

# **WORKING CAPITAL MANAGEMENT OF UNILEVER NEPAL LIMITED**

**By:**

**TEK PRASAD PYAKUREL**

**Shaheed Smriti Multiple Campus**

**T.U. Regd. No.:7-2-239-107-2004.**

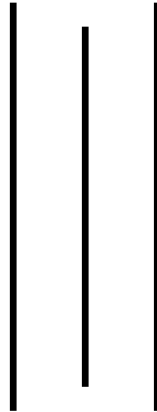
**Campus Roll No.:2390019.(final year)**

**A Thesis Submitted to:**

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**



**In Partial Fulfillment of the Requirement for the Degree of  
Master of Business Studies. (M.B.S.)**

**Kathmandu, Nepal.**

**2011**

# Recommendation

**This is to certify that the Thesis**

*Submitted by:*

**TEK PRASAD PYAKUREL**

Roll No.: 2390019 (Final Year)

T.U. Registration No: 7-2-239-107-2004

*Entitled:*

**A STUDY ON WORKING CAPITAL MANAGEMENT OF  
UNILEVER NEPAL LIMITED**

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

.....

**Mr. Surendra Regmi**  
(Thesis Supervisor)

.....

**Chairperson**  
Research Committee

.....

**Mrs. Radha Balika**  
(Campus Chief)

## **VIVA VOCE SHEET**

We have conducted the viva-voce examination of the thesis presented by

**TEK PRASAD PYAKUREL**

*Entitled:*

### **A STUDY ON WORKING CAPITAL MANAGEMENT OF UNILEVER NEPAL LIMITED**

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

**Master's Degree in Business Studies (M.B.S)**

#### **Viva-Voce Committee**

Head of Research Department : .....

Member (Thesis Supervisor) :.....

Member (External Expert): :.....

Date:.....

## **DECLARATION**

I here by declare that the work reported in this thesis entitled “**WORKING CAPITAL MANAGEMENT OF UNI-LEVER NEPAL LIMITED**” submitted to Shaheed Smriti Multiple Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree of Business Studies (M.B.S.) under the supervision of **Mr. Surendra Regmi** and **Mr. Khimananda Aryal** of Shaheed Smriti Multiple Campus.

Tek Prasad Pyakurel  
**Researcher**  
**T.U. Regd. No.: 7-2-239-107-2004.**  
**Campus Roll No.:2390019.**

## ACKNOWLEDGEMENT

This research tries best to find the working capital management of ULNLtd. This research has focused in finding the working capital policy. It helps in valid decision-making regarding the operation and policy making of working capital management. This research study has taken place on this mater under partial fulfillment of the requirement of MBS Programme of T.U.

I would like to express my deep gratitude to my respected supervisor Mr surendra regmi and Mr. Khimananda Aryal for their continuous suggestion, guidelines and support from the very beginning until the completion of this thesis. The thesis would not have come out as expected without his guidelines, motivation of respected supervisor Mr. Surendra Regmi. Also my thanks go to the staff of ULNLtd who helps me by providing the data necessary for this study. I really appreciate the continuous support of the staff of Shaheed Smriti Multiple Campus for their support, with friendly behaviors in providing me the necessary data as required.

Last but not least, I would like to express my pleasant thanks to Mr. Somnath Timilsina, Mr. Gopal Parajuli and Mr. Ramesh Sharma for bringing this thesis in required shape. Once again I would like to express my heartfelt thanks to everyone who help me directly and indirectly in this thesis work.

.....  
Tek Prasad Pyakurel  
**Researcher**

# TABLE OF CONTENTS

Recommendation	
Viva-voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	

## Page No.

### **CHAPTER I          INTRODUCTION**

1.1 General Background	1
1.2 Focus of The study	3
1.3 Statement of the Problems	4
1.4 Objectives of the Study	5
1.5 Significance of the Study	5
1.6 Limitations of the Study	6
1.7 Organization of the Study	7

### **CHAPTER II          REVIEW OF LITERATURE**

2.1 Conceptual Framework	8
2.1.1 Concept of Working Capital	10
2.1.2 Types of Working Capital	12
2.1.3 Sources of Working Capital	13
2.1.4 Issue of Working Capital	15
2.1.5 Goals of Working Capital	16
2.1.6 Needs of Working Capital	16
2.1.7 Approaches to Estimating Working Capital Needs	18
2.1.8 Liquidity vs. Profitability: Risk – Return Trade Off	19

2.1.9 The Cost of Trade Off	19
2.1.10 Working Capital Cycle	20
2.1.11 Working Capital Policy	22
2.1.12 Determinants of Working Capital	28
2.2 Review of Journals / Articles	31
2.3 Review of Thesis	36
2.4 Research Gap	43

### **CHAPTER III RESEARCH METHODOLOGY**

3.1 Research Design	44
3.2 Population and Sample	44
3.3 Nature and Sources of Data	45
3.4 Data Gathering Procedure	45
3.5 Data Processing	45
3.6 Methods of Data Analysis	45
3.6.1. Financial Tools	45
3.6.1.1. Liquidity Ratio	46
3.6.1.2 Activity or Turnover Ratio	46
3.6.1.3 Profitability Ratio	48
3.6.1.4 Structure of Working Capital	50
3.6.1.5 Working Capital Cash Conversion Cycle	53
3.6.2 Statistical Tools	55
3.6.2.1 Standard Deviation	55
3.6.2.2 Coefficient of Variation	55
3.6.2.3 Correlation Co-efficient	56
3.6.2.4 Probable Error	56
3.7 Definition of Key Operational Terms.	57

### **CHAPTER IV DATA PRESENTATION AND ANALYSIS**

4.1 Structure of Working Capital	59
----------------------------------	----

4.1.1 Structure of TCA on TA and FA	59
4.1.2 Structure of NWC on TA and FA	61
4.1.3 Structure of Inventory on TA and CA	62
4.1.4 Structure of Debtors on TA and CA	63
4.1.5 Structure of CBB on TA and CA	64
4.1.6 Structure of LAD on TA and CA	65
4.1.7 Analysis of Average Structure of WC Component on TA and CA.	67
4.2 Utilization of Working Capital	68
4.2.1 Current Assets Turnover Ratio	69
4.2.2 Inventory Turnover Ratio	70
4.2.3 Receivable Turnover Ratio	72
4.2.4 Cash and Bank Balance Turnover Ratio	74
4.2.5 Net Working Capital Turnover Ratio	75
4.2.6 Loan, Advance & Deposit Turnover Ratio	77
4.3 Liquidity Position	78
4.3.1 Current Ratio	79
4.3.2 Quick Ratio	80
4.4 Working Capital Cash Conversion Cycle	81
4.4.1 Inventory Conversion Period	82
4.4.2 Receivable Collection Period	83
4.4.3 Payable Deferral Period	84
4.4.4 Cash Conversion Cycle	86
4.5 Profitability Position	87
4.5.1 Net Profit Margin	88
4.5.2 Gross Profit Margin	88
4.5.3 Return on Total Assets	89
4.5.4 Return on Working Capital	90
4.5.5 Operating Expenses Ratio	91
4.6 Analysis of Working Capital Relationship	92
4.7 Working Capital Policy	95
4.7.1 Working Capital Investment Policy	96



4.7.2 Working Capital Financing Policy	96
4.8 Major Findings	97

## **CHAPTER V SUMMARY, CONCLUSIONS & RECOMMENDATIONS**

5.1 Summary	101
5.2 Conclusions	102
5.3 Recommendations	103

## **Bibliography**

## **Appendix**

## **LIST OF TABLES**

<b>Table No.</b>	<b>Titles:</b>	<b>Page No.</b>
4.1	Structure of Current Assets on Total Assets and Fixed Assets	60
4.2	Structure of NWC on Total Assets and Fixed Assets	61
4.3	Structure of Inventory on Total Assets and Current Assets	62
4.4	Structure of Debtor on Total Assets and Current Assets	64
4.5	Structure of CBB on Total Assets and Current Assets	65
4.6	Structure of LAD on Total Assets and Current Assets	66
4.7	Average Proportion of Components on TA and CA	67
4.8	Current Assets Turnover Ratio	69
4.9	Inventory Turnover Ratio	70
4.10	Receivable Turnover Ratio	73
4.11	Cash and Bank Balance Turnover Ratio	74
4.12	Net Working Capital Turnover Ratio	76
4.13	Loan, Advance and Deposits Turnover Ratio	77
4.14	Current Ratio	79
4.15	Quick Ratio	80
4.16	Inventory Conversion Period	82
4.17	Receivable Collection Period	83
4.18	Payable Deferral Period	85
4.19	Cash Conversion Cycle	86
4.20	Net Profit Margin	88
4.21	Gross Profit Margin	89
4.22	Return on Total Assets	90
4.23	Return on Working Capital	91
4.24	Operating Expenses Ratio	92
4.25	Correlation between Working Capital Variables	93
4.26	Analysis of Working Capital Investment Policy on Average Basis	96
4.27	Calculation of Current Assets Financing Mix Policy	97

## **LIST OF FIGURES**

<b>Figures No.</b>	<b>Title</b>	<b>Page No.</b>
2.1	The Cost of Trade Off	20
2.2	Current Assets Investment Policy	24
2.3	Aggressive Financing Policy	25
2.4	Conservative Policy	26
2.5.	Moderate Policy	27
4.1	Average Proportion of Components on TA and CA	68
4.2	Current Assets Turnover Ratio	70
4.3	Inventory Turnover Ratio	72
4.4	Receivable Turnover Ratio	74
4.5	Cash & Bank Balance Turnover Ratio	75
4.6	Net Working Capital Turnover Ratio	76
4.7	Loan, Advance & Deposits Turnover Ratio	78
4.8	Current Ratio	79
4.9	Quick Ratio	81
4.10	Inventory Conversion Period	83
4.11	Receivable Collection Period	84
4.12	Payable Deferral Period	86

## ABBREVIATIONS

C.V.	:	Co-efficient of Variation
CA	:	Current Assets
CBB	:	Cash and Bank Balance
CCC	:	Cash Conversion Cycle
CL	:	Current Liabilities
E+LTL	:	Equity plus Long-Term Liabilities
FA	:	Fixed Assets
F/Y	:	Fiscal Year
GWC	:	Gross Working Capital
ICP	:	Inventory Conversion Period
LAD	:	Loan, Advance and Deposits
LTL	:	Long-Term Liabilities
NBCLtd.	:	Nepal Battery Company Limited
NLOLtd.	:	Nepal Lube Oil Limited
NTC	:	Nepal Tele Communication Corporation
NWC	:	Net Working Capital
PDP	:	Payable Deferral Period
PEs.	:	Public Enterprises
QA	:	Quick Assets
r	:	Correlation Co-efficient
RCP	:	Receivable Collection Period
Rs.	:	Rupees
TA	:	Total Assets
TR	:	Turnover Ratio
ULNLtd.	:	Uni-Lever Nepal Limited
WC	:	Working Capital
WCM	:	Working Capital Management