CHAPTER-I

INTRODUCTION

1.1 Background of the study

The present market and economy has been more competitive, challenging and complicated due to globalization. Every sort of change occurring in one sector of the world influences the other areas. The development and diversification of business ensures sound economic upliftment of the country. The industry and commerce are the pillars of business which indicate the economic condition of the country.

Industry involves production of goods and services through the utilization of various resources like men, material, money and machines by completing some specific processes. Before 1936, there were not any modern industries in Nepal. The establishment of Biratnagar Jute Mill in 1936 led the foundation of the modern industry in the Nepal. Despite of long duration of industrialization, Industrial status is still very poor. Because of poor industrial status, Nepalese economic status is very poorer than any other country. Lack of infrastructure, narrow domestic market, shortage of skilled manpower, unstable government policy and political instability are the main reasons of low level of industrialization.

Commerce is concerned with the buying and selling of goods and services to the market. It plays the role of bridge between manufacturers and customers. It is becoming complicated and advanced day by day. Nowadays, customers, suppliers, competitors, technology, market etc are in increasing position. The business of today is not limited to a particular area or sector of the country. Because of globalization, the world is becoming as a small village. Any change, invention and technology of one country influences all over the world.

Commerce involves trade and various auxiliaries of trade. Bank has been taken as an important auxiliary of trade in the modern business. Bank is an institution, which deals in money and credit. It provides support to the trade by granting loans and advances and other services. It grants loans for the establishment of the trading organizations and to maintain regular business operation. Long term loan has been given for fixed capital and short term loan for working capital.

For the progressive attainment of business, various factors should be managed and operated in a systematic manner. Working capital is one which plays a crucial role for the success of business. The proper working capital management is essential for the daily operation of business without which business cannot be operated, succeeded and expanded.

Working capital reveals with excess of current assets over current liabilities i.e. working capital is equal to Total current assets minus Total current liabilities. So, current assets and current liabilities are the basic elements of working capital. Current assets are those assets which can be converted into cash with a short period (generally one year). They are also known as floating or circulating assets. Cash in hand, cash at bank, sundry debtors, bills receivable, short term loan and advances, short term investments, stock, prepaid expenses, accrued incomes, marketable securities are the examples of current assets. Similarly, current liabilities are those liabilities which are to be paid with a short period of time (generally one year). Sundry creditors, bills payable, outstanding expenses, bank overdraft, short term loan, provision for taxation etc are examples of current liabilities.

We know that firms aim at maximizing the wealth of shareholders. To maximize shareholders wealth, the firm should earn sufficient return from its operation. Earning a sound amount of profit requires successful business activities. The firm has to invest enough funds in current assets for the success of business activities. Investment in current assets should be adequate to the needs of the business firm. I.e. it should be neither more nor less. Both excess and shortage of working capital are not good for the business. Working capital should be managed in such a way that daily business activities should not be hampered and excess capital should not be arisen.

In business organizations, working capital management plays a vital role in the success or failure of these companies. Every business firms needs various types of assets to carry out their operation. Some assets are required to meet long terms needs which are fixed assets and some are needed to meet day to day expenses and to pay current obligation which are termed as current assets. Working capital management is related to management of current assets. Inadequate investment in working capital threatens the solvency of the companies where as excessive investment affects firm's profitability. The Working capital is the blood-life and controlling nerve center of the business. The excess working capital as well as short working capital is harmful for business. Therefore, proper use of working capital is necessary for these organizations.

In general, the concept of working capital is synonymous with the fund available for meeting day to day requirements of a company. But according to a group of authorities, it refers to the amount of investment in total current assets only. It means they are supporting the gross concept of working capital. Thus, the gross concept of working capital denotes short term assets only; it does not include short term liabilities. However, a business can not exist only with the current assets, it needs current liabilities too. Actually, the amount of working capital heavily depends upon the amount of current liabilities. In this sense working capital means excess of current assets over current liabilities. This concept of working capital is called as net concept.

1.2 History of Bank

When, where and how the modern banking actually came in existence cannot be pointed out. But from the different historical facts it reveals that some banking activities have been carried out since the time immemorial. At that time merchants, money lenders, goldsmiths, etc performed the banking transactions. Latter the transactions started increasing and they became the activities of money exchange securing the valuable goods, deposit money, lending money and so on. For all these types of activities written receipts began to be used and the modern banking started. In the historic age sources say that goldsmiths and money lenders contributed to large extent in the growth of banking system. They used to store peoples gold charging nominal charges issued receipts to the depositors, which was good for payments. Latter they started advancing money charging interest on it. So the goldsmiths and money lenders started performing the functions of modern banking i.e. accepting deposits and advancing loans. However, the modern banking originated in Italy. The word bank was derived from the Italian word “Banco” which means accumulation of money or stock. Bank as an institution was originated from Italy. The bank of Venice which was established in 1157 A.D was the first bank in the history of banking and it was established to finance the monarch in the wars. The Bank of Barcelona Spain which was established in 1404A.D. was the second bank in the World and then. The Bank of Genoa was set up in 1407 AD. (www.google.com)

The first central bank though was the bank of England which was established in 1844 A.D. Banking has come to the present advanced form through various stages. Some sorts of banking activities have been carried out since the time immemorial. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. With large banking firms established in Florence, Rome, Venice and other Italian cities the banking activities spread through out the Europe and it slowly spread through out the world.

1.2.1 Commercial Banks

Commercial banks means a bank which operates currency exchanges transactions, accept deposits, provides loan performs dealing relating to commerce except the banks which have been specified for the cooperative, agriculture, industry or other similar specific objectives. There are 32 commercial banks in Nepal.

There are 32 licensed commercial Banks in Nepal. These commercial banks have given a new horizon to the financial sector of the country regarding healthy competition, foreign capital investment, technological transfer and experience and skills. The name of 32 Licensed Commercial Banks are as follows:

Table No.-1.1

Names of the Banks

S.N.	Names of the Banks
1	Nepal Bank Limited
2	Rastriya Banijya Bank
3	NABIL Bank
4	Nepal Investment Bank Ltd.
5	Standard Chartered Bank Nepal Ltd.
6	Himalayan Bank Ltd.
7	Nepal SBI Bank Ltd.
8	Nepal Bangladesh Bank Ltd.
9	Everest Bank Ltd.
10	Bank of Kathmandu Ltd.
11	Nepal Credit and Commerce Bank Ltd.
12	Lumbini Bank Ltd.
13	Nepal Industrial and Commercial Bank Ltd.
14	Machhapuchhre Bank Ltd.
15	Kumari Bank Ltd.
16	Laxmi Bank Ltd.
17	Siddhartha Bank Ltd.

18	Agriculture Development Bank Ltd.
19	Global Bank Ltd.
20	Citizens Bank International Ltd.
21	Prime Commercial Bank Ltd.
22	Bank of Asia Nepal Ltd.
23	Sunrise Bank Ltd.
24	Development Credit Bank Ltd.
25	NMB Bank Ltd.
26	KIST Bank Ltd.
27	Janata Bank Nepal Limited
28	Mega Bank Nepal Ltd
29	Commerz and Trust Bank Nepal Ltd
30	Civil Bank Ltd
31	Century Commercial Bank Limited
32	Sanima Bank Limited

(*Source: www.nrb.org.np*)

1.3 Introduction of the Company

Siddhartha Bank limited (SBL) commenced on operation in 2002. The Bank is promoted by a group of highly reputed Nepalese dignitaries having wide commercial experience. SBL is providing a full range of commercial banking services through its fourty one branches established in the Kathmandu valley and the famous and most potential cities of the nations. The bank has its own motto or slogan i.e. "our business is to understand your business" and the bank is heading to achieve its mission by strictly following the above stated slogan. The corporate office of the bank is at Hattisar, Kathmandu.

SBL's vision is to be financially sound, operationally efficient and keep abreast with technological developments. The bank firmly believes that customers focus is core value, shareholders prosperity is priority, employee's 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 mortgage loan for the miscellaneous requirements. The other services offered to the valued customers are trade finance, treasury, Siddhartha remit for remittance, cash management service for speedy collection of receivables a network of ATM's and internet banking services. (www.google.com)

1.4 Statement of the Problem

Working capital is a crucial, which is compared as life blood of the human beings for the organization. In most enterprises, the management of working capital has been misunderstood as the management of money rather than its efficient utilization.

Most of the Nepalese industries are still facing the problem of working capital management due to the unprofessional manpower. Management still focuses their attention on the procurement aspect of working capital but not on the efficient utilization of funds defined in terms of working capital. Every investor wants to earn return in their investments. Therefore, every organization should make profit for its owners. Profit is not only one indicator of proper management of working capital. The working capital of an enterprise is that portion of fits total capital, which is put to variable operative purpose, and has the characteristics of greater divisibility and rapidly of turnover, which influence the types and terms of financing. Hence, management of working capital is in itself a decision making area within the framework of the overall financial management.

Working capital of the organization can not be managed in an easy way and it should not be neglected. 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 both the position of working capital affects not only liquidity but also profitability of the organization. In this way, there are several indicator of working capital management. So, basically this study has tried to find out issues of working capital management of Siddhartha Bank Limited. This study attempts to find out answers to the following questions.

- What is the relationship between each type component of current assets and total current assets of SBL?
- How the company is composing working capital?
- Is the bank maintaining an appropriate liquidity and profitability position?
- Are different financial ratios of SBL favourable or not?

1.5 Objectives of the Study

Each and every study has certain objectives. Regarding this study, the main objective is to get insight into the significance of current assets management. Further, it concentrates on composition of working capital, analysis of different financial ratios and liquidity and profitability position of SBL. In conclusion its objectives are listed as follows.

- To determine the significance of current assets management.
- To analyze the composition of working capital of SBL.
- To examine the liquidity and profitability position of SBL.
- To analyze different financial ratios of SBL and to recommend them.

1.6 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 effectively. 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. Otherwise they will seriously erode their financial viability. As the commercial banks in Nepal are exacting greater and greater influence on the economy of the country, an effective and efficient management of their current assets is needed to better the profitability of the firm.

The success or failure of any organization depends on its strategy, which is affected by working capital management. Any organization can not change the situation of its favor without efficient working capital management. Working capital management is the root of problem to prepare the proper strategy on its favor. However, the financial manager can adopt the sound strategies of all functional areas by using adequate working capital management. Thus, this study can be helpful for the management of Siddhartha Bank Limited to make the sound strategy in future. This study might be valuable for the researchers, scholars and students who want to investigate into the working capital management of Siddhartha Bank Limited.

1.7 Limitation of the Study

Each and every study has is own limitations. No study can be free from constrains; such as specific objectives, secondary data etc. Under this study, besides these the following specific limitations are also mentioned:

- This study only covers the time period of last five years from fiscal year (2063/64 to 2067/68).
- This study is based on secondary data collected from annual report, financial statement etc.
- This study is concerned about working Capital Management of Siddhartha Bank Limited. So, the conclusion drawn from this study may not be relevant for other commercial banks.
- There are many factors that affect working capital management of the bank, however only those related factors will be considered in this study.
- This study examines and suggest only on the subject matter of working capital management.

- This study is undertaken for the partial fulfillment of the master degree program.

1.8 Organization of the Study

This thesis is organized into five major chapters.

Chapter I: Introduction

This chapter is organized as background of the study, statement of the problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature

This chapter is devoted to review of various related books, journals, other publications as well as unpublished master level dissertations.

Chapter III: Research Methodology

This chapter is about the methodology adopted in carrying out the present study. It explains the nature and sources of data, population and sample, data collection and processing techniques and methods of analysis.

Chapter IV: Presentation and Analysis of Data

This chapter is the major part of the study. This chapter includes presentation and analysis of data using financial tools, statistical tools and showing tables and graph if necessary. It also includes major findings of the study

Chapter V: Summary, conclusion & Recommendations

This chapter is the conclusion or solution part of the study. It includes the summary of recommendation and suggestion for further improvement and the conclusion.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Every firm needs various types of assets in order to carry out its functions without any interruption. They are fixed and current assets. Some fixed assets have physical existence and are required to produce goods and services over a long period. This type of fixed asset is called tangible asset. It includes land, building, plants, machinery, furniture, and so on. However, some other fixed assets do not generate goods and services directly. However, it reflects the rights of the firm. They are called intangible fixed assets. It represents patents, copyrights, trademarks, and goodwill. Both fixed asset are written off over a period. Current asset are those resources of the firm, which are either held in the form of cash or expected to be converted into cash within an operating cycle of the business. It includes cash, marketable securities, and account receivable, stock of raw materials, work-in-process, and finished goods. Among these, some assets are requiring to meet the need of regular production and some for day-today expenses and short term obligations. Current liabilities are those claims of outsiders, which are expecting to be matured within an accounting year. It includes creditors, bills payable and outstanding expenses etc.

Working capital management is concerned with the problem that arises in the management of the current assets and current liabilities. It affects the overall functional areas of the firm. Thus, the success or failure of any manufacturing firms virtually depends upon the efficiency of working capital management. Therefore, it is crucial aspect of any firm.

Working capital is an important 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 McMullar, 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)

Working capital is needed for day-to-day operation, of the business, so it can be considered as the life-blood for any business. The management of working capital has a definitive effect on the profitability and the contributed existence of the business great importance has been attached to management of fixed assets but working capital management has not been given the much importance as it deserves inadequate planning of working capital requirements can more speedily effectively bring as otherwise be paid to the management working capital. Efficiently and the optimum utilization of even the fixed assets to which a great importance is given depends upon the availability of adequate working capital. It is also regarded as nerve center for any types of business organization because without proper control upon it, no business organization can run smoothly. The role of working capital management is significant for every business organization. There have been a number of studies on working capital management from different experts in various enterprises. (www.studyfinance.com)

Working capital management is an important domain of financial management, which affects the decision making of enterprises inadequate level of working capital can result in serious financial difficulties. working capital management plays vital role in maximizing shareholders wealth, such as it could be better to understand, the theory of working capital management: in brief, as it provides conceptual and analytical in making this decision, skillfully.

2.2 Concept of Working Capital

Working capital management is the effective lifeblood of any business. Hence, the management of working capital plays a vital role for existing of any public enterprises. It is the center of the routine day-to-day administration of current assets and current liabilities. Therefore, working capital management in public enterprises is very important mainly for four reasons. Firstly, public enterprises must need to determine the adequacy of investment in current assets and otherwise it could seriously erode their liquidity base. Secondly, they must select the type of current assets suitable for investment to arise their operational efficiency. Thirdly, they are required to ascertain the turnover of current assets, which determine the profitability of the concerns. Lastly, they must find out the appropriate sources of funds to finance the current assets.

Proper management of working capital must ensure, adequate amount of working capital as per need of business firms. It should be in good health and efficiently circulated. To have adequate healthy and efficient circulation of working capital is necessary that working capital be properly determined and allocated to its various segments effectively controlled and regularly reviewed.

Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivables and inventories and the administration of current liabilities. It means working capital management is concerned with the problem that arises in attempting to manage the current assets, current liabilities and the inter-relationship that exist between them.

Working capital refers to a firm’s investment in short term assets, cash, short-term security, account receivables, and inventories. Gross working capital is defined as firm’s total current assets. Net working capital is defined as current assets minus current liabilities. If the term “working capital” is used without further qualification, it generally refers to gross working capital.

Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and inter-relationship that exists between them. The current assets refers to those assets which is in ordinary course of business can be, or will be, turned into cash within one year without undergoing a diminution in value and without disrupting the operation of the firm. The major current assets are cash, marketable securities, account receivable and inventory. Current liabilities are those liabilities, which are intended at their inception to be paid in the ordinary course of business within a year, out of the current assets or earnings of the concern. The basic current liabilities are account payable, bills payable, bank overdraft and outstanding expenses. The goal of working capital management is to manage the firm's current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. This is so because if the firm cannot maintain to satisfactory level of working capital, it is likely to become insolvent and may be forced into bankruptcy. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of current assets must be managed efficiently in order to maintain that liquidity of the firm while not keeping too high level of any one of them. Each of the short term sources of financing must be continuously managed to ensure that they are obtained and used in to the best possible way. The interaction between current assets and current liabilities is, therefore, the main theme of the theory of working capital management. (www.studyfinance.com)

The term working capital management is closely related with short term finance and it is concerned with collection and allocation of the resources. It is related to the problems that arise in attempting to manage the current assets, the current liabilities and the inter relationships that exist between them. Thus the management of working capital is no longer viewed as an accounting task but as a strategic method for increasing the financial performance of leading organizations.

There are two schools of thoughts or concepts regarding the meaning of working capital. According to one school of thought, working capital is meant for the current assets only. It is concerned nothing with the liabilities side. According to other school of thought working capital is excess of current assets over current liabilities. The former concept which can be termed as gross concept is to newly established companies where liabilities have not been acquired immediately, but the latter one which can be termed as net concept, is important for both newly established and operating concerns. In conclusion, there are two concepts of working capital. They are Gross Concept and Net Concept.

Gross Concept:

According to gross concept, WC refers to the capital invested in current assets of a firm. It focuses only the optimum investment on current assets and financing of current assets. It includes cash, short term securities, and inventory and account receivables. The level of current assets may be fluctuating with the changing business activity. Thus, the concept can help earning more profit through maximum utilization of current assets. The concept is called qualitative concept. (Pradhan; 1986:119)

Net Concept:

According to net concept, working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets which is 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. It is not very useful to compare the performance of different firms as a measure of liquidity, but it is quite useful for internal control. This concept helps to compare the liquidity of the same firm over a time. (Khan and Jain; 1999:604)

2.3 Classification of Working Capital

Working capital can be classified into two parts – permanent working capital and variable working capital. These two types of working capital are necessary for continuous production and sales without any interruptions.

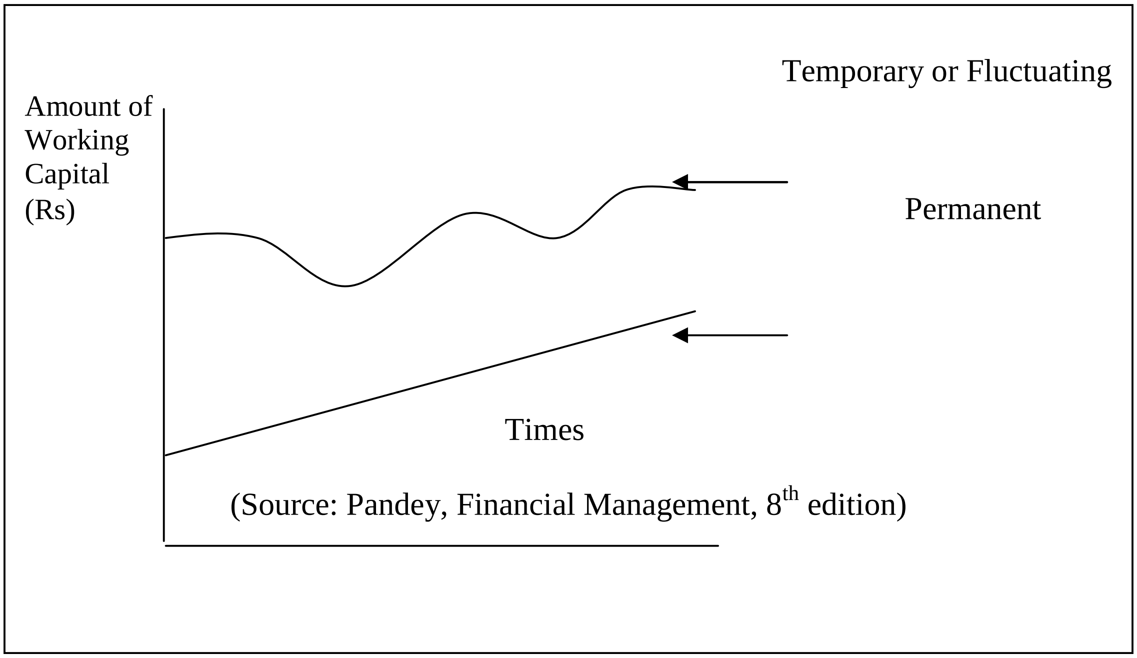
2.3.1 Permanent Working Capital:

Permanent working capital refers to that level of currents assets, which is required on a continuous basis over the entire year. 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. (Pandey; 1996:729)

2.3.2Temporary/ Variable working capital:

Working capital which is temporarily or intermittently employed should be called variable working capital. Variable working capital is the additional amount of current assets i.e. particularly cash, receivables and inventories that is required during the more active duration of business. (Pandey; 1996:730)

Figure 2.1
Types of Working Capital



(Source: Pandey, Financial Management, 8th edition)

2.4 Need of Working Capital

Efficient management of working capital is an integral part of overall financial management and has a bearing on the objective of the maximization of the owner's wealth. Sufficient profit is needed to achieve this objective. Profit position of the firm depends upon the amount of sale. In other words, a good sales program is needed to gain sufficient profit. But the amount of sales shown in the book can not reflect the real income. As the operation cycle in this period can not be stopped, some amount of liquid assets is needed to run the operation without interruption. That very amount of liquid assets is called working capital.

The management of working capital has been regarded as one of the conditioning factors in the decision making issue. It is no doubt, very difficult to point out as to how much working capital is needed by a particular company, but it is very essential to analyze and find out the solution to make an efficient use of funds for minimizing the risk of loss to attain profit objectives. A successful business keeps its working capital moving rapidly; hence it is also a lead circulating capital or a moving capital. The transmutation of a company's working capital into income and profits and back into working capital is one of the most dynamic and vital aspects of business operation and only this movement of current assets keeps the business alive. A fully equipped factory without the stock to sell is of no use. These circumstances emphasize the importance of working capital in a business firm. (Ghimere; 2002:73)

The need of working capital or current assets can not be emphasized. The objective of financial decision making is to maximize the shareholders wealth. To attain this it is necessary to generate sufficient profits. The extent to which profit can be earned will naturally depend upon the magnitude of the sales among other things. A successful sales program is, in other words, necessary for earning by any business enterprise. However, sale does not convert into cash instantly; there is invariably a time lag between the sale of goods and receipt of cas h. Therefore, sufficient working capital is necessary to sustain sales activity. Technically, this is referred to as the operating or cash cycle. The operating cycle can be said to be at the heart of the need for working capital. "Operating cycle is the time duration required to convert sales after the conversion of resources into inventories, into cash."(Pandey; 1996:731)

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

- ❖ The transitional motive

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

- ❖ The precautionary motive

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

- ❖ The speculative motive

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

i. Opportunities of profit making investment.
ii. An opportunity of purchasing raw materials at a reduced price on payment of immediate cash.

iii. To speculate on interest rate and

iv. To make purchases at favorable price etc.

2.5 Objectives of Working Capital

Working capital is required to run the business smoothly and efficient. There is no doubt that a company cannot achieve its goals without proper use of working capital. That is why working capital is compared as a life-blood of any organization. The main objectives of arranging working capital are as follows:

- ❖ To fulfill the present need of business.
- ❖ To run the business smoothly.
- ❖ To perform the task as per objectives of business.
- ❖ To increase the attraction of business etc.

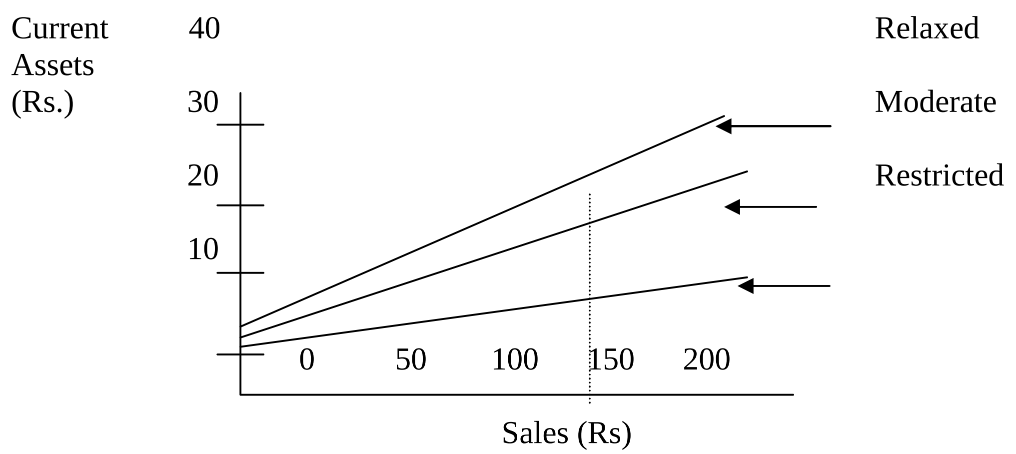
2.6 Working Capital Policy

Working capital policy refers to the firm's basic polices regarding (1) target levels for each category of current asset and (ii) how current assets will be financed. So, first of all, in working capital management, 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 the financial manager'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.

2.6.1 Current Assets Investment Policy

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to supports the given level of sales. There are three alternative current assets investment policies-Relaxed, restricted, and moderate policy.

Figure 2.2
Current Assets investment Policies



(Source: Weston, Besley and Brigham, Essential of Managerial Finance; 1996:345)

2.6.1.1 Relaxed Policy

This is known as relaxed current assets investment policy. In this policy, the firm holds relatively large amount of cash, marketable securities, and inventory and cash conversion cycles. It also creates the longer receivable collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with the lower risk.

2.6.1.2 Restricted Policy

In Restricted Policy a firm holds a minimum amount of cash, cash marketable securities, inventory and receivable to support a given level of sales. This policy tends to reduce the inventory and receivable conversion cycle. Under this policy, firm follows a tight credit policy and bears the risk of losing sales.

2.6.1.3 Moderate Policy

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

2.6.2 Current Assets Financing Policy

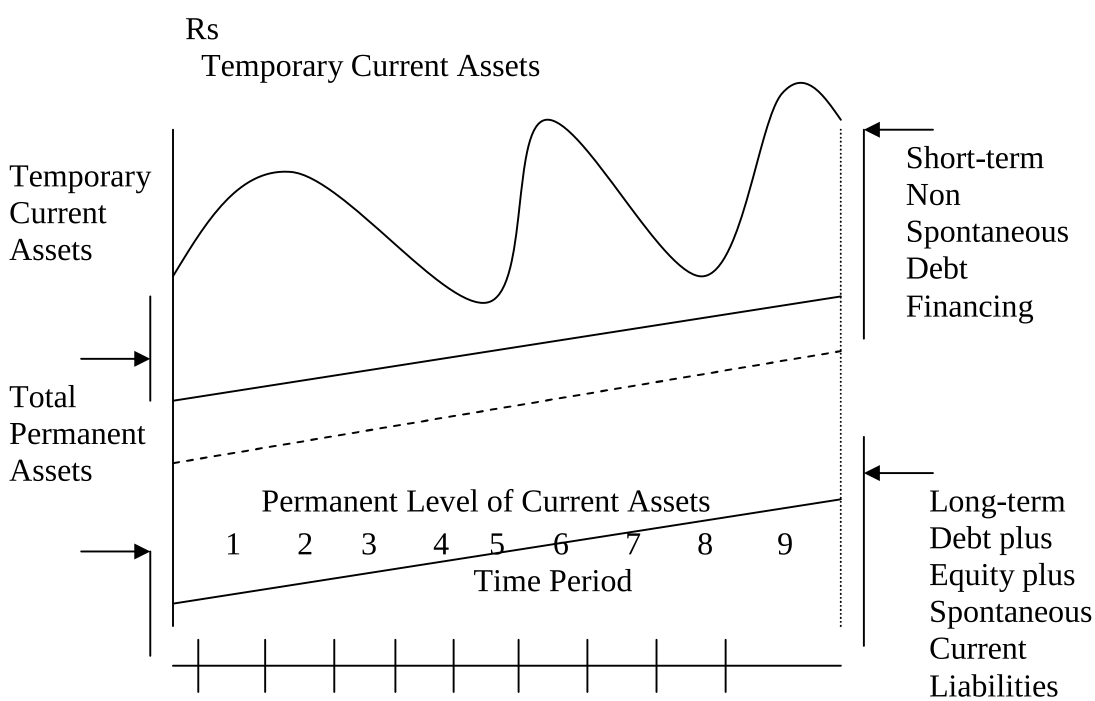
It is manner in which the permanent and temporary current assets are financed. Current assets are financed with the funds raised with different sources. But cost and risk affect the financing of many assets. Thus, current assets financing policy should clearly outline the sources of financing. There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

2.6.2.1 Aggressive Policy

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

In general, interest rate increases with time i.e. shorter the times lower the interest rate. It is because leaders are risk adverse and risk generally increases with the length of leading period. Thus, under normal condition, the firm borrows on a short term financing rather than long term financing. On the other hand, if the firm finances its permanent current assets by short term financing, it runs risk of renewing the borrowing again and again. This continued financing exposes the firm to certain risk. It is because, in future interest expenses will fluctuate widely, and it may be difficult for the firm to raise funds during the stringent credit periods. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

Figure 2.3
Aggressive Policy



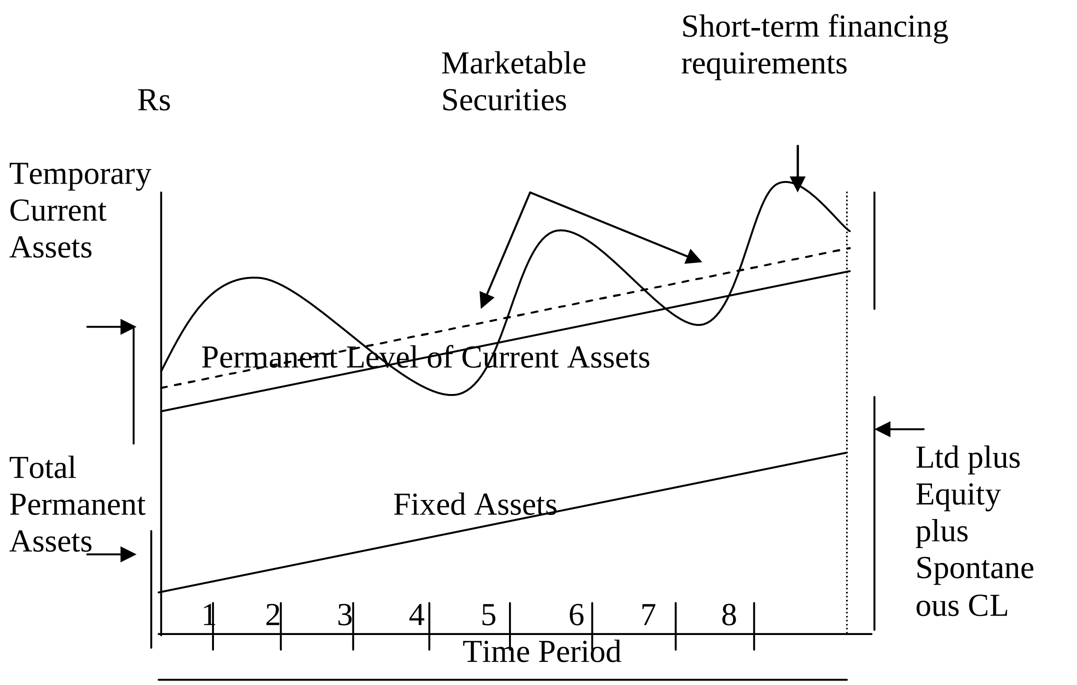
Source: Weston, Besley and Brigham, Essentials of Managerial Finance; 1996:347

2.6.2.2 Conservative Policy

In conservation policy the firm uses long term financing to finance not only fixed and permanent current assets, but also part of the temporary current assets. It means that firm depends more on the long – term source for financing needs. This policy leads to high level of current liabilities and higher interest cost. The risk and return are lower than of that of aggressive policy and liquidity position is higher than of aggressive one. The risk adverse management follows this policy.

Figure 2.4

Conservative Policy



Source: Weston, Besley and Brigham, Essentials of Managerial Finance; 1996:347

2.6.2.3 Moderate Policy

In this policy, the firm finances the permanent current assets with long term financing and temporary with short-term financing. It lies in between the aggressive and conservative policies. It leads to neither high nor low level of current assets and current liabilities. Temporary working capital is financed by short-term financing and permanent by long-term financing. Thus, no working capital is financed by long-term funds. Hence, net working capital is zero under this policy.

2.7 Financing of Working Capital

Every manufacturing concern or industry requires additional assets whether they are in stable or in growing conditions. The most important function of financial manager is to determine the level of working capital and decide how it is to be financed. Financing of any assets is concerned with two major factors i.e. cost and risk. Therefore, the financial manager must determine an 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 resort generally three kinds of financing.

2.7.1 Long term financing:

Long term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earning and long-term debt are the major source of long-term financing.

2.7.2 Short Term Financing:

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

a. Trade Credit:

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

b. 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 be estimated by the borrowers and banks are approached with the necessary supporting data. After available of this data, bank determines the maximum credit based on the margin requirement of the security. The types of loan provided by commercial banks are loan arrangement, commercial papers etc.

2.7.3 Spontaneous Financing

Spontaneous financing arises from the nominal operation of the firms. The two major source of such financing are trade credit (i.e. credit and bills payable) and accruals. Whether trade credit is free of cost or not actually depends upon the terms of trade credit.

Financial manager 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 are either short-term or long-term sources. Thus, the financing manager concentrates his power in short-term versus long-term financing. Hence, the financing of working capital depends upon the working capital policy, which is perfectly dominated by management attitude towards the risk-return.

2.8 Determinants of Working Capital

The importance of efficient working capital management is an aspect of over all financial management. Thus, a firm plans its operation with adequate working capital requirement or it should have neither excess nor inadequate working capital. However, there are no sets of rules or formulae to determine the working capital requirements 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 environment changes also affect the working capital. Generally, the following factors affect the working capital requirements of the firm.

- **Nature of Business:**

The working capital requirements for a company are related to the kind of business it conducts. Public utilities have the lowest requirement for current assets because they have only cash sales and supply services, not products. In manufacturing companies, stocks in trade represent a large investment. Trading and financial firms require a large sum of money as working capital.

- **Size of Business:**

The size of business also has a important bearing in determining working capital needs of a firm. A firm with large-scale operation will need more working capital than a smaller firm.

- **Manufacturing Cycle:**

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

- **Production Policy:**

The policy whether to follow uniform level production plan or carrying production plan determines the working capital needs of the individual enterprise. Naturally, a firm following uniform production policy requires higher amount of working capital and vice-versa.

- **Credit Policy:**

Credit policy also affects the working capital of a firm. Working capital requirement depends on term of sales. Different term 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 a firm follows the stringent credit policy, it requires less working capital.

- ❖ **Availability of Credit:**

Availability of credit facility is another factor that affects the working capital requirements. If the creditors provide a liberal credit terms, then the firm will need less working capital and vice-versa. In other words, the firm can get credit facilities easily on favorable conditions required for operating the firm smoothly.

- ❖ **Growth and Expansion of Business:**

A growing firm has to invest funds in fixed assets in order to sustain its growing production and sales. This increase investment in current assets to support enlarges scale of operation to maintain good credit relations.

- ❖ **Price Level Change:**

Price level changes also affect the working capital requirement of a firm. Generally, a firm requires maintaining 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 implication of changing price level on working capital position will vary depending on the concerned firms.

- ❖ **Operating Efficiency:**

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

- **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 the high quality product, has a sound marketing management and enjoyed the monopoly power in the market then it earns quite high profit and vice-versa. Profit is a source to working capital because it contributes towards the working capital by generating more internal funds.

- **Level of Taxes:**

The level of Taxes also influence working capital requirement. The amount of taxes to be paid in advance is determined by the prevailing tax regulation. However, the firms profit is not constant or cannot be predetermined. Tax liability in a sense of short-term liquidity is payable in cash. Therefore, the amount of provision for tax is one of the important aspects of working capital planning. If tax liability is increased then the firm needs to increase the working capital and vice-versa.

- **Cash Requirements:**

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

- **Business Fluctuations:**

The situation whether an organization operation in boom or recession or depression period also determine the working capital needs of the organization.

- **Changes in Technology:**

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

2.9 Review of Related Journals/ Articles

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

Shrestha (1982) has published an article on *"Working capital Management in Public Enterprises"*. This article states that manager often lacks basic knowledge of working capital and its overall impact on the operative efficiency and financial viability of public enterprises which are Birgunj Sugar Development Corporation, National Trading Ltd., Royal Drugs Ltd., National Construction Company of Nepal, Harisidhhi Brick & Tile Factory, Nepal Dairy Ghee Industry Ltd. and Chandeswori Textile Factory Ltd. The study has pointed at certain policy such as deficient financial planning, negligence of working capital management, deviation between liquidity and turnover etc. He has suggested some measures for their effective operation. The problem can be sorted through identification of needed funds, development of management information system, determination of sound combination of short-term source to finance working capital requirements.

Pradhan (1988) has published another article relating to working capital management. He studied on *"The Demand for Working Capital by Nepalese*

Corporation". This study analyzed the selected nine manufacturing public corporation with the 12 years data from 1973-1984. Regression education has been adopted for the analysis. He has summarized that the earlier studies concerning about the demand for cash and inventories by business firm did not report unanimous findings. A lot of controversies exist in respect to the presence of economics of scale, roles of capital cost, capacity utilization rates and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The pooled regression results show the presence of economics of scale with respect to the demand for working capital and its various components. The regression results suggest strongly that the demand for working capital and its components is function of both sales and their cost. The estimated result show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function cash and net working capital only. The effect of capacity utilization on the demand for inventories receivables and gross working capital is doubtful.

Zeng (2008) made an empirical study on the "Working capital channel and cross-sector co-movement." The paper studied cross-sector co-movement, one of the defining characteristic of business cycle, in a monetary framework. The study argues that monetary factors might be important for understanding this phenomenon through a working capital channel. The study showed that in a strictly portfolio adjustment model where firm borrow to finance working capital, appositive money supply shock drives the nominal interest rate down, thereby stimulating firm borrowing and causing employment to rise in different sectors. A positive aggressive technology shock can also drive the nominal interest rate down upon impact and reduce co-movement when the elasticity of labour supply is large.

Mahat (2009) has published article relating to “Spontaneous Resources of Working Capital management.” The article 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, bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. Whereas spontaneous source of working capital include trade credit, provision and accured expenses. The articles has defined the 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 recession, which can bring best and wrost in corporate finance such as environment should be enough to cope with the possible wrost happening in future for working capital management.

The study 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 the way of debt financing, the company should have to bear interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profit. Therefore, spontaneous sources of working capital will better to working capital in order to improvre its performance. Consequently in a changed economic scenario, every company should realize that inability to manage to working capital might land them in a vicious circle that can be hard to get out form. It is indeed essential for industries to tighten their belts and chech their financial stability to face and stand in forth coming competitive day.

2.10 Review of Books

Some of the books on financial management regarding working capital management have been reviewed under here :

Van Horne (1994) has categorized the various components of working capital i.e liquidity, receivable and inventory and current liabilities and grouping them according to the way they affect valuation. He has also described the different methods for efficient management of cash and marketable securities and various models for balancing cash and marketable securities.For the management of receivable, different credit and collection policies have been described and various principle of inventory have been examined for inventories management and control. He has written different types of books ,articles and other facts relating to financial terminology. He is dealing about working capital management in broad version. He has explained all short term assets namely cash, marketable securities, receivables, inventories and the administration of current liabilities.(Van Horne,.1994:421)

Prasanna Chadra (2001), an Indian Writer Prasanna Chandra wrote a book for finance subject called financial management, theory and practice. He has included a topic of working capital management in overall considerations. Net working capital is the difference between current assets and current liabilities. Management of working capital refers to the management of current assets as well as current liabilities . The major thrust is understandable because current liabilities arise in the context of current assets. It may be mentioned here that it is an accounting concept with little economic meaning. It makes little sense to say that a firm manages its net working capital what a firm really does is to take decisions with respect to various current assets and current liabilities. (Chandra 2001: 259)

2.11 Review of Related Thesis

Shrestha (1999) has carried out a research on *"A Study on Working Capital Management in Bhrikuti Paper Mils Limited"*. The main objective of this study is to analyze the current assets and current liabilities and their impact and relationship to each other. The major findings of this study are as follows:

- Cash and Bank Balance holds the largest part of current assets.
- There is increasing trend in liquidity and decreasing trend in current assets.
- There is discouraging profitability caused by the low return on total investment of the mill.

Amatya (2008) has carried out a research on *"An appraisal of financial position of Nepal Bank Limited"*. This research has analyzed, examined and interpreted the financial position of the bank. The major findings of the study are as follows.

- The liquidity position of the bank is in better position. But the bank has been following a uniform policy to finance current assets and current liabilities.
- The bank is successful in deposit collection but it has always adopted conservative and traditional credit policy.
- The trade and commerce advances are playing major role in the credit composition of the bank. Although the reserve of the bank is increasing gradually, the reserve plays a nominal role in the credit expansion control.
- The major portion of investment of the bank is in government's securities and the volume of transaction is high in all respect but the bank does not show higher ratio of profit or it shows a decreasing trend of profit.

Timalsena (2009) has carried out a research on *"A study on working capital management of Nepalese joint venture banks"*. The research has analyzed on current assets, current liabilities, net profit on current assets, reasons of the good or bad working capital management etc. The major findings of the study are as follows:

- SCBL had the highest mean current asset to fixed assets and NABIL had the lowest mean current assets to fixed asset during the study period.
- EBL had the highest mean cash balance to total assets and NABIL had the lowest mean current assets to total assets during the period under the study.
- NBBL had the highest mean cash balance to total assets and NABIL had the lowest mean cash balance to total assets during the study period.
- NBBL had the highest mean receivable to total assets and SCBL had the lowest mean receivable to current assets during the study period.
- NBBL had the highest mean receivable to current assets and SCBL had the lowest mean receivable to current assets during the study period.
- NABIL had the highest mean return on current assets and NBBL had the lowest mean return on current assets during the study period.
- SCBL had the highest mean return on total assets and NBBL had the lowest mean return on total assets during study period under the study.
- SCBL had the highest mean net working capital to current assets and NABIL had the lowest mean negative net working capital to current assets during the study period.
- ABIL had the highest mean current assets to current liabilities and NBBL had the lowest mean current assets to current liabilities during the study period.
- NBBL had the highest mean debt to equity and NABIL had the lowest mean debt to equity under the study period.

- SCBL had the highest mean return on owner's equity and NBBL had the lowest mean return on owner's equity during the period under the study.
- SCBL had the highest mean EPS and EBL had the lowest mean EPS during the study period.

Shrestha (2010) has carried out a research on "*Working Capital Management of Selected Manufacturing Companies in Nepal.*" The study is covered only 5 years data of 2004 AD to 2009 AD. This study is based on Unilever Ltd, Bottlers Nepal, Dairy Development corporation, Nepal Tea Development Corporation and Nepal Drugs.

Major Objective :

- To examine working capital position of selected companies.
- To analyze risk-return of working capital position.
- To assess turnover of working capital.

Finding:

- In the composition of working capital in manufacturing companies is appropriate.
- The overall selected manufacturing companies are positive on other correlation coefficients between various components of working capital with moderate sales.
- Those liquidity and profitability position of all selected companies are satisfactory.

Recommendations:

- Company should have proper plan to manage their current liabilities and should determine the appropriate source of fund to finance working capital.
- These selected companies should manage receivable and inventory conversion period by applying suitable credit policy.
- These studies mention about operating cost, which must be reduced in proper way so that companies can maximize their profitability and shareholders returns.

Shrestha (2011) has carried out a research on *" A Study on Working Capital Management of Nepal Lube Oil limited."*

Major Objective :

- To examine the working capital position of Nepal Lube Oil Limited
- To examine the structure of working capital.
- To assess the financial position of Nepal Lube Oil Limited

Findings:

- The company has lesser participation of fixed assets in total assets.Cash holds of the company was relatively a small proportion total assets and inventory held largest portion indicating unsounded inventory management
- The company has insufficient in collecting receivable.

Recommendations:

- Nepal Lube Oil Limited management determines certain rate of return on its investment and setup sales target
- The company should always concern about the current assets and current liabilities and regarding check should make.
- Manpower planning should avoid both under and over staffing.

The different experts and students on working capital management have conducted many researchers in different ways and at varying level of analysis. These different approaches to working capital management improved with the emergence of more and more literature on the subject over time. The approaches those are included in the study over working capital position, liquidity and profitability position, turnover position and cash conversion cycle in the context of selected enterprises.

2.12 Research Gap

All the above studies are concerned with the research title "Working Capital Management". Some researcher has selected various manufacturing companies for the research and some have concerntrated in only one or two companies. As to the research gap is concerned, there are many changes taken place in the working environment and production process compared to the last few years. So, fresh study related to working capital management of Siddhartha Bank has been done in this research.

There is very limited study of working capital management of banking organizations. Thus, to fill up the gap, research has conducted this research topic to light on working capital position and to suggest the possible measures for the betterment and welfare of the banking sectors. This study is based on the latest data. The data taken in this study for five years begins from the fiscal year 2063/64. This study is trying to analyze significance of current assets management, composition of working capital of SBL, financing policy of SBL and liquidity and profitability position of SBL.

Some researcher uses both primary and secondary data but only secondary data are considered in this research. Both financial as well as statistical tools like ratio analysis, mean ,standard deviation, coefficient of correlation and probable error are used in this research. Almost all the ratios have been applied to cover the analytical part and fulfill the objective of this study.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Researcher needs sequential steps to adopt realistic study or studying a problem with certain object/objects in view. Therefore, through research methodology researcher can get appropriate guidelines and knowledge about the various sequential steps to adopt a systematic analysis. Research methodology is the investigation tools of any certain area and it means clearly observation of certain object.

Research is the process of systematic and in depth study or search any particular topic, subject or area of investigation backed by collection presentation and interpretation of relevant details or data.

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well through out activities of gathering, recording, analysis and interpreting the data with the purpose of finding answers to the problem.

This chapter mainly deals with the research methodology used to ascertain the study objectives. Under this, research design, nature and sources of data, population and sample and method of data analysis technique have been described.

3.2 Research Design

Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. It included an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific, it is the outline, the scheme, and the standard of the operation of the variables. When we draw diagrams that outline the variables and their relation and juxtaposition, we build structural schemes for accomplishing operational research purposes. Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problem encountered in the research will be tackled.

The method and definite technique, which guides to study and give ways to perform research work is known as research design. It is most necessary to complete the research and fulfill the objective of the research.

First of all information and data are collected. The important information and data are selected. Then data is arranged in useful manner. After that, data are analyzed by using appropriate financial and statistical tools. In analysis part, interpretation and comments are also made wherever necessary. Result and conclusion are given after analysis of data, recommendation and suggestion is also given, the thesis has been adopted from previous research works. Previous thesis styles and formats have been followed.

The main objective of research work is to evaluate working capital management of Siddhartha Bank Limited. To complete this study, following design and format has been adopted.

3.3 Nature and sources of data

This study is based on 'secondary data'. Thus secondary data re-extensively used in this study. The raw secondary data are modified to some extent for the study purpose. Mostly, data are collected from the balance sheet, income statement and profit and loss account of 'Siddhartha Bank Limited'. Some other necessary data used in this study, have also been supplemented from 'Auditor's General Reports' and various related journals in management and other publications.

3.4 Population and sample

Population is the group of interest of the research on which the results of the study can be generalized. In any investigation, the interest usually lies in the studying the various characteristics relating to individuals belonging to population. Since the study is concerned with the working capital management of the selected one commercial bank, therefore, the population for the study has been all the thirty-two commercial banks which are currently in operation in our country.

The individuals selected from a population in such a way that they represent the larger group from which they are selected comprise a sample. The purpose of selecting a sample is to gain information about a population. In the present study, judgment or porosities sampling (a non-random sampling methods) technique has been used in the selection of the commercial bank. Siddhartha Bank Limited is selected for the study and analysis.

3.5 Data collection procedure

The data used in this study is secondary in nature. The study is based on secondary data provided by Siddhartha Bank Limited as well as other relevant sources. Other supplementary data and information have been obtained from various sources such as Nepal Rastra Bank, Nepal Stock Exchange Limited (if necessary), TU Central Library and previous studies and reports.

3.6 Tools and Techniques of Analysis

On the basis of historical data both financial and statistical tools are used to analyze different variables.

3.6.1 Financial Tools

In this research study various financial tools are employed for the analysis. The analysis of the study is based on following financial tools.

3.6.1.1 Working Capital

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. It can be calculated by Working Capital = Current assets – Current liabilities.

3.6.1.2 Liquidity Ratios

Liquidity ratios indicate the firm's ability to meet it maturing short term obligations. Liquidity ratios measure company's ability to generate cash to meet short term financial commitments.

3.6.1.2.1 Current Ratio

Current ratio measures the short term solvency, i.e. its ability to measure short term obligation. In other words, current ratio measures the ability to pay debts. As a measure of creditors versus current assets, it indicates each rupee of current assets available by dividing current assets by current liabilities. It can be calculated as follows.

$$Current\ Ratio(CR)\ \mathrm{X}\frac{Current\ Assets(CA)}{Current\ Liabilities(CL)}$$

Current assets include cash, and those assets which can be converted into cash within a year, such as debtor, receivable, cash and bank balance, prepaid expenses, inventory etc. Current liabilities mean all obligations maturing within a year. Under the current liabilities include secondary creditor, provision for taxation, bank loan, miscellaneous current liabilities and provision.

3.6.1.2.2 Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if can be converted onto cash immediately without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. Thus, QA includes the all or current assets except inventory or stock. Inventory can not be converted into cash immediately. This quick ratio can be found out by dividing the total of quick assets by total current liabilities.

$$Quick\ Ratio(QR)\ \text{X} \frac{Quick\ Assets(QA)}{Current\ Liabilities(CL)}$$

3.6.1.2.3 Cash and Bank Balance to Deposit (Excluding Fixed deposit) Ratio

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balance by saving margin and current deposits (excluding fixed deposit). This ratio is calculated by using following formula.

$$Cash\ and\ Bank\ Balance\ to\ Depsit\ Ratio\ \text{X} \frac{Cash\ and\ Bank\ Balance}{Deposit(Except\ Fixed\ Deposit)}$$

3.6.1.2.4 Saving deposit to Total Deposit Ratio

Saving deposit 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 deposit, which is given as follows.

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

3.6.1.3 Activity or Turnover Ratio

Activity ratios are intended to measure the effectiveness to employment to the resources in a business concern. Throughout these ratios, it is known weather the funds employed have been used effectively into the business activity or not. The following are the ratios employed to analyze the activeness of the concerned bank.

3.6.1.3.1 Loan and advance to Total deposit Ratio

This ratio assesses to what extent, the banks are able to utilize the depositor's funds to earn profit by providing loans and advances. It is computed dividing the total amounts of loans and advances by total deposited funds. The formula to compute this ratio is as follows.

$$Loan\ and\ Advances\ to\ Total\ Deposit\ Ratio\ \mathrm{X}\frac{Loan\ and\ Advances}{Total\ Deposits}$$

High ratio is the symptoms of higher or proper utilization of funds and low ratio is the signal of balance remained unutilized or idle.

3.6.1.3.2 Loan and advance to Fixed deposit Ratio

This ratio examines that how many times the funds is used in loans and advances against fixed deposit. For commercial banks, fixed deposits are long term interest bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit as under. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is computed as follows.

$$Loan\ and\ Advances\ to\ Fixed\ Deposit\ Ratio\ \mathrm{X}\frac{Loan\ and\ Advances}{Fixed\ Deposits}$$

This ratio examines to what extent the fixed deposits are utilized for income earning purpose.

3.6.1.3.3 Loan and advances to Saving deposit Ratio

This ratio assesses how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short term obligation and the major sources of investment in loan and advances for income generation and the major sources of investment in loan and advances for income generating purpose by CBs. This ratio indicates how many times the short term interest bearing deposits are utilized for generating the income, is calculated dividing the amount of loan and advances by total deposit in saving account. The following formula is used to determine the ratio as.

$$Loan\ and\ Advances\ to\ Saving\ Deposit\ Ratio \ \mathrm{X} \frac{Loan\ and\ Advances}{Total\ Saving\ Deposit}$$

3.6.1.4 Profitability Ratio

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Through profitability ratios, the lender and investors want to whether to invest in a particular business or not. Some of the important profitability ratios used is as follows.

3.3.1.4.1 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.

$$Interest\ Earned\ to\ Total\ Assets\ Ratio \ \mathrm{X} \frac{Interest\ Earned}{Total\ Assets}$$

3.6.1.4.2 Net profit to Total Assets Ratio

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

$$Net\ \mathrm{Pr}ofit\ to\ Total\ Assets\ Ratio\ \mathrm{X}\frac{Net\ \mathrm{Pr}ofit\ After\ Tax}{Total\ Assets}$$

3.6.1.4.3 Net Profit to Total Deposit Ratio

This ratio is used to measuring the internal rate of return from 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 to calculate net profit to total deposit ratio.

$$Net\ \mathrm{Pr}ofit\ to\ Total\ Deposit\ Ratio\ \mathrm{X}\frac{Net\ \mathrm{Pr}ofit}{Total\ Deposit}$$

3.6.1.4.4 Return on Assets

The relation between net operating income (EBIT) and total assets is known as return on assets. It measures the return on all the firm's assets after interest and taxes. It is calculated by dividing the EBIT by total assets. Higher ratio is favorable for all types of company. It is calculated by using the following formula.

$$\mathrm{Re}turn\ on\ Assets\ \mathrm{X}\frac{Net\ \mathrm{Pr}ofit\ before\ Interest\ and\ Taxes}{Total\ Assets}\ |100$$

3.6.1.4.5 Return on Equity

The relation between net profit after interest and taxes and shareholders equity is known as return on equity. It measures the rate of return on common stockholder. Increasing ratio is favorable for a company, which shows the net profit is increasing and decreasing ratio is unfavorable for a company, which shows that the net profit is decreasing. It is calculated by dividing net profit after interest and taxes by shareholders equity which is shown as follows.

$$\text{Return on Equity} = \frac{\text{Net Profit after Interest and Taxes}}{\text{Shareholder's Equity}} \times 100$$

3.6.1.4.6 Earning Per Share

The income of per common share can be known as earning per share. The earning per share is derived by dividing the net profit after tax less preference dividend by the total number of common shares. The more per share return, the more excellent it is and less per share return, the worse it is. The formula for calculating this ratio is as follows.

$$\text{Earning Per Share} = \frac{\text{Net Profit after Tax} - \text{Preference Dividend}}{\text{Number of Common Shares}}$$

3.6.2 Statistical Tools

In the present study, certain statistical tools have been used to compare the figures and draw one meaningful conclusion there from. The statistical tools have been presented here.

i. Mean ($\bar{X}$)

The most popular and widely used measure of representing the entire data by one variable is the arithmetic mean. All items number obtained are added together at first and then divided by the number remaining is mean value. Mean values of the different represents the average value for the study period.

i.e. $\bar{X}\ \mathrm{X}\frac{x}{N}$

ii. Standard Deviation (±)

The standard deviation measures the absolute value of risk, i.e., variability of the returns from the means returns. It is also known as root mean square deviation for the reason that it is the square root of the squared deviation from arithmetic mean. Symbolically,

$$\text{Standard Deviation, } \sigma = \sqrt{\frac{\phi X^2}{n}\, \mathrm{Z}(\overline{X})^2}$$

Where, X = Variables

n = Number of variables.

$\bar{X}$= Expected rate of return or average rate of return.

iii. Coefficient of Variation

As noted above, the standard deviation is the absolute measure of risk. In the case of the different mean returns, it misleads to the invalid decision. Hence, to overcome on such a problem, a standardized per unit risk can be used to measure the risk which is called coefficient of variation. It indicates risk per unit of average return. Variability in return (i.e. the risk) has therefore been measured by the coefficient of variation. In this study, coefficient of variation has been computed to show the bank wise variability or risk return relationship in respect of interest rate and rate of return on total investments. It can be computed by dividing the standard deviation by average rate of return.

Symbolically,

Coefficient of variation, C.V. = $\sigma / \overline{X} \times 100$

Where, σ = Standard deviation

$\overline{X}$ = Mean rate of return.

Iv. Karl Pearson's Correlation Coefficient

In simple correlation gives the relation between two variables. In other words, correlation is defined as the relationship (or association) between (among) the one dependent variable or factor and other (or more than one) independent variables(s) or factor(s). Thus, correlation is a statistical tool which determines the degree (extent) and direction of correlation. It helps in studying the variance of two or more variables. There is several method of analyzing the correlation between the two variables such as Graphic Method, Least Squire Method and so on. Among them, Karl Pearson's Coefficient of Correlation is most widely used in order to establish the relationship between the returns of SBL. Karl Pearson's Coefficient measures the degree of association between the two variables, say X and Y, and is calculated by;

$$r = \frac{N\Sigma XY - \Sigma X\Sigma Y}{\sqrt{N\Sigma X^2 - (\Sigma X)^2}\sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

Where, r = Coefficient of correlation between X and Y.

$\sum XY$= summation of multiple of variables X and Y.

$\sum x^2$ = summation of square of variable X.

$\sum y^2$ = summation of square of variable Y.

N= Number of observations.

v. Trend Analysis

Trend Analysis is one quantitative method used to determine patterns in data collection overtime. It is also known as time series analysis. It is used to detect patterns of change in statistical information over regular intervals of time. In our study, two methods, ‘method of least squares’ and ‘Graphic Method’ are used for determining trend.

vi. Probable Error (P.E.)

P.E. interprets the value of correlation co-efficient. It helps to determine applicability for the measurement of reliability of computed value of the correlation coefficient 'r'. It can be calculated as:

$$P.E. = \frac{0.6745 \times (1 - r^2)}{\sqrt{N}}$$

Where,

r = correlation coefficient

N = number of pairs of observations.

If the value of r is less than 6 times of probable error there is no evidence of correlation, i.e. the value of r is not significant.

If the value of r is more than 6 times of probable error the coefficient of correlation is practically certain, i.e. the value of r is significant.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter, entitled as presentation and analysis of data, constitutes the most crucial part of the study. It provides a mechanism for meeting the basic objectives stated earlier in the first chapter in the research. In this chapter, collected data have been analyzed and presented mathematically. All the above mentioned financial and statistical tools have been used to present the data.

The main objective of the study is to analyze the working capital management of Siddhartha Bank Limited. To analyze the working capital management, various presentation and analysis have been presented in this chapter according to analytical research design mentioned in the third chapter by using various financial and statistical tools.

It is already stated that working capital means current assets minus current liabilities. This chapter specially emphasizes on the working capital position and different components relating to working capital management of Siddhartha Bank Limited.

4.2 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding the target level of each category of current assets and current liabilities. Working capital management refers to the administration of current assets and current liabilities in proper way. Every firm wants to maximize wealth of its shareholders. In order to achieve the target goals, it has to perform many functions. For this purpose, firm has to determine the suitable current assets investment policy by maintaining proper relation of current assets with fixed and total assets. Similarly, firm should finance the current assets with short term as well as long term sources. In conclusion, the better performance of current assets is the integral part of working capital management.

4.2.1 Components of Current Assets

To operate the business successfully, different kinds of assets are needed. For the day to day business operation different types of current assets are needed. The composition of current assets or the main components of current assets of SBL are cash and bank balance, loan and advances and miscellaneous.

The following table shows the amount of cash and bank balance, loan and advances and miscellaneous current assets of SBL.

Table 4.1

Components of Current Assets of SBL (In Rs)

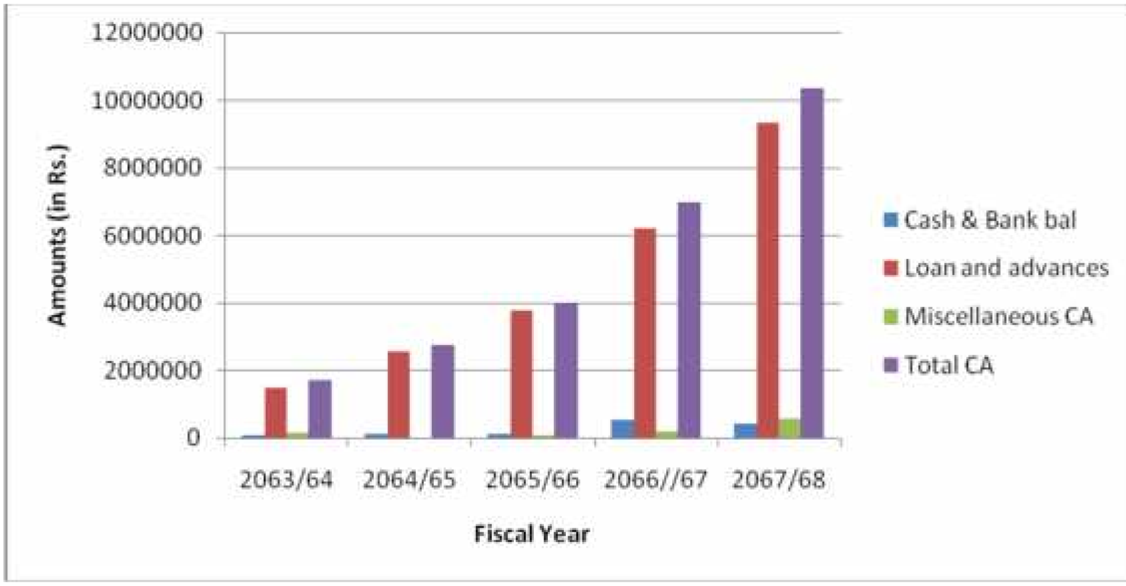
Fiscal Year	Cash & Bank bal	Loan and advances	Miscellaneous CA	Total CA
2063/64	71846216	1484302400	174830000	1730978616
2064/65	130729165	2570776015	22471002	2723976182
2065/66	115946306	3789122692	100000000	4005068998
2066/67	517226354	6222586813	229446305	6969259472
2067/68	437425269	9335597738	584735884	10357758891

(Sources: Annual Reports of SBL)

Above table 4.1 shows that the components of current assets of SBL which consist cash and bank balance, loan and advances and miscellaneous current assets. In fiscal year 2063/64, the current assets of the bank was amounted to Rs.1730978616 which included Rs.71846216 of cash and bank balance, Rs.1484302400 of loan and advances, and Rs.174830000 miscellaneous current assets. The current assets of the bank increased drastically in fiscal year 2064/65 and reached to Rs.2723976182. Similarly, in fiscal year 2065/66 it also increased amount to Rs.4005068998. It increased amount to Rs.6969259472 in the fiscal year 2066/67. Finally, the CA of the bank increased in F/Y 2067/68 and reached amount to Rs.10357758891, which included Rs.437425269, Rs.9335597738, Rs.584735884 cash and bank balance, loan and advances and miscellaneous current assets respectively.

Figure 4.1

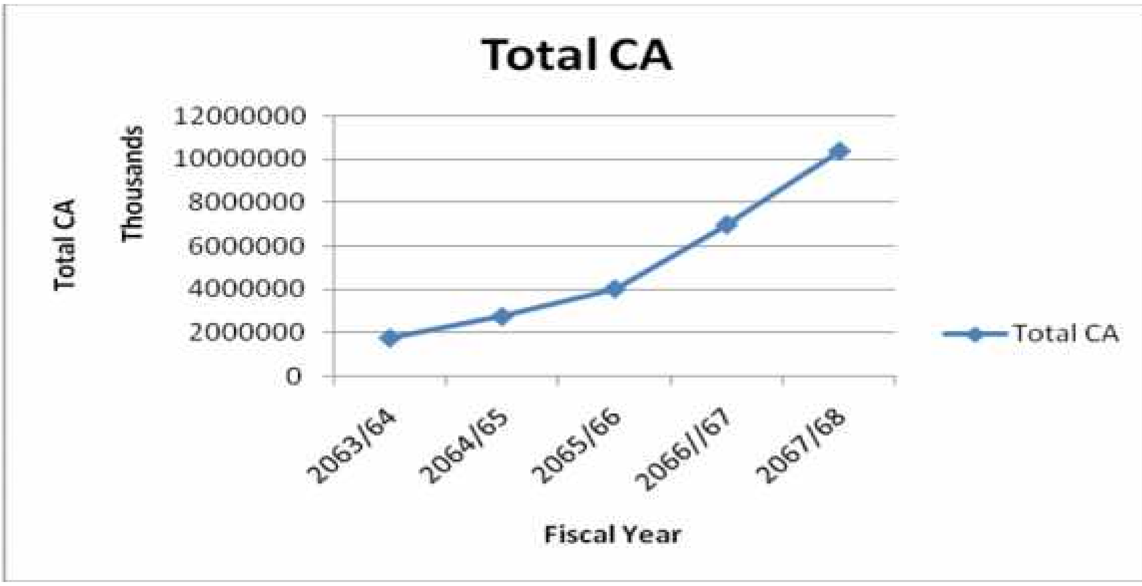
Components of Current Assets of SBL



Above figure 4.1 states that the components of current assets of SBL. The total current assets include cash and bank balance, loan and advances and miscellaneous current assets. The level of total current assets was in increasing trend since the fiscal year 2063/64. Out of the different components of current assets, the bank had highest portion of loan and advances.

Figure 4.2

Total Current Assets of SBL



The above figure 4.2 presents the trend of total current assets since the fiscal year 2063/64. The level of total current assets was in increasing position. It was Rs.1730978616 in the first fiscal year and reached up to Rs.10357758891 at the last fiscal year.

4.2.2 Components of Current liabilities

Current liabilities is a short term obligation which is payable within a year. The composition of current liabilities or the main components of current liabilities of SBL are deposit liabilities, bills payables, proposed dividend & dividend payables, income tax liabilities and other liabilities.

Table 4.2

Components of current liabilities of SBL(In Rs)

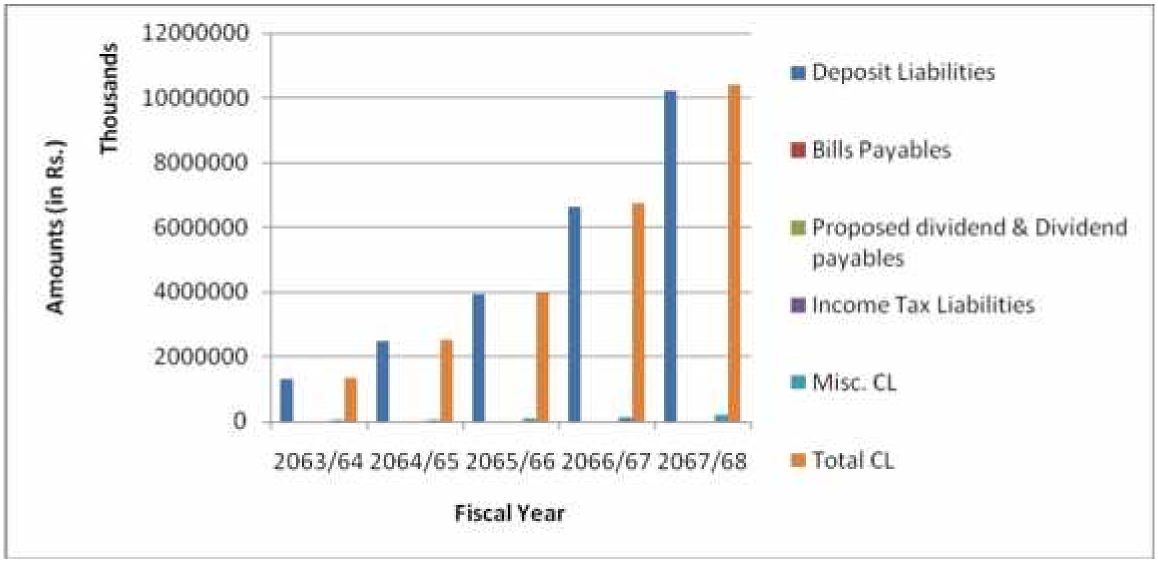
Fiscal Year	Deposit Liabilities	Bills Payables	Proposed dividend & Dividend payables	Income Tax Liabilities	Misc. CL	Total CL
2063/64	1291313880	961993	-	-	27689867	1319965740
2064/65	2461922522	429211	-	17083448	33778928	2513214109
2065/66	3918076217	-	-	112820	53454956	3971643993
2066/67	6625078506	-	4736842	5203446	95935742	6730954536
2067/68	10191440970	15884195	6536842	11155193	169859787	10394876987

(Sources: Annual reports of SBL)

In above table, we can found that the component of current liabilities which consist Deposit liabilities, Bills Payables, Proposed dividend & Dividend payables, Income Tax Liabilities and Miscellaneous CL. As stated in above table total CL of SBL was Rs.1319965740 in fiscal year 2063/64. The CL increased in F/Y 2064/65 and reached amount to Rs.2513214109. Likewise, in fiscal year 2065/66, the current liabilities of SBL was also increased and reached amount to Rs.3971643993. Similarly, the increment in current liabilities is continuous and reached amount to Rs.6730954536 in fiscal year in fiscal year 2066/67. Finally, at the end of fiscal year 2067/68 the current liabilities of SBL is Rs.10394876987,which consists of Rs.10191440970, Rs.15884195, Rs.6536842, Rs.11155193 and Rs.169859787 Deposit liabilities, Bills Payables, Proposed dividend & Dividend payables, Income Tax Liabilities and Miscellaneous CL respectively.

Figure 4.3

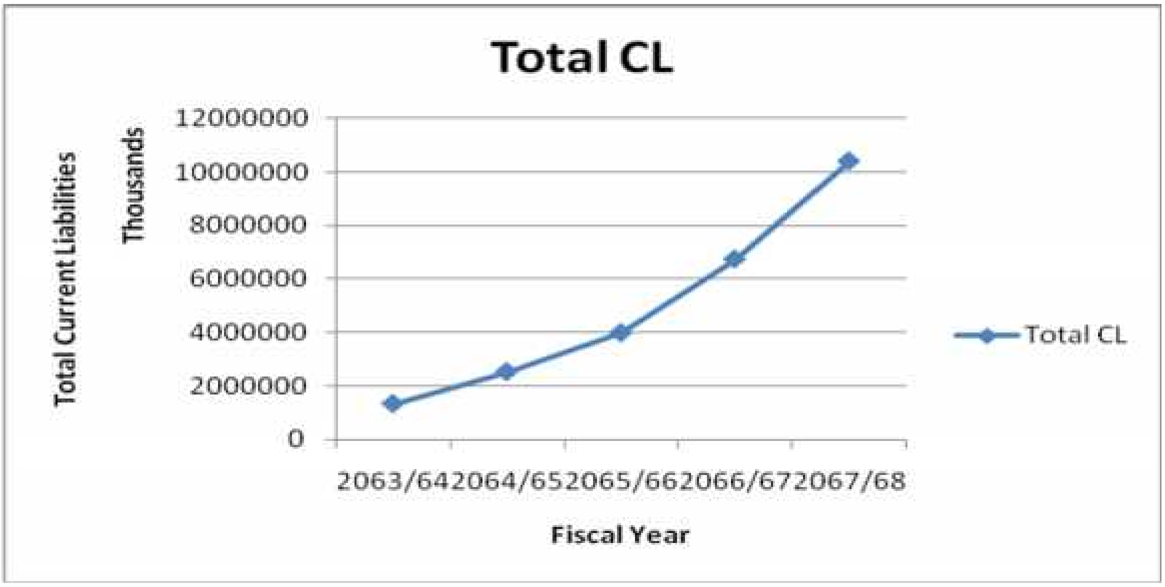
Components of current liabilities of SBL



The above figure is the figure of components of current liabilities of SBL from the fiscal year 2063/64 to 2067/68. It was also in increasing trend during the study period. The total current liabilities include different components such as deposit liabilities, bills payables, proposed dividend and dividend, income tax liabilities and miscellaneous current liabilities. Out of them deposit liabilities was the highest in all fiscal year.

Figure 4.4

Total Current Liabilities of SBL



The above figure 4.4 shows the trend of total current liabilities from the fiscal year 2063/64 to 2067/68. It was in increasing trend in the study period. In the first fiscal year of study period, the total current assets was Rs.1319965740 and increased up to the level of Rs.10394876987 in the last fiscal year 2067/68.

4.2.3 Working Capital of SBL

The working capital is regarded as one of the conditioning factors of decision making in any business. To achieve the goal of overall business, the determination of working capital should be as accurate as possible. It means, money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The following table shows the amount of working capital of SBL of the study period.

Table 4.3

Working capital of SBL(In Rs)

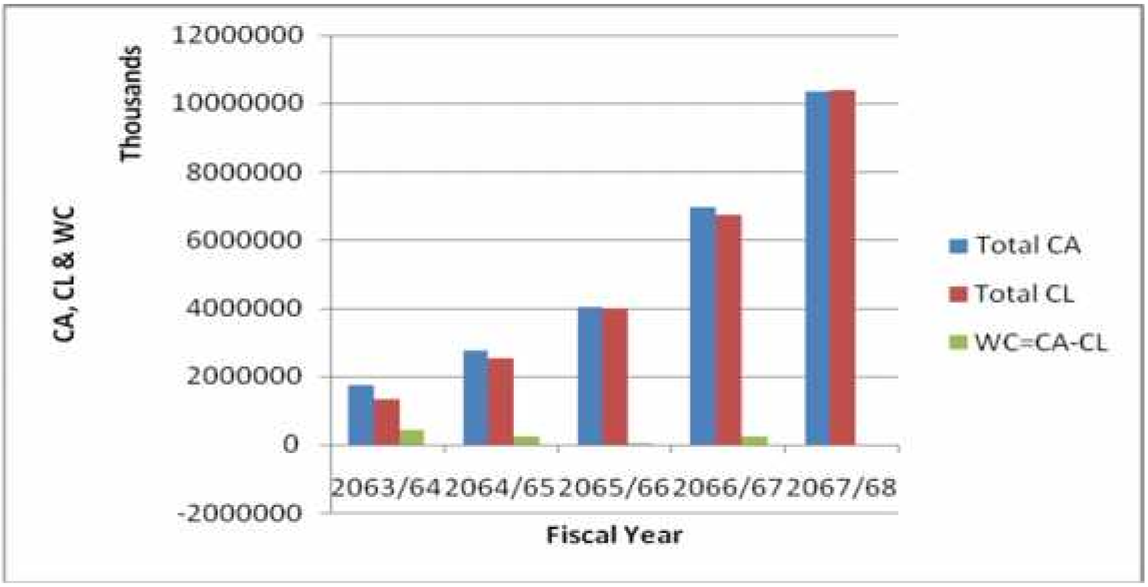
Fiscal Year	Total CA	Total CL	WC=CA-CL
2063/64	1730978616	1319965740	411012876
2064/65	2723976182	2513214109	210762073
2065/66	4005068998	3971643993	33425005
2066/67	6969259472	6730954536	238304936
2067/68	10357758891	10394876987	(37118096)

(Sources: Annual reports of SBL)

In above table 4.3 shows that the increment or decrement of working capital in different study period by different level. The working capital of SBL was Rs.411012876 in fiscal year 2063/64. The level of working capital was decreased in fiscal year 2064/65 and reached amount to Rs.210762073 from the fiscal year 2063/64. In fiscal year 2065/66, the level of working capital was decreased from Rs.210762073 to Rs.33425005. Similarly in F/Y 2066/67 the level of working capital was started to increase and reached amount to Rs.238304936. At last, the level of WC drastically decreased and reached negative amount to 37118096 which was the highest decrement during the five year of study period.

Figure 4.5

Working capital of SBL



The above figure 4.5 relates to the working capital of SBL. This figure shows the fluctuation of decrement and increment of working capital. The working capital was decreased continuously two years compared to the fiscal year 2063/64. Again, it was increased in the fiscal year 2066/67 and at last, it was again decreased and reached to the negative balance. That negative balance was due to the higher current liabilities than current assets.

4.3 Ratio Analysis

Ratios are used to create comparisons and to determine any company's or industry's performance. Comparisons may say a lot about any company's financial health as well as pinpoint possibilities for improvement. It is regarded as strong yardstick to evaluate the financial conditions and performances for a firm. Thus, we can conclude that the ratio analysis is the powerful financial tools to measure the financial performance of the bank.

4.3.1 Liquidity Ratio

Liquidity ratio indicates the company's ability to pay its short term debts, by measuring the relationship between current assets. Liquidity of any business organization is directly related with working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Bank is an organization which is engaged in mobilization of funds. So, without sound liquidity position, bank is not able to operate its function. To measure the bank's solvency position, to meet its short term obligation, various liquidity ratios are calculated and to know the trend of liquidity, trend analysis of major ratios have been considered.

4.3.1.1 Current Ratio

This ratio indicates the current short term solvency position i.e. its ability to meet short term obligation. Higher current ratio indicates better liquidity position and vice versa. As a measure of short term/ current financial liquidity, it indicates the rupee of current assets available for current liabilities/obligation. Generally, the current ratio is considered as perfect when it becomes 2:1. This ratio is calculated as follows.

$$Current\ Ratio\ \mathrm{X} \frac{Current\ Assets\ (CA)}{Current\ Liabilities\ (CL)}$$

The following table shows the current ratio of SBL.

Table 4.4

Current Ratio of SBL(In Rs)

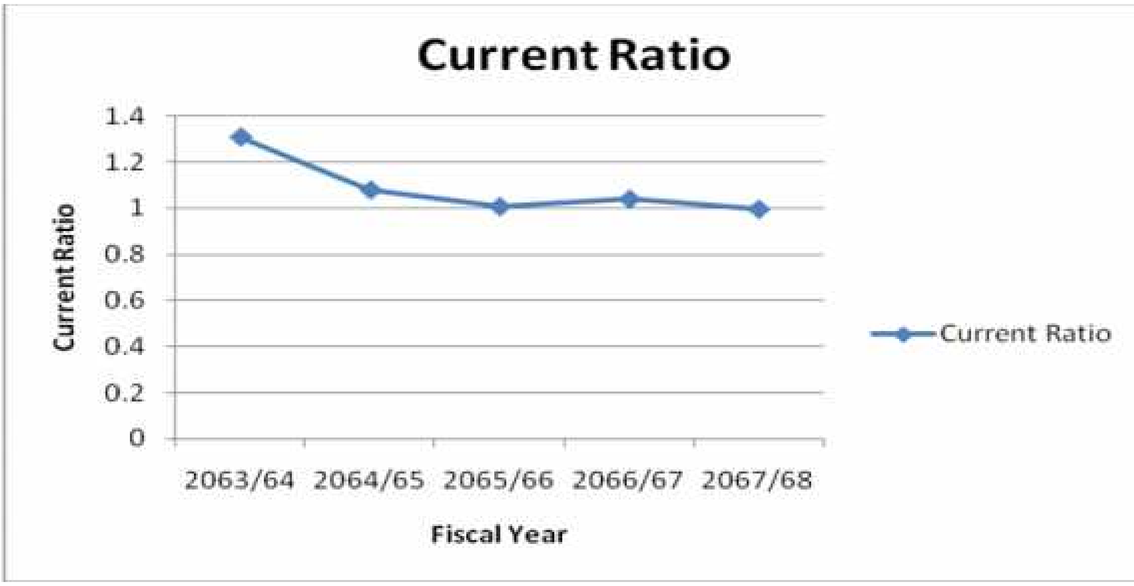
Fiscal Year	Total CA(NRs)	Total CL(NRs)	Current Ratio
2063/64	1730978616	1319965740	1.31
2064/65	2723976182	2513214109	1.08
2065/66	4005068998	3971643993	1.008
2066/67	6969259472	6730954536	1.04
2067/68	10357758891	10394876987	0.9964
Average			1.0869
S.D			0.1153
C.V			10.6%

(Sources: Annual reports of SBL)

The above table 4.4 depicts that the current ratio of SBL in F/Y 2063/64 was 1.31. The ratio was decreased slightly for two years and reached to 1.08 and 1.008 in F/Y 2064/65 and 2065/66 respectively. In the fourth year it was increased to 1.04. Finally it was decreased and reached to 8.47 in the fiscal year 2067/68. The average current ratio during the study period was 1.0869 and coefficient of variation was 10.6% which is relatively higher. This indicates that the ratio was fluctuated more which is not desirable.

Figure 4.6

Current Ratio of SBL



The figure 4.6 depicts the trend of current ratio of SBL. It was fluctuated over the study period. It was in increasing trend in the F/Y 2064/65 and 2065/66 compared to the F/Y 2063/64. Similarly it was slightly increased in the F/Y 2066/67. Finally, it was decreased in the fiscal year 2067/68.

4.3.1.2 Quick Ratio (Acid Test Ratio)

Quick ratio is the relationship between quick assets and current liabilities. The ratio measures the short term solvency or liquidity position of the firm for immediate payment of current assets by current liabilities. This ratio is calculated by dividing quick assets by current liabilities. Quick assets include all current assets except inventories and prepaid expenses. The quick ratio of 1:1 of a firm is considered as good position. The ratio is calculated by using the following formula.

$$Quick\ Ratio\ \text{X}\frac{Quick\ Assets\ (QA)}{Current\ Liabilities\ (CL)}$$

Table 4.5

Quick Ratio of SBL(In Rs)

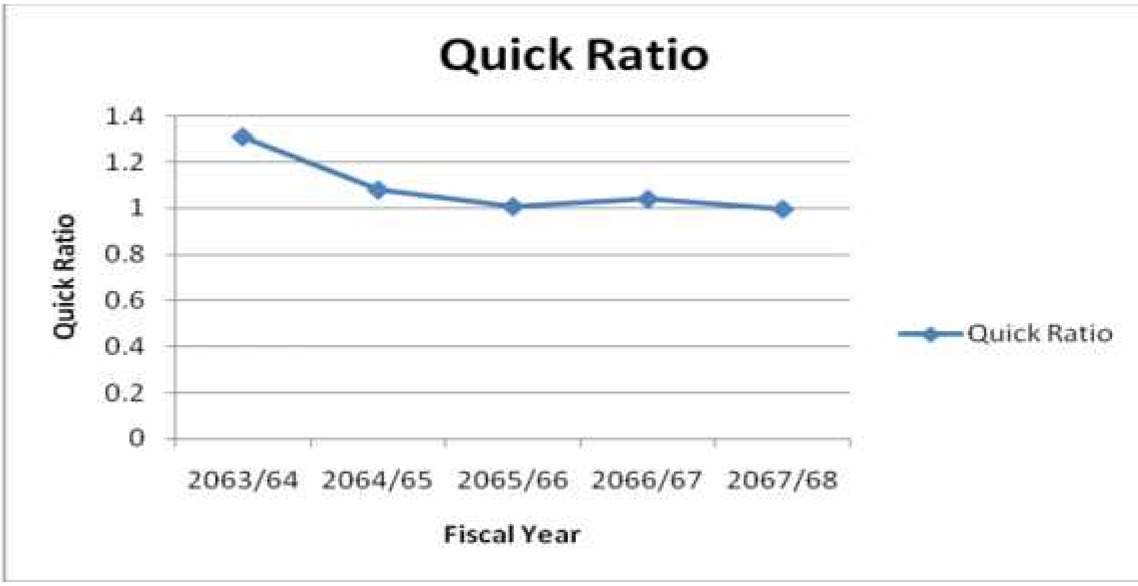
Fiscal Year	Total QA(NRs)	Total CL(NRs)	Quick Ratio
2063/64	1730978616	1319965740	1.31
2064/65	2723976182	2513214109	1.08
2065/66	4005068998	3971643993	1.008
2066/67	6969259472	6730954536	1.04
2067/68	10357758891	10394876987	0.9964
Average			1.0869
S.D			0.1153
C.V			10.6%

(Sources: Annual reports of SBL)

The above table depicts that the quick assets, which is same as current assets of SBL. Since quick assets are same as Current assets the current ratio and quick ratio are same. That is to say the quick ratios of SBL are 1.31, 1.08, 1.008, 1.04 and 0.9964 in the F/Y 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. Similarly, the average quick ratio during the study period was 1.0869 and coefficient of variation was 10.6% which is relatively higher. This indicates that the ratio was fluctuated more which is not desirable.

Figure 4.7

Quick Ratio of SBL



The above presented figure 4.7 shows the quick ratio from the F/Y 2063/64 to 2067/68 which is same as the current ratio.

4.3.1.3 Cash and Bank Balance to Total Deposit Ratio

This ratio shows the ability of banks immediate funds to cover 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 follows.

$$Cash\ and\ Bank\ Balance\ to\ Total\ Deposit\ Ratio\ \mathrm{X}\frac{Cash\ and\ Bank\ Balance}{Total\ Deposit}$$

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

Table 4.6

Cash and Bank Balance to Total Deposit Ratio of SBL(In Rs)

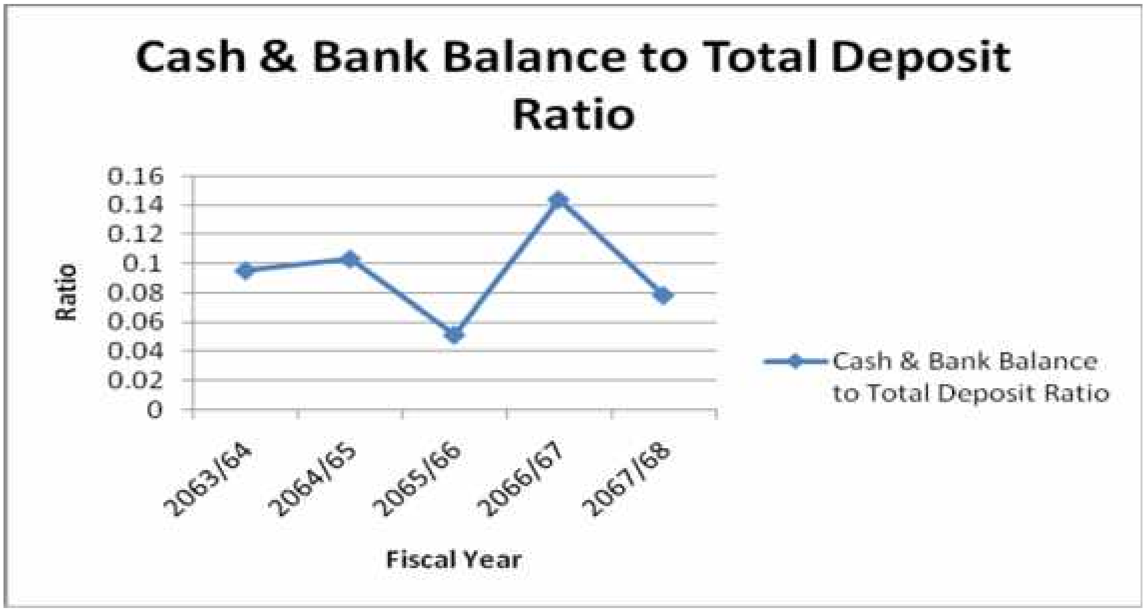
Fiscal Year	Cash and Bank	Total Deposit	Ratio
2063/64	71846216	754118880	0.095
2064/65	130729165	1265417169	0.103
2065/66	115946306	2285985149	0.051
2066/67	517226354	3602522938	0.144
2067/68	437425269	5628717027	0.078
Average			0.0942
S.D			0.0306
C.V			32.48%

(Sources: Annual reports of SBL)

The above table shows the fluctuation of increment and decrement of cash and bank balance to total deposit ratio of SBL. In the F/Y 2063/64 the ratio was 0.095. It was increased in F/Y 2064/65 and reached to 0.103. Again, it decreased to 0.051 in F/Y 2065/66 and increased to 0.144 in F/Y 2066/67. Finally it again decreased to 0.078 in F/Y 2067/68. The average ratio was 0.0942 and coefficient of variation was 32.48%. This C.V indicates that the ratio was fluctuated more which is not desirable.

Figure 4.8

Cash and Bank Balance to Total Deposit Ratio of SBL



The above presented figure 4.8 depicts that cash and bank balance to total deposit ratio of SBL. It was increased and decreased in turn from the F/Y 2063/64. That is, it was increased in the F/Y 2064/65 and 2066/67. Again it was decreased in the F/Y 2065/66 and 2067/68 in the comparison of corresponding previous year.

4.3.1.4 Saving Deposit to Total Deposit Ratio

Saving deposit 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 deposit, which is given as follows.

$$Saving\ Deposit\ to\ Total\ Deposit\ \mathrm{X} \frac{Saving\ Deposit}{Total\ Deposit}$$

The following table shows the saving deposit to total deposit ratio of SBL.

Table 4.7

Saving Deposit to Total Deposit Ratio of SBL(In Rs)

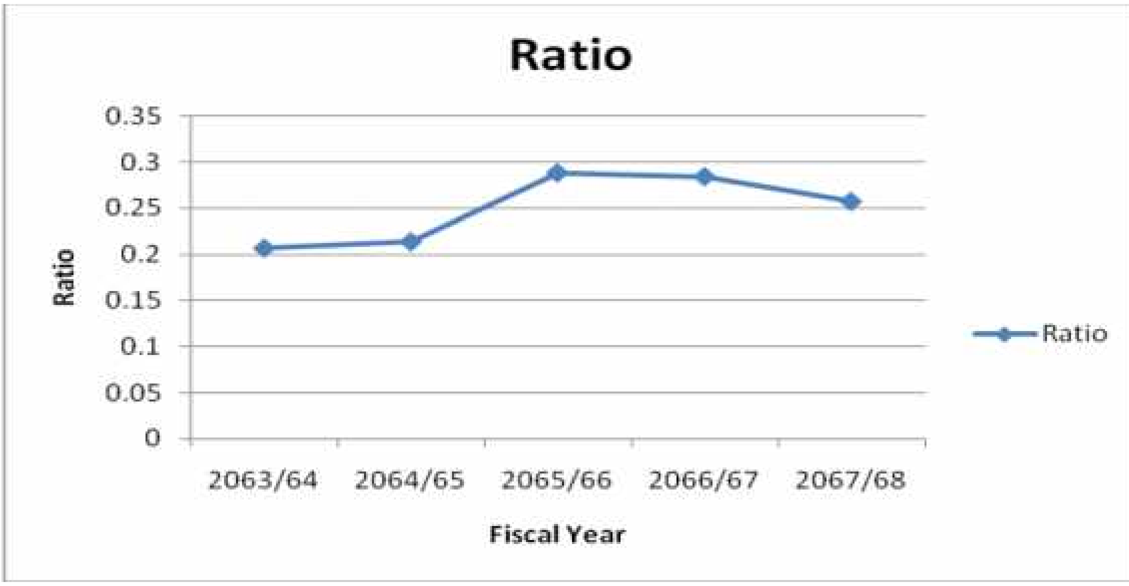
Fiscal Year	Saving Deposit	Total Deposit	Ratio
2063/64	267638044	1291313880	0.207
2064/65	525654595	2461922522	0.214
2065/66	1128464088	3918076217	0.288
2066/67	1881663667	6625078506	0.284
2067/68	2622242762	10191440970	0.257
Average			0.25
S.D			0.034
C.V			13.62%

(Sources: Annual reports of SBL)

The above table depicts that the saving deposit to total deposit ratio of SBL which was slightly increased in first two years of study period compared to the F/Y 2063/64 and was decreased at last two F/Y. The average ratio was 0.25 and coefficient of variation 13.62% which was comparatively higher. This indicates that the ratio has fluctuated more which is not desirable.

Figure 4.9

Saving Deposit to Total Deposit Ratio of SBL



The figure 4.9 is related to saving deposit to total deposit ratio of SBL. This figure shows the increment of the ratio in the first two fiscal years compared to 2063/64 and the decrement of the ratio in the last two fiscal years.

4.3.2 Activity Turnover Ratio

Activity turnover ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. Moreover these ratios are helpful in measuring the banks ability to utilize their available resources.

4.3.2.1 Loan and Advances to Total Deposit Ratio

This ratio assesses to what extent, the banks are able to utilize the depositor's funds to earn profit by providing loans and advances. It is computed dividing the total amounts of loans and advances by total deposited funds. The formula used to compute this ratio is as follows.

$$Loan\ and\ Advances\ to\ Total\ Deposit\ Ratio\ \text{X}\frac{Loan\ and\ Advances}{Total\ Deposit}$$

The following table shows the Loan and Advances to Total Deposit Ratio of SBL.

Table 4.8

Loan and Advances to Total Deposit Ratio of SBL(In Rs)

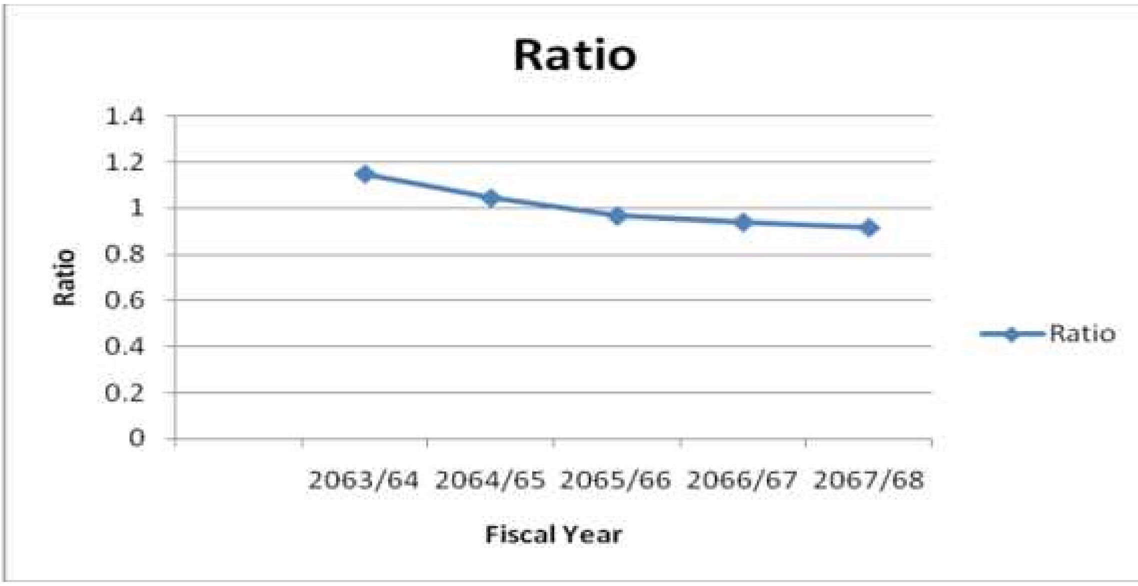
Fiscal Year	Loan and Advances	Total Deposit	Ratio
2063/64	1484302400	1291313880	1.149
2064/65	2570776015	2461922522	1.044
2065/66	3789122692	3918076217	0.967
2066/67	6222586813	6625078506	0.939
2067/68	9335597738	10191440970	0.916
Average			1.003
S.D			0.0848
C.V			8.46%

(Sources: Annual reports of SBL)

The above table 4.8 is concerned to the loan and advances to total deposit ratio of SBL. It was 1.149, 1.044, 0.967, 0.939 and 0.916 in the fiscal years 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68. The average ratio was 1.003 and coefficient of variation was 8.46% which was comparatively higher. This indicates that the ratio has fluctuated more which is not desirable.

Figure 4.10

Loan and Advances to Total Deposit Ratio of SBL



The figure 4.10 which was presented above shows the trend of loan and advances to total deposit ratio of SBL over 5 years. It was in decreasing trend over the study period.

4.3.2.2 Loan and Advances to Fixed Deposit Ratio

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. For commercial banks, fixed deposits are long term interest bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is computed as follows.

$$Loan\ and\ Advances\ to\ Fixed\ Deposit\ Ratio\ \mathrm{X}\frac{Loan\ and\ Advances}{Fixed\ Deposit}$$

The following figure shows the Loan and Advances to Fixed Deposit Ratio of SBL.

Table 4.9

Loan and Advances to Fixed Deposit Ratio of SBL(In Rs)

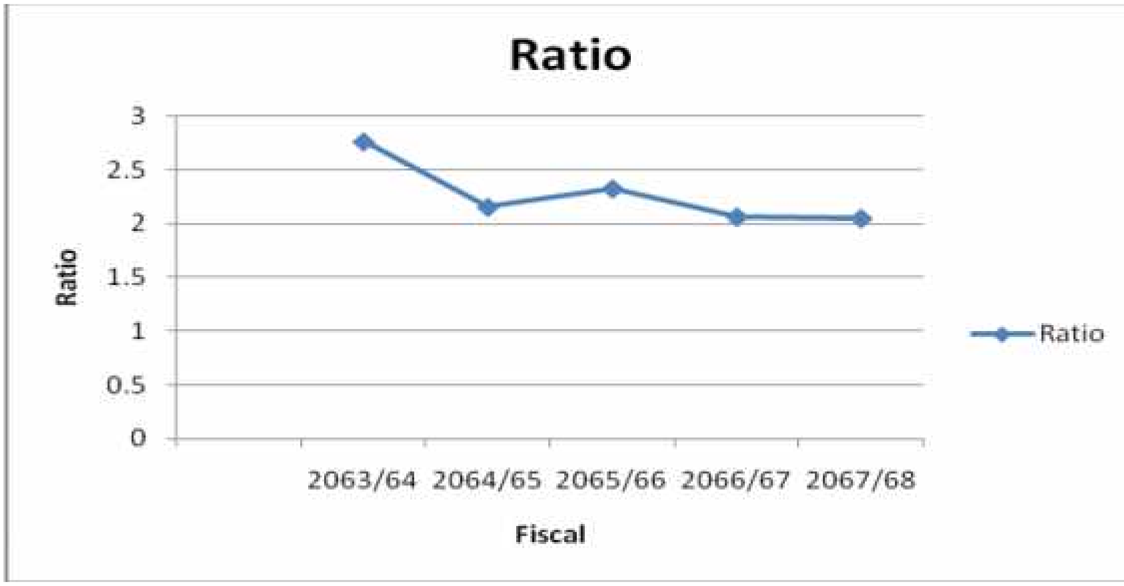
Fiscal Year	Loan and Advances	Fixed Deposit	Ratio
2063/64	1484302400	537195000	2.763
2064/65	2570776015	1196505353	2.149
2065/66	3789122692	1632091068	2.322
2066/67	6222586813	3022555568	2.059
2067/68	9335597738	4562723943	2.046
Average			2.2678
S.D			0.2665
C.V			11.75%

(Sources: Annual reports of SBL)

The loan and advances to fixed deposit ratio of SBL was presented in the above table. The ratio was ranging from 2.046% to 2.763%. The average ratio was 2.2678%. Similarly the standard deviation and coefficient of variation are 0.2665% and 11.75%. The ratio is not consistent in the view point of C.V which is not desirable.

Figure 4.11

Loan and Advances to Fixed Deposit Ratio of SBL



The above figure was the figure of loan and advances to fixed deposit ratio of SBL. It was in decreasing trend except the F/Y 2065/66.

4.3.2.3 Loan and Advances to Saving Deposit Ratio

This ratio assesses, how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short term obligation and the major sources of investment in loan and advances for income generation purpose. This ratio indicates how many times the short term interest bearing deposits are utilized for generating the income. It is calculated dividing the amount of loan and advances by total deposit in saving account. The following formula is used to determine this ratio.

$$Loan\ and\ Advances\ to\ Saving\ Deposit\ Ratio\ \mathrm{X}\frac{Loan\ and\ Advances}{Total\ Saving\ Deposit}$$

The following table shows the loan and advances to saving deposit ratio of SBL.

Table 4.10

Loan and Advances to Saving Deposit Ratio of SBL(In Rs)

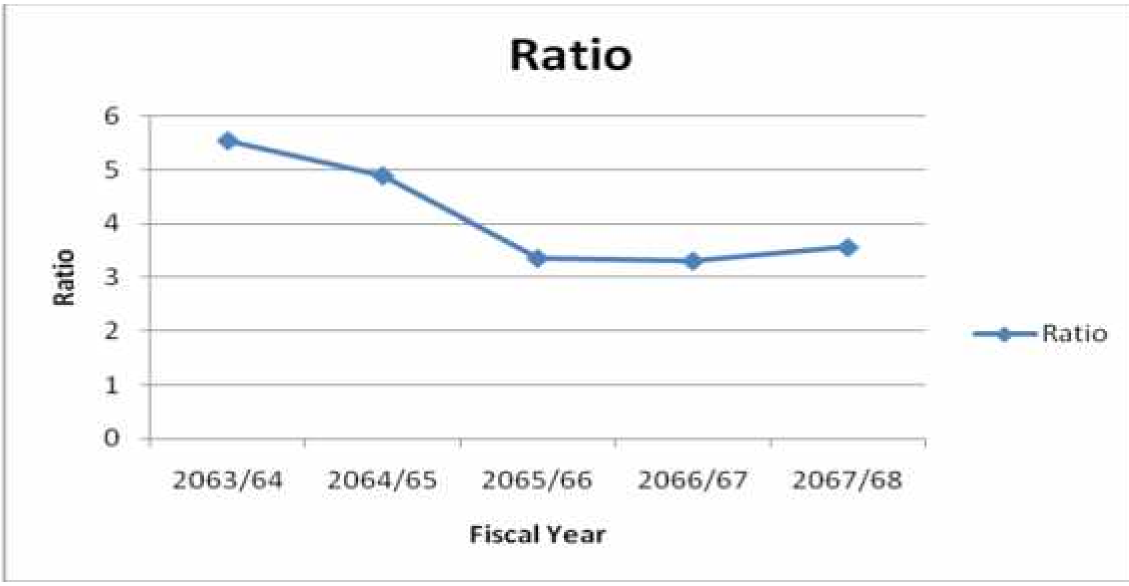
Fiscal Year	Loan and Advances	Saving Deposit	Ratio
2063/64	1484302400	267638044	5.546
2064/65	2570776015	525654594	4.89
2065/66	3789122692	1128464088	3.358
2066/67	6222586813	1881663667	3.307
2067/68	9335597738	2622242762	3.56
Average			4.1322
S.D			0.9144
C.V			22.13%

(Sources: Annual reports of SBL)

The above table 4.10 is concerned to the loan and advances to saving deposit of SBL. The ratios were 5.546%, 4.89%, 3.358%, 3.307% and 3.56% in the fiscal years 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The average ratio was 4.1322% whereas standard deviation and coefficient of variation were 0.9144% and 22.13% respectively. Regarding the C.V, it was more fluctuated over the study period which is not desirable.

Figure 4.12

Loan and Advances to Saving Deposit Ratio of SBL



The table which was presented above states the loan and advances to saving deposit ratio of SBL. The trend was in decreasing way in all fiscal years except the fiscal year 2067/68 as compared to the previous year.

4.3.4 Profitability Ratio

Profitability ratios indicate the degree of success in achieving desired profit. Various ratios are calculated to measure the operating efficiency of business enterprises. These 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.

4.3.4.1 Interest Earned to Total Assets Ratio

This ratio is 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. This is shown as follows.

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

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

Table 4.11

Interest Earned to Total Assets Ratio of SBL(In Rs)

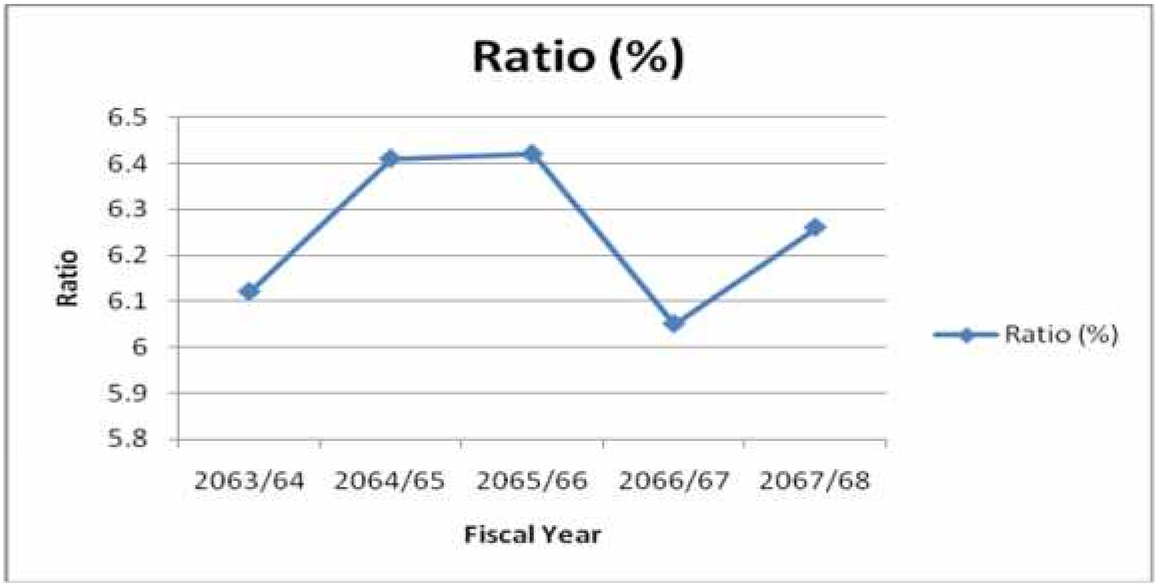
Fiscal Year	Interest Earned	Total Assets	Ratio (%)
2063/64	113629914	1857574589	6.12
2064/65	198184538	3091102752	6.41
2065/66	305560896	4756935448	6.42
2066/67	481523807	7954664475	6.05
2067/68	729872484	11668355950	6.26
Average			6.252
S.D			0.1493
C.V			2.39%

(Sources: Annual reports of SBL)

The above presented tables shows interest earned to total assets ratio of SBL. Regarding the ratio it was not more fluctuated over the study period. At the first F/Y of study period 2063/64, the ratio was 6.12%. Likewise, the ratios were 6.41%, 6.42%, 6.05% and 6.26% in the F/Y 2064/65, 2065/66, 2066/67 and 2067/68. The average ratio, standard deviation and coefficient of variation were 6.252%, 0.1493% and 2.39% respectively. The C.V was relatively lower which indicates that the ratio was not fluctuated more which is acceptable.

Figure 4.13

Interest Earned to Total Assets Ratio of SBL



According as the above figure, the interest earned to total assets ratio of SBL can be seen clearly. It was ranging from 6.05 to 6.42. It was increased in the first two years as compared to F/Y 2063/64. Similarly, it was decreased and increased in the years 2066/67 and 2067/68 respectively.

4.3.4.2 Net Profit to Total Assets Ratio

Net profit to total assets ratio measures the profitability of bank that explains a firm to earn satisfactory return on all financial resources invested in the banks assets. It is computed simply by dividing net profit after tax by total assets. Higher ratio indicates efficiency in utilizing its overall resources and vice versa. From the point of view of judging operational efficiency, rate of return on total assets is more useful measure. The return on total assets is calculated using the following:

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

Table 4.12

Net Profit to Total Assets Ratio of SBL(In Rs)

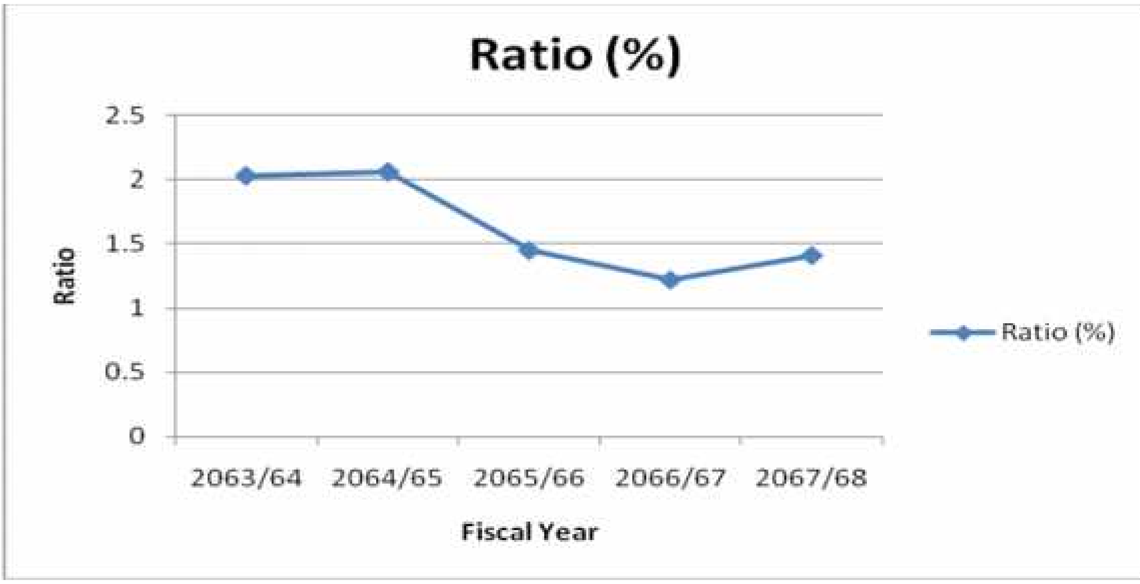
Fiscal Year	Net Profit	Total Assets	Ratio (%)
2063/64	37723633	1857574589	2.03
2064/65	63663507	3091102752	2.06
2065/66	68945208	4756935448	1.45
2066/67	97374781	7954664475	1.22
2067/68	164514502	11668355950	1.41
Average			1.634
S.D			0.3446
C.V			21.09%

(Sources: Annual reports of SBL)

From the above table, it is clear that percentage return on total assets of SBL was ranging from minimum of 1.22% in the fiscal year 2066/67 to 2.06% in the fiscal year 2064/65. Similarly, the ratios were 2.03%, 1.45% and 1.41% in the F/Y 2063/64, 2065/66 and 2067/68. The average ratio was 1.634% whereas standard deviation and coefficient of variation were 0.3446 and 21.06%. Regarding C.V, it was comparatively higher which was not desirable.

Figure 4.14

Net Profit to Total Assets Ratio of SBL



The net profit to total assets ratio of SBL can be seen in the above presented figure 4.18. It was increased in the F/Y 2064/65 as compared to the previous year. After then, it was in decreasing trend for two years. At last it was slightly increased.

4.3.4.3 Net Profit to Total Deposit Ratio

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

$$Net\ Profit\ to\ Total\ Deposit\ Ratio = \frac{Net\ Profit}{Total\ Deposit} \times 100$$

The following table shows Net Profit to Total Deposit Ratio of SBL.

Table 4.13

Net Profit to Total Deposit Ratio of SBL(In Rs)

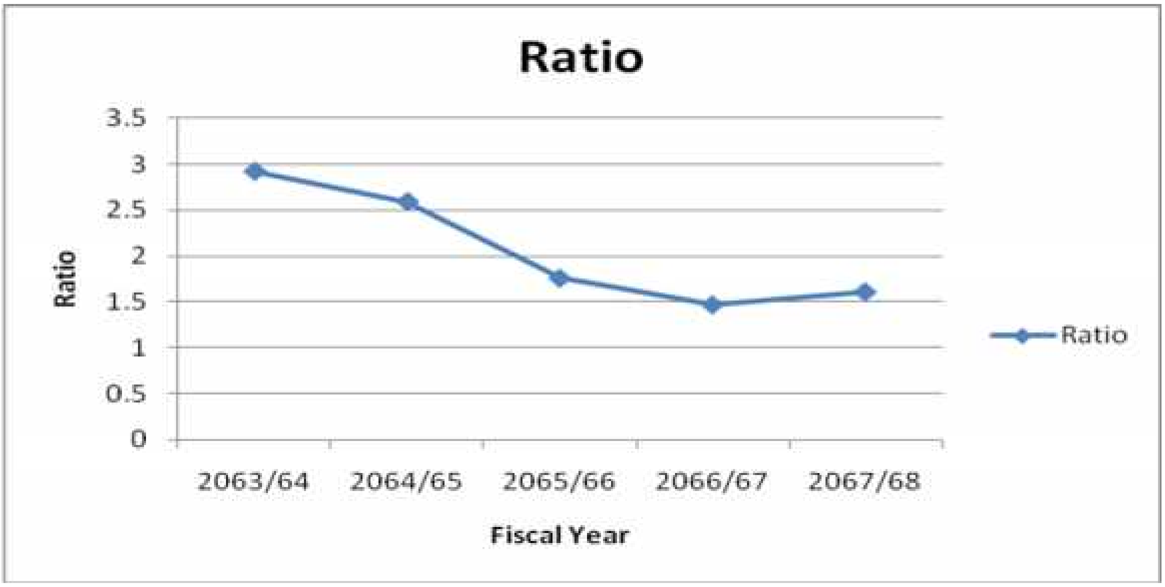
Fiscal Year	Net Profit	Total Deposit	Ratio
2063/64	37723633	1291313880	2.92
2064/65	63663507	2461922522	2.59
2065/66	68945208	3918076217	1.76
2066/67	97374781	6625078506	1.47
2067/68	164514502	10191440970	1.61
Average			2.07
S.D			0.5763
C.V			27.84%

(Sources: Annual reports of SBL)

The above presented table 4.17 states the net profit to total deposit ratio of SBL. The ratios were 2.92%, 2.59%, 1.76%, 1.47% and 1.61% in the fiscal years 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68. The average ratio was 2.07% whereas standard deviation and coefficient of variation were 0.5763% and 27.84% respectively. The C.V was comparatively higher which states the more fluctuation of ratio which is not acceptable.

Figure 4.15

Net Profit to Total Deposit Ratio of SBL



The above figure relates to the trend line of net profit to total deposit ratio of SBL. It was decreased continuously first three years as compared to the F/Y 2063/64 and was increased in the F/Y 2067/68.

4.3.4.4 Return on Assets

The relation between net operating income (EBIT) and total assets is known as return on assets. It measures the return on all the firm's assets after interest and taxes. It is calculated by dividing the EBIT by total assets. Higher ratio is favorable for all types of company. It is calculated by using the following formula.

$$\text{Return on Assets} = \frac{\text{Net Profit before Interest and Taxes}}{\text{Total Assets}} \times 100$$

Table 4.14

Return on Assets of SBL(In Rs)

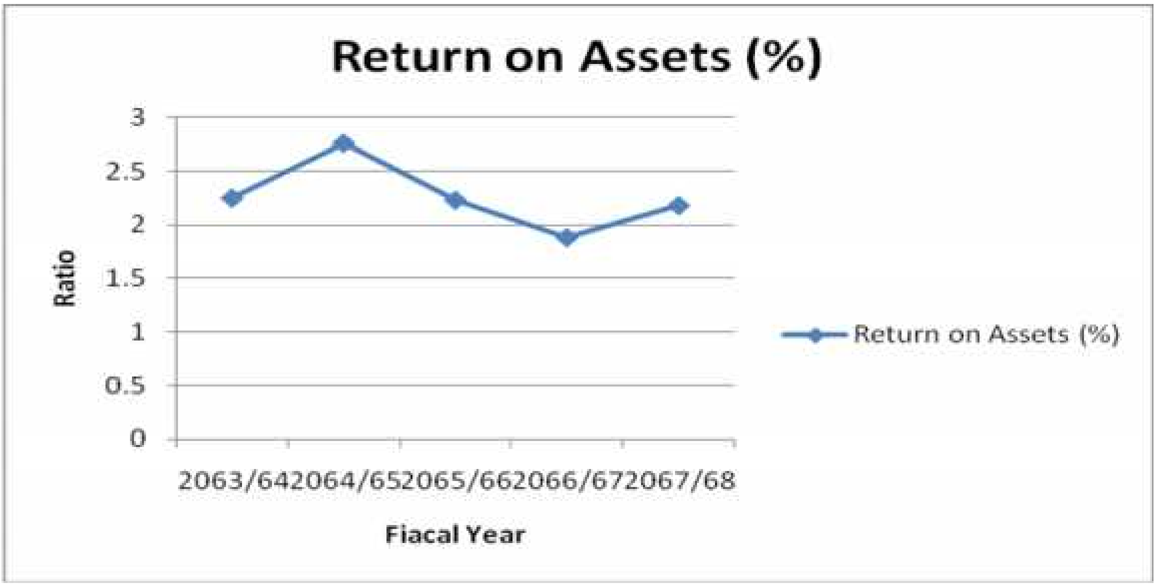
Fiscal Year	EBIT	Total Assets	Return on Assets (%)
2063/64	41710361	1857574589	2.25
2064/65	85463668	3091102752	2.76
2065/66	106072451	4756935448	2.23
2066/67	149715646	7954664475	1.88
2067/68	254850128	11668355950	2.18
Average			2.26
S.D			0.2835
C.V			12.54%

(Sources: Annual reports of SBL)

From the above table, it is clear that percentage return on total assets of SBL was ranging from minimum of 1.88% in the fiscal year 2066/67 to 2.76% in the fiscal year 2064/65. In the fiscal year 2064/65 return on total assets was increased than that of 2063/64. The ratio was decreased to 2.23% in fiscal year 2065/66 and again it was decreased to 1.88% in the fiscal year 2066/67. The average ratio of SBL is found to be 2.26% and S.D. and C.V. are 0.2835 and 12.54% respectively. By observing the above results, it was found that banks' performance is not satisfactory. The lower return of SBL indicates the lower operating efficiency and earning power of firm. The coefficient of variation of this ratio is relatively higher. This indicates that the ratio has fluctuated more which is not desirable.

Figure 4.16

Return on Assets of SBL



The above presented line shows the return on total assets. This line was seen in increasing way in the F/Y 2064/65 and 2067/68 compared to previous year. Similarly it was downward slopping in the F/Y 2065/66 and 2066/67. It was highest in the F/Y 2064/65 and lowest in the F/Y 2066/67.

4.3.4.5 Return on Equity

The relation between net profit after interest and taxes and shareholders equity is known as return on equity. It measures the rate of return on common stockholder. Increasing ratio is favorable for a company, which shows the net profit is increasing and decreasing ratio is unfavorable for a company, which shows that the net profit is decreasing. It is calculated by dividing net profit after interest and taxes by shareholders equity which is shown as follows.

$$\text{Return on Equity} = \frac{\text{Net Profit after Interest and Taxes}}{\text{Shareholder's Equity}} \times 100$$

Table 4.15

Return on Equity of SBL(In Rs)

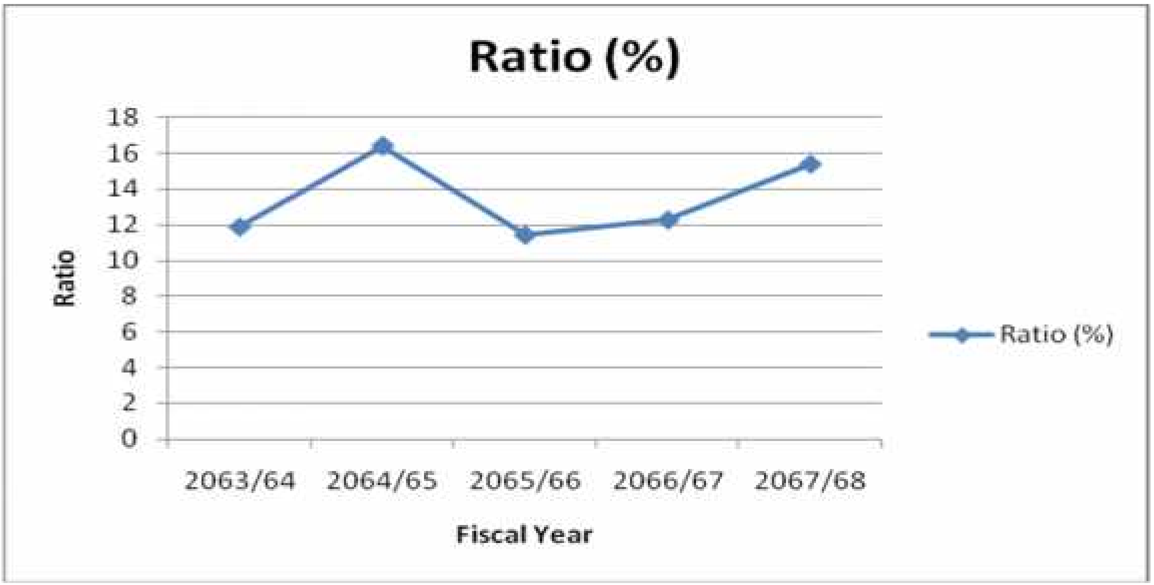
Fiscal Year	Net Profit after Interest and Taxes	Shareholder's Equity	Ratio (%)
2063/64	37723633	317608849	11.88
2064/65	63663507	387888643	16.41
2065/66	68945208	603141455	11.43
2066/67	97374781	793709939	12.27
2067/68	164514502	1068346086	15.4
Average			13.478
S.D			2.025
C.V			15.03%

(Sources: Annual reports of SBL)

The above table shows the trend of return on shareholders' equity of SBL. Return on shareholders' equity of SBL are 11.88%, 16.41%, 11.43%, 12.27% and 15.4% in the years 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. This ratio indicates how well the firm has used the resources of the owners. After analyzing the above data, we can conclude that the return on shareholders' equity of SBL is not satisfactory. The coefficient of variation is 2.07, which is lower. This indicates that the ratio has not fluctuated over the study period.

Figure 4.17

Return on Equity of SBL



The above presented line shows the return on shareholders' equity from fiscal year 2063/64 to 2067/68. This was in increasing way from the F/Y 2063/64 to 2064/65. After then from the fiscal year 2064/65 to 2065/66 it was downward slopping. From F/Y 2065/66 to 2067/68 it was further increasing way than the previous year. By observing the above line, it is found that company's' performance is not satisfactory.

4.3.4.6 Earning Per Share

The income of per common share can be known as earning per share. The earning per share is derived by dividing the net profit after tax less preference dividend by the total number of common shares. The more per share return, the more excellent it is and less per share return, the worse it is. The formula for calculating this ratio is as follows.

$$Earning\ Per\ Share = \frac{Net\ Profit\ after\ Tax - Preference\ Dividend}{Number\ of\ Common\ Shares}$$

Table 4.16

Earning Per Share of SBL

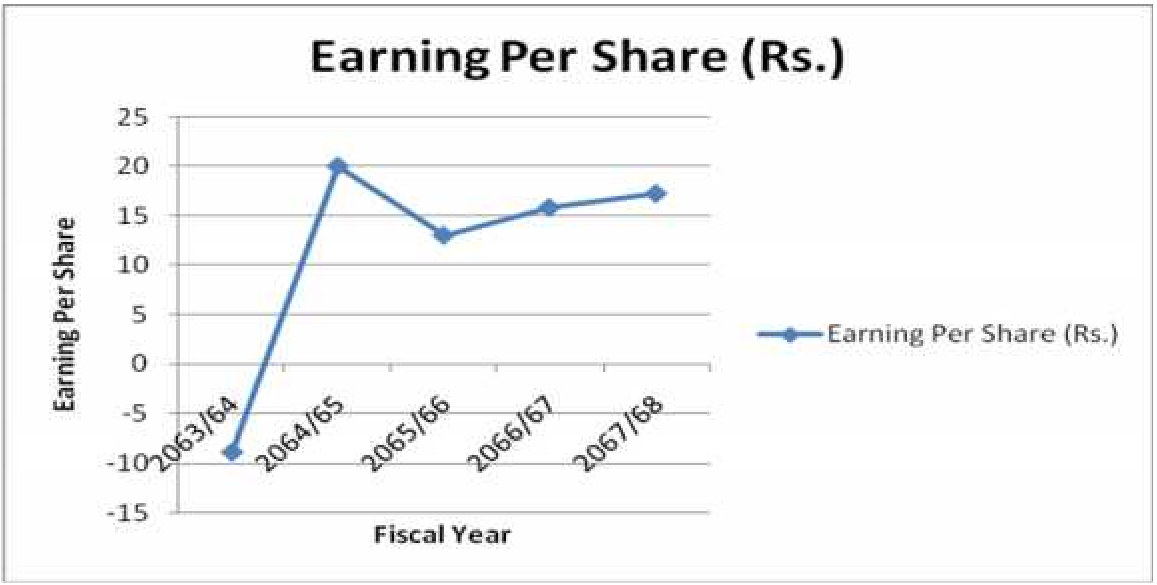
Fiscal Year	Earning Per Share (Rs.)
2063/64	(8.89)
2064/65	20.08
2065/66	13.05
2066/67	15.88
2067/68	17.29
Average	11.49
S.D	10.44
C.V	90.86

(Sources: Annual reports of SBL)

The earning per share of SBL are Rs. (8.89), Rs20.08, Rs13.05, Rs15.88 and Rs17.29 in the years 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The average earning per share is Rs11.49.The standard deviation is 10.44 and coefficient of variation is 90.88. The annual change rate is 325.87% from F/Y 2063/64 to 2064/65, -35% from 2064/65 to 2065/66, 21.69% from 2065/66 to 2066/67 and 8.88% from 2066/67 to 2067/68. To analyze the coefficient of variation, the ratio has more fluctuated, which is not acceptable.

Figure 4.18

Earning Per Share of SBL



Above presented line shows the earning per share of SBL. In first year, the earning per share is negative. In fiscal year 2064/65 the line was upward slopping then the EPS line is downward. From fiscal year 2065/66 to 2067/68, the EPS line was upward slopping. Thus we conclude that the company's earning per share is increasing way.

4.4 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 on variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. It is denoted by small letter ‘r’. The result of coefficient of correlation is always between +1 and -1 when ‘r’ is equal to +1, it means there is perfect relationship between two variables and vice versa. When ‘r’ is zero, it means there is no relationship between two variables. Therefore, correlation is a reciprocal relation between two or more things. In the following section correlation between different variables are calculated and presented of the sampled company.

- Loan and advances and total deposit
- Cash and bank balance and current liabilities
- Loan and advances and net profit
- EBIT and interest

4.4.1 Coefficient of Correlation between Loan and advances and total deposit of SBL.

To find out the relationship between loan and advances and total deposit of SBL, Loan and advances is taken as dependent variable(X) and total deposit is taken as independent variable(Y). The following table shows the coefficient of correlation between long term debt and total debt i.e. ‘r’, ‘PEr’, ‘6PEr’of Siddhartha Bank Limited.

Table 4.17

Coefficient of Correlation between Loan and advances and total deposit

Name of Bank	Correlation (r)	PEr	6PEr
SBL	0.9946	0.0032	0.0192

(Source: Appendix-1)

From the above table, we can find that the coefficient of correlation between loan and advances and total deposit is +0.9946. It shows that the positive relationship between these two variables. By considering the probable error, since the value of ‘r’ is more than six times of PEr then we can say that the value of ‘r’ is highly significant and vice versa. In case of SBL, r > 6PEr. So, there is significant relationship between long term debt and total debt.

4.4.2 Coefficient of Correlation between Cash and bank balance and Current liabilities of SBL.

To find the relationship between cash and bank balance and current liabilities, cash and bank balance is supposed as dependent variable and current liabilities is supposed as independent variable. The following table shows the coefficient of correlation between cash and bank balance and current liabilities of SBL.

Table 4.18

Coefficient of Correlation between cash and bank balance and current liabilities.

Name of Bank	Correlation (r)	PEr	6PEr
SBL	+0.8538	0.0818	0.4905

(Source: Appendix-2)

As stated in above table, the coefficient of correlation between cash and bank balance and current liabilities of SBL is +0.8538. It shows positive relationship between two variables. Similarly, the value of 6PEr is 0.4905. Thus, from the above analysis, it can be concluded that there is significant relationship between cash and bank balance and total liabilities of SBL.

4.4.3 Coefficient of Correlation between Loan and advances and Net Profit:

The calculated correlation coefficient and their respective probable error have been shown in the following table referred form appendix.

Table 4.19

Coefficient of Correlation between Loan and advances and Net profit

Name of Bank	Correlation (r)	PEr	6PEr
SBL	0.9831	0.0101	0.0607

(Source: Appendix-3)

As stated in above table, we can find coefficient of correlation between loan and advances and net profit is +0.9831 which shows the positive relationship between two variables. By considering the probable error, since the value of 'r' i.e. +0.9831 is greater than six times of PEr i.e. 0.0607, we can say that the value of 'r' is significant. Thus, it can be concluded that there is significant relationship between loan and advances and net profit of SBL.

4.4.4 Coefficient of Correlation between EBIT and Interest

Long term debt holders get the interest as return and EBIT is operating profit of the company. Here correlation coefficient of interest and EBIT has presented of concerned companies to analyze whether there is positive or negative correlation between interests and operating profit, those are calculated on the basis of Karl Pearson's correlation coefficient. The following table shows the coefficient of correlation between EBIT and interest i.e. 'r', 'PEr' and '6PEr' of SBL.

Table 4.20

Coefficient of Correlation between EBIT and Interest

Name of Bank	Correlation (r)	PEr	6PEr
SBL	+0.9302	0.0406	0.2436

(Source: Appendix-4)

From the above table, we can find that coefficient of correlation between EBIT and interest of SBL value ‘r’ is +0.9302. It shows that the positive relationship between these two variables EBIT and interest of the bank. By considering the probable error, since the value of ‘r’ i.e. +0.9302 is greater than six times of probable error i.e. 0.2436, we can say that the value of ‘r’ is significant. From the above analysis, it can be concluded that there is significant relationship between EBIT and interest.

4.5 Major Findings of the Study

The following are the major findings of the study.

- The total current assets of SBL has been following increasing trend from the F/Y 2063/64 to 2067/68. The total CA of the bank was limited to Rs.1730978616, Rs.2723976182, Rs.4005068998, Rs.6969259472 and Rs.10357758891 at the end of F/Y 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively.

- The total current liabilities of SBL has been following increasing trend from the F/Y 2063/64 to 2067/68. The total CL of the bank was limited to Rs.1319965740, Rs.2513214109, Rs.3971643993, Rs.6730954536 and Rs.10394876987 at the end of F/Y 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively.

- The working capital of SBL was limited to Rs.411012876, Rs.210762073, Rs.33425005, Rs.238304936 and Rs.(37118096) in the F/Y 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively which shows the W/C was fluctuating during the study period.

- The current ratio of the bank was quite fluctuating which remained 1.31 in F/Y 2063/64, 1.08 in F/Y 2064/65, 1.008 in F/Y 2065/66, 1.04 in F/Y 2066/67 and 0.9964 in F/Y 2067/68. The average CR, S.D and C.V were 1.0869, 0.1153 and 10.6% respectively.

- The quick ratio of the bank was same as current ratio. It means it was also fluctuating and the bank had idle fund. So, the bank has to reset ratio to meet its current liabilities.

- The cash and bank balance to total deposit ratio excluding fixed deposit of the bank was fluctuated more. It was 0.095, 0.103, 0.051, 0.144 and 0.078 in the fiscal years 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The average ratio was 0.0942 whereas S.D and C.V were 0.036 and 32.48% respectively which represents more fluctuation.

- The saving deposit to total deposit ratio of the bank was increasing in first two years and decreasing in last two years as compared to corresponding years. It was 0.207, 0.214, 0.288, 0.284 and 0.257 in the F/Y 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The average ratio was 0.25 whereas S.D and C.V were 0.034 and 13.62% respectively.

- The loan and advances to total deposit ratio of SBL was quite fluctuating. The ratio remained 1.149, 1.044, 0.967, 0.939 and 0.916 in the F/Y 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The average ratio, S.D and C.V were 1.003, 0.0848 and 8.46% respectively.

- The loan and advances to fixed deposit ratio of SBL was in decreasing trend except the fiscal year 2065/66. The ratio was 2.763, 2.149, 2.322, 2.059 and 2.046 in the F/Y 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The average ratio, S.D and C.V were 2.2678, 0.2665 and 11.75% respectively.

- The loan and advances to saving deposit ratio of SBL was in decreasing way in all fiscal years except the fiscal year 2067/68. The ratio was 5.546, 4.89, 3.358, 3.307 and 3.56 in the fiscal years 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The average ratio was 4.1322 whereas S.D and C.V were 0.9144 and 22.13% respectively.

- The interest earned to total assets ratio of SBL was not more fluctuated over the study period. The ratio were 6.12, 6.41, 6.42, 6.05 and 6.26 in the F/Y 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The average ratio, standard deviation and coefficient of variation were 6.252, 0.1493 and 2.39% respectively.

- The net profit to total assets ratio of SBL was 2.03 in F/Y 2063/64, 2.06 in F/Y 2064/65, 1.45 in F/Y 2065/66, 1.22 in F/Y 2066/67 and 1.41 in F/Y 2067/68. The average ratio, S.D and C.V were 1.634, 0.3446 and 21.06% respectively. Regarding C.V, it was comparatively higher which is not desirable.

- The net profit to total deposit ratio of SBL was 2.92, 2.59, 1.76, 1.47 and 1.61 in the fiscal years 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The ratio was in decreasing way except the F/Y 2067/68. The average ratio, S.D and C.V were 2.07, 0.5763 and 27.84% respectively. The fluctuation of ratio was comparatively higher.

- The return on assets of SBL was ranging from minimum of 1.88% in the fiscal year 2066/67 to 2.76% in the fiscal year 2064/65. In fiscal year 2063/64, 2065/66 and 2067/68, the ratio was 2.25, 2.23 and 2.18 respectively. The average ratio, S.D and C.V were 2.26, 0.2835 and 12.54%. The C.V shows that the ratio has fluctuated more which is not desirable.

- The return on equity was upward slopping except the F/Y 2065/66. It was 11.88, 16.41, 11.43, 12.27 and 15.4 in the F/Y 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The average ratio, S.D and C.V were 13.478, 2.025 and 15.03% respectively. The C.V indicates that the ratio has fluctuated during the study period.

- The earning per share explains net income for each unit of share. Earnings per share of SBL were (Rs8.89), Rs.20.08, Rs13.05, Rs15.88 and Rs.17.79 for the fiscal year 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 respectively. The bank has positive earning per share during the study period beside the F/Y 2063/64.

- The coefficient of correlation between loan and advances to total deposit of SBL was +0.9946, which is significant over the study period.

- The coefficient of correlation between Cash and bank balance and current liabilities of SBL was +0.8538, which is significant over the study period.

- The coefficient of correlation between Loan and Advances and Net Profit was +0.9831, which is significant over the study period.

- The coefficient of correlation between EBIT and interest was +9302, which is significant over the study period.

CHAPTER -V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the concluding chapter of the study. This chapter is divided into three sections: Summary, Conclusions and Recommendations. In this chapter, we summarize the study in brief. In the last section of this chapter some recommendations have given, which are useful to stakeholders and to concerned companies as well. They can use these recommendations to take some corrective actions to draw decisions.

5.1 Summary

Due to globalization, the present market and economy has been more competitive, challenging and complicated. The industry and commerce are the pillars of business which indicate the economic condition of the country. The banks are financial institutions which have been regarded as an important auxiliary of trade in the modern business. They provide support to the trade by granting loans and advances and other services.

Every business firm needs various types of assets to carry out their operation. Some assets are required to meet long term needs which are fixed assets and some are needed to day to day expenses and pay current obligations which are termed as current assets. The success or failure of any business depends upon various factors. Out of which, working capital is one which plays a crucial role for the success of business. Working capital management is related to management of current assets. Inadequate investment in working capital threatens the solvency of the companies whereas an excessive investment affects firm's profitability. It is considered as life blood and controlling nerve center of the business.

Simply, the working capital is calculated by deducting current liabilities from current assets. Current assets are those assets which can be converted into cash within an accounting period. Likewise, current liabilities are those which are to be paid within an accounting period. There are two concepts of working capital. They are gross concept and net concept. According to gross concept, WC refers to the capital invested in current assets of a firm. It focuses only the optimum investment on current assets and financing of current assets. Likewise, according to net concept, working capital refers to the different between current assets and current liabilities. It focuses on the liquidity position of the firm and suggests extending which working capital needs to be financed by permanent sources of funds.

5.2 Conclusion

The research is concerned with the study of working capital management of Siddhartha Bank limited. The term working capital refers to the capital which is necessary for day to day operations. To achieve the goal of overall business, the determinants of working capital should be as accurate as possible. It means money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also the profitability of the organization.

This research is conducted with the major objective of highlighting working capital management of SBL. The detailed observation is done by analyzing working capital management in terms of working capital policy, liquidity ratio, activity turnover ratio, capital structure ratio, profitability ratio etc. This has helped to reach conclusion and provide workable solution for the working capital management of selected banks. This research has used the five years financial statements of the bank and used different financial and statistical tools to analyze the financial health of the firm. The following are the main conclusions drawn from this study.

- The total current assets of SBL has been following increasing trend from the F/Y 2063/64 to 2067/68.

- The total current liabilities of SBL has been following increasing trend from the F/Y 2063/64 to 2067/68.

- The working capital depicts the liquidity position of an organization. It means higher the working capital higher the liquidity position of the firm and vice versa. The W/C of SBL has been fluctuating during the study period and the bank has lower liquidity in the last F/Y.

- The current ratio of the bank was quite fluctuating. Higher current ratio shows the idle fund of the bank. In this way, the bank has enough idle money which can not generate inflow to the bank.

- The quick ratio of the bank was same as current ratio. It means it was also fluctuating and the bank has idle fund. So, the bank has to reset ratio to meet its current liabilities.

- The cash and bank balance to total deposit ratio excluding fixed deposit of the bank was fluctuated more. This ratio indicates that how much funds 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. Regarding this, the average ratio is low and is not in satisfactory level.

- The saving deposit to total deposit ratio of the bank was increasing in first two years and decreasing in last two years as compared to corresponding years. This ratio indicates the bank liquidity position. Higher level of this ratio of the bank indicates to the idle fund too. From the profitability point of view, the bank should minimize this ratio.

- The loan and advances to total deposit ratio of SBL was quite fluctuating. This ratio indicates the capacity of mobilizing its deposit to loan and advances. As stated by the study, the mobilization of deposit of the bank is not satisfactory over the study period.

- The loan and advances to fixed deposit ratio of SBL was in decreasing trend except the fiscal year 2065/66. This ratio indicates the capacity of mobilizing its fixed deposit to loan and advances. From this study, it is found that the bank has been mobilizing its fixed deposit quite satisfactory.

- The loan and advances to saving deposit ratio of SBL was in decreasing way in all fiscal years except the fiscal year 2067/68. This ratio implies that the bank either able to mobilize its saving deposit or not. As per the study, the bank is in satisfactory position over the study period.

- The long term debt to capital employed ratio of SBL decreasing in fiscal years 2064/65, 2065/66 and 2067/68 and increasing in F/Y 2066/67. This ratio highlights the portion of fund financed by long term debt in the capital employed by the firm. The data shows that the SBL has not appropriate ratio of long term debt to capital employed.

- The interest earned to total assets ratio of SBL was not more fluctuated over the study period. This ratio indicates the interest earning capacity by the utilization of assets. Higher ratio is better. Regarding average ratio, it is quite satisfactory.

- The net profit to total assets ratio shows the relationship between net profit and total assets. As per the study, the ratio was quite lower.

- The net profit to total deposit ratio of SBL was in decreasing way except the F/Y 2067/68. The fluctuation of ratio was comparatively higher. This ratio shows the relationship between net profit and total deposit. As stated by the study the ratio is too low.

- The return on assets of SBL was ranging from minimum of 1.88% in the fiscal year 2066/67 to 2.76% in the fiscal year 2064/65. This ratio indicates the relationship between the return of the firm and total assets. According as the study, the bank has lower operating efficiency and earning power of the firm.

- The return on equity was upward slopping except the F/Y 2065/66. The return on equity of SBL is not satisfactory.

- The earning per share explains net income for each unit of share. The bank has positive earning per share during the study period beside the F/Y 2063/64. The earning per share of the bank is not suitable. So, the bank should try to increase the EPS.

5.3 Recommendation

Based on the major findings of this study, some recommendations have been 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 or low level of working capital affects the profitability of the bank. Therefore, the bank should maintain sound working capital position. It means neither more nor less. The working capital of SBL has been fluctuated and reached to negative amount too. Thus, the bank should try to maintain sound working capital.

- The current and quick ratio of the bank is more than one except the F/Y 2067/68. It means the bank has sufficient liquidity position. It is true that such higher ratio indicates the ability of bank to pay its bills. But, if a bank has more than sufficient current assets, it is the indication of unfavorable distribution of current assets than current liabilities. That is to say, 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. But, the ratio should not be less than one.

- From the study, we can easily found that the bank's net profit to total assets ratio of the bank is not satisfactory so far. It means the bank could not able to utilize its available sources to earn profit. Therefore, the bank should utilize its total assets as much as possible.

- The loan and advances to total deposit ratio indicates the capacity of bank to mobilize its deposit into loan and advances. It also measures the efficiency of management to utilize their available resources. As found in the study, the loan and advances to total deposit ratio is in decreasing way which is not good. So, it is recommended that, the bank should disburse its total deposit as much as possible by means of loan and advances.

- The bank is also recommended to maximize EPS so that the profitability could be increased. It is suggested to use less cost debt, improve strategy of promotion activities, analyze and evaluate before making investment etc to increase the return and decreases risk.

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APPENDICES

Appendix-1

Calculation of Correlation Coefficient between Loan and advances and Total Deposit of SBL

(Rs. in million)

F/Y	Loan and advances (X)	Total deposit (Y)	XY	X^2	Y^2
2063/64	1484	1291	1915844	2202256	1666681
2064/65	2571	2462	6329802	6610041	6061444
2065/66	3789	3918	14845302	14356521	15350724
2066/67	6223	6625	41227375	38725729	43890625
2067/68	9336	10191	95143176	87160896	103856481
Total	23403	24487	159461499	149055443	170825955

We know that;

$$r = \frac{N\Sigma XY - \Sigma X \Sigma Y}{\sqrt{N\Sigma X^2 - (\Sigma X)^2}\sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

$$= \frac{5 \times 159461499 - 23403 \times 24487}{\sqrt{5 \times 149055443 - (23403)^2}\sqrt{5 \times 170825955 - (24487)^2}}$$

$$= \frac{224238234}{14096 \times 15994}$$

$$= \frac{224238234}{225451424}$$

= 0.9946

Again, PEr = $\dfrac{0.6745(1 - r^2)}{\sqrt{N}}$

$= \dfrac{0.6745(1 - 0.9946^2)}{\sqrt{5}}$

= 0.0032

Again, $6 \times$ PEr = 6×0.0032

= 0.0192

Appendix- 2

Calculation of Correlation Coefficient between Cash and Bank balance and Current Liabilities of SBL

(Rs. in million)

F/Y	Cash and Bank Balance(X)	Current Liabilities(Y)	XY	X^2	Y^2
2063/64	72	1320	95040	5184	1742400
2064/65	131	2513	329203	17161	6315169
2065/66	116	3972	460752	13456	15776784
2066/67	517	6731	3479927	267289	45306361
2067/68	437	10395	4542615	190969	108056025
Total	1273	24931	8907537	494059	177196739

We know that;

$$r = \frac{N\Sigma XY - \Sigma X \Sigma Y}{\sqrt{N\Sigma X^2 - (\Sigma X)^2}\sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

$$= \frac{5 \times 8907537 - 1273 \times 24931}{\sqrt{5 \times 494059 - (1273)^2}\sqrt{5 \times 177196739 - (24931)^2}}$$

$$= \frac{44537685 - 31737163}{922 \times 16261}$$

$$= \frac{12800522}{14992642}$$

= 0.8538

Again, PEr = $\frac{0.6745(1-r^2)}{\sqrt{N}}$

$= \frac{0.6745(1-0.8538^2)}{\sqrt{5}}$

= 0.0818

Again, $6 \times$ PEr = 6×0.0818

= 0.4905

Appendix-3

Correlation Coefficient between Loan and advances and Net Profit

(Rs. in million)

F/Y	Loan and advance(X)	Net Profit (Y)	XY	X2	Y2
2063/64	1484	38	56392	2202256	1444
2064/65	2571	64	164544	6610041	4096
2065/66	3789	69	261441	14356521	4761
2066/67	6223	97	603631	38725729	9409
2067/68	9336	165	1540440	87160896	27225
Total	23403	433	2626448	149055443	46935

We know that;

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 \times 2626448 - 23403 \times 433}{\sqrt{5 \times 149055443 - (23403)^2}\sqrt{5 \times 46935 - (433)^2}}$$

$$= \frac{2998741}{14056 \times 217}$$

$$= \frac{2998741}{3050152}$$

= 0.9831

Again, PEr = $\frac{0.6745(1 - r^2)}{\sqrt{N}}$

$= \frac{0.6745(1 - 0.9831^2)}{\sqrt{5}}$

= 0.0101

Again, $6 \times$ PEr = 6×0.0101

= 0.0607

Appendix-4
Correlation Coefficient between EBIT and Interest of SBL

(Rs. in million)

F/Y	EBIT (X)	Interest (Y)	XY	X^2	Y^2
2063/64	42	4	168	1764	16
2064/65	85	5	425	7225	25
2065/66	106	11	1166	11236	121
2066/67	150	9	1350	22500	81
2067/68	255	17	4335	65025	289
Total	638	46	7444	107750	532

We know that;

$$r = \frac{N\Sigma XY - \Sigma X \Sigma Y}{\sqrt{N\Sigma X^2 - (\Sigma X)^2}\sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

$$= \frac{5 \times 7444 - 638 \times 46}{\sqrt{5 \times 107750 - (638)^2}\sqrt{5 \times 532 - (46)^2}}$$

$$= \frac{7872}{\sqrt{131706}\sqrt{544}}$$

$$= \frac{7872}{8463.06}$$

= 0.9302

Again, PEr = $\frac{0.6745(1 - r^2)}{\sqrt{N}}$

$= \frac{0.6745(1 - 0.9302^2)}{\sqrt{5}}$

= 0.0406

Again, $6 \times$ PEr = 6×0.0406

= 0.2436

BALANCE SHEET

CAPITAL AND LIBILITIES	2063/64 (Rs)	2064/65 (Rs)	2065/66 (Rs)	2066/67 (Rs)	2067/68 (Rs)
Share Capital	350000000	350000000	500000000	600000000	828000000
Reserve and Surplus	(32391151)	37888643	103141455	193709939	240346086
Borrowing	220000000	190000000	181150000	430000000	205132877
Deposit Liabilities	1291313880	2461922522	3918076217	6625078506	10191440970
Bills Payables	961993	429211	-	-	15884195
Proposed Dividend & Dividend Payable	-	-	-	4736842	6536842
Income Tax liabilities	-	17083448	112820	5203446	11155193
Other Liabilities	27689867	33778928	53454956	95935742	169859787
Total Liabilities	**1857574589**	**3091102752**	**4755935448**	**7954664475**	**2496655950**

ASSETS	2063/64 (Rs)	2064/65 (Rs)	2065/66 (Rs)	2066/67 (Rs)	2067/68 (Rs)
Cash Balance	18214419	33459441	64977328	130442580	149006950
Balance with Nepal Rastra Bank	-	45636582	48831305	380563747	270219328
Balance with Banks & Financial Institutions	53631797	51633142	2137673	6220027	18198991
Money at call & short Notice	174830000	22471002	100000000	229446305	584735884
Investment	42050560	286623433	650979170	865188561	1150095800
Loans, Advances & Bills Purchased	1484302400	2570776015	3789122692	6222586813	9335597738
Fixed Assets	28409300	30217153	39692489	46667101	72398043
Non-Banking Assets	-	720146	480097	10173349	-
Other Assets	56136113	49565838	60714694	63375992	88103216
Total Assets	**1857574589**	**3091102752**	**4756935448**	**7954664475**	**11668355950**

INCOME STATEMENT

Particulars	2063/64	2064/65	2065/66	2066/67	2067/68
Income:					
Interest income	113629914	198184538	305560896	481523807	729872484
Fees, Commission & Discount	7034057	7552790	13774645	20177802	21454424
Other Operating Income	6866037	27351536	9701472	18659095	31294159
Foreign exchange gain	2228516	7170573	12050770	14245653	27487389
Total Income	129758524	240259437	341087783	534606357	810108456
Expenses:					
Interest expenses	41518839	87264241	142871776	263196622	391661329
Staff expenses	16457854	20310190	26087462	33620506	48247208
Other operating expenses	21667879	30898025	44124593	55721156	71480863
Total expenses	79644572	138472456	213083831	352538284	511389400
EBDIT(Total income-Total expenses)	50113952	10178981	128003952	182068073	298719056
Less: Depreciation	8403591	16323313	21931501	32352427	43868928
EBIT	41710361	85463668	106072451	149715646	254850128
Less: Interest	3986728	4716713	10837186	8514328	16527626
EBT	37723633	80746955	95235265	141201318	238322502
Less: Tax		17083448	26290057	43826537	73808000
EAT	37723633	63663507	68945208	97374781	164514502