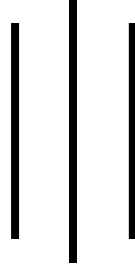
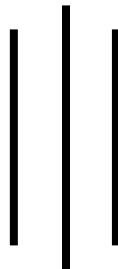


**A STUDY ON WORKING CAPITAL OF NEPALESE
MANUFACTURING COMPANIES**



By:
SHREE KRISHNA PAUDEL
Shanker Dev Campus
Roll No. 2073/060
T. U. Registration No: 35946-95

A Thesis Submitted to
Office of the Dean
Faculty of Management
Tribhuvan University



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

Kathmandu, Nepal
October, 2009

RECOMMENDATION

This is to certify that the thesis
Submitted by:
Shree Krishna Paudel

Entitled

A Study on Working Capital of Nepalese Manufacturing Companies

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

.....
Shree Bhadra Neupane
Thesis Supervisor

.....
Prof. Bisheshwor Man Shrestha
Head, Research Department

.....
Prof. Dr. K. D. Dhakal
Campus Chief

Date:

VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis

**Submitted by:
Shree Krishna Paudel**

Entitled
**A Study on Working Capital of Nepalese Manufacturing
Companies**

*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 requirements for the degree of*

Master of Business Studies (M.B.S)

Viva-Voce Committee

Chairperson :
Member (Thesis supervisor) :
Member (External Expert) :
Member :

Date:-...../...../.....

DECLARATION

I hereby declare that this thesis entitled “*A Study on Working Capital of Nepalese Manufacturing Companies.*” submitted to Research Department of Shankar Dev Campus, Faculty of Management, Tribhuvan University, is my original work as partial fulfillment of the requirement of the degree of Masters in Business Studies (M.B.S), this is prepared under the supervision of Shree Bhadra Neupane, Shanker Dev Campus, Putalisadak.

Shree Krishna Paudel

Researcher

T.U Reg : 35946-95

Date

ACKNOWLEDGEMENT

This thesis on '**A Study on Working Capital Management of Nepalese Manufacturing Companies**' is prepared and submitted to faculty of management of Shanker Dev Campus. As partial fulfillment of the requirement of the degree of masters of business studies (MBS) under the guidance of honorable advisor, Mr. Shree Bhadra Neupane. I would like to express my sincere gratitude and obligation to my honorable advisor for his valuable suggestion; comments and continuous inspiration, worthy time paying to me even in a busy schedule are key aspect of this study to be in this form in time.

I would like to respect and wants to express my thankfulness to all the lectures as well as administrator and librarian of Shanker Dev Campus. Similarly, I would also like to give my heartfelt thanks and I cannot forgot the help and suggestion of officers, personnel of financial department of selected manufacturing companies and staff of 'Security Board Of Nepal' for their kindly help in collecting the data and information of the related companies.

I also express heartiest thank to my family, friends and other relatives who are directly or indirectly co-operate and help me during the completion of this research work.

Finally, I would like to give a lot of thanks to Mrs. Padma Tiwari who helped me in computer layout and printing the thesis.

Shree Krishna Paudel

Researcher

Shanker Dev Campus

October, 2009

Kathmandu

Table of Contents

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgement

Table of Contents

List of Tables

List of Figures

List of Charts

Abbreviation

Chapter I: Introduction **1-7**

1.1	Background of the Study	1
1.2	Statement of the Problem	4
1.3	Objective of the Study	5
1.4	Limitation of the Study	6
1.5	Organization of the Study	6

Chapter II: Review of Literature **8-29**

2.1	Conceptual Framework	8
2.2	Factors Determining to Working Capital	14
2.3	Working Capital Policy	17
2.4	Review of Journals and Articles	22
2.5	Review of Thesis	26

Chapter III: Research Methodology **30-41**

3.1	Research Design	30
3.2	Nature and Source of Data	31
3.3	Population and Sampling	32
3.4	Methods of Analysis of Data	33
3.4.1	Quantitative Method	33
3.4.1.1	<i>Financial Tools</i>	33
3.4.1.2	<i>Statistical Tools</i>	38

3.4.2	Qualitative Method	40
3.5	Definition of Key Terms	40
Chapter IV: Presentation and Analysis of Data		42-101
4.1	Introduction	42
4.2	Working Capital Policy	43
4.2.1	Analysis based on Variables of Working Capital	43
4.2.1.1	Level of Current Assets and Current Liabilities	43
4.2.1.2	Level of Net Profit	48
4.2.1.3	Cash Conversion Cycle	50
4.2.2	Analysis Based on Ratio	51
4.2.2.1	Analysis of Liquidity Position	51
4.2.2.2	Analysis of Net Working Capital Turnover	53
4.2.2.3	Return on Net Working Capital	54
4.3	Composition of Working Capital	59
4.3.1	Investment in Current Assets	59
4.3.1.1	Ratio of Cash and Bank Balance to CAs	62
4.3.1.2	Ratio of Receivable to CAs	63
4.3.1.3	Ratio of Inventory to CAs	64
4.3.2	Ratio of Current Assets to Total Assets	66
4.4	Analysis of Turnover Position	68
4.4.1	Current Assets Turnover Ratio	69
4.4.2	Total Assets Turnover Ratio	71
4.5	Analysis of Profitability Position	73
4.5.1	Net Profit Margin Ratio	73
4.5.2	Return on Total assets	76
4.6	Analysis of Net Working Capital Position	78
4.7	Cash Conversion Cycle	80
4.7.1	Inventory Conversion Period	81
4.7.2	Receivable Conversion Period	83
4.7.3	Payable Deferral Period	85
4.7.4	Analysis of Cash Conversion Cycle	87
4.8	Analysis of Du-Pont System	89

4.9	Analysis of the Relationship of WC Variables	93
4.10	Issue and Gaps (Problems)	95
4.11	Major Findings	98

Chapter V: Summary, Conclusion and Recommendation **102-108**

5.1	Summary	102
5.2	Conclusion	104
5.3	Recommendation	105

Bibliography

Annexes	i-xii
----------------	--------------

List of Tables

Table	Particulars	Page
2.1	Importance of Working Capital Management	13
2.2	A to Z factors on Working Capital	17
3.1	List of Selected Manufacturing Companies	32
4.1 (i)	Level of Total Current Assets	44
4.1 (ii)	Level of Total Current Liabilities	44
4.2	Position of Net Profit of Selected Nepalese Manufacturing Companies	49
4.3	Current Ratio of Selected Manufacturing Companies in Nepal	52
4.4	Net Working Capital Turnover of Selected Manufacturing Companies in Nepal	54
4.5	Return on Net Working Capital of Selected Nepalese Manufacturing Companies	55
4.6	Working Capital Approaches Followed by Selected Nepalese Manufacturing Companies	56
4.7 (i)	Company Average Ratio of Cash, Receivable and Inventories to CAs.	60
4.7.(ii)	Yearly Average Ratio of Cash, Receivable and Inventories to CAs.	61
4.8	Ratio of Current Assets to Total Assets of Selected Nepalese Manufacturing Companies	66
4.9 (i)	Company Average Ratio of Current Assets to Total Asses	67
4.9 (ii)	Yearly Average Ratio of Current Assets to Total Asses	67

4.10	Current Assets Turnover Ratio of Selected Manufacturing Companies in Nepal	69
4.11	Total Assets Turnover Ratio of Selected Nepalese Manufacturing Companies	72
4.12	Ratio of Net Profit to Sales of Selected Nepalese Manufacturing Companies	74
4.13	Net Profit to Total Assets Position of Selected Manufacturing Companies	77
4.14	Position of NWC of Selected Nepalese Manufacturing Companies	79
4.15	Inventory Conversion Period of Selected Nepalese Manufacturing Companies	82
4.16	RCP of Selected Nepalese Manufacturing Companies	84
4.17	Payable Deferral Period of Selected Nepalese Manufacturing Companies	86
4.18	Cash Conversion Cycle of Selected Manufacturing Companies of Nepal	87

List of Figures

Figure No.		Page
2.1	Permanent and Variable Working Capital	12
2.2	Aggressive Financing	19
2.3	Conservative Financing	20
2.4	Financing Under Matching Approach	20
4.1	Graphic Presentation of Level of Current Assets and Current Liabilities	48
4.2	Graphic Presentation of Net Profit	50
4.3	Composition of Current Assets	65
4.4	Composition of Total Assets of Nepalese Manufacturing Companies	68
4.5	Graphic Presentation of Current Assets Turnover Ratio	
(i)	Company Average Ratio of Current Assets Turnover Ratio	70
(ii)	Yearly Average Ratio of Current Assets Turnover Ratio	71
4.6	Graphic Presentation of Net Profit to Sales of Selected Manufacturing Companies	
(i)	Company Average Net Profit to Sales	75
(ii)	Yearly Average Net Profit to Sales	76
4.7	Graphic Presentation Of Net Working Capital	80

List of Charts

Chart		Page
4.1	Analysis of Du - Pont System of Nepalese Manufacturing Companies	90
4.2	Du-Put Chart after Increase in the Level of Current Assets by 7 Percent	92

ABBREVIATIONS

A/C	=	Account
A/P	=	Account Payable
A/R	=	Account Receivable
AVU	=	Arun Vanaspati Udyog Ltd.
B/S	=	Balance Sheet
BN	=	Bottlers Nepal Ltd.
BPP	=	Shree Bhrikuti Pulp and Paper Nepal Ltd.
CAs	=	Current Assets
CATA	=	Current Assets to Total Assets
CCA	=	Cash to Current Assets
CCC	=	Cash Conversion Cycle
CLs	=	Current Liabilities
CR	=	Current Ratio
EBIT	=	Earning Before Interest and Tax
F/Y	=	Fiscal Year
FA	=	Fixed Assets
GWC	=	Gross Working Capital
HMG	=	His Majesty' the Government
ICA	=	Inventory to Current Assets
ICP	=	Inventory Conversion Period
ITR	=	Inventory Turnover Ratio
JSM	=	Jyoti Spinning Mills Ltd
m	=	Millions
mfg	=	Manufacturing
mgmt	=	Management
misc.	=	Miscellaneous

NBG	=	Nepal Banaspati Ghhe Udyog Ltd.
NLO	=	Nepal Lube Oil Ltd.
NPAT	=	Net Profit After Tax
NPM	=	Net Profit Margin
NW	=	Net Worth
NWC	=	Net Working Capital
NWTR	=	Net Working Capital Turnover Ratio
P/L a/c	=	Profit and Loss Account
PDP	=	Payable Deferral Period
PEs	=	Public Enterprises
RCA	=	Receivable to Current Assets
RCP	=	Receivable Conversion Period
RJM	=	Sri Raghupati Jute Mills Ltd.
ROE	=	Return on Equity
ROI	=	Return on Investment/Assets
ROW	=	Return on Working Capital
RSM	=	Sri Ram Sugar Mills Ltd
SEBON	=	Securities Board of Nepal
TA	=	Total Assets
TATR	=	Total Assets Turnover Ratio
TL	=	Total Liabilities
ULNL	=	Unilever Nepal Ltd.
WC	=	Working Capital