

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal is a developing country in the world, which is still in its crawling stage of Industrial development. Though industrial development is one of the important factors for social-economic change, we have not been able to put light over it as a national agenda. That is to say, the policy makers, Opinion leaders have not been able to convince the investors for the industrial investments. It is unfortunate to lag behind in the process industrial development, though we are blessed with huge resources and markets for the product. Furthermore we have not been able to follow the path of our neighbors who have made high access to the world industrial and financial market. This means, still we are striving to sustain within our country rather than seeking ways to join hands with our neighbors in the world industrial forum.

We all know that Industrialization is the first and the foremost way for the economic growth which leads to the overall development of the country. Here, the development of the country is connected with the effective mobilization of resources i.e man, money and materials, which on the circular way leads to the economic growth. That is to say, economic growth, mobilization of resources and the overall development of the country are intricately interlinked. The more the resources are used, the more economic growth we can achieve. Industries are vehicle that can bring the resources to maximum utilization. But as most of the people are engaged in agriculture, there are very few who think that investment in industries is only the means to transform the personal as well as state status. Investments and trade of business are very limited, economic growth in the country is in the state of tortoise move.

The formulation of Company Act in 1993, the dawn of the organised industry was marked. This Act remained as the cornerstone for the initiation of industries. Since the modern factory system was introduced in 1992 B.S, Nepal passed through many ups and downs and changes; however, in industrial sector it could not mark development as hoped before. As the first financial institution, Nepal Bank Limited was established in 1994 B.S. under the company Act 1993. Likewise, other

manufacturing industries were also established like jute mills, cotton mills, match factory, sugar mills, textile, furniture, plywood factor etc (Pardhan, 2005). For the rapid development of the country agriculture can be a factor but solely it cannot play the sufficient role. Industrial resources can be used from the agricultural products but besides, the trend and style of farming should be significantly changed. Traditional modes and means should be altered with the advanced technologies so that industries will have enough resources. Equally as we develop the agricultural resources, we need to develop industrial institutions. That is to say, development of resources as well as the industries should be balanced. At certain stage of country's development, the highest return come from production of particulars types of manufactures, agriculture product and services. It is believed that in order to achieve security, stability, and high standard of living, the country should enter to the process of industrialization. Only the industrialization could enhance the national income as well as per capita income.

There are several constraints as the causes behind our backwardness in industrial development. Country's land locked geo-structure, lack of infrastructures, untrained and unskilled manpower, sufficient financial resources are the causes behind the slow motion of the industrial development. To enhance the development of the industry, policies and practices of industrialization should be at the center. Calling for the national and international investments, national congenial financial scenario should be the first agenda. To prepare this congenial environment, investment should be focused on energy and infrastructure. Furthermore, market assurance and lower cost of production are equally necessary. Besides, low productivity of inputs, technology and instability in government policies should also be addressed (Pradhan, 2005).

As the study concentrates over working capital management in Unilever Nepal Limited, it locates itself around the primary data such as balance sheet, income statement, profit and loss account etc. To study the financial status of UNL, the researcher explores and analyzes the present working capital management and its performance. Before starting the research it is necessary to know the composition of working capital as well as the CA, CL and working capital policy that the company is adopted. Similarly, the liquidity and profitability position as well as their relationship with the company should also be taken under regard.

Working capital is a short term asset used in day to day operation within a manufacturing company. The manner how this asset is managed describes the w/c management process, which is one of the most important aspects of the overall financial system. Manufacturing company need cash to facilitate their various day-to-day activities, such as the money needed to facilitate activities on daily basis is known as bank's working capital, which is a part of current capital. There is controversy regarding the meaning of working capital. Mostly there are two concepts about it. According to the gross concept, working capital indicates the total amount invested on current assets. According to net concept of working capital, this represents the excess of current assets over its current liabilities.

Thus, the working capital is an important part of the top half of the manufacturing industries balance sheet and is used to meet all liabilities is same as the net current assets. Current assets are the assets which can be converted into cash within a year like cash, notes, bills receivable, marketable securities, inventory and other quick and liquid nature. Due to the lack of basic knowledge of w/c, most of the public enterprises are suffering from great loss and suffer from shortages of w/c. Working capital management involves the relationship between the firm's short-term assets and liabilities. The goal of w/c management is to insure that a firm is able to continue its ongoing operations and has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of w/c involves managing inventories, receivables, payable and cash. The objective of w/c management is to maintain the optimum balance of the w/c components. The need of efficient w/c management must be considered in relation to other aspects of the department's financial and non-financial performance (<http://www.investopedia.com/terms/w/working-capital-management.asp>, March 1st: 2013).

The working capital management is concerned with management of the firm's current assets and current liabilities. The goal of financial manager is to achieve balance between profit and risk that maximize the value by managing each of the firm's CA and CL. Proper financial management is important for every enterprise to achieve its objects. In this respect, management of working capital is part of the decision making process of an enterprise.

The study of working capital management in manufacturing enterprise is very important, mainly for four reasons. First, manufacturing enterprise must determine the sufficiency of investment in current assets otherwise it would seriously wear down liquidity base. Secondly, they must select the type of current assets suitable for investment so as to raise their operational efficiency. Thirdly they are required to ascertain the turnover of the current assets that greatly determine the profitability of the public enterprises. Lastly, they must find out the appropriate sources of funds to finance current assets (Manandhar, 2004).

1.1.1 Introduction of Unilever Nepal Limited

This study attempts to focus on Unilever Nepal Limited. It was established as a joint-venture subsidiary company of Hindustan Lever Limited, India. Hindustan Lever Limited was formed as a subsidiary company of Unilever Group Company of England, with 51 percent share. It was started in 1940 in India with its head office in Mumbai. It holds the 80 percent share of Unilever Nepal Limited. Unilever Nepal Limited was established under the company act 2021. The factory is situated at Basamadi VDC of Makwanpur district, six kilometer far from Hetauda of central development region of Nepal. The corporate office of the company is situated at Heritage plaza, Kamaladi, Kathmandu. The Unilever Nepal Limited was formed as a public limited company in 1993 and production started from December 1994. A notice was issued on dated 18th Feb, 2005 (2061/11/7) in Kathmandu Post to inform all concerned about the change name of the company for Nepal Lever to Unilever as per the approved decision taken by 11th general meeting held on 13th Dec.2004 (2064/08/28). Under the special resolution the changed name has been approved by the company register office HMG with effect from the 9th February 2005 (2061/10/27). Unilever Nepal Limited to bear assumes all the tax and other payable liabilities toward all the moveable and immovable assets existing in the company former name. The main objectives of the company is expanding the domestic business by manufacturing different type of product and introducing new brands and categories in the domestic market and outside the country also (UNL 19th Annual Report, 2069).

It is almost sure that as a growing manufacturing company the success of this industry attracts the foreign investment and technology transformation in the country and also encourages the private sectors in the country. Besides, it is also shouldering the great

corporate social responsibility. Likewise it has also contributed in various ways to the social sector. Among the tax payers industries in Nepal, it comes to be the largest one.

Unilever Nepal Ltd. has been manufacturing different type of qualitative products. It started its production in 1994 A.D. by producing detergents, toothpaste, and toilet soap etc. but now its market has been widening day by day. It develops and launches various new products in market. Its main objective is to provide various kind of every day needs to consumer. At present, the current products of UNL are as follows:

Detergents	:	Wheel, Vim
Oral care	:	Pepsodent, Close Up
Toilet soaps	:	Liril, Lux, Jaya, Lifeboy
Cosmetics	:	Fair & Lovely
Hair care	:	Clinic Plus, Sunsluk

The goods like Detergent and laundry soaps are produced at third party; manufacturing location. Unilever Nepal Limited exports its products to other countries. Its export trade is about 40% to 50% of total trade. Its export business was adversely affected by charges introduced in the last Indian budget; where in the advantages of countervailing duty for the company's customers in India were withdrawn (UNL 19th annual Report, 2069).

The company continued to invest heavily in expanding the domestic business. The company has a comprehensive portfolio of products, which are of truly international standard. The company has started seen marketing of a number of products from the Unilever portfolio. The company has maintained its contribution to the community in various ways. It is proud of its role in the income and employment generation opportunities in the country, especially in the remote areas. This company has been involved in various projects. It is involved in 'Miles of Healthy Smiles' program, the ambitious project for contacting school children throughout Nepal to import Oral Health education, has covered more than 250000 children so far. Periodical health and Hygiene awareness programs are conducted together with health check-up programs for local people. The company also organized several dental camps, and it provides financial assistance (UNL 19th annual Report, 2069).

The company provides employment to nearly 200 Nepalese citizen and indirect employment for over 10 times of that numbers through its network of supplier, distributors and ancillaries. These have been many innovative marketing initiatives focused on growing the domestic business. These included a home to home campaign on Fair and Lovely, which has been piloted successfully and is now being rolled out nationally, lunch of a ‘consumer advice service’ for Fair and Lovely, a doctor contact programmers for Lifebuoy soap, a seminar on Hear styling for leading beauticians sponsored by Sun silk etc. promotional activities have been focused on building long-term equity for brands.

1.1.2 Ownership and Capital Structure

Unilever Nepal Limited is the first subsidiary company of Hindustan Lever Limited outside of India with holding 80% ownership and has invested Rs.73.7 million in equity. The authorized capital of company is Rs. 3000,000,000.00 divided into 3000,000 an ordinary share of Rs. 100 each and paid up capital is Rs. 92,070000.00 divided into 920700 shares of Rs.100 each. The company is listed in Nepal stock Exchange and has a positive response from its investors. The managing director is appointed by the BOD which is comprised of 7 members. The composition and percentage of sharing on capital are as follows:

No. of shares	Amount
Authorized capital @ Rs.100 each 3,000,000	300,000,000.00
Issued, subscribed and paid up Capital @ Rs.100 each 920,700	92,070,000.00

Of the above issued, subscribed and paid up capital can be presented as follows:

Table: 1.1
Shareholders of UNL

Name of Shareholders	No. of share	% of share	Amount
Hindustan Lever Limited, India	736,560	80.00%	73,656,000.00
Sibkrim Land and Collaborator Industrial Co. Pvt. Ltd.	46,035	5.00%	4,603500.00
Public shareholders	138,105	15.00%	13,810,500.00
Total	920,700	100.00%	92,070,000.00

Source: UNL 19th annual Report 2069

1.1.3 Market Share and Performance of Company

Unilever Nepal Limited has been manufacturing different types of detergents, soap noodles, toilet soap and personal care products. According to government record, company's products captured approximately 70% market share in total everyday needs product, but company's point of view, captured approximately 67.8% market share in financial year 2068/2069 within the country. UNL Brands constitute nearly half of top twenty brands of Nepal 2009 as per the annual survey by Ac Nielsen a great testimony to confidence Nepalese people place on company brands. UNL believe that to succeed requires a total commitment to exceptional standards of performance and productivity, to working together effectively and to a willingness to embrace new ideas and learn continuously. From this commitment and due to qualitative product, it has also achieved different awards for the overall performance such as:

“Best Presented Account Awards 2003” by Institute of Chartered Accountants of Nepal.

“Best Presented Account Award 2005 Runner up” by Institute of Chartered Accountants of Nepal.

“Best Presented Account Awards 2006 Runner up” by Institute of Chartered Accountants of Nepal.

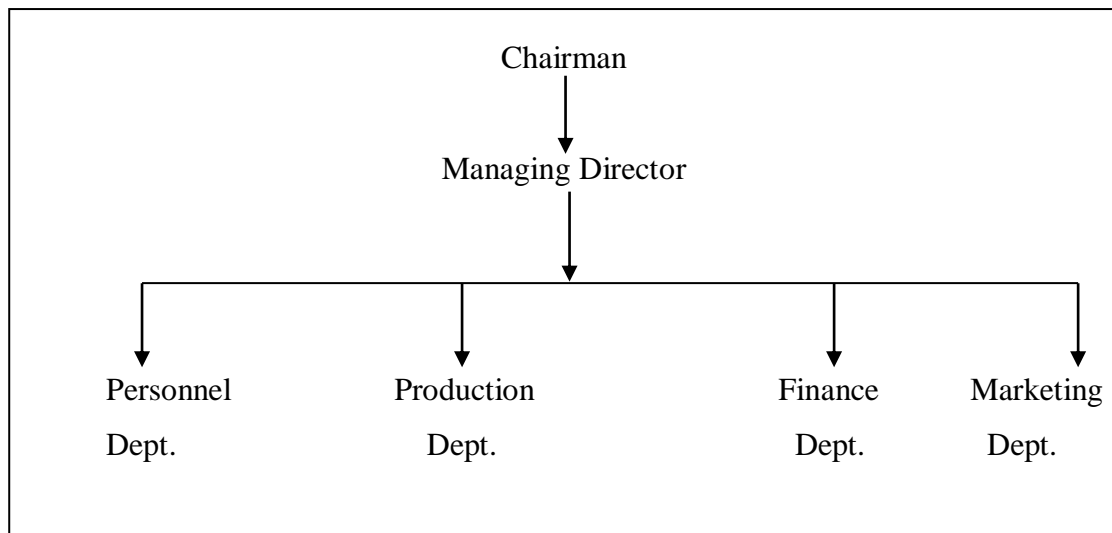
“First FNCCI National Excellence Awards–2062” for its overall performance by FNCCI (UNL 19th annual Report, 2069).

1.1.4 Organization Structure

UNL is one of the manufacturers of Soaps detergents, cosmetics, toiletries, oleaginous, saponaceous, unguents and other chemical products. It had monopoly in the market of cosmetic products in past but at present; it has to face a cutthroat competition because of the establishment of a number of cosmetic companies and introduction of liberal and market economy in the country. Each organization wants to compete with its competitions. It has to make sound functional areas of its operation. In order to compete with the rivals in the market, working capital management is the most vital part of any form as it affects all functional area. The working capital management acts as the key to the success and failure of the organization. In the context of Nepalese public enterprises, it is found that proper attention on working capital management has not been taken. As a result, they have very low efficiency and

productivity. So, a firm should possess sound w/c management in order to survive in the competitive market. More than 500 personnel (administration and production) are engaged in this company. The organizational structure of the company is as follows:

Figure: 1.1
Organizational Structure of Unilever Nepal Limited



Source: UNL 19th annual Report 2069

This study is a descriptive, analytic & explorative study on “working capital management”. This study is focused on the theoretical and empirical study in relation to working capital management of UNL. By employing statistical and financial tools, this study will try to give valuable recommendations and measures for correcting deviations. This study will be of great significance for the UNL and similar nature of enterprises and concerned parties.

1.2 Statement of the Problem

Most of the Nepalese enterprises are suffering from losses due to lack of proper utilization and application of their available resources. They are not able to receive their goals, objectives and strategies which are prepared at a reasonable of attainable manner due to the lack of delegation of authority and communication gap between top to button management. Working capital management decision is a significant managerial decision. Various factors affect the working capital management of a business organization. If a firm wants to maintain sound financial position, it should maintain optimum level of working capital management. Determining the optimum

level of working capital is the crux of the problem of every business organization. It is strongly related to the trade-off between risk and return. In the context of Nepal the process of industrialization is being developed very slowly. Most of the Nepalese enterprises have never thought seriously about sources of w/c. in most Nepalese enterprises, the management of w/c has been misunderstood as the “Management of money” and the managers are found over conscious about hoarding of money rather than its efficient utilization (Acharya, 2004).

Every investor wants to earn return in his or her investment. Therefore, every organization should make profit for its ownership. Basically, this study has tried to find out the issue of w/c management of Unilever Nepal Limited So the Problem was stated as “A Study of Working Capital Management of Unilever Nepal Limited”. Specially, following are the research-problem of this study:

- i. Is the composition of working capital of Unilever Nepal Limited appropriate?
- ii. Is the proportion of variable of working capital to current assets, total assets and sales of Unilever Nepal Limited appropriate?
- iii. Are the inventory conversions, receivable collection and payable deferral period are ultimately cash conversion cycle appropriate?
- iv. What is the relationship between liquidity and profitability position in Unilever Nepal Limited?
- v. What is the relationship between variable of working capital with current assets, total asset and sales?
- vi. What is the working capital policy of Unilever Nepal Limited?

1.3 Objectives of the Study

Working capital is the closely inter-related with the success or failure of the enterprises. So w/c management is a significant aspect of financial management. The specific objective of this study is to study the w/c management of Unilever Nepal Limited. The basic object can be summarized as follows:

- i. To assess the composition of working capital of Unilever Nepal Limited.
- ii. To study the proportion of variable of working capital to current assets, total assets and sales.

- iii. To find out the working capital cash conversion cycle of Unilever Nepal Limited.
- iv. To examine the relationship between liquidity and profitability position of Unilever Nepal Limited.
- v. To study the relationship between variable of working capital with total assets, current assets and sales.
- vi. To find out the working capital policy of the Unilever Nepal Limited.

1.4 Statement of the Hypothesis

To examine the research problems and to meet the objective of evaluating w/c management of UNL, the following null hypotheses are set with basically depend upon the financial statement of UNL.

- i. There is no significance difference between current assets and total assets, component of w/c with CA and TA. It means that total assets depend upon the CA and TA & CA depend upon component of w/c.
- ii. There is no significance different between investment in current assets and fixed assets. It means that current assets and fixed assets are independent.
- iii. There is no significant difference of receivable, inventory, cash, loans & advance and working capital with sales. It implies the receivable, inventory, cash and w/c with sales.
- iv. There is no significant difference of current assets and quick assets with current liabilities. It shows that CL is influenced by CA and quick assets.
- v. There is no significance difference between liquidity and profitability.

1.5 Significances of the Study

Nepalese manufacturing companies are operating in the competitive environment. In this situation, companies have to adopt suitable strategies for their existence. They should co-ordinate with the different functional areas of business concern. Success or failure of any organization depends on its strategies, which are affected by assets liabilities and working capital management.

Working capital management is one of the crucial aspects of financial management. But knowingly and unknowingly most of the Nepalese manufacturing enterprises fail to give adequate attention to w/c management as they have given to fixed capital. A

well-managed working capital increases goodwill of the company and prevents from production-run problem, which is a very essential aspect in manufacturing industries. Since, no studies have been conducted on w/c management of UNL, it is focused to analyze how UNL has managed and mobilized its w/c. It is useful to policy makers, investors and those who are in the management level of UNL to make the sound strategy in future. It can also be helpful to improve its w/c management.

This study might be valuable for the researcher and the students too who want to investigate the w/c management of UNL. All the public enterprises are suffering from losses in Nepal due to financial performance of public enterprises, the study helps to yield fair rate of return on investment through improving financial management practices after evaluating the financial strengths and weaknesses of the company.

1.6 Limitations of the Study

The scope of the present study is limited in terms of period of study as well as sources and nature of data. The main focus of this study is to point out the financial position and its analysis of UNL Company. The conclusion is based on the available financial statements and it might not be correct in reality. Similarly conclusion of this study might not be applicable to other manufacturers because of the possibility of the gross variation in financial data. However, the limitations of this study are as follows: -

- i. This study focuses on working capital management of UNL.
- ii. This study is limited to the financial data collected from the corporate offices of UNL from Kathmandu.
- iii. The main input for this study took from secondary sources, i.e. the published financial documents, balance sheet, profit and loss account, income statement and other related journals, magazine and books.
- iv. Different financial & statistical tools (Ratio analysis, Mean, C.V. Correlation coefficient and Hypothesis test) were used to conduct.
- v. The study covered the empirical data from the period of five fiscal years from 2064/65 to 2068/69 B.S only.

1.7 Organization of the Study

This paper is organized into five chapters. Chapter one deals with background, a brief overview of Unilever Nepal Limited, focus of the study, statement of the problem, objective of the study, statement of the hypothesis, significance of the study, limitation of the study and organization of the study. Chapter Second deals with conceptual review of management of working capital and related studies. The third chapter describes methodology and tools to be used in this research. It includes research design, population and samples, data collection procedure and processing, tools and methods of analysis. Next chapter deals the presentation, analyzing and interpretation of results by means of financial and statistical tools. Finally the fifth chapter summarizes the whole study. Moreover, it draws the conclusions and forwards the recommendation for the improvement of working capital management of Unilever Nepal Limited.

CHAPTER-II

LITERATURE REVIEW

This chapter deals with the review of relevant literatures available in the books, journals articles research reports, newspapers, policy documents which are published or unpublished. Every study is very much based in past knowledge and experiences. The past knowledge or the previous studies should not be ignored, as it provides foundation to the present study. There are some thesis works which have studied different aspects of working capital in different other organizations which are also the source of knowledge for this research.

2.1 Conceptual Review

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

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

Firms need cash to pay for all their day to day activities. They have to pay wages, pay for raw materials, pay bills and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are the

current assets as these are short term assets that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has its disposal.

Working Capital is therefore:-

$$\text{Working Capital (WC)} = \text{Current Assets (CA)} - \text{Current liabilities (CL)}$$

Thus working capital is the same as net current assets, and is an important part of the top half of the firm's balance sheet. It is vital to a business to have sufficient working capital to meet its entire requirement. Many businesses have not gone under it because they are not making profits. Equally they have been suffering from shortages of working capital. By the definition of various experts of working capital management we conclude that all institution whether private or public financial institution, manufacturing or non manufacturing, need just adequate working capital to compete with competitive market. It is because over or under adequacy of working capital is dangerous for the firms as it effects the firms profitability just as idle investment. On the other hand under investment on working capital effects the liquidity position of the firm and causes to financial hindrance and failure of the company. It is, therefore, any mistake in management of working capital can cause to adverse effects in business and reduces the liquidity turn over and profitability and increases the cost of financing of the organization ([http://www.scribd.com/doc/37055178/working capital concepts](http://www.scribd.com/doc/37055178/working_capital_concepts)., March, 10: 2013).

Weston and Brigham (1998) have provided some theoretical insights into working capital management in their book. The bond conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management of working capital. They explained the concept of working capital, working capital policy and requirements for the external working capital financing. In addition to this, they discuss efficient cash management, marketable securities, receivable and inventory; and various components of working capital and its effective management techniques. They have also explained the major sources and forms of short term financing, such as trade credit, loan from commercial banks and commercial paper.

Horne and Wachowicz (2001) have categorized various components of working capital, i.e. liquidity, receivables and inventory and current liabilities, and they grouped them according to the way they affect valuation. They described 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 principles of inventory have been examined for inventory 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. Working capital management is described as involving the administration of different components from balance sheet namely cash, marketable securities, receivables, inventories and current liabilities.

Pandey (2007) has described some conceptual ingredients, which are based on his various research studies. He has described various aspects of working capital management. He has divided working capital management into five chapters. The first chapter deals with the concept of working capital, need for working capital, determinants of working capital, issues in working capital management, estimating working capital needs, and financing current assets. In the second chapter, he has described the management of receivables, in which has dealt with goals of credit management, optimum credit policy, aspects of credit policy, and credit procedures for individual accounts. In the third chapter on inventory management, he has described the need to hold inventories, objectives of inventory management, inventory management technique and financial manger's role in inventory management. In the fourth chapter, he has described the management of cash and marketable securities, where he has dealt with facets of cash management, motives for holding cash, cash planning, managing the cash flows, determining the optimum cash balance, investment in marketable securities. Lastly, in the fifth chapter, he has described the financing of working capital with various methods such as trade credit, bank finance and commercial paper.

2.1.1 Concept of Working Capital

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

time only. It is concerned nothing with the liabilities side. According to other school of thought working capital is the excess of current assets over current liabilities. The former concept which can be termed as gross concept, is important 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 where some amount of current liabilities have been maintained for payment of different creditors, income taxes, bill payable, secured and unsecured loan etc. The term current assets refers to those assets which in the ordinary course of business can be or will turn into cash within one year without undergoing or diminishing in value and without disrupting the operations of the firm such as cash, Marketable securities, accounts receivables and inventory etc. Current liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business such as accounts payable, bank overdraft and outstanding expenses etc. Mainly there are two concepts of working capital gross concept and net concept (Panday, 2007).

i. Gross Concept

In a simple term gross concept of W/C means investment in C/A, gross working capital, is the total amount available for financing the current assets. However, it does not show the real financial position of a business firm. According to this concept the w/c may be classified as capital invested in various types of current assets such as cash, inventories, receivables etc. This classification is important from financial manager's point of view as it lays emphasis on the various areas of functional responsibility but it totally ignores the time. It is very important in the formulation of procurement policies too. Gross working capital is also known as total w/c.

ii. Net Concept

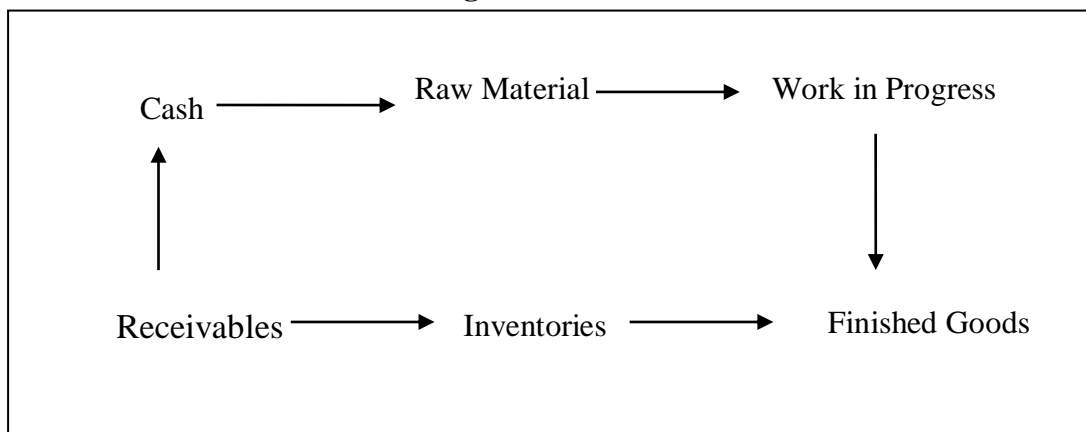
Gross concept of W/C is the narrow concept which is only concerned with the study about total investment of current assets. In the other hands, net concept of W/C is a broad concept which focuses to long term view of working capital. Under the concept of net W/C it studies current assets and current liabilities are different. Today's market is heterogeneous and other factor's bring changes of demand and needs of customers at the same time. So every business firms have to make their working capital policies to fit the new environment. Thus, Net working capital concept should be studied to

know the portion of current liabilities i.e how much current liabilities should be managed to how much current assets? Net working capital is an accounting concept, which represents the excess of current assets over its current liabilities. Current assets consists of cash, bank balance, stock, debtors, bills receivables etc and current liabilities consists bills payable, creditors, outstanding expenses etc. Net working capital can be negative or positive. A positive Net working capital will be arising when current assets exceed current liabilities. A negative working capital occurs when current liabilities are in excess of current assets. The negative working capital position will adversely affect the operations of the firm and its profitability.

The meaning of the working capital should not be only limited to gross and net concept of working capital. It is true that generally working capital is interpreted as circulating capital as it keeps on circulating in the course of business transactions. The value represented by these assets circulates among several balance sheet accounts. Cash used to purchase raw materials and pay the labor and other manufacturing costs to produce goods, which are taken, carried as inventories. When the inventories are sold, account receivables are created. The collection of the receivables brings cash into the firm, and the process starts again (Hampton, 1986).

Figure: 2.1

Circulating Nature of current Assets



Sources: Manandhar, Dhakal, Thapa, Koirala and Basnet, 2009

2.1.2 Types of Working Capital

There are two type of working capital in manufacturing companies. They are Permanent Working Capital and Temporary Working Capital.

i. Permanent Working Capital

All the business firm needs the current assets constantly because of the operating cycle which is a continuous process. But the level of current assets needed of a firm is not always constant. It increase and decrease over the time. The firm should always keep a minimum level of current assets to carry on its business operation without bankruptcy. The amount of working capital required for the business to maintain a minimum level of current assets for the whole period is called permanent working capital. Permanent working capital is also known as fixed working capital because it is permanent in the same way like the firm's fixed assets. It is comprises of minimum cash balance, minimum level of inventory etc (Thapa,2006).

ii. Temporary Working Capital

In most business the requirement of working capital may be high during a particular season and it comes down during other period. When the production and sales level changes, the need for working capital over and above the permanent, will fluctuate. It means, the extra is called temporary, variable or seasonal working capital. Variable working capital is required during peak season only. This portion of working capital is withdrawn from the business after end of such season. Therefore it is desirable to finance the temporary working capital from short term external sources like trade credit, commercial paper, arrangement of other short term loan from the bank. Because such short term loans can be easily repaid after the peak business season. If this portion of working capital is financed through permanent or long term sources, this fund will either remain idle or invested in marketable security earning at a lower rate. As a result the earning of the company will be adversely affected. The permanent and temporary, both kinds of working capital is needed to facilitate the production and sales continuously during the operating cycle but temporary w/c is created to meet the liquidity requirement of a firm and to meet fluctuation in demand consequent upon changes in production and sales as a result of seasonal changes (Thapa, 2006).

2.1.3 Working Capital Policy

The component of the working capital constitutes the current assets and their way of financing i.e. current liability. In an enterprise, the level and the quality of the current assets and current liabilities is guided by the working capital policy and management

adopted by it. Working capital management involves all aspects of the administration of current assets and current liabilities. In other words, “Working capital management is concerned with the problem that arises in attempting to manage the current assets and current liabilities, and the interrelationship that exists between them” (Smith 1974). Basically, two questions arise in the working capital policy. Firstly, what is the approximate level of current assets, both in the total and by specific accounts? And second, should current assets be financed?(Weston, Basley and Brigham,1998).

2.1.3.1 Current Asset Investment Policy

Working capital policy refers to the policies regarding target levels for each category of Current asset and how current assets will be financed. There are three alternative current assets investment policy regarding the total amount of current assets to be carried to support the given level of sales which are as following (Manandhar, Dhakal, Thapa, Koirala and Basnet, 2009).

i. A Relaxed Current Assets Investment Policy or Conservative Policy

In this policy, the firm holds relatively large amount of cash, marketable securities, inventory and receivables to support a given level of sales. This policy creates longer inventory and cash conversion cycle. It also creates the longer receivables collection period due to the liberal credit policy. Conservative policy use more long-term debt and less short-term debt for financing current assets. Thus, this policy provides the lowest expected return on investment with lower risk. This policy is also known as Fat-Cat policy.

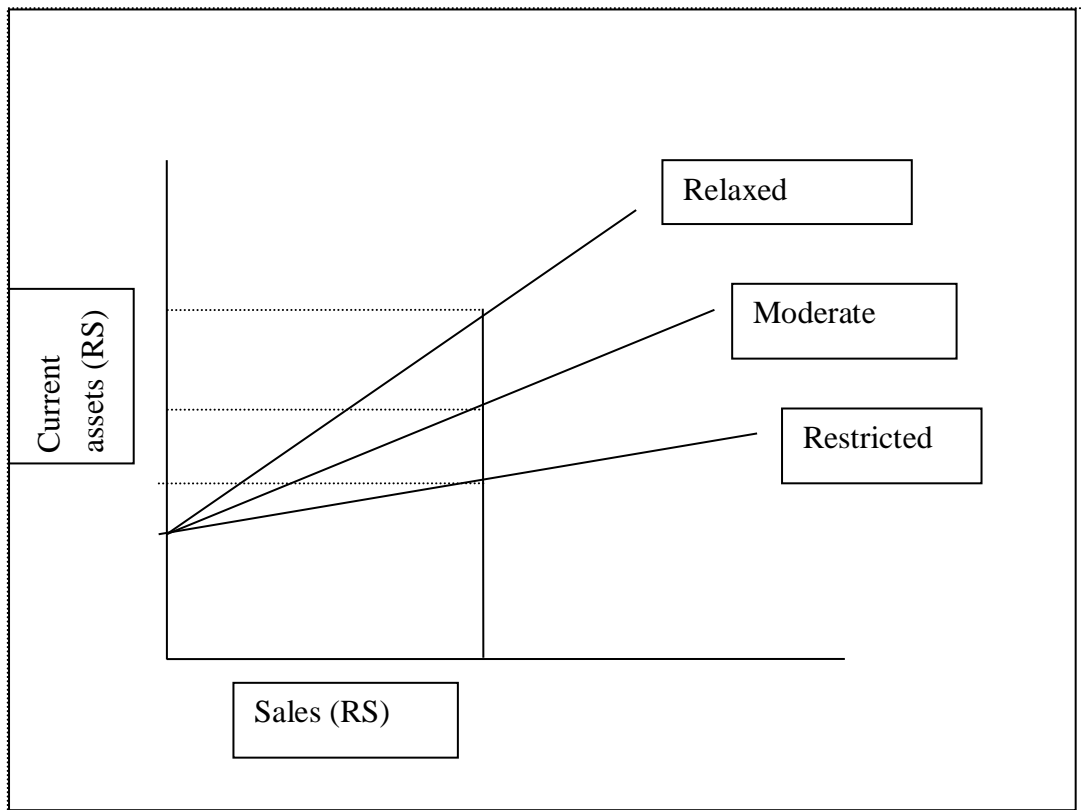
ii. A Restricted Current Asset Investment Policy or Aggressive Policy

In this working capital investment policy, a firm holds the minimum amount of cash, marketable securities, inventory and receivable to support a given level of sales. Aggressive policy uses more short-term debt and less long-term debt for financing current assets. This policy tends to reduce the conversion cycle. Under this policy, firm follows to tight credit policy and bears higher risk and a higher profitability of losing sales. This policy is also known as Lean and Mean policy.

iii. Moderate Current Assets Investment Policy

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

Figure: 2.2
Current Assets Investment Policy



Sources: Manandhar, Dhakal, Thapa, Koirala and Basnet, 2009

2.1.3.2 Current Assets Financing Policy

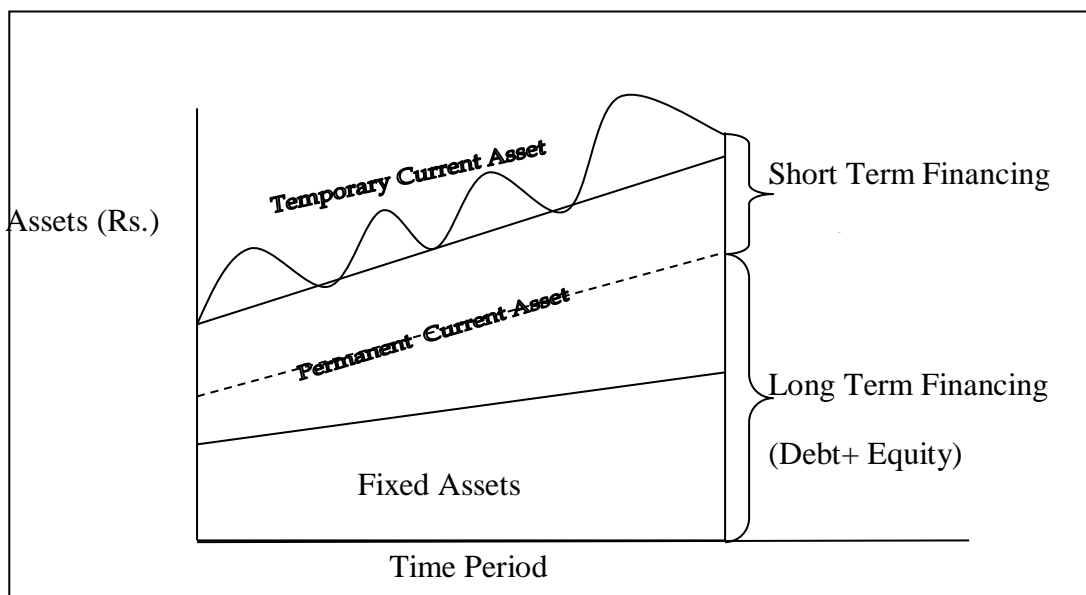
Financing the long term or short term funds to current assets has significant impact on an enterprise that leads to risk or return, liquidity and profitability. “Deciding how current liabilities should be used to finance current assets is one of the most important decisions concerning working capital management” (Pradhan, 2005). Long term as well as short term funds involves cost and cost of financing is a deciding factor in the use of different type of funds. Financing policy deals with the optimum financing mix of short term and long term liabilities. Depending upon attitude towards risk, liquidity and profitability, the management can follow following three alternative working capital financing approaches (Thapa, 2006).

i. Aggressive or Tight Working Capital Financing Approach

In this policy, the firm finances not only temporary current assets but also a part of the permanent current assets with short-term financing sources and rest with long term

financing sources. In other words, the firm finances not only temporary current assets but also a portion of permanent current assets with short term financing. Some aggressive firms may even finance a part of their fixed asset with short-term financing. Hence, this sort of mix financing increases the profitability and expense which further may lead towards the risk by financing relatively larger position of its assets through lower cost short term borrowing. Under this policy, higher the risk, higher the return and low liquidity position.

Figure: 2.3
Aggressive Financing policy

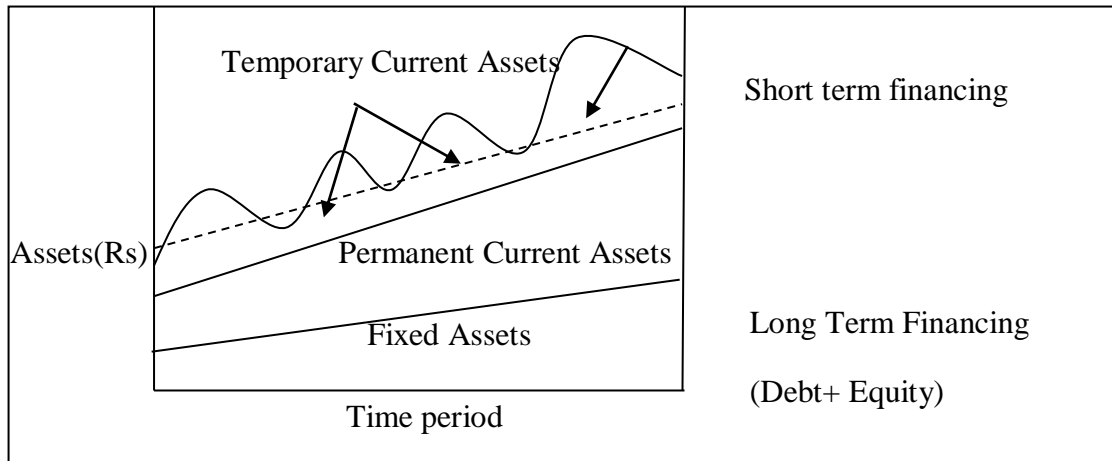


Sources: Weston, Basley and Brigham, 1998

ii. Conservative Policy

Conservative approach “refers to a financing mix which is less risky leading to low profitability and high liquidity, the approach would be to finance all funds required from long term funds”(Pradhan, 2005). Under a conservative plan, fixed assets and part of temporary assets are financed through long term financing. This approach is said to be conservative due to financing more funds from long term financing (pandey2007). Therefore it is less risky and the return is also lower than aggressive policy. This policy leads to high level of current assets, with long term conversion cycle, low level of current liabilities and higher interest cost. The risk adverse management follows this policy.

Figure: 2.4
Conservative Policy

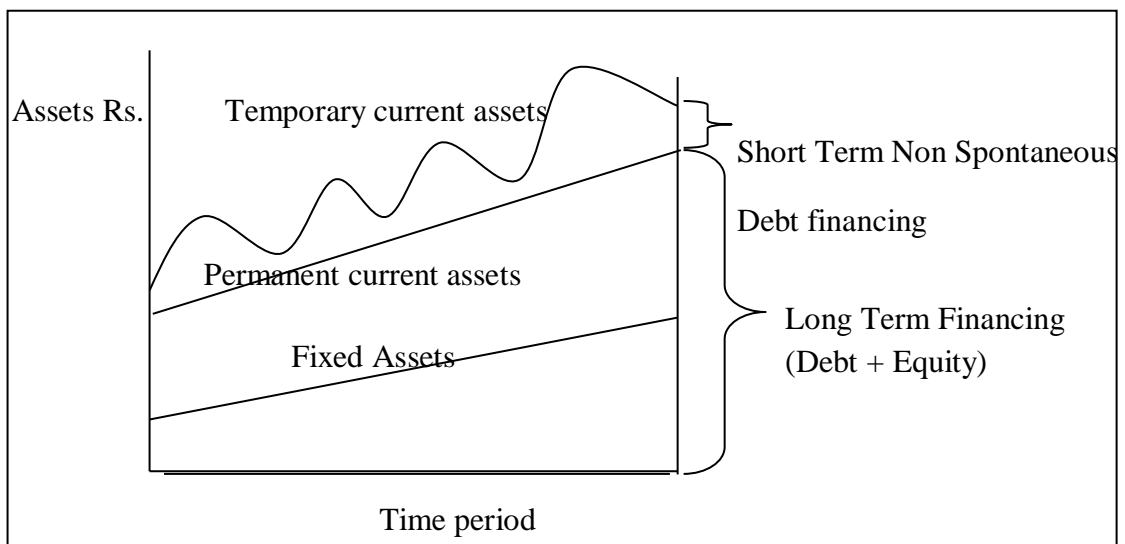


Sources: Weston, Basley and Brigham, 1998

iii. Hedging or Moderate Approach

This approach of w/c policy entails moderate risk with moderate returns. This firm can adopt a financial plan which involves the matching of the expected life of assets with the expected life of the sources of funds raised to finance assets. When the firm follows matching approach, long term financing will be used to finance fixed assets and permanent CA and short-term financing to finance temporary or variable CA. This approach tries to achieve tradeoff between profitability & liquidity with neither too risky nor least risky by financing mix. "It lies in between a low-liquidity, high profitability case and a high-liquidity low profitability case" (Pradhan, 2005).

Figure: 2.5
Moderate Policy



Sources: Weston, Basley and Brigham, 1998

In conclusion, conservative or loose working capital policy refers to that policy under which a firm keeps high level of investment in working capital variables like high level of receivable throughout liberal policy, high inventory and cash/bank balance, while aggressive or tight working capital policy just follows the reverse policy that of former policy. But moderate policy follows the medium way between aggressive and conservative working capital policy.

2.1.4 Financing of Working Capital

Every manufacturing concern or industry requires additional assets whether they are in stable or growing conditions. When the growing firm wants to sustain, normally it requires fixed capital as well as working capital. Additional portion of working capital is approximately dominated by the same rate as sales. But this portion of capital requirement depends upon the nature of the firm. So the most important function of finance manager is to determine the level of working capital and to decide how it is to be financed. Financing of any assets is concerned with two major factors- 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 present generally three kinds of financing.

A. Long term Financing: Long-term financing has high liquidity and low profitability. Ordinarily share, debenture, preference share, retained earnings and long term debts from financial institution are the major sources of long term financing. Even it includes retained earnings and long-term loan from Nepal Industrial Development Corporation and long terms other commercial banks.

B. Short Term Financing: - Firms must arrange short-term credit in advance. The sources 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 does not have to pay cash immediately for the purchase is called trade credit. It is mostly an informal arrangement and granted on an open account basis. Another form of trade credits are bills payable. It depends upon the term of trade credit (Van Horne, 1999).

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. Bank determines the maximum credit based on the margin requirements of the security. Loan arrangement, overdraft arrangement and commercial papers are the types of loan are provided by commercial banks (Van Horne, 1999).

C. Spontaneous Financing:- Spontaneous financing arises from the normal operation of the firms. The two major sources of such financing are trade credit (i.e., credit and bills payable) and accruals. Whether trade credit is free of cost 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 is either short term or long term sources. Thus, the financial manager concentrates his power in short term to that of long term financing. Hence, the financing of working capital depends upon the working capital policy, which is perfectly dominated by the management attitude towards the risk return (Pandey, 2007).

2.1.5 Cash Management

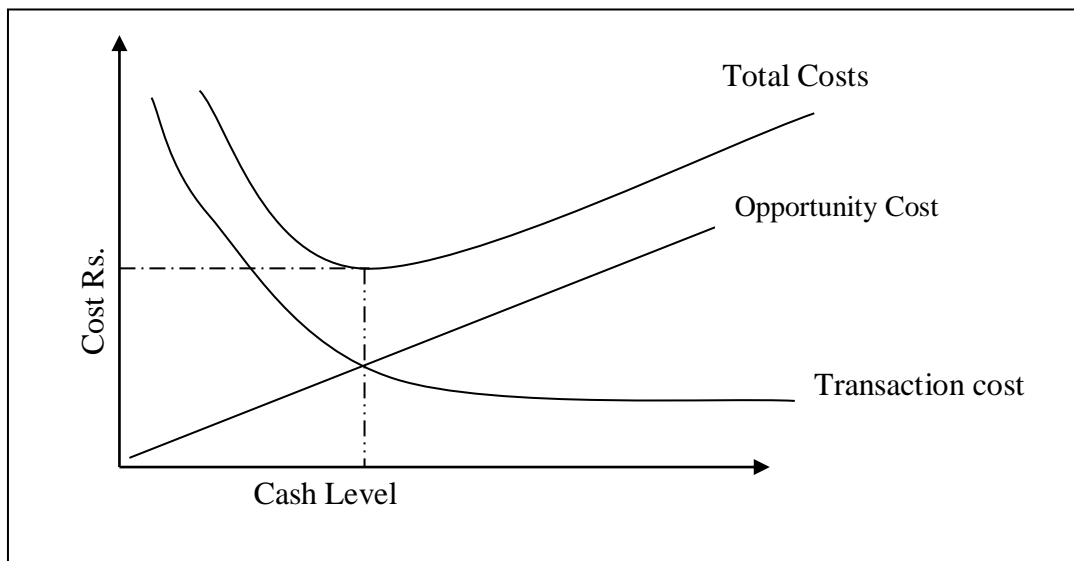
The firm maintains the cash balance for transaction motives, speculative motives and precautionary motives. Thus, the financial manager should determine the appropriate amount of cash balance which depends on a tradeoff between weak and the firm suffers from cash to make payments but the firm can attain a higher profitability from investing in some profitable opportunities. The aim of cash management should be to maintain adequate cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way; like opportunity to earn interest. Therefore, financial manager should try to maintain the optimum level of cash that maximizes the value of the firm. The optimum cash balance occurs at that point where the total of transactions cost and opportunity cost is minimum (Basnet,1996).

Cash is the most important current assets for the operations of the business because a firm can disburse it immediately without any restriction. It is an idle and non-earning asset. Therefore, the firm should keep sufficient cash, neither more, nor less. More cash balance reduces the rate of return on equity and hence the value of the firm's

stock. The term cash includes coins, currency and cheque held by the firm and balances in its bank accounts. Sometimes near cash items, such as marketable securities or bank deposits, are also included in cash because they can be converted in to cash immediately when it is required by a firm. Generally, when a firm has excess cash, it is invested on marketable securities which contribute some profit to the firm. Cash shortage will disrupt the firm's manufacturing operations and excessive cash will simply remain idle without contributing anything towards the firm's profitability. So, the firm should maintain a sound cash position. If a firm has inadequate cash level, it should issue the marketable securities to increase the cash level. Similarly, the firm should buy the marketable securities from the share market to reduce the cash level if it has excessive cash balances than required (Manandhar, Dhakal, Thapa, Koirala and Basnet, 2009).

On the following figure 2.6 shows how the optimum cash balance is received. Opportunity cost is increased with decreasing transaction cost. The total cost is minimum, at point M, is called the optimum point which show the optimum cash balance.

Figure: 2.6
Optimum Cash Balance



Sources: Khan & Jain, 1998

There are several types of mathematical models developed to determine optimum cash balance and marketable securities. They are as follows:

2.1.5.1 Baumol Model or Inventory Model

Baumol model is an economic model that determines the optimal cash balance by using economic order quantity concepts of inventory management. Baumol makes two major assumptions regarding the behavior of cash balances.

1. Expenditure occurs continuously.
2. Receipts, of cash in- flows, come in lump sums at periodic intervals.

The purpose of this model is to determine the minimum cost amount of cash obtained by converting marketable securities in to cash. The total cost has two elements namely: Opportunity cost and transaction cost. In the model, the carrying cost of holding cash- namely the interest foregone on marketable securities is balanced against the fixed cost of transferring marketable securities to cash. Here, the sum of transaction cost and opportunity cost comes to be adequate.

Mathematically, the optimum conversion size (C^*) which minimize total cost can be found from the following equation:

$$C^* = \frac{\sqrt{2bT}}{i}$$

Where,

C^* = the optimum size of the cash transfer.

T = the total cash usages for the specific period.

b = transaction cost i.e. fixed cost of converting marketable securities into cash.

i = the applicable interest rate on marketable securities.

Computation of total cost,

Total cost = transaction cost + opportunity cost

$$(TC) = \frac{T}{C^*} \times b + \frac{C^*}{2} \times i$$

Where,

T/C^* = number of transaction made over the planning period.

$C^*/2$ = average cash balance.

Computation of average cash balance (ABC)

$$ABC = \frac{C^*}{2} + \text{Minimum cash balance}$$

Decision rule: Under this model only selling of marketable securities is possible. Whenever the optimal cash balance becomes zero, the company can sell the marketable securities of economic conversion size.

2.1.5.2 Miller-Orr Model or Stochastic Model

Baumol model is based on the assumption of certain cash flows. However, when future cash flows are uncertain, the Miller- Orr model is generally more realistic and appropriate than the Baumol model. This model assumes that cash balance randomly fluctuate between an upper limit and lower limit. The value of lower limit is set by the management, the value of return point and upper limit have been derived by Miller and Orr with a view to minimize the total ordering and holding costs. The value of the firm selects for the return point depends on conversion cost, the daily opportunity cost of funds and the variance of daily net cash flows. The variance is the estimated by using daily net cash flows (inflows minus outflows for the day). Assume that the demand for cash is stochastic and unknown in advance. Then, we can set control limits such that when cash reaches an upper limit, a transfer of cash to marketable securities is consummated and when it hits a lower limit, a transfer from marketable securities to cash is triggered. As long as the cash balance stays between these limits, no transactions take place. The solution for the optimal values of H (upper limit) and Z (target cash balance) depend not only on fixed cost and opportunity costs but on the degree of likely fluctuation in cash balances. The equation of determining the optimum value of Z the return point is,

$$Z = \frac{\sqrt[3]{3b\sigma^2}}{4i} + L.L$$

$$U.L = 3Z - 2 \times L.L$$

Where,

b = fixed cost per transaction.

i = daily interest rate

σ^2 = variance of net the daily cash flows.

L.L = lower control limit.

Z = target cash balance

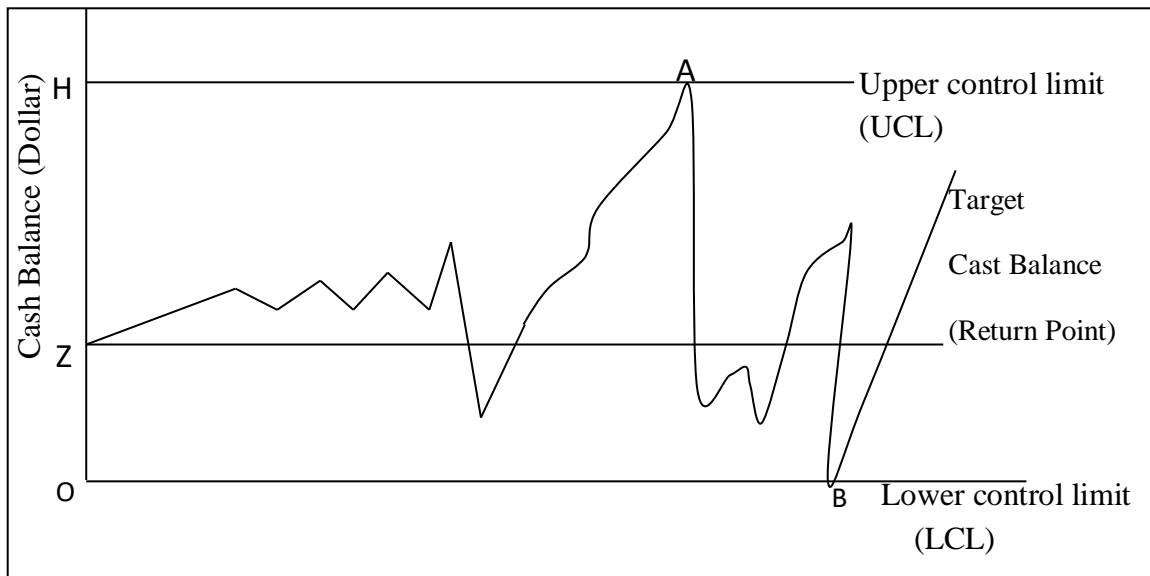
$\sqrt[3]{}$ = the cube root of the solution

The average cash balance is obtained as follows.

$$ABC = \frac{4Z - L.L}{3}$$

The model is illustrated in the following figure 2.7.

Figure: 2.7
Miller and Orr Model



Sources: Khan & Jain, 1998

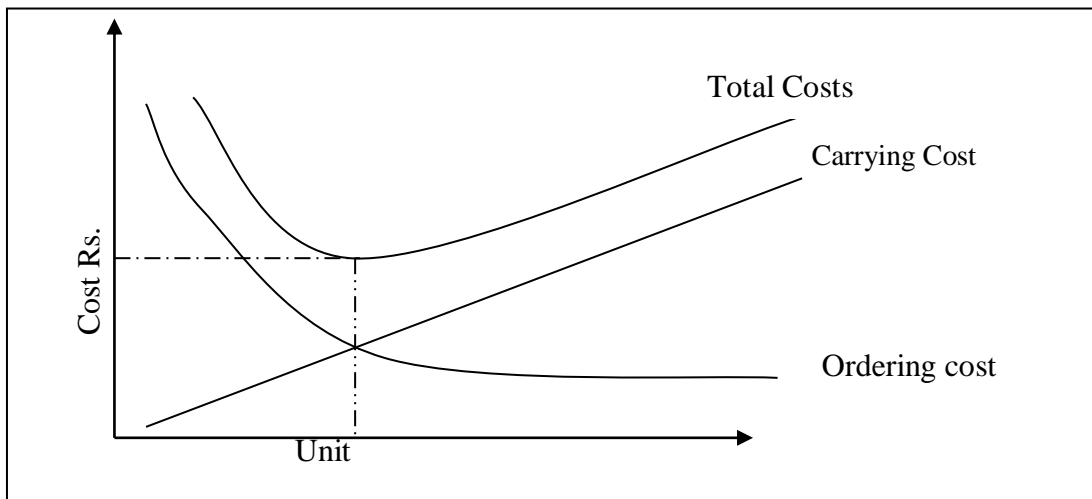
The figure 2.7 shows that when cash balance reaches the upper limits, such as at point A, (U.L-Z) rupees marketable securities are bought and the new balance becomes Z rupees. When the cash balances touches zero as a point B, Z rupees of marketable securities are sold and the new balance again becomes Z.

2.1.6 Inventory Management

Inventory management is an important aspect of the firm's current assets management. It is the most important item of current assets which refers to raw materials, work-in-progress and finished goods. Raw materials are those basic inputs which are converted into finished product through the manufacturing process. Work-in-progress represents those semi-manufactured products which need more work before they become finished products for sale. The raw materials stocks and work in progress stocks facilitate to the production but the finished goods inventories is required for smooth marketing operations. Thus, inventories play the vital role on production and consumption of goods. The firm should maintain optimum level of inventories neither excessive nor inadequate. Both levels of inventories are not

profitable and desirable for the smooth operation of a firm. The firm should always avoid a situation of over or under investment in inventories. The optimum inventory level is commonly referred to as economic order quantity. It is that order size at which annual total cost of ordering and carrying is minimum (Basnet, 1996).

Figure: 2.8
Optimum Inventory Level



Sources: Khan & Jain, 1998

Figure 2.8 shows the optimum inventory level at that point where the ordering cost and carrying cost curve are intersected each other.

The financial manager should maintain the re-order level and safety stock as well as optimum inventory level at which an order should be placed to replenish the inventory. We should know lead time, average usage and optimum inventory level to determine the re-order level. Lead time is the time normally taken in receiving the delivery of inventory after placing order with the suppliers. Lead time may also be called as the procurement time of inventory. There is a direct relationship between lead time and inventory. The average usage means the quantity of inventory consumed daily. Thus the re-order level is that inventory level which should be equal to the consumption during the lead time (Basnet, 1996). It is calculated by using the following formula: $\text{Re-order level} = \text{lead time} \times \text{average usages}$.

2.1.7 Receivable Management

Business firms generally sell goods either on cash or credit. When a firm sells its products and does not receive cash for it immediately, the firm is said to have

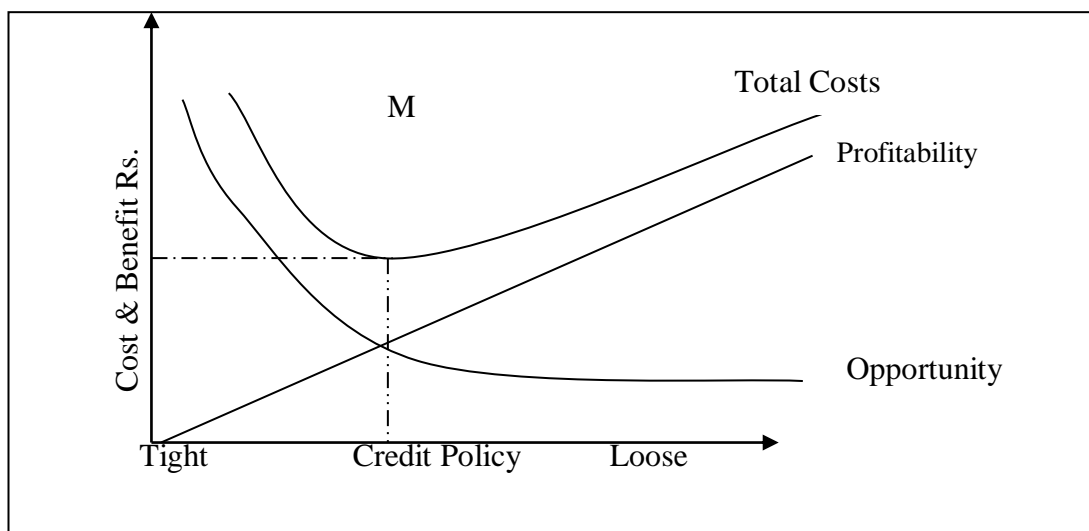
granted credit to customers. This credit is as known as receivables and receivables granted to facilitate sales. Account receivable can be defined as amount of money owed to a firm by customer who bought goods or services on credit. It represents credit sales that have not been collected. Receivable is also known as book debts. Receivables are an important component of working capital, represents an amount of owned to the firm which plays the vital role in the business. In the modern business, trade credit is considered as an essential marketing tool which acts as a bridge for the movement of goods through production and distribution stages to customers finally. Basically, a firm grants trade credit to protect its sales from competitors and to attract the potential customers to buy its products at favorable terms. Thus the trade credit creates receivables which are expected to collect in near future. In the conduct of a business, the receivables are very important for maximizing the sales, for increasing the profit and to meet the competition (Manandhar, Dhakal, Thapa, Koirala and Basnet, 2009).

A firm's investment in account receivables depend on the volume of credit sales and collection period. They can be influenced by the financial manager through credit policy. Credit policy includes credit standards, credit terms and collection efforts. Credit standard are approaches to decide to whom credit sales can be made and how much. The amount involved in receivables impact on risk and profitability of a firm. But the amounts of receivables depend on the credit policy adopting by a firm. A firm may follow a tight or loose credit policy. When the firm adopts a tight credit policy, the amount of receivables will be low with decreasing sales level and the amount of profit will be very low with lower risk due to decrease in sales and decrease in bad debts expenses because the firm gives the credit on a highly selective basis only to those customers who have proven credit worthiness and who are finally strong. Similarly, when the firm adopts a loose credit policy, the amount of receivables will be high and the administrative cost and bad debts expenses will also increase with increasing sales level because the firm gives the credit to customers on very liberal terms and standards, credit are granted for longer periods even to those customers whose credit worthiness is not fully known or whose financial position is doubtful. Thus the firm should follow the credit policy, a tradeoff between loose and tight credit policy for maximizing the shareholders wealth. The firm's credit policy will be

determined by the tradeoff between opportunity cost and credit administration costs and bad debt losses for maximization of operating profit (Basnet, 1996).

Figure: 2.9

Optimum Credit Policy



Sources: Khan & Jain, 1998

The figure 2.9 shows the point M has a tradeoff between opportunity cost of lost contribution and credit administration costs and bad debt losses where the total of them is minimum. The point M of the figure represents the optimum credit policy for maximizing operating profit.

2.2 Reviews of Related Research

This section is also important for literature review of working capital. For the study of this section many latest information can be derived about related field. This part is mainly focused on the review of journals and research studies published by different management experts about working capital management.

Shrestha (2001) has carried out a research on “A Study on Working Capital Management of Dairy Development Corporation” The main objective of the study is to analyze the current assets and current liabilities and their impact and relationship to each other. The major findings of the study are as follows: The major components of current assets in DDC are inventory, cash and bank balance, sundry debtors and miscellaneous current assets in which inventory hold the major portion respectively in

each year. The company's investment in the form of working capital has been increasing. The average investment in current assets is lower with respect to net fixed assets during the study period and DDC has no clear vision about the investment in current assets to fixed assets portion. The average receivable turnover and RCP is fluctuating trend during the study period. There is ineffective liquidity position and unsatisfactory profitability ratio in DDC. The overall return position of DDC is negative i.e. not in favorable condition. It is because of inefficient utilization of CA, TA, and Shareholders' wealth.

Dahal (2002) entitled "A Comparative Study on Inventory Management of Dabar Nepal Pvt. Ltd and Nepal Lever Ltd." the study was to examine and find out the present position of inventory management of both the companies. The researcher has used both primary and secondary sources of data along with previous studies, articles and published, unpublished official records of both organization for the sake of examination and analysis. The researcher used various accounting, financial and statistical tool to analyze the data.

- The organization use raw materials from local, India and third countries where they are unable to practice inventory management.
- Purchasing of raw material in NLL is fluctuated whereas DNPL has increasing trend of raw materials procurements because of sound management of demand and supply.
- They both have invested huge amount in inventories but do not apply dynamic inventory management system.
- The researcher has suggested that the both companies should apply the control of stock level to get better performance.

Shrestha (2003) performed a study titled "A Study on Working Capital Management with respect to National Trading Limited and Salt Trading Corporation Limited". The main objective of this study was to present an overall picture of working capital of National Trading Limited and Salt Trading Corporation Limited. Five years empirical data were used as input in this study. The major findings can be summarized as following.

- i. CA to TA of NTL and STCL, both, showed a fluctuating trend.
- ii. Investment in current assets is higher in both companies with respect to their total assets and net fixed assets.

- iii. Cash and bank balance form the largest portion of CA followed by inventory in NTL, whereas cash and bank balance form the smallest portion in STCL.
- iv. The liquidity position of the STCL is satisfactory and favorable in comparison to the liquidity position of the NTL.

Mahat (2004) has published article relating to “Spontaneous Resources 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 sources of working capital include trade credit, provisions and accrued expenses. The articles has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such as environment should be enough to cope with the possible worst 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 be better to working capital in order to improve its performance.

Shrestha (2004) conducted research on “Working Capital Management of Public Enterprises”. To measure their working capital needs of PES. He has selected 10 public enterprises as sample. He has analyzed the liquidity position turnover of net working capital and return on net working capital. He found public enterprises haven’t maintained the liquidity position. They haven’t suitable financial planning. Management doesn’t give attention in working capital management in compare to fixed capital. They are facing deficit problem due to neglect in planning working capital need. There is negative relationship turnover on net working capital and return on working capital. He has suggested to public enterprises to forecast needed funds by observing the operating activities to support the sales. They should make regular

check to identify excess and deficits in CA investment managing short and long-term sources. They should develop positive attitude towards risk and return, which can be accomplished by maintaining working capital. Working capital is to be formed by short and long term sources which lead towards profitability.

Acharya (2006) has carried out a study titled “Working Capital Management of Manufacturing Companies Listed in NEPSE.” The main objective of this study was to examine the working capital policy of Nepalese manufacturing companies listed in Nepal Stock Exchange. The researcher used secondary data and a number of companies listed under NEPSE were used as the population in this study. Researcher found a wide variation in CA within individual manufacturing companies. Likewise, the ratio of cash to current assets was found widely varied among manufacturing companies, and the overall company average of receivables to current assets ratio was found to be 16 percent. There is also a wide variation in the ratio of inventory to current assets among the manufacturing companies, which shows a huge inconsistency between different companies’ average of current assets to total assets.

Pradhan and Koirala (2006) had jointly published an article on “Some Reflections of Working Capital Management in Nepalese Corporations”. This article aims to find out the difficulty, problems and importance of current assets management and also aims to find out the motive for holding cash and inventory. The study use only primary data to find out the basic constraints and distributed 200 questionnaires. For the purpose of study, they use both manufacturing public corporation as a sample companies. After analyzing the collected data, the major findings of this study are as follows:

- To provide a reserve for routine net outflows of cash is the major motive for holding cash in Nepalese corporation.
- The major reason for holding inventories is to facilitate smooth operation of production and sales.
- The major factor affecting the large investment in receivable is found to be the liberal credit policy followed by Nepalese corporation. The large paying practice of customer is also responsible for larger investment in receivable. However, corporations are reluctant to take inefficient collection of trade credit as one of the major factor affecting receivables.

Pandey (2007) has conducted a research on working capital management of hotel industry of Nepal using the financial statements of three sample hotels for five years from 2057/58 to 2061/62 under the heading "Working Capital Management in Hotel Industry (With Reference to Hotel Radisson, Hotel Soaltee and Hotel Hyatt)". The main objectives of the study were to analyze the composition of working capital, liquidity position, and profitability position of Hotel Radisson, Hotel Soltee and Hotel Hyatt; to evaluate the relationship between sales and different variables or working capital; to examine the working capital cash flow cycle and cash conversion cycle of the said hotels. The major findings of the study are as follows:

All these have been following aggressive financing policy, they have negative working capital during the study period, non of the hotels seem to have solid view of the management of working capital, Hotel Hyatt has very poor liquidity position as compared to other hotels, turnover of the entire hotels is decreasing due to unstable political situation for more than a decade, sales revenue is decreasing but operating expenses is in increasing trend accounting for the loss to the hotels, Hotel Radisson and Hotel Hyatt have been paying high amount of interest expenses than Hotel Soaltee. The researchers have recommended all the hotel to increase the net working capital by reducing short-term loan; introduce effective inventory control techniques and credit policies for collecting receivables; reduce loan from outside and reduce internal controllable expenses as far as possible to confront the liquidity crisis, Hotel Hyatt is suggested to reduce loan, advances and deposits and increases cash and bank balance. They should also focus on local tourists for generating regular income rather than paying attention to foreign tourists only.

Pathak (2008) has carried out a research on "An Analysis of Working Capital Management of Nepal Telecom". The main objective of her study were to study the relationship between sales and different variables of working capital; to analyze the liquidity, composition of working capital, assets utilization and profitability position of Nepal Telecom; to evaluate the credit policy of Nepal Telecom; to appraise working capital of Nepal Telecom with respect to cash, receivable and inventory management; and to shed light on creation and mobilization of funds in Nepal Telecom. For these purposes, she used ratio analysis, coefficient of correlation,

standard deviation, regression analysis as tools to analyze the data for the study period covering five years from 2002/03 to 2007/08. The findings of the study are as follows:

Nepal Telecom is adopting policy of financing current assets as it has invested its considerable amount in current assets by increasing the investment on it. As a result, there is high level of liquidity. It is facing the situation of excess cash and bank balance which is unfavorable for the company. There is very low utilization of current assets. Liquidity position is found to be satisfactory during the study period. There is no specific policy to collect receivables, credit management is poor. As a result, Nepal Telecom is likely to fail in timely collection of debts.

The study has recommended Nepal Telecom to maintain optimum current assets and current liabilities every year and stabilize its current assets near to 1:1; determine the optimum level of cash and bank balance to hold every year; plan current assets and current liabilities variables with respect to change in sales and profit; make appropriate decision regarding credit terms, credit standard and credit policy; prepare trial balance at least on a monthly basis so that every movement of the factors of CA and CL could be monitored thereby taking preventive and curative measures; carry out periodic research work on market possibility, consumer's capacity and service reliability, prepare cash budget based on cash flow analysis and use it as a cash management tools; maintain optimum level of working capital and liquid assets.

Shrestha (2008) in his study "Working Capital Management in Public Enterprises" states that manager often lacks basic knowledge of working capital and its overall impact on the operative efficiency and financial viability of public enterprises. The study has based on sample of public enterprise i.e. Dabar Nepal p.ltd. The study has pointed at certain policy flows such as deficient financial planning, negligence of working capital management, deviation between liquidity and turnover etc. he has suggested some measure for their effective operation and efficient result. The problem can be sorted out though identification of needed funds, development of management information system, determination of sound combination of short-term and long-term source to finance working capital requirement.

Shrestha (2009) researched on the topic of "A comparative Study of Working Capital Management of Standard Charter Bank Nepal & Himalayan Bank Limited". His

objective was to analyze the w/c managing in policy and efficiency in service industry. There is great variation in average current ratio of which indicates liquidity and solvency position is fluctuating. SCBN is better than HBL in the study period. The trend of liquidity ratio or current ratio, quick ratio and cash and bank balance to deposit ratio of SCBN and HBL are increasing. Although higher liquidity means lower risk as well as lower profit in general it doesn't necessarily means lower profit in case of Commercial Banks. The liquidity ratio in terms of current ratio of both SCBN and HBL are below than normal standard so both banks should increase the current assets position. During the study period negative w/c has been presented that indicates poor financial management of Banks therefore he has suggested eradicating these situations by managing working capital. Working capital policy should be formulated and implemented. These banks should keep optimum size of investment in current assets and current liabilities. Proportion of saving to total deposits is less than 50% in both Bank SCBN & HBL due to less costly sources of funds in saving deposits account. So researcher suggested increasing its saving deposit account.

Sapkota (2010) in his study on "Short Term Financing of Nepalese manufacturing companies" examined, the mix financing pattern has followed by Nepalese manufacturing companies. These companies have not planned how much funds to be raised from which resources. They did not care any other things regarding to this sources. The main findings of the study are Nepalese manufacturing companies' liquidity position is not good. W/C management of Nepalese manufacturing companies has to lower and most of the companies have negative working capital. Cash and the ratio of inventory to short -term financing is widely varied among the manufacturing companies during the study period. The account receivable is in increasing trend during the study period due to poor collection policy of Nepalese manufacturing companies. Most of the companies have commonly usage the account payable in financing but they have not able to effective utilized the account payable.

Lamichhane (2011) Conducted the research on the topic "Working Capital Management of bottlers Nepal Limited, Balaju." the objective of the study was to highlight the liquidity position, profitability position and turnover position based on variables like current assets, current liabilities, sales, net profit and total assets. The researcher has used only secondary sources of data along with previous studies,

articles and published, unpublished official records of both organization for the sake of examination and analysis. He used various accounting, financial and statistical tool to analyze the data. Five years empirical data were used as input in this study. The major findings can be summarized as following.

- i. Current assets to total assets of BNL showed a fluctuating trend.
- ii. Investment in CA is higher with respect to this total assets and net fixed assets.
- iii. Cash and bank balance form the largest portion of current assets followed by inventory in BNL.
- iv. The liquidity position of the BNL is satisfactory and favorable.

Shrestha (2012) conducted his research on topic of “Working Capital Management of Dabar Nepal Private Limited”. Basis objective of his study was to analyze liquidity and its impact on profitability of manufacturing organization. He has analyzed the liquidity composition of working capital assets utilization and profitability position. He has found in his study inventory holds largest portion of total assets followed by miscellaneous current assets cash and bank balance and sundry debtors etc. liquidity position of a company is in increasing trend there is not proper utilization of current assets DNPL has to take initiative in utilizing current assets properly.

Subedi (2013) has carried out a study titled “Working Capital Management of Manufacturing Companies Listed in NEPSE.” The main objective of this study was to examine the working capital policy of Nepalese manufacturing companies listed in Nepal Stock Exchange. The researcher used secondary data, and a number of companies listed under NEPSE were used as the population data in this study. He found a wide variation in current assets within individual manufacturing companies. For example, the ratio of cash to current assets was found widely varied among manufacturing companies, and the overall company average of receivables to current assets ratio was found to be 16 percent. There is also a wide variation in the ratio of inventory to current assets among the manufacturing companies, which showed a huge inconsistency between different companies’ average of current assets to total assets.

2.3 Research Gap

Most of the manufacturing companies of Nepal are suffering from lack of sufficient information about the working capital management. Throughout the past, various

researches have been conducted by many students, experts and researchers on w/c management for various banks and companies, both from public and commercial sector. Some studies are related to a case study of a single company and others are comparative in nature. The review of different research works conducted in Nepal are focused on comparative study of NTC and STC, short-term financing and w/c management of listed manufacturing company w/c management of DDC and inventory management of NLL and UNL. Only few systematic studies carried out previously in the field of working capital management of manufacturing organization in Nepal. Among them most of the research works had been done in the field of private enterprise and very few had been done in public enterprises. The public enterprise sector has been a major user of public resources, but its performance both in terms of financial results, production and efficient delivery of goods and services had been poor. Moreover, many of the public enterprises are poorly managed and are a prime source of leakage and corruption.

The literature review shows that there are no studies as yet about “A study on working capital management of Unilever Limited”. Different statistical and financial inferences will be estimated for the manufacture company, using empirical data, a proportional analysis will be performed, and result will be presented, in both, numbers and figures. This study will be beneficial for big manufacturing industries, regulators and investors because it provides a relative insight into working capital of one major manufacturing company in Nepali market. Therefore, this study would be designed to highlight the w/c management of manufacture industries, which is a joint-venture subsidiary manufacturing company of HLL.

It is a challenging research because until now there are no other similar studies performed for UNL. Moreover, it is an interesting study because the UNL is a topmost one joint-venture manufacturing company of Nepal and the company received the “First FNCCI national excellence award” for its overall performance.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other words, research methodology describes the methods and process applied in the entire aspect of the study. It is a way to systematic solution of the research problem. It facilitates the research work and provides reliability and validity. Specially, methodology deals the Research Design, Population and Sample, Nature and Sources of Data, Data Collection Procedure and Data Processing and Analysis.

3.1 Research Design

The research design was totally based upon quantitative research. The research design is a specific procedure and techniques which helps the study and support the ways for doing research with in minimum cost and time. This study aims to evaluate managerial efficiencies and performances regarding working capital management of Unilever Nepal Limited. The research design has been followed descriptive design as well as analytical design. Analytical approach has been utilized to analyze the relationship between variables of working capital with cash, inventory and receivable. It analyzes the relationship between profitability and liquidity position. Descriptive design was applied the conceptualization of the research objectives and research problem of the study.

3.2 Population and Sample

There are 17 listed manufacturing companies in security board in the Nepal and they are actively operating their business in market (Shrestha, 2012). This study covers only one company regarding the time and cost. So, the researcher selected Unilever Nepal limited for the study as per purposive sampling.

3.3 Selection of Study Unit

The Unilever Nepal Limited is a multinational company. This Company has been providing quality goods and services as well as creating employment opportunities to

Nepalese people. The necessary information and data were taken from balance sheet and income statement of Unilever Nepal Limited Annual Report from fiscal year 2064/65 to 2068/69 B.S.

3.4 Nature and Sources of Data

This study is basically related with analysis on financial statement of UNL. Thus, the study is based on secondary data originated from published annual reports of the concerned manufacturing company. The secondary data used for this study are taken from the balance sheet, profit & loss account and income statement. Besides, these financial statements, complementary data are taken from related books, magazine, journals, articles, reports, bulletins, Nepal Rasta Bank and related website from internal sources etc. As well as other supplementary data and various economic surveys was conducted and used. Furthermore, some information is collected from the discussion with the officers of UNL corporate office Kamaladi, Kathmandu.

3.5 Data Collection Procedure

First of all, the researcher visited the corporate office of Unilever Nepal Limited Kamaladi, Kathmandu with the authorized letter from faculty of management of Prithvi Narayan Campus, Pokhara. Then, the researcher clarified the purpose of visiting. The researcher explained the nature of the study and collected information with audited annual reports, related officials published books and journals, bulletins and magazines. The data was obtained from secondary sources. Financial statements, master sheet of financial data have been tabulated as per the need of this study. In order to process data, financial statement and other available information was reviewed. Results were presented in different tables and charts according to their nature and suitability.

3.6 Data Processing and Analysis

For data analysis, different items of the balance sheet and other statements were used. Financial and statistical tools such as Microsoft Excel and SPSS were used to perform data analysis and estimate ratios, percentages, mean, standard deviations and coefficients of variations. To study the relationship between two or more variables,

correlation coefficient was estimated and compared. T-tests was also used in this study to analyze the working Capital structure.

3.6.1 Financial Tools

In this study various financial tools are applied for the Analysis. There are various ratios but in the study some important ratios were used. Ratio Analysis is the most important tools of the financial Analysis, which help to ascertain the financial conditions of the organizations. “Ratio analysis is such a powerful tool of financial analysis that thought the help of it economic and financial position of business unit can be fully x-rayed” (Kothari,1994: p187). Ratios are calculated to obtain the better insight into real situation of working capital management of UNL. Various ratios are employed and grouped for the Analysis of composition of working capital, liquidity position, activity or turnover position, profitability position and capital structure or leverage position.

a. Liquidity Position

Liquidity position of a company is identified with the help of liquidity Ratio, which measures the company’s ability to pay its current obligations. It is employed to determine the short -term solvency position of the company. Generally ratio of one or more than one is acceptable but it depends on the nature of the company.

i.Current Ratio

This 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. Current ratio is calculated by dividing the current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The high ratio indicates the position of company which is in liquid and able to pay its current obligation or bills. Generally, the current ratio of 2:1 is considered to be satisfactory. Higher ratio indicates the greater amount of working capital and less ratio vice-verse.

ii. Quick Ratio

This is computed as dividing quick assets by current liabilities.

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Current Liabilities}}$$

Quick assets do not include the amount invested in the inventories and prepaid expenses. So, it is reliable to measure the company's liquidity. Generally, quick ratio of 1:1 of the company is considered to be sound position.

b. Activity or Turnover Ratio

Activity ratios are employed to evaluate efficiency which the firm manages & utilizes its assets. Turnover ratio indicates the speed of assets which are being converted or turned into sales. Activity ratio indicates the relationship between sales and assets. Activity ratios help to judge the effectiveness of asset utilization. They are as follows.

i. Inventory Turnover Ratio (ITR)

The inventory turnover ratio shows how rapidly the inventory is turning into receivable through sales. It means the ratio shows the efficiency of the business concern in an inventory management. Inventory turnover ratio equals cost of goods sold or sales divided by average inventory or closing inventory.

$$\text{ITR} = \frac{\text{COGS}}{\text{Average Inventory}}$$

This ratio shows the number of times inventory is replaced during the year. Higher the inventory turnover indicates the good inventory management and lower turnover suggests the management should manage its inventory properly.

ii. Debtor Turnover Ratio (DTR)

DTR shows the relationship between sales and account receivable of the enterprises indicates the velocity of debt of collection of the firm. DTR is a test of liquidity position and collecting efficiency of a firm.

$$\text{DTR} = \frac{\text{Sales}}{\text{Debtors}}$$

iii. Cash Turnover Ratio (CTR)

CTR measures how rapidly cash can convert in to sales of the company. It shows the efficiency of management in case of application of each in ordinary course of business.

$$\text{CTR} = \frac{\text{Sales}}{\text{Cash and Bank Balance}}$$

The higher ratio indicates cash is rapidly converted into sales and efficient cash management. Low ratio indicates slow, weak and inefficient cash management.

iv. Net Working Capital Turnover (NWCT)

NWCT refers to the ratio between sales and NWC. NWC is the difference between TCA and TCL.

$$\text{NWCT} = \frac{\text{Sales}}{\text{Net Working Capital}}$$

More ratios show the more utilization of net working capital and less ratio vice-versa.

v. Current Asset Turnover Ratio (CATR)

CATR indicates the number of times the CA is turned over during the year. The ratio shows the requirement of working capital for one rupee of sales. It analyses how firm efficiency can utilize its CA.

$$\text{CATR} = \frac{\text{Sales}}{\text{Current Assets}}$$

As the CATR increases, it is utilization of CA. If the ratio is low, a greater volume of working capital is there. Low ratio indicates greater working capital and high ratio indicates lower working capital.

c. Profitability Ratio

The main objective of each and every business concern is to make maximum profit. The position of the profitability of the company is analyzed with the help of this ratio. The profitability ratio is used to measure the operating performance of the company.

i. Gross Profit Margin (GPM)

Gross profit margin ratio indicates the percentage of profit after cost of production. This ratio is a measure of productive efficiency. A high gross profit margin reflects the higher cost of production. Gross margin ratio is given by:

$$\text{GPM} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$$

ii. Net Profit Margin (NPM)

Net profit margin is estimated after deducting all operating expenses and income tax from gross profit. It shows the percentage of net profit out of total sales. This ratio

shows as overall measurement of the company's ability to earn net profit. It computed by dividing net profit by sales and given by:

$$\text{NPM} = \frac{\text{Net Profit After Tax}}{\text{Sales}} \times 100\%$$

iii. Operating Expenses Ratio (OER)

This ratio is calculated to ascertain the relationship between operating expenses and volume of sales. The higher percentage of operating expenses ratio shows higher operating cost and vice-versa. It is given by:

$$\text{OER} = \frac{\text{Cost of goods sold} + \text{operating expenses}}{\text{Sales}} \times 100\%$$

iv. Return on Working capital (RWC)

It measures the profitability position with respect to current asset. Working capital and current assets are synonymous.

$$\text{RWC} = \frac{\text{Net Profit After Tax}}{\text{Current asset}} \times 100\%$$

Higher the ratio higher the utilization of current assets to earn profit and vice –versa.

v. Return on Total Assets (RTA)

RTA can be expressed as the relationship between net profit after taxes plus interest and total assets. RTA measures the profitability of total fund or investment of the firm. But RTA is not sufficient for the analysis of profitability of different source of fund for financing the total assets.

$$\text{RTA} = \frac{\text{Net Profit After Tax}}{\text{Total assets}} \times 100\%$$

3.5.1.1 Composition of Working Capital Ratio

The analysis of structure of working capital supports management of an enterprise to know as to how the working capital is being administered. It also furnishes valuable information to short- term creditors and other regarding the strength of working capital of the undertaking.

The structure of working capital can be analyzed by measuring the change of proportion of cash, receivable, inventory and other to the total current assets and total assets in course of time. The structure of working capital has been studied by analyzing the following ratios.

a. Working Capital Structure on Total Assets

It shows the portion of working capital on total assets. It can be also classified under as:

i. Current Assets to Total Assets (CATA)

The ratio of current assets to total assets indicates what percentages of the company's total assets are invested in the form of current assets. It is calculated as:

$$\text{CATA} = \frac{\text{Current assets}}{\text{Total Assets}} \times 100\%$$

As the ratio increases, the risk and profitability of the company would decrease. The low ratio indicates the small amount of working capital.

ii. Cash and Bank Balance to Total Assets (CBTA)

It measures what portion of cash and bank balance on total assets.

$$\text{CBCA} = \frac{\text{Cash and Bank Balance}}{\text{Total assets}} \times 100\%$$

The small ratio indicates the small size of cash and higher ratio indicates the high size of cash and bank balance on total assets.

iii. Inventory to Total Assets (ITA)

It measures the ratio of inventory on total assets. It can be calculated as:

$$\text{ITR} = \frac{\text{Inventory}}{\text{Total Assets}} \times 100\%$$

Higher the ratio, higher the inventory and vice versa.

iv. Receivable to Total Assets (RTA)

It measures the ratio of receivable on total assets.

$$\text{RTA} = \frac{\text{Receivable}}{\text{Total Assets}} \times 100\%$$

Higher the ratio, higher level of receivable on total assets.

b. Working Capital Component Structure on Total Current Assets

The aim of this ratio is to find out the portion of every working capital component on gross working capital. Which are classified as under:

i. Inventory to Total Current Assets (ITCA)

It measures the level of inventory on total current assets.

$$ITCA = \frac{\text{Inventory}}{\text{Total Current Assets}} \times 100\%$$

Higher ratio indicates the high level of inventory on total current assets.

ii. Receivable to Total Current Assets Ratio (RTCA)

It is the level of receivable on total current assets.

$$RTCA = \frac{\text{Receivable}}{\text{Total Current Assets}} \times 100\%$$

Higher the RTCA ratio high level of sale on credit portion and vice-versa.

iii. Cash and Bank Balance to Total Current Assets Ratio (CBTCA)

It measures the relationship between cash and total current assets composition.

$$CBTCA = \frac{\text{Cash and Bank Balance}}{\text{Total Current Assets}} \times 100\%$$

3.5.2 Statistical Tools

The statistical tool is essential to measure the relationship of two or more variables. In order to analyze the relation between profitability & liquidity, Karl Pearson's correlation coefficient has been used in this study. In addition, probable error has been used to measure the intensity of the relationship between the return & liquidity of the UNL. The t-test is also used to examine the research problems to meet the objectives of evaluating WC management of UNL. Here, following statistical tools are used.

a. Arithmetic Mean ($\sum x$)

Arithmetic mea is the most popular and widely used statistical tool to measure the entire data by one value called average. Average value is determined by adding together all the terms and by dividing this total by the number of items. The formula is given below:

$$\text{Arithmetic Mean } (X) = \frac{x_1 + x_2 + x_3 \dots + X_n}{N}$$

i.e., $X = \frac{\sum x}{N}$

Where,

$\sum x$ = Sum of observation

N = Total no. of observation

b. Standard deviation (σ or S)

Standard deviation is the most popular and most useful measures of dispersion and gives uniform, correct and stable result (Joshi, 2001). S.D is defined as the positive square root of arithmetic mean of the squares of the deviations of the given observation from their arithmetic mean. S.D indicates the ranges and size of deviation from the middle or average. It is commonly used to measure the spread of sources. The small value of S.D. implies the high degree of uniformity and homogeneity of the distribution and vice versa (Pant, 2013:323). Different formulae can be used to calculated standard deviation, among them following formulae has been used here.

$$\text{Standard deviation } (\sigma) \text{ or } (S) = \sqrt{\frac{\sum (x - \bar{X})^2}{N}}$$

Where,

X= Expected return of the historical data.

N = Number of observation

σ = Standard deviation

\bar{X} = Mean value of variances

c. Coefficient of Variation (C.V.)

Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the co-efficient of standard deviation. “The co-efficient of dispersion based on standard deviation multiplied by 100 is known as the co-efficient of variation” (Bajracharya, 2061).

$$C.V. = \frac{S}{X} \times 100$$

It is used for comparing the homogeneity and the uniformity of two or more distribution. The less CV, more the uniformity and consistency etc will be and the more the CV is the less the uniformity, consistency etc. will be.

d. Correlation Coefficient (r)

Correlation coefficient is defined as the association between the dependent variable and independent variable. It is a method of determining the relationship between these two variables. If the two variables are so related that change in the value of independent variable causes the change in the value of dependent variable, then it is said to have correlation coefficient (Shrestha and Silwal, 2059). It can be calculated by

using the method of Karl Pearson's Correlation Coefficient, which is a widely used mathematical method of correlation coefficient between two variables.

$$r = \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

Interpretation

1. If $r = 0$, there is no relationship between the variable.
2. If $r < 0$, there is negative relationship between the variable.
3. If $r > 0$, there is positive relationship between the variable.
4. If $r = +1$, the relationship is perfectly positive.
5. If $r = -1$, the relationship is perfectly negative.

e. Probable Error (P.E.)

The probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r . If r be the calculated value of r from sample of n pair of observation, then P.E. is defined by the following formula.

$$\text{Probable Error (PE)} = \frac{0.6745 (1-r^2)}{\sqrt{N}}$$

It is used in interpretation whether the calculated value of r is significant or not.

- i. If $r < \text{P.E.}$, it is insignificant. So, perhaps there is no evidence of correlation.
- ii. If $r > 6\text{P.E.}$, it is significant.

In other case, nothing can be concluded (Bajracharya, 2061:257)

f. Testing of Hypothesis

Testing of hypothesis is one of the most important aspects of the theory of decision making. Hypothesis is a conjectural statement of the relation between two or more variables. Hypothesis is always in declarative sentence form and they relate either generally or specifically, variables to variables. There are two criteria for 'good' hypothesis and hypothesis statement. One hypothetical statement is about the relations between variables. Second hypothesis carries a clear implication for testing the stated relation (Sharma and Chaudhary, 2066:229).

i. T-test:

To test the validity of our assumption, if sample size is 30 or less than 30, t-test is used. Make a decision by comparing the calculated value of t with tabulated value of t at a certain level of significance for given degree of freedom. If calculated value of t less than tabulated value of t, it is not significant and H₀ is accepted. Otherwise, it is rejected (Sharma and Chaudhary, 2066:284).

The formula to calculate t-test is as follows:

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{n_1} + \frac{1}{n_2} \right]}}$$

Where,

S=standard deviation

S² = Variation

n₁=number of observation in first variable.

n₂= number of observation in second variable.

X=mean of first variable.

Y=mean of second variable.

The standard deviation is calculated as follows:

$$S = \frac{1}{n_1 + n_2 - 2} [\sum(X - \bar{X})^2 + \sum(Y - \bar{Y})^2]$$

In this study we have used this test to test preoperational change in various elements of working capital with sales and current assets. All the tests are based on the critical value at 5% level of significance.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

To achieve the objective set in this study, the data are presented and analyzed in this chapter. On the whole, this chapter is related to quantitative analysis of various ratios. Some quality-oriented analysis has also been done in order to make the result realistic and complete to the possible extent. This chapter includes working capital structure, liquidity position of working capital, profitability position of working capital components of working capital and working capital policy.

4.1 Data Presentation and Analysis

Data presentation and analysis is a process of research that gives order, meaning and structure to the work of study. It is an ongoing process includes verification of data, classification, ordering, data processing, summarizing of data synthesizing and presentation the data available to obtain objectives or answers to research questions.

4.1.1 Composition of Working Capital

To operate the business, different kinds of assets are needed. This chapter locates itself around the analysis of the working capital and the current actual position of the company. This study concentrates on the major components of working capital are inventory, sundry debtors, cash & cash equipment and prepaid loans, advances deposit and other receivables. Working capital is defined as the difference between current assets and current liabilities. Working capital refers to the resources of the firm that are used to conduct day to day operation that leads the business towards the success. In general, the companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with lack of working capital may lack the funds necessary for growth and further activities.

Working capital = Current Assets - Current liabilities.

4.1.1.1 Components of Current Assets

We require different types of current assets for our day to day business operation. Current assets refer to those assets that are cash or can be converted into cash within a

year. Thus, the firm should invest its fund in short term assets like: cash, inventories, marketable securities, receivables and prepaid loans, advance, deposit & other receivables. The total amounts of these short term assets are known as working capital. Every type of business firms needs working capital because of the uncertainty in production, sales and cash components. The success or failure of any manufacturing firm depends upon the proper management of CA which directly effects on the shareholders wealth. Any firm has maintained the appropriate level of current assets to run the business smoothly and maximize the return on shareholders' investment. In order to accomplish this objective, the business organization should earn sufficient return from its operations that depends upon the volume of sales. So the firm has to invest enough funds in CA in order to increase sales. As the sales do not covert in to cash immediately, the extra amount of working capital is needed. Therefore neither over nor under investment in CA is an important part of financial management (Basnet,1996).

Table: 4.1

Components of Current Assets of UNL

(Rs. in million)

Fiscal Year	Inventory		Debtors		Prepaid Loan, Advance deposit and Other receivable		Cash and Cash Equipment		Total current Assets	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
064/65	410.12	54.37	148.13	19.64	97.14	12.88	98.99	13.12	754.38	17.29
065/66	245.75	30.43	105.02	13.00	74.9	9.27	382.05	47.30	807.71	92.61
066/67	443.18	58.39	54.60	7.19	97.93	12.90	163.27	21.51	758.97	51.52
067/68	419.75	56.28	130.45	17.49	128.6	17.24	57.04	7.65	745.83	47.08
068/69	511.32	39.52	264.4	20.44	319.24	24.67	198.82	15.37	1293.79	29.67
Average		47.80		15.56		15.39		20.90		47.64
S.D		10.93		4.91		5.28		13.89		53.70
C.V.		4.37		3.17		2.91		1.51		45.92

Sources: Annual report of UNL from 064/65 to 068/069

The table 4.1 shows the current assets position of UNL over the study periods. The main components of current assets are inventory, debtors, prepaid loan, advance

deposit & other receivable and cash. The % indicates the share of individual current assets in the total current assets of UNL. All components of CA are highly fluting during the study period.

It is seen that the inventory holds the highest proportion of total current assets. It is fluctuating from 54.36% in the fiscal year 064/65 to 39.52% in the fiscal year 068/69 with an average of 47.80%. It means more than 50% of the total assets are covered by inventories in all year expect in 065/66 & 068/69.

The second major component of current assets in UNL is cash and cash equipment. The proportion of cash to total current assets is 13.12%, 47.30%, 21.51%, 7.65% & 15.37% respectively from the FY 064/65 to 068/69. The percentage of cash has been fluctuating in between 47.30% to 7.65% during the study period with an average 20.99%.

The table reflects that a debtor is the third major components of current assets in UNL. It is percentage in total current assets in the year 068/69 is 20.44% that is the highest in the study period. The percentage of debtors' current assets shows the decreasing and then increasing tendency during the study period. The percentage of debtors to the total current assets is 19.64%, 13%, 7.19%, 17.49% & 20.44% respectively from the FY 064/65 to 068/69. The average percentage, S.D and C.V of debtors is 15.56% 4.91 and 3.17 Respectively.

The table 4.1 shows that loans and advance is the next & fourth major component of current assets in UNL, has increasing trend expect in the fiscal year 065/66. The proportion of prepaid loan, advance deposit & other receivable on total current assets in UNL has fluctuating trend from 12.88% in the FY 064/65 to 24.67% in the FY 068/69 with an average of 15.39%.

4.1.1.2 Component of Current Liabilities

Current liabilities are the integral part of working capital policy. A firm should maintain the optimum level of liquidity in order to enable the organizations. In another word 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 at UNL are sundry creditors and other payables and provisions. The following table shows the amount of current liabilities of UNL.

Table: 4.2
Components of Current Liabilities of UNL.

(Rs. in million)

Fiscal Year	Sundry Creditors and other payable		Provisions		Total Current liabilities	
	Amount	Percent	Amount	Percent	Amount	Percent
064/65	384.77	47.65	130.79	25.37	515.56	17.78
065/66	342.12	65.25	172.15	33.47	514.27	17.73
066/67	333.32	60.63	176.15	34.55	509.81	17.58
067/68	368.22	63.50	193.54	34.45	561.76	19.37
068/69	600.10	74.40	198.80	24.88	798.90	27.55
Average		62.29		30.54		20.00
S.D		8.65		4.44		3.83
C.V.		7.20		6.87		5.22

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.2, shows that the component of CL, which consists sundry creditors and provisions. All the component of current liabilities is fluctuating during the study period. It shows sundry creditors current liabilities is the major component of CL. The proportion of sundry creditors to current liabilities is increasing trend except in the FY 066/67. The percentage of sundry creditors to total current liabilities is 47.64%, 65.25%, 60.63%.63.50% & 74.40% respectively over the study period. It means more than 62% of the current liabilities are covered by sundry creditors in all year except on FY 064/65 and 066/67. The average percentage of sundry creditors is 62.29%. In the FY 065/66, 067/68 & 068/69, it is percentage is higher than the average and in remaining fiscal years it is less than the average percentage.

Provisions are another component of current liabilities. It includes the amount of provision for promotional expenses, provision for other expenses, provision for tax on fund etc. The proportion of provision to current liabilities is highly fluctuating over the study period. The percentage of provision to total CL is 25.37%, 33.47%, 34.55%,

34.45% & 24.88% respectively from FY 064/65 to 068/69. The average percentage of provision is 30.54%, which is less than that of the FY 065/66, 066/67 & 067/68. Its percentage in the other FY of the study period is higher than average percentage.

4.1.1.3 Net Working Capital of UNL

Working capital is required to run the business smoothly and efficiently in the context of set objectives. 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. Net working capital is the difference between current assets and current liabilities. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets. All the organization should have just adequate working capital to serve in competitive market. Excessive or inadequate working capital is dangerous from the firm's point of view. Excessive investment working capital way inadequate or negative working capital may be harmful to the organization. So, net working capital can be more useful for the analysis of trade-off between profitability and risk. It enables a firm to determine how much amount is left for operational requirement (Panday, 2007). Table 4.3 shows the amount of working capital of UNL.

Table: 4.3

Net Working Capital of UNL

(Rs. in million)

Fiscal year	Total CA	Total CL	WC =CA-CL
064/065	754.38	515.56	238.82
065/066	807.71	514.27	293.44
066/067	758.97	509.81	249.16
067/068	745.83	561.76	184.07
068/069	1293.79	798.90	494.89

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.3, shows that the working capital condition of the company from fiscal 064/065 to 068/069. In over all the UNL has increased working capital Rs 238.82 million to Rs 494.89 million from the fiscal year 064/65 to 068/69. In fiscal year

065/66 the working capitals increase by 54.62 million. Similarly, in FY 066/067 & 067/068 the working capital decreased by 44.28 million and 65.09 million respectively. At the end of study period, working capital of the organization has highly increased and amount reached to Rs.494.89 million.

4.1.2 Variables of Working Capital Ratios.

The analysis of variables of working capital supports management of an enterprise to know how the working capital is being administrated. The structure of working capital can be analyzed by measuring the change of proportion of cash, debtors, loans advance and other receivable to the CA and TA in course of time. The structure of working capital has been studies by analyzing the following ratios.

4.1.2.1 Current Assets to Total Assets Ratio

Current assets requires for the utilization of fixed assets. Fixed assets and current assets are the part of total assets. Generally current assets are required to fulfill the need of daily business operation. Thus the firm should invest on optimum level of current assets. The table 4.4 shows the percentage of current assets on total assets.

Table: 4.4

Investment proportion of Current Assets on Total Assets

(Rs. in million)			
Fiscal year	Current assets	Total assets	CA/TA in percent
064/065	754.38	1088.05	69.33
065/066	807.71	1212.18	66.63
066/067	758.97	1382.50	54.94
067/068	745.83	1504.53	49.57
068/069	1293.79	1923.83	67.25

Sources: Annual report of UNL from 064/65 to 068/069

The table 4.4 indicates the relationship between current assets and total assets which is decreasing trend until fiscal year 2067/68 and then after it is increasing trend over the study period. It is ranged from 49.57% in the FY 067/68 to 69.33% in the FY 064/65 with an average of 61.54%. The proportion of CA to TA are 66.63%, 54.94% and 67.25% in the fiscal year 065/66, 066/67 and 068/69 respectively. The average

ratio indicates that the firm has invested more than 1/3 of total assets on current assets. The table shows that the trend of current assets is not matching with the trend of total assets. Current assets is increasing first two years and then last year only, but the total assets is increasing overall the study period because of the highly fluctuating in component of current assets.

4.1.2.2 Debtors to Current Assets and Total Assets Ratio

The terms "receivables" is the outcomes of credit sales which is the most important and essential marketing tool to increase the volume of sales. Trade credit protects the sales of a company from the competitors and attracts the potential customers to buy its products. Thus, the main objectives of credit sales are to increase the sales, to increase the profit and to meet the competition. The risk and return of a firm also depends upon the level of receivables. The excessive level of receivables indicates the higher risk while the lower level of receivables shows the firm missing the chances of profitability (Basnet,1996). Table 4.5 shows the ratio of receivables with TA and CA.

Table: 4.5

Investment proportion of Debtors to Current assets and Total Assets

(Rs in million)

Fiscal Year	Debtors	Current Assets	Total Assets	Debtors/CA	Debtors/TA
064/65	148.13	754.38	1088.05	19.64	13.61
065/66	105.02	807.71	1212.18	13.00	8.67
066/67	54.60	758.97	1382.5	7.19	3.95
067/68	130.45	745.83	1504.53	17.49	8.67
068/69	264.4	1293.79	1923.83	20.43	13.74
Average				14.33	8.72

Sources: Annual report of UNL from 064/65 to 068/069

From the analysis of table 4.5, it is seen that the proportion of Debtors to Total Assets: The average debtors to total assets ratio of company is 8.72% during the study period. In the F/Y 065/66,066/67 and 067/68, they are below the average ratio and in the rest remaining two fiscal years; this is higher than average debtors on total assets ratio. The highest ratio is 13.74%% in the F/Y 2068/069. Debtors to Current Assets: from

the analysis of above table the receivable respect to CA has increasing trend expect in the FY 065/66 & 066/67 of the study period. It is ranged from 19.64% in the FY 064/65 to 7.19% in the fiscal year 066/67 with an average portion of company is 14.33, which indicates more than 1/6 of current assets has been invested on debtors. The higher ratio than average is 19.64%, 17.49% and 20.43 in F/Y 2064/065, 2067/68 & 068/69 respectively.

4.1.2.3 Inventory to Total Assets and Current Assets

Inventory is one of the major components to TA and CA respectively. Inventory is the most important part of CA which consists of raw materials, work-in-progress and finished goods. Inventory facilitates efficient and smooth production of goods. Excessive and inadequate inventories, both are danger point of the firm, hampers on the probability of the firm. The excessive level of inventory holds the unnecessary capital and the shortage of inventory hampers the production process (Thapa, 2006). Thus, the firm should maintain optimum level of inventory to avoid the two danger points of excessive and inadequate inventories.

Table: 4.6
Investment Proportion of Inventory on CA and TA
(RS in Million)

Fiscal Year	Inventory	CA	TA	Inventory/CA	Inventory/TA
064/65	410.12	754.38	1088.05	54.37	37.69
065/66	245.75	807.71	1212.18	30.43	20.27
066/67	443.18	758.97	1382.5	58.39	32.06
067/68	419.75	745.83	1504.53	56.28	27.90
068/69	511.32	1293.79	1923.83	39.52	26.58
Average				47.80	28.90
C.V				0.83	0.92

Sources: Annual report of UNL from 064/65 to 068/069

UNL is one of the manufacturing industry, has been investing huge amount of inventories. The proportion of inventory to current assets as well as in total assets are shown in the table 4.6.

It is seen that the volume of inventory has been increasing trend except FY 2064/65. The current assets and total assets both are matching with the trend of inventory. But the portion of inventory to total current assets has been fluctuating trend from 54.36% in the FY 064/65 to 39.52% in the FY 068/69 with an average of 47.79% which indicates more than 2/4 of the current assets has been invested on inventories. The proportion of inventory to current assets are 30.42%, 58.39% and 56.28% in the fiscal year 065/66 to 067/68 respectively. The C.V for inventories to current assets is 0.83 which depicts less variation than inventory to total assets.

Similarly the proportion of inventory to total assets has been decreasing trend from 37.69% in the FY 2064/65 to 26.58% with an average of 28.90% over the study period. The proportion of inventory to total assets are 20.27%, 32.05% and 27.90% in the fiscal year 065/66, 066/67 and 067/68 respectively. The average portion of inventories on Total assets of UNL indicates that the firm has invested more than 1/5 of total assets on inventory. Inventory to total assets ratio is fluctuated due to fluctuation to sales. The largest portion of inventory to total assets is 37.69% with negative changing ratio $37.69-20.27/20.27*100 =$ in F/Y 2065/066. In the F/Y 2060/061, 20.27% is the smallest portion on total assets of UNL. The C.V for inventories to total assets is 0.92 which depicts more variation than inventory to current assets.

4.1.2.4 Cash & Equipment to Total Assets and Current Assets

Cash is the most liquidity assets, includes coins, currency and cheque held by the firm and balance its bank accounts which the firm can disburse immediately without any restriction. The main purpose of holding cash is to meet daily business requirement. Cash is required for the daily business operation like pay bills, purchase raw materials and pay debts and future obligations. The excessive cash will simply remain idle while the cash shortage will disturb the firms manufacturing operation (Thapa,2006). Thus the firm should maintain the optimum level of cash balance. The following table shows the proportion of cash with CA and TA of UNL.

Table: 4.7**Investment Proportion of cash and Equipment on CA and TA**

(Rs. In million)

Fiscal Year	Cash	Current Assets	Total Assets	Cash/CA	Cash/TA
064/65	98.99	754.38	1088.05	13.12	9.10
065/66	382.05	807.71	1212.18	47.30	31.52
066/67	163.27	758.97	1382.5	21.51	11.81
067/68	57.04	745.83	1504.53	7.65	3.79
068/69	198.82	1293.79	1923.83	15.37	10.33
Average				20.99	13.31
C.V				0.73	0.78

Sources: Annual report of UNL from 064/65 to 068/069

Cash and Equipment to Total Assets: The average cash and equipment portion on total assets of UNL is 13.31% .There is only one ratio above the average ratio. Out of them 31.52% is the highest ratio or portion during the study period. In the F/Y 2065/066, 22.42% is the highest increasing rate and FY 2066/67, 19.71% is the highest decreasing rate during the period .The C.V for cash and bank balance to total assets ratios is 0.776 which depicts highest variation due to fluctuation trends on ratios of cash and Equipment to total assets.

Cash and Equipment to Current Assets: The smallest portion cash and bank balance of on current assets is 7.65% in F/Y 2067/068. Similarly high portion of cash and equipment is 47.30% in F/Y 2065/066 .The average ratio of current assets to cash and bank balance of UNL is 20.99% .The C.V for cash and bank balance on current assets is 52.28%, which depicts highest variation due to fluctuation trend on cash and Equipment to current assets.

4.1.2.5 Prepaid loans and Advance to Total assets & Current assets

The prepaid loan and advance is also the most important component of CA in UNL. The firm has invested adequate amount on it which effects on the probability of the firm. Because the investment on loans and advance will be idle. The higher level of loans & advance shows the liberal purchasing policy adopting by the firm. The table 4.8 shows the proportion of prepaid loans and advance with CA and TA of UNL.

Table: 4.8
Investment Proportion of Prepaid Loan and Advanced on CA and TA
(Rs. In million)

Fiscal Year	Prepaid Loan and Advanced	Current Assets	Total Assets	Prepaid loan/CA	Prepaid Loan/TA
064/65	97.14	754.38	1088.05	12.87	8.93
065/66	74.9	807.71	1212.18	9.27	6.18
066/67	97.93	758.97	1382.5	12.90	7.08
067/68	128.6	745.83	1504.53	17.24	8.55
068/69	319.24	1293.79	1923.83	24.67	16.59
Average				15.39	9.47
C.V				1.60	1.75

Sources: Annual report of UNL from 064/65 to 068/069

Loans, Advance and Deposits to Total Assets: The average loan, advance and deposit portion on total assets of UNL is 9.47% .In the F/Y2068/069, the volume of loan, advance and deposit is Rs 319.24 million and it is 16.59% which is highest percentage of loan, advance and deposit on total assets because the firm has given high amount of loans and advance to the staff and suppliers of raw material. In the F/Y 2065/066 loan, advance and deposit is Rs 74.9 million and it is 6.17 % which is least percentage of loan, advance and deposit on total assets over the period of time .The C.V for loan, advance and deposit to total assets is 1.75,which depicts variation due to fluctuations trend of loan, advance and deposit to total assets ratios.

Loans, Advance and Deposits to Current Assets: It is seen that the portion of prepaid loans and advance on CA is increasing trend from 12.87% to 24.67% in the fiscal year 2064/065 to 2068/69 respectively except in the FY065/66 of the study period. The average loan, advance and deposit to current assets ratio of UNL is 15.39% .The highest and lowest ratio are 24.67% and 9.27% in F/Y 2068/069 and 065/066,respectivel.The C.V for loan, advance and deposit to current assets is 1.61, which depicts variation due to fluctuation trend of loan, advance and deposit on current assets ratios.

4.1.2.6 Average Proportion of the Working Capital Variables on TA and CA.

This analysis represents the average from during the study period .The average structure of WC and its components are presented in the table 4.9.

Table: 4.9

Average Proportion of the Working Capital Variables on TA and CA

Component of WC (Types of WC)	Proportional TA(%)	Proportional TCA(%)
Inventory	28.90	47.79
Receivable	17.61	30.51
Cash and Bank Balance	13.31	20.90
Loan, advance and Deposit	9.47	15.39
Total (%)	69.27	114.59

Sources: Annual report of UNL from 064/65 to 068/069

The table 4.9 represents the working capital structure as a whole in average form during the study period with all the components. The company has inventory, debtors, cash and bank balance and loan, advance and deposit ratios are 28.90%, 17.61%, 13.31% &9.47% of TA respectively, in aggregate 69.27% of Total Assets. Similarly, the above table also shows the structure of WC and the various proportions of the components on total current assets.

4.1.3 Working Capital Turnover Ratio

Every business firm's main objective is to sell of products and services. So, the sale is most important activity. The survival and growth of company depends on the sales of the product .The company should make their sales policy as per the resources availability and market demand. The sales policy directly affects the production policy, i.e. the requirement of total assets and working capital by the company to run it as per plan. Increase in sales certainly cause increase in production, which requires more inputs. To keep the stock of material, there should be adequate amount of working capital. The amount of working capital is also affected by sales policy .If the credit sales are increased more working capital will be required to meet the daily requirement .In other hand, if tight credit sales policy is applied the amount of

working capital to replace the amount held by credit sales will be decreased. The ultimate effect will be decrease in working capital need.

The working capital ratio indicates the adequacy of sales in relation to the investment in current assets. Generally, more working capital is needed for more sells because it's requires more inputs in production when the credit facilities are provided to increase the sales, it requires more working capital. Thus, there is a direct relation between sales and working capital. Generally, a high working capital turnover ratio indicates efficient utilization of CA. The following table shows the WC turnover ratio of UNL during the study period.

Table: 4.10
Working Capital Turnover Ratio

Fiscal Year	Sales	Current Assets	GWC Turnover (Times)
064/65	2144.59	754.38	2.84
065/66	2625.83	807.71	3.25
066/67	3055.07	758.97	4.03
067/68	3556.67	745.83	4.77
068/69	4232.47	1293.79	3.27
Average			3.63
C.V			0.90

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.10 represents the current assets or gross working capital turnover during the study period in Unlit. Results show the current assets turnover ratio in times. Current assets turnover ratios for the F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 2.84,3.25, 4.03,4.77 and 3.27 times respectively. It is in increasing trend except in F/Y 2068/069.In fiscal year 2068/069 current assets turnover ratio is reduced by 1.5 times with the comparison of last fiscal year. In other F/Y current assets turnover ratio is increased with the comparisons of respective last year. The average of the study period the current assets turnover position of the company is 3.63 times. The C.V for sales on current assets is 90.07%, which depicts variation due to fluctuation trend in sales to CA ratio.

4.1.4 Inventory Turnover Ratio (ITR)

The relationship between sales and stock is known as inventories turnover. The ratio evaluates the efficiency of a company for inventories management. It has already been stated that the working capital, production and sales are correlated in general cases. The production should be increased to meet the high level of target sales. To produce raw materials will be required. The stock level of production is here to fulfill the requirement of the company. It has to increase its working capital. In this way the inventory is affected by sales volume. The proportion of inventories to sales has been presented below.

Table: 4.11
Inventory Turnover Ratio (ITR)

(RS in Million)

Fiscal Year	COGS	Average Inventory	ITR(times)
064/65	1362.27	365.87	3.72
065/66	1696.69	327.94	5.17
066/67	1812.85	344.47	5.26
067/68	2275.10	431.47	5.27
068/69	2667.25	465.54	5.73
Average			5.03
C.V			1.13

Sources: Annual report of UNL from 064/65 to 068/069

The table 4.11 shows the ratio in times inventory replaced during the year period. The ratio of average inventory turnover during the study period has been 5.03 times. The inventory turnover period in F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 is 3.72, 5.17, 5.26, 5.27 and 5.73 times respectively. It fluctuates from 3.72 to 5.73 times. The company has lowest and highest inventory turnover position is 5.73 times and 3.72 times in F/Y 2068/069 and 2064/065 respectively. The Company's inventory is in increasing pattern except in F/Y 2065/066 and 2067/068 but COGS holding is in increasing trend for all fiscal years. The comparison with the average, the ITR was poor, i.e. 3.72 times in the F/Y 2064/065. The C.V of inventory

turnover ratio is 1.13, which indicates low variation in figures of inventory turnover ratio in the given period.

4.1.5 Debtors Turnover Ratio (DTR)

Debtor's turnover shows the relationship between sales and debtors. Receivable is one of the components of working capital in order to increase the business an activity, the company has to increase the sales volume. The sales volume can be increased by given products in credit to customers the level of receivable goes up, because generally receivable in credited by credit sales. The credit sales policy is applied to increase the sales level. Hence the increase is receivables should increase the sales volume. The main purpose of this ratio is to test efficiency of collecting the debtors. The receivable will create when the goods or services are sold on credit by the firm. Therefore, receivable depends upon the credit policy of the firm. If the firm adopts the liberal credit policy it will increase the sales level of the firm as well as increase in risk. When the firm takes the tightening credit policy, it will reduce the sales level and profit margin of firm. Thus the firm should adopt the optimum credit policy considering a trade- off between risk and return. The high DTR is preferable which indicates the company is able collect the debtors with in a very short period.

Table: 4.12
Debtors Turnover Ratio (DTR)

(RS in Million)

Fiscal Year	Sales	Average Debtors	DTR
064/65	2144.59	141.68	15.14
065/66	2625.83	126.58	20.74
066/67	3055.07	79.81	38.28
067/68	3556.67	92.53	38.44
068/69	4232.47	197.43	21.44
Average			26.81
C.V			0.80

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.12 shows the debtors' turnover times in the five year study period. Debtors turnover ratio in five F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 is

15.14, 20.74, 38.28, 38.44 and 21.44 times respectively. The highest receivable turnover in the study period is 38.44 times in the F/Y 2067/068. In the F/Y 2064/065 has the lowest receivable turnover 15.14 times during the study period. The average turnover ratio is 26.81 time. The fluctuation ratio is sometimes high and sometimes it is low.

4.1.6 Cash and Equipment Turnover Ratio (CETR)

The relationship between sales and cash is known as cash turnover ratio. Cash is the most liquid of all assets. It is one of the main parts of current assets which have greatest value to meet the current obligations occurred in business and smooth operation of the business. It should be just adequate to run the business and excess cash no meaning as it earns nothing. Over investment in cash indicates more the liquidity but less the return and under investment in cash reflects less the liquidity but more the return. So, the company always seeks the risk return trade off to maintain the just adequate cash and bank balance. The table 4.13 shows the cash and bank balance turnover ratio of the UNL during the study period.

Table: 4.13
Cash and Equipment Turnover Ratio (CETR)

(RS in Million)

Fiscal Year	Sales	Cash and Equipment	CETR
064/65	2144.59	98.99	21.66
065/66	2625.83	382.05	6.87
066/67	3055.07	163.27	18.71
067/68	3556.67	57.04	62.35
068/69	4232.47	198.82	21.29
Average			26.18
C.V			0.81

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.13, shows the cash and equipment turnover ratio in times of UNL. The ratio indicates that a rupee invested in cash and bank balance generate in times. Cash and equipment turnover ratio for the F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 21.66, 6.87, 18.71, 62.35 and 21.29 times respectively. It fluctuates

from 6.87 times to 62.35 times. The highest times of cash and equipment turnover ratio is 62.35 times in F/Y 2067/068 and lowest cash and bank balance turnover ratio is 6.87 times in F/Y 2065/066. In F/Y 2067/068 cash and equipment turnover ratio is highly positive change by 43.64 times as comparison to previous years. The average cash and equipment turnover ratio during the study period is 26.17 times and the C.V is 81.31 % which indicates more variation on cash and equipment turnover ratio. The comparison with average cash turnover, the firm has poor cash turnover except in the fiscal year 2067/068 only which indicates the firm is not able to manage the cash effectively in spite of its high cash turnover. Company has not followed any principle about the minimum cash balance.

4.1.7 Net Working Capital Turnover Ratio (NWCTR)

The net working capital turnover ratio measures how many times net working capital is used in relation to sales and the efficiency of the company. The net working capital turnover ratio is presented in the table 4.14.

Table: 4.14
Net Working Capital Turnover Ratio (NWCTR)

Fiscal Year	Sales	Networking Capital	Networking Capital Turnover
064/65	2144.59	238.82	8.98
065/66	2625.83	293.44	8.95
066/67	3055.07	249.16	12.26
067/68	3556.67	184.07	19.32
068/69	4232.47	494.89	8.55
Average			11.61
C.V			0.74

Sources: Annual report of UNL from 064/65 to 068/069

The table 4.14 relevant that the net working capital turnover ratio in times of UNL. Net working capital turnover ratio for the F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 is 8.98, 8.95, 12.26, 19.32 and 8.55 times respectively. In F/Y 2067/068 the net working capital turnover ratio is highest times i.e. 19.32 times. The average net working capital turnover ratio during the study period is 11.61 times the

C.V for the above ratio is 0.74 which depict low variation due to fluctuation trend in the ratios. As a result NWC turnover is the lowest of all.

4.1.8 Prepaid Loan, Advance and Deposits Turnover Ratio (LADTR)

The loan advance and deposit turnover ratio measures the loan advance and deposit conversion period that has been contributed by different level of loan advance and deposit on sales. This is shown in the following table.

Table: 4.15
Prepaid Loan, Advance and Deposits Turnover Ratio (PADTR)

(RS in Million)

Fiscal Year	Sales	Prepaid Loan and Advanced	Prepaid Loan and Advanced turnover Ratio
064/65	2144.59	97.14	22.08
065/66	2625.83	74.9	35.06
066/67	3055.07	97.93	31.20
067/68	3556.67	128.6	27.66
068/69	4232.47	319.24	13.26
Average			25.85
C.V			0.51

Sources: Annual report of UNL from 064/65 to 068/069

The table 4.15 shows the loan, advance and deposit turnover ratio in times of company. The average loan, advance and deposits turnover ratio during the study period is 25.85 times. In the F/Y 2068/069 there is the largest decreasing ratio from just previous F/Y by 14.4 times. The highest and the lowest loan, advance and deposit turnover ratio are 35.06 times and 13.26 times in F/Y 2065/066 and 2068/069 respectively and the C.V is 51.29 % variation during the study period.

4.1.9 Working Capital Cash Conversion Cycle

Working capital cash conversion cycle measures the total numbers of days from raw materials purchase to when cash is received from debtors. This shows the cash inflow and outflow period of company, inflow and outflow are repetitive process. Cash

inflow and outflow period determines as available credit period. It can be analyzed by following aspects.

4.1.9.1 Inventory Conversion Period (ICP)

Inventory conversion period refers, the time period for inventory to convert into sales. The short period indicates fast conversion of inventory to sales and long period indicates slow conversion period. Following table represents the ICP.

Table: 4.16
Inventory Conversion Period (ICP)

(RS in Million)

Fiscal Year	Average Inventory	COGS	Days in a Year	ICP (Days)
064/65	365.87	1362.27	360	97
065/66	1696.69	1696.69	360	70
066/67	1812.85	1812.85	360	68
067/68	2275.10	2275.10	360	68
068/69	2667.25	2667.25	360	63
Average				73
C.V				0.85

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.16 shows that inventory conversion period in days. The inventory conversion period of the company in F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 97, 70, 68, 68 and 63 days respectively. ICP is decreasing trend and highly fluctuating over the study period. The inventory conversion period in F/Y 2064/065 is 97 days which is highest conversion period during the study period. The lowest inventory conversion period is 63 days in F/Y 2068/069. The average ICP is 73 days and co-efficient of variation is 0.85 which indicates high fluctuation on ICP.

4.1.9.2 Receivable Collection Period (RCP)

Receivable collection period is the average length of time required to convert the times receivable into cash. The receivable collection period is also called the days

sales outstanding. The length of RCP depends on the credit policy of the firm. The table shows the receivable collection period of UNL in the five years study period.

Table: 4.17
Receivables Collection Period (RCP)

(RS in Million)

Fiscal Year	Average Debtors	Sales	Days in a Year	RCP (Days)
064/65	141.68	2144.59	360	23
065/66	126.58	2625.83	360	17
066/67	79.81	3055.07	360	9
067/68	92.53	3556.67	360	9
068/69	1974.43	4232.47	360	17
Average				15
C.V				1.09

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.17 shows the length of time of the receivable collection period in days. The receivable collection period in F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 23, 17, 9, 9 and 17 days. Receivable collection period during the study period is decreasing trend except F/Y 2068/069. In these years receivable collection period is increased by 8 days. The lowest days of receivable collection period is only 9 days in F/Y 2066/067 and 2067/068. The highest days of RCP is 23 days in F/Y 2064/065. The average RCP of UNL is 15 days with decreasing change rate by 2 days during the study period. The C.V of company is 1.09 which indicates more fluctuation on RCP.

4.1.9.3 Payable Deferral Period (PDP)

The payable Deferral period measures the period of payment to the trade creditor of the company. It indicates the average length of time between the purchase of raw materials and labor and payment of cash for them. The length of PDP depends on the credit facilities provide by the supplier and wages payment system. The payable Deferral period of UNL is presented in the table 4.18.

Table: 4.18
Payable Deferral Period (PDP)

(RS in Million)

F/Y	Average Account Payable	COGS	Days in a Year	PDP (days)
064/65	374.56	1362.27	360	99
065/66	255.30	1696.69	360	54
066/67	139.28	1812.85	360	28
067/68	139.53	2275.10	360	22
068/69	221.51	2667.25	360	30
Average				47
C.V				0.64

Sources: Annual report of UNL from 064/65 to 068/069

The table 4.18 shows the length of time of Payable Deferral Period in days. The payable deferral period in F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 99, 54, 28, 22 and 30 days respectively. Payable Deferral period during the study period is in decreasing trend except last one F/Y 2068/069. The lowest days of payable deferral period is only 22 days in F/Y 2067/068 and the highest days of PDP is 99 days in F/Y 2064/065. Payable Deferral Period fluctuates from 22 days to 99 days over the study period. The average PDP is 47 days which is increasing change rate by 17 days during the study period. The C.V of company is 0.64 which indicates high fluctuation on PDP.

4.1.9.4 Cash Conversion Cycle (CCC)

The cash conversion is net time interval in days between actual cash expenditure of the firm on productive resources and ultimate recovery of cash. In other words, the length of time between the payment of cash for input material, labors etc. and the receipt of cash on cash sales or collection of credit sales is the cash conversion cycle. CCC is the major determinant of working capital requirement. Longer CCC requires large investment in CA and short CCC reduces the amount of working capital requirement. Following table represents the cash conversion cycle of UNL.

Table: 4.19
Cash Conversion Cycle (CCC)

(Period In Days)

Fiscal Year	ICP	RCP	PDP	CCC
064/65	97	23	99	21
065/66	70	17	54	33
066/67	68	9	28	49
067/68	68	9	22	55
068/69	63	17	30	50
Average	73	15	47	42
C.V				1.19

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.19 shows that the average cash conversion cycle is 42 days. The cash conversion cycle in F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 21,33,49,55and 50 days respectively. The cash conversion cycle of the company is increasing trend over the study period. The average cash conversion cycle of company is 42 days. The C.V is 1.19. This indicates that variation of UNL is high with positive. The result shows that the UNL hasn't been able to make consistency on cash conversion cycle.

4.1.10 Liquidity Ratio

The purpose of liquidity ratio is to test the solvency position for the payment of short-term liquidity. Liquidity ratio measure the firm's ability to fulfill short term commitments out of its liquid assets. Assets are liquid if they are either cash of relatively easy to convert in to cash. Short term creditors are very interested in the liquidity ratios. But, cash ratio is also used to the measure the most liquid condition.

4.1.10.1 Current Ratio (CR)

Current Ratio serves a similar purpose and it is frequently used. It is also called working capital ratio. It is considered as an index of solvency of company. It indicates the ability of the company to meet its current obligations. Change in current ratio can however, be misleading. If a company raises money through commercial paper &

invests the amount in marketable securities net working capital is unattached but the current ratio changes. A current ratio of 2:1 is generally considered satisfactory for manufacturing company. It constitutes a rule of thumb for measuring liquidity. The ratios of UNL for the study period are calculated in table 4.20.

Table: 4.20
Current Ratio (CR)

(RS in Million)

Fiscal Year	Current Assets	Total Current liabilities	CR
064/65	754.38	515.56	1.46
065/66	807.71	514.27	1.57
066/67	758.97	509.81	1.49
067/68	745.83	561.76	1.33
068/69	1293.79	798.90	1.61
Average			1.49
C.V			1.08

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.20 shows that the current ratio of UNL in the F/Y 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 are 1.46, 1.57, 1.49, 1.33 and 1.61 times respectively. In the F/Y 2065/066 it is increased by 0.10 and reached to 1.57. It is in increasing trend except to fiscal year 2067/068. The current ratio of 2:1 is generally, considered satisfactory for a manufacturing company. During the study period, the average current ratio of UNL is found 1.49 which is below the current ratio standard. So the company's current ratio has found to be not satisfactory. The company has the lowest current ratio of 1.33 in the F/Y 2067/068. The firm has the highest current ratio of 1.61 in the F/Y 2068/069. The C.V of current ratio 1.08 which indicates high fluctuation on CR.

4.1.10.2 Quick Ratio (QR)

Quick ratio measures the liquidity position in net term. Current Ratio measures the short-term solvency in gross term which cannot measure the actual liquidity position due to inclusion of less liquid assets. Quick ratio indicates the availability of highly liquid assets which can be converted into cash within short-period as compared to

current assets .The quick ratio is considered as perfect when the ratio comes 1:1.Quick ratio does not consider inventories because they cannot be sold at anything above fire-sale price. The liquidity arises because finished goods cannot be sold for more than production cost.

Table: 4.21
Quick Ratio (QR)

(RS in Million)

Fiscal Year	Quick Assets	Total Current liabilities	QR
064/65	344.26	807.57	0.67
065/66	561.96	524.31	1.09
066/67	315.79	549.77	0.62
067/68	316.08	579.86	0.56
068/69	782.41	806.56	0.98
Average			0.78
C.V			1.12

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.21 shows the quick ratio of UNL where quick assets consist of cash & bank balance, sundry debtors, prepaid loan, advance and deposits. Quick ratio of the company is 0.67:1, 1.09:1, 0.62:1, 0.56:1 and 0.98:1 for the F/Y 2064/065, 2065/066, 2066/067, 2067/068and 2068/069. During the study period, quick ratio changing is in increasing trend except to F/Y 2066/067 and 2067/068. Further the study shows that the highest quick ratio of the company is 1.09:1 in F/Y 2065/066.In the F/Y 2065/066,there is largest increasing ratio by 0.41 times as compared to previous fiscal year. The above table relevant that quick ratio of UNL has not meet standard (1:1) except F/Y 2065/066.The average quick ratio of the company is 0.78 times which is below the standard. So the quick ratio of UNL is unfavorable. The C.V of the quick ratio is 1.12during the study period. This indicates high fluctuation on quick ratio.

4.1.11 Profitability Ratio

An ability to earn maximum from the maximum use of available resources by the business organization is known as profitability. It is the measurers of efficiency. Working capital component has affected profitability position of the enterprises. The

strong profitability position fulfills the aims of wealth maximization as well as profit maximization which motivate investor to invest. A study of profitability position is measured by net profit margin, gross profit margin, return on total assets, return on working capital and operating expenses ratio.

4.1.11.1 Net Profit Margin (NPM)

Net profit margin shows the relationship between net profits and sales it indicates available ratio of profit margin for ownership capital. It measures income per rupee of sales. Following table shows the net profit margin of UNL

Table: 4.22
Net Profit Margin (NPM)

(RS in Million)

Fiscal Year	NPAT	Sales	NPM
064/65	335.12	2144.59	15.63
065/66	444.04	2625.83	16.91
066/67	576.53	3055.07	18.87
067/68	609.79	3556.67	17.14
068/69	735.81	4232.47	17.38
Average			17.19
C.V			1.012

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.22 shows that net profit margin is in fluctuating ratio due to fluctuating of net profit after tax and sales volume. 18.87% is the highest net profit margin in the overall study periods. Similarly 15.63% is the lowest net profit margin in the overall study periods. The net profit margin is in increasing trend expected in F/Y 2067/068. In F/Y 2065/066 net profit margin is increase by 1.28 % as compared to previous years. The net profit margin of company is satisfactory for all fiscal years. The average net profit margin is 17.19% and Covariance of net profit margin ratio is 1.012 which indicates less uniformity net profit after tax to sales ratio. The result shows that the UNL has been improving its financial condition.

4.1.11.2 Gross Profit Margin (GPM)

Gross profit margin is the relationship between gross profit and sales. It measures the percentage return of gross profit out of total sales. Gross profit does not adjust operating and administrative expenses. Table 4.23 depicts the gross profit margin.

Table: 4.23
Gross Profit Margin (GPM)

(RS in Million)

Fiscal Year	Sales	Gross Profit	GP
064/65	2144.59	782.32	36.48
065/66	2625.83	929.13	35.38
066/67	3055.07	1242.22	40.66
067/68	3556.67	1281.55	36.03
068/69	4232.47	1565.21	37
Average			37.11
C.V			1.00

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.23 shows that, gross profit margin ratio of UNL is in from F/Y 2064/065 to 2068/069 by 36.48% to 37% respectively. Gross profit margin ratio is increasing trend over the study period except in the F/Y 2065/66 and 2067/068. 40.66% gross profit margin is the highest ratio during the study period. The average gross profit margin is 37.11 % during the study period. The C.V. of gross profit margin is 1.00 which indicates less uniformity gross profit to sales ratio.

4.1.11.3 Return on Total Assets (ROTA)

Return on total assets is the relationship of net profit after tax and total assets. It measures the percentage of return on the overall total assets employed for every activity of the enterprises. The return on total assets employed of Unilever Nepal Limited is presented below in table 4.24.

Table: 4.24
Return on Total Assets (ROTA)

(RS in Million)

Fiscal Year	NPAT	Total Assets	ROA
064/65	335.12	1088.05	30.80
065/66	444.04	1212.18	36.63
066/67	576.53	1382.5	41.70
067/68	609.79	1504.53	40.53
068/69	735.81	1923.83	38.25
Average			37.58
C.V			1.02

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.24, shows the return on total asset is increasing trend except in F/Y 2067/068 to F/Y 2068/069. The highest and lowest return on total assets is 41.70% and 30.80% in F/Y 2066/067 and F/Y 2064/065 respectively. The average return on total assets during the overall study period is 37.58 which indicate the satisfactory profitability position of UNL. That means the firm able to earn profit of Rs. 0.3758 by investing 1 rupee on the total assets. The C.V of return on total assets is 102.77% which indicate highly variation on return on total assets.

4.1.11.4 Return on Working Capital (ROWC)

This is the rate of return on current assets or working capital employed. Return on working capital means the profit with respect to its total current assets; it shows the effectiveness of utilization of current assets. The return on working capital of Unilever Nepal Limited is presented in table 4.25.

The table 4.25 shows that the average return on working capital of UNL is 62.80% with positive changing rate is 5.93% during the study period.

Table: 4.25
Return on Working Capital Ratio (ROWC)

(RS in Million)

Fiscal Year	NPAT	Current Assets	ROWCR
064/65	335.12	754.38	44.42
065/66	444.04	807.71	54.98
066/67	576.53	758.97	75.96
067/68	609.79	745.83	81.76
068/69	735.81	1293.79	56.87
Average			62.80
C.V			0.91

Sources: Annual report of UNL from 064/65 to 068/069

In F/Y 2067/068, the return on working capital of UNL has 81.76% very higher than that of following fiscal year. Return on working capital has increasing trend except in F/Y 2068/69. The C.V of return on working capital is 90.56% that means there is less uniformity in return on working capital.

4.1.11.5 Operating Expenses Ratio (OER)

The operating ratio establishes the relationship in between total operating expenses & sales volume. It is an important ratio that explains the change in the net profit margin ratio .It also measures the efficiency of the company as regards to minimizing cost. Table 4.26 shows to operating ratio of UNL during the study period.

As thus, the operating expenses ratio of UNL in the F/Y from 2064/065 to 2068/069. The ratio of F/Y from 2064/065 to 2068/069 are 87.87%, 86.29%, 85.82%, 88% and 87.13% respectively. The ratio has decreased except in F/Y 2067/068. The ratio fluctuating between 85.82% to 87.13%.

High ratio indicates the inefficiency of management and unable to manage the working capital of the company. In an average the company has 87.02% of operating ratio during the study period. C.V of operating expenses ratio is 1.00 which indicates high fluctuation on operating expenses ratio.

Table: 4.26
Operating Expense Ratio (OER)

(RS in Million)

Fiscal Year	COGS	Operating Exp.	COGS+Operating Expenses	Sales	OER
064/65	1362.27	522.24	1884.51	2144.59	87.87
065/66	1696.69	569.01	2265.70	2625.83	86.29
066/67	1812.85	809.16	2622.01	3055.07	85.82
067/68	2275.10	855.11	3130.21	3556.67	88
068/69	2667.25	1020.48	3687.75	4232.47	87.13
Average					87.02
C.V					1.00

Sources: Annual report of UNL from 064/65 to 068/069

4.1.12 Relationship of Profitability with Liquidity & Turnover

Theoretically, profitability and liquidity positions of the firms are closely related and the relationship between these variables should be adverse. In other words, higher liquidity lower the profitability should be held. In order to examine the significance of the relationship between the two variables like liquidity and profitability position of UNL, statistical tools, Karl Pearson's Co-efficient of Correlation (r) has been calculated. So, r between CR and NPM, Quick ratio and NPM, inventory turnover and net profit margin and receivable turnover & net profit margin have been worked out to examine the relationship between liquidity and the profitability position of UNL.

Table: 4.27
Relationship of Profitability with Liquidity and Turnover

Relationship	R	P.E	6P.E.	Remarks
i. Current ratio and Net profit margin	0.10	0.30	1.79	Insignificant
ii. Quick ratio and Net profit margin	-0.12	0.30	1.78	Insignificant
iii. Receivable Turnover and NPM	0.75	0.13	0.79	Nothing can be Concluded
iv. Inventory Turnover and NPM	0.71	0.15	0.90	Nothing can be Concluded

Sources: Annual report of UNL from 064/65 to 068/069

Theoretically, correlation between Current ratio and Net profit margin should be adverse. But table 4.27 shows that it is positive relation. Its P.E is 0.30 however; r is not greater than P.E. so it is insignificant thus the principle of adverse relationship between profitability and liquidity does not hold in the case of UNL.

According to the principle of liquidity and profitability trade-off, coefficient of correlation between quick ratio and net profit margin should be negative. Table 4.27 shows that it is negative correlation. Its P.E.is 0.30. Since $r < P.E.$, It is insignificant. Therefore, the theoretical relationship between the NPM and Liquidity measured in terms of quick ratio also does hold in case of UNL.

Receivable is one of the major components of CA. its liquidity position affects the overall liquidity position of the firms. So, the relationship between liquidity and profitability has been analyzed with the help of coefficient of correlation between RTR and NPM. Coefficient and correlation between profitability and liquidity is positive. Table 4.27 shows that it is positive correlation. Its P.E.is 0.75 Since $r < 6P.E.$, It is nothing can be concluded. But r of liquidity of inventory and NPM shows the positive relationship. Thus, none of the correlation coefficient of the four areas shows that the relationship is consistent with the principle of trade-off between liquidity and profitability. But as a whole relationship between profitability and liquidity position of UNL is not consistent with the trade- off theory of liquidity and profitability. It is due to the highly fluctuating current assets.

4.1.13 Analysis of Working Capital Relationship with TA, CA & Sales

In order to study the significance of various working capital variables Karl Pearson's Correlation Coefficient 'r' is applied. This measures the degree and importance of relationship between the variables. Probable error (P.E.) is used to interpret whether the calculated value of r is significant or not.

- i. If $r < P.E.$, it is insignificant, i.e. there is no evidence of correlation.
- ii. If $r > 6 P.E.$, it is significant.

In other condition nothing can be concluded.

Table 4.28 presents the relationship between working capital and other variables of UNL.

Table: 4.28**Relationship between Working Capital Variable with TA, CA and Sales.**

Relationship	r	P.E	6P.E.	Remarks
i. CA and TA	0.84	0.09	0.54	Significant
ii. CA and CL	0.97	0.02	0.11	Significant
iii. WC Variables and CA				
a. Inventory and CA	0.52	0.22	1.32	Nothing can be concluded
b. Debtors and CA	0.88	0.07	0.42	Significant
c. CBB and CA	0.18	0.29	1.75	Insignificant
d. LAD and CA	0.95	0.03	0.18	Significant
iv. NWC and Sales	0.60	0.19	1.16	Nothing can be concluded
v. WC Variables and Sales				
a. Inventory and Sales	0.61	0.19	1.14	Nothing can be concluded
b. Debtors and Sales	0.19	0.29	1.74	Insignificant
c. Cash Equipment and Sales	-0.12	0.30	1.78	Insignificant
d. Prepaid Loan, Advance & Deposit and Sales	0.83	0.09	0.54	Significant

Sources: Annual report of UNL from 064/65 to 068/069

Current Assets and Total Assets: The value of 'r' between current assets and total assets of UNL is 0.84 that means they have high degree of positive relationship. P.E and 6P.E ratios are 0.09 and 0.54 respectively. In the above table, $r > 6 P.E.$ since, in case of current assets and total assets the relationship is said to be significant.

Current Assets and Current Liabilities: The 'r', P.E. and 6 P.E. between current assets and current liabilities are 0.97, 0.02 and 0.11 respectively. This means there is high degree of positive relationship between current assets and current liabilities. Since, $r < 6P.E.$ so, the in case of CA and CL the relationship is said to be significant.

Current Assets and Its Component: From the above correlation presentation table, the 'r', P.E. and 6 P.E. between current assets and inventories are 0.52, 0.22 and 1.32 respectively. This means there is low degree of positive relationship between

inventories and current assets. Since, $P.E < r < 6P.E$. so, the result is nothing can be concluded. Similarly, there is positive relationship between cash & equivalent and current assets. The value of 'r' is insignificant in case of cash and equipment and current assets. Likewise, there is high degree of positive relationship between debtors, prepaid loan, advance and deposit and current assets. In the above table, $r > 6 P.E$. since, in case of current assets and prepaid loan and advance. So the relationship is said to be significant.

Working Capital and Sales: the Value of 'r' between working capital and sales of UNL is 0.60 that means they have low degree of positive relationship. P.E and 6P.E. ratios are 0.19 and 1.16 respectively. The value of 'r' is less than 6P.E. that means the relationship is said to nothing can be concluded.

Working Capital Components and Sales: UNL has low degree of positive 'r' between inventory and sales. From the above correlation presentation table, the 'r', P.E and 6P.E between inventory and sales are 0.61, 0.19 and 1.14 respectively. Since $P.E < r < 6P.E$.so, the result is nothing can be concluded. Similarly, there is positive relationship between debtors, cash and equipment and sales. The value of 'r' is insignificant in case of debtors, cash and equipment and sales. Likewise, the value of 'r' is insignificant i.e. there is no evidence of correlation between Debtors, cash and equipment and sales. There is high degree of positive relationship between prepaid loan, advance and deposit and sales. In the above table, $r > 6 P.E$. since, in case of sales and prepaid loan and advance. So the relationship is said to be significant.

4.1.14 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding the target level for each category of current assets and current liabilities. WC management refers to the administration of all assets and current liabilities policies, which affects the overall functional areas of the firm. Every firm wants to maximize its shareholders' wealth. In order to achieve the targeted goals, it has to perform many functions. For this purpose, firm has to determine the suitable current assets investment policy, maintain proper relation of CA with FA and TA and finance the current assets with short-term as well long-term sources. Thus, the better performance of CA is the internal parts of working capital management. There are two types of working capital policies.

4.1.14.1 Working Capital Investment Policy

Working capital investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. It refers to the optimum level of working capital investment decision policy. It has three alternative policies. Fat-cat policy is that policy which has large amount of current assets and account receivable (credit sales), long ICP and RCP and lower return on investment. Its vice-versa is lean and means policy, between these two policies has moderate policy (Thapa, 2006).

i. Current Assets to Fixed Assets

For the success of any manufacturing concern, a firm should invest in CA as well as FA to support a particular level of output. Therefore, the firm should determine the proper proportion of CA with FA and TA. The level of CA can be measure by the relationship between current assets to fixed assets which can help to find out the current assets investment policy. Assuming a constant level of fixed assets policy, higher CA to FA ratio indicates an aggressive CA policy; conversely lower ratio indicates a conservative current assets policy. If the firms increase the proportion of CA, there is a high probability of return as well as risk as vice versa (Parajuli, 2000).

Table: 4.29

Proportion of Current assets to Fixed Assets

(RS in Million)

Fiscal Year	Current Assets	Fixed Assets	CA / FA
064/65	754.38	140.21	5.38
065/66	807.71	126.67	6.37
066/67	758.97	160.85	4.71
067/68	745.83	153.48	4.85
068/69	1293.79	160.62	8.05
Average			5.87
C.V			1.37037
R			0.39122

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.29 shows that the ratio of current assets to fixed assets is increasing each year whereas the investment in fixed assets is less than current assets in over the study period. The ratio of current assets to fixed assets ranges from 4.75 to 8.05 during the observed period. The ratio of current assets to fixed assets is 5.38, 6.37, 4.71, 4.85 and 8.05 respectively for the fiscal year 2064/065 to 068/069. The average ratio of current assets to fixed assets is 5.87 times. From the analysis it is clear that company's investment in current assets is higher than fixed assets over the study period. This ratio indicates that the company follows the aggressive working capital policy. However, company has no clear vision about the investment in Current Assets. So, it clearly shows that the company current assets investment policy is being more and more aggressive.

ii. Current Assets to Sales

Sales are one of the most integral parts of manufacturing industry like Unilever Nepal Limited. The survival and growth of every manufacturing concern depends upon the available resources and demand. It is also greatly affected by the production policy. Financial policy and their strategic planning affect production policy of company. Therefore, the co-ordination between those elements of company is the most important. Thus, the company invests in current assets to support the given level of sales.

Table: 4.30
Proportion of Current Assets to Sales

(RS in Million)

Fiscal Year	Current Assets	Sales	% of CA to Sales
064/65	754.38	2144.59	35.17595
065/66	807.71	2625.83	30.76018
066/67	758.97	3055.07	24.84297
067/68	745.83	3556.67	20.9699
068/69	1293.79	4232.47	30.5682
Average			28.46344
C.V			1.073946
R			0.739318

Sources: Annual report of UNL from 064/65 to 068/069

Table 4.30 shows that percentage of current assets on sales of Unilever Nepal Limited is decreasing each year except in the year 2068/069. It has ranged from 35.17% to 20.97%. the table shows that investment in current assets is increasing year by year except in fiscal year 2066/067 & 2067/068, whereas the sales has increased for the first four years but it has decreased in last year. This fact shows that company current assets investment policy is moving toward aggressive policy. In order to maximize sales, the company is investing a large amount in current asset.

The investment on Current Assets is to support the given level of sales that depends upon the current assets investment policy and the attitude of management. When a firm holds relatively large amount of current assets to support a given level of sales is called conservative policy. When a firm holds relatively minimum amount of Current Assets to support a given level of sales, it is called aggressive policy and a state between these two policies is called a moderate policy. For the purpose of analysis of current assets investment policy, relative measure - current assets to sales have been used (Parajuli, 2000).

Table: 4.31

Analysis of Working Capital Investment Policy on Average Basis

Average indicator of during the study period	Unit
Average level of current assets on total assets (%)	61.54
Average return on working capital (%)	62.80
Average inventory conversion period (Days)	73
Average receivable collection period (Days)	15
Average Payable deferred period (Days)	47

Sources: Annual report of UNL from 064/65 to 068/069

From the above analytical table 4.31, Unilever Nepal Limited has large portion of current assets on total assets but there is high return on working capital, high average inventory conversion period, short average receivable collection period and short average payable differed period which shows that Unilever Nepal Limited has followed aggressive working capital (current assets) investment policy.

4.1.14.2 Working Capital Financing Policy

The main objective of a firm is to maximize the shareholders wealth. To attain this objective the firm should have optimum level of current assets to run the business and to meet day to day expenses and future obligation also. The firm can manage current assets from short term financing and long term financing. Thus there should be good relationship between to achieve the firm's objectives. The relation of them can be measured by computing ratio of short term financing and long term financing with total current assets. This ratio used to determine the financing policy for maintaining the working capital levels. The higher ratio of short term financing to current assets indicates the aggressive working capital policy adopting by a firm. That means the firm has taken the higher level of risk. But the higher ratio of long term financing to current assets reflects the conservative current assets policy adopting by a firm. That means, the firm has taken the lower level of risk and lower level of profitability (Basnet, 1996).

Table: 4.32

Financing Policy of Working Capital

(RS in Million)

Fiscal Year	Long Term Financing	Short Term Financing	Total Current Assets	% of Long Term Financing	% of Short Term Financing
2064/065	369.62	384.76	754.38	49.00	51.00
2065/066	465.59	342.12	807.71	57.64	52.36
2066/067	425.65	333.32	758.97	56.08	43.92
2067/068	377.16	368.22	745.83	50.57	49.43
2068/069	693.69	600.10	1293.79	53.62	46.38
Average	466.342	405.704	872.136	53.382	48.618

Sources: Annual report of UNL from 064/65 to 068/069

The table 4.32 shows the working capital financing mix policy. The UNL have been used short term sources and long term sources to financing the total current assets. The table indicates the trend of short term financing to total current assets is decreasing from 51.00% to 46.38% in the fiscal year 2064/65 and 2068/069

respectively and the trend of long term financing to total current assets is increasing from 49.00% to 53.62% in the fiscal year 2064/065 and 2068/069 respectively. The decreasing trend of short term financing to TCA indicates the lower level of risk and increasing trend of long term financing to TCA indicates the lower level of profitability. Lower level of risk and lower level of profitability is the basic principle of conservative working capital police. Thus the firm has adopted conservative working capital financing policy to manage the current assets level. That is why it has been messing the chances of earning profit by adopting non-risk taking policy.

4.1.15 Hypothesis Test

The study of the statistical relationship between various financial items which described in the introduction chapter is being studied and different financial hypothesis will be tested and formulated as follows: -

For the study, following set of null and alternative hypothesis have been formulated and tested.

i.Null hypothesis, $H_0: \mu_x = \mu_y$. That is, there is no significant difference between current assets and total assets. In other words, total assets depend on the share of current assets.

Alternative hypothesis, $H_1: \mu_x \neq \mu_y$. That is, there is significant difference between current assets and total assets. In other words, total assets do not depend on the share of current assets.

ii. $H_0: \mu_x = \mu_y$. That is, there is no significant difference between current assets and fixed assets. In other words, fixed assets depend on the share of current assets.

$H_1: \mu_x \neq \mu_y$. There is significant difference between current assets and fixed assets. In other words, fixed assets do not depend on the share of current assets.

iii. $H_0: \mu_x = \mu_y$. That is, there is no significant difference between component of working capital and current assets. In other words, current assets depend upon component of working capital.

$H_1: \mu_x \neq \mu_y$. That is, there is significant difference between component of working capital and current assets. In other words, current assets do not depend upon component of working capital.

iv. $H_0: \mu_x = \mu_y$. That is, there is no significant difference between receivable, working capital, inventory and sales. In other words, receivable, working capital and inventory are affected by sales.

$H_1: \mu_x \neq \mu_y$. That is, there is significant difference between receivable, working capital, inventory and sales. In other words, receivable, working capital and inventory are not affected by sales.

v. $H_0: \mu_x = \mu_y$. That is, there is no significant difference between current assets, quick assets and current liabilities. In other words, a current liability is influenced by current assets and quick assets.

$H_1: \mu_x \neq \mu_y$. That is, there is significant difference between current assets, quick assets and current liabilities. In other words, a current liability is not influenced by current assets and quick assets.

4.1.15.1 Analysis of Hypothesis Test

To test the validity of our assumption, if sample size is less than 30, t-test is used. In order to apply t-test in the context of small sample, the t-value is calculated first and compared with the table value of t at a certain level of significance (say on 5%) for given degree of freedom. If calculated value of t exceeds the table value, we infer that the null hypothesis is rejected, that is, the difference is significant at 5% level of significance. If t is less than corresponding table value of t, the null hypothesis is accepted. In other words, the difference is not treated as significant.

Table: 4.33**Result of the Hypothesis Test**

S.N	Variables of Hypothesis Test	Calculated t- Value	Tabulated t- Value	Result/ Decisions
1.	Current Assets and Total Assets	3.89	2.306	H ₀ is rejected
2.	Current Assets and Fixed Assets	8.656	2.306	H ₀ is rejected
3.	Compositions of W/C & Current Assets			
a.	Current Assets and Inventory	5.142	2.306	H ₀ is rejected
b.	Current Assets and cash & Equivalentents	7.30	2.306	H ₀ is rejected
c.	Current Assets and Debtors	5.99	2.306	H ₀ is rejected
d.	Current Assets and Prepaid loan & Advance	8.012	2.306	H ₀ is rejected
4.	Working Capital and Sales	7.538	2.306	H ₀ is rejected
5.	Component of W/C and Sales			
a.	Inventory and sales	9.41	2.306	H ₀ is rejected
b.	Debtors and Sales	9.819	2.306	H ₀ is rejected
6.	Current Assets and Current Liabilities	2.263	2.306	H ₁ is rejected
7.	Quick Assets and Current Liabilities	2.147	2.306	H ₁ is rejected

Source: Appendix 3-10

Table 4.33 shows that, there is significant difference between current assets with fixed assets and total assets, because the calculated value of t3.89& 8.656 is more than its tabulated value 2.306. Therefore, the null hypothesis (H₀) is rejected hence alternative hypothesis (H₁) is accepted. That is, there is significant difference between current assets and total assets& current assets and fixed assets. In other words, total assets and fixed assets do not depend on the share of current assets.

Similarly, there is significant difference between component of working capital and current assets, i.e. current assets and inventory, current assets and cash & equivalent,

current assets and debtors & current assets and prepaid loan and advance, because the calculated value of t 5.142, 7.30, 5.99 and 8.012 is more than its tabulated value 2.306. Therefore, null hypothesis (H_0) is rejected hence alternative hypothesis (H_1) is accepted. So, there is significant difference between component of working capital and current assets. In other words, current assets do not depend upon component of working capital.

There is significant difference between working capital & sales, inventory and sales and debtors and sales because the calculated value of t 7.538, 9.41 and 9.819 is more than its tabulated value 2.306, therefore, the null hypothesis (H_0) is rejected hence alternative hypothesis (H_1) is accepted. That is, there is significant difference between receivable, working capital, inventory and sales. In other words, receivable, working capital and inventory are not affected by sales.

The judgments about liquidity position whether there is no significant difference between current assets and current liabilities & quick assets and current liabilities because the calculated value of t 2.263 & 2.147 is less than its tabulated value 2.306, therefore the null hypothesis (H_0) is accepted hence alternative hypothesis (H_1) is rejected. There is no significant difference between current assets, quick assets and current liabilities. In other words, a current liability is influenced by current assets and quick assets.

4.2 Major Findings

The major findings of this study of UNL during the five-year study period are summarized below: -

- i. Composition of Working Capital:
 - Component of current assets: The major components hold the large proportion of current assets in UNL are Inventories, Cash & equivalent, Sundry debtors and prepaid loans & advances respectively. During the study period, the proportion of inventories, cash & equivalent, debtors and prepaid loans & advance to current assets, an average are 47.80%, 20.90%, 15.56% and 15.39% respectively during the study period. The company holds large proportion of less liquid assets (inventories) during the study period.

- Component of current liabilities: Sundry creditors and provisions are the major component of current liabilities of UNL. The average percentage of sundry creditors & others payables and provisions current liabilities are 62.29% and 30.54% respectively. Sundry creditors & provisions vary from 47.65% to 74.40% and 25.37% to 34.55% respectively. Therefore, all components of CL are fluctuating during the study period.
- Net Working capital position: The working capital level of the company is not constant over the study period. Total working capital of the company has limited to Rs.238.82 million, Rs.293.44 million, Rs.249.16 million, Rs.184.07 million and Rs.494.89 million at the end of FY 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively.

ii. Proportions of Variables of working capital with CA, TA and Sales:

- The current assets level with respect to total assets are decreasing trend, from 69.33% to 49.57% with the average portion of 61.54%. Current assets is increasing first two years and then last year only, but the total assets is increasing overall the study period because of the highly fluctuating in component of current assets.
- Inventory is a major component of current assets, holds the largest portion of CA. The trend of inventory to current assets is fluctuating from 30.42% to 58.39% with an average of 47.80%. Inventory with respect to total assets is decreasing trend except to F/Y 2066/067. It is range between 37.69% to 20.27% with an average of 28.90%.
- Debtor is the next major component of current assets in UNL. The trend of debtors to current assets is fluctuating trend from 7.77% to 37.63% with an average of 15.56% during the study period. Similarly the debtor with total assets is also fluctuating trend from 13.61% to 39.49% with an average of 17.61%.
- Cash & equivalent is the another component of current assets in UNL. The firm has fluctuating trend of cash & equivalent to current assets, ranged from 7.64% to 47.30% with an average of 20.99%. The cash level with respect to total assets is also fluctuating from 3.79% to 31.51% with an average of

13.31%. It indicates there is no uniformity on its cash balance because of the poor management in the company.

- Prepaid loans and advance is the next major component of current assets, is also fluctuating from 12.27% to 24.67% with an average of 15.39% during the study period. Similarly, the prepaid loans and advance with respect to total assets is also fluctuating trend from 6.18% to 16.59% with an average of 9.47%.
 - Working capital turnover ratio of UNL has found increasing trend from 2.84 times to 4.77 times except to FY 2068/069 with an average of 3.63 times. Generally, working capital turnover should be more than or equally to ten times in the firm. So, it indicates the inefficient working capital management of UNL. The ITR has been increasing from 3.72 times to 5.73 times with an average of 5.03 times, which indicate that UNL cannot efficiently utilize the inventory because of inefficient management of inventories. The receivable turnover ratio is changing year by year with an average of 26.81 times. Company followed hard collection policy during the study period and the company have collected debtors effectively with in time. Cash and equivalent turnover has fluctuated from 6.87 times to 62.35 times with an average of 26.17 times. The comparison with average cash turnover the firm has poor cash turnover except in FY 2067/068. Similarly it is found that the average of net working capital turnover ratio and loan advance and deposits turnover ratio is 11.61 times and 25.84 times. The NWC of UNL is increasing trend from 238.82 to 494.89 million. The increasing amount of NWC indicates the better liquidity position and it shows highly fluctuating trend of NWCT because of the inefficient utilization of net working capital.
- iii. Working capital cash conversion cycle: The inventory conversion period of UNL is ranging between 97 days to 63 days. It has the average inventory conversion period of 73 days. The receivable collection period of UNL is highly fluctuating trend from minimum 9 days to maximum 17 days with an average RCP of 28 days. The payable deferred period varies from maximum of 99 days to minimum 22 days with an average is 86 days. The average cash conversion cycle of the UNL is 21 days. The analysis of UNL has shown that short PDP and long ICP and short RCP, which is not favorable for the company. The company has followed the hard

collection policy and the company cannot make the fixed policy to make payment for labor and material purchase because the PDP is highly fluctuating over the study period.

- iv. **Liquidity position:** The liquidity position of UNL is analyzed with the current ratio and quick ratio. Current ratio of UNL is ranging in between 1.33:1 to 1.61:1. The company's average current ratio is 1.49:1 time during the study period, which is below the standard 2:1. It indicates poor liquidity position of UNL. The quick ratio of the company is ranging in between 0.56 times to 1.09 time and company's average 0.78:1, which is less than standard 1:1. It shows that the company has not been able to convert current assets quickly in cash in order to meet current liabilities. Current ratio and quick ratio both exposed unsatisfactory liquidity position of UNL.
- v. **Profitability Position:** Profitability position of UNL has been found that average NPM, GPM, ROTA, ROWC and OER are 17.19%, 37.11%, 37.58%, 62.80% and 87.02% respectively. Net profit margin, return on total assets, return on working capital and operating expenses ratio are in increasing trend. It has been found that there is a high gap between gross profit margin and net profit margin due to the high operating expenses 87.02% of sales.
- vi. **Relationship of Profitability with Liquidity:** The correlation coefficient 'r' of current ratio with net profit margin has found positive relationship, so it is insignificant thus the principle of adverse relationship between profitability and liquidity does not hold in the case of UNL. The correlation coefficient of QR and NPM has found negative, so it is insignificant thus the principle of adverse relationship between profitability and liquidity does hold in the case of UNL. In the case of RTR & NPM there is positive relationship between them and there has been also positive relationship between NPM & inventory. As a whole relationship between profitability and liquidity position of UNL is not consistent with the trade-off theory of liquidity and profitability. It is due to highly fluctuating current assets.
- vii. **Relationship of Working Capital Variables with TA, CA and Sales:** The correlation coefficient 'r' of CA with TA and CL has found high degree of positive relationship. In component wise relationship between LAD & CA, Debtors & CA and WC & PLAD has found high degree of positive relationship, so the relationship between them is said to be significant with current assets. The

correlation between CBB and CA, Debtors and Sales & cash equivalent and sales is positive relationship. Therefore the value of 'r' is insignificant. The correlation between Inventory & CA, WC & Sales and Inventory with Sales is low degree of positive relationship. Therefore the value of 'r' is nothing can be concluded. In overall UNL has insignificant relationship of working capital components with sales except inventory and sales & prepaid loans, advance and sales respectively. There has been nothing can be concluded between inventory & current assets and sales & inventory because it is found that the values of 'r' is greater than P.E. and smaller than 6 P.E. (i.e. $P.E < r < 6 P.E.$)

- viii. Working Capital Policy: UNL has been found that average return of working is 62.79%, high return on working capital which implies that the working capital investment policy of UNL has followed aggressive working capital investment policy. The trend of short term financing to total current assets is decreasing from 51.00% to 46.38% and the trend of long term financing to total current assets is increasing from 49.00% to 53.62% in the fiscal year 2064/065 and 2068/069 respectively. Lower level of risk and lower level of profitability is the basic principle of conservative working capital policy. Thus the UNL followed Conservative Working capital policy.
- ix. On the basis of testing hypothesis from the financial information provided by UNL, It is seen that there is significant difference between current assets & fixed assets and total assets. Similarly, there is significant difference between component of working capital and current assets, working capital & sales, inventory and sales and debtors and sales. The null hypothesis (H_0) is rejected hence alternative hypothesis (H_1) is accepted. But the judgments about liquidity position whether there is no significant difference between current assets and current liabilities & quick assets and current liabilities. As well as, the null hypothesis (H_0) is accepted hence alternative hypothesis (H_1) is rejected.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter summarizes the whole study, draws the major conclusions and forwards the recommendation for more efficient working capital management of UNL.

5.1 Summary

The manufacturing industries are the main pillar of Nepalese economy. Working capital management is an unavoidable aspect of any management stream. Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationships that exist between them. The basic objective of this study is to examine the management of working capital of UNL. The last important work is to list the findings, issues and challenges of the study and to give suggestion for the improvement. This chapter includes the summary of the study, conclusion and recommendation on the basis of the main findings, which are derived from the analysis of financial statement of UNL.

The modern financial management and its offshoot working capital management are abundantly used by the company to improve their efficiency. Working capital management, a very sensitive area of financial management was the main concern of this study and it was related to UNL. The main objective of this study is to find out the working capital management and working capital policy of UNL. In this study, working capital financing policy and working capital investment policy is studied. The specific objectives were to analyze and assess the size, growth, liquidity, profitability and efficiency of working capital and thereby analyzing the overall management policy on working capital of UNL. For the purpose of the study, necessary data have been derived from the balance sheet, income statement and profit and loss account of UNL for the periods of five years from F/Y 2064/065 to F/Y 2068/069. The obtained data have been tabulated and analyzed by applying various important financial and statistical tools and techniques. After tabulating the available data in a systematic manner, various important financial and statistical tools and techniques were applied in order to accomplish the objective of study.

The size and structure of working capital was analyzed by comparing current assets and its components with different related variables. Activity and profitability ratios were calculated to evaluate the efficiency of working capital. Liquidity position was assessed by calculating different liquidity ratios viz. current ratio, quick ratio and CCC. Current assets financing policy and investment policy have also been discussed and analyzed. Different statistical tools like mean, standard deviation, coefficient of variation, Karl Pearson correlation coefficient and hypothesis (t-test) were calculated for the meaningful interpretation of the data.

The composition of current assets analysis shows that the UNL maintains the higher percentage of inventory and lower percentage of loans and advance. The debtors are highly fluctuated so there is no fixed credit policy of UNL. The average cash conversion cycle over the period is 47 days and the company has followed hard receivable collection policy over the period. The average current ratio and quick ratio is below the standard. The profitability position of UNL is satisfactory but the operating expenses ratio is high over the study period. It has still followed conservative working capital financing policy with high ratio of long-term financing use for investing in current assets and followed aggressive working capital investment policy to invest current assets with strict credit policy and high return on working capital and higher profitability. As mentioned above this study has also tested the relationship shows that Sales, Inventory, Current Assets, Current Liabilities affects the Net Working Capital positively and the finding suggest that UNL has strong relationship between each variables.

The various aspect of WC management is importance on the overall management. It recognized the fact that mistakes made in management of working capital can lead to adverse effect that reduce the liquidity and profitability of manufacturing company. A manufacturing company must have an adequate cash to pay for different liabilities and supply of raw materials to process the operational activities. It must have an ability to grant credit to its customers and shareholders.

5.2 Conclusion

Working capital is the most important part of manufacturing companies and it should not be neglected. Manufacturing companies are not getting prosperous position due to

their administrative negligence in day to day operation, unnecessary blockage of inventories and lack of specific working capital policy.

- Inventory is the major component of CA which holds the largest proportion of CA. The firm has suffered from quality of overstocks because of inefficient management of inventory by high carrying cost and low profitability. Investing unnecessary amount in WC by blocking huge capital on inventories. In overall current assets structure level of UNL are not stable. NWC represents the excessive amount of CA over CL which measures the liquidity position of the firm. The increasing amount of NWC indicates the better liquidity position of UNL.
- The Variable of working capital ratio with TA, CA and Sales, the total asset is increasing over the study period because of the highly fluctuating in variable of current assets. Cash to CA indicates there is no uniformity on its cash balance because of the poor management in the company. From the analysis of CTR the firm has poor cash turnover, this indicates inefficient cash management of UNL. Generally, working capital turnover should be more than or equally to ten times in the firm. The increasing trend of NWCT indicates the better liquidity position and it shows highly floating trend of NWCT because of the inefficient utilization of NWC. The gross working capital turnover ratio of UNL is not in full satisfaction level. The ITR indicates that UNL cannot efficiently utilize the inventory.
- The ICP of the UNL is high; it indicates the inventory is less degree of liquidity. The RCP of the company is very low most of the sales are in cash, so the RCP of the company is satisfactory but the effects of hard collection policy may decrease in sales. The company has followed the hard receivable collection policy. The analyses of PDP explain that the company cannot make the fixed policy to make payment for labor and supplier because the PDP is fluctuating over the study period. In overall the CCC of UNL is satisfactory because the longer and negative both CCC is not favorable for the company. The longer CCC generates external financing needs, increases the cost of financing and reduces the profitability.
- Liquidity position of UNL shows it is unable to meet standard or it is below the standard value, which remains unsuccessful to meet the current obligation, which specific the liquidity position of UNL is poor. Similarly, after analyzing the various profitability ratios, it can be concluded that there is operating inefficiency in sample Company and overall return position of company is favorable. By the

analysis we came to know that, the average gross profit margin and net profit margin is satisfactory which is in positive. This indicates that there is no loss to the company over the study period i.e. company is in good condition. Liquidity ratios show that UNL takes high risk. But coefficient of correlation between profitability and various liquidity ratios in general is not significant. This insignificant relationship between liquidity and net profit margin implies that there is no trade-off between liquidity and profitability.

- The correlation coefficients of the variables selected for the statistical analysis show that UNL has significant relationship, insignificant relationship and positive correlation with each other except with inventory and CA and inventories & sales. As we know that positive correlation means both of the variables are moving towards the same directions, the finding suggest that UNL has strong relationship between each variables.
- From the analysis of WC policy, the decreasing trend of short term financing to TCA indicates the lower level of risk and increasing trend of long term financing to TCA indicates the lower level of profitability. Lower level of risk and lower level of profitability is the basic principle of conservative working capital policy. It has still followed conservative working capital financing policy with high ratio of long- term financing use for investing in current assets. The study find the investment in current assets is high with respect net fixed assets. So the company adopted aggressive working capital investment policy to invest current assets with strict credit policy and high return on working capital and higher profitability.

In the conclusion profitability position of UNL is satisfactory but the CA contains more inventory and poor liquidity position that should be reduced in future. For maximize its profitability the firm should maintain the optimum level of working capital.

5.3 Recommendation

The following recommendations have been made on the basis of foregoing analysis for further improvement of existing working capital management.

- The management of WC highly depends upon the effective inventory management. The company should make the effective sales plan, which is for immediate marketability. It is certainly decreasing the problem of overstocking.

The management must given attention towards capacity utilization, carrying cost, ordering cost & lead-time for effective inventory management. At this same time, to manage inventory and minimize the wastage there should be good storekeeping system, better materials handling system and timely inspection system.

- The WC should be arranged in such a way, it should generate the maximum turnover. The working capital & net working capital has not been fully utilized. The company should try to utilize the working capital to maintain sound turnover position.
- CCC depends on the ICP, RCP and PDP, so the company reducing the inventory conversion period by processing and selling goods more quickly and the company make fixed policy for payment labor & material purchase without failing the firm's creditability to control highly fluctuating data over the study period. The company should adopts this speed up hard collection policy of account receivable without losing future sales due to high pressure collection techniques.
- UNL being a manufacturing company need an efficient liquidity position to operate its business but it has lower value than standard. Liquidity handling of the company is not satisfactory because it's in the highly fluctuating trend. Lower current ratio indicates lower liquidity and factory does not have ability to pay its obligations. Therefore, it should maintain the standard value of both current ratio and quick ratio to get the optimum solvency position.
- There is an extremely high operating expense ratio in the company. The Corporation needs to operate in a proper way so that it can have lesser operating cost which further helps in maximization of its profit, which is the ultimate goal of any organization.
- UNL should set the standard for the ratio of current assets to fixed assets. It has not clear vision about the management of CA to FA. The company should follow suitable working capital non risk policy to manage the current assets level for chances of maximize the profitability and minimize the risk.
- Company should develop appropriate management information system by preparing timely reports. This aids in determining the amount of working needs. They should recognize the value of management system. The company should increase skilled manpower for decreases the operating cost and increases the profitability.

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Appendix-1
Unilever Nepal Limited, Kathmandu, Nepal
Comparative Balance Sheet

(RS in Million)

Particulars/Fiscal Year	2068/069	2067/068	2066/067	2065/066	2064/065
Sources of funds:					
Shareholders' Funds:					
a. Share Capital	92.07	92.07	92.07	92.07	92.07
b. Reserve and surplus	1025.19	832.59	738.30	595.80	188.41
Grand Total	1117.26	924.66	830.37	687.87	280.48
Non -Current Assets					
Fixed Assets					
A. Gross Block	437.21	415.58	401.29	361.06	364.63
B. Less: Accumulate Dep.	(279.34)	(267.09)	(248.71)	(239.43)	(229.74)
C.Net Block	157.87	148.49	153.01	121.64	134.89
D. Capital work-in progress	2.76	8.59	7.85	5.03	5.33
E. Assets held for sale	----	----	----	17.48	----
Investments					
a. Fixed Deposit	455.35	587.35	448.65	248.65	183.65
b. Deferred Tax Assets	14.06	14.27	14.02	11.67	9.80
Current Assets, Loans and Advances:					
A. Inventories	511.32	429.75	443.18	245.75	410.12
B. Sundry Debtors	264.40	130.45	546.03	105.02	148.13
C. Prepaid, Loans, Advance, Deposit & Other Receivables	319.24	128.60	97.93	74.90	97.14
D. Cash and Cash Equivalent	198.82	57.04	163.27	382.05	98.99
Total Current Assets	1293.79	745.83	758.97	807.71	754.38
Less:- Current Liabilities & Provision					
A. Sundry creditors and other payables	600.10	368.22	333.32	342.12	384.77
B. Provisions	198.80	193.54	176.15	172.15	130.79
Total Current Liabilities	598.90	561.76	509.81	514.27	515.56
Net Current Assets	694.89	184.07	249.16	293.44	238.82
Grand Total	1117.26	924.66	830.37	687.87	280.48

Source: Annual Reports of UNL, Fiscal years 2064/065-2068/069

Appendix-2

Unilever Nepal Limited, Kathmandu, Nepal

Comparative income Statement

(RS in Million)

Particulars/Fiscal Year	2068/069	2067/068	2066/067	2065/066	2064/065
Income					
Sales less Return	4232.47	3556.67	3055.07	2625.83	2144.59
Other income	224.26	184.14	158.67	873.99	542.38
Total income	4456.73	3740.80	3213.74	2713.23	2198.83
Expenditure					
Cost of materials	2405.45	2002.33	1581.96	1511.38	1179.37
Mfg. Expenses	261.81	231.50	208.69	174.24	164.18
Administrative Expenses	127.98	105.61	81.73	61.57	58.67
Selling & Distribution Exp	630.69	518.0	518.73	333.20	299.39
Financial Expenses	0.1075	0.1058	1.7684	0.1175	0.1206
Change (Gain/loss)	3.6443	----	-----	-----	-----
Deprecation	12.25	18.79	13.67	12.67	20.65
(Profit)/loss on Sales/Disposal of assets	-----	2.045	0.3098	0.0507	----
Total Expenditure	3441.93	2878.38	2406.87	2093.24	1722.39
Operating profit	1014.80	862.42	806.87	619.99	476.43
Provision for Inventory	14.13	25.6	10.27	-----	-----
Profit before Provision For bonus	1000.66	837.26	796.60	619.99	476.43
Provision for bonus	90.97	76.11	72.42	56.36	43.31
Profit before tax	909.69	761.14	724.18	563.63	433.12
Provision for Taxation	173.88	151.26	147.65	119.58	98.00
Current	173.67	151.50	150.00	121.45	98.00
Deferred	0.2079	(0.2437)	(2.3524)	(1.8702)	0
Profit after tax	735.81	609.79	576.53	444.04	335.12
Profit Brought Forward from Previous years	832.59	738.30	595.80	188.41	142.72
Deferred Tax Adjustment	-----	-----	(19.72)	-----	9.7995
Housing Loan Adjustment of 2002-03for VRS.	-----	-----	----	(36.658)	
I.T Provision 2003-04 Profit Available for appropriation	1568.40	1348.18	1152.61	595.80	487.64
Last year dividend paid	543.21	515.59	(414.32)	-----	299.23
Balance carried over to Balance sheet	1025.19	832.59	738.30	595.80	188.41

Source: Annual Reports of UNL, Fiscal years 2064/065-2068/069

Appendix-3

Calculation of t value of Current assets and total assets

(RS in Million)

Current assets			Total assets		
CA (X)	X - \bar{X}	(X - \bar{X}) ²	TA (Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
754.38	-117.76	13867.42	1088.05	-334.17	111669.59
807.71	-64.43	4151.22	1212.18	-210.04	44116.80
758.97	-113.17	12807.45	1382.50	-39.72	1577.68
745.83	-126.31	15954.22	1504.53	82.31	6774.94
1293.79	421.65	177788.72	1923.83	501.61	251612.59
$\Sigma X=4360.68$		$\Sigma(X - \bar{X})^2$ =224569.03	$\Sigma Y=7111.09$		$\Sigma(Y - \bar{Y})^2$ =415751.60

$$\bar{X} = \frac{\Sigma X}{N} = \frac{4360.68}{5} = 872.14 \quad \bar{Y} = \frac{\Sigma Y}{N} = \frac{7111.09}{5} = 1422.22$$

$$S^2 = \frac{\Sigma(X - \bar{X})^2 + \Sigma(Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{640320.63}{8} = 80040.08$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{-550.08}{141.46} = -3.89$$

$$|t| = 3.89$$

$$\text{Degree of freedom} = n_1 + n_2 - 2 = 5 + 5 - 2 = 8$$

The tabulated value of t at 5% level of significance for 8 d.f. is 2.306. That is $t_{0.05}(8) = 2.306$

Conclusion: Since calculated t is greater than the tabulated value of t, it is there is significantly different between total assets and current assets and H_0 is rejected and hence H_1 is accepted which means that the total assets do not depend on the share of current assets.

Appendix-4

Calculation of t value of Total Current Assets to Fixed Assets

(RS in Million)

Current assets			Fixed assets		
CA (X)	X - \bar{X}	(X - \bar{X}) ²	FA(Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
754.38	-117.76	13867.42	140.21	-8.16	66.58
807.71	-64.43	4151.22	126.67	-21.7	470.89
758.97	-113.17	12807.45	160.85	12.48	155.75
745.83	-126.31	15954.22	153.48	5.11	26.11
1293.79	421.65	177788.72	160.62	12.25	150.06
$\sum X = 4360.68$		$\sum (X - \bar{X})^2 = 224569.03$	$\sum Y = 741.83$		$\sum (Y - \bar{Y})^2 = 869.39$

$$\bar{X} = \frac{\sum X}{N} = \frac{4360.68}{5} = 872.14 \quad \bar{Y} = \frac{\sum Y}{N} = \frac{741.83}{5} = 148.37$$

$$S^2 = \frac{\sum (X - \bar{X})^2 + \sum (Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{223699.64}{8} = 27962.45$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{723.77}{83.61} = 8.656$$

Degree of freedom = $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t at 5% level of significance for 8 d.f. is 2.306. That is $t_{0.05} (8) = 2.306$

Conclusion: Since calculated t is greater than the tabulated value of t, it is there is significantly different between fixed assets and current assets and H_0 is rejected and hence H_1 is accepted which means that the fixed assets do not depend on the share of current assets.

Appendix-5

Calculation of t value of Inventory to Current Assets

(RS in Million)

Current Assets			Inventory		
CA (X)	X - \bar{X}	(X - \bar{X}) ²	Inv.(Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
754.38	-117.76	13867.42	410.12	4.1	16.81
807.71	-64.43	4151.22	245.75	-160.27	25686.47
758.97	-113.17	12807.45	443.18	37.16	1380.86
745.83	-126.31	15954.22	419.75	13.73	188.51
1293.79	421.65	17788.72	511.32	105.3	11088.09
$\Sigma X=4360.68$		$\Sigma(X - \bar{X})^2$ =224569.03	2030.12		$\Sigma(Y - \bar{Y})^2$ =38360.74

$$\bar{X} = \frac{\Sigma X}{N} = \frac{4360.68}{5} = 872.14 \quad \bar{Y} = \frac{\Sigma Y}{N} = \frac{2030.12}{5} = 406.02$$

$$S^2 = \frac{\Sigma(X - \bar{X})^2 + \Sigma(Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{262929.77}{8} = 32866.22$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{466.12}{90.64} = 5.142$$

Degree of freedom = $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t at 5% level of significance for 8 d.f. is 2.306. That is $t_{0.05} (8) = 2.306$

Conclusion: Since calculated t is greater than the tabulated value of t, it is there is significantly different between inventory and current assets and H_0 is rejected and hence H_1 is accepted which means that the inventory do not depend on the share of current assets.

Appendix-6

Calculation of t value of cash & Equivalent to Current Assets

(RS in Million)

Current Assets			Cash & Equivalent		
CA (X)	X - \bar{X}	(X - \bar{X}) ²	Cash.(Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
754.38	-117.76	13867.42	98.99	-81.04	6567.48
807.71	-64.43	4151.22	382.05	202.02	40812.08
758.97	-113.17	12807.45	163.27	-16.76	280.90
745.83	-126.31	15954.22	57.04	-122.99	15126.54
1293.79	421.65	177788.72	198.82	18.79	353.06
$\Sigma X=4360.68$		$\Sigma(X - \bar{X})^2$ =224569.03	$\Sigma Y=900.17$		$\Sigma(Y - \bar{Y})^2$ = 63140.06

$$\bar{X} = \frac{\Sigma X}{N} = \frac{4360.68}{5} = 872.14 \quad \bar{Y} = \frac{\Sigma Y}{N} = \frac{900.17}{5} = 180.03$$

$$S^2 = \frac{\Sigma(X - \bar{X})^2 + \Sigma(Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{287709.09}{8} = 35963.64$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{692.11}{94.82} = 7.30$$

Degree of freedom= $n_1+n_2-2 = 5+5-2 =8$

The tabulated value of t at 5% level of significance for 8 d.f. is 2.306. That is $t_{0.05} (8) = 2.306$

Conclusion: Since calculated t is greater than the tabulated value of t, it is there is significantly different between cash & equivalent and current assets and H_0 is rejected and hence H_1 is accepted which means that the cash do not depend on the share of current assets.

Appendix-7

Calculation of t value of Debtors to Current Assets

(RS in Million)

Current Assets			Debtors		
CA (X)	X - \bar{X}	(X - \bar{X}) ²	Deb.(Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
754.38	-117.76	13867.42	148.13	-90.68	8222.86
807.71	-64.43	4151.22	105.02	-133.79	17899.76
758.97	-113.17	12807.45	546.03	307.22	94384.13
745.83	-126.31	15954.22	130.45	-108.36	11741.89
1293.79	421.65	177788.72	264.4	25.59	654.85
$\Sigma X=4360.68$		$\Sigma(X - \bar{X})^2$ =224569.03	$\Sigma Y=1194.03$		$\Sigma(Y - \bar{Y})^2$ =132903.49

$$\bar{X} = \frac{\Sigma X}{N} = \frac{4360.68}{5} = 872.14 \quad \bar{Y} = \frac{\Sigma Y}{N} = \frac{1194.03}{5} = 238.81$$

$$S^2 = \frac{\Sigma(X - \bar{X})^2 + \Sigma(Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{357472.52}{8} = 44684.06$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{633.33}{105.69} = 5.99$$

Degree of freedom = $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t at 5% level of significance for 8 d.f. is 2.306. That is $t_{0.05} (8) = 2.306$

Conclusion: Since calculated t is greater than the tabulated value of t, it is there is significantly different between debtors and current assets and H_0 is rejected and hence H_1 is accepted which means that the debtors do not depend on the share of current assets.

Appendix-8

Calculation of t value of Prepaid Loan & Advance to Current Assets

(RS in Million)

Current Assets			Prepaid Loans and Advance		
CA (X)	X - \bar{X}	(X - \bar{X}) ²	Lon.(Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
754.38	-117.76	13867.42	97.14	-46.42	2154.82
807.71	-64.43	4151.22	74.9	-68.66	4714.20
758.97	-113.17	12807.45	97.93	-45.57	2076.62
745.83	-126.31	15954.22	128.6	-14.96	223.80
1293.79	421.65	177788.72	319.24	175.68	30863.46
$\Sigma X=4360.68$		$\Sigma(X - \bar{X})^2$ =224569.03	$\Sigma Y=717.81$		$\Sigma(Y - \bar{Y})^2$ =40032.90

$$\bar{X} = \frac{\Sigma X}{N} = \frac{4360.68}{5} = 872.14 \quad \bar{Y} = \frac{\Sigma Y}{N} = \frac{717.81}{5} = 143.56$$

$$S^2 = \frac{\Sigma(X - \bar{X})^2 + \Sigma(Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{264601.93}{8} = 33075.24$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{728.58}{90.93} = 8.012$$

Degree of freedom= $n_1+n_2-2 = 5+5-2 = 8$

The tabulated value of t at 5% level of significance for 8 d.f. is 2.306. That is $t_{0.05} (8) = 2.306$

Conclusion: Since calculated t is greater than the tabulated value of t, it is there is significantly different between prepaid loan & advance and current assets and H_0 is rejected and hence H_1 is accepted which means that the prepaid loan & advance do not depend on the share of current assets.

Appendix-9

Calculation of t value of Working Capital to Sales

(RS in Million)

Sales			Working Capital		
Sale. (X)	X - \bar{X}	(X - \bar{X}) ²	W.C.(Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
2144.59	-978.37	957207.86	754.38	-117.76	13867.42
2625.83	-497.1	247108.41	807.71	-64.43	4151.22
3055.07	-67.86	4604.98	758.97	-113.17	12807.45
3556.67	433.74	188130.39	745.83	-126.31	15954.22
4232.47	1109.54	1231079.01	1293.79	421.65	177788.72
$\Sigma X=15614.63$		2628130.65	$\Sigma Y=4360.68$		$\Sigma(Y - \bar{Y})^2$ =224569.03

$$\bar{X} = \frac{\Sigma X}{N} = \frac{15614.63}{5} = 3122.93 \quad \bar{Y} = \frac{\Sigma Y}{N} = \frac{4360.68}{5} = 872.14$$

$$S^2 = \frac{\Sigma(X - \bar{X})^2 + \Sigma(Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{2852699.68}{8} = 356587.46$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{2250.75}{298.57} = 7.538$$

Degree of freedom = $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t at 5% level of significance for 8 d.f. is 2.306. That is $t_{0.05}(8) = 2.306$

Conclusion: Since calculated t is greater than the tabulated value of t, it is there is significantly different between working capital and sales and H_0 is rejected and hence H_1 is accepted which means that the working capital is not affected by sales.

Appendix-10

Calculation of t value of Inventory to Sales

(RS in Million)

Sales			Inventory		
Sale. (X)	X - \bar{X}	(X - \bar{X}) ²	Inv.(Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
2144.59	-978.37	957207.86	410.12	4.1	16.81
2625.83	-497.1	247108.41	245.75	-160.27	25686.47
3055.07	-67.86	4604.98	443.18	37.16	1380.86
3556.67	433.74	188130.39	419.75	13.73	188.51
4232.47	1109.54	1231079.01	511.32	105.3	11088.09
$\Sigma X=15614.63$		2628130.65	$\Sigma Y=2030.12$		$\Sigma(Y - \bar{Y})^2 = 38360.74$

$$\bar{X} = \frac{\Sigma X}{N} = \frac{15614.63}{5} = 3122.93 \quad \bar{Y} = \frac{\Sigma Y}{N} = \frac{2030.12}{5} = 406.02$$

$$S^2 = \frac{\Sigma(X - \bar{X})^2 + \Sigma(Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{2666491.39}{8} = 333311.42$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{2716.91}{288.66} = 9.41$$

Degree of freedom = $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t at 5% level of significance for 8 d.f. is 2.306. That is $t_{0.05} (8) = 2.306$

Conclusion: Since calculated t is greater than the tabulated value of t, it is there is significantly different between inventories and sales and H_0 is rejected and hence H_1 is accepted which means that the inventory is not affected by sales.

Appendix-11

Calculation of t value of Debtors to Sales

(RS in Million)

Sales			Debtors		
Sale. (X)	X- \bar{X}	(X- \bar{X}) ²	Deb.(Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
2144.59	-978.37	957207.86	148.13	-90.68	8222.86
2625.83	-497.1	247108.41	105.02	-133.79	17899.76
3055.07	-67.86	4604.98	546.03	307.22	94384.13
3556.67	433.74	188130.39	130.45	-108.36	11741.89
4232.47	1109.54	1231079.01	264.4	25.59	654.85
$\Sigma X=15614.63$		$\Sigma(X-X)^2$ =2628130.65	$\Sigma Y=1194.03$		$\Sigma(Y-Y)^2$ =132903.49

$$\bar{X} = \frac{\Sigma X}{N} = \frac{15614.63}{5} = 3122.93 \quad \bar{Y} = \frac{\Sigma Y}{N} = \frac{1194.03}{5} = 238.81$$

$$S^2 = \frac{\Sigma(X - \bar{X})^2 + \Sigma(Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{2761034.14}{8} = 345129.27$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{2884.12}{293.74} = 9.819$$

Degree of freedom= $n_1+n_2-2 = 5+5-2 = 8$

The tabulated value of t at 5% level of significance for 8 d.f. is 2.306. That is $t_{0.05} (8) = 2.306$

Conclusion: Since calculated t is greater than the tabulated value of t, it is there is significantly different between debtors and sales and H_0 is rejected and hence H_1 is accepted which means that the debtors is not affected by sales.

Appendix-12

Calculation of t value of Current Assets to Current Liabilities

(RS in Million)

Current Assets			Current Liabilities		
CA (X)	X - \bar{X}	(X - \bar{X}) ²	CL.(Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
754.38	-117.76	13867.42	807.57	153.96	23703.68
807.71	-64.43	4151.22	524.31	-129.3	16718.49
758.97	-113.17	12807.45	549.77	-103.84	10782.74
745.83	-126.31	15954.22	579.86	-73.75	5439.06
1293.79	421.65	177788.72	806.56	152.95	23393.70
$\Sigma X=4360.68$		$\Sigma(X - \bar{X})^2$ =224569.03	$\Sigma Y=3268.07$		$\Sigma(Y - \bar{Y})^2$ =80037.67

$$\bar{X} = \frac{\Sigma X}{N} = \frac{4360.68}{5} = 872.14 \quad \bar{Y} = \frac{\Sigma Y}{N} = \frac{3268.07}{5} = 653.61$$

$$S^2 = \frac{\Sigma(X - \bar{X})^2 + \Sigma(Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{304606.7}{8} = 38075.84$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{218.53}{96.57} = 2.263$$

Degree of freedom = $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t at 5% level of significance for 8 d.f. is 2.306. That is $t_{0.05} (8) = 2.306$

Conclusion: Since calculated t is less than the tabulated value of t, it is there is no significantly different between current assets and current liabilities and H_0 is accepted and hence H_1 is rejected which means that the current liability is influenced by current assets.

Appendix- 13

Calculation of t value of Quick Assets to Current Liabilities

(RS in Million)

Quick Assets			Current Liabilities		
QA (X)	X - \bar{X}	(X - \bar{X}) ²	CL.(Y)	Y - \bar{Y}	(Y - \bar{Y}) ²
344.26	-119.84	14361.62	807.57	153.96	23703.68
561.96	97.86	9576.58	524.31	-129.3	16718.49
315.79	-148.31	21995.86	549.77	-103.84	10782.74
316.08	-148.02	21909.92	579.86	-73.75	5439.06
782.41	318.31	101321.26	806.56	152.95	23393.70
$\sum X=2320.5$		$\sum(X - \bar{X})^2$ =169165.24	$\sum Y=3268.07$		$\sum(Y - \bar{Y})^2$ =80037.67

$$\bar{X} = \frac{\sum X}{N} = \frac{2320.5}{5} = 464.1 \qquad \bar{Y} = \frac{\sum Y}{N} = \frac{3268.07}{5} = 653.61$$

$$S^2 = \frac{\sum(X - \bar{X})^2 + \sum(Y - \bar{Y})^2}{N_1 + N_2 - 2} = \frac{249202.91}{8} = 31150.36$$

$$\text{Test Statistics, } t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left[\frac{1}{N_1} + \frac{1}{N_2} \right]}} = \frac{-189.51}{88.247} = -2.147$$

/ t / = 2.147

Degree of freedom= $n_1+n_2-2 = 5+5-2 = 8$

The tabulated value of t at 5% level of significance for 8 d. f. is 2.306. That is $t_{0.05} (8) = 2.306$

Conclusion: Since calculated t is less than the tabulated value of t, it is there is no significantly different between quick assets and current liabilities and H_0 is accepted and hence H_1 is rejected which means that the current liability is influenced by quick assets.

Appendix-14

Data Flow Chart

A Study on Working Capital Management of Unilever Nepal Limited

Objectives	Data / Presentation	Major Findings	Conclusion	Recommendations
<p>to analysis the compositi n of orking apital of NL.</p>	<p># Component of CA: (Table-4.4)The proportion of inventory, cash & equivalent, debtors & Prepaid loan & advance to CA, an average 47.80%, 20.90%,15.56% & 15.39% respectively.</p> <p># Component of CL: (Table.4.2) Sundry creditors & provisional liabilities are 62.29%& 30.54% respectively.</p> <p># Net Working Capital: (Table-4.3) is fluctuating with lowest Rs, 184.07 million to highest Rs. 494.89 million from FY 064/65 to 068/69.</p>	<p>#Component of CA: The proportion of inventory, debtors, cash & equivalent & Prepaid loan & advance to CA, an average 47.80%, 28.50%, 20.99% &15.39% respectively.</p> <p>#Component of CL: The average proportion of sundry creditors & provisional liabilities are 62.29% & 30.54% respectively. Sundry creditors & Provision vary from 47.65% to 74.40% & 25.37% to 34.55% respectively.</p> <p># Total Net working capital of the company has limited to Rs.238.82 million, Rs.293.44 million, Rs.249.16 million, Rs.184.07 million & Rs.494.89 million at the end of FY 2064/65, 2065/66, 2066/67, 2067/68 & 2068/69 respectively.</p>	<p>#The company holds large proportion of inventory during the study period. CA structure levels of UNL are not stable.</p> <p># All components of CL are highly fluctuating. A sundry creditor is the major component of current liabilities.</p> <p>#The increasing amount of NWC indicates the better liquidity position.</p> <p>#The Variables of WC is highly fluctuating over the study period.</p>	<p>#The wor dep effe mar com effe is mar cert prob</p>

<p>To study the proportion of variable of working capital to current assets, total assets & sales.</p>	<p># Variable of Working Capital with TA, CA & Sales:(Table.4.4- 4.15)</p> <p>i. The CA to TA ratio is seems 69.33 to 49.57%.</p> <p>ii. The trend of inventory to CA is fluctuating from 30.4 to 58.38%.</p> <p>iii. The trend of debtors to current assets is decreasing trend from 7.19% to 20.43% except in the fiscal year 068/069.</p> <p>iv. The utilization of WC has been found that averages are 3.63, 5.03, 27.74, 26.18 & 11.61 times respectively.</p>	<p>i. The CA to TA ratio is decreasing trend, from 69.33% to 49.57% with the average portion of 61.54%.</p> <p>ii. The trend of inventory to CA is fluctuating from 30.42% to 58.39% with an average of 47.80%.</p> <p>iii. The trend of debtors to CA is decreasing trend from 7.19% to 20.43% except in the fiscal year 068/069 with an average of 14.33%.</p> <p>iv. The utilization of WC has been found that averages are 3.63, 5.03, 27.74, 26.18 & 11.61 times respectively. The C.V of this ratio are 0.90, 1.13, 0.80, 0.81 & 0.74 respectively.</p>	<p>#The TA is increasing over the study period because of the highly fluctuating in variable of CA. Cash to CA indicates there is no uniformity on its cash balance because of the poor management in the company.</p> <p># The increasing trend of NWCT indicates the better liquidity position & it shows the highly floating trend of NWCT because of the inefficient utilization of NWC.</p> <p>#The gross working capital turnover ratio of UNL is not in full satisfaction level.</p> <p># The ITR indicates that UNL cannot efficiently utilize the inventory.</p>	<p>#The mu tove util inv ma #TH rec cor rec lev adj the Ma be cre # arr it s ma The bec cor util ma tur</p>
<p>To find out the working capital cash conversio n cycle of UNL.</p>	<p># ICP (Table-4.16) is fluctuating with highest 97 days to lowest 63 days from FY 064/65 to 065/66.</p> <p># RCP (Table-4.17) is fluctuating trend from minimum 9 days to maximum 23 days.</p> <p>#PDP (Table-4.18) is varies from maximum of 99 days in FY 064/65 to minimum 22 days in FY 067/068.</p> <p>#CCC (Table-4.19) is fluctuating trend from minimum 21 days to maximum 55 days.</p>	<p># ICP is fluctuating with highest 97 days to lowest 63 days from FY 064/65 to 065/66. It has average ICP of 73 days.</p> <p>#RCP is fluctuating trend from minimum 9 days to maximum 23 days. It has average RCP of 15 days.</p> <p># PDP is varies from maximum of 99 days in FY 064/65 to minimum 22 days in FY 067/068. The average is 47 days.</p> <p># CCC is fluctuating trend from minimum 21 days to maximum 55 days. The average cash conversion cycle of UNL is 42 days.</p>	<p># The ICP of the UNL is high; it indicates the inventory is less degree of liquidity.</p> <p>#The RCP of the company is very low. Most of the sales are in cash, so the RCP of the company is satisfactory but the effects of hard collection policy may decrease in sales. The company has followed the hard receivable collection policy.</p> <p>#The analyses of PDP explain that the company cannot</p>	<p># C ICP cor the cor pro goo The ad har acc wit sal pre</p>

			<p>make the fixed policy to make payment for labor & supplier because the PDP is fluctuating over the study period.</p> <p>#In overall the CCC of UNL is satisfactory because the longer & negative both CCC is not favorable for the company. The longer CCC generates external financing needs, increases the cost of financing & reduces the profitability.</p>	<p>tec con the pay ma wit fir con flu the #TH UN the con Lon CC the con ma app dec cre sta pol</p>
<p>to examine the relationship between liquidity & profitability position of UNL.</p>	<p># CR (Table-4.20) is increasing from 1.33 to 1.61 times.</p> <p># QR (Table- 4.21) is in decreasing trend from 1.09 to 0.56 times.</p> <p># Profitability Position (Table- 4.22 to 4.26) has been found that average NPM, GPM, ROA, ROWC & OER are 17.19%, 37.11%, 37.58%, 62.80% & 87.02% respectively.</p> <p>#Relationship(Table4.27)</p>	<p># Current ratio of UNL is ranging in between 1.33 to 1.61 times. The company average current ratio is 1.49 times.</p> <p># Quick ratio of UNL is ranging in between 1.09 to 0.56 times. The company average quick ratio is 0.78.</p> <p># Profitability position of UNL has been found that average NPM, GPM, ROA, ROWC & OER are 17.19%, 37.11%, 37.58%, 62.80% & 87.02% respectively.</p>	<p>#CR is below the standard 2:1. It indicates poor liquidity position of UNL.</p> <p># QR of company in average is below the standard 1:1, so the quick ratio of UNL is unfavorable. It shows that company has not been able to convert current assets quickly in cash in order to meet</p>	<p>#U ma nee liqu ope it h sta sho sta cur</p>

<p>i.The Karl Person correlation between NPM with CR, QR, RTR & ITR is 0.10, -0.12, 0.75 & 0.71 respectively.</p>	<p># The Karl Person correlation between NPM with CR, QR, RTR & ITR is 0.10, -0.12, 0.75 & 0.71 respectively & the correlation 'r' between NPM with CR & QR is less than probable error there is insignificant relationship between them. NPM with RTR & ITR is less than 6 times of probable error which is nothing can be concluded.</p>	<p>current liabilities. Current ratio & quick ratio both exposed unsatisfactory liquidity position of UNL which show that UNL takes high risk.</p> <p># After analyzing the various profitability ratios, it can be concluded that overall return position of company is favorable condition. The average gross profit margin & net profit margin is satisfactory which is in positive. This indicates that there is no loss to the company over the study period i.e. company is in good condition. But There is an extremely high operating expense ratio in the company. This indicates operating inefficiency in UNL because of inefficient utilization of CA, TA & shareholder's wealth.</p> <p>#Coefficient of correlation between profitability & liquidity ratios is insignificant. This relationship between liquidity & NPM implies that there is no trade-off between liquidity & profitability.</p>	<p>rat sol # T high rat The to wa les this ma pro ulti org #Th bet pro cor off pro cor the res</p>
<p>To study the relationship between variable of working capital with CA, TA & sales.</p>	<p># (Table - 4.28)</p> <p>i.The Karl person correlation between CA with TA & CL is 0.84 & 0.97 respectively.</p> <p>ii. Relationship between WC variables & CA is 0.52, 0.88, 0.18 & 0.95 respectively.</p> <p>iii. The relationship between WC variable & sales is 0.61, 0.19, -0.12 & 0.83 respectively.</p>	<p># Correlation between CA with TA & CL, LAD & CA, Debtors & CA & WC & PLAD is significance .It is said high degree of positive relationship.</p> <p># The correlation between CBB & CA, Debtors & Sales & cash equivalent & sales is positive relationship. Therefore the value of 'r' is insignificant.</p> <p>#The correlation between Inventory & CA, WC & Sales & Inventory with Sales is low degree of positive relationship. Therefore the value of 'r' is nothing can be concluded.</p>	<p># T tha rela eac cor ma</p>
<p>To find</p>	<p>#WC Investment Policy: (Table 4.29-4.30)</p>	<p># The average ratio, CV & correlation</p> <p># The study finds the investment in current assets is</p>	<p>#U</p>

<p>out the working capital policy of JNL</p>	<p>i.The ratio of CA to FA fluctuating as wave from 065/66 to 068/69 with lowest ratio 4.71 to Highest ratio 8.05. ii.The ratio of CA to sales fluctuating as wave from 064/65 to 067/68 with highest ratio 35.17% to lowest ratio 20.97 %. # WC Financing Policy: (Table 4.23) is fluctuating the trend of short term financing to TCA is decreasing from 51.00% to 46.38%in the F/Y 064/65 to 068/069 & the trend of long term financing to TCA is increasing from 49.00% to 53.62% in the F/Y 064/065 to 068/069.</p>	<p>coefficient of current assets to fixed assets is 5.87 times, 1.37 & 0.39 respectively. #The average ratio, CV & correlation coefficient of current assets to sales is 28.46 percent, 1.07 & 0.73 respectively. #The average ratio of long term financing to total CA is 53.38 % & short term financing to total CA is 48.62 % respectively.</p>	<p>high with respect net fixed assets. #In order to maximize sales, the company is investing a large amount in current assets. #The company adopted Lean & mean or aggressive WC investment policy to invest CA. #The company adopted conservative WC financing policy to manage the CA level.</p>	<p>sta cur ass #TH fol cap to ass of pro the</p>
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