CHAPTER I
INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked mountainous country that lies between China in northern side and India in other sides i.e. east, west and south. Nepal is an independent country lies between 80˚4" and 88˚12" east longitude and 26˚12" and 30˚27" latitude stretching along the southern slopes of mighty Himalayas for about 885 kilometers east to west and with a mean width of 193 kilometers north to south. The country covers s total area of 147181 square kilometers. Nepal is the land of Mount Everest, the highest Mountain peak in the world and the birthplace of Lord Buddha.

Most of the population of Nepal depends upon agriculture for livelihood. Due to low pace of economic development, Nepal remains poor and underdeveloped country where capital is not distributed evenly. Though there is potential for agricultural and industrial development, there is shortage of adequate mobilization of funds. Even available funds are idle. Due to this, banking has emerged in Nepal. Banks provide capital for the development and expansion of industries, trade and business by investing savings, which is collected as deposits and savings. Thus, it plays an important role for collecting idea savings of one sector and mobilizing those productive sectors. Thus, banking occupies a place of crucial importance in the economy. Its role is even more important to the underdeveloped countries like Nepal.

Working capital (WC) is controlling factor of every business because every business can run smoothly only by the proper management of WC. Without proper working capital management (WCM), no business can run for even an hour. Therefore it is like oxygen for the living creature. The term WCM is closely related with short-term financing and it is concerned with collection and allocations of resources. WCM is related to the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them. In simple way, we can define WC as a short-term investment in current assets, which can be converted into cash within an accounting period. It involves deciding upon the amount and composition of current assets (CA) and how to finance these assets. The investing and financing decision on WCM is planning, utilizing and controlling its cash (short terms assets) in term of the requirements of the company, and is basically concerned with profitability and liquidity of the enterprises.

Background of Bank

The word bank is derived from the Latin word Bancus, French word Banque and Italian word Banco. The literal meaning of bank is to exchange money sitting on a bench. Banks are the most important financial institutions in the economy. Bank is defined as an institution for keeping, lending and exchanging of money. Bank is called a credit because it manufactures credit and sells it.

According to Water Leaf, “A bank is a person or an institution which holds itself out of receives from the public, deposit payable on demand by cheque.”

According to NRB (Act 2002), “A bank is financial institution, which provides financial services that may be in the form of receiving deposits, advancing loans, providing necessary technical advices, dealing over foreign currencies, remitting funds etc.”

Bank collects the savings of those people who have spare money and provide it as loan to who is in need of it. In this process, the interest on loan and pay interest to those who have deposited the saving.

Nepalese modern commercial banking history begins with the establishment of Nepal Bank Limited on 30th Kartik 1994 B.S. (1937AD) with 15% government equity under Nepal Bank Act.1993 BS. Thereafter Nepal Rastra Bank (NRB) was established in 2013BS under NRB Act.2012BS Rastriya Banijya Bank came in establishment in 2002BS,Agriculture Development Bank was established in 2004 BS. In the early 1980’s government took the liberal policy in banking sector. The open policy of HMG encouraged private and foreign investment under commercial act 2031BS (1975AD).

As a result of new policy three joint venture banks were established by the end of the first half of decade.

By now, 32 Commercial banks, 88 Development banks, 70 financial companies, 24 micro credits Development Banks, 16 saving and credit cooperatives and 36 NGO are registered in Rastra Bank. And plenty of cooperative institutions are doing transaction in competitive way (NRB 2012). So it is necessary for financial institutions to search and invest in new sector bring awareness among the general public about the saving and investment and spreading public reliance as well as it should provide more quality customer service.

Brief Profile of Himalayan Bank Limited

Himalayan Bank Limited is one of the largest and oldest private sector commercial Banks in the Nepal. The Bank is known for inter alias professionalism, quality service delivery, quality human resources, innovation and technology. The Bank has consistently growing over the last 20 years, and stands as one of the biggest Banks in the country.

On the portfolio size, the Banks loan portfolio, comprising a healthy mix at diversified sector as of mid July 2009 stands at Rs 25.51 billion. The deposit portfolio of Bank at the mid July 2009 stands at Rs 34.68 billion, which one of the biggest portfolios held by a commercial Bank in the country. The Bank possibly has one of the best mixes in deposit comprising savings deposits, fixed deposits, current deposits. Low- cost savings deposits that are must more stable in nature and that are collected from thousands of customers contribute the most to the overall deposit portfolio of the Bank, thus reflecting the truth of general public. Owing to the strength the Bank has been able to maintain a healthy spread. The Banks operating profit as of mid July 2009 is registering a growth of 21.47%, vis- a- vis the previous corresponding fiscal year- end. Similarly, the Bank has been posting healthy and constant growth rates in distributing of bonus share and dividends to its shareholders.

Moreover, the Bank possibly holds the best foreign currency deposit portfolio in the entire Banking industry. Among others, the business of inward remittances , now considered as separate line of business in the Banking industry, has been constantly rising , creating opportunities for the Bank to make a good deal of foreign exchange gains and fee- based incomes through foreign exchange transaction and through trade finance activities.

The consistent growth of the Bank has been possible due to the visionary broad members coupled with the efficient management team working cohesively together for the betterment of the institute as whole. The workforce of the Bank is considered one of the industries. The Bank has adopted proactive policy and so does not lag behind in securing any business opportunities that comes its way to capitalizes on it so as to enhance its profitability. The product range of Bank is constantly growing and existing products and services are continuously evolving in a manner that would suit the requirement of customers.

On the technology side, the Bank has one of the best cores banking software in the world in Tememos, version. It is the availability of the high- end software that equipped the Bank to enable it to provide high – quality real – time services for its customers. The Bank has leveraged its technological investments by providing modern Banking services such as SMS Banking and internet Banking for its customers. Similarly, the Bank possesses wide network of 74 ATMs spread across the country. In order cater to as many and as diversified customers as possible, the Bank has been constantly increasing its branch network; currently, the Bank has the network of 43 branches located in various strategic hub of the country. Card business of Bank now stands as one of the most important payment solutions for its customers. The Bank offers card in all forms- credit card, debit card and prepaid cards and is an associate member of VISA.

Himalayan Bank Limited (HBL) which has been working vigorously towards providing quality service to the clients. It is a joint venture bank with Habib Bank Ltd, Pakistan. HBL was incorporated in 1992 by the distinguished business personalities of Nepal with partnership with employee’s provident fund and Habib Bank Ltd, one of the largest commercial bank of Pakistan and HBL came into operation on January 18th 1993.Since then, HBL has come a long way. It is the first commercial bank of Nepal with maximum shareholding of Nepalese private sector.

HBL has been pioneer in introducing state of art, technology and banking tools in Nepal HBL's policy is to extent quality and personalized services to its customer as promptly as possible and this is realized every year through the establishment of branches in various parts of the country. There are 43 branch offices in different parts of the country running from east to west. The bank has at present seven branches in Kathmandu valley namely Thamel, New Road, Maharajgunj, and Patan, card centre (Lalitpur), Teku and Bhaktapur. Besides, there are other branches respectively in Birgunj, Tadi, Hetauda, Butwal, Bhairahawa, Biratnagar, Banepa, Dharan, Pokhara and Palpa. This is the first bank in Nepal to launch credit card and has been serving the banking basic needs of the citizens. HBL has a link and incorporation with VISA for the issuance of the credit card. This has really started an international banking concept in Nepal. The bank has very aggressive plan of establishing more branches in the different parts of Nepal.

All the branches of HBL are integrated in to Globus' (developed by Temos) .In the single banking software development the bank has made substantial investment. This has helped the bank provides services like ABBS, internet bank and SMS banking living up to the expectation and aspiration of the customers and other shareholder of being involved. HBL, very recently, introduced several new products and services. Millionaire deposit scheme, small business enterprises loan, per-paid visit card and international travel quota credit card ,consumer finance through credit card and on-line TOEFL, SAT, IELTS , fee payment ,facilities are some of the product and services.

In terms of products and services rendered HBL has provided the remittance service in term of money transfer globally. Today, HBL keen in its remittance service like tele transfer through Swift (society for worldwide inter bank financial telecommunication). Draft issuance, money transfer through money gram (a world wide money transfer system), and so forth. The remittance business holds good position in the bank services. HBL has connection throughout the world for the purpose of remittance. It has a better link in Gulf countries as well, where lots of Nepalese are working. Few of HBL's staffs are sent there from time to time in gulf countries like Kuwait, Bahrain, Saudi Arabia, UAE and Oman and so on. A separate Liaison officer is also working for the betterment in remittance from Gulf. Beside in lies of many people flying to Korea and Israel to work, HBL has been able to manage a better connection to send earnings to from these countries; HBL is the biggest inward remittance handling bank in Nepal

The management of HBL Bank has used slogan ‘The power to lead’, providing different products and services like product include:- credit card tale banking, ATM, ABBS, services :- funds transfer, deposit features, A/C opening, L/C services , Himal Remit- real time online engine.

The capital structure of HBL	
Authorized capital	3,000,000,000
Issued capital	2,400,000,000
Paid-up capital	2,400,000,000
Net worth	2,760,558,000

Though a large and widely spread network of branches, the bank can better mobilize the saving of the people and it can analyzed properly the loans and advance to the required group of community or society.

Objectives of the HBL

Objectives of HBL include the following.

- Providing customers with a package of modern banking services.
- To provide safe deposit to the customers.
- To serve as many customers as possible by providing banking services with a difference.
- To become the bank of first choice.
- To provide the guarantee facilities to the customers.

1.2 Statement of the Problem

Working capital management (WCM) mirrors the efficiency of financial managers. Efficient WCM is success to maintain sound financial position and to compete with market competitors. Because of the growing entries of banking and financial institutions in the country, there is cut- throat competition in the market. The competitions among the financial institutions force to discuss certain intuitional and economic realities of the company and the country. Historically the banking business was originated from the business circle in the country, resulting in the major market share of banking industry concentrated with a handful of the financial situation.

WCM decision is a significant managerial decision. Various factors affect the WCM of a business organization, if a firm wants to maintain sound financial position, it should maintain optimum level of WC. Because decision of WC not only affects profitability of the organization in short run but it also affects the survival in the long run.

Hence there should be optimum investment in WC. So with a view to gaze the importance of WC, as attempt has been made to illustrate it on a study of WCM of HBL. Following are the major problems that have been identified for the purpose of the study of HBL.

- How HBL has been managing the structure of WC?
- Whether the financial ratios of HBL have been managed effectively or not?
- What are the major variable that affect the profitability of the bank?
- Is there any correlation between different variables or not?
- Are there any possibilities for further improvement in WCM system?

1.3 Objective of the Study

Working capital plays a vital role for the accomplishment of any enterprise. Thus, every company needs the suitable level of working capital for their daily transactions. The main objectives of this are to examine the working capital management system of Himalayan Bank Limited (HBL). The specific objectives of this study are as follows:

a. To analyze the structure of working capital of HBL.
b. To analyze the correlation and regression between different variables.
c. To examine the different ratios related to liquidity, activity and profitability position of HBL.

d. To provide recommendation and suggestion for the improvement of WCM of HBL.

1.4 Need of the Study

The success or failure of any firm depends on its strategy, which is affected by WCM. WCM determines the reliability and validity of information that the company provides. Thus, this is of great importance to general people. On the other hand, this study is significant to HBL, as it studies the regularity authority to the company. The study is significant to the managers of the other banks and finance companies too. It will help them to improve better WCM in practices. This is also helpful for shareholders, general public, public depositors, prospective customers and investors, policy makers and academicians. This study will explore the possibility of better accounting practices and will represent the current status of the firm. So, it will be helpful to policy makers, managers, potential investor and lenders. Lastly, it will provide literature to the researchers who want to further research in this field.

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1.6 Limitation of the Study

Every research has its own limitations. The main focus of the study is to point out the financial position and analysis of HBL. The study has following limitations:

a. The study has been limited to HBL only.
b. The study is mainly focused on WCM system of HBL not other area of management function.

c. Financial ratios analysis and statistically tools have been used to analyze quantitatively.
d. The study is primarily based on the secondary data provided by the HBL.
e. The study covers the time period of last years of fiscal year beginning from 2007/08 to 2011/012.

1.7 Organization of the Study

The study is mainly related to the problem of WCM of HBL. The whole study has been divided into five chapters, which are as follows:

I. Introduction

This is the first chapter of the study. This chapter deals with the background the study, background of the bank, profile of the HBL, statements of the problems objectives of the study, significance of the study, limitations and the organization of the study.

II. Review of the Literature

The second chapter deals with the concept of WCM, which includes the review of relating previous writing and studies to find the existing gap. So past studies in WCM functions have been reviewed to find out what new can be contributed. This chapter basically concern with the review of literature relevant to commercial banks.

III. Research Methodology

The third chapter includes research design, nature and source of data, collection of data, data processing and data analyzing tool and technique.

IV. Presentation and Analysis of Data

The fourth chapter fulfills the objectives of the study of presenting the data and analyzing them with the help of various financial and statistical tool followed by methodology. Tables, diagrams and graphs are also interrupted to accomplish the research objectives.

V. Summary, Major Finding, Conclusion and Recommendation

The fifth chapter summarizes the whole study moreover; it draws the brief summary of this report, finding and conclusions and forwards the recommendations for the improvement of Working Capital Management of Himalayan Bank Limited.

Bibliography and appendix are also included in the last part of the study

CHAPTER II
REVIEW OF LITRATURE

The main objective of this chapter is to provide an insight concept of working capital management (WCM). This chapter reviews literature on WCM and the theoretical framework through the study and analysis of different books, research articles and dissertation of experts and researchers. In this chapter, main focus will be on the review of literature on WCM to disclose its concept, which clarifies the need of rationally and systematically.

2.1 Conceptual Frame Work

Business firms need various types of assets in order to carry out its operation. Some assets are required to meet the needs of regular productions some others are required especially 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 be maintained 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 whereas the account receivable and inventories are not. However, they can be liquidated as and when necessary within a period of less than one year. The capital invested on these assets and it includes short as well as long-term financing.

Working capital Management is concerned with the problem that arises in the management of the current assets and current liabilities. It affects the overall functional areas of the firm. Thus, the success or failure of many virtually depends upon the efficiency of working capital management.

Working capital is the life –blood and controlling never centre for any type of business organization because without the proper control upon it. No business organization can run smoothly. As the management of current assets and current liabilities is necessary for the day to day operations, it plays the crucial role in the success and failure of an organization as it deals with that part of assets, which are transformed from one form to another form darning the courses of manufacturing cycle.

Therefore, the role of working capital management is more significant for every business organization irrespective of their nature. There have been done a number of studies on working capital management from different experts in various enterprises.

2.2 Concept of Working Capital

There are two concepts of working capital viz. gross concept and net concept:

a) Gross working capital: It refers of the firm's investment in current assets i.e. cash. Marketable securities, inventory and A/C receivables
b) Net working capital: It can be defined in two ways.
    i) Most commonly, WC is defined as the difference between current assets and current liabilities.
    ii) Alternatively, WC is defined as the portion of a firm's current assets which is financed with long term funds. (Gitman, 1988:473)

According to the net concept, working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets which is financed with long term funds; It focuses on the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds. It is not very useful to compare the performance of different firms a measure of liquidity, but it is quite useful for internal control. This concept help to compare the liquidity of the same firm over a time (Khan and Jain, 1999 : 604).

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

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

Proper management of working capital must ensure adequate amount of working capital as per need of business firms. It should be in good health and efficiently circulated. To have adequate healthy and efficient circulation of working capital it is necessary that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed (Gurung, 2001 : 18).

According to the well-known Indian professor I.M Pandey, there are especially two concepts of working capital; Gross concept and net concept . The gross working capital simply called as working capital refers to the firm's investment in current assets. Currents assets are those assets, which can be converted into cash within an accounting year and includes cash, short-term securities, debtors, bills receivables, inventories and prepaid expenses.

The term 'net working capital' refers to the difference between current assets and current liabilities. current liabilities are those claims of outsiders, which are expected to mature for the payment within and accounting year, and include creditors, bills payable, bank overdraft and outstanding expenses or accrued income. Net working capital arises when current assets exceed current liabilities. A negative working capital occurs when current liabilities are in excess of current assets (Pandey, 1995 : 730).

2.3 Classification of Working Capital

Working capital can be classified into two types a below.

1. Permanent Working Capital

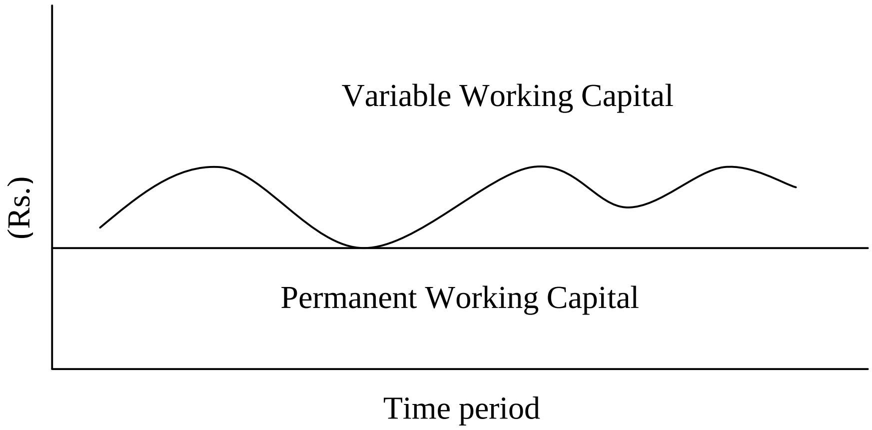
Permanent working capital is the minimum amount of current assets required throughout the year to conduct a business on a continuous and uninterrupted basis, even during the dullest season of year. It will remain permanently in the business and will not be returned until the business is would up.(Khan and jain,1999:B-172) But it could vary from year to year depending upon the growth of the company and the stage of the business cycle in which in operates (Kul Karni, 1990 : 376). Business firm could net be able to survive itself in the competitive market without permanent working capital. For instance an ever business enterprise has to maintain a minimum stock of raw materials work-in progress. Finished products, spare parts etc. It always requires money for the payment of wages and salaries throughout the year. (Kucchal, 1988:161)

2. Temporary Working Capital

Temporary working capital is also known as variable, seasonal and fluctuating working capital. It represents the extra working capital, required at certain times during the operating year to meet some special exigency. It may required in seasonal changes of business and certain abnormal conditions like strikes, lockouts, dull market conditions, cut –throat competition etc. If a firm has sound management of this portion of working capital, it can easily win other competitors on the cutthroat of the market.

Figure 2.1

Types of Working Capital



Source: I.M. Pandey Financial Management, 1995.

2.4 Need for Working Capital

The need for working capital or current assets cannot be overemphasized. The objective of financial decision marking is to maximize the shareholders' wealth. To achieve this it is necessary to generate sufficient profile. The extent to which profile can be earned will naturally depend upon the magnitude of the sales among other things. A successful sales programmed is in other words necessary for earning profit by any by any business enterprise. However sale does not cash instantly, there is invariably a time log between the sales of goods and receipt of cash. There is therefore, a need for working capital in the form of goods and receipt of cash. There is, therefore, a need for working capital in the form of current assets to deal with the problem arising out of the lack of immediate realization of cash against goods sold. Therefore, sufficient working capital is necessary to sustain sales activity. Technically, this is referred to as the operating or cash cycle. The operating cycle can be said to be at the heart of the need for working capital." Operating cycle is the time duration required to convert sales, after the conversion of resources into inventories, into cash" (Ghimire, 2003 : 20).

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

i) **The Transaction Motive**: According to transaction motive a firm holds cash and inventories to facilitate smooth production and sales operation in regular. Thus the firm needs the working capital to meet transaction motive.

ii) **The Precautionary Motive**: precautionary motive is the need to hold cash and inventories to guard against the risk of unpredictable change in demand and supply forces slow down in collection of account receivables, cancellation of some order for goods and some other unexpected emergency. Thus the working capital to meet any contingencies in future.

iii) **The Speculative Motive**: Speculative motive refers to the desire of a firm to take advantages of following opportunities:

   a) Opportunities of profit marking investment.

   b) An Opportunities of purchasing raw materials at a reduced price on payment of immediate cash

   c) To make purchases at favorable price etc. Thus the firm needs the working capital to meet the speculative motive.

2.5 Working Capital Policy

A Firm's net working capital position is not only important as an index of liquidity but it is also used as a measure of the firm's of the firm's risk. Risk, in this regard, means chances of the firm being unable to meet its obligations on due to date. Working capital management involves deciding upon the amount and composition of current assets and how to finance these assets.

The decisions involve trade off between risk and profitability. The greater the relative proportion of liquid assets, the lesser the risk of running out of cash all other things being equal. Profitability, unfortunately, also will be less. The longer the composite maturity schedule of securities used to finance the firm the risk of cash insolvency all other things being equal.

Again the profits of the firms are likely to be less. Resolution of trade off between risk and profitability with the respect to these decision depends unpin the risk preferences of management.

Working capital policy refers to firm basic policies regarding level of each category of current asset and how current assets will be financed (Weston. Bereley and Brigham, 1996:333). So, first of all, the firm has to determine how much funds should be invested in working capital in gross concept. A firm can adopt different financing policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds for working capital.

2.5.1 Current Assets Investment Policy'

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

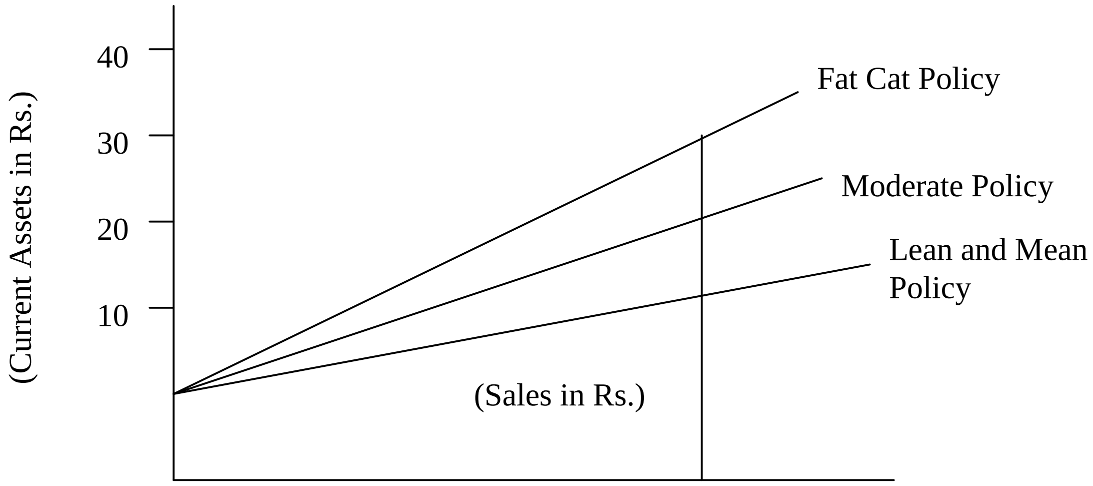
i) Fat Cat Policy: This is known as relapsed current assets investment policy. In this policy, the firm holds relatively large amount of cash, marketable securities, inventory and receivable to support a given level of sales. This policy cerates longer inventory and cash conversion cycles. It also cerates the longer receive collection period due to the liberal credit policy. Thus, this policy provides lowest expected return in investment with lower risk.

ii) Lean and Mean Policy: In lean and mean policy a firm holds the minimums amount of cash, marketable securities, inventory and receivable to support given level of sales. This policy tends to reduce the inventory and receivable conversion cycle. Under this policy, firm follows a tight credit policy and bean the risk of losing sales.

iii) Moderate Policy: In moderate policy, a firm holds the amount of current asset in between the relaxed and restrictive policies. Both risks and return are moderate in this policy.

Figure- 2.2

Alternative Current Assets Investment Policies



Source : Weston, Berely & Brigham, Essentials of Management Finance, 1996.

2.5.2 Current Assets Financing Policy

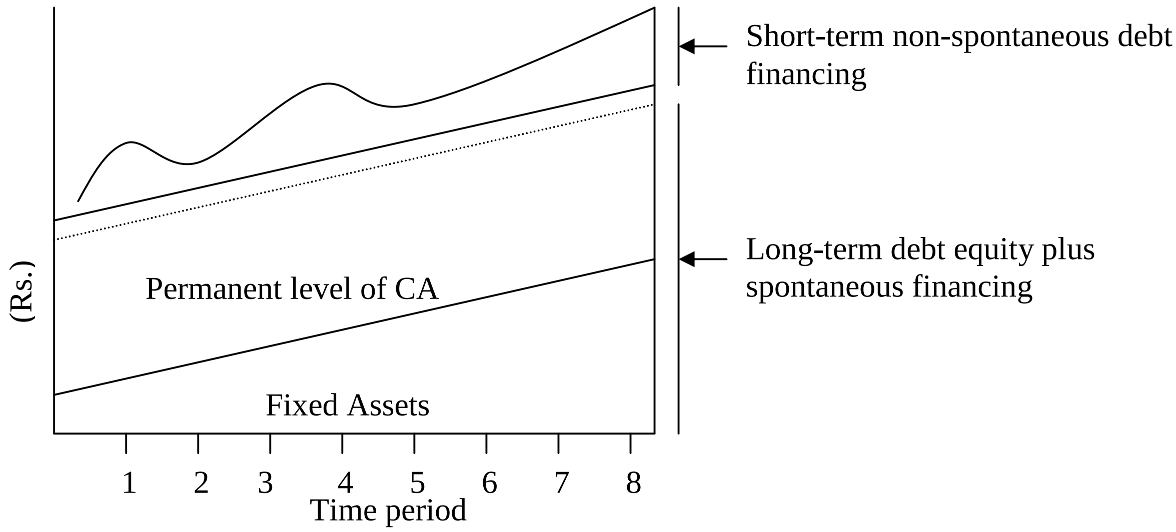
It is the matter in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Thus, current assets financing policy should clearly outline the source of financing. There are three variants viz. Aggressive conservation and matching policies of current assets financing.

i) Aggressive Policy

In an aggressive policy, the firm finances a part of its permanent current assets with short–term financing and rest with long term financing. In other words, the firm finances not only temporary current assets but also a part of permanent current with short term financing. Fig 3 shows that short-term financing finances 50% of the current assets. In general interest rate increases with time i.e. shorter the time, lower the length of lending period. Thus under normal situation the firm borrows on a short-term financing rather than long –term financing. On the other side if the firm finances its permanent current assets by short-term financing, then it runs the risk of renewing the borrowing repeatedly. This continued financing exposes the firm to certain risk. it is because in future the retest expenses will fluctuate widely and also, it may be difficult for the firm to raise the funds during the stringent widely and also it may be difficult for the firm to raise the funds during the stringent credit periods .In conclusion there is higher risk higher return and low liquidity position under this policy.

Figure-2.3

Aggressive Financing Policy



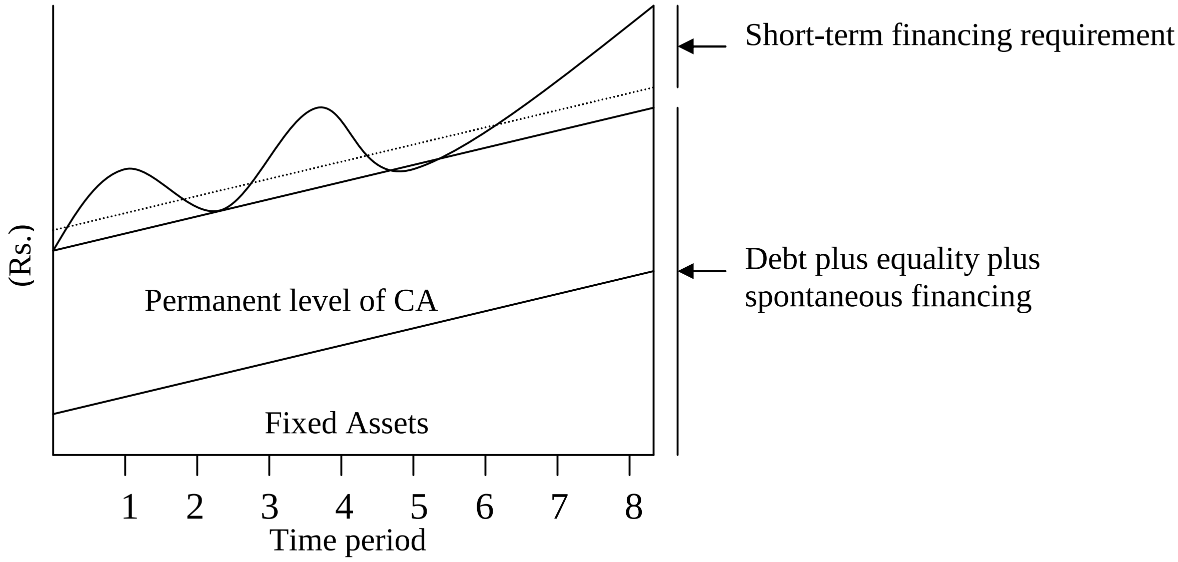
Source : Weston, Berely and Brigham. Essentials of managerial Finance, 1996.

ii. Conservative Policy

In this policy the firm uses long term financing to finance not only fixed and permanent assets but also a part of the temporary current assets. This policy leads to high level of current assets, with long conversion cycle, low level of current liabilities and higher interest cost. The risk and return are lower than that of aggressive policy and liquidity position is higher than that of aggressive one. The risk adverse management follows this policy.

Figure-2.4

Conservative Policy



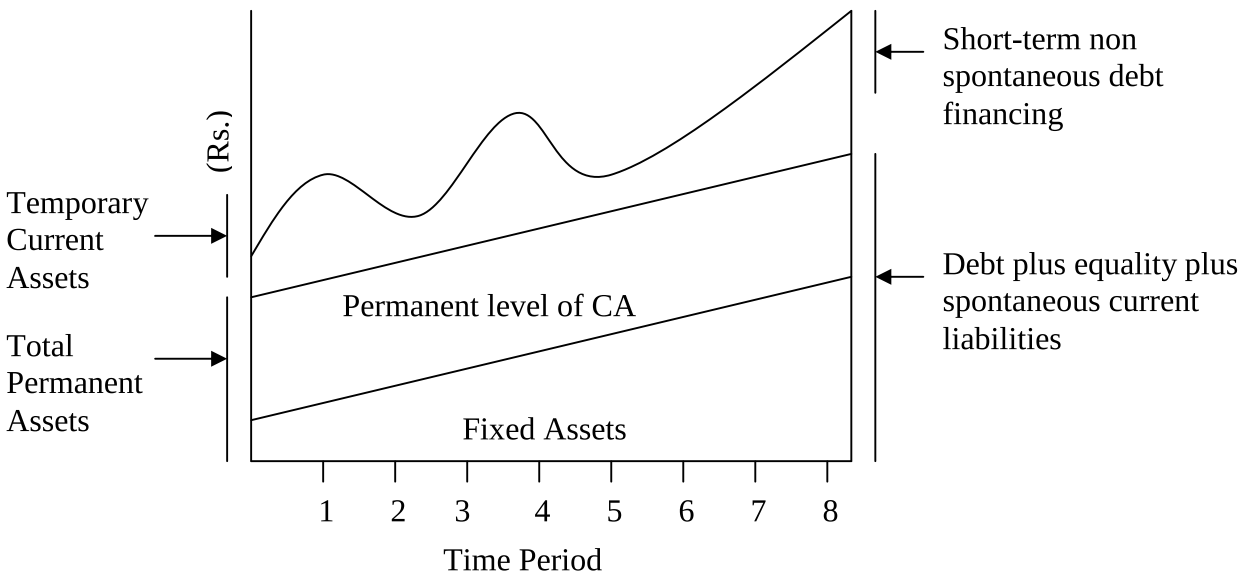
Source : Weston, Bereley and Brigham .Essentials of Managerial finance, 1996.

iii. Moderate Policy

In this policy the firm finances the permanent current assets with long-term financing and temporary with short –term financing. Ii lies in between the aggressive and conservative policies. It leads to neither high nor low level of current assets and current liabilities. Fig.5 shows temporary working capital is financed by short –term financing and long-term financing. Thus working capital is zero under this policy.

Figure –2.5

Moderate Policy



Source : Weston, Bereley and Brigham, Essentials of Managerial Finance, 1996.

2.6 Financing of Working Capital

The firm's working capital assets policy is never set in a vacuum it is always established in conjunction with the firm's working capital financing policy. Every manufacturing concern or industry requires additional assets whether they are in stable or growing conditions. The most important function of financial 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 risks. Therefore the financial manager must determine an appropriate financing mix or decide how current liabilities should be used to finance current assets. However a number of financing mixes are available to the financial manager. He can resort generally three kinds of financing.

i. Long-term Financing: Long–term financing has high liquidity and low profitability .Ordinary share, debenture, preference share, retained earning and long term debt of financial institution are major sources of long-term financing.

ii. Short-term Financing: A firm must arrange its short-term credit in advance. The sources of short –term financing of working capital are trade credit and bank borrowing.

Trade Credit: It refers to the credit that a customer gets from suppliers of good in the normal course of business. The buying firm have not to pay cash immediately for the purchase is called trader credit. It is mostly an informal arrangement and is granted on an open account basis. Another form of trade credit is bills payable. It depends upon the term of trade credit (Horne, 1994 : 471).

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 necessary supporting data.

After availability of this data bank determines the maximum, credit based on the margin requirement of the security. The types of loan provided by commercial banks are loan arrangement overdraft arrangement commercial papers etc.

iii. 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 firm would like to finance its working capital with spontaneous source as much as possible. In practical aspect, the real choice of current assets financing is either short-term of long-term sources. Thus, the financial manager concentrates his power in short term versus long term financing. Hence the financing of working capital depends upon the working capital policy which is perfectly dominated by management attitude the risk –return.

There are three basic approaches for determining an appropriate working Capital financing nix.

i) Hedging Approach ii) Conservative Approach iii)Aggressive Approach

i) Hedging Approach: If the firm attempts to much asset and liability maturities, them the working capital financing policy is termed (Maturity matching of self liquidity) policy. Hedging approach is a method of financing where each asset would be offset with a financing instrument of the same approximate maturity.

"With a hedging approach short –term or seasonal variations in current assets would he finance with short term-debt: the permanent component of current assets and all fixed assets would be financed with long-term debt or with equity. With a hedging approach to financing the borrowing and correspond to the expected swings in currents, less spontaneous financing. (Horne and Wachowicz, 2000:209)

Here as the level of permanent current assets increases the long term financing level also increases. Similarly, as the level pf temporary or variable current asset increases the level of short-term financing also increases. However due to the uncertainty of expected lives of assets exact matching is not always possible.

ii) Conservative Approach: "The financing policy of the firm is said to be conservative when it depends more on long-term funds for financing needs. Under a conservative plan the firm finances its permanent assets and also a part of temporary current assets, with long –term financing. In the periods when the firm has no need for temporary current assts the idle long-term funds can be invested in the tradable securities to conserve liquidity. (Pandey, 1995:750)

This approach relies heavily on long- term financing as a result firm has less possibility of financing, the problems of shortage of funds." in conservative approach permit capital is used to finance all permanent assets requirement or also to meet some of the seasonal demands. (Weston and Brigham, 1996:348)

iii) Aggressive Approach: A firm can follow aggressive policy in financing its assets under an aggressive policy; the firm finances a part of its permanent current assets with short-term financing." The relatively more use of short financing makes the firm more risky. (Pandey, 1995:730)

"The greater the portion of the permanent assets need financed with short-term debt, the more aggressive the financing is said to be" (Horne and Wachowioz, 2000 : 212)

2.7 Determinants of Working Capital

There are no hard and fast rules or certain formulae to determine the working capital requirement of the firm. The importance of efficient working capital management is an aspect of overall financial management. Thus a firm plans operation with adequate capital. A number of factors affect different firms in different ways. Internal policies and environment changes also affect the working capital. Generally, the following factors affect the WC requirement of the firm.

i) **Nature and Size of Business:** The working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is bigger then it requires more working capital where capital whereas small firm needs working capital relatively to public utilities.
ii) **Manufacturing Cycle:** Working capital requirements of an enterprise are also influenced by the manufacturing of production cycle. It refers to the time involved to make the finished good from the raw materials. During the process of manufacturing cycle funds are tied-up. The longer the manufacturing cycle the larger will be working capital requirement and vice – versa.
iii) **Production Policy:** Working capital requirement is also determined by its production policy. If a firm produces seasonal goods, then its production and sales volume fluctuate with different seasons. This type of fluctuating policy affects the working capital policy of the firm.
iv) **Credit Policy:** Credit policy affects the working capital of a firm. Working capital requirement depends on terms of sales. Different terms may be followed by different customers according to their creditworthiness. If the firm follows the liberal credit policy the it requires more working capital. Conversely, if a firm follows the stringent policy, it requires less working capital.
v) **Availability of Credit Facility:** Availability of credit facility is another factor that affects the working capital requirements. If the creditors avail a liberal credit terms then the firm will need less working capital and vice-versa. In other words, the firm can get credit facility easily on favorable conditions. Thus, it requires less working capital to run the firm otherwise more working capital is required to operate the firm smoothly.
vi) **Growth and Expansion:** Growth and expansion also affect the working capital requirement of firm. However, it is difficult to precisely determine the relationship between the growth and expansion of the firm and working capital

needs. But the other things being the same growing firm needs more working capital than those static ones.

vii) **Price Level Change:** Price Level change also affect the working capital requirement of firm. Generally a firm requires maintaining the higher amount of working capital if the price level rises. Because the same level of current asset needs more funds due to the increasing price. In conclusion, the implication of changing price level on working capital position will vary from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

viii) **Operating Efficiency:** Operating efficiency is also an important factor which influences the working capital requirements of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus financial manager can contribute to strong working capital position through operating efficiency. If a firm has strong operating efficiency then it needs amount of working capital and vice-versa.

2.8 Review of literature

Some books and research are reviewed , various thesis work in different aspects of commercial bank and working capital of different organization is also reviewed for the propose of justifying the study.

2.8.1 Review of Journal/Articles & Related Studies

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.

If the fund is acquired from the long term source then it becomes long term financing. The sources of long term financing are long term debt, long term term bonds, common stock and preferred stock and retained earnings. If the fund is acquired, from the short term financing. The source of short term are short term banking loan, notes, payable line of credit overdraft factoring pledging blanket lien etc. those are obtained for less than one year period spontaneously financing arises from the normal operation of the firm. The two major sources of such financing are trade credit (i.e. credit and bill payable and accruals whether trade credit if free of cost or not depends the term of trade credit.). (Pradhan, 1962)

Shrestha, (1982), in study "Working Capital Management in Public Enterprises and Study the Financial Results and Contraints". He has conducted an empirical observation of twelve selected PEs. In this article he has described the conceptual ingredients concerning the working capital. Such as conceptual sources of working capital and types of working capital. From the analysis he found that the liquidity positions of the selected PEs differ widely in view of the differences in their nature of business. There were also above normal acid-test ratios. While analyzing the turnover of those selected PEs showed wide deviation. Based on the sales volume, four out of seven PEs had normal inventory turnover. The other three had not been satisfactorily maintained and in some of them inventory was found to have exceeded sales. The collection period relating to the selected PEs exhibited marked difference ranging from 32 days to 755 days . The profitability position analyzed through return on net working capital was positive for eight PEs, negative for two PEs and the rest had not any return since they were in establishment phase.

Pradhan and Koirala, (1983), had jointly published on "Some Reflection of working capital management in Nepalese Corporations". They had focused on evaluation of working capital of selected manufacturing and non-manufacturing public enterprises. This study was concentrated in the size of investment in current assets, significance of current assets management. The major findings of the study were as follows:

i) Investment on total assets had declined over a period of time in both manufacturing corporations. However the manufacturing corporation (MPES) had consistently more investment in cash and receivables as compared to non manufacturing corporations.
ii) Inventory management was of great significance in manufacturing corporations and the management of cash and receivables was of great significance in no-manufacturing corporations.
iii) Management of working capital was more difficult than of fixed capital.
iv) The major motive for holding cash in Nepalese Corporation was to provide a reserve for routine net outflows of cash to keep on the production process.

Another article composed by Shrestha, (1982/83), on "Working Capital Management in PEs A Study on Financial Results and Constraints". He has focused on the working capital liquidity ,turnover and profitability position of those enterprises. In this analysis he found four PEs maintaining adequate liquidity position two PEs having excessive and the rest four PEs failing to maintain desirable liquidity position. On the turnover side, two PEs had negative working capital turnover four had adequate turnover, one had higher turnover and rest three had no satisfactory turnover on net working capital.

He has also found that out of ten PEs, six were operating in losses while only four were getting some percent of profit. With the reference of his findings he has brought certain policy issues such as lack of suitable financial planning negligence of working capital management deviation between liquidity and turnover of assets and inability to show the positive relationship between turnover and return on net working capital. In the end he made some suggestive measures to overcome the above policy issues i.e. identification of needed funds, regular check of accounts development of management information system, positive attitude towards risk & profit and determination of right combination of short term and long term sources of funds to finance working capital needs.

Acharya, (1985), has published an article on "Problem and Impediment in the Management of Working Capital in Nepalese Enterprises". He has described the two major problems: Operational problem and organizational problems regarding the working capital management in Nepalese PEs.

The operational problems he found are increment to current liabilities than current assets not allowing the current ratio 2:1 and show turnover of inventory.

Similarly change in working capital in relation to fixed capital had very low impacts over the profitability thin transmutation on capital employed to sales, absences of apathetic management information system, break even analysis funds flow analysis and ration analysis were ineffective for performance evaluation. Finally, monitoring of the proper functioning of working capital management has never been considered a managerial job.

In the second part, he has listed the organizational problems in the PEs. In most of the PEs there is lack of regular internal and external audit system as well as evaluation of financial result. Similarly very few PEs have been able to present their capital requirement. Functioning of finance department is not satisfactory and some PEs is even facing the underutilization of capacity.

Pradhan, (1988), has prepared another article relating to working capital management on "The demand for working capital by Nepalese Corporation". For the analysis he has selected nine manufacturing public corporations with the 12 years data from 1973-1984 Regression equation has been adopted for the analysis. From the study he has concluded that the earlier studies concerning about the demand for cash and inventories by business firm did not report unanimous of scale roles of capita cost, capacity utilization rates, and the speed with which actual and inventories are adjusted to describe cash and inventories respectively . The pooled regression result shows the presence of economies of scale with respect to the demand for working capital and its various components. The regression result suggests that demand for working capital and its components is function of both sales and their capital cost.

Shrestha, (1992) wrote an article on “Working Capital Management in public enterprises: A study on financial results and constraints”. He has considered ten selected PEs and studied working capital management in that PEs in his article. He has focused on the liquidity, turnover and profitability position of those enterprises. He found that four PEs had maintained adequate liquidity position, two had excessive and remaining four had failed to maintain describable liquidity position. On the turnover, four had a adequate turnover, one had high turnover and remaining five had not satisfactory turnover on net working capital. He had also found that out of 10PEs, 6PEs were operating at losses while only four were getting some percentage of profits. With reference to those findings, he had brought certain policy issues such as lack of suitable financial management, deviation between liquidity and turnover of assets and inability to show positive relationship between turnover and return on net working capital.

Professor I.M. Pandey has described some conceptual ingredients, which are based on his various research studies on WCM .He has divided WCM into five chapters. The first chapter deals with the concept of WC ,need for WC ,determinants of WC , dimension of WCM, optimum level of current assets , and WC trends. In the second chapter, he has described the management of cash and marketable securities, where he has dealt with the facets of cash management, motive for holding cash, cash planning, managing the cash flow determining the optimum cash balance, investment in the marketable securities. Third chapter has described the management of receivable in cash he dealt with goals of credit management, optimum credit policy, characteristics of credit policy and credit procedure for individual accounts. In fourth chapter on inventory management, he described the need of hold inventories, effectives of inventory management, inventory management techniques, selective inventory control technique and financial managers' role in inventory management. (Pandey, 1995)

As per the theoretical concepts on the components of WC from Van Home's books; "WC management is usually described as involving in an administration of these assets namely cash, marketable securities, receivables and inventories and the administration of current liabilities. It means the WC management is concerned with the problem that arise in attempting to average the current assets, the current liabilities and interrelationship that is between them.'' (Van, 1996)

The estimated results show that the inclusion of capacity utilization variable in model seems to have contributed other demand function of cash and net working capital only. The effect of capacity utilization on the demand for inventories receivable and gross working capital is doubtful.

2.8.2 Review of thesis

In last few years, prior to this thesis some students of MBA and MBS program have been found conducting research about the WCM. Some of them, which are supposed to be relevant, has been reviewed and presented in this section.

Joshi (1986) in his study seeks to have true insight into "The working capital management of Biratnagar jute mill.'' The study is concerned with management of current assets and cover five year period. The study has embodied various financial ratios measuring Biratnagar jute mill's financial viability. The study is based on the secondary data with opinion survey method and limited to gross concept of WC. The study has indicated the mismanagement inventory, on proper policy of cash holding and dependence on short term bank credit. He has realized turnover target specimen, design effective inventory management program, following productive investment approach preparing effective sale plan and exhaustive market research program, maintaining optimum cash balance and making proper utilization of accumulated collection debts

Shrestha, (1992), has done a research on "A Comparative Study of Working Capital Management in Bhaktapur Brick Factory and Harishiddhi factory". He had focused on his components of working capital-cash inventory receivable and current liabilities. He had used financial ratios as a major tool of analysis. In addition to this he had used mean, index standard deviation and coefficient of variation. The findings of his study are as follows.

- There is no proper relationship between liquidity and profitability of two brick factories.
- Both brick factories have followed various working capital policies at a time.
- Both brick factories do not have proper planning of working capital. There is no good combination between fixed capital and working capital.
- BBF has been seriously suffered from negative return whereas HBS has generated positive return. However both factories profitability position is not satisfactory.

Pathak, (1994), has carried out his study on "An Evaluation of Working Capital in Nepal Lube Oil Limited". His main objective is not apprising the working capital management of NLO Ltd with respect to cash credit and inventory management and relationship between sales and different variable of working capital. The major findings of the study are as follows:-

- Cash holds relatively small portion of total assets but inventory holds large portion which cause to the large tie up of funds and less of profitability.
- There is inefficiency in collecting receivables are not affected by sales.

- There is unfavorable liquidity position in NLO Ltd and following moderate financing policy.

Sharma, (1999), has carried out his research on "A Study on Working Capital Management of Manufacturing Companies: Listed in Nepal Stock Exchange Limited in Nepal". His main objective is to find out the working capital practices of manufacturing companies and to evaluate the relationship between the selected variables regarding working capital. He has identified the following major findings:-

- Working capital policy shows that most of the manufacturing companies are following aggressive policy but opposite impact in revenue.
- Most of the companies have negative return and is also found that there was unfavorable liquidity, profitability and turnover position.
- Success and failure analysis also shows that most of the companies are financially in poor condition.

Shrestha, (2002), has carried out his research on "A study on working capital management of dairy Development corporation". The main objective of the study is to analyze the current assets and current liabilities and their impact and relationship tom each other. The major findings of his study are as follows:-

- The major components of current in DDC are inventory cash and bank balance, sundry debtors and miscellaneous current 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 currents 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 ACP is in fluctuating trend during the study period.
- There is ineffective liquidity position and unsatisfactory profitability ratio in DDC
- The overall retune position of DDC is negative i.e. not favorable condition. It is because of inefficient utilization of CA, TA and shareholders' wealth.

Giri, (2002), has conducted his study on "Working Capital Management in Birgunj Sugar Factory Limited". The main object of the study is to analyze the net working capital on profitability and other operation. The major fining of the study are as follows:

- Inventory holds a large amount of current assets but during the study period there was decreasing and fluctuating trend in inventory, receivable and cash and bank balance. Thus current assets are not properly utilized in the factory.
- There was a poor profitability position in the company. Which indicates improper management of working capital in BSFL?

Gurung, (2001), has carried out his research on "A Study on Working Capital Management of Nepal Lever Limited". The main objective of his study is not examining the working capital management of Nepal Lever Limited. The major findings of his study are as follows:-

- Inventory holds the major portion of current assets followed by miscellaneous current assets, sundry debtors, cash and bank balance
- The liquidity position of NL Limited is satisfactory but not prefect though increasing trend implies that liquidity position can be expected to be good in future.
- There is not trade off between liquidity and profitability: however profitability of NL Ltd is satisfactory.

Similarly, Ghimire, (2003), has focused on "A Study on Working Capital Management of Selected Manufacturing Companies Listed in Nepal Stock Exchange Limited" can be pointed as below:-

- The ratio of cash to current assets is widely varied among the companies.
- The ratio of inventory to current assets is widely varied among the manufacturing companies
- The liquidity position of Nepalese is good in average.

Shrestha, (2003), has carried out a study her study "A Study at Working Capital Management with Respect to National Trading Limited and Salt trading Corporation Limited". Her main objective is to present overall picture of working capital of

National Trading Limited and Salt Trading Corporation limited. The major findings of the study are ad follows:-

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

Similarly, Subedi, (2003), has carried out a study "Working Capital Management of Manufacturing Companies Listed in NEPSE". His main Object is to examine the working capital policy of Nepalese manufacturing companies listed in Nepal Stock Exchange Limited. He has identified the following points as major findings:-

- There is wide variation of the current assets within individual manufacturing companies.
- The overall company average of receivable to current assets ratio is 16 percentages.
- There is wide variation in the ratio of inventory to current assets among the manufacturing companies.
- There is no consistency in the company average of current assets to total in manufacturing companies.
- The liquidity position of Nepalese manufacturing companies is not similarly among different companies.
- The current assets turnover ratio of the Nepalese manufacturing companies is also widely varied.

Acharya (2006) has carried out research *“Working Capital Management of Manufacturing Companies Listed in NEPSE”* with the objectives of finding out the working capital financing policy adopted by listed Nepalese manufacturing companies; analyzing the current assets and current liabilities policies; examining the effects of working capital on profitability and pointing out valuable recommendations and suggestions based on the research. He examined five year data from 2001 to 2005. He has used ratio analysis, correlation coefficient, regression, probable error etc. as the tools of analysis. From the research, what he found out that the companies are accompanied with various hindrances like lower turnover, lower return, lower net working capital or poor liquidity position, lack of proper working capital policy, deteriorating financing situation, lack of appropriate credit and collection policy, improper inventory management, high operating cost of production etc.

As per the recommendations forwarded by the researcher, the companies should formulate appropriate working capital policies as per their need, invest idle fund in marketable securities, adopt definite credit and collection policies, and adopt good store keeping, material handling and timely inspection system

Many research studies have been conducted by the different students, experts and researchers about working capital management. The large number of manufacturing companies is so far reviewed mainly concentrated on analyzing overall working capital management of the company. The research study also focused on liquidity position, assets utilization and profitability position of the companies. Almost all the companies found to be failed in properly maintaining working capital management after reviewing the research study. We found numerous research studies on manufacturing companies regarding working capital. Some studies are related to a case study of a single company and some other are comparative in nature. But the comparative study of working capital management between manufacturing and blending company can be hardly found. If found it can be counted at hand. The financial and statistical tools used by most of the researchers were ration analysis, test of hypothesis, correlation analysis and trend analysis. Regression analysis and primary tools have been rarely used by many researchers. This research will include different tools like ratio analysis, correlation analysis, regression analysis and interview as a primary tool of analysis. Regression analysis and interview are the specific tools used in this research.

This research study made on "Working Capital Management of Himalayan Bank limited’’ analyze on detail about working capital management of the bank in present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people.

2.9 Research Gap

All the above studies are conducted with the research title "Working Capital Management". Some researcher has selected various manufacturing companies for research. As to research gap is concerned. There are many changes taken place in the working capital environment and production process as compared to the last few years. So, fresh study related to working capital management of Himalayan Bank Ltd. has been done in this research. The most of the studies has been considered many more objectives made their study more complicated but in the research report only four objectives are taken into study. Some researcher uses both primary and secondary data but only secondary data are considered in this research. Both financial as well as statistical tools like ratio analysis, turnover, cash conversion cycle, mean, standard deviation, coefficient of correlation and probable error are used in this research. Almost all the ratios have been applied to cover the analytical part and fulfill the objective of this study. It involves more resent data of Himalayan Bank Ltd. for five years (2007/008-2011/012).

CHAPTER III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology describes the methods and process applied in entire study. It is the sequential steps to be adopted by the researcher in studying a problem with certain objective in view. In other word, research methodology describes the methods and processes applied in the entire subject of the study.

This chapter focuses on the research methodology studying working capital management of HBL. This chapter covers research design- data gathering procedure, nature and source of data- data processing, collection of data, data processing, tools and technique used to analyze the data and lastly findings.

3.2 Research Design

A research design purely and simply the framework or plan for a study that guides the collection and analysis of data. Research design is a plan, structure and strategy of investigators conceived so as to obtain answers to research questions and control variances.

The study includes important procedures and techniques for guiding, analyzing and evaluating the study. Secondary data has been used in order to achieve the predetermined objectives of the research. In some case, primary data have also been used. This study is based on descriptive and analytical method. Thus the time series data of HBL for five year are collected and analyzed as per the need of this study.

3.3 Nature and Sources of Data

This study has used both primary and secondary sources of data. Mainly secondary data has been used for the purpose of the study. The required data has been extracted from the annual report, books, articles, and official websites of HBL and financial statement of the bank. And for the primary data information has been collected through discussion and personal interview with the concerned authority of the bank.

3.4 Collection of Data

Financial data required to achieve the set objectives of this study has been collected from the annual reports especially from profit and loss account, balance sheet and other publication made by the bank. In order to collect supportive data, a detail review of the related documents has been carried on and qualitative information has been collected through interview with the concerned authority of the bank.

3.5 Data Processing

This study is mainly based on the secondary data. The collected data are presented in systematic manner in tabular forms and analyzed by applying different financial and statistical tools to achieve the objectives of the study. Beside these, some graphs, charts and tables have been presented to analyze and interpret the findings of the study.

3.6 Tools and Techniques Used to Analyze the Data

To find the true picture of working capital management of "Himalayan Bank Limited", financial as statistical tools are used.

3.6.1 Financial Tools

Financials tools helps to analyze the strength and weakness of a firm. In this study following tools are used to find out the brief picture of WCM of HBL

3.6.1.1 Ratio analysis

Ration analysis is the most important tools of the financial analysis, which helps to ascertain the financial conditions of the organization? Ratio means the numerical or quantitative relationship between two items or variables. Ratio is simply one number expressed in terms of another and it express the quantitative relationship between two numbers. As the case study of WCM involves ratio analysis for judging operationally, the rate of return on total assets and capital employed and activity, efficiency ratio would be particular meaningful for management and investing.

- **Liquidity ratio**

Liquidity is the ability to anticipate and contingent cash needs. Liquidity ratio measures the firm's ability to fulfill its short term obligations and reflect the short term solvency of the company. In the financial sector liquidity is very essential for the smooth operation of the daily financial. The ratios are calculated under the liquidity ratio.

1) Current ratio:

Current ratio is the relationship of current assets and liabilities. The current ration is also called working capital ratio. It measures short term debt paying ability of the firm.

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

Generally, current of ratio 2:1 is considered to be satisfactory or adequate liquidity position more than 2:1 means excessive investment current assets that does not produce and less than 2:1 is lack of liquidity.

2) Liquid or quick ratio:

Quick ratio is a quantitative measure of short term solvency of a firm. Liquidity refers to the ability of the concerned to meet its current obligation and when these become due.

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

Quick Assets = Current Assets – (Stock +Prepaid Expenses)

A high quick ratio indicates that the firm is liquid and has ability to meet its current liabilities in time and vice versa.

- **Profitability ratio**

Profitability ratio indicates the degree of success in achieving profit. Profitability ration are very helpful to measure overall efficiency of operation of a firm. It is a true indication of the financial performance of each and every organization. Profitability ratios are collected to measure the overall efficiency of the firm.

Following are the important profitability ration in this study:

1) Interest earned to the total assets ratio:

The interest earned to the total assets ration expresses the relationship between interest and assets. It is express in percentage basis, which is

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

A high interest earned to the total ratio is a sign of good management. Whereas, low interest earned ration is definitely a danger signal, requiring a careful and detail analysis of the factor responsible for it.

2) Net profit to total asset ratio:

This ratio is very crucial for measuring the profitability of the firm. It measures the overall profitability of the firm by establishing the relationship between net profit and assets, or it measures the return of assets.

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

A higher ratio is an indication of higher efficient of the business and better utilization of total resources. Lower ration indicates the poor financial planning and low efficiency.

3) **Net profit to total deposit ration**:

This ration is used for measuring the percentage of profit earned from the utilization of total deposits. It showed the relationship between net profit and total deposit value.

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

- **Capital structure leverage ratio**

The long term financial position of the firm is judge by the leverage or capital structure ratios. The leverage ratios are collected to measure the financial risk and the firm ability to using debtor the benefit of the shareholder. Following ratios are under this group.

1) Long term debt to net worth ratio :

Long term debt refers to the amount of fixed deposits and loans of the banks. The ration measures the proportion of outsiders and owners fund employed in the capitalization of banks.

$$\text{Long Term Debt to Net Worth Ratio} = \frac{\text{Long Term Debt}}{\text{Net Worth}}$$

2) **Net fixed assets to long term debt ratio:**

Net fixed assets are applied to both physical and financial assets. This ration is calculated to find out how many times net fixed assets are in compared to fixed liabilities.

$$\text{Net Fixed Assets to Long Term Debt ratio} = \frac{\text{Net Fixed Assets}}{\text{Long Term Debt}}$$

3) Net profit margin:

Net profit margin presents represents the relationship between net profit and total income received. If measures the company's abilities to return each rupee income in to net profit. Or it helps to determine the operational efficiency of the management.

$$Net\ Profit\ Margin = \frac{Net\ Profit\ After\ Tax}{Total\ Income}$$

High net profit margin ration shows that the net profit in maximizing and operational cost is decreasing.

3.6.2 Statistical Tools

Statistical tools are used to analyze the relationship between two or more variables and to find out how these variables are related. Statistical tools are mathematical technique used to facilitate the analysis and interpretation of numerical data. By using statistical tools and methods in research, it becomes easy to know and analysis about the averages, variability and to predict future transaction too. Following statistical tools are used in this study:

3.6.2.1 Mean:

An average is a single value that represents a group of values. Such a value is of great significance because it depicts the characteristics of whole group. The main objects of average are to get one single value that decreases the characteristics of the entire group and to facilities comparison.

$$Mean(\bar{x}) = \frac{x_1 + x_2 + \cdots + x_n}{N}$$

Or,

$$\bar{x} = \frac{\Sigma X}{N}$$

Where, $\sum x$ = some of all items or variables

N = number of items

1) Standard Deviation

Standard deviation measures scatter spread or variation and provide idea of homogeneity or homogeneity of the distribution. Standard deviation (SD) is called route mean square deviation for the reason that it is the square of the mean of the square deviation give, uniform, correct and stable results. Fundamental formula for the SD is as follows.

$$\sigma = \sqrt{\frac{\Sigma(X-\overline{X})^2}{N}}$$

Where, N= Number of items in the sense

X = Variables

$\overline{X}$ = Mean

High measurement to standard deviation shows high variability of data that is high risk, so less SD is preferable.

3.6.2.2 Co- efficient of variable (C.V.)

Standard deviation is obsolete measure of dispersion. The relative measure of dispersion based on SD, is known as the co-efficient of SD, is called co-efficient of variable.

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

Where,

σ = Standard deviation

$\overline{X}$ = Actual mean

Having less C.V. is the indicator of less variable or more homogeneous, consistent, uniform, stable or equitable than other and vise versa. It is use to compare the homogeneity and uniformity of two or more than two distribution.

2) **Co- efficient of correlation (r)**

Correlation analytical is the statistical tools that we can use to describe the degree to which one variable is linearly related to another (Levin & Subin, 1999). It does not tell us anything about causes and effects of relationship. Correlation analysis helps us in determining the relationship between two or more variables. In business, correlation analysis enables executive to estimate cost, sale price and other variables. Some of the guess work can be removed from discussion when the relationship between variable to be estimate are one or more variables on which it depends are closed and reasonably variant (Gupta, 1981)

For the purpose of analysis of WCM of HBL, the correlation analysis is applied. The correlation between dependent and independent variables of the formula applied is as follows.

Co- efficient of correlation (r):

$$r = \frac{\Sigma x}{\sqrt{\Sigma x^2 \times \Sigma y^2}}$$

Where,

$$x = X - \overline{X}$$

$$y = Y - \overline{Y}$$

The results obtained by using above formula are interpreted follows;

- ✓ The result lies between -1 to +1.
- ✓ When r= +1 there is perfect positive correlation between variables.

- ✓ When r =0, there is no correlation between variables.
- ✓ When e = -1 there is perfect negative correlation between variables.

Together with Karl Pierson co-efficient of correlation, probable error (P.E.) is also computed.

The probable error of the correlation co-efficient (y) is applicable for the measurement of reliability of the computed value of the ‘r’. It is denoted by PE, used to test if calculated value of ‘r’ is significant or not.

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

If the value of’ r’ is less than Per then, there is no evidence of correlation and if the value of ‘r’ is more than six times per , the value of co-efficient of correlation is significant (Kothari, 2001).

i. If r > PE, then the value of r is not significant.
ii. If r > 6. PE then r is definitely significant.
iii. In other situation, nothing can be calculated with certainly.

3.6.2.3 Regression Analysis

The concept of regression was first introduced by Fransis Galton. Regression refers to an analysis, which is involving the fitting of an equation to a set of data points, generally by the method of least square. In other words the regression is statistical method for investing relationships between the variables by the establishment of an approximate functional relationship between them. It is considered as a useful tool for determining the strength of relationship between two or more variables. It helps to predict or estimate the value of one variable when the value of other variable is known.

The analysis in which is used to explain the average relationship analysis. In this study, the following simple regression has analyzed.

Simple regression analysis

$$Y = a + bx$$

Where,

Y = dependent variable

a = regression constant

b = regression co- efficient

x = independent variable

This model has been constructed to examine the relationship between the dependent variable and independent variable. It enables to determine whether the variable of independent variable is the influencing factor to depend variable or not.

I) Regression constant (a)

The value of constant is the intercept of the model, when the independent variables are zero. It indicates the level of dependent variables. In other word, it is better to understand that the constant indicators the mean or average effect on dependent variable if all the variables omitted from the model.

II) Regression co- efficient (b)

The regression co- efficient of each independent variable shows the relationship between that variables and value of dependent variable, holding constant the effect of all other independent variables in regression model. It explains how changes in independent variables affect the value of dependent variables estimate.

III) Standard error of estimate (S.E.E.)

Practically the perfect prediction is not possible with the help of regression equation. To measure the reliability of the estimating equation, statistician has developed the standard error of estimate. It measures the variability around the regression line. It also measures the reliability of estimating equation, indicating the variability of the observed values differ from their predicted values of the regression line.

$$S.E.E = \sqrt{\left(\frac{\sum y^2 - b\sum xy}{n-2}\right)}$$

The larger value of SEE, the greater the dispersion of points around the regression line. Conversely, if SEE equals to zero, then there is no variation about the line and the correlation will be perfect. Similarly, the smaller the SEE, the closer will be dots of regression line and better the estimates based on the equation for this line. Thus, SEE helps in analyzing the relationship between two series.

The regression line analysis has been used here to see fluctuations in different component of current assets and current liabilities during the study period.

Many research studies have been conducted by different students, experts and researchers about WCM, some studies are related to a case of study of simple company and some are comparative in nature, but the comparative is study of WCM is going on. The financial and statistical tools are used by the most of researchers were ratio analysis, correlation analysis and trend analysis and hypothesis, regression analysis and primary tools have not been used by many researchers. This research will include different tools like ratio analysis, correlation analysis, regression analysis and interview as primary tools of analysis.

CHAPTER IV
PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

In this study, effort has been made to assess and analyze the working capital management in order to disclose the actual position of working capital management in Himalayan Bank Limited. This chapter tries to fulfill the objective of the study by presenting data and analyzing them with the help of various financial and statistical tools that are given in research methodology. This chapter encompasses the analysis of working capital management of Himalayan Bank Limited. It represents composition of current assets and current liabilities. The major variable of the study are cash and bank balance, loan and advance, investment, deposits, etc. In this chapter, relevant data and information of working capital as well as financial performance of Himalayan Bank Limited is presented, compared, and analyzed accordingly. It covers the analysis of the composition of current assets, current liabilities, correlation analysis and regressions analysis.

4.2 Composition of Current Assets

Without maintaining the appropriate level of current assets, no business organization can run smoothly. The success or failure of any business organization depends on the proper management of current assets. Current assets refer to those assets of firm, which either are in the form of cash or can be converted into cash within the accounting period or 1 year. In this study, the total current assets refer to the cash and bank balance, investment, loan and advances and other current assets. The composition of total current assets of HBL from fiscal year 2007/008 to 2011/012 is shown in the table below.

Table 4.1

Composition of Total Current Assets of HBL

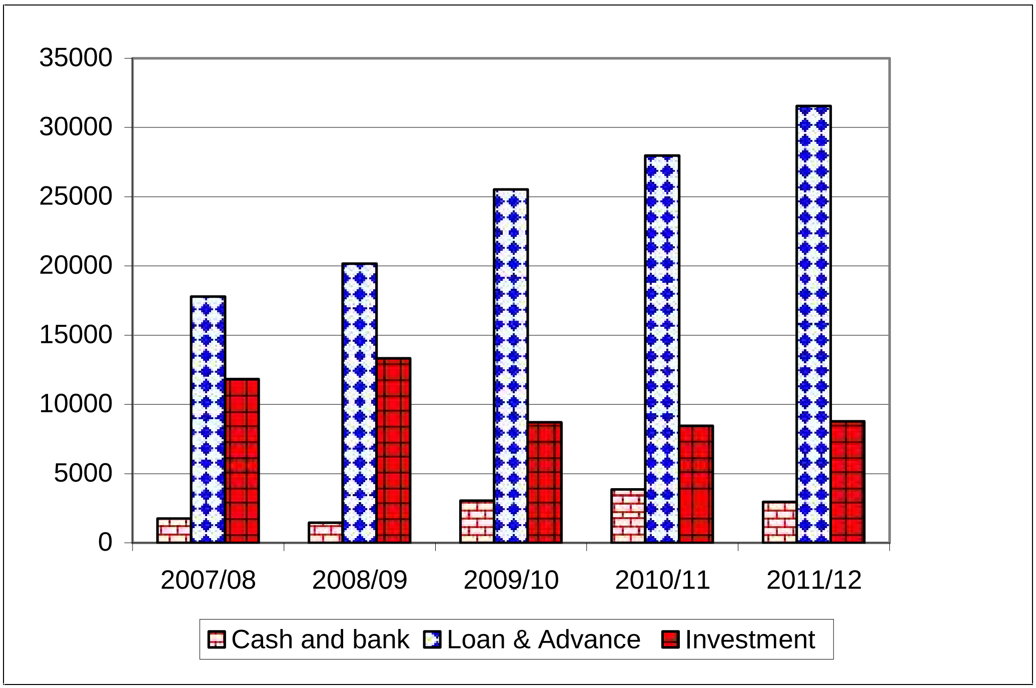
(In million)

FY	Cash and bank balance	Loan & advance	Investment	Other current assets	Total current assets
2007/08	1757.341	17793.724	11822.985	656.734	32030.784
2008/09	1448.143	20179.613	13340.177	575.852	35543.785
2009/10	3048.527	25519.519	8710.691	644.959	37923.696
2010/11	3866.491	27980.629	8444.910	1054.384	41346.414
2011/12	2964.651	31566.977	8769.939	1513.144	44814.711
Total	13085.153	123040.462	51088.702	4445.073	191659.390
Mean	2617.031	24608.092	10217.740	889.015	38331.878
SD	891.465	5033.445	1991.817	354.534	4444.286

Above table depicts composition of total current assets of HBL from Fy 2007/08 to 2011/12. The amount of total current assets has increased all over the study period. In the year, 2011/12 there is a highest amount of current assets, which is Rs.44814.711 and lowest in the year, 2006/07 which is Rs.32030.784.

Figure 4.1

Composition of Total Current Assets of HBL



Above figure shows, the cash and bank balance is in fluctuating tread allover the study period. Loan and advance is in increasing tread allover the study period. The investment has been deceasing trend in the FY 2009/010 and 2011/12 and finally the other assets have decreased only in the FY 2011/12, remaining year it has cover an increasing trend. Thus above figure depicts the amount of current assets has increased all over the entire study period and high portion of the total current assets has cover by loan and advance.

4.3 Structure of Working Capital

Capital structure needs planning the financial ratios of the particular firm. Here, the objective is to analyze the structure of WC of HBL. This section deals with the structural composition of WC and approximate ratio of cash and bank balance, loan and advances, investment and other current assets.

4.3.1 Analysis of Cash and Bank Balance to Current Assets

Cash and bank balance is important components of current assets. The main reason for holding the cash is for transaction motive, precautionary motive and speculative motive. A cash and bank balance refers to the cash in hand, cash at bank and cash in transit, near cash assets, such as marketable securities and time deposits in bank. Thus to meet the daily business requirements cash and bank balance has to maintained.

More the amount of cash and bank balance in the firm the more liquid the firm is in measuring the current obligation. However, bearing excessive cash signifies cash balance being held idle without any motives.

Table 4.2

Analysis of Cash and Bank Balance to Current Assets

(In Million)

FY	Cash and Bank Balance	Total Current Assets	Ratio %
2007/08	1757.341	32030.784	5.21
2008/09	1448.143	35543.785	4.07
2009/10	3048.527	37923.696	8.04
2010/11	3866.491	41346.414	9.35
2011/12	2964.651	44814.711	6.62
Total	13085.153	191659.390	33.290
Mean	2617.031	38331.878	6.658
SD	891.465	4444.286	1.895
CV	34%	12%	28.5%

The above table show that the proportion of cash and bank balance in current assets of HBL are deceasing all over the study period. In the beginning year, it is 5.21%, which decreased to 4.07% in 2008/09. In FY 2009/010, the nation is increasing to 8.04%. Fourth year the ratio even increase it 9.35% and in FY 2011/12 the ratio even deceasing to 6.62%. The average ratio is 6.658%.

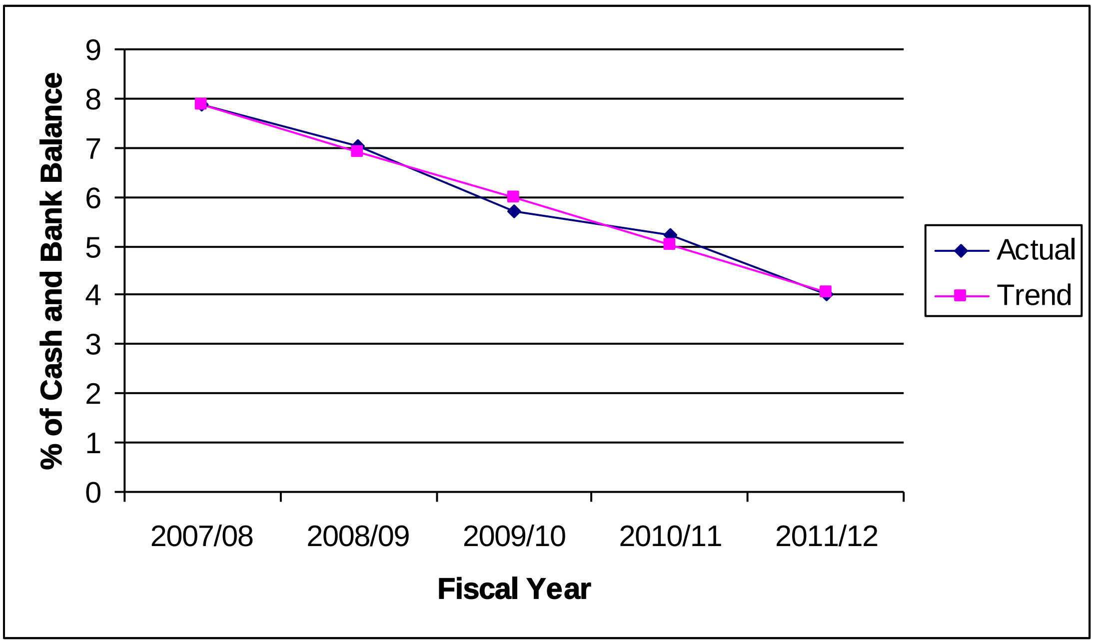
From the collation of cash band bank balance percentage trend as per appendix 3 the value of constants 'a' and 'b' of HBL are as follows.

Bank	a	b
HBL	6.658	-0.956

The rate of change on cash and bank balance percentage 'b' in HBL is negative. It shows that the trend line of cash and bank balance percentage is in downfall. It shows that the company is not maintaining height margin on cash and bank balance.

Figure 4.2

Actual and Trend Lines of Cash and Bank Balance



The above figure shows that the trend and article lines of cash and bank balance percentage of HBL. The above analysis helps to conclude that cash and bank balance percent trend of HBL is not good. The actual line and trend line of cash and bank balance percent shows the negative sign that the bank does not able to maintain its cash and bank balance with its trend.

4.3.2 Analysis of Cash and Bank Balance to Current Liabilities

The analysis of cash and bank balance to current liabilities indicate the portion of cash balance available to meet the payment of current liabilities. A moderate ratio is considered satisfactory, to high ratio indicates excess cash balance held idle and too low ratio is indicates of company being unable to meet its payment of current of current liabilities in time.

Table 4.3

Analysis of Cash and Bank Balance to Current Liabilities

(In Million)

Fiscal year	Cash and bank balance	Current liabilities	Ratio
2007/08	1757.341	31372.641	5.60%
2008/09	1448.143	33662.45	4.30%
2009/10	3048.527	36200.441	8.40%
2010/11	3866.491	38588.446	10.02%
2011/12	2964.651	41903.884	7.075%
Total	13085.153	181727.862	35.395%
Mean	2617.031	36345.572	7.079%
SD	891.465	3684.442	2.015
CV	34%	10.14%	28.5%

The above table shows that the ratios decreased from 5.60% to the lowest of 4.30% in FY2007/08 to FY 2008/09 and in FY 2009/010 increase to 8.40% and in 2010/11 increase to 10.02% and in 2011/12 decrease to 7.075%. It could be stated that bank has been unable to meet its payment of current liabilities in time .This has clearly indicated that HBL has been unable to maintain cash and bank balance with current liabilities.

4.3.3 Analysis of Loan and Advances to Current Assets

Loan and Advance is the important part of current assets. The ratio lone and advances to current assets indicates the proportion of lone and advance in the current assets .Since it shows that the large proportions of assets are used in income generating sector.

Table 4.4

Analysis of Loan and Advance to Current Assets

(in million)

Fiscal year	Loan and Advance	Total current	Ratio %
2007/08	17793.724	32030.784	55.55
2008/09	20179.613	35543.785	56.77
2009/10	25519.519	37923.696	67.29
2010/11	27980.629	41346.414	67.67
2011/12	31566.977	44814.711	70.44
Total	123040.462	191659.390	317.720
Mean	24608.092	38331.878	63.54
SD	5033.445	4444.286	6.138
CV	20.45%	12%	9.7%

In above table, .We can see that both the loan and advances and total current asses are in increasing trend and the growth rate in total current assets is proportion to loan and advances .The ratio of loan and advances to total current assets is increasing over the study period.

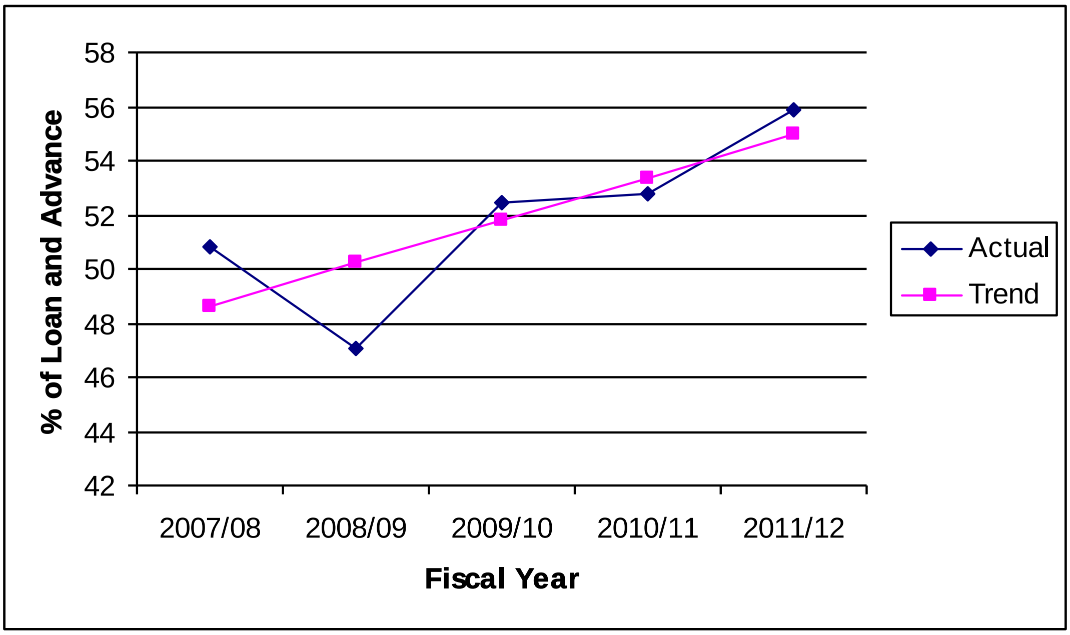
From the calculation of loan and advances parentage mend as per append x-4, the value of the constants 'a' and 'b' of HBL is as follows.

Bank	A	B
HBL	63.54	1.583

The rate of change on loan and advances percentage 'b' of HBL is positive. It shows that the trend line of loan and advances has increasing trend. It shows that the bank is using large proportion of current assets in income generating sector.

Figure 4.3

Actual and Trend Line of Loan and Advances



Above figure shows the actual and trend line of HBL. The above analysis helps to conclude that the loan and advances percent of HBL is fine and proper. The increasing trend of loan and advances of HBL shows the bank is utilizing its current assets in income generating sectors properly.

4.3.4 Investment to Current Assets Ratio

To meet contingency and to invest in profit making opportunities, business firms need to keep some cash balance for ordinary business. Since cash is absolute liquid assets and generates further income, it is better to invest in marketable securities; HBL has invested its amount in shaves of different sectors of business debentures.

Table 4.5

Investment to Total Current Assets Ratio

(in million)

Fiscal Year	**Investment**	**Current assets**	**Ratio %**
2007/08	11822.985	33740.81	35.04
2008/09	13340.177	36062.32	37
2009/10	8710.691	39094.49	22.28
2010/11	8444.910	41655.25	20.27
2011/12	8769.939	45548.71	19.3
Total	51088.702	196101.58	133.844
Mean	10217.740	39220.32	26.77
SD	1991.817	4147.077	7.632
CV	19.5%	10.6%	28.5%

Above table has disclosed that the amount of investment and current assets has increased during the study period. The investment to total assets ratio of the bank during study period is fluctuating. In the FY 2007/08 this ratio was 35.04% this ratio has increased to 37% then, coming decreasing trend of ratio are 22.25% and 20.27% from FY 2009/010 to 2010/11. And in FY 2011/12 this ratio has decrease to 19.3% from the analysis we can say that the increased in current assets has been able to increase the investment. Increasing current assets and increasing rate of investment is favorable.

4.3.5 Current Assets to Total Assets Ratio

The success and the failure of a bank depend on its utilization of resources that again depends on the day-to-day business activities. To run any business organization smoothly, appropriate level of current assets should be maintained. There should be proper management of current assets to achieve the principal goal of any bank i.e. maximization of profit and shareholder's wealth.

Current assets to total assets ratio shows the proportion of current assets in the total assets. To fulfill the need of daily business requirement, WC is needed. Hence, CA are generally required to meet the WC requirement. High ratio of current assets to total assets shows the greater liquidity position of a bank and lower risk of insolvency.

Table 4.6

Current Assets to Total Assets Ratio

(in million)

Fiscal Year	**Current Assets**	**Total Assets**	**Ratio %**
2007/08	33740.81	34314.87	98.33
2008/09	36062.32	36857.624	97.84
2009/10	39094.49	40046.69	97.62
2010/11	41655.25	42717.125	97.50
2011/12	45548.71	46736.204	97.46
Total	196101.58	200672.51	488.749
Mean	39220.32	40134.50	97.75
SD	4147.077	4355.828	0.319
CV	10.6%	10.9%	0.33%

It can be observed that percentage of ratio of current assets to total assets are 98.33% in 2007/08, 97.84 in 2008/09, 97.62 in 2009/010, 97.50 in 2010/11 and 97.46 in 2011/12. The average percentage ratio is 97.75. it means, on average 97.75% of total assets are current. It is higher than 90%, which represents the adequate liquidity of the bank.

4.4 Analysis of Liquidity Position

Liquidity of any business organization is directly related to WC or current assets and current liabilities of that organization. In other words, one of the main objectives of WCM is keeping good liquidity position. Bank is a different organization which is engaged in mobilization of funds, so without good liquidity, bank is not able to operate properly. To measure the bank's solvency position or ability to meet its short-term obligation, various liquidity ratios are calculated as follows.

4.4.1 Current Ratio

Current ratio indicates the current short-term solvency position of higher current ratio indicates better liquidity position. This ratio is also called working capital ratio. This ratio is calculated by dividing current assets by current liabilities. Current assets include cash and bank balance, loan and advances, investment and other current assets, current liabilities include deposits, Bank borrowing and other liabilities. Larger the amount of current assets in relation to current liabilities indicates more the bank's ability to meet its current obligations. The conventionally accepted current ratio 2:1 is the idle ratio, a bank should maintain. In general, ratio less than 1:1 is certainly undesirable for any firm.

Table 4.7

Calculation of Current Ratio

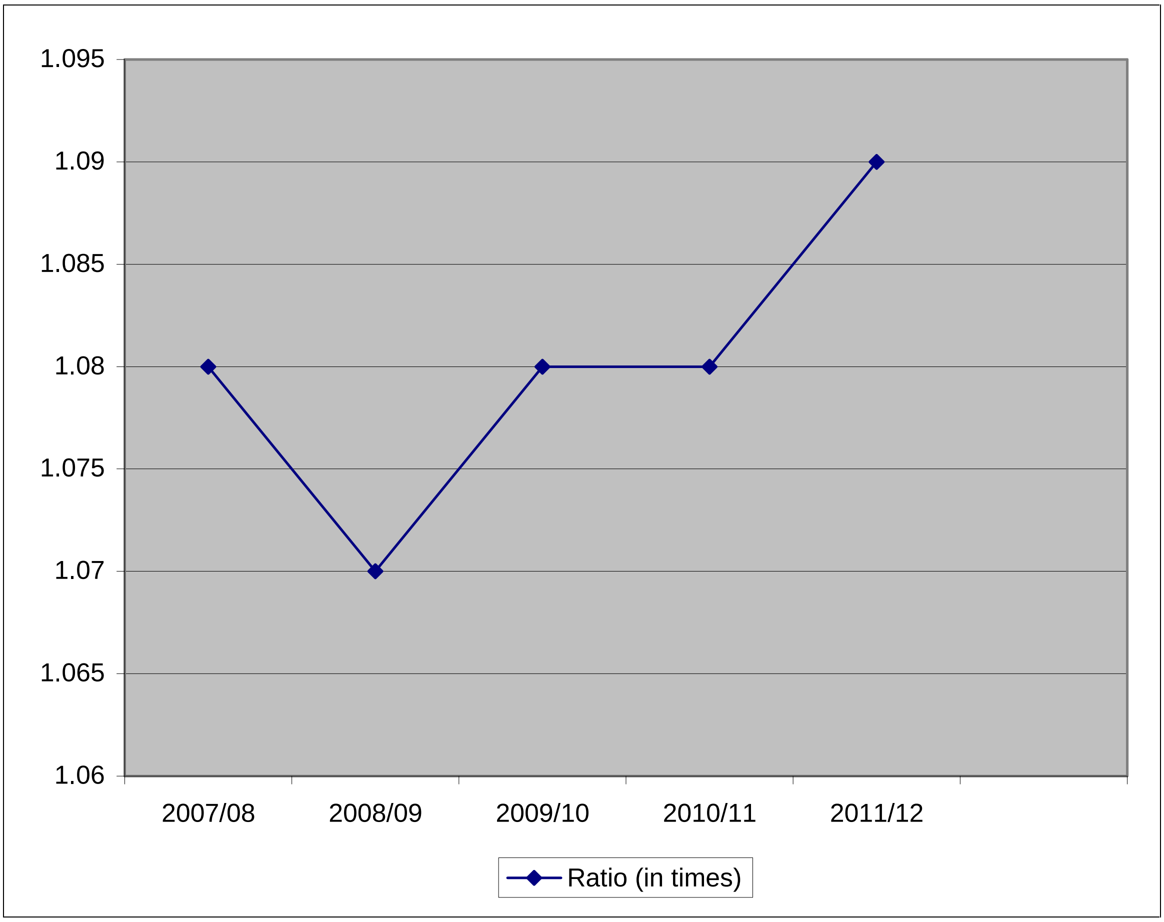
(in million)

Fiscal Year	Current Assets	Current Liabilities	Ratio (in times)
2007/08	33740.81	31372.641	1.08
2008/09	36062.32	33662.45	1.07
2009/10	39094.49	36200.441	1.08
2010/11	41655.25	38588.446	1.08
2011/12	45548.71	41903.884	1.09
Total	196101.58	181727.862	5.40
Mean	39220.32	36345.572	1.08
SD	4147.077	3684.442	0.006
CV	10.6%	10.14%	0.56%

The above table shows the current ratio of HBL for the period 2007/08 to 2011/12 it has been found that the ratio of HBL is likely constant during the study period. The above table shows the highest ratio is 1.09 in FY 2011/12 and lowest ratio is 1.07 in FY 2008/09. The average current ratio is 1.08 times, SD is 0.006 and CV is 0.56 %. It shows that the increment of current assets, current liabilities also have increased.

Figure 4.4

Calculation of Current Ratio



From the above figure, it is clear that the current ratio is less than the standard (2:1), or bank could not maintain the ratio of 2:1. Therefore, the current ratio is unsatisfactory in the study period, which indicates the liquidity position of the bank is not good and the firm may face difficulty in payment of current obligation in time. Thus, the working capital management of the bank is unsatisfactory.

4.4.2 Quick Ratio

A Quick Ratio establishes a relationship between Quick or liquid assets and current liabilities and it indicates the instant debt paying capacity of the bank. An asset is liquid, if it can be converted into cash immediately or reasonably without a loss of value. Mathematically, when inventory and prepaid expenses are reduced from current assets, the remaining is known as Quick assets. In the study, cash and bank balance loan and advances and investment are included in Quick assets.

Generally a ratio of 1;1 is regarded as standard .Here, the ratio below 1;1 represents that the firm's liquidity position is not good and ratio above 1;1 indicates that the firm is liquid and has ability to meet its current liabilities in time.

Table 4.8

Analysis of Quick Ratio

(In millions)

Fiscal year	**Quick Assets**	**Current Liabilities**	**Ratio(in times)**
2007/08	31340.05	31372.641	1.00
2008/09	34967.933	33662.45	1.04
2009/10	37278.373	36200.441	1.03
2010/11	40593.379	38588.446	1.05
2011/12	44361.217	41903.884	1.06
Total	188540.952	181727.862	5.18
Mean	37708.190	36345.572	1.04
SD	4490.747	3684.442	
CV	11.9%	10.14%	

Above table shows the Quick ratio of HBL. Generally Quick ratio of 1;1 of the bank is considered to be sound position from the above table, it can be said that the Quick ratio is far better during the study period. The average ratio is 1.04. This shows that the bank has been able to meet it’s all the short-term obligations and gain its credibility. Therefore the Quick ratio is satisfactory in the study period which indicates the liquidity position of the company is good.

4.4.3 Cash and Bank Balance to Deposit Ratio (Ex. Fixed Deposit)

The ratio shows the ability of bank's immediate funds to cover their current, call, and saving deposits. It can be calculated by dividing cash and bank balance by deposits (Ex. Fixed Deposit)

Table 4.9

Cash and Bank Balance to Deposit Ratio (Ex. fixed Deposit)

(In millions)

Fiscal year	Cash and Bank	Total Deposit (Excluding fixed Deposit)	Ratio
2007/08	1757.341	29228.283	6.01
2008/09	1448.143	25418.915	5.70
2009/10	3048.527	28304.345	10.77
2010/11	3866.491	37611.202	10.28
2011/12	2964.651	40920.627	7.25
Total	13085.153	161483.372	40.01
Mean	2617.031	32296.67	8.00
SD	891.465	5920.710	2.13
CV	34%	18.3%	26.6%

The above table shows that the ratios of HBL are decreasing during study period. The highest ratio within the study period is 10.77% and lowest is 5.70%. The average ratio is 8.00%

The above analysis helps to conclude that HBL holds less cash and bank balance. The higher ratio shows the ability of bank's immediate funds to cover its current, margin, call, and saving deposits. However, large amount of idle cash and bank balance badly affects the profitability of the bank as well.

This low ratio of HBL can be considered as a plus point of the bank. But at the same time, low cash and bank balance reduces promptness of the bank to repay its deposits whenever demanded by its customers. The bank has been careful about this one thing.

4.5 Analysis of Activity or Turnover Ratio

Activity ratio is used to evaluate the efficiency with which the firm manages and utilizes its assets. These different ratios are also employed to evaluate the speed with which assets are being converted or turnover. These ratios moreover help in measuring the bank's ability to utilize their available resources.

4.5.1 Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which banks are successful in utilizing the outsider's funds for the bank profit generating purpose. In other words, how quickly total collected deposits are converted into loan and advances to the client to earn income. The following table shows the effectiveness in utilization of total deposit of HBL

Table 4.10

Loan and Advances to Total Deposit Ratio

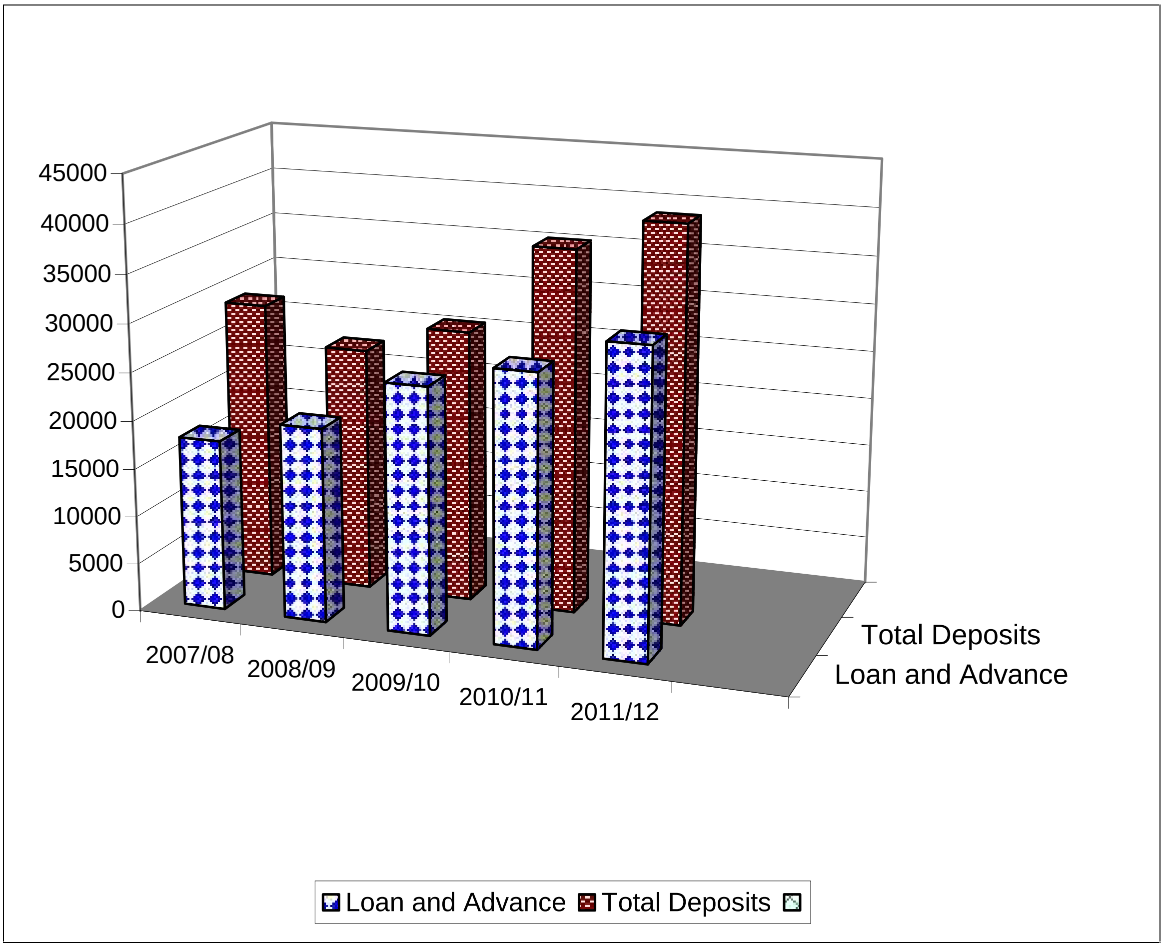
(In millions)

Fiscal year	**Loan and Advance**	**Total Deposits**	**Ratio(in times)**
2007/08	17793.724	29228.283	0.61
2008/09	20179.613	25418.915	0.79
2009/10	25519.519	28304.345	0.90
2010/11	27980.629	37611.202	0.74
2011/12	31566.977	40920.627	0.77
Total	123040.462	161483.372	3.81
Mean	24608.092	32296.67	0.76
SD	5033.445	5920.710	0.10
CV	20.45%	18.3%	13.2%

The above table shows relationship between the collection of Total Deposit and utilization of Total Deposit in loan and advances. In the table, the loan and advances increasing during study period and also increasing of loan and advances to total deposit ratio covers an increasing trend. The average ratio is 0.76; standard deviation and CV are 0.10 and 13.2%respectively.

Figure 4.5

Loan and Advances to Total Deposit Ratio



From the above figure, it can said that HBL is increasing its investment in loan and advances at a high rate. So, we can conclude that loan and advances to total deposit ratio of HBL is higher. Higher ratio of HBL is the indication of better performance. Thus HBL is employing its funds in income generating sector.

4.6 Profitability Position

Profit is an important factor that determines the firm’s expansion and diversification. A required level of profit is necessary for the firm's growth and survives in the competitive environment. An ability to earn maximum from the minimum use of available resources by the business organization is known as profitability. The key factor measures how effectively the firm is being operated and managed. Profit earned by the firm is used as a tool to evaluate different things. First, it is indicator of the degree of customer acceptance to the product and services offered by the firm.

Second, profit can be used to repay the short as well as long-term obligation. Lastly, profit can be used as sources of internal financing. Therefore, profitability ratios are used to analyze the financial strengths and weakness of a firm.

Various ratios can be developed based upon the profit under different circumstances. These different ratios are called profitability ratios, which are required to support the purpose of the study. In this study, following ratios are used.

4.6.1 Interest Earned to Total Assets Ratio

The interest earned to total assets ratio express the relationship between interest and assets. It helps to find out how much a firm has earned interest from its investment with reference to its total assets. It is developed by dividing the amount of interest earned by the total assets of the firm. Generally, a high interest earned to total assets ratio is a sign of good management and vice-versa. Following table shows the interest earned to total assets ratio of HBL.

Table 4.11

Interest Earned to Total Assets Ratio

(In millions)

Fiscal year	Interest Earned	Total Assets	Ratio (%)
2007/08	1775.583	34314.87	5.17
2008/09	1963.647	36857.624	5.33
2009/10	2342.198	40046.69	5.85
2010/11	3148.605	42717.125	7.37
2011/12	4326.141	46736.204	9.26
Total	13556.174	200672.51	32.98
Mean	2711.235	40134.50	6.60
SD	934.851	4355.828	1.54
CV	34.48%	10.9%	23.4%

Above table shows, the interest earned to total assets of HBL during the study period. The highest interest earned to total assets ratio is 9.26% in 2011/12 and lowest ratio is

5.17% in 2007/08. Average interest earned to total assets is 6.60% and standard deviation and CV are 1.54 and 23.4%. The volume of interest earned and total assets have increased every year but interest earned to total assets has been fluctuating. It clarifies the less effectiveness of utilization of total assets.

4.6.2 Net Profit to Total Assets Ratio

This ratio is useful in measuring the profitability of all financial resources invested in thee firm's assets. This ratio is also called return on total assets. This ratio is calculated by dividing the amount of net profit after tax by amount of total assets. The following table shows the net profit to total assets ratio of HBL.

Table 4.12

Net profit to Total Assets Ratio

(In millions)

Fiscal year	Net profit after tax	Total assets	Ratio (%)
2007/08	491.823	34314.87	1.43
2008/09	635.869	36875.624	1.72
2009/10	752.835	40046.69	1.88
2010/11	508.798	42717.125	1.19
2011/12	893.115	46736.204	1.91
Total	3282.440	200672.51	8.13
Mean	656.488	40134.50	1.63
SD	172.990	4355.828	0.28
CV	26.35%	10.9%	17.02%

The above table depicts that the overall profitability ratio i.e. net profit to total assets ratio of HBL. The amount of net profit, total assets are increasing over the study period. Net profit to total assets ratio is also in increasing during the study period except in 2009/010 and decrease in 2010/11 and again increase in 2011/12. The above analysis helps to conclude that the overall profitability of HBL is good, because bank has been more efficiently and properly using its working fund of assets to earn higher rate of profit.

4.6.3 Net profit to Total Deposit Ratio

Collected deposits are mobilized by commercial banks by giving loan and advance to different individuals and institutions with a purpose to earn revenue. It shows the relationship between net profit and total deposit value. This ratio measure the percentage of profit earned from utilization of the total deposits. Following table shows the net profit to total deposit ratio.

Table 4.13

Net Profit to Total Deposit Ratio

(In million)

Fiscal year	Net profit after tax	Total Deposit	Ratio(%)
2007/08	491.823	29228.283	1.68
2008/09	635.869	25418.915	2.50
2009/10	752.835	28304.345	2.66
2010/11	508.798	37611.202	1.35
2011/12	893.115	40920.627	2.18
Total	3282.440	161483.372	10.37
Mean	656.488	32296.67	2.08
SD	172.990	5920.710	0.295
CV	26.35%	18.3%	14.18%

Above table shows that, the volume of net profit and total deposits are increasing and decreasing all over the study period. The average, SD and CV are 2.08%, 0.295% and 14.18% respectively. With the help of above analysis, we can conclude that the bank has better performance on mobilization of outsider's fund to earn profit.

4.6.4 Analysis of Net Profit Margin

Net profit margin ratio shows the relationship between net profit and sales of a firm. Net profit is the profit, which comes after deducting operating expenses and income tax from gross profit. This ratio measures the company's ability to turn rupee income into net profit. High ratio indicates that the company is failing to achieve satisfactory return. The following table shows the net profit margin of HBL during the study period.

Table 4.14

Net Profit Margin Ratio

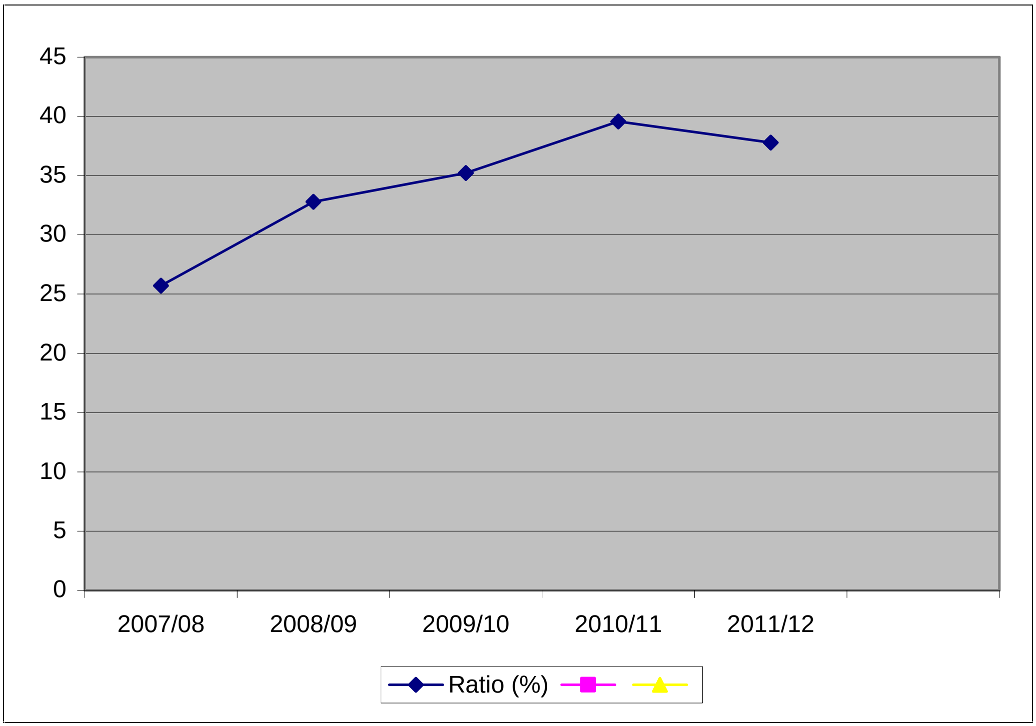
(In million)

Fiscal year	**Net profit After tax**	**Total Operating income**	**Ratio (%)**
2007/08	308.277	1198.717	25.72
2008/09	457.458	1395.422	32.78
2009/10	491.823	1396.855	35.21
2010/11	635.869	1607.196	39.56
2011/12	752.835	1991.858	37.80
Total	2646.262	7590.048	171.07
Mean	529.2524	1518.0096	34.21
SD	152.802	269.87	4.83
CV	28.87%	17.78%	14.12%

Above table reveals the net profit margin of the bank over the 5 year of period. Net profit after tax and operating incomes are increasing all over the study period. Net profit margin ratio has covered an increasing trend. The highest net profit margin ratio is 39.56% in 2010/11 and profit margin is 34.21 with 4.83 standard deviation and 14.12% of CV.

Figure 4.6

Net Profit Margin Ratio



Above figure depicts that HBL has been operating under profit and it is increasing every year. Net profit margin ratio is positive and also increasing every year. This increasing ratio indicates that bank's financial condition is favorable and bank has been able to achieving satisfactory return.

4.6.5 Analysis of Return on Working Capital (i.e. Current Assets)

This ratio is calculated by dividing net profit after tax by current assets. This helps to analysis the earning power of the current assets. Higher ratio indicates higher utilization of current assets and vice-versa. This ratio is also called Return current assets.

Table 4.15

Analysis of Return on Working Capital

(In millions)

Fiscal year	Net profit After Tax	Current Assets	Ratio (%)
2007/08	491.823	33740.81	1.45
2008/09	635.869	36062.32	1.76
2009/10	752.835	39094.49	1.92
2010/11	508.798	41655.25	1.22
2011/12	893.115	45548.71	1.96
Total	3282.440	196101.58	8.311
Mean	656.488	39220.32	1.662
SD	172.990	4147.077	0.285
CV	26.35%	10.6%	17.12%

The above table shows the return on working capital of HBL. During the study period, return on current assets as positive and increasing, return on current assets is 1.96%. in the 2011/12 and least is 1.22 in 2010/11. Average return on current is 1.662% with 17.12% CV. Therefore we can conclude that the efficiency of the utilizing total current assets of HBL in earning profit satisfactory over the year.

4.7 Correlation Analysis

The coefficient of correlation measures the degree of relationship between two sets of figure. The result of co-efficient of correlation is always between +1 and -1. When r is +1, it means there is perfect relationship between two variable and vice-versa. When r is '0' it means there is no relationship between two variables.

4.7.1 Coefficient of Correlation between Investment and Total Deposit

In correlation Analysis, Deposit is independent variable (x) and investment is depended variable (x). The purpose of analyzing coefficient of correlation between investment and Total Deposit is to justify whether the deposit are significantly used in investment or not and whether there is any relationship between these two variables.

Table 4.16

Coefficient of Correlation between Investment and Total Deposit

coefficient of correlation (r)	Relationship	R square ($r^{2)}$	Prob. Of Error	6PE	Significant/ Insignificant
0.5225	direct	0.27	0.2195	1.3167	Insignificant

As presented in table, there is direct relationship between investment and total deposit of HBL. The correlation coefficient is 0.5225, which shows the moderate degree of positive relationship. The value of r^2 is 0.27, which indicates that 27 percent variation is explained in dependent variable investment due to change in the value of independent variable total deposit.

Probable error of correlation has also calculated to measure the significance of the relationship between investment and Total deposit of HBL. It is difficult to say anything about the significance of the relationship because r<6PE.

4.7.2 Co-efficient of Correlation between Loan and Advance and Total Deposit

The coefficient of correlation between loans and advances and total deposit helps to justify whether the deposit are significantly used in loan and advancement or not and whether there is any relationship between these two variables.

Table 4.17

Co-efficient of Correlation between Loan and Advance and Total Deposit

Coefficient of correlation (r)	Relationship	R square r^2	Prob. Of Error	6PE	Significant/ Insignificant
0.5723	Direct	0.33	0.2021	1.213	significant

From the above table we can find that co-efficient of correlation between loan and advance and Total deposit in HBL (r) is 0.5723. It shows moderate level of positive relationship between these two variables.

The value of r^2 is .33, which indicates that 33% variation is explained in dependent variable loan and advance due to change in the independent variable total deposit.

R is greater than 6PE, therefore we can not say anything about the signification of the relationship.

4.7.3 Correlation between Cash and Bank Balance to Current Liabilities

Cash a bank balance is liquid component of current assets. This requiring meeting the unexpected short-term obligation i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities

Table 4.18

Correlation between Cash and Bank Balance to Current Liabilities

Coefficient of correlation(r)	Relationship	r square r^2	Prob. of Error	6PE	Significant/Insignificant
-1.13	indirect	1.2769	-0.0835	-0.50	Insignificant

The table is supported to reveal the relationship between cash and bank balance and current liabilities. Coefficient of correlation is -1.13, which indicates the negative correlation between these two variables. There is insignificant relationship between cash and bank balance and current liability because r > 6PE

4.7.4 Coefficient of Correlation between Loan, Advances and Net Profit

In correlation analysis, loan and advance is independent variable (X) and Net profit is the dependent variable (Y). The purpose of computing coefficient of correlation is to find out whether the change in loan and advances affects the profitability of the bank or not and whether there is any relationship between these two variables.

Table 4.19

Coefficient of Correlation between Loan, Advances and Net Profit

Coefficient of	Relationship	r	Prob.	6PE	Significant/Insignificant

correlation(r)		square r^2	of Error		
0.8293	Direct	0. 69	0.0935	0.5611	Significant

Above table is supported to reveal the relationship between loan and advance and net profit. Coefficient of correlation of HBL is 0.8293, which indicates moderate degree of positive correlation.

The value of r^2 is 0.69, which indicates that 69% variable is explained in dependent variable net profit due to charge in the independent variable Loan and advance. The relationship between loan and advance and net profit is frankly significant because r is great than 6PE.

4.8 Regression Analysis

The regression is the statistical tool with the help of it we can estimate the known value of one variable from the known value of the other variable. The variable whose value is given is called 'independent variable' and the variable whose value is to be predicted is called 'dependent variable' hence, regression determines the average probable change in one variable based on a certain amount of change in another.

4.8.1 Regression Analysis between Investment and Total Deposit

Regression Equation Y= a + bx

Investment = a + b* total deposit

Table 4.20

Regression Analysis between Investment and Total Deposit

No of observation (n)	Constant (a)	Regression Coefficient(b)	r^2	SEE

5	-8881.211	0.114	0.27	1455.901

According to the above table, investment and total deposits denote investment (Dependent variable) and total deposit, (Independent variable) respectively.

The above table is the correlation of major output of simple regression analysis of investment on total deposits. It is clear that total deposit has direct influence on investment, as a regression coefficient is positive i.e. is 0.114, which indicates that one rupee increase in total deposit leads to an average of about Rs. 0.114 increase in investment, holding other variables constant. The value of r^2 is 0.27. The total deposit explains 27% variation in investment.

4.8.2 Regression Analysis between Loan and Advances and Total Deposit

Regression Equation y = a + bx

Loan and advances = a + b total deposit

Table 4.21

Regression Analysis between Loan and Advances and Total Deposit

No. of Observation (n)	Constant (a)	Regression Coefficient (b)	r^2	SEE
5	-10326.16	0.257	0.33	2831.71

Above table shows the regression equation of total deposit and loans and advances in HBL. According to the table, the regression coefficient (b) between loan and advances and total deposit is 0.257, which indicate that one rupee increase in total deposit leads to increase in loan and advance by Rs. 0.257, and value of constant (a) gives the amount of depended variable when independent variable is zero.

4.8.3 Regression Analysis between Cash and Bank Balance and Current Liabilities

Regression equation Y= a + bx

Cash and bank balance = a + bx* current liabilities.

Table 4.22

Regression Analysis between Cash and Bank Balance and Current Liabilities

No. of observation (n)	Constant (a)	Regression Coefficient (b)	r^2	SEE
5	-4155.55	-0.083	1.2769	407.13

According to the above table the regression coefficient (b) between current liabilities and cash and bank balance is negative i.e. -0.083 which indicates that negative relationship between current liabilities and cash and bank balance.

4.8.4 Regression Analysis between Loan, Advances, and Net Profit

Regression Equation Y = a + bx

Net profit = a + b* Loan and Advances.

Table 4.23

Regression Analysis between Loan, Advances, and Net Profit

No. of observation (n)	Constant(a)	Regression co-efficient(b)	r^2	SEE
5	225.58	0.041	0.69	96.514

It is clear to say that loan and advances has direct influence on net profit, as the regression coefficient is positive. Regression coefficient is 0.041, which indicates that a one rupee increase in loan and advances leads to an average of about Rs 0.041 increase in net profit, holding other variables constant. The value of r^2 is 0.69. Loan and advances explains 690% variation in net profit. SEE is 96.514. It measures the reliability of the estimating equation, indicating the variability of the observed value differ from their predicted value on the regression line.

CHAPTER V
SUMMARY, MAJOR FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of the Study

The purpose of this study is to evaluate working capital management of HBL. A case study of financial performance of HBL has under study with the objective to present and analysis the working capital management scenario of HBL, to study the fund mobilization and investment policy, to examine the strengths and weakness in working capital management of the bank, to recommend viable suggestions to cope up with working capital short coming of the bank and to encourage the future researchers to study working capital management of HBL to complete this conveniently and efficiently, this is organized into five chapters. There are introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion and recommendation.

The first chapter explains about the introduction of the study. It also describes about need of study, statement of problem, objective of the study, limitations of the study, significance of the study and how the study has been organized. So, the first chapter highlights the basic aim and structure of the study.

In the second chapter, different thesis, text books have been reviewed government publications and newspaper, publications of the bank in different fiscal year.

In the third chapter, the main part of the study briefly explains the research methodology that has been used to evaluate the working capital management of the bank. Research methodology is the process of searching to the solution of the problem through planed and systematic dealing with the collection, analysis and interpretation of fact and figure. This chapter consists of research design and method of analysis.

In the fourth chapter, the data required for the study have been presented, analysis and interpreted by using various financial and statistical tools and techniques. The main purpose of analysis of the data is to change it from unprocessed to comprehensive presentation. In this study, the method of presenting data is basically table.

In the fifth chapter, the priority presented and analyzed data and information are summarized. In this chapter the researcher tries to search out to a conclusion of the study and attempts to offer various suggestions and recommendations for the improvement of the future performance of the bank.

5.2 Major Findings

The main findings of the study are derived upon the data that are analyzed and presented earlier about working capital management. The major findings of this study period of five years from 2007/08 to 2011/12 in HBL from the analysis and interpretation of the data re- summarized below.

The structure of working capital of Himalayan Bank Limited reveals the following condition:

- The main components of working capital of HBL include cash and bank balance, Investment, loan and advance, placement and other current assets. There is an Increasing trend of current assets and loan and advances hold major portion of Working capital.
- The volume of cash and bank balance are in fluctuating trend during the study period. The coefficient of beta ‘b’ is negative, which shows the trend line of cash and bank balance has fluctuated whereas volume of current liabilities is in increasing trend, which is not a good sign for the bank.
- The investment to total assets ratio of bank during the study period is fluctuating but the amount of investment and current assets have been increased. Increase in current assets has been able to increase in the investment, which is favourable for the bank.
- The ratio of loan and advances to total assets is increasing all over the study period. The ratio of change on loan and advances percentage ‘b’ of HBL is positive; it shows that the trend line of loan and advances is in increasing trend.

- The ratio of current assets to total assets is fluctuating over the period. The average percentage ratio is 97.75. It means 97.75% of total assets are current assets which represents the adequate liquidity of the bank.
- Net working capital of this bank is composed of current assets minus current liabilities. The current assets and current liabilities have increased over the five years period. Increasing trend of current assets of good sign while increasing of current liabilities is not good for the bank.

The Liquidity ratio reveals the following condition of the bank:

- The overall liquidity position of the bank has been found unsatisfactory. The Current ratio lies from 1.07 times to 1.09 times through out the study period which are not however satisfactory compared to the conventional ideal ratio 2:1.
- Quick ratio of the bank is found to be fluctuating during the study period. The average quick ratio is 1.02 times. The standard quick ratio to maintained by bank 1:1; therefore the quick ratio is satisfactory during the study period, which indicates the bank is excellent.

The activity or turnover ratio reveals the following conditions:

- The loan and advances is increasing during study period and increasing the total deposit respectively, except in FY 2007/08, the ratio of loan and advance to total deposit ratio covers an increasing trend. The average ratio is 0.76 time with 13.2% coefficient of variance. Higher ratio of the bank is indication of better performance.

Thus, the HBL is using its fund in income generating sectors.

Profitability ratio reveals the following conditions:

- Interest earned to total assets ratio varies from 5.17% to 9.26%. Average ratio is 6.60% and CV is 23.4%. This ratio of the bank during the study period is fluctuating in an average this ratio is not favourable for the bank. Thus, the working capital management of the bank is not satisfactory in respect to this ratio.

- Net profit to total assets ratio varies from 1.43 to 1.91. Average ratio is 1.63%. Net Profit to total assets ratio is highly increasing during the study period, except FY 2010/11. The bank has more effectively using its working capital to earn higher rate of profit.
- Return on current assets ratio in between 1.45% to 1.96%. Return on current assets is positive and increasing over the period expect FY 2010/11.
- Net Profit to total deposit ratio is highly increased over the study period. It indicates that the bank has better performance on mobilization of outsides fund to generate profit. The highest ratio is 2.66% and the lowest ratio is 1.35%. The average ratio is 2.08% with CV is 14.18%.

Correlation and Regression reveal the following conditions:

- Correlation coefficient between loan and advance and net profit (r) is 0.8293, which shows the positive relation between them. The value of r^2 is 0.69, which indicate 69% vitiation is explained in depended variable net profit due to change in the independent variable loan and advances. The constant variable 'a' is 255.58 and beta coefficient 'b' is 0.041.
- The correlation between investment and total deposit (r) is 0.5225, which is greater than 0, so there is a moderate degree of positive relation between them, but there is a insignificant relationship between investment and total deposit, because value of $r<6PE$. The regression coefficient is positive and constant 'a' is negative.
- Coefficient of correlation between cash and bank balance and current liabilities (r) is -1.13 which is less than 0. It reveals negative relationship. Regression result of cash and bank balance and current liabilities, constant variable 'a' is -4155 million, beta coefficient 'b' is 0.083 million decreased in the cash and bank balance holding other variable constant.
- The correlation between loan and advance and total deposit (r) is 0.57. It shows that insignificance relationship between $r<6PE$. Beta coefficient is 0.257, which indicates that a one rupee increase in total deposit in loans and advance by Rs. 0.257 millions, holding other variable constant.

5.3 Conclusion

Conclusively, it is stated that the overall financial management of Himalayan Bank Ltd. (HBL) is satisfactory during the study period. It has sound liquidity position and positive growing profitability. Most of the variables of the working capital are in increasing trend and the bank is operating with good profit.

The first motive of commercial banks is to borrow public savings and lend to needy people. The gap between collection of deposits and disbursement of loans increases the cash and bank balance which require paying its large amount of liabilities on its depositor's demand without notice. There was sufficient amount of current assets to meet the current obligations of the bank, which obviously is assign of good liquidity position. Cash and bank balance, loan and advances, investment and other current assets are the major components of current assets, except other current assets. All the components of current assets were found to be increasing during the study period. Large portion of current assets is held by loan and advances, which shows the large proportion of current assets is used in income generating sector. The rate of change on loan and advances percentage beta ‘b’ of HBL is also positive. It shows the trend of loan and advances to be high. It indicates the proportion of loan and advances in current assets has been increasing during the study period.

Current ratio, quick ratio, cash and bank balance to total deposit (excluding fixed deposit) etc. all were found to be fluctuating over the study period. Current ratio and quick ratio are greater than one; it shows that the bank has used moderate policy on working capital management.

In profitability ratio interest earned to total assets ratio, net profit to total assets ratio, net profit to total deposit ratio, net profit margin and return on current assets (working capital) is found to be fluctuating during the study period.

The coefficient of correlation between loan and advances and total deposit, the correlation between loan and advance and net profit is significant, which is good for the bank.

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

5.4 Suggestions and Recommendations

Recommendation is considered for the achievement of target goals and objectives of the study to find out the problem and positive important and valuable suggestions on the basis of the findings of the study to improve the working capital management. After the analysis and observation of the data collection and analysis of collected data some specific recommendations have come up which are given below:

i) There is an increasing trend of current assets and current liabilities. The increasing trend of current assets is favourable for the bank; however, increasing trend of current liabilities is not favourable for the bank. So the bank should mobilize its resources in such a way that its current liabilities are minimized.

ii) The current ratio is does not reach the conventional ideal ratio 2:1. It shows that the working capital policy is not satisfactory during the study period. The bank should focus on maximizing its current assets.

iii) The turnover ratio seems to be satisfactory but loan and advances to total deposit ratio is fluctuating. So, HBL should utilize its deposit in income generating activities by better investment efficiency on loan and advances.

iv) The interest earned to total assets has increased every year but interest earned to total assets ratio has fluctuated. It shows less effectiveness of utilization of its total assets in order to earn interest at the same rate.

v) The coefficient of correlation between loan and advance and total deposit and loan and advance and net profit are significant, which is good for the bank. On the other hand investment and total deposit and cash and bank balance and current liabilities are insignificant, which is not good for the bank. Therefore, the bank should properly utilize its total deposit and current assets and should find ways to increase its return on working capital.

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