products and services under one roof. In addition to basic banking in the form of loans, deposits and trade finance, customers can enjoy ancillary services such as remittance, cards, draft issuance, traveler’s cheques and internet banking. The bank offers a wide range of deposit and lending products. The bank has an extension clientele. Deposit product has been designed based on the customer requirement. Customer eager to save can open up one of the many saving accounts

4 www.Nabilbank.com ,*Vision statement,* copy Right, Nabil Bank Limited, 2009

ranging from normal saving account , Bal Bachat, to Jestha Nagarik Bachat (senior citizens account). Similarly, customers having stable surplus of funds can go in for high yielding fixed deposits. Most of the banks saving accounts are bundled up with after benefits such as deposit cards, internet banking and locker facilities. The variety of can similarly be enjoy on the credit side. SBL has a multiple of products. The loans product interalia includes corporate loans, retail loans (home loan, auto loan, mortgage loan etc.) and SME loan. The bank credit portfolio has a healthy mix of big and small loans. The bank has a special package for small and medium sized enterprises; this package has been designed to just the smaller business that SBL believes are ones that need growth for the overall growth of the country's economy. Similarly, the bank has always explored best ways of promoting the deprived sector. On the corporate site, right since its inception, the bank has been offering credit facility to big and small corporate houses of the country. Besides, SBL has been involved in a no. of consortium financing, especially financing huge project requiring large commitment. The large projects thus financed are interalia, in sector such as hydro power generation to tourism and cement factories.

The memorandum and Annual Report of the bank show the capital structure of the bank at present as:

a) Capital Structure

Authorized Capital:		1000000000
10000000 ordinary shares of Rs. 100 each.	1000000000	
Issued Capital:		828000000
8280000 ordinary shares of Rs 100 each.	828000000	
Paid up Capital:		828000000
8280000 ordinary shares of Rs 100 each.	828000000	

b) Shareholders:

Promoters	-	70%
a) Foreign Entities	-	50%
b) Other Licensed Institutions	-	6.15%
c) Other Entities	-	11.08%
d) Individuals	-	2.77%
General Public	-	30%.

Product &Services

Deposit products

- Current Deposit
- Call Deposit
- Siddhartha Bachat (Siddhartha normal saving)
- Siddhartha Mega saving
- Siddhartha Bal Bachat
- Siddhartha Jestha Nagarik Bachat
- Siddhartha Bises Bachat
- Siddhartha Nari Bachat
- Siddhartha Remit saving
- Siddhartha USD saving
- Siddhartha Sunaulo Nechheyp Yojana

Business loan

- Overdraft
- Import Loans Project finance
- Term Loan
- Short term Loan

Personal and Retail Banking

- Siddhartha Home Loan
- Siddhartha Auto Loan

- Siddhartha Education Loan
- Siddhartha personal/Mortgage Loan
- Loans against shares/Margin credit

Other services

- Debit/ATM cards
- Safe Deposit Locker
- Evening counter
- 365 days Banking
- Internet Banking
- Any Branch Banking service[5]

1.4 Focus of the Study

This study focuses on how the Nepalese commercial joint venture banks utilized the available working capital funds very well. Besides this study also focuses on the relationship between current assets and current liabilities and relationship of other variables, which affect the working capital management.

Working capital is one of the components of financial administration. It is the essential to accommodate the smooth operation of a business concern. No business can run successfully and hopefully in the absence of adequate amount of working capital.

"Working capital management is concerned with the problems that arise in attempting to manage interrelationship between them".

The basic total of working capital management is to manage the current assets and liabilities of a firm in such way that, the satisfactory several of working capital maintained i.e , it is neither inadequate nor excessive. Inadequate working capital may lead the firm to insolvency and excessive working capital implies idle fund which earns no profit the business.

5 www.Siddharthabank.com,

Working capital is one of the major components of financial administration. It is assumed as life blood and nerve of an enterprise. It is essential to accommodate the smooth operation of an enterprise either it is public or private. In the absence of working capital the organization cannot run hopefully

The risk can be measured by working capital. Working capital increase in two conditions, by increasing on current assets or decreasing current liabilities. So it is assumed that greater amount of net working capital, less risky the firm is. By increasing the working capital, the firm will be more liquidity position. The chances of insolvent will be low in that case. In same ways, if the working capital decreases, the risk increase and side-by side these will be more chances of insolvency.

This study focuses on the comparative study of working capital management of two financial institutions with special reference to selected JVBs, viz. Nabil and Siddhartha bank limited. This study is conducted on the basic of 5 years financial data of both commercial banks from the fiscal year 2004/5 to2008/9

1.5 Statement of the problem

The strength and weakness of the company are measured by analyzing the financial statement of the company using various financial tools and techniques. Working capital management analysis depicts how well the company has managed the company's current assets and current liabilities in such a way that satisfactory level of working capital maintained sufficient working capital creates an atmosphere of confidence, certainty, and security of the firm and also helps to maintain solvency position, regularity of services, ability to pay salary and wages, debt . Besides these, it's also help to face the crises. In this way, the firm earns reputation and goodwill. Therefore to see the importance of working capital, an attempt has been made to illustrate it on commercial bank of Nepal for the past 5 years comparatively.

In this study, basically focuses our attention to analysis of working capital management of two selected joint venture commercial banks. Commercial profit by providing quality services to the customer but there are so many problems in the commercial joint venture bank in Nepal. Besides, it they own name and fame, these not appropriate training orientation classes in different level of employees. There is another main problem of Nepalese commercial joint venture banks are not effective management of working capital, policy, planning, organization, stating, co-ordination, controlling, reporting and market information are hindering their respective growth.

The main focus of the statement of the problem is stressed towards the comparative study of working capital management the selected JVBs commercial bank viz Nepal Arab Bank Limited and Siddhartha Bank Limited. Both the bank has been competing in the same economic environment and financial market. So this study diagnoses and analyzes the working capital management of these banks under study. The also point out the areas where necessary and adequate action would be taken to improve the present situation. The main trust of the study has been to make adequate cause and effect study of working capital management of this selected banks

1.6 Research Questions

- Under this circumstance the present study attempts to contribute a bit to fill the study back drop, seek to explore the efficiency and weakness of the commercial banks. The present study tries to explore the answer under the following key issues:
- What are the major factor affecting the management of working capital in NABIL and SBL?
- What is the bank image in relation to working capital?
- Is the composition of working capital of NABIL and SBL appropriate?
- Which of the current assets are more problematic in NABIL and SBL?

- What is the lending pattern of loan and advance and other investment?
- Is the position of current assets and current liabilities appropriate?

1.7 Objective of the study

The main objective of this study is to examine the management of working capital in Nabil Bank Limited and Siddhartha Bank Limited. The same specific objectives of this study are as follows:

- To study the current assets and current liabilities and their impact on liquidity and profitability.
- To provide constructive solutions for solving working capital management problems.
- To identify various working capital aspects of the NABIL and SBL.
- On the basis of the analysis, to provide recommendation and suggestions for the improvement of working capital management of NABIL and SBL in the future.

1.8 Need and significance of the study

Nepalese commercial banks are operating in the competitive environment. In this situation, banks have to adopt suitable strategies for their existence. They should balance and coordinate the different functional areas of business concern. The success or failure of any organization depends on its strategy, which is affected by working capital management. Working capital management is the crux of the problem to prepare the proper strategy on its favors. So the study might be helpful for the management of the concerned bank as well as it might be valuable for the researcher, scholars, students who want to study in to the working capital management of the commercial banks. The study of working capital of commercial bank of Nepal will beneficial to the following:

a) To the shareholders :

Shareholders are the true owners of the company. This study will be useful to them for acquiring the answers to the following.

i. How funds are utilized?
ii. To what extent they are going?
iii. Is the productivity of their limited requires satisfactory?

b) To the management :

This study will be helpful to go to deeply into the various matters as to why the performance of their bank is better or worse than others. The management will be able to find out the loose areas and gaps, which can be corrected in near future.

c) To the policy maker:

The policy maker, officer of government, ministry, central bank, used security exchange and tax office can be formulated appropriate policies, rules and regulations regarding to the operation of the commercial banks with help of this analysis.

d) To the reader:

It will also provide a helping hand to those who are interested to study or conduct research about working capital management.

1.9 Limitation of the study

None of the study can go beyond the boundary of some limitation and this study is also not an exception. The scope of the present study has been limited in terms of period of study as well as sources and nature of data. The following are the majors limitation assumptions of the study.

a) This study has been confined to only two of the commercial banks namely NABIL and SBL.

b) This study is basically based on secondary data. The study is focused on balanced sheet and income statement maintained by the banks and published or annual reports, where the information were in strong form.

c) The study only comes the period of five fiscal years.

d) This study will consider only working capital management of the bank. So the study cannot judge other financial aspect of the bank.

e) The study follows with specific tools such as ratio analysis, trend, correlation and hypothesis.

f) The lack of sufficient time and sources is another limitation of the study.

1.10 Organization of the study

This study is divided into five chapters each devoted to same aspects of the study of comparative working capital management of Nepalese commercial bank. The context of each of this chapter as follows:

1. Introduction
2. Review of literature
3. Research Methodology
4. Data presentation and Analysis
5. Summery, conclusion and Recommendation

Chapter one:

This chapter contains the introductory part of the study has as already mentioned, the chapter describes on introduction of research study which the major issues of the study, objectives of the study, significance of the study and limitation of study.

Chapter two:

This chapter deals with the part content theoretical analysis and review related articles and journals of working capital management in general and financial institution in particular with related to other related functions or variables.

Chapter three:

This chapter includes research design, nature & sources of data, data collection and processing procedure, population & sample of the study, various types of statistical tools & technique along with other reliable method of data analysis.

Chapter four:

This chapter deals with the presentation and analysis of relevant data and information through a definite course of research design. The chapter also presents the results relating to working capital management.

Chapter five:

The last chapter is concerned with the summery of the study. Various conclusions are drown from the study and recommendations are provided for improving the future performance.

Finally bibliography and appendixes have also been included at the end of the study.

CHAPTER –TWO

Review of Literature

2. Introduction:

In this chapter, the focus has made on the review of literature relevant to the working capital management of commercial banks .Every study is very much based on past knowledge or provides foundation to the present study. This chapter helps to take adequate feedback to broaden the information based on input to researcher is study. It also provides insight in to the finding of earlier studies through the review of banks, publication and previous study.

2.1 Conceptual framework

The term “working capital management” is concerned only with the management of current asset and current liabilities of the business which is necessary for day to day operation. It is controlling never of business……..Every company has variable working capital and permanent working capital. Hence the success and failure of organization depend on it. So far as the management of the working capital in joint venture bank of Nepal concerned a number of different management exports and students of MBS \MBA have undertaken studies. They have described the working capital management of various enterprises.

The purpose of this chapter is to provide on insight into WC management and to give a bird eye view of different expert’s thoughts regarding theory of WC and its implementation. While making review of related literature of WC management, the researcher has gone through different financial books, bulletin, reports and journals thus this chapter has aimed at reviewing an available literature on working capital management in the context of commercial banks.

2.2 Meaning of Commercial Bank

A commercial bank has been defined as an institution, which receives deposit of money or of credit and which seeks profits through the extension and sale of its own credit. Commercial banks contribute significantly in the financial system of the country.

"The commercial bank has its own role and contribution in the economic development. It is a source for economic development; it maintains economic confidences of various segments and extends credit of people."[6]

"Commercial banks are those institutions that perform all kind of banking function. Such as accepting deposits, advance loans, creating and advancing loan agency function etc. They provided short- term, medium terms and long terms loans to trade and industry."[7]

The commercial bank Act 2031 B.S. has further pointed out that "commercial bank debt whenever necessary for trade and commerce. They take deposits from public and grant loans in different forms. They purchase and discount bills of exchange promissory note and exchange foreign currency. They discharge various function on behalf of their customers providing that they are paid for their services"

As a summary of the above definition, the commercial banks are those financial institutions which perform widest range of economic and financial function of any business firm in the economy moreover they also provide technical help and suggestions relating to the administration suggestions and safe keeping of valuables. Collection of bills, cheque, overdraft facilities, modern baking facilities to industrial and commercial are also carried out by these banks.

Function of commercial banks:

- Creating money

6 W Reed F Ward, Richard V. Cotlel, Richard K. smith "*Commercial Banking*" Prentice Hall of India pvt. Ltd. 1976, p.2

7 *Nepal Commercial Bank*, Act 2031 B.S.

- Facilitating for the financing of foreign trade.
- Payment mechanism
- Safe keeping of valuables
- Extension credit
- Remittance services.
- Trust services

‘ In today’s concern the operating function of the commercial banks are: (a) to collect working capital (b) to utilize the working capital in various purposes (c) by utilizing the working capital, it earns profit and (d) part of the profit is distributed as dividend and part of the profits is retained for the expansion of banking transaction.

2.3 Concept of working capital

A firm needs various types of assets in order to carry out its operation. Some assets are required to meet of regular production and some others are required specially to meet day-to-day expenses and short term obligations.

The assets such as, marketable securities, accounts receivables and inventories which are known as current assets required the to be maintain as certain level depending up on the volume of production and sales. The cash and marketable securities are respectively considered as purely liquid and near liquid assets where as the accounts receivables and inventories are not. However, they can be liquidated as and when necessary with a period of less than one year. The capital invested on those assets is known as working capital. In short the working capital is source of financing current assets and includes short as well as long term financing. Working capital reports to a firm investment in short-term securities, accounts receivables and inventories.

There are two concept of working capital. They are Gross concept of working capital and Net concept of working capital.

(1) Gross concept

In simple's terms, gross concept of working capital may be defined as the total of current. In other word, if all expenses needed to run day-to day operation of business, such as amount to be invested in the form of cash, finished goods receivables etc.are put together, it is called working capital. This working capital and total current assets are synonyms gross concept in regarding as quantitative nature.

"Gross working capital is the administration on of the firm's current assets and the financing needed to support current assets." [8]

"The term working capital refers to the gross working capital and its represents the amount of funds invested in total currents assets, thus the gross working capital is the capital invested in total assets of an enterprise".[9]

The consideration of the level of investment in current assets should be avoiding two dangers point-excessive and inadequate. Investment in current assets should be just adequate not more or less to the needs of business firm. Thus, gross concept of working capital is the sum of all current assets, which can be converted in the ordinary course of business, into cash within one accounting year and includes:

a) Cash in hand
b) Cash at bank
c) Bills receivables
d) Debtors
e) Marketable securities
f) Prepaid expenses or paid in adv
g) Accrued or outstanding income

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8 Van Horne, J.C.and Wachowiczh J. M. J. R. of "*Fundamental of financial management*", prentice Hall of India Pvt. Ltd, 1972.

9 Sharma R. K.and S.K. Gupta, "*Management accountancy principles and practices*, 7th ed , p,21

h)Short term loan and advances

i) Short term investment

j) Inventories

-Raw material

-Finished goods

-Work in progress

-Supplies

(2) Net concept

"Net working capital is commonly defined as the difference between current assets and current liabilities or in the other words; net working capital is the currents assets minus current liabilities."[10]

In simple terms, net concept of working capital can be defined as the excess of current assets over current liabilities.Net concept is regarded as qualitative and time concept nature LJ Gilman has defined net concept of working capital as the portion of a firm's current assets which are financed from long term funds."[11]

The net working capital concept focuses attention on two aspects which are listed below:

- Indicates the liquidity position of the firm
- Suggest the extent to which working capital needs may be financed by permanent source of funds.

The need for the net concepts arises due to the fact the gross concept fails to consider current liabilities. Current liabilities are those liabilities which are intended to be paid in ordinary course of business within a short period of normally one accounting year. It includes:

a) Sundry creditors

b) Bills payable

10 Van Horne & J. C.," Wachowiczh, J. M. Jr. op Cit. p, 204.

11 L. J. Gitman, "*Principle of managerial finance*", 1976 p,150.

c) Notes payables

d) Account payables

e) Bank overdraft

f) Short term loan

g) Provision for taxation

h) Outstanding expenses

i) Advance income

j) Accrued income

k) Accrued interest on loan debenture

l) Long term loan and matures within a year.

Working capital has two concepts. The total of current assets (gross concept) and the excess of current assets over current liabilities (net concept). Both these concept of working capital have their own significance. “If the objectives is to measure the size and extent to which current assets being used, ‘gross concept’ is useful; where as in evaluating the liquid position of an undertaking ‘net concept’ becomes pertinent and preferable.”[12]

It may be emphasized that gross and net concepts of working capital are two important facts of the working capital management. There is no precise way to determine the exact amount of gross, or net, working capital for every firm. The data and problems of each company should be analyzed amount of working capital.

2.4 Types of working capital

Working capital can be classified into two types as given below;

12 R.K. Mishra & S. Ravishanker, "*current perspective in public enterprises Management*", Ajanta publication, New Delhi, 1985,p, 316

1) Permanent working capital

Permanent working capital is the minimum amount of current assets required throughout the year to conduct a business on a continuous and uninterrupted basis, even during the dullest season of the year. It will remain permanently in the business and will not be returned until the business is wound up."[13] But it could vary from year to year depending upon the growth of the company and the stage of business cycle in which it operates Business firm could not be able to survive itself in the competitive market without permanent working capital. For instance, every business enterprises have to maintain a minimum stock of raw materials, work-in-progress, finished product, spare parts etc. It always requires money for the payment of wages and salary throughout the year."[14]

2) Temporary working capital

Temporary working capital is also known as variable, seasonal and fluctuating working capital. It represents the extra working capital, required at certain times during the operating year to meet some exigency. It may require in seasonal change of business and certain abnormal conditions like strikes, lockout, dull market conditions, cut-throat competition etc. If a firm has sound management of this portion of working capital, it can easily win other competition in the cutthroat of the market.

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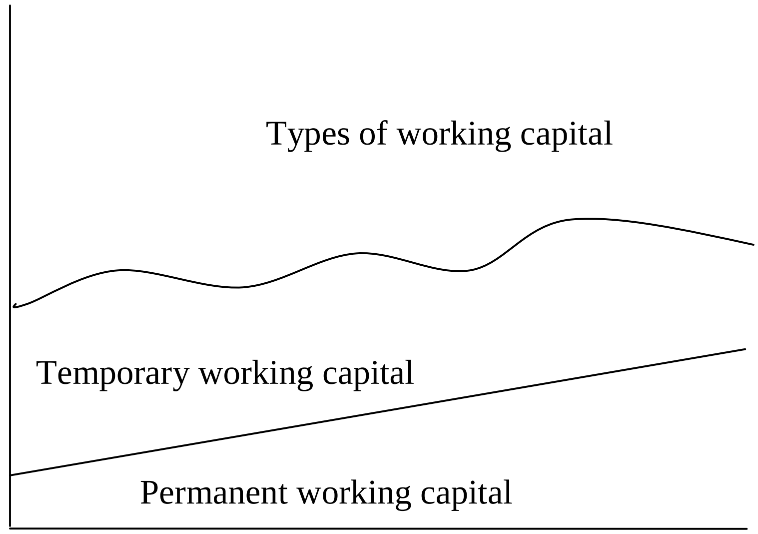
13 Khan M.Y. & Jain P.U. *"Financial Management text -2 problems , 3rd edition."* Tata Mc. Grew Hall Publishing Co. Ltd. New Delhi.

14 Kucchal, S.C. *"Financial management, an analytical and conceptual approach, 8th edt.*", Chaitanya Publishing House, Allahabad, 1999.



2.5Need of working capital

Working capital is need for day-to day business of a business firm, thus it is required to run the business firm regularly. Every business firm keeps their objectives either maximum their wealth or shareholder returns on higher profit. To achieve this it is necessary to generate sufficient profits. The extent to which profit can be earned will naturally depend upon the magnitude o the sales among other things. A successful sales program is in other words, necessary for earning profit by any business enterprises. However sale does not convert into cash instantly; there is invariable a time log between the sales of goods and receipt of cash. There is, therefore a need for working capital in the form of current assets to deal with the problem arising out of the lack of immediate realization of cash against goods sold. Therefore, sufficient working capital is necessary to sustain sales activity. Technically, this is referred to as the operating or cash cycle. The operating cycle can be said to be at the heart of the need for working capital. “Operating cycle is the time duration required to convert sales, after the conversion of resources into inventories, into cash.”

Most of the firm aims at maximizing the wealth of shareholders. The firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sale among the other things. For constant operation or business, every firm needs to hold the working capital component like cash, receivables, inventories etc. Therefore, every firm needs working capital to meet the following motives:

1. The transactional motive:

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

2. The precautionary motive:

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

3. The speculative motive:

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

a) An opportunity of profit making investment.
b) An opportunities of purchasing raw materials at reduced price on payment of immediate cash.
c) To speculate on interest rate and,
d) To make purchases at favorable price etc. Thus the firm needs the working capital to meet the speculative motive.

2.6 Determination of working capital

These are no hard and fast rules or certain formulas to determine the working capital requirement of the firm. The importance of efficient working capital management is an aspect of overall financial management. Thus a firm plans its operation with adequate working capital requirement or it should have neither too excess nor too inadequate working capital. A number of factors affect different firms in different ways. Internal policies and environment changes also affect the working capital. Generally the following factors affect the working capital requirement of the firm.

i) Nature and size of business:

The working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is bigger; then , it require more working capital whereas small firm needs less working capital relatively to public utilities.

ii) Manufacturing cycle:

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

iii) Production policy:

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

iv) Credit policy:

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

v) Availability of credit:

Availability of credit facility is another factor that affects the working capital requirements. If the creditors avail a liberal credit terms then a firm will need a less working capital and vice-versa. In other words, the firm can get credit facility easily on favorable conditions. Thus it requires less working capital to run the firm otherwise more working capital is required to operate the firm smoothly.

vi) Growth and expansion:

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

vii) Price level change:

Price level changes also affect the working capital requirement pf a firm. Generally, a firm requires maintaining the higher amount of working capital, if price level rises. Because the same level of currents asset needs more funds due to the increasing price. In conclusion, the implications of changing price level on working capital position will very from firm to firm depending on the nature and other relevant consideration of the operation of the commercial firm.

viii) Operating efficiency:

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

ix) Profit margin:

The level of profit margin differs from firm-to firm. It depends upon the nature and quality of product, marking management and monopoly power in the market. If the firm deals with the high quality product has soul marketing management and enjoy the monopoly power in the market then it earns quite high profit and ice-versa. Profit is the sources of working capital because it contributes towards the working capital as a pool by generation more internal funds.

x) Level of taxes:

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

2.7 Financing of working capital

The firm working capital assets policy is never set in a vacuum it is always established in conjunction with the firm working capital financing policy. Firm can adopt different financial policies in relation to current assets, three types of financing may mainly be identified, that are long term, short term and spontaneous financing. Long term financing includes share debenture, preference share and retained earning and long term debt from financing institutions etc. Short term financial refers to those sources of short term credit that the firm has to arrange earlier. It comprises of short term bank loan, commercial paper, factoring receivable and public deposit. At last spontaneous financing signifies the automatic sources of short term funds arising in the ordinary courses of business spontaneous financing includes trade credit (creditors and bills payable) and outstanding expenses because of its cost free nature every firm would like to finance it current assets with spontaneous sources if the fullest extend. Thus, real choice of financing current assets is in between short term verses long term financing there are three basic approaches for determining an appropriate working capital financing mix.

a) Hedging approach (matching approach)

b) Conservative approach

c) Aggressive approach

a) Hedging approach (Matching approach)

If the firm attempts to much assets and liability maturities, then the working capital financing policy is termed moderate (Maturity matching of self liquidating) policy. Hedging approach is the process of financing where each asset would be offset with financing instruments of the same approximate maturity.

"With the hedging approach short term on seasonal variation in current assets would be financed with long term debt or equity……… With a hedging approach to financing, the borrowing and payment schedule for short term financing would be arrange to correspond to the expected swings in current assets, less spontaneous financing".[15]

15 Van Horne and J."*C.and Watchowiez"*, J.M.op-cit,p, 209

b) Conservative approach:

“The financing policy of the firm is said to be conservative when it depends more on long term funds for financing needs. Under a conservative plan the firm finances its permanent assets and also a part of temporary current assets with long term financing. In the periods when the firm has no need for temporary current assets the idle long- term- funds can be invested in the tradable securities to conserve liquidity”.[16]

According to R.M.Dongol, under the conservative approach, the total funds requirements are financed by the long term fund. The short –term funds in using only in the situation of emergency. The risk is minimized under this approach. The liquidity position of the firm will be relatively greater than in hedging approach. The cost of financing under conservative approach, increase because conservative approach uses long term sources for current assets.”

c) Aggressive approach

The aggressive approach is in between of hedging approach and conservative approach. Hedging approach mix is riskier than conservative financing mix.

High profit, high risk; is the policy of hedging approach. But low profit, low risk ; is the policy of conservative approach. Aggressive approach suggests that the financing mix should be in between of two approaches. A major part of the total current assets should be financed by short term sources and a part of the long term investment also should be financed by short term a sources.”[17]

According to Van Horne, “The greater portion of the current assets need financed with short term sources or, debt, the more aggressive the financing is said to be.”

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16 Pandey I.M. (1992) , *"Financial Management, 8th edt."* vikash publishing House, New Delhi.

17 J.C Van Horne, & Wachowiczh, *J.M. Jr. op cit.* p,384

Under an aggressive approach, the firm finances a part its permanent current assets with short term financing. Some extremely, aggressive firm May event finance a part of that fixed assets with short term financing.

In aggressive policy, the liquidity position will be low and risk will be high. Therefore, when the used more short term financing, it is assumed to follow aggressive policy.

Thus, from the above study, we can make the following generation:

Table-1

Approach	cost	Working capital	Degree of risk	Profitability
Matching	Intermediate	………….	High	High
Conservative	High	High	Low	Low
Aggressive	Low	Intermediate	Intermediate	Intermediate

2.8 Review of literature

Review f literature is an essential part of all research studies. It is way to discover what other research in the area of our problem has uncovered. It is also a way to avoid investigating problem that has already been definitely answered.

Review of literature is the process of reviewing the available material relating to the particular research work. The purpose of review of literature is to receive sources ideas for conducting research and to find out what research studies have been conducting.

2.9 Review of Books

Some available books about working capital management are reviewed here under. The well known professors Western and Brigham have given some theoretical insight into working capital management after their various researches study on it. The bond conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management of working capital in any enterprises and naturally to this study as well. They explain, in the beginning, the importance of working capital, concept of working capital, financing of working capital, the use of short term verses long term debt, relationship of current assets to fixed assets. In the next chapter they have dealt with the various components of working capital and their effective management techniques. The component of capital they have dealt with the cash, marketable securities, receivables and inventory for the efficient management of cash, they have explained the different cash management models. They have also explained the major sources and forms of short term financing, such as trade credit, loans from commercial banks and commercial paper.

As per the theoretical concept on the components of working capital from James C. Van Horne, "Working capital management usually is considered to involve the administration of current assets namely cash, marketable securities, receivables and inventories and the administration of current liabilities." [18]

Indian professor I.M. Pandey has described some conceptual ingredients, which are bases on his various researches. We can learn various lessons, from it and also helpful for this study, indeed. He has described various aspects of working capital management into five chapters. The first chapter deals with the concept of working capital, need for working capital, and determinants of working capital, dimension of working capital management. In the second chapter he has described the management of cash and marketable securities, where he has dealt

18 Pandey, I.M. (1992) op cit, p 665–666

with fact of cash management, motives for holdings cash, investment in marketable securities. In the third chapter, he has described the management of receivable in which he has dealt with the goals of credit policy, credit procedure individual account.

In the fourth chapter, on investment management, he has described need to hold inventories, objectives of inventory management, inventory management techniques selective. Inventories control techniques and financial working capital he has described the commercial recommendation on the fifth chapter."[19]

Surenda pradhan, in this book" Basic of Financial Management", has shed light financing of working as," There are two ways of financing working capita requirements i.e, internal and external sources. Internal source includes use of retained earning, depreciation fund and share capital. External sources include trade credit, advances from customer, short term deposit, cash credit, short term government loan etc."22 Generally sources or a combination of various sources of financing to be used depend on the type of current assets (permanent and variable) to maintain. The long term sources such as stock issues, debts and bond are appropriate to use for the permanent type of the current assets only if the spontaneous type of short term sources are not enough to not available to cover the required of permanent current assets.

2.10 Review of Published Journals and Article

This section includes review of published journals and articles by various management exports and executives relating to working capital management.

Mr. Buddhi Prasad Acharya an NIC chartered accountant has suggested utilizing NIC fund rather than accepting high interest banking loans capital investment, since the rate of earning in liquid fund is less than the rate of interest it plays for the loan.

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19 Pradhan ,Surendra "*Basic of financial management*" Kathmandu ; Educational Enterprises,2000.

Mr. acharya, in another article, has again suggested utilizing its internal resources. He writes “It has become possible to maximize profit utilizing internal sources with minimum cost. In other hand, liquidity position of the corporation is quite high as it keeps capacity to pay off while debt as once if the circumstances required, keeping in views the increasing services, it can be expected that the further profitability trend will get improve further more in comparison to current trend provided the revenue structure from national and international services remain with as certain limit at unchanged tariff situation.”[20]

Dr.Manohar K,Shreshtha has conducted an empirical observation of twelve selected pes, in this article, he has described the conceptual ingredient concerning. He \|c, some of the major conclusion down from the research is highlighted below:

a) “The liquidity position of the selected pts showed wide deviation.

b) Based in the sales volume four out of seven PES had normal inventory, the three had not satisfactorily maintained an id in the rest inventory had exceeded sales.

c) The collection period relating to the S selected PES exhibited marked differences ranging from 32 days to 75 days.

d) The profitability position was analyzed through return in net W|C was in embellishment phase.

e) It has showed lack of forsighted liquidity adjustment strategy in most of the PES.

f) Large blocking of capital inventories and low capacity utilization all these wee due to inefficient management of WC in three public enterprises.”[21]

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20 Acharya, B.P.,"*Doorsanchaar ko Bartamaan Abastha ra Nirakaran* , Sanchar Telecommunication Corporation , Silver Jublee Special Issue, Kathmandu NTC

21 Shrestha, M.K.,"*Working capital management in selected public enterprises*", A pad management journal, 1992

2.11 Review of related research work

This section includes review of related studies made by the students oh an MBA, MBS, PHD, relating to working capital management in different PES AND private sector in Nepal.

Dr. Khagendra acharya has studied the working capital management of, manufacturing public enterprises in Nepal with reference to Nepal tea development corporation (NTDC). He looks five year data from 1975\6 to 1982\83.Some of the key finding of the study are highlighted below.

a) Inventory occupies a large portion in working capital in NIDC.

b) The turnover of inventory, receivable and current assets of NIDC were lower than average of PES selected.

c) Receivable are growing rapidly that the responding growing on sales volume.

d) The break-even analysis of NIDC reveals that due to insufficient working capital the corporation has been selling its product at a far blow rate than its breakeven.

e) There should be a close relation between production units of different estates and the ventral materials management department.

f) The growth of working capital and inventory is correlated negatively as disclosed from the overall adequacy of inventory in NIDC.

Another study in working capital management of Bottlers Nepal is conducted by Raghu Krishna Sharestha. He focused his study in the appropriateness of investment in current asset to its total assets, liquidity position management working capital needs and utilization of current assets in BNL. From the study he found that the proportion of CAS to those assets was increasing the year after year and the proportion of inventories was the highest followed by receivable and cash respectively?

He also found the liquidity position if BNL was very high resoling low profit ability and concluded that the efficiency of working capital management in

BNL was poor. For more problems the suggested paying proper attention to increase investment. He suggested adopting suitable credit policy and providing discount to accelerate its debt collection period. He also recommended setting minimum target rate of return to minimize the gap of achievement."[22]

22 Shrestha, Raghu Krishna "*An Evaluation of working capital management of Bottlers Nepal ltd*". An unpublished Master's Degree Thesis T.U. 1994.

CHAPTOR-3

Research methodology

Introduction

Research methodology is another important aspect of the thesis writing. The Research Methodology is process of arriving to the solution of the problem through planed and systematic dealing with the collection, analysis, and interpretation of fact and figure. It consists of research design, data processing procedure and technique of analysis of data.

Research is a systematic method of finding out solution to a problem to where as research methodology refers to "various sequential steps to adopt by research in studying a problem with certain objective in view."

Research methodology is systematic way to solve the research problem. In other words, research methodology described the methods and process applied in the entire aspect of the study. Research Methodology refers to the various sequential steps (along with a rational of each steps) to be adopted by a researcher in studying a problem with certain objectives in view)"[23]

3.1 Research Design

"The research design is one of the most important elements of the thesis. It is the out line of the logic of the study." The research design is the out lion of a plan to test the hypothesis and should include all the procedures that follow."[24]

Thus, the research design is plan structure and strategy of investigation conceived to obtain answer to research question and to control variances. It is the

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23 .Kothari, C.R. " *Research Methodology Method and Techniques*", Villey Eastery Limited New Delhi, 1989, p, 38.

24 Howard K. Worff and P.K. Pant "*Social Science Research and Thesis writing*" fourth edt. , Kathmandu, Bhuddha Academic Enterprises, 2005.

arrangement of condition for collection and analysis of data, to achieve the objective of this study, description and analytical research design has been used. The study aims to portraying accurately up on the working capital (or current asset and current liability) and its impact on overall financial position of these two banks.

3.2 Population and sample

The term “population” used in statistics denotes the aggregate from which the sample is to be taken and the term “sample” is that part of the population which we select for the purposes of investigation. Population refers not only to people but the totality of all observation that have selected for study. Population is also known as Universe. Sample refers to a part chosen from sack before purchasing any. They decided from the handful of rice (sample) what the sack (population) will contain.

The time limit and unavailability of relevant data had forced the researcher met to make research on the few commercial Banks even though there are 26 commercial banks operated now in Nepal. We select only two banks for the study which are NABIL and Siddhartha.

3.3 Nature and sources of Data

Generally the data are classified into two categories as primary data and secondary data. This research would include both primary and secondary data. Data collected by the researcher through agent for the first time from related field and possessing original character are known as primary data. On the other hand, data collected by some one else, used already and are made available to others in the form of published statistics are known as secondary data. Once primary data have been used, it loses its primary characteristics and becomes secondary.

But the data used in this study are basically secondary in nature. The annual reports of commercial Banks are taken as basic source of data, which are taken from website of related banks. Similarly, related books magazines, Journals articles, reports, data from Nepal stock Exchange and Nepal Rastra Bank, Banking Directive and financial statistics, related website etc. as well as others supplementary data and various economic surveys are also used.

3.4 Data collection procedure

As the study is based mainly on the secondary data, required facts have been obtained from the annual reports collected from the corporate office of the bank. Data have also been obtained browsing the official website of the banks.

Since the data have been obtained from secondary sources, after collection of financial statement, master sheet of financial data have been extracted and tabulated as for the need of this study. In order to process the data, financial statement and other available information have been reviewed. These data have been grouped in different tables and charts according to their nature. Most of the data have been compiled in one form and processed and interpreted as required.

3.5 Method of Analysis

To achieve the objective of the study various financing, accounting and statistical tools have been used. The analysis of data will be done according to the pattern of data available Due to limited time and resource, simple analytical tools such as Ratio, Trend analysis, Analysis of Variance Test, correlation analysis and percentage graph are used in this study. The various calculated results obtained through financial, accounting and statistical tools are tabulated under different heading. Then they are compared with each other to interpret the results.

3.6 Data Analysis Toos

There are different analytical tools and techniques used in the research study which are highlighted below:

3.6.1 Ratio Analysis

Financial ratios are just a convenient way to summarize large quantity of financial data. They are simply a means of highlighting in the arithmetic terms the relationship between figures drawn from financial statement. They are two of the expressing ratios one is the percentage methods such as 100 percent and other is the phase method such as two for one.

"Ratio is the numerical or and individual relationship between two figures. It is expressing one no. in terms of another i.e, one figure divided by another no. in order to calculate the ratio.

"Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concern especially to take output and credit decision."[25]

Ratio analysis is the considered as one of the most important and commonly used techniques in the modern times for the analysis of working capital. It the basic technique used in judging the liquidity position of a objectives of the firms. It is also very helpful for decision making. From the information provided by ratio analysis with the help of financial statement are useful for making decision on any activity. Thus, ratio analysis is used to compare a firms financial performance and status to that of other firms or to its over time the qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

Even though, there are many ratios; only those ratios have been covered in the study, which are related to working capital of the bank.

3.6.2 Trend Analysis

The tools that are used to show great increase or decrease of variables over a period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly.

25 Kothari CR, 1984, opcit P.201

There are various phenomena, which change with the percentage of time. So the careful study of relative changes that have taken place help to forecast the future trend and tendencies. An index number id statistical device assigned to measure the relative change in the level phenomena (variable or grouping variable) with respect time geographical location is other characteristics. In fact, index number is a device for measuring change in the magnitude of the phenomena from time or event place to place.

3.6.3 Correlation Analysis

Correlation is the statistical tools that can be used to describe the degree to which one variable in linearly related to another. The coefficient correlation measures the degree of relationship between two sets of figures.

"The correlation is defined as the relationship between (among) the one depended variables (or factor) and one (or more than one) independent variable (s) or factor(s). Other worlds, correlation is the relationship between (or among) two or more variables (i.e. only one variable depended and one or more variable(s) independent)".

Thus, correlation is an statistical tool, with the help of which, we can determine whether or not two or more variable are correlated and if they are correlated the degree(extent) and direction of correlation is determined. It can be used in two or more variables. It shows the positive or negative relationship between the variables. It indicates the relationship between two such variables in which with the change in the value of one variable ,the value of the other variable also changes.Thersult of coefficient of correlation is always between +1or -1,when r= +1,it means that there is perfect relationship between two variables and vice-versa. When r=0,it means that there no relationship between two variables. It is calculated by the following formula.

$$r = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{\sum (x - \bar{x})^2 \sum (y - \bar{y})^2}}$$

3.6.4 TESTING OF HYPOTHESIS (T-test)

One of the important applications of statistical inference is test of hypothesis. In testing of hypothesis, an assumption is made about the population parameter. T test whether the assumption or hypothesis is right or not, a sample is selected from the population, sample statistic is obtained; observe the difference between the sample mean and the population hypothesized value, and test whether the difference is significant or insignificant. Smaller the difference, the sample mean is close to the hypothesized value and, large difference of the hypothesized value has low chance to be correct.

3.6.5 Cash Flow Statement

Cash Flow statement shows all the cash inflows and outflows of a firm during a period. However is the cash flows statement must combine cash flows that are recognized in the balance sheet(for example, change in account receivable) and the income statement (for example, the sales revenue), it is sometimes complicated to prepare. Preparation of this statement is further complicated by differences between the time cash flows occur and when they are recognized as revenues or expenses.

CHAPTER- FOUR

Presentation and Analysis of data

4.1 Introduction :

The chapter entitled "Presentation and Analysis of Data" is a crucial chapter and has been organized to present the result and analyze them accordingly. The basis objectives of this study are to observe and comparatively analyze the working capital position of the commercial banks named as NABIL and SBL. The presentation and analysis of data in this study have been done to evaluate the working capital position through the financial data available in the web site of www.Nabilbank.com and www.Siddharthabank.com .

For this purpose the collected and organized data should be analyzed though different tools and techniques and interpreted. The data constitute the financial information extracted from the financial statement i.e, income statement, balance sheet and P/L account. The fiscal years of five years periods are the sample year for this study. This data are presented in the form of tabular diagram or the graphical from the analysis through different statistical and financial tools.

As per the tools used in this study the chapter has been divided into sub –chapter such as ratio analysis, Trend analysis, correlation, hypothesis and cash flow statement.

4.2 Analysis of Ratio:

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the ratios from the figure of different accounts consisting in Balance sheet and income statement is known as ratio analysis. From the information provided by ratio analysis with the help of financial statement are useful for making decision in any activity.

“ The ratio analysis provides guides and clues specially in spotting trends towards better or poorer performance and in finding out significant deviation from any average or relatively applicable standard.”

Even though, there are many ratios, only those ratios have been covered in this study, which are related to working capital of the selected bank. This study contains following ratios:

4.2.1 Liquidity Ratio

One of the main objectives of working capital management is keeping sound liquidity position. Bank is a different organization, which is engaged in mobilization of funds. So without sound liquidity position, bank is not able to operate its function. To measure the bank’s solvency position or ability to meet its short-term obligation, various liquidity ratios are calculated and to know the trend of liquidity. Trend analysis of major liquidity ratio has been considered.

4.2.1.1 Current Ratio:

This ratio indicates the current short term solvency position of bank. Higher current ratio indicates better liquidity position. It is calculated as follows:

Current Ratio = Current Assets/Current liabilities

The following table shows the current ratio to compare the working capital management of NABIL and SBL

Table No:1

Current Ratio (Times) (Rs in million)

Fiscal year	NABIL			SBL		
	Current assets	Current liabilities	Ratio	Current assets	Current liabilities	Ratio
2004/5	16281.21	15528.69	1.048	3010.599	5333.813	0.564
2005/6	21466.21	20454.97	1.049	4656.048	4158.793	1.120
2006/7	26454.44	25196.34	1.049	7834.548	6730.954	1.163
2007/8	35928.323	34455.56	1.042	11507.597	10600.009	1.085
2008/9	42841.71	40437.15	1.047	17769.959	16549.250	1.037
Average			1.047			0.993
CV			0.278			24.63

Source; Appendix-1,2

The above table shows that current assets of NABIL are increasing gradually during the study period. Current liabilities of NABIL are increasing all the times during the study period. In case of SBL, current assets are increasing all the times during the study period. Current liabilities are also increasing for all the times during the study period except for the 2nd year (2005/6).

In NABIL, current ratios are increasing in the first three years and last year, but decrease in 4th year. The current ratio is higher in 2006/7, i. e; 1.049 and lower in 2007/8 i.e; 1.042. The average current ratio of NABIL is 1.047. In the first three and last year of study period, the yearly current ratios are higher than average ratio but in the 4th year, yearly current ratio is lower than the average ratio.

In the case of SBL, current ratios are increasing in first three years and decrease in last two years. The current ratio is higher in 2006/7 i.e; 1.163 and lower in the 2004/5 i.e; 0.564. The average current ratio of SBL is 0.993. In the 2nd , 3rd , 4th and 5th years of study periods, the yearly current ratios are higher than average ratios and in 1st year, the yearly current ratios are lower than the average ratio. The yearly ratios of NABIL are higher than that of SBL. Therefore, the average ratio of NABIL is higher than the average ratio of SBL.

By considering CV. of current assets and current assets to current liabilities for 5 successive year of NABIL is 0.278 times whereas SBL is 24.63 times which shows that NABIL is more consistent than SBL. In other words, there is more fluctuation in current Assets and current liabilities of SBL than NABIL because the the CV. of SBL is more than NABIL i.e. 24.63>0.278.

The above analysis helps to conclude that the liquidity position of NABIL is better than that of SBL. NABIL and SBL are always unable to maintain the standard current ratio of 2:1, hence, both the bank have poor liquidity position according to norms. Comparatively, the liquidity position of NABIL is better than that of SBL.

4.2.1.2 Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. The purpose of ratio is to test the ability of the firm for immediate payment of current liabilities. It is calculated as follows:

Quick Ratio = Quick assets / current liabilities

For the study, cash and bank balance, and government securities are included in quick assets. The following table shows the quick ratio of NABIL and SBL.

Table -2

Quick ratio (times) (Rs. In million)

Fiscal year	NABIL			SBL		
	Quick assets	Current liabilities	Ratio	Quick assets	Current liabilities	Ratio
2004/5	1224.008	15528.69	0.078	403.224	5333.813	0.075
2005/6	1852.707	20454.97	0.090	510.535	4153.793	0.122
2006/7	5485.660	25196.34	0.217	1139.199	6730.954	0.169
2007/8	6495.527	34455.56	0.187	1283.734	10600.009	0.121
2008/9	5211.331	40437.15	0.128	1324.621	16549.250	0.080
Average			0.140			0.113
CV			43.18			33.73

Source: Appendix-1,2

The above analysis depicts that the quick ratio of NABIL Is increasing in first three years and then decrease in last two year during study period. The quick ratio is higher in 2006/7 i.e; 0.217 and lower in 2004/5 i,e; 0.078. The average quick ratio is 0.140. The yearly quick ratio in 2006/7 and 2007/8 is higher than average ratio and three years of study period, i, e; 2004/5 2005/6 and 2008/9, the yearly ratio of NABIL are less than average ratio.

In the case of SBL, the quick ratios are always fluctuating over the study period. The ratio is higher in 2006/7 i .e; 0.169 and lower in 2004/5 i. e; 0.075. The average ratio is 0.113. Except first and last year, yearly quick ratios are higher than average ratio, during the study period.

The CV. of Quick Assets to Current liabilities for 5 successive years of NABIL is 43.18 times whereas SBL is 33.73 times. Since the CV. of SBL is lower than NABIL, SBL is more consistent or uniform than NABBIL.

The yearly quick ratios of NABIL are higher than the SBL. Therefore, the average quick ratio of NABIL is quite higher than SBL. So the above analysis helps to conclude that the quick ratio of NABIL is quite better than SBL. It shows the quite better liquidity position of NABIL than SBL.

4.2.1.3 Cash and bank balance to Total Deposit Ratio

This ratio shows the ability of bank immediate funds to cover their (current, margin, call and saving) deposits. This is calculated as:

Cash and Bank balance to Total Deposit ratio =Cash and bank balance/Total Deposit

The following table shows the cash and bank balance to total deposit ratio of NABIL and SBL.

Table -3

Cash and bank balance to Total Deposit Ratio

(Rs in million)

Fiscal year	NABIL			SBL		
	Cash and bank balance	Total Deposit	Ratio(%)	Cash and bank balance	Total Deposit	Ratio
2004/5	559.380	14586.608	3.8%	130.729	2461.922	5.3%
2005/6	630.238	19347.399	3.2%	115.946	3918.076	2.9%
2006/7	1399.825	23342.285	5.9%	517.226	6625.678	7.8%
2007/8	2671.141	31915.047	8.3%	437.425	10191.440	4.3%
2008/9	3372.512	37348.255	9%	1777.889	15984.934	11.1%
Average			6%			6.28%
CV.			43.28			60.11

Source: Appendix-1,2

The above analysis shows that the cash and bank balance to total deposit ratio of NABIL bank are increasing in the study period except 2nd year. It is highest in the year 2008/9 i.e; 9% and lowest in the 2005/6 i.e; 3.2%. The average ratio of NABIL is 6%. The ratios are higher than the average only in the 4th and 5th year and rest of the three year of study period has lower than average ratio.

In SBL, ratios are always fluctuating over the year of study period. The highest is in 2008/9 i.e; 11.1% and lowest in 2005/6 i.e; 2.9%. The average ratio of SBL is 6.2%. Only in the third and fifth year i.e; 2006/7 and 2008/9, the ratios are higher than the average ratio. The average ratio of SBL is quite higher than the NABIL. The ratio of both the bank are lower in 2nd year and higher in 5th or last year of the study period.

Cash and bank balance of NABIL is increasing all the times during the study period.

In cash of SBL, cash and bank balance is fluctuating over the study period.

The cv. of cash and Bank Balance to Total Deposit Ratio for 5 successive years of NABIL is 43.28 times whereas SBL is 60.11 times. By considering CV., NABIL is more consistent or uniform than SBL because the CV. of NABIL i.e. 43.28 is lower than SBL. In other words, there is more fluctuation in cash and bank balance to total deposit ratio of SBL than that of NABIL.

The above analysis helps to conclude that SBL holds more cash balance than NABIL. The higher ratio of SBL shows that ability of bank immediate funds to cover its current, margin, call and saving deposit is better than the same of NABIL. In other words the liquidity position of SBL is better than NABIL, but the large idle cash and bank balance badly affect the profitability of bank. From the point view of utilizing cash, NABIL has better position than SBL.

4.2.1.4 Saving Deposit to Total Deposit Ratio:

Saving deposit is interest bearing short term deposit. The ratio is calculated as follows:

Saving deposit to total deposit ratio = saving deposit /total deposit

The following table shows the bank saving deposit to total deposit ratio.

Table-4

Saving deposit to total deposit ratio

(Rs. In million)

Fiscal year	NABIL			SBL		
	Saving deposit	Total deposit	Ratio	Saving deposit	Total deposit	Ratio
2004/5	7026.334	14586.608	0.48	525.654	21461.922	0.21
2005/6	10187.354	19347.399	0.53	1128.464	3918.076	0.29
2006/7	12159.966	23342.285	0.52	1881.636	6625.078	0.28
2007/8	8770.793	31015.047	0.27	2622.242	10191.440	0.25
2008/9	14620.407	37348.255	0.39	3732.052	15984.934	0.23
Average			0.43			0.25
CV.			24.32			12.55

Source: Appendix-1,2

The above analysis depicts that the saving deposit ratio of NABIL are increasing in first two years and then fluctuating remaining last three years during the study period. It is higher in the year 2005/6 i.e; 0.53 and lower in the year 2007/8 i.e; 0.27. The average ratio of NABIL is 0.43. First three years, ratios are higher than the average ratio and remaining last two years, the ratios are lower than the average ratio during the study period.

In case of SBL, saving deposit ratio are increasing first two years, then gradually decrease in last three years during the study period. The ratio is highest in year 2005/6 i. e; 0.29 and lowest in the year 2004/5 i. e; 0.21. The average ratio of SBL is 0.25. The yearly ratios of middle three years are higher than average ratio and first and last year, the yearly ratios are lower than the average ratio.

The yearly ratios of NABIL are always higher than the SBL. So the average ratio of NABIL i.e; 0.43 is also higher than SBL i.e; 0.25.

The CV. of saving Deposit to Total Deposit ratio for 5 successive years of NABIL is 24.32 times whereas SBL is 12.55 times. By considering CV, there is more fluctuation in saving Deposit to Total Deposit of NABIL than SBL because NABIL has higher CV. than that of SBL.

From the above analysis, saving deposit to total deposit ratio of NABIL is better than the same of SBL. It implies that NABIL is more liquid bank than SBL. It also shows that NABIL pays higher amount of interest on deposit, which reduce the profitability of NABIL. Increasing ratio of NABIL shows that it is raising more funds from saving deposit.

4.2.2 Profitability Ratio

Profitability ratio shows the combined effects of liquidity assets management and debt management on operating results. It measures the earning of the company for the certain period. Here profitability is measured in term of various ratios as follows:

4.2.2.1 Net profit to Total Assets Ratio

This ratio is calculated as follows:

Net profit to total assets ratio = Net profit /Total assets

The following table shows the net profit to total assets ratio of NABIL and SBL.

Table -5

Net profit to Total assets Ratio

(Rs in million)

Fiscal year	NABIL			SBL		
	Net profit	Total assets	Ratio(%)	Net profit	Total asset	Ratio
2004/5	518.635	17064.082	3%	70.279	3091.102	2.2%
2005/6	635.262	22329.971	2.8%	65.252	4756.935	1.3%
2006/7	673.959	27253.393	2.4%	95.305	7954.664	1.2%
2007/8	746.468	37132.759	2%	143.172	11668.355	1.2%
2008/9	1031.053	43867.397	2.3%	215.602	18060.979	1.1%
Average			2.5%			1.4%
CV			16			32.34

Source: Appendix-3,4

The above analysis shows that the profitability ratio i. e; Net profit to Total assets ratio of NABIL is fluctuating during the study period. The ratio is highest in 2004/5 i.e; 3% and lowest in 2007/8 i. e; 2%. The average ratio of NABIL is 2.5%.

The ratios of SBL are gradually decreasing over the 5 years study period. The highest ratio is in 2004/5 i.e; 2.2% and lowest ratio is in 2008/9 i.e; 1.1%. The average ratio of SBL is 1.4%.

The above table shows that the CV. of Net profit to total assets for 5 successive years of NABIL is 16 times whereas SBL is 32.34 times, which shows that NABIL is more consistent or uniform than SBL because the CV. of NABIL i.e. 16 times is lower than that of SBL. In other words, there is more fluctuation in Net profit to total assets of SBL than that of NABIL.

Net profit of both banks is increasing over the 5 years study period. The yearly ratios of NABIL are always higher than SBL. So the average ratio of NABIL is also higher than SBL.

So the above analysis helps to conclude that the overall profitability of NABIL is better than that of SBL, and NABIL is more efficiently using its working capital funds of assets to earn higher ratio of profit.

4.2.2.2 Net profit to Working capital Ratio

This ratio measures the percentage of profit earned from the utilization of working capital.

It is calculated as follows:

Net profit to Working capital = Net profit /Working capital

The following table shows the net profit to working capital ratios of NABIL and SBL.

Table -6
Net profit to Working capital Ratio (%)

(Rs. In million)

Fiscal year	NABIL			SBL		
	Net profit	Working capital	Ratio (%)	Net profit	Working capital	Ratio (%)
2004/5	518.635	752.52	68.91	70.275	-323.214	-3.02
2005/6	635.262	1011.87	62.78	65.252	502.255	13
2006/7	673.959	1258.10	53.57	95.305	1103.594	8.63
2007/8	746.468	1472.76	50.68	143.172	907.588	15.77
2008/9	1031.053	1904.56	54.13	215.602	1220.705	17.66
Average			58.01%			10.41%
CV.			13.07			79.03

Source: Appendix-1,2,3&4

The above table highlights the Net profit to Working capital ratio of NABIL and SBL. In the case of NABIL, the ratios for 5 successive year is 68.91%, 62.78%, 53.57%, 50.68%,and 54.13%. It shows the highest ratio i.e;68.91% is in the year of 2004/5 and lowest i.e; 50.68% in 2007/8. The average ratio of NABIL is 58.01%

In the case of SBL, the ratios for 5 successive year is -3.02%, 13%, 8.63%, 15.77% and 17.66%, which shows that the highest ratio is in 2008/9 and i.e; 17.66% and lowest in 2004/5 i.e; -3.02%. The average ratio of SBL is 10.41%, which is very lower than NABIL i.e; 58.01%.

The above table also shows that the CV. of Net profit to working capital for 5 successive years of NABIL is 13.07 times whereas SBL is 79.03. Since the CV. of SBL is very higher than NABIL, There is more fluctuation in Net profit to working capital of SBL than that of NABIL.

The yearly ratios of NABIL are always higher than SBL, so the average ratio of NABIL is also higher than SBL.

The above analysis helps to conclude that the net profit to working capital ratio of NABIL is better than SBL. Thus NABIL has better performance on mobilization of total deposit than SBL.

4.2.2.3 Interest Earned to Total Assets Ratio

This ratio is to find out the percentage of the investment earned to total assets. This ratio is calculated as follows:

Interest earned to Total assets Ratio = Interest earned /Total assets

The following table shows the interest earned to total assets ratio of NABIL and SBL.

Table No-7

Interest Earned to Total assets Ratio

(Rs. in million)

Fiscal year	NABIL			SBL		
	Interest earned	Total assets	Ratio (%)	Interest earned	Total assets	Ratio (%)
2004/5	825.202	17064.082	4.83%	106.203	3091.102	3.43%
2005/6	952.837	22329.971	4.26%	151.851	4756.935	3.19%
2006/7	1032.048	27253.393	3.78%	209.812	7954.664	2.63%
2007/8	1220.260	37132.759	3.28%	321.683	11668.355	2.75%
2008/9	1645.206	43867.397	3.75%	451.691	18060.979	2.5%
Average			3.98%			2.9%
CV.			15.18			13.75

Source: Appendix 1,2,3 &4

The above analysis shows that, interest is increasing during the study period in both the bank NABIL and SBL. The interest earned to total asset ratio of NABIL are decreasing first four years and increase in last year. The ratio is highest in the year 2004/5 i. e; 4.83% and lowest in 2007/8 i.e; 3.28%. The average ratio of NABIL is 3.98%, which is lower than yearly ratio of first two years and higher than yearly ratio of last three years

In the case of SBL, the ratios are decreasing first three years and increase in 4th year and again decrease in last year. It is highest in 2004/5 i. e; 3.43% and lowest in 2008/9 i.e;2.5%. The average ratio of SBL is 2.9%, which is lower than yearly ratio of first two years and greater than yearly ratio of last three years of study period.

The above table also shows that the CV. of interest earned to total assets for 5 successive years of NABIL is 15.18 times whereas SBL is 13.75 times . It shows that there is more fluctuation in interest earned to total assets of NABIL than SBL because the CV. of NABIL is higher than SBL.

The yearly ratio of NABIL is always higher than SBL. therefore the average ratio of NABIL is higher than SBL.

So, the above analysis helps to conclude that the interest earned to total assets ratio of NABIL is better than SBL. This implies that NABIL is efficiently using its total assets to earn interest income.

4.2.2.4 Interest Earned to Working Capital Ratio:

This ratio is find out percentage of the investment earn to working capital. This ratio is calculated as follows.

Interest Earned to working capital ratio = Interest earned /Working capital

The following table shows the interest earned to working capital ratio of NABIL & SBL.

Table -8

Interest earned to Working capital ratio (%)

(Rs. in million)

Fiscal Year	NABIL			SBL		
	Interest Earned	Working Capital	Ratio (%)	Interest Earned	Working Capital	Ratio (%)
2004/5	825.202	752.52	109.65%	106.203	-2323.21	-5.71%
2005/6	952.837	1011.87	94.16%	151.851	502.255	30.23%
2006/7	1032.048	1258.10	82.03%	209.817	1103.594	19.01%
2007/8	1220.260	-467.06	-14.41%	321.683	3320.565	9.68%
2008/9	1645.206	1904.56	86.38%	451.691	1220.705	37%
Average			71.56%			10.04%
CV			12.68			220.74

Source: 1,2,3&4

The above study depicts that interest earned to working capital ratios are decreasing in the first four years and increasing in last year , in the case of NABIL. The ratio is higher in the year 2004/5 i.e; 109.65% and lower in the year 2007/8 i.e; -14.41%. The average ratio of NABIL is 71.56%, which is lower than the 5 year yearly ratios except 4th year yearly ratio.

In the case of SBL, the ratios are always fluctuating over the 5 years study period. The ratio of SBL is higher in the year 2008/9 i.e; 37% and lower in the year 2004/5 i.e; -45.71%. The average ratio of SBL is 10.04%,which is very lower than the average ratio of NABIL i.e; 71.56%.

The above table also shows that the CV. of interest earned to working capital for 5 successive years of NABIL is 12.68 times whereas SBL is 220.74 times . By considering the CV., NABIL is more consistent or uniform than that of SBL because the CV. of NABIL i.e. 12.68 is lower than SBL. In other words, there is more fluctuation in interest earned to working capital ratio of SBL because SBL has very higher CV. i.e. 220.74 times than that of NABIL.

The yearly ratios of NABIL are always higher than SBL. So the average ratio of NABIL is higher than SBL. Therefore the above analysis helps to conclude that the interest earned to working capital ratio of NABIL is better than SBL. This implies that NABIL is efficiently using its working capital to earn interest income.

4.2.3 Activity or Turnover Ratio

Activity ratios are used for evaluate the efficiency with which the firm manager utilizes their assets. These ratio help in measuring the banks ability to utilize their available resources

4.2.3.1 Loan and Advances to Total Deposit Ratio:

This ratio measures the extent to which banks are successful in utilizing the outsider's funds for the profit generating purpose. This ratio is calculated as follows:

Loan and Advances to Total Deposit ratio = Loan and Advances/ Total Deposit

The following table shows the effectiveness in utilization of total deposit of NABIL & SBL.

Table -9

Loan and Advances to Total Deposit Ratio

(Rs. in million)

Fiscal Year	NABIL			SBL		
	Loan and Advances	Total Deposit	Ratio	Loan and Advances	Total Deposit	Ratio
2004/5	10586.170	14586.608	0.72	2570.776	2461.922	1.04
2005/6	12922.543	19347.399	0.67	3789.122	3918.076	0.97
2006/7	15545.778	23342.285	0.66	6222.586	6625.078	0.94
2007/8	21365.053	31915.047	0.67	9335.97	10191.440	0.91
2008/9	27589.933	37348.255	0.73	13330.802	15984.934	0.83
Average			0.69			0.94
CV.			4.69			8.13

Source : Appendix 1,2

The above analysis shows that Loan and Advances of NABIL are increasing gradually during the study period. Loan and Advances to Total Deposit ratios are always fluctuating over the 5 year study period. In the case of NABIL, the ratios for 5 successive year is 0.72, 0.67, 0.66, 0.67and 0.73. It shows that the ratio is highest in 2008/9 i.e; 0.73 and lowest in 2006/7 i.e; 0.66. The average ratio of NABIL is 0.69, which is lower than the yearly ratio of first and last year and higher than the yearly ratio of remaining three years during the study period.

In the case of SBL, the ratios are gradually decreasing during the 5 year study period. The ratio is highest in the year 2004/5 and lowest in the year 2008/9. The average ratio of SBL is 0.94. First three years, the yearly ratios are higher than the average ratio and last two years, the yearly ratios are lower than the average ratio. The yearly ratios of SBL are always higher than NABIL. So the average ratio of SBL is higher than NABIL.

The above table also shows that the CV. of loan and advances to total deposit for 5 successive years of NABIL is 4.69 times whereas SBL is 8.13 times. It shows that the NABIL is more consistent or uniform than SBL because the CV. of NABIL is lower than SBL.

The above study helps to conclude that Loan and advances to total deposit turnover ratio of SBL is better than NABIL. It implies that, SBL is employing funds more effectively for the profit generation purpose on Loan and Advances than NABIL.

4.2.3.2 Loan and Advances to Fixed Deposit Ratio:

This ratio examines that how many times the fund is used in Loan and Advances against fixed deposit. This ratio is calculated as follows:

Loan and Advances to Fixed Deposit ratio = Loan and Advances/fixed deposit.

The following table shows the ratio of Loan and Advances to Fixed Deposit ratio of NABIL and SBL.

Table-10
Loan and Advances to Fixed Deposit Ratio

(Rs. in million)

Fiscal Year	NABIL			SBL		
	Loan & Advances	Fixed Deposit	Ratio	Loan & Advances	Fixed Deposit	Ratio
2004/5	10586.170	2078.535	5.09	2570.776	1196.505	2.15
2005/6	12922.543	3449.094	3.74	3789.122	1632.091	2.32
2006/7	15545.778	5435.189	2.86	6222.586	3022.555	2.06
2007/8	21365.053	8464.086	2.52	9335.597	4562.723	2.04
2008/9	27589.933	8310.708	3.32	13330.802	6013.242	2.21
Average			3.50			2.15
CV			28.52			5.33

Source: Appendix 1,2

The above analysis depicts that the Loan and advances to fixed deposit ratio of NABIL is decreasing in first four years and increasing in last year. The ratio is highest in 2004/5 i.e; 5.09 and lowest in 2007/8 i.e; 2.52. The average ratio of NABIL is 3.50, which is lower than the yearly ratios of first two years and higher than the yearly ratio of last three years during the study period.

In the case of SBL, the Loan and advances to fixed deposit ratio are always fluctuating during the 5 year study period. It is highest in the year 2005/6 i.e; 2.32 and lowest in the year 2007/8 i.e; 2.04. The average ratio of SBL is 2.15, which is lower than the yearly ratio of 2nd and last year, higher than the yearly ratio of 3rd year and 4th year and equals to the yearly ratio of first year.

The above table shows that the CV. of loan and advances to fixed deposit for 5 successive years of NABIL is 28.5 times whereas SBL is 5.33 times. By considering CV., Loan and advances to fixed deposit of NABIL is more fluctuated than that of SBL because NABIL has higher CV. than SBL i.e. 28.52>5.33.

The above analysis helps to conclude that Loan and advances to fixed deposit ratio of NABIL is better than SBL. It shows that NABIL is utilizing its fixed deposit in Loan and advances more efficiently than SBL.

4.2.3.3 Loan and Advances to Saving Deposit Ratio

The ratio is also employed for the purpose of measuring the utilization of saving deposit in generating revenue by giving Loan and advances to the client i.e; to what extent collected saving deposit amount is deploying in providing loan and advances to generate income. This ratio indicates how many times short term interest bearing deposits are utilized for income generating purpose. It is calculated as follows

Loan and Advances to Saving Deposit Ratio = Loan& Advances /Saving Deposit.

The following table shows the effectiveness in utilization of total deposit of NABIL and SBL.

Table -11

Loan and Advances to Saving Deposit Ratio

(Rs. in million)

Fiscal Year	NABIL			SBL		
	Loan & Advances	Saving Deposit	Ratio	Loan & Advances	Saving Deposit	Ratio
2004/5	10586.170	7026.344	1.50	2570.776	525.654	4.89
2005/6	12922.543	10187.354	1.27	3789.122	1128.464	3.35
2006/7	15545.778	12159.966	1.28	6022.586	1881.663	3.30
2007/8	21365.053	8770.759	2.43	9335.597	2622.242	3.56
2008/9	27589.933	14620.407	1.89	13330.802	3723.937	3.58
Average			1.67			3.73
CV			29.44			17.22

Source: Appendix 1,2

The above analysis shows that the Loan and advances to saving deposit ratio of NABIL is always fluctuating over the study period. It is highest in the year 2007/8 i. e; 2.43 and lowest in the year 2005/6 i.e; 1.27. The average ratio of NABIL is 1.67, which is lower than the yearly ratio of 4th and 5th year and higher than the yearly ratio of remaining first three years during the study period.

In the case of SBL, the ratio is decreasing first three year and increasing in last two year. It is highest in the year 2004/5 i.e; 4.89 and lowest in the year 2006/7 i.e; 3.30. The average ratio of SBL is 3.73, which is lower than the yearly ratio of first year and higher than the yearly ratio of remaining four years. The yearly ratios of SBL are always higher than the NABIL. So the average ratio of SBL is higher than the NABIL.

The above table also shows that the CV. of loan and advances to saving deposit for 5 successive years of NAIBL is 29.44 times whereas SBL is 17.22 times. It shows that there is more fluctuation in loan and advances to saving deposit of NABIL than SBL because NABIL has higher CV. than that of SBL.

From the above analysis, it can be concluded that the Loan and advances to saving deposit ratios of SBL are better than that of NABIL. It implies that SBL is utilizing short term fund of outsider more effectively than NABIL.

4.3 Composition of Working Capital

For the day- to- day business operation different types of current assets are required. The composition of current assets of NABIL and SBL are cash and bank balance, money at call and short notice, investment and loan and advances .

The following table shows the amount of cash and bank balance, money at call and short notice, investment and loan and advances of NAABIL and SBL during the study period.

Table No:12(A)

Current assets components of NABIL.

(Rs. in million)

Fiscal Year	Cash & Bank Balance	Money at call & Short notice	Investment	Loan & Advance	Total current assets
2004/5	559.38	868.42	4275.52	10586.17	16289.50
2005/6	630.23	1734.90	6178.53	12922.54	21466.21
2006/7	1399.82	563.53	8945.31	15545.77	26454.44
2007/8	2671.14	1952.36	9930.77	21365.05	35928.32
2008/9	3372.51	552.88	10826.37	27589.93	42341.71

Table No:12(A)

Current assets component of SBL

(Rs. in million)

Fiscal Year	Cash & bank balance	Money at call & short notice	Investment	Loan & Advances	Total current assets
2004/5	130.72	22.47	286.62	2570.77	3010.59
2005/6	115.94	100.00	650.97	3789.12	4656.04
2006/7	517.22	229.44	865.18	6222.58	7834.44
2007/8	437.42	584.73	3150.09	9335.59	11507.59
2008/9	1777.88	484.84	2176.42	13330.80	17769.95

Sources: Appendix 1,2

From the above table i.e. 12(A) cash and bank balance of NABIL is always increasing during the study period . Loan and advances and investment are also increasing during the 5 year study period. Another component of current assets money at call and short notice is always fluctuating during the study period. It is highest in 4th year and lowest in last year over the study period.

In the case of SBL, cash & bank balance is always fluctuating over the study period. Money at call and short notice and investment is increasing first four years and both are decreasing in last year. Another component of current assets loan & advances is increasing during the study period.

From the above analysis total current assets of NABIL is increasing during the study period. Current assets of SBL is also increasing during the study period. So, it can be concluded that the amount of current assets of NABIL is always higher than SBL, which shows that there is higher amount of funds to operate daily operation.

4.4 Net Working Capital

Net working capital is the difference between current assets and current liabilities**.** Net working capital can be positive or negative. A positive net working capital will arise when current assets exceeds current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets.

The following table shows the net working capital & % change in net working capital.

Table No:13(A)

Net working capital of NABIL

(Rs in million)

Fiscal Year	Current assets	Current liabilities	Net working capital	% change in net working capital
2004/5	16281.21	15528.69	752.52	-
2005/6	21466.21	20454.97	1011.87	34.46%
2006/7	26454.44	25196.34	1258.10	24.33%
2007/8	35928.32	34455.56	1472.76	17.06%
2008/9	42341.71	40437.15	1904.56	29.31%
Average			1279.96	
CV.			34.45	

Table No:13 (B)

Fiscal Year	Current assets	Current liabilities	Net working capital	% change in net working capital
2004/5	3010.59	5333.81	-2323.22	-
2005/6	4656.04	4153.79	502.25	121.62%
2006/7	7834.54	6730.95	1103.59	119.73%
2007/8	11507.59	10600.01	907.58	17.76%
2008/9	17769.95	16549.25	1220.70	34.50%
Average			282.18	
CV.			210.25	

Source: Appendix 1,2

The above table no 13(A) shows that the Net working capital of NABIL is increasing every year of study period. The average net working capital of NABIL is Rs. 1279.96 million. Percentage change in net working capital of NABIL for next 4 year is 34.16%,24.33%,17.06% and 29.32%

In the case of SBL, table13(B) shows that the net working capital of SBL are always fluctuating over the study period. It is negative in first year i.e. -2323.22 million and it is highest in last year i.e. 1220.70 million. The average net working capital of SBL is 282.18 million.

From the above analysis, NABIL bank has positive working capital in the whole study period, which implies that there is sufficient amount of required for operational requirement in the years. On the other hand SBL has negative working capital in first year. It shows that there is not sufficient amount required for operational requirement for the years. But after that then, SBL has positive working capital.

The table also shows the CV. of net working capital for 5 successive years of NABIL is 34.45 times whereas SBL is 210.25 times, which is very higher than NABIL. So the net working capital of SBL is more fluctuated than that of NABIL. In other words, net working capital of NABIL is more consistent than that of SBL.

4.5 Trend Analysis

In today's world of dynamic change nothing remains constant instead everything changes now and then. As such, business too changes each year. This really makes a Herculean Task to find enough information about business by way of analyzing the financial statement of a single year. In order to succeed in this dynamic world, it is quite important for a business analysis to find out the direction and tendency of business and to determine it the relative part to the problem are studied and the trend is determined.

Trend analysis makes it easy to understand the change occurred in an item of group of items over a period of time. Thus, trend analysis is one of the important tool for the bankers as it enable them to indicate the direction in which their business is going and on this basis to forecast its future. There are generally two method of expressing trends which are listed below:

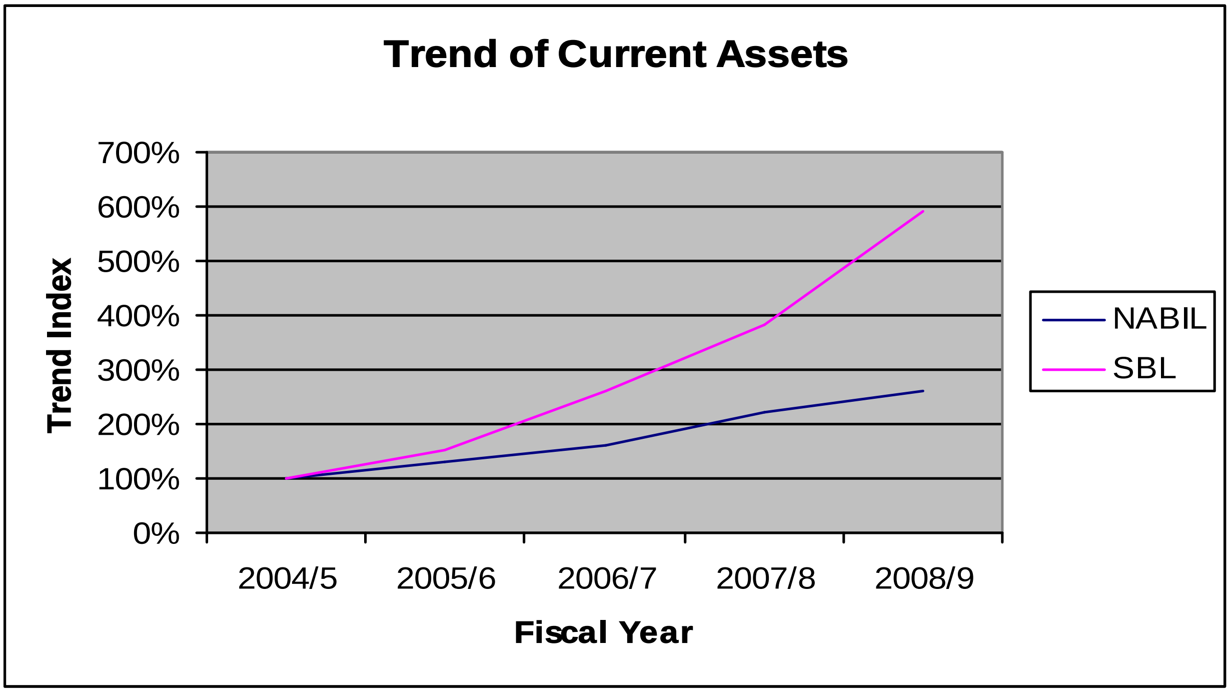
-Trend Ratio

-Graphs and Diagrams

Here graphs and diagrams have been used to express the trends of different items of two commercial banks.

4.5.1 Trend of Current Assets:

Graph No: 1

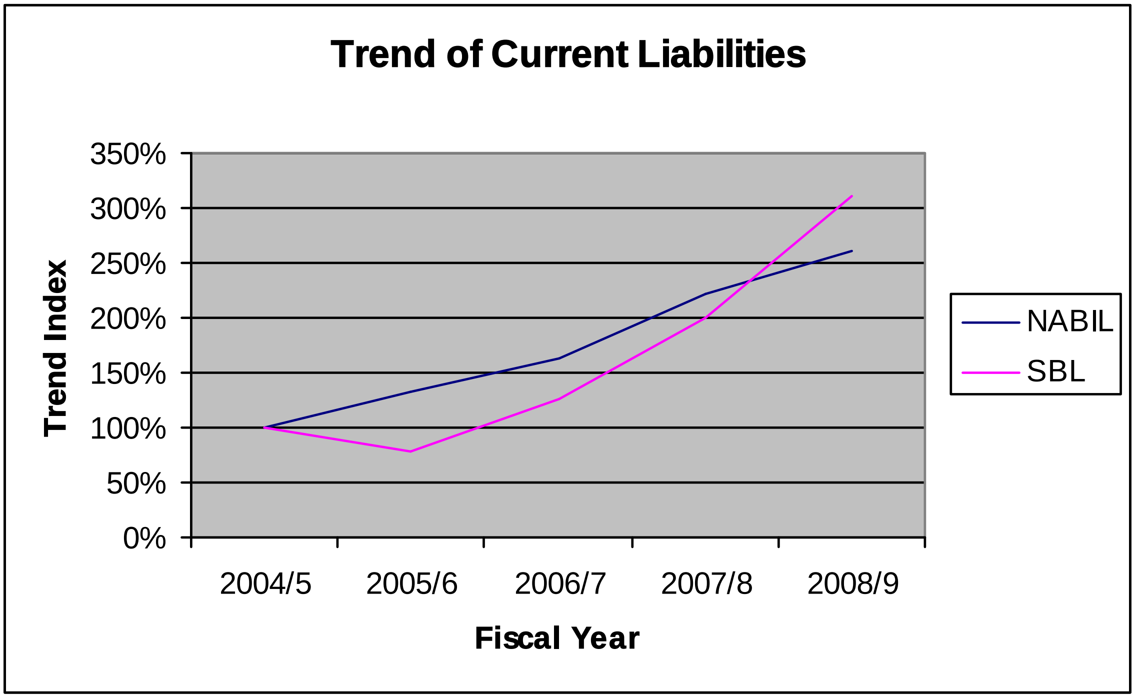


The above graph highlights the current assets trends of two commercial bank form 2004/5 to 2008/9. The growth of current assets in comparison to the base year. i.e 100% (for 2004/5) for 5 successive years of NABIL is 132%, 162%, 220% and 260% respectively whereas of SBL is 154%, 260%, 382% and 590%.

The current assets of NABIL and SBL shows an increasing trend through out the study period. But there is highly increasing trend of current asset in SBL than NABIL. This indicates that the current assets management of SBL is better in comparison to the NABIL.

4.5.2 Trend of Current Liabilities:

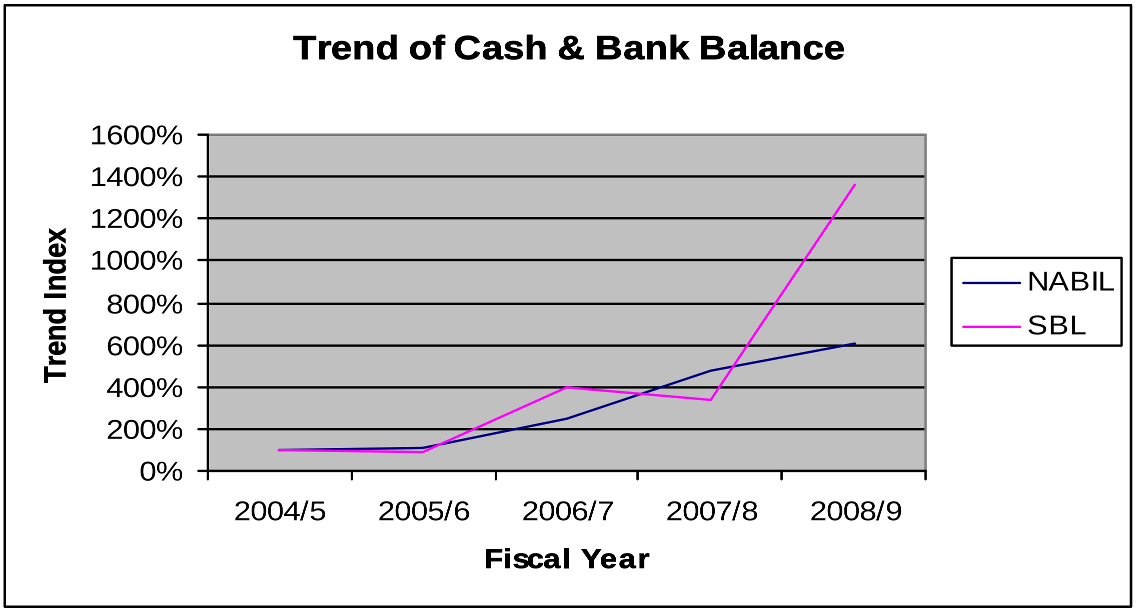
Graph No.2
Current Liabilities



The above graph highlights the current liabilities trend of two commercial banks from 2004/5to 2008/9. The graph of current liabilities in comparison to the base year (2004/5) i.e. 100% for 5 successive years of NABIL is 132%, 162%, 222% and 260% respectively whereas of SBL is 78%, 126%, 199% and 310% respectively. The current liabilities of NABIL shows the increasing trend during the 5 years study period. Current liabilities of SBL also shows the increasing trend during the study period except in 2005/6. This indicates that the current liabilities is SBL is greater in comparison to the NABIL.

4.5.3 Trend of Cash and Bank Balance

Graph No. 3

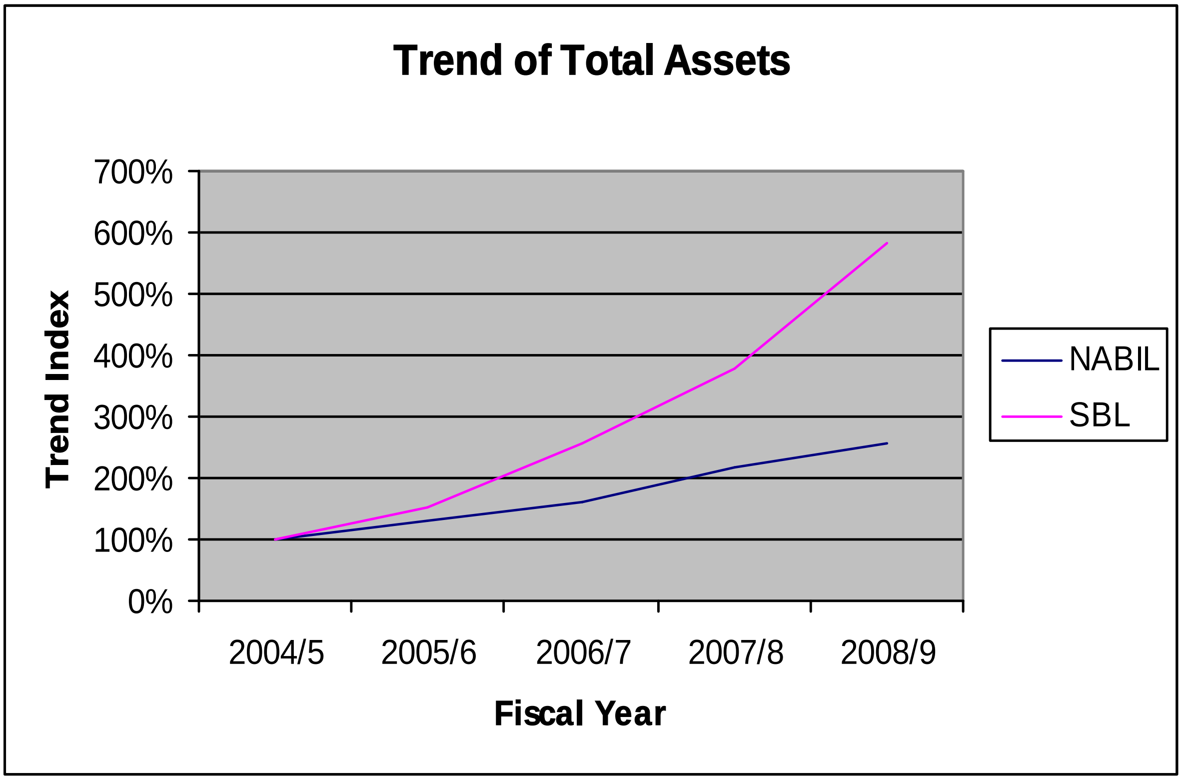


The above graph highlights the cash and bank balance trends of two banks from 2004/5 to 2008/9. The Cash and Bank Balance in comparison is the base year (2004/5) i.e, 100% for 5 successive years of NABIL is 112%, 250%, 477% and 602% respectively whereas of SBL is 89%, 395%, 334% and 1359% respectively. The cash and Bank Balance of NABIL marked as increasing trend during the 5 years study period. The Cash and Bank balance of SBL, indicates highly fluctuating trend. During the 5 years study period. This indicates that the growth of Cash & Bank Balance of NABIL is lower in comparison to the SBL which may be termed as both good and worst as greater cash and bank balance is good for the banks because it will increase their working capital and they can perform their operation smoothly whereas it is worst because greater cash balance may indicates idle cash which reduces the profit of banks.

4.5.4 **Trend of Total Assets:**

Graph No. 4

Total Assets



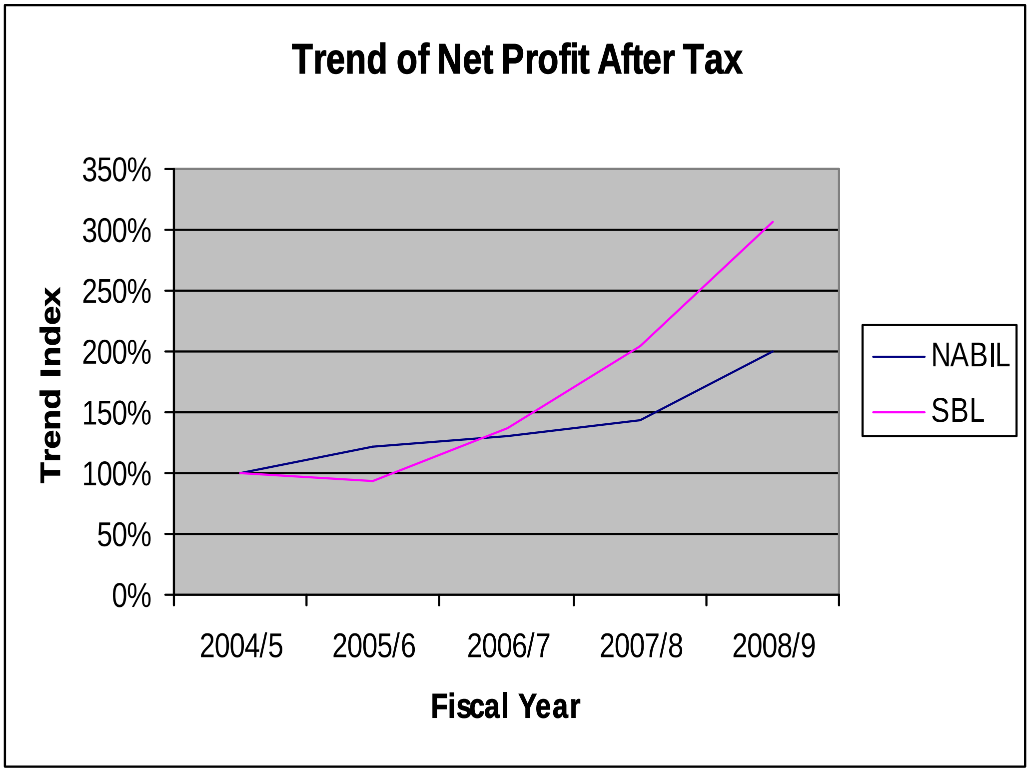
The above graph highlights the total assets of two banks from 23004/5 to 2008/9. The growth of total assets in comparison to the base year (2004/5) i.e 100% for 5 successive years of NABIL is 132%, 160%, 217% and 257% respectively whereas SBL is 154%, 257%, 377% and 584% respectively. The total assets by NABIL shows the increasing trend during the study period.

The total assets of SBL shows the highly increasing trend during the 5 years study period. This indicates that the total assets management of SBL is better than that of NABIL.

4.5.5 Trend of Net Profit After Tax

Graph No. 5

Net Profit After Tax

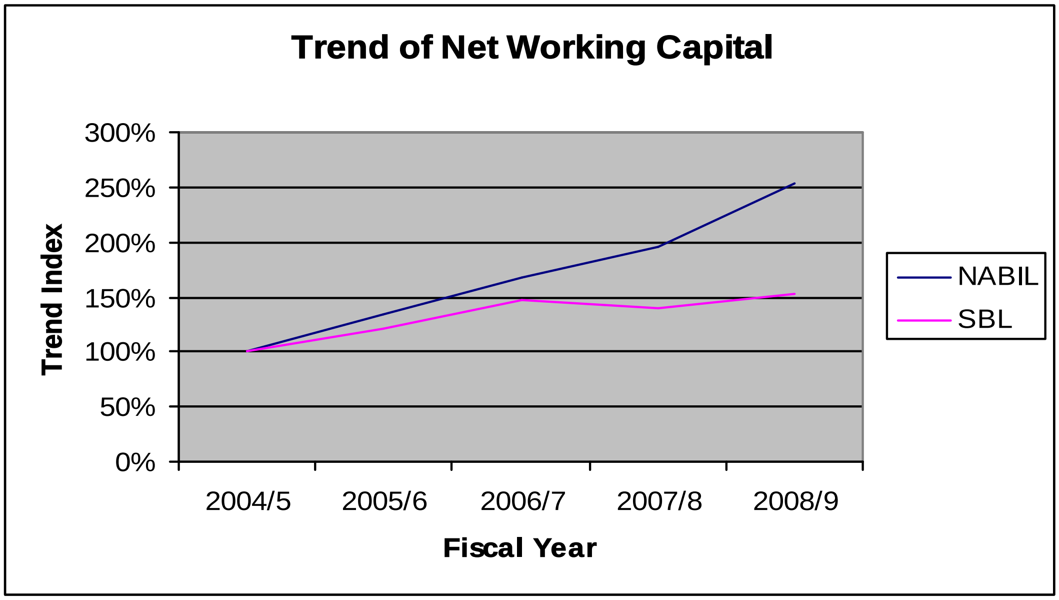


The above graph highlights the Net Profit After Tax trends of two banks from 2004/5 to 2008/9. The growth of Net Profit After Tax in comparison to the base year (2004/5) i.e. 100% for 5 successive years NABIL is 122%, 130%, 144% and 199% respectively whereas SBL is 98%, 135%, 204% and 307% respectively. The Net Profit of NABIL shows increasing trend through out the study period. The Net Profit of SBL shows highly increasing trend throughout the study period except in 2005/6. But there is slow increase in NABIL as compared to the SBL.

4.5.6. Trend of Net Working Capital

Graph No. 6

Net Working Capital



The above graph highlights that the trend of Net Working Capital of two banks from the year 2004/5 to 2008/9. The growth of Net Working Capital in comparison to the base year (2004/5) i.e. 100%, for 5 successive years of NABIL is 134%, 164%, 196% and 253% respectively, whereas SBL is 122%, 147%, 139% and 152%. The Net Working Capital of NABIL shows highly increasing trend during the study period. The Net Working Capital of SBL shows gradually increasing during the study period except the year 2007/8.

From the above analysis, it can be concluded that Working Capital Management of NABIL is better than that of SBL.

4.6 Correlation Analysis and probable Error:

In simple terms the word correlation may be defined as a statistical tool which helps to determine whether or not two or more variable are correlated and if they are correlated, what is the degree and direction of correlation.

"When the relationship is a quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it in a brief formula, is known as correlation".

Thus correlation analysis gives the extent to which two variables correlate and the direction of movement. As mentioned earlier the value of correlation lies between -1to +1 the more is the value of correlation coefficient, the more it approaches to 1. In the case of positive correlation, the variable changes to the same direction and vice versa.

Among the various methods of findings out coefficient of correlation Karl Person's method is applied in the study. If value of correlation (r) is less than 'PE; it means correlation is not significant at all. If 'r' is greater than six times of PE; it means 'r' is significant.

4.6.1 Coefficient of correlation between current assets and current liabilities:

The coefficient of correlation between current assets and current liabilities is to measure the degree of relationship between two variables.

The following table shows the coefficient correlation between current assets and current liabilities i.e; r, PEr and 6PEr of NABIL and SBL.

Table No: 14

Bnks	Correlation (r)	PEr	6PEr	Correlation
NABIL	1.05	0.006	0.036	r > 6PRr; Significant
SBL	0.97	0.0178	0.107	r > 6PEr; significant

Source: Appendix 5&6

From the above table, we know that the coefficient correlation between current assets and current liabilities of NABIL is 0.99, which shows highly positive relationship between these two variables. By considering the probable error, since the value of r i.e; 0.036 is higher than 6PEr, it shows that the relationship between these two variables is highly significant.

In case of SBL, it is observed that coefficient correlation between current assets and current liabilities to be 0.99, which is more than 6PEr i.e; 0.036, we can say that the value of 'r' is significant.

From the above analysis it can be concluded that there is highly significant relationship between current assets and current liabilities of NABIL and SBL.

4.6.2 Coefficient of correlation between Loan and Advances and Total Deposit:

The coefficient correlation between Loan and advances and Total deposits is to measure the degree of relationship between major components of current assets i.e, Loan and advances and major sources of fund on bank advances and major sources of bank's funds i.e; total deposit. The purpose of computing coefficient correlation is to justify whether the deposit are significant used in Loan and advances or not and whether there is any relationship between these two variables.

The following table shows the coefficient correlation between Loan and advances and total deposits i.e; r, PEr, 6PEr of NABIL and SBL during the study period.

Table No: 15

Banks	Correlation (r)	PEr	6PEr	Correlation
NABIL	0.99	0.006	0.036	r > 6PEr; significant
SBL	0.99	0.006	0.036	r>6PEr; significant

Sources: Appendix 7&8

The above table shows that the coefficient correlation between loan and advances and total deposit of NABIL and SBL is 0.99, which shows the highly positive relationship between the two variables. By considering the probable error , since the value of 'r' i.e; 0.99 is more than six times of PEr i.e; 0.036, we can say that the value of 'r' is highly significant i.e, there is significant relationship between total deposits and loan and advances of NABIL & SBL.

From the above analysis, it can be concluded that there is highly significant relationship between loan and advances and total deposits in both the banks. Both banks have utilized its total deposit in loan and advances effectively.

4.6.3 Coefficient of correlation between Loan and Advances and Net profit:

The coefficient of correlation between loan and advances and net profit is to measure the degree of relationship between these two variables. The purpose of computing the correlation of the coefficient is to justify whether the loan and advances are significantly generate profit or not and whether there is any relationship between these two variables.

The following table shows the 'r', PEr, and 6PEr of NABIL and SBL during the 5 yea study period.

Table No: 16

Banks	Correlation (r)	PEr	6PEr	Correlation
NABIL	0.977	0.0137	0.0823	r>6PEr; significant
SBL	0.983	0.0101	0.061	r>6PEr;significant

Source: Appendix 9&10

From the above table it is found that the coefficient correlation between loan and advances and net profit of NABIL is 0.977, which shows highly positive relationship between these two variables. By considering the probable error, since the value of 'r' i.e. 0.977 is higher than 6PEr i.e. 0.082, it shows that the relationship between these two variables is highly significant.

In the case of SBL, coefficient correlation between loan and advances and net profit has been found that the value of 'r' is 0.983, which also shows the highly positive relationship between these two variables. since the value of 'r' is higher than 6PEr, it shows there is highly significant relationship between those two variables.

From the above analysis, it can be concluded that there is highly significant relationship between loan and advances and net profit of both the banks.

4.6.4 Coefficient of correlation between Current Assets and Total Assets:

The coefficient of correlation between current assets and total assets is to measure the degree of relationship between current assets and total assets i.e. 'r', PEr, and 6PErof NABIL &SBL during the 5 year study period.

Table No: 17

Banks	Correlation (r)	PEr	6PEr	Correlation
NABIL	0.99	0.006	0.036	r>6PEr;significant
SBL	0.99	0.006	0.036	r>6PEr;significant

Sources: Appendix 11&12

The above table shows that the coefficient correlation between current assets and total assets of NABIL is 0.99, which shows the highly positive relationship between the two variables. By considering the probable error, since the value of 'r' i.e. 0.99 is more than 6PEr i.e. 0.036,we can say that the value of 'r' is highly significant i.e. there is significant relationship between current assets and total assets.

In the case of SBL, we observe coefficient correlation between current assets and total assets is 0.99, which shows the highly positive relationship between these two variables. On the basis of value of 6PEr i.e. 0.036, it can further conclude that the relationship between current assets and total assets are highly significant because 'r' is more than 6PEr i.e. 0.99>0.036.

From the above analysis, it can be concluded that there is highly significant relationship between current assets and total assets in both banks. Both banks have utilized its total assets in current assets effectively.

4.7 Test of Hypothesis (t-test)

Test of Hypothesis is a process of testing of significance regarding the parameter of the population on the basis of sample drowns from the population. In testing hypothesis, we examine; on the basis of statistics computed from the sample drowns, whether the sample drown belongs to the parent population with certain specified characteristics or not.

There are various methods of testing hypothesis; for example: z-test, t-test, f-test etc. To test the validity of our assumption, if sample size is less than 30; 't' test is used. A method for dealing with small sample was developed by a British statistician W.S. Gosset in 1908. Later on it was extended by Professor R.A. Fisser. The dealing method is called t-distribution or student t- distribution or t- test. In order to apply t-test in the context of small sample, the 't' value is calculated first and compared with the table value 't' at a certain level of significance (say in 5%) for given degree of freedom. If calculated value of 't' exceeds the table value, we infer that the null hypothesis is rejected that is there is significant difference at 5% level of significance. If 't' value is less than corresponding table value of 't' the null hypothesis is accepted i.e. there is no significant difference at 5% level of significance.

4.7.1 Testing of Hypothesis on the basis of Net Working Capital:

To Judge whether there is significant difference in Net Working Capital between NABIL and SBL, following null hypothesis and alternative hypothesis are formulated and tested, Null hypothesis:

Ho: There is no significant difference in Net Working Capital between NABIL and SBL

Alternative Hypothesis

H1: There is significant difference in Net Working Capital between NABIL and SBL.

Calculation of test Statistic:

Calculation of 't' value Net Working Capital of NABIL & SBI

NABIL			SBL		
NWC(X)	$(X-\overline{X})$	$(X-\overline{X})^2$	NWC(Y)	$(Y-\overline{Y})$	$(Y-\overline{Y})^2$
752.52	-27.44	278192.95	-2323.22	-605.4	6788109.16
1011.87	-68.09	71872.24	502.25	220.03	48413.20
1258.10	-21.86	477.86	1103.59	821.41	674714.38
1472.76	192.8	37171.84	907.58	625.4	391125.16
1904.56	624.6	390125.16	1220.70	938.52	880819.79
6399.81		777840.05	1410.9		8783181.69

$$\overline{X} = \frac{X}{N} = \frac{6399.81}{5} = 1279.86$$

$$\overline{Y} = \frac{Y}{N} = \frac{1410.9}{5} = 282.18$$

$$S^2 = \frac{(X \text{ Z} \overline{X})^2 + (Y \text{ Z} \overline{Y})^2}{N_1 + N_2 - 2}$$

$$= \frac{777840.05 + 8783181.69}{5 + 5 - 2}$$

$$= 1195127.72$$

Test Statistic 1 = $\dfrac{\bar{X} Z \bar{X}}{\sqrt{S^2 \quad \dfrac{1}{N_1} \Gamma \dfrac{1}{N_2}}}$

$$= \frac{1279.96 Z 282.18}{\sqrt{1195127.72 \quad \frac{1}{5} \Gamma \frac{1}{5}}}$$

$$= \frac{997.78}{691.41}$$

= 1.443

Tabulated value of ‘t’ at 5% level of significance and D.F = 5+5-2=8, =2.31

Table No.- 18

t-value of Net Working Capital

NABIL (Mean)	SBL (Mean)	Cal ‘t’ Value	Tabulated ‘t’ Value	Result/ Decision
1279.96	282.18	1.44	2.31	Ho: is accepted

From the above table, it is clear that there is no significant difference in Net Working Capital between NABIL and SBL. Because its calculated ‘t’ value is less than tabulated value of t i.e. Ho: is accepted.

4.7.2 Testing of Hypothesis on the basis of Liquidity Position:

To judge whether there is significant difference in liquidity position between NABIL and SB, following null hypothesis and alternative hypothesis are formulated and tested.

Null Hypothesis:

H0: There is no significant difference in liquidity position between NABIL and SBL.

Alternative Hypothesis:

H1: There is significant difference in liquidity position between NABIL and SBL.

The following table exhibits the mean value of various ratios measuring the liquidity of NABIL and SBL and their student 't' value.

Table No:19

t-value of liquidity position

S.N.	Composition	NABIL (Mean)	SBL (Mean)	Cal 't' value	Tabulated 't' value (at 5% level)	Result/ Decision
1.	Current Ratio	1.047	0.994	0.484	2.31	H0: Is accepted
2.	Quick Ratio	0.14	0.113	0.845	2.31	H0: is accepted
3.	Cash& Bank Balance to Total Deposit Ratio	0.060	0.042	1.11	2.31	H0: is accepted
4.	Saving Deposit to Total Deposit Ratio	0.438	0.255	3.68	2.31	H0: is rejected

Sources: Appendix 13,14,15&16

From the above table, it is clear that the current ratio, quick ratio and cash & bank balance to total deposit ratio of NABIL and SBL are not significantly difference because their calculated't' value is less than the tabulated value, i.e. H0: is accepted. On the other hand saving deposit to total deposit ratio of NABIL and SBL are significant difference because its calculated't' value is more than the tabulated value, i.e. H0: is rejected.

4.7.2 Testing of Hypothesis on the basis of Profitability Position:

To judge whether there is significant difference in profitability position between NABIL and SB, following null hypothesis and alternative hypothesis are formulated and tested.

Null Hypothesis:

H0: There is no significant difference in profitability position between NABIL and SBL.

Alternative Hypothesis:

H1: There is significant difference in profitability position between NABIL and SBL.

The following table shows the mean value of various ratios measuring the profitability of NABIL and SBL and their student't ' value.

Table No:20

t- value of profitability position

S.N	Composition	NABIL (Mean)	SBL (Mean)	Cal. 't' value	Tabulated 't' value	Result /Decision
1.	Net Profit to Total Assets Ratio	2.5	1.4	4.07	2.31	
2.	Net Profit to Working Capital Ratio	46.08	8.1	2.62	2.31	
3.	Interest Earned to Total Assets Ratio	3.94	2.88	3.31	2.31	
4.	Interest Earned to Working Capital Ratio	71.5	10	2.32	2.31	

Sources: Appendix 17,18,19&20

From the above table, it is clear that there is significant difference in Net Profit to total assets ratio and Net profit to Working capital ratio OF NABIL and SBL, because their calculated 't' value is more than the tabulated value i.e. H0: is rejected. It is also clear that interest earned to total assets ratio and interest earned to working capital ratio of NABIL and SBL are significantly difference as their calculated 't' value are more than the tabulated value. From the above analysis, it can be concluded that there is significant difference in overall profitability position between NABIL and SBL.

CHAPTER -5

SUMMARY CONCLUSION AND RECOMMENDATION

This chapter is dedicated to provide conclusion after comparatively analyzing the working capital management of two commercial Banks NABIL and SBL. It also tries to provide some recommendation to the concerned banks from the conclusion derived from the study.

5.1 Summary

Banks are very important segment of financial infrastructure of any country. The economic history of many countries reveals that economic development and growth of financial infrastructure go hand and hand. Banks tailor made deposit facilities rightly meet our needs in today's fast paced business world, ensures attractive returns to our surplus fund making our personal banking convenient and efficient thus diversifying our portfolio to best suit our investment plan. Thus, led by its vision to become a significant contribution to the economic development of the nation, banks have devised various deposits, loans and other facilities that suit the banking requirements of its valuable customers, assisting them to cope with their personal and business requirements, an endeavor to grow stronger mutually.

Modern commercial banks can be identified by different names such as business banks, retail banks, clearing banks, joint venture banks and merchant banks etc. No matter what names we give to banks, they all perform the same basis function i.e. they provide a link between the lenders and the borrowers. Basically by charging a rate of interest to the borrowers slightly higher than they pay to the lenders, the banks make their profit. This is known as financial intermediation

After the restruction of multiparty democracy in Nepal, government took this step permitting opening up the commercial banking sectors for foreign participation in 1984, thus, many JVBs established thereafter. Joint Venture Bank is an efficient of strategic alliance-arrangement in which two corporation combine forces to form a cooperative partnership in order to share risk of development, to offset one's weakness with strengths of order to and alike others

In Nepal, the competitiveness among the commercial bank has grown considerably. Thus , the banks have to develop various strategies, to gain competitive edge over the rest of the banks. Among various strategies, the bank has to develop one of the most important strategies to develop its efficient and effective working capital management. As working capital management is regarded as the life- blood and nerve knot of a business firm, the present study aims to analyze the help of secondary data for the period 2004/5 to 2008/9.

"Analysis of working capital management with respect to Nepal Arab Bank Limited and Siddhartha Bank Limited " is an exciting and challenging study with special reference to banking sectors. The study mainly aimed at examining the working capital position of banking companies for purpose of the study, the necessary data on working capital and other related variables have been collected from secondary sources and presented in previous chapter. To fulfill the objectives of the study, an appropriate research methodology has been developed, which includes ratio analysis, as financial tools and trend analysis, correlation analysis and test of hypothesis as statistical tools. The major ratio analysis consists of the liquidity position, profitability position, turnover position and composition of working capital. Under these main ratios and their trend position are studied in the chapter four. In order to test the relationship between the various components of working capital, Karl Person's correlation coefficient calculated and analyzed. Some null hypothesis formulated in chapter three is tested in appendix and results are analyzed in chapter four.

Now in this chapter an attempt has been made to present summary of findings, conclusion some suggestions and recommendations.

5.2 Conclusion

This study is based on the different aspect of working capital management. The major findings or conclusions derived from study of analysis of ratios, trends, correlation analysis and probable error and the testing of hypothesis are summarized below.

5.2.1 Analysis of Ratios

The major findings or conclusions derived from the study of ratio analysis are summarized below:

1. The liquidity position of banks is analyzed with current ratio, quick ratio, cash & bank balance to deposit ratio.

After the study of current assets to current liabilities ratio of two commercial banks, it has been found that the average ratio of NABIL i.e.1.047seems greater than SBL i.e 0.993. It shows that the liquidity position or short term solvency of NABIL is better than SBL during the study period. Again on the basis of CV. of the ratio, there is higher fluctuation in the ratio of SBL than NABIL.

After the study of quick ratio, it has been found that the average quick ratio of NABIL i.e 0.14 seems quite greater than SBL i.e. 0.113. It also shows that the liquidity position of NABIL is better than SBL. On the basis of CV of the quick ratio, there is more fluctuation in the ratio of NABIL than SBL because NABIL has higher CV than SBL.

After the study of cash and bank balance to total deposit ratio, it has been found that the average ratio of SBL i.e. 0.062 seems quite greater than NABIL i.e. 0.060. It shows that the liquidity position of SBL is quite better than NABIL. Again on the basis of CV. of the ratio, there is more fluctuation in the ratio of SBL than NABIL because SBL has higher CV i.e. 60.11 times than NABIL i.e.43.28 times.

After the study of saving deposit to total deposit ratio, it has been found that the average ratio of NABIL i.e. 0.438 seems greater than SBL i.e. 0.255. It is concluded that NABIL has more short term and less costly sources of fund than SBL. Again on the basis of CV of this ratio, there is more fluctuation in the ratio of NABIL than SBL because NABIL has higher CV than SBL i.e. 24.32>12.55.

2. The profitability position of the banks is analyzed by
the net profit to total assets ratio, net profit working capital ratio, interest earned to total assets ratio and interest earned to working capital ratio.

After the study of net profit to total assets ratio, it has been found that the average ratio of NABIL i .e 2.5% seems greater than SBL i.e. 1.4.%, So it is concluded that the profitability position of NABIL is better than SBL. Again on the basis of CV of the ratio, there is more fluctuation in ratio of SBL because SBL has higher CV than NABIL i.e. 32.34>16.

After the study of net profit to working capital ratio, it has been found that the average ratio of NABIL i.e. 58.01% seems greater than SBL i.e.10.40%. So it is concluded that the profitability position of NABIL is better than SBL. Again on the basis of CV of the ratio, there is more fluctuation in the ratio of SBL than NABIL because SBL has greater CV than NABIL i.e. 79.03>13.07

After the study of interest earned to total assets ratio, it has been found that the average ratio of NABIL i.e. 3.98% seems greater than SBL i.e. 2.9%. So it is concluded that the profitability position of NABIL is better than SBL. Again on the basis of CV, there is more fluctuation in the ratio of NABIL because NABIL has greater CV than SBL i.e. 15.18>13.75.

After the study of interest earned to working capital ratio, it has been found that the average ratio of NABIL i.e. 90..98% seems more greater than SBL i.e. 15.19%. So it is concluded that the overall profitability position of NABIL is more better than SBL. Again on the basis of CV, there is more fluctuation in the ratio of SBL because SBL has very higher CV than NABIL i.e. 220.74>12.68.

3. Activity or turnover position of the banks is analyzed with loan & advances to deposit ratios.

After the study of loan & advances to total deposit ratio, it has been found that the average ratio of SBL i.e. 0.94 seems greater than NABIL i.e. 0.69. So it is concluded that the SBL is employing its fund more efficiently in the profit. Again on the basis of CV, there is more fluctuation in the ratio of SBL because SBL has greater CV than NABIL i.e. 8.13>4.69.

After the study of loan and advances to fixed deposit ratio, it has been found that the average ratio of NABIL i.e.3.50 seems quite greater than SBL i.e. 2.15. So it can be concluded that NABIL is utilizing its fixed deposit in loan and advances more efficiently than SBL. Again on the basis of CV, there is more fluctuation in the ratio of NABIL because NABIL has higher CV than SBL i.e. 28.52>5.33

After the study of loan and advances to saving deposit ratio, it has been found that the average ratio of SBL i.e. 3.73 seems greater than NABIL i.e. 1.67. So it is concluded that SBL is utilizing short term fund of outsider more effectively than NABIL.

5.2.2 Main components of working capital of NABIL & SBL are cash & Bank Balance, Money at call & short notice, Investment & Law & advances.

After the study of composition of working capital. It has been found that total current assets of NABIL and SBL is increasing during the study period. It can be also concluded that the amount of current assets of NABIL is always higher than SBL, there is higher amount of funds to operate daily operation.

5.2.3 After the study of Net Working Capital, It has been found that the average of Net working Capital of NABIL i.e. 1279.96 seems more greater than

SBL i.e. 282.18. SO it is concluded that NABIL has sufficient amount of required for operational requirement is the years. Again on the basis of CV, there is more fluctuation in Net Working Capital of SBL because SBL has more greater CV than SBL i.e. 210.25 > 34.45.

5.2.4 Trend Analysis

The major finding or conclusion derived form the study of trend analysis are summarized below:

After the study of current assets trends of two Banks from 2004/5 to 2008/9, It has been found that the current assets of NABIL and SBL shows an increasing trend through out the study period. But there is highly increasing trend of current assets in SBL in comparison to NABIL. So it indicates that Current assets management of SBL is better in comparison to the NABIL.

After the study of Current Liabilities trends of two Commercial Banks from 2004/5 to 2008/9. It has been found that Current Liabilities of NABIL shows an increasing trends during the study period, where SBL is also increasing except the years 2005/4. But there is high growth in Current Liabilities of SBL in comparison to NABIL.

After the study of Cash & Bank Balance Trend of two Banks from 2004/5 to 2008/9, It has been found that the Cash & Bank balance of NABIL shows an increasing trend during the study period. But in the Cash of SBL there is highly fluctuation in Cash & Bank Balance during study period. It shows highly fluctuating trends of Cash and Bank Balance of SBL.

After the study of Total Assets Trend of two Banks from 2004/5 to 2008/9. It has been found that the Total Assets of NABIL shows gradually increasing trend during the study period. But in the case of SBL, Total Assets of SBL shows highly increasing trend than NABIL during the study period. This indicates that total assets management of SBL is better than that of NABIL.

After the study of Net Profit After Tax trend of two banks form 2004/5 to 2008/9. It has been found that the Net Profit Tax of NABIL shows an increasing trend during the study period. But in the case of SBL. Net Profit After Tax shows highly fluctuating trend during the study period. It shows NABIL is more consistent or uniform in Net Profit After Tax than SBL.

After the study of Net Working Capital trend of two banks from 2004/5 to 2008/9, It has been found that the Net Working Capital of NABIL shows highly increasing trend in comparison to the SBL. In the case of SBL, Net Working capital shows fluctuating trend during the study period. So it can be concluded that the working capital management of NABIL is better than that of SBL.

5.2.5 <u>Correlation Analysis and Probable Error</u>

The major findings or conclusion derived from the study correlation analysis and probable error are summarized below:

After the study or correlation coefficient and probable error between current assets and current liabilities of NABIL is highly positive relationship between current assets and current liabilities. By considering probable error, the relationship between these two variables in highly significant i.e. r>6 PE. In the case of SBL, it is found that the correlation coefficient between current assets and current liabilities is 0.97, which also shows that there is highly positive relationship between these two variables. On the basis of probable error, it can be concluded that the relationship between these two variables in significant. i.e. r>6PEr.

After the study of correlation coefficient and probable error between Loan and Advances and Total Deposit of both the banks is 0.99, which shows highly positive relationship between Loan and advances and Total Deposit. By considering the probable error, It can be concluded that the relationship between those two variables of both banks NABIL and SBL is significant i.e. r>6PEr.

After the study of correlation coefficient between Loan and Advance and Net Profit, It has been found that there is highly positive relationship between Loan & Advances and Net Profit of NABIL. By considering probable error, the relationship between these two variables in significant because 'r' i.e. 0.97 in higher than 6PEr, i.e. 0.082. In the case of SBL. It has been found that the correlation coefficient between Loan & Advances and Net Profit in 0.98, which shows that the relationship between these two variable in highly positive. On the basis of probable error, it also shows that the relationship is highly significant.

After the study of correlation coefficient between Current Assets and Total Assets, It has been found that the value of 'r' in 0.909 on NABIL and 0.985 on SBL. It shows that there is highly positive relationship between Current Assets and Total Assets of both the banks. On the basis of probable error, since the both banks have higher 'r' than 6PEr, the relationship in significant. It indicates that the change in current assets affects the volume of Total Assets in both the bank.

5.2.6 <u>**Testing of hypothesis (T-test)**</u>

The major findings or conclusions derived from the study of testing hypothesis are summarized below:

After the testing of hypothesis on the basis of liquidity position, It has been found that, the Current Ration, Quick Ratio and Cash and Bank Balance to Total Deposit Ratio of NABIL are not significantly different from SBL. Because their calculated (t) value is less than tabulated value i.e. Ho, accepted on the other hand, Saving Deposit to Total Deposit ratio of NABIL and SBL are significant difference. Because its cal (t) value if more than tabulated value. In overall, it shows that the two banks are not more different (Significant) in terms of the Liquidity position.

After the testing of hypothesis on the basis of profitability position, It has been found that, Net Profit to Total Assets ratio, Net Profit to Working Capital ratio, Interest earned to Total Assets ratio and Interest earned to Working Capital Ratio of NABIL are significantly different from SBL. Because their calculated 't' value if more than tabulated value. i.e. Ho is rejected. In overall, it can be concluded that there is significant different in overall profitability position between two banks NABIL and SBL.

After the testing of hypothesis on the basis of Net Working Capital, it has been found that Net Working Capital of NABIL is not significantly different from SBL. Because its calculated 'L' value is less than tabulated value O. Ho is accepted. So it can be concluded that there is no significant different in Net Working Capital between NABIL and SBL.

Hence, from the above all conclusions, it can be concluded that both banks are not much different. Comparatively, NABIL is financially better and sound than SBL. But it does not means that SBL is not performing well. Both banks are striving for better performance by adopting various new strategies and providing additional new services.

Recommendations

Based on the analysis and the findings of the study of two Commercial Banks, following recommendation be advanced to overcome. Weakness and inefficiency and continue with proper, systematic and smooth operation of the bank:-

1. SBL is recommended to increase its short term solvency or liquidity position and it shows also maintain its liquidity position more consistent.
2. NABIL is recommended that it should increase its Cash and Bank Balance to fulfill the demand of its customers.
3. Since SBL has the less amount of short term and less costly sources of fund, In order to fulfill the need of short term fund and not to spent its income in paying high interest, it should increase it short term fund or saving deposit than fixed deposit.
4. Although Net Profit Total Assets ratio, Interest Earned Total Assets Ratio and Net Profit to Working Capital Ratio, Interest Earned to Working Capital Ratio of NABIL is higher than SBL. Therefore, NABIL should try to reduce its cost by reducing high cost deposits and operating in proper and efficient way so that it can have least operating cost, which further maximizes its profitability and shareholders return. So SBL is also recommended to improve its strategy and operating in proper and efficient

way so that it can have least operating cost, which further maximizes its profitability and shareholders return.

5. Total Deposit turnover position of both banks is more than unity. Saving Deposit and fixed Deposit turnover are also more than unity, which shaves that there is satisfactory turnover position in both the banks. So it is recommended that both banks should maintain this turnover, position in next years.
6. Since there is higher fluctuation in working capital on SBL, it can net operate its operation smoothly and soundly. SO SBL is recommended to improve its Working Capital Management. Which helps it to operate in proper and efficient way.
7. In order to preserve the banking and saving habits of the lowers level people of the kingdom, NABIL and SBL are suggested not to be surrounded and limited to the interest and status of big clients (e.g. multinational companies, large industries, manufacturing and exporter, NGO’s, INGO etc.). Reducing the minimum required threshold balance and extension of its service towards rural areas and priority sectors of the kingdom is the most boosting all the lower level people.
8. Besides giving priority of interesting of Government securities, NABIL and SBL are recommended to invest its fund in the purchase of shares and debentures of other financial, non financial companies, hotels and other government companies. This also helps in the maintenance of a sound portfolio of the banks.
9. The Sampled banks should go on to strengthen their human resources by giving practical training from time to time. They should give special attention to improve the efficiency of their human resources which is taken as the heart of the organization. On the other hand the banks should developed its technologies in order to give quick services to their customer on one hand and to gain competitive advantages.