CHAPTER I

INTRODUCTION

1.1 Background of the Study

Banks and financial institutions are the backbone of the economy. The financial sector bridges between demand and supply of fund and intermediates between surplus unit and deficit unit. The financial sector plays an intermediary functions, such as channeling fund from saver to investors, providing a payment system for transactions and distributing risks across space and time to those best able to bear them sound and healthy financial sector makes proper use of available resources and ensures that the resources are geared towards the economic development of the country.

Despite the slowdown in the economy due to decline in agricultural production, political instability and conflict in the country, there is a significant growth in the number of financial institutions in the country. In 1994 there were ten (10) commercial banks, two (2) development banks, twenty (20) finance companies authorized to do limited banking activities by Nepal Rastra Bank (NRB). In mid July 2013 there were thirty one (31) commercial banks, eighty six (86) development banks, fifty nine (59) finance companies and thirty one (31) micro-credit development banks licensed by Nepal Rastra Bank (NRB) banking operations in the country.

Nepal is a small country with unique physical setting surrounded by India in south, east & west and by China in the North. It is landlocked country with total area of 147181 sq. km and open border with India. Nepal is one of the least developed and poorest countries in the world. About 85% Nepalese people are live in the village. Many people depend upon the agriculture for livelihood. Low productivity for this sector is one of the reasons for Nepal to remain one of the least developed countries in the world. Prospects for overall economic development will be brighter only if the present structure of the economy with pre-dominant dependence on traditional agriculture can be gradually transformed through the process of industrialization.

Today’s world is full of competitive environment where each and every thing is of dynamic in nature. Integrated and speedily development of country is possible only when competitive banking service reaches nooks and corner of the country. The extent of development in economy of any country is demonstrated by development of the financial sector of the country. Nepal doesn’t have its own long history of the economic activities. About two century ago the barter system was prevailing every where in the country, even now in the remote areas the system is still in practice. Until the period of reunification of modern Nepal by Prithvi Narayan Shah prevailing which was some how controlled by Ranas, their regime begun in 1903 B.S. During the beginning period of their regime, office, like Tejarath Adda and Mulikhi Khana were established in order to attract deposits and grand loans. But it was not sufficient for the economic development due to lacking of experienced manpower and new technology. As the time passed by there some increasing economic activities was seemed in the country which led to the establishment of first commercial bank of Nepal i.e, Nepal Bank Limited.

Thus, the history of development of financial institutions in Nepal is not very long. Nepal bank Ltd is the first commercial bank of Nepal, which was established in 1994 B.S in non-government sector.

The second commercial bank is rastrya bank Ltd. Which was established in 2022 B.S in 100% government ownership. But after studying to the origin of modern banking, we come to know that "BANK DERIALO" which was established in 1587A.D is the first bank of the world in Venice, Italy.

Financial institution can be considered as the economic growth of a country. The development process of a country involves the mobilization and development of resources. Development of trade commerce and industry are the prime requisite for the attainment of the economic political and social goals. To ful fill the purpose of planning, financial functions more often dominate the other functions." There is always lack of finance in underdevelopment economic because natural resources are either under utilized or unutilized in productive sectors or even other purposes i.e.; social welfare and so on likewise, underdevelopment countries are not deficient in land, water, mineral, forest or power resources through they may be untapped; constituting only potential resources" (Dewett; 1995:459). So in there countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized; Hoarding could be one of the reasons for this. So, banks and other financial institutions play a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They pursue rapid economics growth, developing the banking habit among the people, collecting the small-scattered in further productive purposes and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow fund against future income, which may improve the economic well being of the borrower.

Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern that is mainly confined to finance for the development of the trade, commerce and industry are the prime factors of the economic development. Bank is a financial institution, which primarily deals in borrowing and lending. Bank is a vital part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprises.

Bikas banks are the heart of the financial system. They hold the deposits of individuals, government institutions and business units. They make funds available through their lending and investing activities through their lending and investing activities to borrowers: individuals, business firms and government institutions. In doing so, they assist both the flow of goods and services form the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a nation is very important to the functioning of its economy.

The concept of financial institutions in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL) was established in Kartik 30, 1994 B.S as a semi-government organization. In Baisakh 14, 2013B.S the first Central Bank, named as the Nepal Rastra Bank was established with an objective of supervising, protecting and directing the functions of commercial banking activities. Consequently, another commercial bank fully owned by the government, named as Rastriya Banijya Bank was established in 2022 B.S. under the Banijya Bank Act. 2021 B.S.

At the present context of Nepal, most of the investment made by different productive sectors covering national as well as international market is in critical situation. A huge percentage of investment is calculated as a "Non-performing investment". due to which, large number of investors hesitate to invest in those sectors as a result, it decreases the borrowing habits from bank and finance companies, In this reference, the banks and finance companies find hard to recover their loans from these companies or borrowers, which may hinder the transaction of all those financial institutions.

Non-Banking sector has recorded a rapid development in recent years in term of their numbers and operations and they are competing with the commercial banks by providing different kinds of services to their customer. But at the present context, finance companies are facing very bad condition. The biggest challenge is lack so investment opportunities, so that they are not operating effectively and their performance is being low, which might be due to present international and national economic depression and lack of peace and security in the nation. A major problem is that the economy is not growing a lot and the biggest challenge facing the country is the political instability because of which no significant new invertors are coming in good investment opportunities are very limited and the financial institutions margins are cropping. Only few companies are operating smoothly whereas others are facing problem to sustain. Therefore, it is necessary to improve the political stability, peace and increase to the opportunities to investment by which the investors should get willing return from their investment.

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

1.2 Introduction of Garima Bikas Bank Limited (GBBL)

Garima Bikas Bank Ltd has been established by a group of enthusiastic, dedicated, successful professionals and entrepreneurs from different fields including business, teaching, engineering, banking, accounting, management etc. The management team also consists of experienced, qualified and devoted professionals. The bank was incorporated under company Act on 2064-04-22 on 2064-06-24 it acquired license from Nepal Rastra Bank categorized in 'B' class Financial institutions act 2063 (BAFIA 2063) to perform its financial transaction which was approved by the company Registrar's office on 2064-05-29. The bank started its formal operations on 2064-07-18 from Waling 3, Syangja. However in the third AGM it was decided to shift the bank head office to Mahendrapool Pokhara 9, Kaski. Nepal Rastra Bank approved on dated 2068/12/20 working area 1-3(Kaski,Syangj & Palpa) to 4-10 districts are Kaski, Syangja, Palpa, Rupandehi, Nawalparasi, Kapilvastu, Dang, Baglung, Parbat, Tanahu .Garima Bikas Bank ltd banking service provided by 14 Branch are as following Waling Syangja ,Galyang Syangja, Rampur Palpa, Shavagrihachock Pokhara, Putalibazar Syangja, Tansen Palpa, Mahendrapool Pokhara, additional six (6) branch opening on dated 2069-06-25 Batulechaur Kaski, Kusma Parbat, Falebas Parbat, Huwas Parbat, Bhairahawa Rupandehi, Jitpur Kapilvastu on same date and Butwal Rupandehi branch opening on dated 2069-06-26.

GBBL's vision is to be financially sound, operationally efficient and keep abreast with technological developments. The bank firmly believes that customer focus is core value, shareholders prosperity is priority, employees' growth is commitment and overall economic welfare is of sincerely concern.

In addition to the core banking products in deposits and corporate financing the bank has the whole range of personal detail products for home, auto, education and gold loan for the miscellaneous requirements. The other services offered to the valued customers are bank guarantee, remittance, a network of ATMs and SMS banking services.

Capital Stucture :

Authorized Capital	NRS 1, 00, 00, 00,000/-
Issued Capital	NRS 22, 00, 00,000/-
Paid-Up-Capital	NRS 22, 00, 00,000/-

Common Stock Structure:

Promoter Share = 53%

Public Share = 47%

1.3 Statement of the Problem

Development Banks play vital role in economic growth of a country. As being a commercial institution must make profit out of its operations for its survival & fulfillment of the responsibilities assigned. Most of the Nepalese banks are the still facing the problem of working capital management due to the unprofessional manpower, their focusing only on the procurement aspect of working capital & the want of ever investors to earn return on their investment.

Working capital of the organization can not be managed in on easy way and it should not be neglected. Further, the banker's problem in this regard is more difficult than that of manufacturing and non manufacturing business organization. Commercial banks are great monitory institutions, important to the general welfare of the economy. More than any other financial institutions, they have a vastly sobering and exacting responsibility, they must be ready to pay "one demand" without warning or notice, a good short of their liabilities. Different types to deposits are the main source of fund which they can use of giving loans and advances to different sectors. Hence in order to have a higher return from this transaction, banks must to try to increase their deposits as well as their investment. To fix the level of deposits and the capacity of mobilizing these deposits is main problem of working capital management of banks. Banks can get higher profit it they invest their increasing deposits in proper places, otherwise profitability of the bank can not be expected. So, basically this study has tired to find out the issue of working capital management of Garima Bikas Bank Ltd. Some specific problem felt in this study are as follow.

a. What is the bank's image in relation to working capital?
b. How is the working capital managed in Garima Bikas Bank?
c. How is the company financing its current assets?
d. Is the company maintaining appropriate liquidity?
e. What is the profitability position of Garima Bikas Bank Ltd.?
f. How has the firm been raising the required funds? Whether the fund is properly and productive utilized or not?

1.4 Objectives of the Study

In Nepal's present situation the government has adopted a policy to provide maximum banking facilities to the country for rapid economic development by a keen competition among different banks, including foreign banks. Without the sound & effective banking system any country can't have a healthy economic.

The main objectives of this study is to evaluate the working capital management of Garima Bikas Bank Ltd. The specific objectives of the study are as follows:

a. To evaluate the working capital position of the bank.

b. To evaluate the profitability and liquidity position of the bank.

c. To identify the factors determining of the working capital.

1.5 Significance of the Study

Working capital is the size of investment in each type of current assets. Each of the current assets should be managed efficiently and affectively. It is because decision regarding working capital affects not only the profitability of the firm in the short term, but also its very survival in the long run. The management of working capital should not be neglected by enterprises.

The need of the study like this arises from the real nature of the banking business and also forms the impact that, it has in the economy of the country. Because the business of banks is to accept deposits and advance loans and the level of deposits and loans depends upon the working capital policy, the study of this type will be most important for the bankers, the economists and the public at large. It provides the literature to the researcher who wants to carry on further research in this field. Therefore, it has been felt very necessary to evaluate the position of working capital management and to focus on the importance of the working capital management in Garima Bikas Bank Limited.

1.6 Limitations of the Study

In this dynamic world nothing existing is free from limitation. This study also is not exception. However the researcher has tried to eliminate the limitations to the best possible extent, yet it suffers from the following limitation.

a. This study will be focused on working capital management of Garima Bikas Bank Ltd only. Thus the findings of the study may not be applicable for other banks and firms and companies as well.
b. This study only covers the period of five fiscal year.
c. This study is basically based on secondary data
d. This study will considered only working capital management of the bank. So, the study can not judged other financial aspect of the bank.
e. There are many factor, that affect working capital management of the banks however only those related factors will be considered in this study.

1.7 Organization of the Study

The whole study has been divided in to following five chapters:

Introduction

Review of Literature

Research Methodology

Data Presentation & Analysis

Summary, Conclusion & Recommendation

The overall studies of each chapter are described below:

Chapter 1: Introduction

The chapter one is introduction that includes general background of the study, introduction of the Garima Bikas Bank Ltd., statement of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter II: Review of Literature

This chapter concerns with the review of related literatures and available studies written and prepared by different experts and researchers in the field of working capital.

Chapter III: Research Methodology

This chapter deals with research methodology to be adopted for this study consisting introduction, research design, sources of data, population & sample, data processing procedure, tools and techniques of analysis and definition of key term.

Chapter IV: Data Presentation & Analysis

This is the most essential & extensive chapter as it includes the main theme of the study. It deals with presentation and analysis of data fulfill the objective of the study by presenting the data analyzing them with the help of various statistical tools followed by methodology.

Chapter V: Summery, Conclusion & Recommendation

The fifth chapter summarized the whole study, moreover it draws the conclusions and forwards, towards the recommendations for the improvement of working capital management of Garima Bikas Bank Ltd. Bibliography and appendixes are also includes according to the literatures are reviewed.

CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

This chapter deals with the conceptual framework of working capital management. It also provides insight into the finding of earlier studies through the review of books journals, publication and pervious studies. This process of studying different materials, which are concerned with the selected topics of the research is known as review of literature. P.V. young argues "Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research".

2.2 Conceptual Framework

The management of the funds of business can be described as financial management. Financial management is mainly concerned with two aspects. Firstly, Fixed assets and fixed liabilities. In other words, long term investment and sources of funds. Secondly, current assets and current liabilities, which are concerned with current uses as sources of funds. Both of these types of funds play a vital role in business finance. Business firms need various types of assets in order to carry out its operation. Some assets are required to meet the needs of regular production and some other are required specially to meet day to day expenses and short term obligations. The assets such as cash, marketable securities, account receivables and inventories which are known as current assets are required to maintain at a certain level depending upon the volume of production and sales.

The cash and marketable securities are respective considered as purely liquid and near liquid assets whereas the account receivable and inventories are not. However, they can be liquidated when necessary within a period of less than one year. The capital investment on these assets is known as working capital. In short, working capital is the source of financing current assets and it includes short as well as long-term financing.

Working capital is a controlling nerve of business it is an important and integral part of financial management as short-term survival is a pre-requisite to long-term success. As pointed out by Ralph Kennedy and Steward MC Mullary, the inadequacy or mismanagement of working capital is the heading cause of business failure. Unless the payment is made at the maturity of the particular debt, the firm is at worst and the creditors may force the firm to terminate its business. (Flink and Donald: 1964:13).

Firms need cash to pay for all their day-to-day activities. They have to pay wages, pay for raw materials, pay bills and so on the money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets as these are the short-term assets that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has at its disposal. Working capital is therefore:

Working capital (WC) = Current assets (CA) –Current liabilities (CL)

Thus working capital is the same as net current assets, and is an important part of the top half of the firm's balance sheet. It is vital to a business to have sufficient working capital to meet all its requirements. Many business have gone under, not business they were unprofitable, but because they suffered from shortages of working capital (www. bized ac.uk)

Working capital refers to the cash a business requires for day-to-day operations, or more specifically, for financing the conversion of raw materials into finished goods, which the company sells for payment. Among the most important items of working capital are levels of inventory, account receivable and accounts payable. Analysts look at these items for signs of a company's the better a company manages its working capital, the less the company needs to borrow. Therefore, the role of working capital management is more significant for every business organization irrespective of their nature.

2.3 Concept of Working Capital Management

Working capital refers to the resources of the firm that are used to conduct operations to do day-to-day work that makes the business successful. Without cash, bills cannot paid, without receivables, the firm cannot allow timing difference between delivering goods or services and collecting the money to pay for them without inventories the firm cannot engage in production not can it stock goods to provide immediate deliveries As a result of the critical nature of current assets, the management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of the firm–those items that can be converted into cash within the year. Hence, working capital management is the management for the short-term. It is a process of short-term decision making regarding the current assets and current liabilities affecting the long-term operation of an enterprise. It is a process of planning and controlling the level of mix of current assets of the firm as well as financing these assets. It concludes decision regarding cash and marketable securities, receivables, inventories and current liabilities with an objective of maximizing the overall value of a firm.

Gross Working Capital: It is simply called as Working Capital and refers to the firm's investment in current assets. Current Assets are the assets which can be converted into cash within an accounting year (or operating cycle). It includes cash, marketable securities, inventory, accounts receivable and debtors. (I.M. Pandey, 1999)

Net Working Capital: This is of critical importance to a firm working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long term funds. It focuses on the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds. This concept helps to compare the liquidity of the same firm over a time.

Another way of defining working capital is that portion of firm's current assets financed with long term fund. Both liquid assets and liabilities are important in working capital management.

Net Working Capital can be positive or negative. A Positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets.

2.4 Types of Working Capital

There are two types of working capital Permanent Working Capital and Variable Working Capital. These working capital are necessary for any organization for continuous production and sales without any interruption.

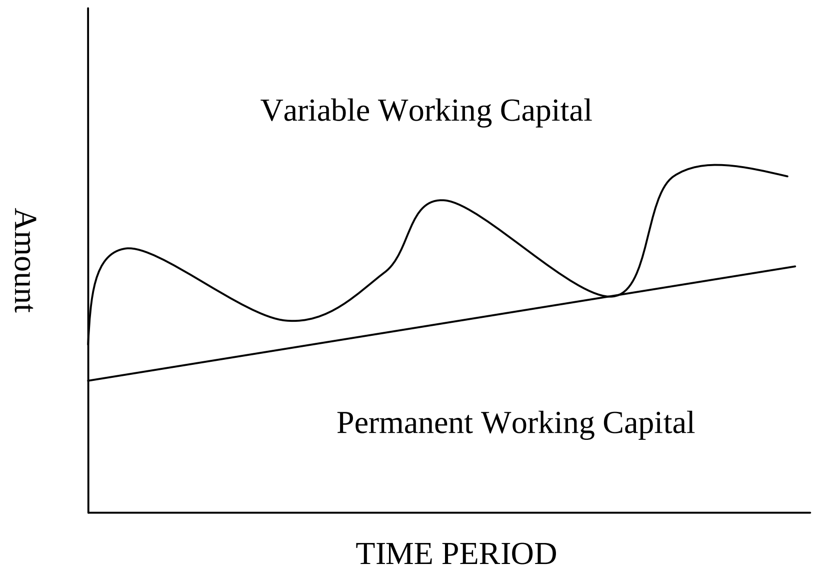
i. Permanent Working Capital

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

ii. Variable Working Capital

Variable Working Capital represents than portion of Working capital which is required over permanent working capital. If the nature of production and sales of a firm is directly related to seasonal variations, it should stock extra raw materials, working in progress and inventory of finished goods. Therefore, this portion of working capital depends upon the nature of firms' production relation between labors and management

Figure 2.1 Types of working capital



2.5 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. (Western, J.fred.:1996:343). So first of all, in working capital management, a firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to financial manger's attitude towards the risk return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds for working capital.

i. Current Assets Investment Policy

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policies-Fat Cat, Lean & Mean and Moderate.

a. Fat Cat Policy

This is also known as relaxed current assets investment policy. It is the policy under which relatively large amounts of cash and marketable securities and inventories are carried, and sales are stimulated by liberal credit policy which results in high level of receivables. This also creates the longer receivable collection period. Thus this policy provides the low expected return in investment with lower risk.

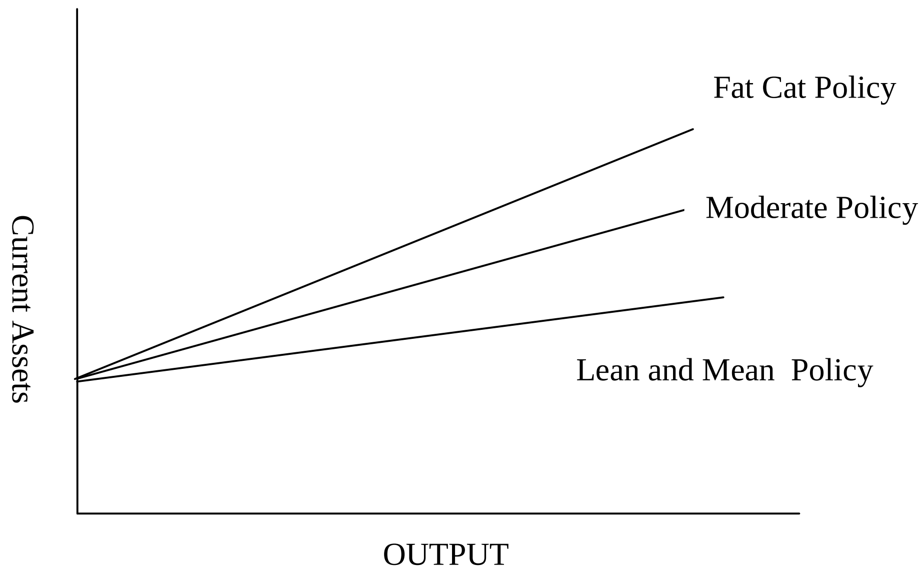
b. Lean and Mean Policy

This is also known as restricted current assets investment policy. This is the policy under which holding of cash and marketable securities, inventories and receivables are minimized. This policy tends to reduce the policy conversion and receivable conversion cycle. Under this policy firm follows a tight credit policy and bears the risk of losing sales.

c. Moderate Policy

It is the policy that is between the relaxed and restrictive policies. In moderate policy, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and return are moderate in this policy.

Figure 2.2 Alternative Current Assets Investment Policy



The relationship between output and current assets level for these alternative is illustrated in above figure. We see form the figure that the greater the output, the greater the need for investment in current assets to support that output and sales. this relationship is based on the notion that it takes a greater proportional investment in current assets when only a few units of output are produces than it does later on, when the firm can use its current assets more efficiently.

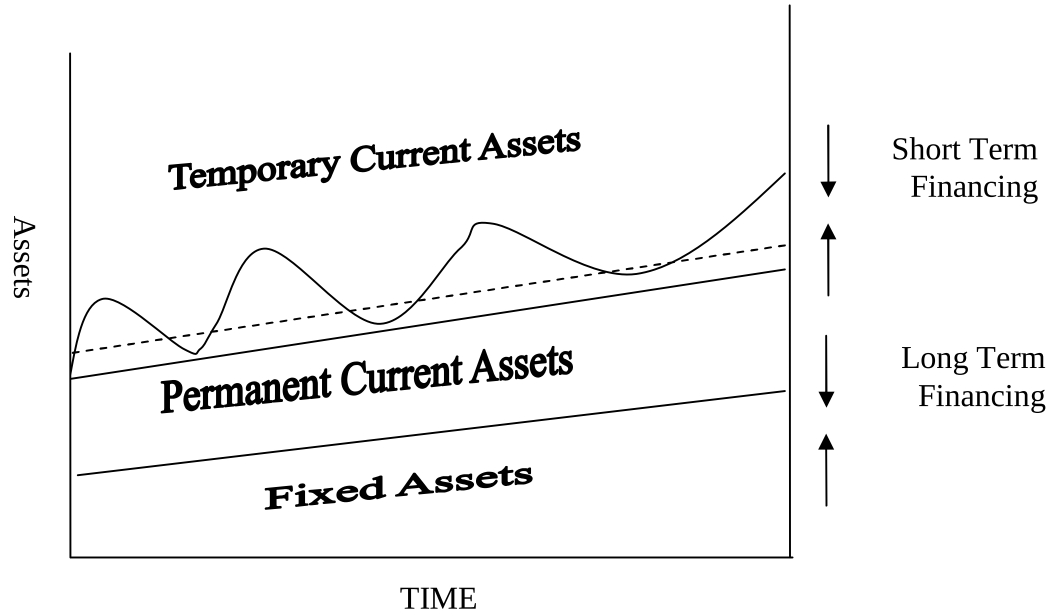
ii. Current Assets Financing policy

It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Thus, current assets financing policy should clearly outline the source of financing of currents. There are three policies – aggressive, conservative and matching policies of current assets financing.

a. Aggressive Policy

In this policy, the firm finances a part of its permanent current assets with short-term financing and rest with long-term financing. In other words, the firm finances not only temporary current assets but also a part of permanent current assets with short-term financing. In this policy, the liquidity position will be low and the risk will be high. A low liquidity position may expose the firm to opportunity costs. If a firm relies heavily on short-term borrowings, during the period of high money, credit may be rational and the firm may be unable to obtain all the financing its needs.

Figure 2.3 Aggressive Financing Policy



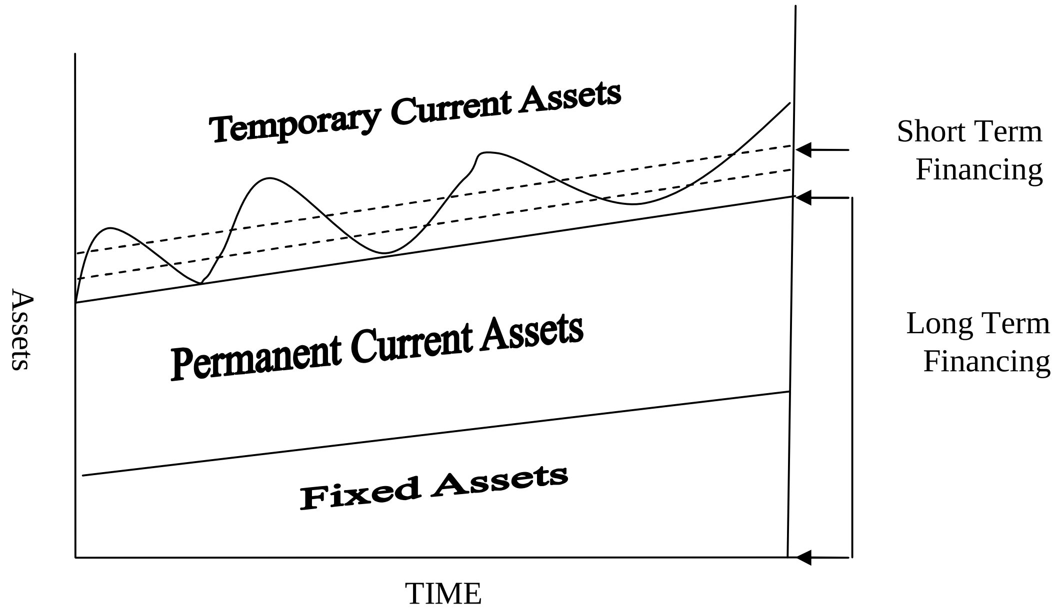
Above figure shows that short-term financing 50 percent of the permanent current assets. In general interest rate increases with time i.e. shorter time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal situation the firm borrows on a short-term financing rather then long-term financing, then it runs the risk of renewing the borrowing again and again. The continued financing exposes the firm to certain risk . It is because, in future the retest expenses will fluctuate widely and also, it may be difficult for the firm to raise the funds during the stringent credit periods. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

b. Conservative Policy

In this policy, the use of short-term fund is restricted to the emergency situation when there is necessity to invest current assets. Otherwise, the long-term fund should be used as far as possible in financing of investment in current assets. However, the cost of financing in this policy will be more, the liquidity will b relatively greater and risk will be minimized.

A firm may adopt a conservative policy in financing its current and fixed assets. The financing policy of the firm is said to be conservative when it depends more on long-term fund for finacing need. Under a conservative plan, the firm finances its permanent assets and a part of temporary current assets with long-term financing. When the firm has no temporary current assets, it stores liquidity by investing surplus funds into marketable securities. The conservative financing relies heavily on long-term financing and, therefore is less risky. The conservative financing policy is shown in figure below. (Pandey 1995:684)

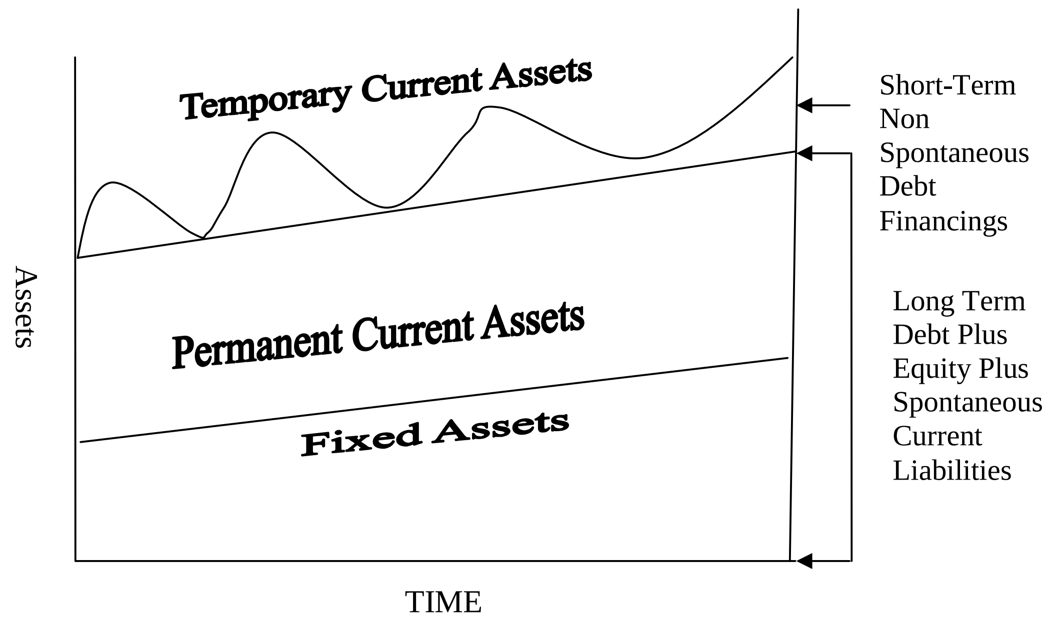
Figure 2.4 Conservative Financing Policy



c. Maturity Matching Policy

It is self-liquidity approach. In this policy, the firm finances the permanent current assets with long term financing and temporary with short-term financing. It means that the firm matches the maturity of financing sources with an assets useful life. It lies in between the aggressive and conservative policies. It leads to both neither high nor low level of current assets and current liabilities. It lies in between low profitability Figure 2.5 (J. Fred Weston & Brigham, Eugene F; 1996:348) shows the temporary working capital is financed by short-term financing and long term financing. Thus, no working capital is financed by long-term funds. Hence, net working capital is zero under this policy.

Figure 2.5 Maturity Matching Financing Policy



2.6 Need for Working Capital

Working Capital is the effective life blood and controlling nerve center of every business organization because without the proper control upon it, no business organization can run smoothly. Thus, it plays a crucial role in the success and failure of the organization. The need for working capital to run he day-to-day business activities cannot be overemphasized. We will hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. Know that firms aim at maximizing the wealth of shareholders. In this endeavor to do so, a firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among the other things. For constant operation of business, every firm needs to hold the working capital components cash, receivable, inventory etc. Therefore, every firm needs working capita to meet the following motives.

i. Transaction Motive

Transaction motive require a firm to hold cash and inventories to facilities smooth production and sales operation in regular. Thus, the firm needs working capital to meet the transaction motive.

ii. Precautionary Motive

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

iii. Speculative Motive

It refers to the desire of a firm to take advantage of the opportunities like opportunities of profit making investment, an opportunity of purchasing raw material at a reduced price on payment of immediate cash, to speculate on interest rates and to make purchase at favorable price etc. Thus the firm needs the working capital to meet the speculative motive.

2.7 Financing of Working Capital

Every manufacturing concern of industry requires additional assets whether they are in stable or growing conditions. When the growing firm wants to generate sustained normally required fixed capital as well as working capital. Additional portion of working capital is approximately dominated by the same rate as sales. But this portion of capital requirement depends up on the nature of the firm. So the most important function of financial manager is to determine the level of working capital and to decide how it is to be finance. Financing of any assets is concerned with two major factors-cost and risk. Therefore the financial manager must determine on appropriate financing mix or decide how current liabilities should be used to finance current assets. However, a number of financing mixes are available to the financial manager. He can present generally three kinds of financing.

1. Long Term Financing

Long Term financing has high liquidity and low profitability, ordinary share, debenture, preference share, retained earning and long-term debts from financial institution are the major sources of long-term financing. Even it includes retained earnings and long-term loan from Nepal Development Corporation and long-term commercial bank.

2. Short-Term Financing

Firm must arrange short term credit in advance. The sources of short term financing of working capital are trade credit and bank borrowing.

i. Trade Credit

It refers to the credit that a customer gets from supplies of goods in the normal course of business. The buying firms does not pay cash immediately for the purchase is called trade credit. It is mostly an informal arrangement and granted on an open account basis. Another from of trade credit is bill payable. It depends upon the term of trade credit.

ii. Bank Credit

Bank Credit is the primary institutional sources for working capital financing. For the purpose of bank credit, amount of working capital requirement has to estimated by the borrowers and banks are approached with the necessary supporting data. Bank determines the maximum credit based on the margin requirement of the security. The following types of loan are provided by banks.

a) Loan Arrangement

Under this arrangement the entire amount of loan is given credit by the bank to the borrowers account, and the loan is repaid in instatements, interest is payables on actual balance outstanding.

b) Overdraft Arrangement

Under this arrangement the borrowers is allowed to overdraw on this current account with the bank up to stipulate limit. Within this limit, any number of drawings are permitted. Repayment should be made n short period.

c) Commercial Papers

It is used only be well-established companies. This evidence of debts is an unsecured short-term promissory note should in the money market. It is sold either through dealers or directly to inventories. Besides the above from to credit, bank provider loan against the warehouse receipt, inventory receivable. In our contest, most popular sources of short term financing are short-term loan from public deposit, which is also a major source of working capital financing in our country.

3) Spontaneous Financing

Spontaneous financing arises from the normal operation of the firms. The two major sources of such financing are trade credit (i.e., credit and bills payable) and accruals. Whether trade credit is free of cost is not actually depends upon the terms of trade credit. Financial manager of the firm would like to financial manger of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of current assets financing is either short-term or long term sources. Thus, the financial manger concentrates his power in short term versus long term financing. Hence, the financing of working capital policy, which is perfectly dominated by the management attitude towards the risk-return.

2.8 Determinants of Working Capital

All the firms, whether public or private, manufacturing or non-manufacturing, must have adequate working capital to survive in competitive market. It should have neither too excess nor too inadequate working capital. But there are no sets of rules or formulate to determine the working capital requirement of the firm. It is because of a large number of factors that influence the working capital requirement of the firm. A number of factors affect different firm in different ways. Internal policies and changes in environment also affect the working capital requirement of the firm. Generally, the following factors affect the working capital requirement of the firm.

a) Nature and Size of Business

It depends upon the nature and size of the business. It the size of the firm is bigger, than it requires more working capital. While a small firm needs less working capital. Trading and financial firm require larger amount of working capital relatively to public utilities, while manufacturing concern lies between two extremes.

b) Growth and Expansion

This is also affects the working capital requirement of a firm. A growing firms needs more working capital then those static ones. However, it is difficult to precisely determine the relationship between the growth and expansion of the firm and working capital needs.

c) Credit Policy

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

d) Production Policy

It a firm produces seasonal goods, then it sells its products in a certain month of the year. In this situation, it can either confine its production only that period when goods are sold or follow a steady production policy through the year and produces goods are sold or follow a steady production policy through the year and produce goods at level to meet the peak demand. The former policy does not need more working capital than the latter does.

e) Availability of Credit

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

f) Manufacturing Cycle

Working capital requirement of an enterprise is also influenced by the manufacturing or production cycle. It refers of the time involved to make the finished goods from the raw materials. During the process of manufacturing cycle, the large will be working capital requirement and vice-versa.

g) Profit Margin

The level of profit margin differs from firm to firm. It depends upon the nature and quality of product, marketing management and monopoly power in the market. If the firm deals with high quality product, has a sound marketing management and has enjoyed monopoly power in the market then if earns quite high profit and vice versa. Profit is sources of working capital pool by generating more internal funds.

h) Price level change

Generally, a firm is required to maintain the higher amount of working capital if the price level rises, because the same level of current assets needs more funds due to the increasing price. In conclusion, the implications of changing price level of working capital position will vary from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

i) Operating Efficiency

It is also the important factor, which influence the working capital requirement of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus, financing manager can contribute to strong working capital position through operation efficiency then it needs less amount of working capital otherwise if requires if a firm has strong operating efficiency large amount of working capital.

j) Level of Taxes

The level of taxes also influences working capital requirement. The amount of taxes to be paid advance is determined by prevailing tax regulations. But the firm's profit is not constant or can't be pre-determined. Tax liability in a sense of short-term liquidity is payable in cash. Therefore, the provision for tax liability increases, it needs to increase the working capital and vice-versa.

2.9 Review of Related Studies

Some of the books on financial management regarding working capital management are reviewed here under.

The well-known professors Weston and Brigham (1996) have given some theoretical insights into working capital management after their various resource studies on it. The bond conceptual finding's of their study provides sound knowledge and guidance for the further study on the field of management of working capital in any enterprise and naturally to this study as well. They explain, in the beginning, the concept of working capital, importance of working capital, financing of working capital, the use of short term vs. 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 components of working capital and their effective management techniques. The components working capital, they have dealt with are-cash, marketable securities, receivable 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 management. For financing of working capital has described the Tondon committee recommendation on the fifth chapter.

Dr. Radhey Shyam Pradhan (1986),"Management of working capital" New Delhi) has published a book on management of working capital in Nepalese Public Enterprises. This book is based on the study on nine manufacturing public enterprises of Nepal for the duration of ten years from 1973 to 1982 A.D. He has aimed to provide useful insight into the existing and forthcoming corporations on working capital behavior. In this study, he has dealt with various issues via-type of working capital, nature of working capital, policy followed by those PEs liquidity, position, structure of working capital policy, nature of working capital and demand for working capital and its various component with changes volume of sales in those PEs. In the study he reveals that most of the selected enterprises achieved a trade off between risk and return there by following neither an aggressive nor a conservative approach. Almost all the selected PEs had a positive net working capital and much of the growth in net working capital might however, be attributed to inflation as the forth in net working capital at deflated prices has been much lower. The liquidity measures showed a poor liquidity position in majority of NPEs. It has been noticed that the enterprise had either negative cash flows or earning before tax or they had excessive net current debts, which could not be paid with in a year. Of the current assets, which is an average, half of the total assets in PEs. The share of inventories is the largest followed by receivable and cash. There had been an improvement in utilization of current assets in the majority of PES. He also noticed that the adjustment speed of actual to desire balance had been observed as highest for cash followed by inventories. However the speed of adjustment was much slower in all this cases. The results were, therefore surprising as the adjustment of even cash holding was not immediate. Further more, the inclusion of capacity utilization in the models did not seem to have contributed much to the demand functions of working capital and its various components. Thus, capacity utilization as a significant variable affecting these demand functions was doubtful. This book, provides on extensive and comprehensive survey on the overall liquidity position, working capital policy, working capital utilization and demand functions of the current assets.

Suniti Shrestha (1995) 'Portfolio Behaviour of Commercial Banks in Nepal) study on portfolio behavior of commercial banks in Nepal and selected two local commercial banks, three joint venture banks and one development banks a sample for the study. Some major findings of the her study are here under.

- Total deposits have been major sources of fund for all the banks.
- Capital and reserve funds do not seem to have changed much over the year.
- The user of fund analysis show that the resources of commercial banks are allocated in the liquid funds, investments on securities, loans and advances bills purchased and discounted.
- Among the portfolio, for Nepalese banks loan and advances share highest volume of the resources and the bills purchased and discounted the least over the year.
- The excess reserves of the commercial banks show unused resources. The cash resource exceeds much more than the required cash reserve.

Some of the journals and articles published by management experts in working capital management have been reviewed in this section.

N.P. Poudel (2053) has written an article on "Financial Statement Analysis : An approach to Evaluate Bank's Performance". His article described the necessity and importance of financial statement analysis to evaluate bank's performance. Analysis of bank financial statement is different from other companies due to special nature of assets and liabilities structure of the banking industry. The bank's balance sheet is composed of financial claims a liability in the form of deposits and as assets in the form of loans but fixed asset account for a small portion of the total assets.

At last, he added that analysis of financial statements can give a good insight into financial health and performance of a bank.

Dr. Mananohar K. Shrestha (1992) wrote an article on "Working Capital Management in public enterprises : A study on financial resuts and constraints". He has considered ten selected PEs and studied working capital management in those PEs in his article. He has focused on the liquidity, turnover and profitability position of those enterprises. He found that four PEs had maintained adequate liquidity position, two had excessive and remaining four had failed to maintain describable liquidity position. On the turnover, four had a adequate turnover, one had high turnover and remaining five had not satisfactory turnover on net working capital. He had also found that out of ten PEs, Six PEs were operating at losses while only four were getting some percentage of profits. With reference to those findings he had brought certain policy issues such as lack of suitable financial management, deviation between liquidity and turnover of assets and inability to show positive relationship between turnover and return on net working capital.

Dr. K. Acharya (1985) wrote an article on "Problems & Implements in management of working capital in Nepalese Enterprises" He has described the two major problem in his article. Operational problems and organizational problems regarding the working capital management in Nepalese PEs. The operational problems he found are listed in the current ratio 2:1 and slow turnover of inventory. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, thin transmutation of capital employed to sales, absent of apathetic management information system, break even analysis, fund flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally monitoring of the proper functioning of working capital management has never been considered a managerial job. In the second part, he has listed the organizational problems in the PEs. In the most of the PEs, there is lack of regular internal and external audit system as well as evaluation of financial results. Similarly, very few PEs have been able to their capital requirement, functioning of finance department is not satisfactory and some PEs are even facing the under utilization of capacity. To make an efficient use of fund for minimizing the risk of loss and to attain profit objective, he has made some suggestion.

L.D. Mahat (2004) published his article on "Spontaneous sources of working capital management". He has defined the three major sources of working capital i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing include short-term banking financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. Whereas spontaneous sources of working capital include trade credit, provisions and accrued expenses.

He has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of rescission, which can bring best and worst in corporate finance such an environment should be efficient enough to cope with the possible worst happenings in future for working capital management. He has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by way of debt financing, the company should have to be interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital will be a better source for working capital in order to improve its performance. Consequently, in a changed economic scenario, every company should realize that inability to mange working capital might lend them in a various circle that can be hard to get out from. It is indeed essential for industries to frighten their belts had checks their financial stability to face and stand in forth coming completive day.

2.10 Review of Previous Thesis

Various research works have done by MBA and MBS students in different aspects of commercial banking, such as financing performance, working capital management etc. studies and reviews on working capital management of other organizations and their conclusion are relevant my study. Some reviewed previous dissertations are as follows.

Bhat, Barun (2011), entitled “A Comparative Study on Financial Performance of Nepal Arab Bank Limited & Himalayan Bank Ltd.” The main objective of the study is to analyses and compare the financial strengths and weakness of the sample financial institution, to determine the financial performance O to evaluate its financial position. To achieve those objective, he has taken five years study period & applied the secondary data. The major findings of his study are as follows:

- In term of current ratio both banks are below than the normal standard but NABIL is slightly better than HBL, The Average ratio on cash and bank balance to deposit ratio (except fixed deposit ratio) of NABIL is lower than HBL. So HBL is more profitable, The average ratio on fixed deposit to total deposit of NABIL is lower than HBL. It shows that HBL’s liquidity position is better than NABIL.
- Analysis of Activity turnover ratio, the average ratio loan & advance to total deposit of NABIL is higher than HBL. NABIL has better utilization of deposit other than HBL. The average ratio the investment by total deposit of NABIL is higher than HBL. it means NABIL is utilizing its deposits more on investment.
- Net profit to total assets ratio of HBL is found higher than of NABIL. HBL has found better performance by utilizing overall resources. Net profit to total deposit ration of NABIL is higher. It shows NABIL is more successful in mobilizing its customer’s saving in much more productive sectors.
- Return on investment, earning per share of NABIL is higher than HBL.

- Rawal, Renu (2009), entitled -"Working capital management of Nepal Insurance Company." The ultimate objective of her study is to evaluate the working capital management of NIC. She used ratio analysis using financial statements of the company for five years from 2060/061 to 2064/065. Her major finding are as follows:
- The percentage of current assets to total assets was very high, that denote greater liquidity position of the corporation & lower risk of technical insolvency.
- The size of working capital largely affected the trade off between risk and profitability of the corporation. Is was increasing trend.
- During the study period ,39.77% of current assets is held by investment, Receivable 17.04% and cash & bank balance 8.29% held of total current assets of total working capital.
- The corporation has conservative working capital police since it has low working capital need & working capitals are of permanent nature. Near about 45% of total assets is financed by long term source of financing.
- Current ratio is 1.58, quick ratio is also same as current assets ratio. Average absolute liquidity ratio is 0.127:1. It shows that the corporation has greater current assets than current liabilities.
- The relation between liquidity & profitability ratio show that decrease in liquidity reduces profitability i.e. there is negative correlation between liquidity & profitability.

Nepal, Kabi Raj, (2007) entitled- "A case study on working capital management Siddhartha Finance Limited." His study focuses on the every aspect of working capital of Siddhartha finance Limited. He has described the components of current assets & current liabilities of SFL. He found liquidity position of the SFL is better by analyzing the various ratios & also trend analyzing. The company's profitability ratio shows that interest earned to total assets ratio has been fluctuation. The average ratio of net profit to total deposit is not desirable.

In his study loan & advance to total deposit, cash and bank balance to current liabilities, loan & advance to net profit all were negative correlated. But the correlation between current ratio, quick ratio, cash & bank balance to total deposit ratio and saving deposit to total deposit ratio with net profit margin were significant

Maharjan, Mandira (2008), performed a research work on “A Study on Financial Performance of NABIL Bank Limited” concluded that the liquidity position of the bank is good enough to meet the short-term obligations. The study shows that the bank is mobilizing its loan and advances adequately. The bank has better mobilization of its saving deposits in loan and advances for income generating purpose but it has not nicely mobilized its fixed deposits in loans and advances to generate the income. So it is suggested investing more in loan and advances a well as less in government securities efficiently for generating profit. Interest earned by the bank is inadequate in comparison to the assets. So it has drawn attention of the bank towards the sense of significant EBIT. Since, the net profit of the bank in comparison to the total deposit is relatively low, it focused on earning operational profit wither by increasing their operational efficiency, or by decreasing their operational expenses as far as possible. The bank is also suggested to formulate and implement some sound and effective financial and non financial strategies to meet required level of profitability as well as the social responsibility.

Dev Raj Adhikari (2005) conducted his research on “Evaluating the financial Performance of Nepal Bank Ltd.” The main objectives of the study are to examine the deposit trend cost of deposits, mobilization assets the investment portfolios of the bank, credit operation of the bank and finally provide suggestions based on finding. The major findings are the fixed deposit had the highest share of deposit in the bank with the current deposit share remaining the lowest in share. The growth in total deposits, growth in cost of deposit, loans and advances, share in the investment, investment portfolio in government securities increases, which is not principle of the commercial banks. Liquidity position of the bank is not so bad, return in capital EPS is in declining trend.

Pradeep Kumar Pathan (1994) has done a research on "An Evaluation of working capital management of Nepal Lube oil Limited". The main objective of his study is to appraise the working capital management of NLOL and to study the relationship between sales and different variables of working capital. To achieve these objectives, he has taken five year study period and applied the secondary data.

He found out the current assets with respect to total assets are in increasing trend year after year during the study period. it has occupied high portion than fixed assets. Investment on current asset has affected on investment on total assets. According to him, the growing tendency of investment over current assets could have adverse effects. In NLOL's wealth maximization goal in the long run.

According to the conclusion of his study, the major findings were:

- The company had lesser participation of fixed assets in total assets.
- Cash holds of the company was relatively small portion of total assets and inventory held largest portion indicating unsound inventory management.
- The company was inefficient in collecting receivables.
- Receivables were not affected by sales.
- Current assets did not depend upon the volume of cash and receivables however significance relation between proportion of current assets and total assets, current asset and fixed asset, current assets and current liability was.

Miss. Rojina Shrestha (2003) has carried out a research on "A study on working capital management with respect to National Trading Limited and Salt Trading Corporation Limited." Her main objective is to present overall picture of working capital of National Trading Limited. The major findings of the study are as follows.

- The current assets to total assets of NTL and STCL both are in fluctuating trend.
- The investment in current is high in both of the trading companies with respect to its total assets and net fixed assets.
- Cash and bank balance holds the highest portion followed by inventor in NTL whereas cash and bank balance holds the least portion in STCL and inventory hold the highest portion.
- The turnover position of the NTL and STCL are in fluctuating trend.
- The liquidity position of the STCL is satisfactory and favorable in comparison to the liquidity position of the NTL.

Mr. Basudev Shrestha (2001) has cared out his research on "A study on working capital management of Dairy Development Corporation". The main objective of the study is to analyze the current assets and current liabilities and their impact and relationship to each other. During his study, he had basically used the secondary data and mainly financial tools are embodied for analyzing the working capital management of DDC. He had derived following major findings from his study.

- The corporation's investment in the form of working capital has been increasing and DDC followed the conservative working capital policy with respect current assets management.
- The average investment in current assets is lower with respect to net fixed assets during this study period and DDC has no clear vision about the investment current assets portion. Cash and bank balance holds the second largest portion of the current assets and has fluctuating trend.
- Other major components of current assets i.e. inventories and receivables are in fluctuating trend. The company does not follow credit sales policy.

- The company has been able to maintain its current ratio in an average 1.78:1 during the study period which is regarding satisfactory level.
- The gross and net profit margin in DDC shows that company is suffering from a heavy loss during the study period.
- The overall return position of DDC is negative, not in favorable condition. it is because of inefficient utilization of current assets, total assets and shareholders wealth.

Mr. Anit Raj Bhandari (2043) has written thesis entitled "Working capital management" (A Case Study of Nepal Bank Ltd., 2043), has done research work for ten year period 2034 to 2043 B.S. The major findings he has drawn from his study are as follows. The bank has heavy liquid assets that reflect the improper utilization of the banks fund due to heavy growth in deposit and other borrowed capital, the volume of share capital became insufficient. Rate of return on shareholders investment is considered insufficient, the bank could not fully utilize its fund and not paid attention to the portfolio management in investment.

Mr. Kamal Prasad Aryal (2005) has carried out "A case study on working capital management of Bank of Kathmandu Ltd." His main objective is to evaluate the working capital position of bank of Kathmandu Ltd. During his study, he had basically used the secondary data and mainly financial tools are embodied for analyzing the working capital management of BOK. He had derived following major findings form his study.

- The working capital of BOKL has been increasing trend.
- The current ratio of the bank was quite fluctuating.
- The loan and advances to saving deposit ratio of the bank is in satisfactory position over the study period.
- The interest earned to total assets ratio of BOKL is not so much satisfactory it means the bank could not able to use its total assets properly to earned interest.

- The net profit to total assets ratio of the bank was flucating. It shows that the bank could not able to utilized its total assets to generate profit.

Miss Payal Bansal (2009) had carried out a research entitled "A Study on Working Capital Management of Garima Bikas Bank". The main objective of the study is to highlight and examine the management of working capital in standard chartered Bank Nepal Ltd. and Himalayan Bank Limited. During the study, she had used secondary data & used many financial tools analyzing the working capital management. She had derived following major finding her study.

- The net working capital of both banks is positive.
- The liquidity position of both bank are increasing trend. It shows the satisfactory level of working capital.
- The major components of current assets of both bank are cash and bank balance, loan & advance and government securities.
- The trend value of interest earned to total assts ratio on banks are decreasing.
- In case of profitability position, both bank have constant level of growth in profitability during the study period.

2.11 Research Gap

As the above research works have been concerned with working capital management. They are mostly done by taking single firm and their analysis is in absolute nature. The studies also observed same defects in working capital management. The tools used for analysis have been limited to rational analysis. So this study tries to explore the working capital management patterns in banking industry. Furthermore this study will be helpful to the interested groups. At least this study will be different from the above in-terms of sample companies, data presentation as well as statistical used for interpretation and analysis of data.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a process of arriving to the solution of problem through planned & systematic dealing with collection, analysis & interpretation of the facts & figures. It is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives.

This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also user the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed and qualitative research in a very clear and direct way using both financial and statistical tools.

3.2 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. Research design means a definite procedure and technique which guides the study and propounds ways for doing research.

For the study of working capital management in Garima Bikas Bank Ltd., research design followed is exploratory research approach. This study is based on data from secondary sources. So, in analyzing the data is a descriptive research design has been used to make the study prescriptive to its users.

3.3 Population and Sample

Now a days a number of development banks have been emerging rapidly. Some have already been established and others are in the process of establishment. Until July, 2013, 86 development banks are operating in Nepal. In the study, all the development banks are population of the study. Among them Garima Bikas Bank Ltd. has been taken as a sample for the study.

3.4 Nature and Sources of Data

This study is mainly based on secondary data. The required data have been extracted from the annual reports of respective banks collected from concerned banks and downloaded from official websites. The Supplementary data and information have been acquired from various sources like newspapers, magazines, brochures, booklets, periodicals and bulletins, published and unpublished reports, related documents and journals available in different libraries, other organization like Nepal stock exchange and Nepal Rastra Bank as well as from official websites of corresponding organizations.

3.5 Data Collection Procedure

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

3.6 Tools and Techniques of Data Analysis

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. On the basis of historical data both financial and statistical tools are used to analytical of different variables.

3.6.1 Financial Tools

Financial ratios are calculated to ascertain the financial condition of the firms. It is the relationship between financial variables contained in the financial statements (i.e., balance sheet, profit and loss account). It helps the related parities to spot out the financial strength and weakness of the firm. There are several financial tools, which can be applied in order to analyze the performance of development banks. There are various ratios used in this study.

i. Working Capital

Working capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. Working capital is used by lenders to help gauge the ability for a company to weather difficult financial periods. Working capital is calculated by subtracting current liabilities from current assets. Due to differences in businesses and the fact that working capital is not a ratio but an absolute amount, it is difficult to predict what the ideal amount of working capital would be for the business. (www.planeware.org.)

ii. Liquidity Ratio

This ratio measures the liquidity position and short-term solvency of the firm indicating the company's ability to meet short-term obligation. The current ratio and quick ratio measure the liquidity position of the company. These ratio are calculated to judge short-term financial position of concerned firm. Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. One of the main objectives of working capital management is keeping good liquidity position. Development banks need liquidity to meet loan demand and deposit withdrawals. Without good liquidity, bank is not able to operate it's function. A firm should ensure that it does not suffer from lack of liquidity & also that is does not have excess liquidity. To measure or ability to meet its short-term obligation, various liquidity ratios are calculated.

a. Current Ratio

Current ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicates the current short term solvency position of the bank. The current ratios are the ratio of total current assets to current liabilities.

As theoretical norms a current ratio of 2:1 or more is consider. The higher current ratio indicates the better liquidity position. In other words, current ratio represents a margin of safety. The higher the current ratio, the greater the margin of safety, and the larger the amount of current assets in relation to current liabilities, the more bank's ability to meet its current obligations. By definition,

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilites (CL)}}$$

Current assets include cash & other assets which can be converted in to cash within one year i.e. debtors, account receivable, bills purchased, marketable securities, discount, advance & overdraft, prepaid expenses etc. The current liability is defined as liability which are short term maturing obligation to be met with in a year i.e. bills payable, banks credit, trade creditors, provision for taxation, dividend payable, outstanding expenses etc.

b. Quick Ratio

Quick ratio is used to measure the ability of concerned firms to pay current obligation (short term) without depending on other liquid assets of current ratio. it provides relationship between quick assets with current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets that are considered to be relatively liquid and included in quick assets are book debts and marketable securities. This quick ratio can be found out by dividing the total quick assets by total liabilities.

$$\text{Quick Ratio (QR)} = \frac{\text{Quick or Liquid Assets (QA)}}{\text{Current Liabilites (CL)}}$$

c. Cash and Bank Balance to Deposit (Excluding Fixed Deposit)

This ratio shows the ability of banks immediate funds to cover the their (current, margin, call and saving) deposits. It can be calculated by dividing cash and bank balance by deposits (excluding fixed deposits). The ratio can be expressed as :

Cash and Bank Balance to

$$\text{Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit (Excluding Fix Deposit)}}$$

d. Saving Deposit to Total Deposit Ratio

Saving deposit is an bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short term in nature. It is calculated by dividing the total amount of the saving deposit by the amount of total deposit that can be expressed as follows:

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

iii. Activity or Turnover Ratio

The fund of creditors and owners are invested in various assets to generate sales and profit. Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio indicates how quickly certain assets are converted into cash. From this ratio is can be known whether or not the businesses activities are efficient. These ratios are also called turnover ratios because they indicate speed with which assets are converted or turnover into profit generating assets. These ratios, moreover, help in measuring the banks' ability to utilize their available resources. Following ratios are used under the activity ratio.

a. Loans & Advances to Total Deposit Ratio

The ratio assess to what extent the bankers are able to utilize the depositors' fund to earn profit by providing loans and advances. In other words, how quickly total collected deposits are converted into loan and advances given to client to earn income. It is computed by dividing the total amount of loan and advances to total deposit fund. Higher ratio, indicates higher/proper utilization of funds and low ratio is the signal of inefficiency or remaining idle.

$$\text{Loans \& Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposits}}$$

b. Loan & Advances to Fixed Deposit Ratio

This ratio measures how much amount it used in loans and advances in comparison to fixed deposit. Fixed deposit are interest bearing long term obligations where as loan and advances are the major sources of investment in generating income for development banks. It is calculated as follows:

$$\text{Loans \& Advances to Fixed Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Fixed Deposits}}$$

c. Loan & Advances to Saving Deposit Ratio

This ratio is also employed for the purpose of measuring utilization of saving deposit in generating revenue by giving loan and advances t o the client i.e., to determine to what extent collected saving deposit amount is being deployed in providing loan and advances to generate income. Saving deposits are interest bearing obligation for short term purpose whereas loan and advances are the short term investment for revenue income. This ratio indicates how much short term interest bearing deposit are utilized for income generating purpose. It is calculated as follows.

$$\text{Loans \& Advances to Saving Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Saving Deposit}}$$

iv. Profitability Ratio

Profit is the difference between revenues & expenses over a period of usually one year. Profit is the ultimate output of a company and it will have no future fails to make sufficient profit. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profit.

Probability ratio indicates the degree of success in achieving desired profit to helps to find the efficiency the organization. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not some of the imported probability ratios used is as follows:

a. Interest Earned to Total Assets Ratio

This ratio is used to determine total interest earned from investments over the total assets of a firm. It can be computed as follows:

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earend}}{\text{Total Assets}}$$

b. Net Profit to Total Assets Ratio

Net profit to total assets ratio is useful in measuring the profitability of all financial resources invested compared to total assets of a firm. This ratio is calculated by dividing the amount of net profit by the amount of total assets employed. The ratio can be expressed as:

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

c. Net Profit to Total Deposit Ratio

This ratio measures the percentage of profit earned from the utilization of the total deposit. Deposit are mobilized for investment, loan and advances to the public in generating revenue. Higher ratio indicates the return from investment on loans and lower ratio indicates that the funds are not properly mobilized.

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

b. Cost of Services to Total Assets Ratio

A sound management always tries to utilize its larger amount of assets with minimum cost. Cost of services to total assets ratio is useful in measuring the utilization of assets with cost of services. The ratio can be expressed as:

$$\text{Cost of Service to Total Assets Ratio} = \frac{\text{Cost of Services}}{\text{Total Assets}}$$

3.6.2 Statistical Tools

Various financial tools mentioned above were used to analyze the working capital management of Garima Bikas Bank Ltd. Likewise, the relationship between different various related to the study topics were also drawn out using statistical tools.

a. Trend Analysis

It is important to analyze trends in ratio as well as their absolute levels, for the trends give clue to whether the financial situation is improving or whether it is deteriorating. In other word trend analysis of ratios indicates the direction of changes. The significance of a trend analysis of ratio lies in the fact that the analyst can know the direction of movement, i.e. whether the movement is favorable or not. Thus, the tools that are used to show grandly increase or decrease of variables over a period of time is known as trend analysis. With the help of trend analysis of the tendency of variables over the period can be seen clearly.

b. Correlation Analysis

The correlation analysis is the technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two variables are related with each other and to what extent variations in one leads to the variation in the. It is denoted by 'r'.

The value of coefficient of correlation always lies between ± 1. A value of -1 indicates a perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means the variables are uncorrelated.

The formula for the calculation of coefficient of correlation between X and Y is given below.

$$r \, X \frac{xy}{\sqrt{x^2 \quad y^2}}$$

Under this study following coefficient of correlation are calculated.

- Co-efficient of correlation between Loan and Advance and Total Deposits.
- Co-efficient of correlation between Cash and Bank Balance and Current Liabilities.
- Co-efficient of correlation between Loan and Advances and Net Profit.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

The major objective of this study is to evaluate the working capital management of Garima Bikas Bank Ltd. In this chapter relevant data and information of working capital as well as financial performance of Garima Bikas Bank Ltd. are presented and analyzed accordingly. Date of the years 065/066 to 069/070 have been presented and analyzed. It covers to analyze the ratio as well as trend and composition of working capital which means current assets, liquidity, current liabilities, turnover, leverage and profitability of Garima Bikas Bank Ltd. It also uses correlation analysis with the help of these analyses; we can know the working capital as well as financial position of Garima Bikas Bank Ltd.

4.1 Working Capital

Working capital means current assets minus current liabilities. Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth. Therefore,

Working Capital = Current Assets – Current Liabilities

4.1.1 Components of Current Assets

To operate the business, different kinds of assets are needed. For the day to day business operation, different types of current assets are required. The composition of current assets of the main components of current assets at GBBL are cash & bank balance, money at call or short notice, loan &

advances and government securities. Miscellaneous current assets are also component of current assets. Pre-paid expenses, outstanding income like interest receivable and other current assets are included in miscellaneous current assets. The following table shows the amount of cash & bank balance, money at call short notice, loan advances, government securities and miscellaneous current assets of Garima Bikas Bank Limited.

Table 4.1 : Components of Current Assets of GBBL

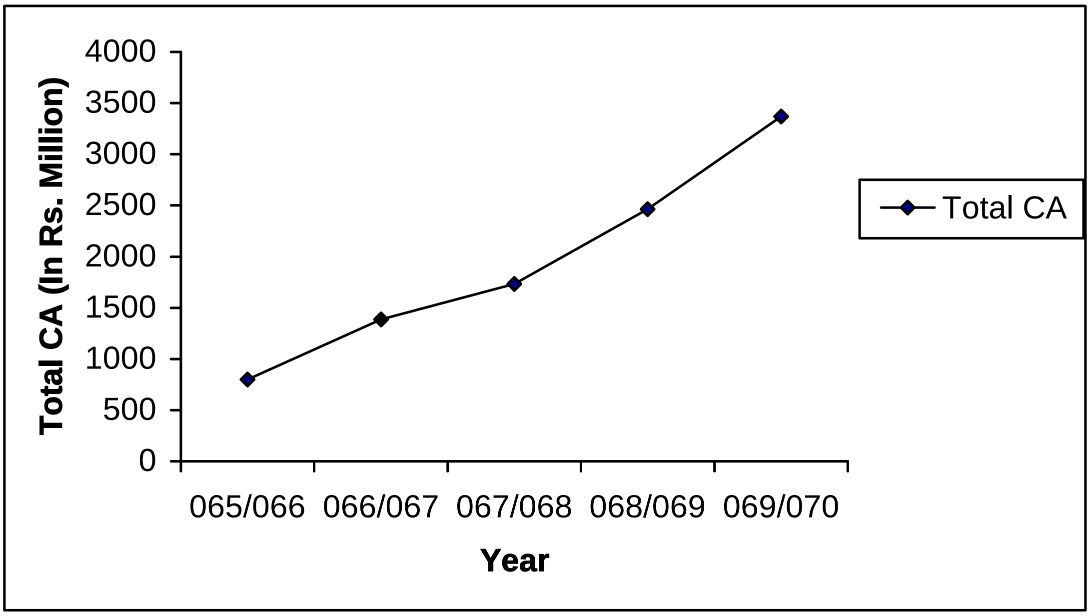
(Rs. In Million)

Fiscal Year	Cash & Bank Balance	Money at Call or Short Notice	Loan & Advances	Misc. C.A.	Total CA
065/066	79.26	177.78	539.16	2.10	798.30
066/067	103.39	366.85	900.37	16.88	1387.49
067/068	141.27	396.73	1159.59	34.54	1732.13
068/069	209.63	572.86	1654.67	27.70	2464.86
069/070	304.13	630.12	2395.42	39.56	3369.23

(Sources: Annual Report of Garima Bikas Bank Ltd.)

Above table 4.1 depicts that the components of current assets of GBBL consists cash & bank balance, money at call or short notice, loan & advances, and miscellaneous current assets. In fiscal year 065/066, total current assets of the bank was amounted to Rs. 798.30 million which included Rs. 79.26 million of cash & bank balance, Rs.177.78 million of money at call or short notice, Rs. 539.16 million of loan & advances, and Rs. 2.10 million of miscellaneous current assets. The current assts of the bank increased in fiscal year 065/066 to 069/070. In the year during the study periods in fiscal year 065/066,066/067, 067/068, 068/069 and 069/070 the level of total current assets are Rs. 798.30 million, Rs. 1387.49 million, Rs. 1732.13, Rs. 2464.86 and 3369.23 million respectively.

Figure 4.1 : Components of Current Assets of GBBL



As stated in above figure 4.1 the current assets of GBBL was increasing trend in fiscal year 065/066 to 069/070.

4.1.2 Components of Current Liabilities

Current liabilities is a short term obligation which is payable with in a year. The composition of current liabilities at GBBL are deposit, short-term loans (Borrowings) and miscellaneous current liabilities. Tax provision, staff bonus, divided payable and other current liabilities are included in miscellaneous current liabilities. The following table shows the amount of deposit and other accounts, short term loans and miscellaneous current liabilities of Garima Bikas Bank Ltd.

Table 4.2 : Components of Current Liabilities of GBBL

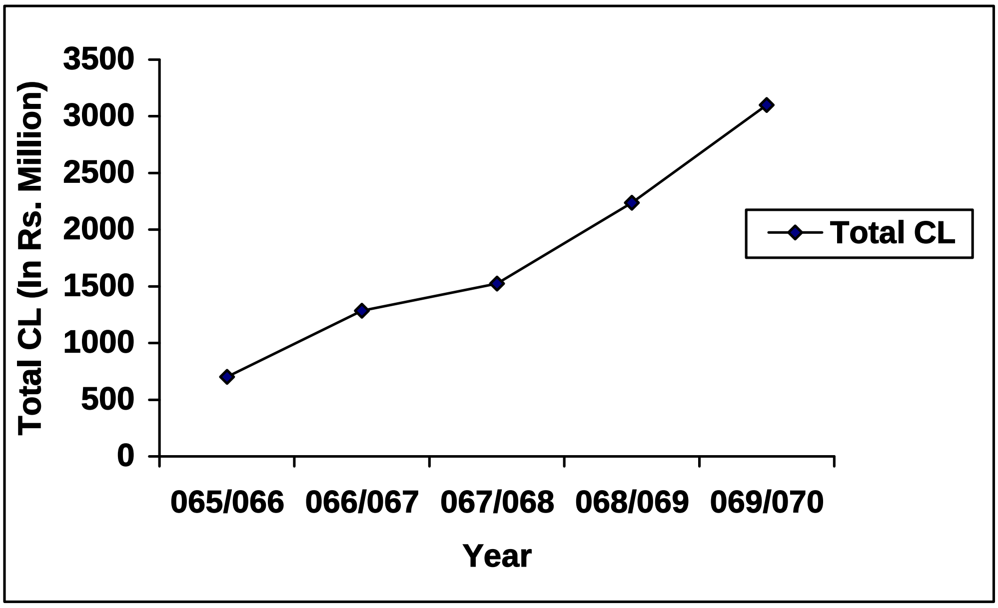
(Rs. In Million)

Fiscal Year	Deposit & Other A/C	Short Term Loan	Misc. CL	Total CL
065/066	688.84	-	14.15	702.99
066/067	1221.04	40.00	22.65	1283.69
067/068	1437.98	-	87.29	1525.27
068/069	2150.95	-	86.23	2237.18
069/070	2997.50	10.00	91.89	3099.39

(Sources: Annual Report of Garima Bikas Bank Ltd.)

In the above table 4.2 represents that the components of current liabilities which consists deposit & other accounts, short-term loan or borrowing and miscellaneous current liabilities. As stated in above table total CL of GBBL was Rs. 702.99 million in fiscal year 065/066. The current liabilities of GBBL were increasing trend in fiscal year 065/066 to 069/070. At the end of fiscal year 069/070, the current liabilities of GBBL is Rs. 3099.39 million which consist of Rs. 2997.50 million, Rs.10.00 million and Rs. 91.89 million of deposit & other accounts, short-term loan & miscellaneous current liabilities respectively.

Figure 4.2 : Components of Current Liabilities of GBBL



As stated in above figure 4.2 the current liabilities of GBBL was increasing trend in fiscal year 065/066 to 069/070.

4.1.3 Net Working Capital of GBBL

Net working capital is the difference between current assets and current liabilities. Net working capital can be positive or negative. To achieve the goal of overall business, the determinants of working capital management should be as accurate as possible. It means money invested on working capital should be neither more nor less because the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assts by considering their role in banks and determining which one is more beneficial to the bank and which is not.

The following table shows the amount of working of Garima Bikas Bank Ltd. of the study period.

Table 4.3 : Net Working Capital of GBBL

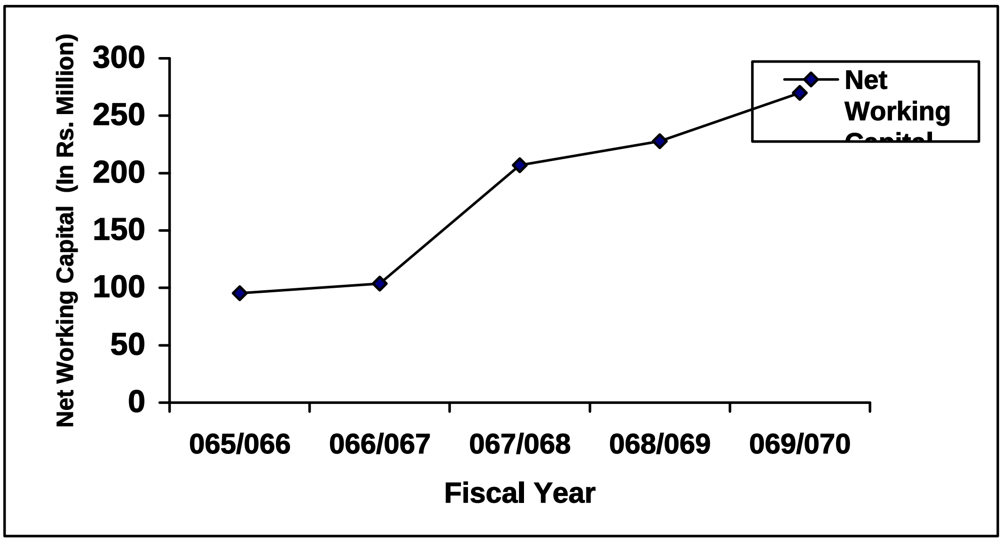
(Rs. In Million)

Fiscal Year	Current Assets (CA)	Current Liability (CL)	Net Working Capital WC= CA-CL
065/066	798.30	702.99	95.31
066/067	1387.49	1283.69	103.80
067/068	1732.13	1525.27	206.86
068/069	2464.86	2237.18	227.68
069/070	3369.23	3099.39	269.84

(Sources: Annual Report of Garima Bikas Bank Ltd.)

In above table 4.3 shows that the net working capital of increasing trend in fiscal year 065/066 to 069/070, Rs 95.31 million, Rs 103.80 million, Rs 206.86 million, Rs 227.68 and Rs 269.84 million. The highest net working capital is Rs. 269.84 million in fiscal year 069/070 and lowest is Rs. 95.31 million in fiscal year 065/066.

Figure 4.3 : Net Working Capital of GBBL



As stated in above figure 4.3 shows the net working capital of the GBBL increasing trend in fiscal year 065/066 to 069/070.

The working capital depicts the liquidity position of any organization i.e. higher the working capital higher the liquidity and vice-versa. Therefore above figure status that the liquidity of the GBBL was satisfactory position over the study period.

4.2 Ratio and Trend Analysis

Ratio analysis is a technique and interpretation of financial statement throng mathematic expression. It is a powerful financial tool to measure the financial performance of banks comparatively. It is important to analyze trends in ratio as well as their absolute levels, for the trends give clue to whether the financial situation is improving or whether it is deteriorating. In other words trend analysis of ratio lies in the fact that the analyst can know the direction of movement, i.e. whether the movement is favorable or not.

As mentioned in research methodology, liquidity, turnover and profitability ratio are calculated.

4.2.1 Liquidity Ratio

Liquidity of any business organization is directly related with the working capital or current assets and current liabilities of that organization. In other words, one of the main objective of working capital management is keeping sounds liquidity position. A standard liquidity ratio must be 2:1. Bank is different organization which is engaged in mobilization of funds. Therefore, 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 ratio are calculated and to know the trend of liquidity, trend analysis of liquidity ratios have been considered.

(a) Current Ratio

This ratio indicates the current short-term solvency position of bank. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety, i.e. a cushion of protection for creditors and the highest the current ratio, greeter than margin of safety, large the amount of current assets in relation to current liabilities, more the banks ability to meet its current obligations. It is calculated as follows:

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilites (CL)}}$$

The following table shows the current ratio to compare the working capital management of Garima Bikas Bank Ltd.

Table 4.4 : Current Ratio of GBBL

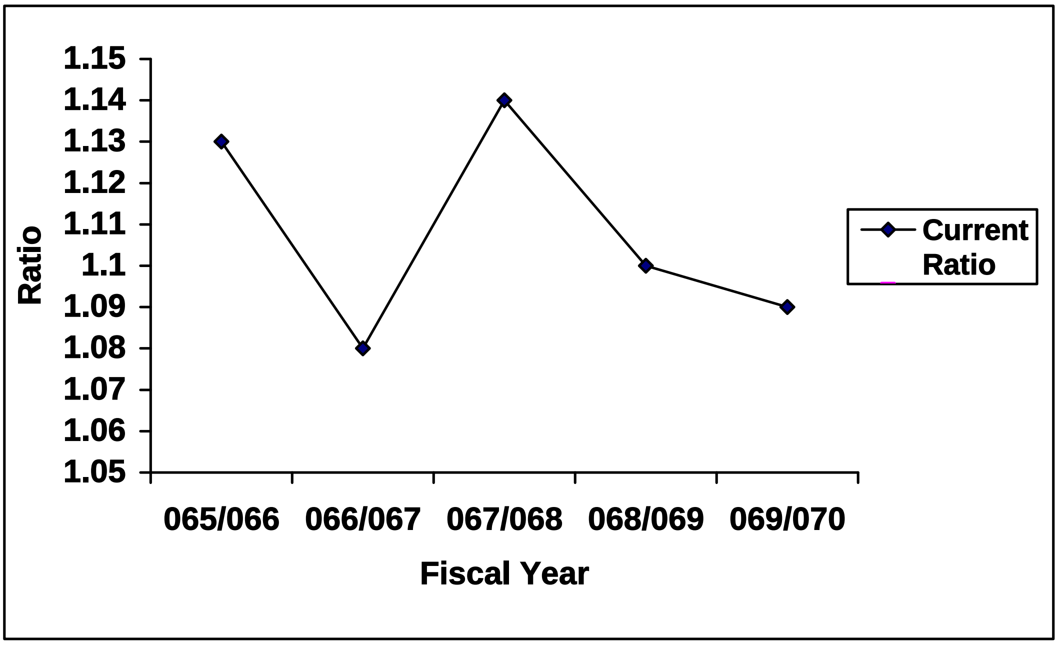
(Rs. In Million)

Fiscal Year	Total (CA)	Total (CL)	Current Ratio
065/066	798.30	702.99	1.13
066/067	1387.49	1283.69	1.08
067/068	1732.13	1525.27	1.14
068/069	2464.86	2237.18	1.10
069/070	3369.23	3099.39	1.09

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above table 4.4 depicts that the current ratio of GBBL which was decreasing. In fiscal year 065/066 to 066/067, the current ratio was decreasing and fiscal year 067/068 increase trend in the study period. The highest current ratio is 1.14 in the fiscal year 067/068 and the lowest current ratio is 1.08 in the fiscal year 066/067. In fiscal year 065/066, 068/069, and 069/070 the current ratio are at 1.13,1.10,and 1.09

Figure 4.4 : Current Ratio of GBBL



The above figure 4.4 depicts that the trend line of Garima Bikas Bank Ltd. which was decreasing in fiscal year 065/066 to 066/067, increase in fiscal year 066/067 to 067/068 and decrease in fiscal year 067/068 to 069/070.

The above analysis helps to find out the liquidity position of the bank. In current ratio, for many types of business 2:1 is considered to be an adequate ratio. It indicates that the bank has sufficient liquidity to remain solvent even at the ratio of 1.08:1 in fiscal year 066/067. It was the minimum ratio during the study period. It is true that the higher the ratio supposedly the greater the ability of a firm to pay its bills. The current ratio of the bank is below than the normal standard.

(b) Quick/Acid Test Ratio

Quick Ratio establishes a relationship between quick or liquid assets and current liabilities. An assets is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is a most liquid. Other assets which are considered to be relatively liquid and included in quick assets are book debts or money at call or short notice and marketable securities. Under this study cash & bank balance, money at call or short notice are included in quick assets. This quick ratio is calculated by dividing the quick assets by current liabilities.

$$\text{Quick/Acid Test Ratio} = \frac{\text{Quick Assets (QA)}}{\text{Current Liabilites (CL)}}$$

The following table shows the quick ratio of Garima Bikas Bank Limited.

Table 4.5 : Quick Ratio of GBBL

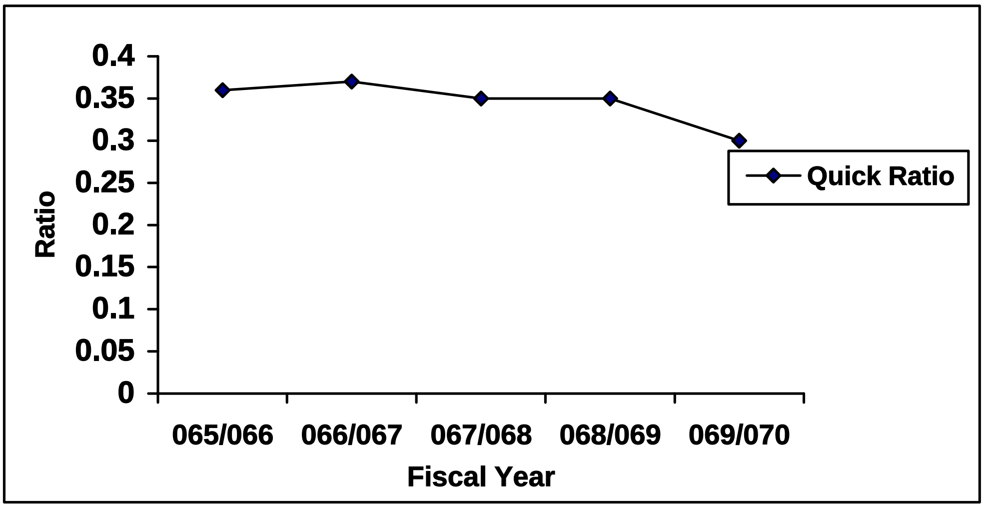
(Rs. In Million)

Fiscal Year	Total (QA)	Total (CL)	Quick Ratio
065/066	257.04	702.99	0.36
066/067	470.24	1283.69	0.37
067/068	537.99	1525.27	0.35
068/069	782.49	2237.18	0.35
069/070	934.25	3099.39	0.30

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above table depicts that quick ratio of GBBL is 0.36 in fiscal year 065/066 and increased in fiscal year 066/067 is 0.37. The quick ratio was same in fiscal year 067/068 and 068/069 is 0.35 and then the quick ratio is decreasing in fiscal year 069/070 which is 0.30. The highest ratio is 0.37 in fiscal year 066/067 and lowest is 0.30 in fiscal year 069/070 and 063/064.

Figure 4.5 : Quick Ratio of GBBL



The above figure 4.5 depicts that the trend line of quick ratio of GBBL increased in fiscal year 065/066 to 066/067 and same in fiscal year 067/068 to 068/069 and decreasing in fiscal year 069/070. The above analysis helps to conclude that the quick ratio to GBBL was satisfactory.

(c) Cash and Bank Balance to Total Deposit Ratio (Excluding Fixed Deposit)

The ratio shows the ability of bank's immediate funds to cover its (current, margin, call & saving) deposits. It can be calculated by dividing cash and bank balance by total deposits (excluding fixed deposits).

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits (Excluding Fixed Deposit)}}$$

A high cash and bank balance refers the greater ability to cover their deposit excluding fixed deposit & vice versa. But very high ratio is disadvantage, as ideal assets earn nothing. The following table and figure shows the cash & Bank balance to total deposit ratio of the Garima Bikas Bank Ltd. over the study period.

Table 4.6 : Cash and Bank Balance to Total Deposit Ratio of GBBL

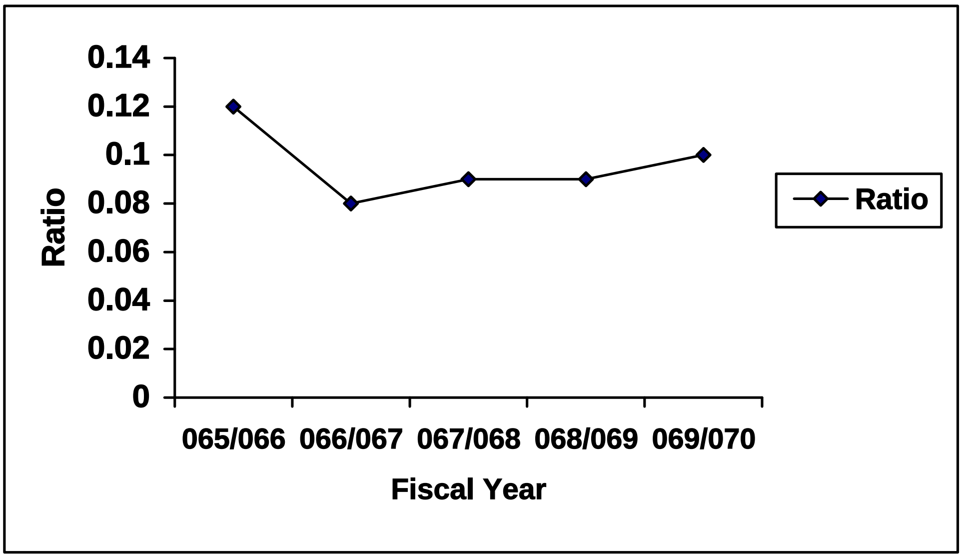
(Rs. In Million)

Fiscal Year	Cash & Bank Balance	Total Deposit	Ratio
065/066	79.26	618.08	0.13
066/067	103.39	971.23	0.11
067/068	141.27	1077.60	0.13
068/069	209.63	1645.95	0.13
069/070	304.13	2219.26	0.14

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above Table 4.6 depicts that the cash & bank balance to total deposit (expect fixed deposit) of GBBL was fluctuating over the study period. The highest ratio is 0.14 in the fiscal year 069/070 , lowest is 0.11 in the fiscal year 066/067 and in the fiscal year 065/066,067/068, 068/069 are same ratio.

Figure 4.6 : Cash and Bank Balance to Total Deposit Ratio of GBBL



The above figure also depicts that the cash and bank balance to total deposit ratio (excluding fixed deposit ratio) was fluctuating trend up to fiscal year 065/066 to 069/070.

The above analysis help to find out the ability of banks immediate fund to cover it's current margin, call & saving deposit of the bank or liquidity position of the bank. But the large amount of idle cash & bank balance badly affect the profit ability of the bank. So, the position of GBBL seems as satisfactory level over the study period.

(d) Saving Deposit to Total Deposit Ratio

Saving deposits is interest bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short-term in nature. It is find out by dividing the total amount of saving deposits by the amount of total deposits, which is given as follows.

$$\text{Saving Deposit to Total deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

The following table and figure shows the GBBL's saving to total deposit ratio.

Table 4.7 : Saving Deposit to Total Deposit Ratio of GBBL

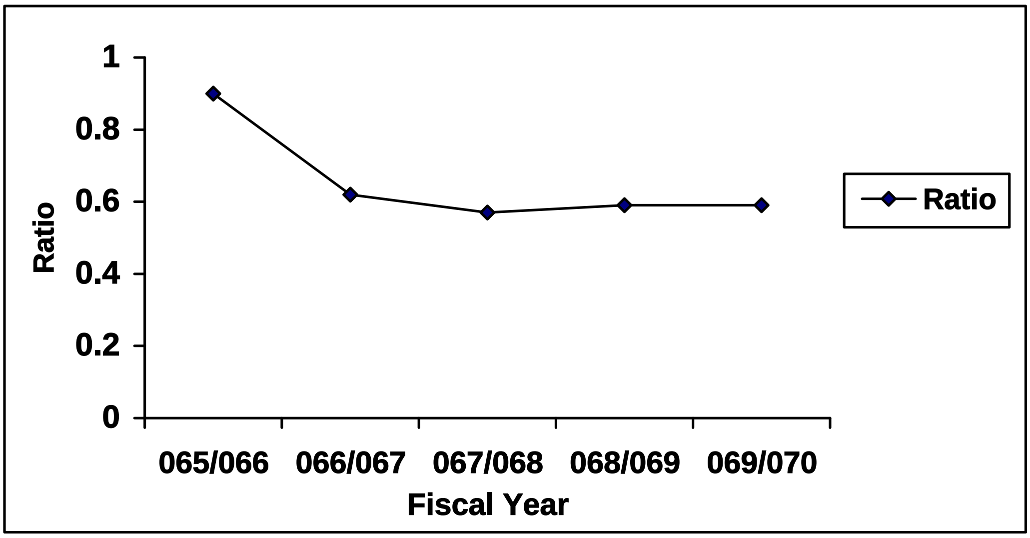
(Rs. In Million)

Fiscal Year	Saving Deposit	Total Deposit	Ratio
065/066	618.08	688.84	0.90
066/067	756.01	1221.04	0.62
067/068	821.65	1437.98	0.57
068/069	1271.71	2150.95	0.59
069/070	1757.83	2997.50	0.59

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above table 4.7 depicts that the amount of saving deposit has been fluctuating up to fiscal year 065/066 to 069/070 during the study period. Similarity, the total deposit of GBBL has been increasing during the study period. Likewise, the saving deposits to total deposit ratio of GBBL fluctuating in the fiscal year 065/066 to 067/068 and same ratio in th fiscal year 068/069 and 069/070. The highest ratio is 0.90 in fiscal year 065/066 and lowest is 0.57 in fiscal year 067/068.

Figure 4.7 : Saving Deposit to Total Deposit Ratio of GBBL



As stated in above figure 4.7, the saving deposit to total deposit ratio of GBBL was decreased trend in fiscal year 065/066 to 067/068 and same trend in fiscal year 068/069 to 069/070.

Although, saving deposit is short-term liability but its nature is long-term then current margin and other deposits. So, the large portion saving deposit in total deposit shows the liquidity of the bank. Bank also pays interest on saving deposit but current, margin and call deposits are nominal fund. It means higher the ratio higher the liquidity position of the bank & vice versa. In other hand, the higher saving deposit increased interest obligation to the bank. Therefore, the higher ratio of saving deposit to total deposit decreased the profitability of the bank. From the view point of profitability the lower ratio is preferable than higher ratio. In above analysis, the ratio of GBBL seems satisfactory level over the study period.

4.2.2 Activity or Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover, help in measuring the banks ability to utilize their available resources.

(a) Loan & Advances to Total Deposit Ratio

This ratio assess to what extent, the banks are able to utilize the depositor's funds to earn profit by providing loan & advances. It is compute dividing the total amount of loan and advances by total deposited funds. The ratio is computed as follows.

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposit}}$$

The following table and figure shows the effectiveness in utilization of total deposits of GBBL.

Table 4.8 : Loan & Advances to Total Deposit Ratio of GBBL

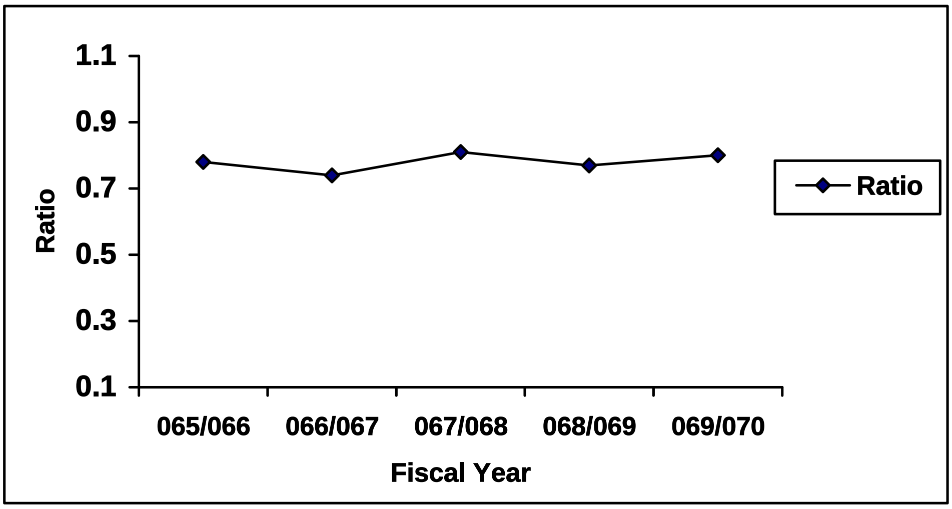
(Rs. In Million)

Fiscal Year	Loan & Advance	Total Deposit	Ratio
065/066	539.16	688.84	0.78
066/067	900.37	1221.04	0.74
067/068	1159.59	1437.98	0.81
068/069	1654.67	2150.95	0.77
069/070	2395.42	2997.50	0.80

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above table 4.8 shows the position and ratio of loan and advances to total deposit of GBBL in fiscal year 065/066 to 069/070. The amount of loan & advances of the bank has been increasing over the study period. Similarity, the amount of total deposit of the bank has been increasing over the study period. Likewise, the loan and advances to total deposit ratio was decreasing in fiscal year 065/066 to 066/067,068/069 and increasing in fiscal year 067/068 and 069/070. The highest ratio is 0.81 in fiscal year 067/068 and lowest is 0.74 in fiscal year 066/067.

Figure 4.8 : Loan & Advances to Total Deposit Raito of GBBL



Above figure 4.8 states that the loan & advances to total deposit ratio was decreasing trend in the fiscal year 065/066 to 066/067 , 068/069 and increase trend in the fiscal year 067/068 and 069/070. Form the above analysis, loan and advances to total deposit ratio clearly shows the low capacity of the bank to mobilize its deposit.

(b) Loan & Advances to Fixed Deposit Ratio

This ratio examines that how many times the funds is used in loan and advances against fixed deposit. Fixed deposits are interest bearing long-term obligation, whereas loan and advances are the major sources of investment in generating income for banks. It is calculated as follows.

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed Deposit}}$$

The following table & figures shows the effective loan and advances to fixed deposit ratio of GBBL.

Table 4.9 : Loan & Advances to Fixed Deposit Ratio of GBBL

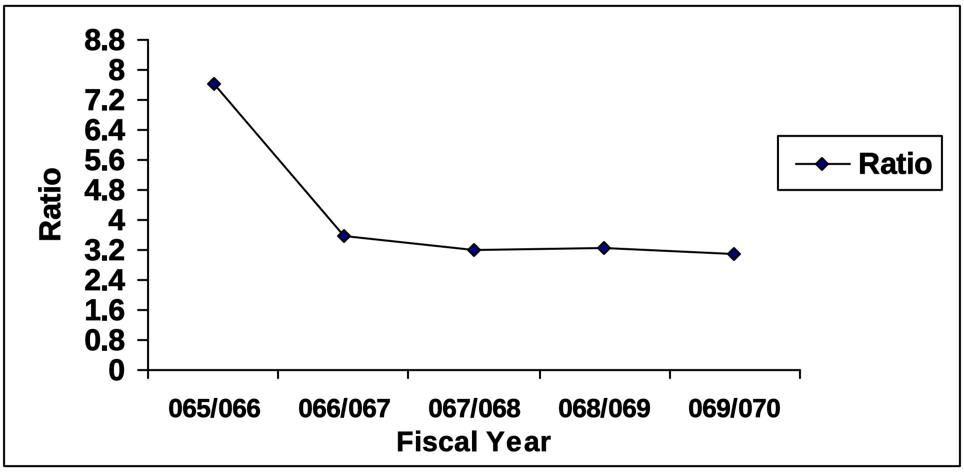
(Rs. In Million)

Fiscal Year	Loan and Advances	Fixed Deposit	Ratio
065/066	539.16	70.76	7.62
066/067	900.37	249.81	3.60
067/068	1159.59	360.38	3.22
068/069	1654.67	505.00	3.28
069/070	2395.42	778.24	3.08

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above table 4.9 shows that the loan and advances to fixed deposit ratio of GBBL was decreased in fiscal year 065/066 to 066/067,066/067, to 067/068 and 068/069 to 069/070 then the ratio was increasing in 067/068 to 068/069. The highest ratio is 7.62 in fiscal year 065/066 and lowest is 3.08 in fiscal year 069/070.

Figure 4.9 : Loan & Advances to Fixed Deposit Raito of GBBL



The above figure 4.9 shows that the loan and advances to fixed deposit of GBBL, the ratio has been decreasing trend in fiscal year 065/066 to 069/070. It was slightly decreased.

The above analysis implies that the utilization of fixed deposit it in loan and advances efficiently or not. The highest ratio implies the efficient mobilization of fixed deposit and vice-versa. Form the above trend analysis we can conclude that the GBBL has been mobilizing its fixed deposit quite satisfactory.

(c) Loan and Advances to Saving Deposit Ratio

This ratio is also employed for the purpose of measuring the utilization of saving deposits in generating revenue by giving loan & advances to the client. i.e., to what extent collected saving deposits amount is deployed in providing loan & advances to generate income. Saving deposits are interest bearing obligation for short term purpose whereas loan and advances are the short term investment for revenue income. This ratio indicates how many times short term interest bearing deposits are utilized for income generating purpose. It is calculated as follows.

$$\text{Loan and Advances to Saving Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Saving Deposit}}$$

The following table & figures shows the loan and advances to saving deposit ratio of GBBL.

Table 4.10 : Loan & Advances to Saving Deposit Ratio of GBBL

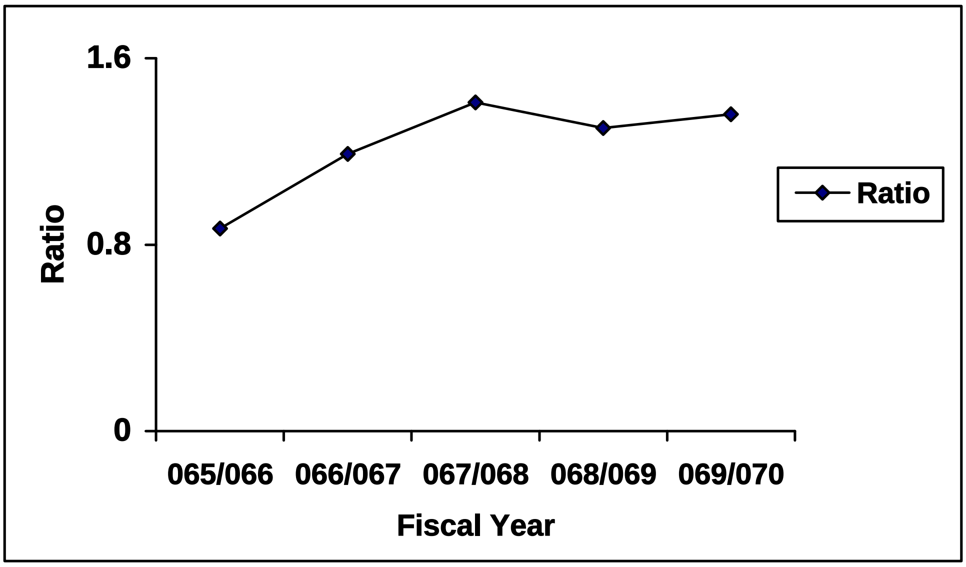
(Rs. In Million)

Fiscal Year	Loan and Advances	Saving Deposit	Ratio
065/066	539.16	618.08	0.87
066/067	900.37	756.01	1.19
067/068	1159.59	821.65	1.41
068/069	1654.67	1271.71	1.30
069/070	2395.42	1757.83	1.36

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above table 4.10 depicts that the loan and advances to saving deposit ratio of GBBL was increasing in fiscal year 065/066 to 067/068 and decreasing in fiscal year 067/068 to 068/069 and increasing in fiscal year 069/070. The study period highest ratio is 1.41 in fiscal year 067/068 and lowest is 0.87 in fiscal year 065/066.

Figure 4.10 : Loan & Advances to Saving Deposit Ratio of GBBL



The above figure 4.10 shows that the loan and advances to saving deposit ratio of the GBBL was increasing in fiscal year 065/066 to 067/068, and decreasing in fiscal year 068/069 and then was increasing trend. This ratio is fluctuating.

From the above analysis it can be concluded that the saving deposit of the bank has been effectively utilized in loan and advances.

4.2.3 Profitability Ratio

Profitability ratio is the measurement of efficiency in the firm. It provides the degree of success in achieving designed profit. This ratios are mostly used to compare the performance of the bank in different years. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. Various profitability ratio are calculated as follows.

(a) Interest Earned to Total Assets Ratio

It is the ratio, which formed to find out the percentage of the interest earned to total assets. This is derived by dividing the amount of interest earned by the total assets of the firms.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}} \times 100\%$$

The following table and figure shows the interest earned to total assets ratio of the GBBL.

Table 4.11 : Interest Earned to Total Assets Ratio of GBBL

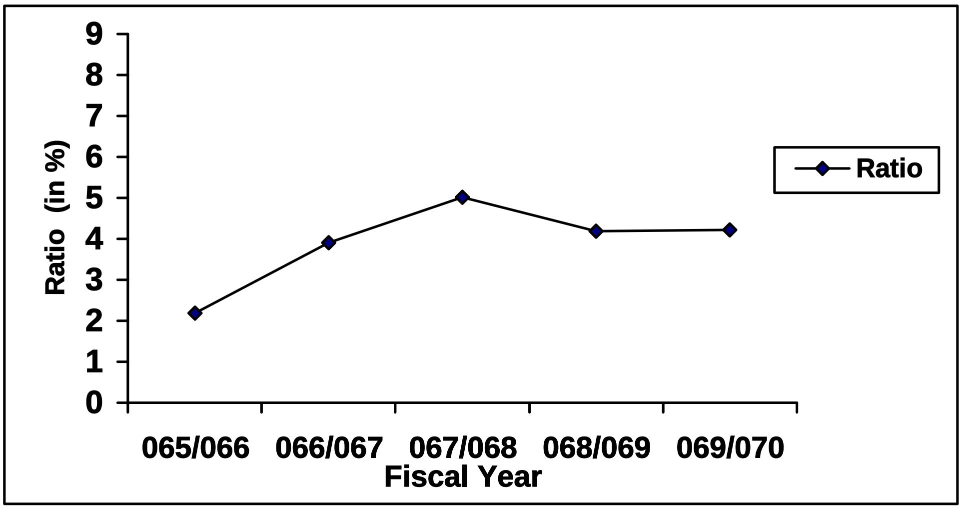
(Rs. In Million)

Fiscal Year	Interest Earned	Total Assets	Ratio (in %)
065/066	17.75	812.09	2.18
066/067	55.42	1416.91	3.91
067/068	88.31	1757.77	5.02
068/069	104.22	2489.98	4.18
069/070	144.10	3416.84	4.22

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above table 4.11 shows that the amount of interest earned has been increasing trend of GBBL over the study period. Similarly, the amount of total assets of the GBBL has been increasing over the study period. The interest earned to total assets ratio of the bank was quite fluctuating. It was stands at 2.18% in fiscal year 065/066. It was slightly increase in fiscal year 066/067 ,067/068, and fiscal year 068/069,069/070 was fluctuating. The following figure shows the ratio of interest earned to total assets of the bank.

Figure 4.11 : Interest Earned to Total Assets Ratio of GBBL



The above figure depicts that the interest earned to total assets ratio of GBBL seem quite fluctuating over the study period. From fiscal year 065/066 to 067/068 the trend line of the bank was increasing position and then it was decreased in fiscal year 2068-069 and increasing in fiscal year 2069/2070.

From the above analysis we can conclude that the interest earned to total assets of the GBBL is not so much satisfactory . It implies that the bank might not able to use its total assets of funds to errand interest.

(b) Net Profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of funds in invested in the bank's assets. It measures the return on assets is computed by using following formula.

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100\%$$

The following table and figure shows the net profit to total assets ratio of GBBL.

Table 4.12 : Net Profit to Total Assets Ratio of GBBL

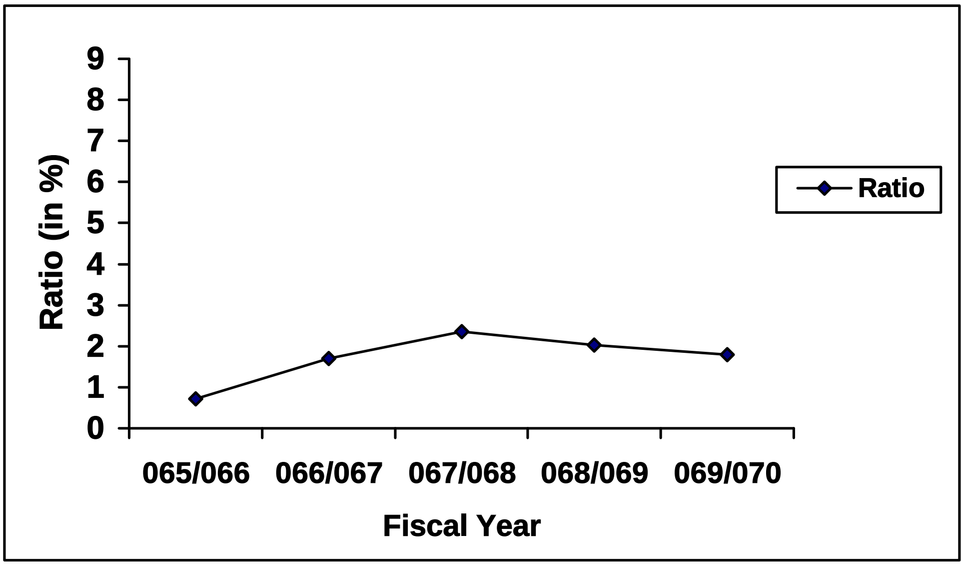
(Rs. In Million)

Fiscal Year	Net Profit	Total Assets	Ratio (%)
065/066	5.79	812.09	0.71
066/067	24.11	1416.91	1.70
067/068	41.28	1757.77	2.35
068/069	50.29	2489.98	2.02
069/070	61.10	3416.84	1.79

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above table show that amount of net profit was increasing in fiscal year 065/066 to 069/070. Similarly, the amount of total assets was increasing in fiscal year 065/066 to 069/070. Likewise, the ratio of net profit to total assets is increasing in fiscal year 065/066 to 067/068 and decreasing in fiscal year 068/069 to 069/070. It was stands at 0.71 % in fiscal year 065/066. It was increasing in fiscal year 066/067 to 069/070. The highest ratio is 2.35% in fiscal year 067/068 and lowest is 0.71% in fiscal year 065/066.

Figure 4.12 : Net Profit to Total Assets Ratio of GBBL



The above figure implies that the fluctuating net profit to total assets ratio in percentage of GBBL.

Above analysis help to find out whether the bank efficiently used it working funds or total assets to earned higher rate of profit or not. The ratio of net profit to total assets of GBBL implies that the bank could not able to use its available working funds affectively over the study period.

(c) Net Profit to Total Deposit Ratio

This ratio is used to measuring the internal rate of return form deposits. It is computed dividing the net profit by total deposits. Higher ratio indicates the return form investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing. The following formula is used as:

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Deposit}} \times 100\%$$

The following table and figure shows the net profit to total deposit ratio.

Table 4.13 : Net Profit to Total Deposit Ratio of GBBL

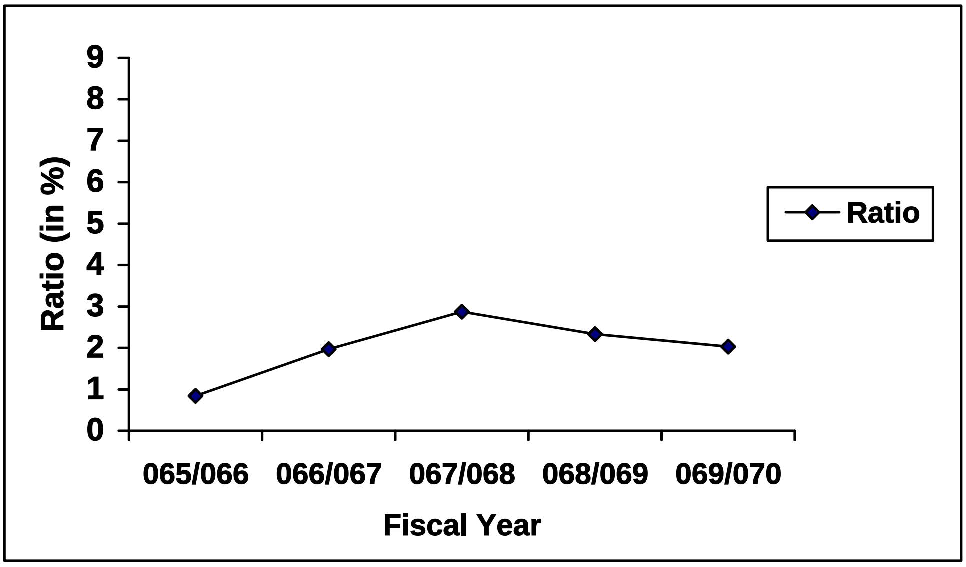
(Rs. In Million)

Fiscal Year	Net Profit	Total Deposits	Ratio (%)
065/066	5.79	688.84	0.84
066/067	24.11	1221.04	1.97
067/068	41.28	1437.98	2.87
068/069	50.29	2150.95	2.33
069/070	61.09	2997.50	2.03

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above table 4.13 shows that the ratio of net profit to total deposit ratio was increasing the study period of F/Y 065/066 to 067/068 and decreasing trend in the period of F/Y 067/068 to 069/070 . The highest ratio of 2.87 in fiscal year 067/068 and lowest is 0.84 in fiscal year 065/066.

Figure 4.13 : Net Profit to Total Deposit Ratio of GBBL



The above Figure 4.13 shows that the ratio net profit to total deposit of GBBL was decreasing trend in over the study period.

The above analysis helps to find out whether the bank could able to mobilize of outsiders funds properly or not. The mobilization of outsiders fund is very important to earn profit for a development bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank mobilized its deposit as efficiently as possible. As shown in table we can easily conclude that the bank could not able to mobilized its deposit or outsiders funds efficiently. The bank should mobilize its deposit properly to increase profit.

(d) Cost of Service to Total Assets Ratio

A sound management always tries to utilize its larger amount of assets with minimum cost. This ratio is useful in measuring the assts utilization with cost of services. The cost of service included interest paid on borrowings and on deposit, employees expenses, provision for staff bonus as well as other operating expenses. The ratio can be expressed as below.

$$\text{Cost of Services to Total Assets Ratio} = \frac{\text{Cost of Service}}{\text{Total Assets}}$$

The following table shows the cost bearing of services taking by Garima Bikas Bank Ltd.

Table 4.14 : Cost of Service to Total Assets Ratio of GBBL

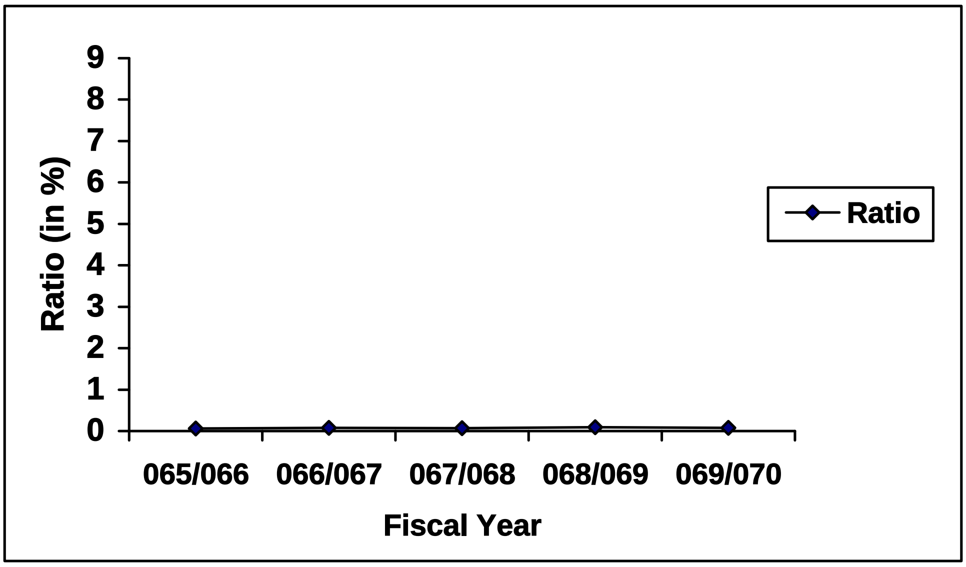
(Rs. In Million)

Fiscal Year	Cost of Service	Total Assets	Ratio (%)
065/066	51.01	812.09	0.06
066/067	115.76	1416.91	0.08
067/068	116.30	1757.77	0.07
068/069	229.07	2489.98	0.09
069/070	294.31	3416.84	0.08

(Sources: Annual Report of Garima Bikas Bank Ltd.)

The above table 4.14 shows the cost of service of the GBBL has been increasing trend over the study period. Similarly, the total asset of the GBBL has been also increasing trend over the study period. Likewise, the cost service to total assets ratio has been fluctuating trend from fiscal year 065/066 to 069/070.

Figure 4.14 : Cost of Service to Total Assets Ratio of GBBL



In the above figure 4.14 depicts that the ratio of cost of service to total assets ratio of GBBL was fluctuating trend in fiscal year 065/066 to 069/070.

From the above analysis, we can found that the bank could able to fluctuating its cost of services in F/Y 065/066 to 069/070. It is quite satisfactory but the bank has to give attention towards further decline of the cost of service.

4.3 Correlation Analysis

Correlation analysis is a statistical relation between two or more variables such that systematic changes in the value of one variable are accompanied by systematic changes in the other. In other words, correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another.

Under this analysis Karl Pearson's method of coefficient of correlation is applied. The coefficient of correlation measures the degree of relation of correlation is always between +1 and – 1, when r is +1 it means there is perfect relationship between two variables and vice-versa. When r is 0, it means there is no relationship between two variables.

4.3.1 Coefficient of Correlation between Loan & Advances and Total Deposit

The coefficient of 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 i.e. total deposit. In correlation analysis, total deposit is independent variable (Y) and loan & advances is dependent variable (X). The purpose of computing coefficient of correlation is to justify whether the deposits 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 of correlation (r) between loan and advances and total deposits i.e. r, PEr, 6PEr of Garima Bikas Bank Ltd.

Table 4.15 : Coefficient of Correlation between Loan and Advances and Total Deposit

Bank	r	PEr	6PEr
GBBL	0.99	0.0027	0.016

(Sources: Appendix-I)

From the above table 4.15 shows that the coefficient of correlation between loan and advances and total deposit value 'r' is 0.99. it shows positive relationship between two variables loan and advances and total deposit of GBBL. By considering the probable error, since the value of 'r' i.e. 0.99 more than six times of probable error i.e. 0.0027, we can say that the value of 'r' is insignificant.

Thus form the above analysis; it can be conclude that there is significant relationship between loan & advances and total deposits because change in any variable can affect the value of other variables.

4.3.2 Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Cash and bank balance is most liquid component of current assets. This is required to meet the unexpected short-term obligation i.e. current liabilities. The coefficient of correlation between cash & bank balance and current liabilities is to measure the degree of relationship between cash & bank balance and current liabilities. In correlation analysis, cash & bank balance is dependent variables (X) and current liabilities are independent variable (Y).

The following table shows the coefficient of correlation between cash & bank balance and current liabilities i.e. 'r', PEr, 6PEr of Garima Bikas Bank Ltd.

Table 4.16 : Coefficient of Correlation between Cash & Bank Balance and Current Liabilities

Bank	r	PEr	6PEr
GBBL	0.9909	0.00542	0.0328

(Sources: Appendix-II)

From the above table 4.16, we can find that coefficient of correlation between cash & bank balance and current liabilities of GBBL is 0.9909 which shows the positive relationship between two variables cash & bank balance and current liabilities. By considering the probable error, since the value of 'r' i.e. 0.9909 is more than six times of PEr i.e. 0.00542, we can say that the value of 'r' is significant.

From the above analysis, it can be concluded that there is not significant relationship between cash & bank balance and current liabilities.

4.3.3 Coefficient of Correlation between Loan & Advances and Net Profit

The basic function of development bank is to collect deposit and invest these funds on loan and advances to generate higher profit. The coefficient of correlation between loan and advances net profit is to measure the degree of relationship between loan and advances. In correlation analysis, loan and advances independent variable (Y) and net profit is dependent variable (X). 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 coefficient of correlation between loan and advances and net profit i.e. 'r', PEr and 6PEr of Garima Bikas Bank Ltd.

Table 4.17 : Coefficient of Correlation between Loan & Advances and Net Profit

Bank	r	PEr	6PEr
GBBL	0.8560	0.08059	0.4836

(Sources: Appendix-III)

As stated in above table 4.17, the coefficient of correlation between loan & advances and net profit of GBBL over the study period is 0.8560. It shows the positive relationship between two variables loan & advances and net profit. By considering the value of probable error and six times of probable error which value are 0.08059 and 0.4836 respectively, these values are lesser than coefficient of correlation.

Thus, from the above analysis, it can be conclude that there is significant relationship between loan & advances and net profit because change in any variable affect the value of other variables.

4.4 Major Findings of the Study

The following are the major findings of the study.

- The net working capital of GBBL has been increasing trend over the study period (065/066 to 069/070). The working capital depicts the liquidity position of any organization. It means higher the working capital higher the liquidity of the firm and vice-versa. Total net working capital of the bank was to Rs. 95.31 million, Rs. 103.80 million, Rs. 206.86 million, Rs. 227.68 million, Rs. 269.84 million at the end of fiscal year 065/066, 066/067, 067/068, 068/069 and 069/070 respectively.
- The current ratio of the bank was Fluctuating trend, which stands of 1.13 at F/Y 065/066, 1.08 at F/Y 066/067, 1.14 at F/Y 067/068, 1.10 at F/Y 068/069 and 1.09 at F/Y 069/070 . As depicted by the study, GBBL's has satisfactory liquidity.
- The quick ratio of the bank is representing by the current ratio. The quick ratio of the bank was quite. Fluctuating, which stands 0.36 at F/Y 065/066, 0.37 at F/.y 066/067 at 0.35, 067/068, 0.35 at F/Y 068/069 and 0.30 F/Y 066/067.
- The cash and bank balance to total deposit ratio excluding fixed deposit of the bank was quite fluctuating which stands 0.13 at F/Y 065/066, 0.11 at F/Y 066/067, 0.13 at F/Y 067/068, 0.13 at F/Y 068/069, and 0.14 at F/Y 069/070 . It indicates that how much fund available with the bank to cover its current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. As per the study, the bank is in satisfactory position.
- The saving deposit to total deposit ratio of the bank was in the fiscal 065/066 to 068/070 quite fluctuating which stand 0.90 at F/Y 065/066, 0.62 at F/Y 066/067, 0.57 at F/Y 067/068, 0.59 at F/Y 068/069 and 0.59 at F/Y 069/070. Thus, the ratio indicates the bank's liquidation position.

Higher level liquidation position. Higher level of this ratio of the bank indicates to the idle fund too. Form profitability point of view, the bank should minimize the ratio. As stated by the study, GBBL's position seems satisfactory level over the study period.

- The loan and advances to total deposit ratio of GBBL was fluctuating trend over the study period. The ratio stands 0.78 at F/Y 065/066, 0.74 at F/Y 066/067, 0.81 at F/Y 067/068, 0.77 at F/Y 068/069, and 0.80 at F/Y 069/070. The ratio indicates the capacity of the bank to mobilization its deposit. As stated by the study, the mobilization of deposit of the bank is not satisfactory level over the study period.
- The loan and advances to fixed deposit ratio GBBL was fluctuating in F/Y 065/066 to 069/070. These ratios indicate the capacity of mobilizing its fixed deposit to loan and advances. It means, these ratios implies to the utilization of fixed deposit in loan & advances efficiently or not. Form the study; its is found that the bank has been mobilizing its fixed deposit quite satisfactory.
- The loan and advances, to saving deposit ratio of GBBL was fluctuating in F/Y 065/066 to 069/070 and then its was increasing in F/Y 065/066,066/067 & F/Y 067/068. These ratios implies that the bank either able to mobilize its saving or not. As per the study, the bank is in satisfactory position over the study period.
- Interest earned to total assets ratio of any organizations indicates the profitability ratio. The ratio stands 2.18% at F/Y 065/066, 3.91% at F/Y 066/067, 5.02% at F/Y 067/068, 4.18% at F/Y 068/069 and 4.22% at F/Y 069/070. Form the study, it is concluded that the interest earned to total assets ratio of GBBL is not so much satisfactory. It means, the bank could not able to use its total assts properly to earned interest.
- The net profit to total assets ratio of the bank GBBL was quite fluctuating. The ratio stands 0.71% at F/Y 065/066, 1.70% at F/Y 066/067, 2.35% at F/Y 067/068, 2.02% of F/Y 068/069, 1.79% at F/Y

069/070. The study whose that the bank could not able to utilized its total assets to generate profit.

- The net profit to total deposit ratio of the bank was decreasing and constant trend. The ratio stands 0.84% at F/Y 065/066, 0.02% at F/Y 066/067, 0.03% at F/Y 067/068, 0.02% at F/Y 068/069 and 0.02% at F/Y 069/070. This ratio is used to find out whether the bank could able to mobilize outsider's funds properly or not. The efficient mobilization of deposit indicates the better performance of the bank. But at stated above the study, we can found that the bank could not able to mobilized its total deposit efficiently.
- The cost of services to total assets ratio of the bank has been fluctuating trend in F/Y 065/066 to 069/070 and which stands 0.06% at F/Y 065/066, 0.08% of F/Y 066/067, 0.07% at F/Y 067/068, 0.09% at F/Y 068/069 and 0.08% at F/Y 069/070 it is quite satisfactory.
- The coefficient of correlation between loan and advances and total deposits was 0.9989. It means high degree of correlation, which is significant over the study period.
- The coefficient of correlation between cash & bank balance and current liabilities was 0.9909. it means high degree of correlation, which is significant.
- The coefficient of correlation between loan & advances and net profit and 0.8560. It means high degree of correlation, which is significant.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the important chapter for the research because this chapter is the extracts of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, conclusion and Recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as four further research.

5.1 Summary

Establishment of development banks especially develop or development banks, has economic liberalization policies of the government. As a result, in Nepal there are eighty six banks at present competing with each others in their business. These banks have concentrated themselves on financing foreign trade, commerce and industry.

In competitive financial market, performance of development banks are very good. The main objective of the study was to evaluate the working capital management as well as financial performance of Garima Bikas Bank Ltd. Development bank is income oriented, thus proper financial decision making is more important in banking transaction important in banking transaction for its efficiency and profitability.

Most of the financial decision of a bank are concerned with current assets and current liabilities. Working capital management is concerned with current assets and current liabilities. Generally, working capital refers to the difference between current assets and current liabilities. Thus working capital management has been regarded as one of the conditioning factor in the decision making issue of bikas banks. The term working capital management closely relates with short term financing : it is concerned with collection and allocation of resources. Working capital management relates to problems that arise in attempting to manage the current assets, the current liabilities and interrelationship that exist between them.

The main objective of this study evaluate the working capital management of Garima Bikas Bank Ltd. The specific objective of the study as: a) To evaluate the working capital position of the bank, b) To evaluate the profitability and liquidity position of the bank, c) To identify the factors determining of the working capital. To fulfill the objective, an appropriate research methodology has been developed, which includes ratio analysis as financial tool and trend analysis and correlation coefficient as statistical tools. The major ratio analysis consists of the composition of working capital, liquidity position, turnover position and profitability position. Under these, main ratios and their trend position are studies in the chapter four. In order to test the relationship between the various components of working capital, Karl Pearson's correlation coefficient 'r' is calculated and analyzed.

The following are the major necessary data are derived from the balance sheet and profit & loss account of GBBL for the period of five years from fiscal year 065/066 to 069/070. In this chapter an attempt has been made to present conclusion and some suggestions and recommendations. The following are the major finding of the study.

- The major components of current assets are cash & bank balance, money at call or short notice, loan & advances & miscellaneous current assets. During the study period current assets is increasing trend & it holds the major portion of total assets.

- The major components of current liabilities are deposit, short-term loans (borrowings) and miscellaneous current liabilities. During the study period current liabilities is in increasing trend.
- The factor to determine the working capital requirement there are no sets of rules or formulates. There are so many factors that influence the working capital requirement of the bank, i.e. Internal policies and changes in environment, Nature and size of business, growth & expansion, credit policy, Production policy, Availability for credit, Operating efficiency etc.
- The net working capital of GBBL is Rs.95.31 million in F/Y 2065/066, Rs103.80. million in F/Y 2066/067, Rs206.86. million in f/y 2067/068, Rs227.68. million in F/Y 2068/069, Rs268.84. million in F/Y 2069/070 . During the study period it has been increasing trend. The highest net working capital was Rs269.84.million in F/Y 2069/070 & Rs95.31. million was lowest in f/Y 2065/066.
- The liquidity positions of banks are analyzed with the current ratio, quick ratio, cash & bank balance to total deposit ratio & saving deposit to total deposit ratio. The current ratio of the bank was decreasing trend over the study period. The quick ratio of the bank was fluctuating trend. The cash & bank balance to total deposit ratio of bank was also fluctuating trend over the study period. The saving deposit to total deposit ratio of the bank was increased trend in first two year and then decreasing trend.
- The activity of turnover positions of banks are analyzed with the loan & advances to total deposit ratio, loan and advances to fixed deposit ratio and loan & advances to saving deposit ratio. The loan & advances to total deposit ratio of the bank was decreasing trend over the study period. The loan & advances to fixed deposit ratio of the bank was increased in F/Y 065/066 to 069/070 and then decreasing trend. The loan & advances to saving deposit ratio of the bank was fluctuating trend over the study period.

- The coefficient of correlation between investment on government securities and total deposit was 0.9208 it means high degree of correlation, which is significant. The coefficient of correlation between loan & advance and total deposit was 0.99 it means high degree of correlation which is significant .The coefficient of correlation between cash & bank balance and current liabilities was 0.9909 which is insignificant. The coefficient of correlation between loan & advances and net profit was 0.8560. It means high degree of correlation, which is significant.

5.2 Conclusion

"Working capital is firm's investment in short-term assets. Gross working capital the firm's total current assets and net working capital is current assents minus current liabilities. Working capital management involves all the aspects of current assets especially cash, strengthen firms liquidity position(and reduces risk) but also reduces overall profitability. Current assets refer assets which can be converted with in an accounting period and include cash short-term securities, debtors, bills receivable and stock. Invest in current assets should be just adequate, not more not less to the needs of business firm. Excessive investment in current assets should be avoided because it impairs firm's profitability as idle investment earns nothing. On the other hand inadequate amount of working capital threatens solvency of the firm because of its inability meet, its current obligations. It should be realized that the working capital needs of the firm might be fluctuating with changing business activities"(Weston J. Fred & Brighum)

It is conventional rule to maintain the level of current twice the level of current liabilities. Even if there is not precise way to determine the exact amount of gross of net working capital firm should invert its capital CA after the study of the nature. This study has come in conclusion about working capital of GBBL in conservative, its liquidity position is Satisfactory and profitability is also satisfactory but not sufficient.

In liquidity position, the net working capital of the bank GBBL was increasing in fiscal year 2065/66 to 069/070 the study period & the current ratio of GBBL was fluctuating trend during the study period. It, seems to be satisfactory position of liquidity. The cash & bank balance to total deposit ratio of GBBL was fluctuating during the study period. But it seems to be satisfactory level.

In activity or turnover position the loan & advances to total deposit ratio of the bank was decreasing trend in fiscal year 2065/66 to 069/070. During the study period It's show the low capital of the bank to mobilized its deposit.

In profitability position, the interest earned to total assets ratio of the bank was fluctuating trend over the study period. The net profit to total assets ratio was also fluctuating trend during the study period . The net profit to total deposit ratio was decreasing trend during the study period. It seems not to satisfactory level.

In correlation analysis, the coefficient of correlation between loan & advances and total deposit, cash & bank balance and current liabilities & loan & advances & net profit are more significant over the study period.

In this way analyzing the overall WC position of the company, it cab be concluded that the WC management is very essential and the most important aspect of financial management having great impact on risk and profitability of the bank should be very much sensitive and responsible for the better management of WC.

5.3 Recommendation

On the basis of analysis and finding of this study, some recommendations have made so as to overcome some shortfalls regarding the issue of working capital management of the bank.

- Working capital is essential to meet short-term obligations. But high level of working capital increased idle fund which affects the profitability of the bank. Therefore, the bank should maintain sound working capital position. It means neither more nor loss. The working capital of GBBL from F/Y 2065/66 to 069/070, it has been increasing trend. Thus, the bank should try to maintain sound working capital.
- The current ratio of the bank is more than one. it means, the bank has sufficient liquidity to remain solvent even at the ratio of 1.02:1 in fiscal year 066/067, which was minimum ratio during the study period. It is true that such higher ratio supposed by the greater ability of bank to pay its bills. But if a bank has more than sufficient current assets is indication of unfavorable of distribution of current assets then current liabilities. Therefore, there is quite higher idle fund. Which may result unproductive for bank. Thus, the bank should try to reduce its current assets to increase its profitability.
- The loan and advances to total deposit ratio indicates the capacity of bank to mobilize, its deposit into loan and advances. It also majors the efficiency of management to utilize their available resources. As found in the above study, the loan and advances to total deposit ratio of GBBL was decreasing trend over the study period. The bank could not able to mobilize its total deposit through loan and advances. Therefore, the bank should disburse its total deposit as much as possible by means of loan and advances.
- The interest earned to total assets ratio is not satisfactory so far. It indicates the bank could not able to utilize its total assets to earned interest. Therefore, the bank should utilize its available assets as

properly as possible to earned interest. For this the bank should lend only in performing loan which makes sure the recovery of principle as well as interest. Therefore, the bank should utilize its available assets as properly as possible to earned interest. For this the bank should lend only in performing loan which makes sure the recovery of principle as well as interest.

From the above study, we can found that the bank's net profit to total assets ratio of the bank is not also satisfactory. The bank could not able to utilized its available sources properly to earned profit. Therefore, the bank should utilize its total assets as possible as much.

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Nepal Stock Exchange: http://www.nepalstock.com.

Garima Bikas bank Ltd.: http://www.gbbl.com.np

APPENDIX-I

Calculation of Correlation Coefficient between Loan & Advances (L&A) and Total Deposit (TD) of GBBL

(Rs. in Million)

L& Y(X)	TD (Y)	x=(X Z $\overline{X}$)	x^2	y=(Y Z $\overline{Y}$)	y^2	xy
539.16	688.84	-790.68	625174.86	-1010.42	1020948.58	798918.88
900.37	1221.04	-429.47	184444.48	-478.22	228694.37	205381.14
1159.59	1437.98	-170.25	28985.06	-261.28	68267.24	44482.92
1654.67	2150.95	324.83	105514.53	451.69	204023.86	146722.46
2395.42	2997.50	1065.58	1135460.74	1298.24	1685427.09	1383664.19
|φx=6649.21	|φxy= 8496.31	|φx^2=2079579.67		|φy^2=3007361.95		|φxy = 2579169.59

$$\overline{X}\ X \frac{X}{N}\ X \frac{6649.21}{5}\ X 1329.84$$

$$\overline{Y}\ X \frac{Y}{N}\ X \frac{8496.31}{5}\ X 1699.26$$

$$r\ X \frac{xy}{\sqrt{\ x^2\ \ y^2}}\ X \frac{2579169.59}{\sqrt{(2079579.67)(3007361.95)}}\ X 0.99$$

$$\text{PEr}\ X 0.6745 \frac{1 Z r^2}{\sqrt{N}}$$

= 0.0027

6PEr = 6×0.0027 = 0.016

APPENDIX-II

Calculation of Correlation Coefficient between Cash & Bank Balance (C&B) and Liabilities (CL) of GBBL

(Rs. in Million)

C& B(X)	CL(Y)	$x=(X\ Z\overline{X})$	x^2	$y=(Y\ Z\overline{Y})$	y^2	xy
79.26	702.99	-88.28	7793.36	-1066.71	1137870.22	94169.16
103.39	1283.69	-64.15	4115.22	-486.01	236205.72	31177.54
141.27	1525.27	-26.27	690.11	-244.43	59746.02	6421.18
209.63	2237.18	42.09	1771.57	467.48	218537.55	19676.23
304.13	3099.39	136.59	18656.83	1329.69	1768075.50	181622.36
|φx= 837.68	|φy= 8848.52	ϕx^2=33027.09		|ϕy^2=3420435.01		|φxy = 333066.47

$$\overline{X}\ X\frac{X}{N}\ X\frac{837.68}{5}\ X167.54$$

$$\overline{Y}\ X\frac{Y}{N}\ X\frac{8848.52}{5}\ X1769.70$$

$$r\ X\frac{xy}{\sqrt{x^2 \quad y^2}}\ X\frac{333066.47}{\sqrt{(33027.09)(3420435.01)}}\ X0.9909$$

$$PEr\ X0.6745\frac{1\,Zr^2}{\sqrt{N}}$$

= 0.00542

6PEr = 6×0.00542

= 0.0328

APPENDIX-III

Calculation of Correlation Coefficient between Loan & Advances and Net Profit

(Rs. in Million)

NP(X)	L&A(Y)	$x=(X Z \overline{X})$	x^2	$y=(Y Z \overline{Y})$	y^2	xy
5.79	539.16	-22.47	504.90	-810.68	657202.06	18215.98
24.11	900.37	-4.15	17.22	-449.47	202023.28	1865.30
41.28	1159.59	13.02	169.52	-190.25	36195.06	-2477.05
50.29	1654.67	22.03	485.32	304.83	92921.33	6715.40
61.10	2395.42	32.84	1078.46	1045.58	1093237.54	34336.85
|φx= 141.29	|φy = 6749.21	ϕx^2=2255.42		|ϕy^2=2081579.27		|φxy= 58656.48

$$\overline{X}\, X \frac{X}{N} X \frac{141}{5} X 28.26$$

$$\overline{Y}\, X \frac{Y}{N} X \frac{6749}{5} X 1349.84$$

$$r\, X \frac{xy}{\sqrt{\quad x^2 \quad y^2}} X \frac{58656.48}{\sqrt{(2255.42)(2081579.27)}} X 0.8560$$

$$\text{PEr}\, X 0.6745 \frac{1 Z r^2}{\sqrt{N}}$$

= 0.08059

6PEr = 6×0.08059

= 0.4836

APPENDIX-IV

Financial Summary of Garima Bikas Bank Ltd.

Balance Sheet of GBBL at F/Y 065/066 to 069/070

(Rs. in Million)

Capital & Liabilities	065/066	066/067	067/068	068/069	069/070
Share Capital	106.00	106.00	200.00	220.00	278.55
Research and Surplus	3.10	27.22	32.50	32.80	38.90
Debenture and bonds	-	-	-	-	-
Borrowings	-	40.00	-	-	10.00
Deposit Liabilities	688.84	1221.04	1437.98	2150.95	2997.50
Bills Payable	-	-	-	-	-
Proposed Dividend & Dividend Payable	-	-	36.00	30.00	11.00
Income Tax Liabilities	1.06	11.66	30.51	21.63	26.28
Other Liabilities	13.09	10.98	20.79	34.60	54.60
Total Liabilities	**812.09**	**1416.91**	**1757.77**	**2489.98**	**3416.83**

Assets	065/066	066/067	067/068	068/069	069/070
Cash Balance	43.54	31.77	32.75	64.66	103.15
Balance with Nepal Rastra Bank	16.32	68.59	77.36	102.07	168.87
Balance with Banks & Financial Institutions	19.40	3.04	31.16	42.90	32.11
Money at Call & short Notice	177.78	366.85	396.73	572.86	630.12
Investment	-	9.67	-	-	0.62
Loan, Advances & Bill Purchased	539.16	900.37	1159.59	1654.67	2395.42
Fixed Assets	13.79	19.74	25.64	25.12	46.98
Non-Banking Assets	-	-	-	-	-
Other Assets	2.10	16.88	34.54	27.70	39.56
Total Assets	**812.09**	**1416.91**	**1757.77**	**2489.98**	**3416.83**

APPENDIX-V

Profit& Loss A/C of GBBL at F/Y 065/066 to 069/070

(Rs. In Million)

Particular	065/066	066/067	067/068	068/069	069/070
Interest Income	46.42	135.43	204.81	270.52	346.25
Interest Expenses	28.67	80.01	116.50	166.30	202.15
Net Interest Income	**17.75**	**55.42**	**88.31**	**104.22**	**144.10**
Commission & Discount	1.05	1.84	2.61	3.58	4.67
Other Operating Income	10.67	13.04	16.62	26.70	30.65
Exchange Fluctuating Gain	-	-	-	0.00037	0.000042
Total Operating Income	**29.46**	**70.30**	**107.54**	**134.50**	**179.42**
Employees Expenses	5.60	10.86	16.51	22.50	31.89
Other Operating Expenses	11.22	16.65	23.25	26.50	43.85
Exchange Fluctuation Loss	-	-	-	-	-
Operating Profit Before Provision for Possible Loan Loss	**12.64**	**42.79**	**67.78**	**85.50**	**103.68**
Provisions for Possible Losses	4.81	4.89	2.84	6.51	7.68
Operating Profit	**7.83**	**37.90**	**64.94**	**78.99**	**96.00**
Non-Operating Income/Loss	-	-	-	-	-
Possible Loss Provision written Back	0.01	0.08	1.20	-	-
Profit from Regular Activities	**7.82**	**37.82**	**63.74**	**78.99**	**96.00**
Profit/Loss from Extraordinary Activities	-	-	-	-	-
Net Profit after Extraordinary Items	**7.82**	**37.82**	**63.74**	**78.00**	**96.00**
Provision for staff Bonus	0.71	3.44	6.01	7.19	8.73
Provision for Income Tax	1.06	10.61	17.38	21.62	26.28
a. This year provision	1.06	10.61	18.11	21.63	26.28
b. Provision upto last year	-	-	0.73	0.001	-
c. Deferred Tax	0.27	(0.27)	-	(0.046)	(0.099)
Net Profit/loss	**5.79**	**24.11**	**41.28**	**50.29**	**61.10**