CHAPTER-I
INTRODUCTION

1.1 General Background

Working capital management is the management of current assets and current liabilities of the firm. Working capital is the part of the capital of a company that is employed in its trading operations. It consists of current assets less current liabilities. In the normal trade cycle the supply of goods by suppliers, the sale of stock to debtors, payment of debts in cash, and the use of fund to pay suppliers. The working capital is the aggregate of the net assets involved, sometimes called the working assets. Short – term financial management is the term now widely used in place of working capital management. The concept of working capital management covers all decisions of an organization involving cash flows in the short run with emphasis on the management of investments in current assets and their financing working capital is defined as debt originally scheduled for repayment within one year.

Every firm wants to maximize the firms' profit. It is the main goal of the enterprise. In this context, the firms always concentrate on providing quality product and service in the timely manners. In this condition, they must be able to effect job in marketing, employees relation and so fourth. It is also concentrated. In the financial prospective there are three crucial areas: 1) directly affects the value of the firm I) Investment decision II) financing decision – making process of all the enterprise. In the Nepalese context, it is not effectively managed due to the inefficient manpower. Nowadays to the enterprise in practicing the working capital management, financial decision on working capital is

necessary to operate the enterprise's ordinary business activity but it is not so easy decision to manage the working capital than to fix investment decision.

In the context of Nepal, working capital management is not satisfactory. Many studies, reports relating the performance of ten public enterprises have found that managers of them lack basic knowledge of working capital. It effects on the operating efficiency and financial viability of the enterprise of firm, effective utilization of funds efficiency of the firm, profitability position and maximizing of shareholders wealth. So the working capital management plays the crucial role for the success and failure of the enterprise. The management of working capital in private sector is not satisfied but comparatively the situation of private industries is more satisfactory than that of public enterprise. It is running in Nepalese industries and other business organization.

The study of working capital management is important for the Nepalese enterprises. It is most necessary to involve the study of working capital management for healthy industrial and business organizations. It has been affected by the various factors. All of those affected regions have not been succeeded to be included in this study. It tries to search the effective reasons for the sound management of working capital from the case study of Bottlers Nepal limited. Study of working capital management is important for at lest four reasons: I) public enterprises need to determine the adequacy of investment in current assets other wise it would seriously erode their liquidity position II) they must select the type of current assets for raising their operative efficiency III) they are required to accurate the turnover of current assets that greatly determines the profitability of the enterprise IV) they must find out the opposite source of funds used to finance current assets.

All the corporates whether public or private, manufacturing or non-manufacturing have just adequate working capital to survive in competitive market. Excess and low adequacy working capital is dangerous from the firms' point of view. Excess investment on working capital affects a firm's profitability just as an ideal investment finds nothing. In the same way inadequate investment in working capital affects the liquidity position of the company and leads to financial failure of the company. Thus the amount of working capital invested should be neither less nor more. It should be as optimum, as possible, however, there are various factors which affect the size of working capital such as nature of business time lay on operational cycle. Purchasing capital managers must be able to manage their working capital in optimum way so that the highest profit is made of lowest cost.

1.2 Introduction of the Company

Bottler's Nepal Ltd. company is one of the manufacturing and processing company, which manufactures the soft drinks under the brand name of the coca-cola company that is managed by Singapore based F and N Coca-Cola Pvt. Company Ltd. Its registered office is located at Balaju Ktm And the head office being same.

The co. is located in Balaju in an area of 10,688 sq.m of land and the building of the company covers 5,823 sq.m. The company covers roughly 90% of the Nepalese market when compared with other brands of the similar production. BN. Ltd is one of the top ten companies listed in the NEPSE is terms of the market capitalization. This company produces fine varieties of soft drinking water. This company is managed by F and N coca. Cola pvt. Company Ltd. Based in Singapore. In Nepal, there are two factories under CocaCola Company. My study is about BN Ltd, Co.

located at Balaju. There is also subsidiary company known as BN (Tarai) ltd at chitawan district of Nepal. BN ltd. company distributes it's product throughout the Bagmati zone. Companies don't have policy of direct distribution.

Company uses two types of distribution channel i.e through the dealer and retailer to the consumers. This company is using two types of plant for production process. The old line has capacity of 220 bottles per minute and the recently installed is able to produce 430 bottles per minute. To maintain the leadership in the market, the company always concentrates on its raw materials from proposed suppliers that are decided from head office. Raw materials like concentrated crown corks, sugars are imported from international and national market and Co_2 gas is produced in factory.

The whole process i.e Raw material to finished good is prepared by company secretly and sold without disclosures after introducing new package. The company has increased sales effort. Recently company is also looking for new areas of distribution but wants to have more profit from the competitive market. The company has its planning system but they don't forecast the sales. In last years data, we can see that sales have been increasing. The company has been able to increase the production efficiency of the plant giving better outputs as compared to the previous year. The newly installed line is now in full operation giving better yields and lower breakage rates. With the installation of new line, the company is now able to fulfill the market demand without any production consists. The company has introduced new packages of its products to counter the competition. The company has been lunching various types of promotional activities with financial and technical support from the coca-

cola company. The company is putting its full efforts on increasing the per capital consumption of its beverage in the market

1.3 Focus of the Study

Every firm or organization needs various types of assets to run the business. Some assets are required to meet the need or regular works and some to meet the long – term operation of the business. So, management has to manage properly different types of assets, especially required to run the operation of the firm smoothly. To carry out daily operations besides the manpower, equipment etc, one of the major components is working capital without which other things are useless. Working capital can be regarded as the lifeblood of the enterprise. It refers to the administration of all aspects of the current assets and current liabilities. It includes such type of capital, which circulates from one to another form in the ordinary conduct of business. It plays vital role in every business organization whether they are trading, manufacturing, or service.

As the management of current assets and current liabilities of the business organization is necessary for day to day operation, it plays the key role in the success or failure of an organization. It has been seen in practice that due to volatility in nature and heavy investment in current assets, it had accounted a substantial amount of financial manager's time in managing such assets. So maintaining optimum level of working capital is the crux of the problem as it is strongly related to other trade off between risk and return. In such circumstances, almost care should be taken in the management of such assets. The aspect of determining appropriate proportion of current assets in the structure of total assets comes under the preview of working capital. Administrative negligence in day to day operation and serious liquidity problem are main cause for

the failure of enterprises in Nepal. In order to compete with the rivals in the market, working capital management is the vital part of any firm. Since it affects all functional areas of any firm, the firm should have the sound working capital management in order to survive in the market.

The study on financial management practices occupies an important place in Nepalese too. Financial management has never received so much of attention as in the recent years mainly due to the growth in the number and size of enterprises on the one hand and on the other, to some extent increase in the number of business filers (Pradhan, 2000). Proper financial management is the great importance for every business enterprises from the point of view of achieving success. In this respect working capital plays a significant role in every aspect of the business activities. Lack of knowledge about managing working capital properly results finally to the liquidation of an enterprise. Neither excess working capital nor less working capital is good for the company. So it has to be managed in such a way that it will be just adequate for maintaining solvency and continuing business. Adequate working capital brings security and confidence with numerous advantages such as better terms of good purchased, cash discount, Bank loan on lower interest rate etc.

So, this study focuses on how working capital is managed in Nepalese service industry with special reference to the big Private/Public enterprises of Nepal, Bottler Nepal which are the most profit earning public enterprises of Nepal.

1.4 Statement of Problems

Working capital management decision is the most sensitive for every firm. It has various factors affecting the decision. It should

maintain optimal level of working capital. Determining the optimal level of working capital is the crux of the problem of every business organization, if constrained to maintain the trade off between risk and return.

The present study, which intends to improve the following basic question section to bridge the present gap in the literature of BN Ltd:

- What is the size of investment in each type of current assets?
- Is there any need to control over investment in current assets?
- Has there been any change in the variability in investment in the current assets over a period of time?
- How difficult are the current assets of Bottler Nepal to Manage?
- What are the motives for holding cash and investment?

In the context of Nepal, enterprises face the various problems to manage the working capital due to the unproductive manpower, unclear financial market, unclear government policies etc. Managers still focus their attention on the procurement aspect of working capital but not on the efficient utilization of funds to find information of working capital. There is not budgeting in enterprise for the next year, clear market research and other senior for the future planning. In the unclear vision every business puzzle the management of working decision. Every enterprise wants to earn return on their investment. There are several indications of working capital management. In the context of BN ltd, it has tried to find out the issue of working capital management. The working capital management not only attacks profitability position in the short – run but it also affects the survival in the long run of the organization. So every firm must maintain the sound working capital components for the effective and efficient utilization of the funds in

business organization. Nepalese industrialization process is in a very slowly progress. In spite of various attractive policies of government in respect to industrialization, new investment on industrial sector is not satisfactory.

In the established manufacturing industries, the financial composition and performance of Nepalese enterprise is not so satisfactory. Most of the industries are operating in losses and such conditions discourage the new investment due to established enterprise's financial position. The poor performance of manufacturing industrial atmosphere affects various regions in the internal and external financial environment. Such problem should be investigated and removed from the organization. It is the most important to corrective measurement for the improvement of their performance. Without effective and efficient financial management, the firm does not reach to the target point.

1.5 Objective of the Study

The main objective of this study is to examine the behaviour and overall management of working capital in BNL. The specific objectives of the study are as follows:

1. To examine the working capital policy of BNL
2. To examine the operating cycle and cash conversion cycle of BNL
3. To examine the structure of working capital
4. To examine liquidity position and profitability position of BNL

1.6 Significance of the Study

Working capital depends on the nature of the business. Every firm determines the working capital of its nature. The essential factors of the

working capital of a firm are its current assets and various concepts of the working capital to focus the profitability of the enterprise are success of the enterprise and success of the business guideline by the effective management of working capital. The Bottlers Nepal recognize the strength and weakness of this working capital management.

Working capital management is important for the following reasons:

i) Various period of the financial management time is allocated to working capital management.
ii) Proportionally half or more then half of the total assets are typically invested in current assets.
iii) The relationship between sales working capital grow the needs to invest in current assets in close direct.
iv) Investment in fixed assets may be reduced by resting or leasing, but in inventories and receivables are usually unavoidable.

Working capital is the size of investment in each type of current assets. Each of the current assets should be managed efficiently and effectively. Working capital not effects profitability of the firm in the short term but it affects the survival in the long – run.

It is the most crucial area in enterprises management because many instances have shown that regardless of excellent products, efficient marketing, efficient production with fixed assets management, it has lost the controls of its firm because liquidity crisis resulted in takeover by creditors forced margin or bankruptcy. In the present context, this study is timely relevant.

1.7 Limitation of the Study

The main focus of this study is to point out the financial position and its analysis of BN Ltd Company. In spite of the data is accurate, the most of the private companies financial data may be invalid in Nepalese context. In other words, financial statement may not disclose the true financial data and information. In the case of companies set up in private sector access to internal information for outsider is not possible. So the conclusion based on the available financial statement might not be correct in reality. Similarly conclusion of this study might not be applicable to other manufactures because of the possibility of the gross variation in financial data. However following factors are the limited scope of the study. This study is simply a partial requirement of MBS program. This study will limit the following factors.

i) The research design followed for this study is based on historical data that covers the period of last five years trend and data will be analyzed.

ii) The analysis will be based upon the primary as well as secondary data, which will be provided from the BN Ltd Company.

iii) Time and resources constraints may limit the area covered by the study. The study covers the time period of five years from 2005/06 – 2009/10

iv) The major sources are the secondary data of financial statement of BN Ltd which are extracted from the progress report of BN Ltd, Nepal Stock Exchange Company CBS, and other published and unpublished articles.

1.8 Organization of the Study

This study will be organized by five chapters as follows:

Chapter – I: Introduction

This chapter describes the general background, profile of the company, focus of the study, statement of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter – II: Review of Literature

This chapter contains the theoretical analysis and brief review of related literature available. It also includes a discussion on the conceptual reviews as well as review of major studies in general.

Chapter – III: Research Methodology

This chapter deals with the research methodology, which consist of research design, sources of data and information along with different analysis as well as statistical tools and technique.

Chapter – IV: Presentation and Analysis of Data

Chapter four deals with data collection procedure, presentation and analysis of data by using different financial and statistical tools and techniques.

Chapter – V: Summary, Conclusions and Recommendations

The last chapter five includes summary, conclusion and recommendations. The bibliography and appendices have been incorporated at the end of the study.

CHAPTER-II
REVIEW OF LITERATURE

2.1 Introduction

Review of literature is a process of learning and understanding the concept of the related literature thoroughly. It helps the researchers to provide knowledge about the development and progress made by the earlier scholars on the concerned field of study. Most of the earlier researchers have reviewed on working capital management by considering only calculated financial ratio. In the present study, researcher has tried to use financial as well as statistical tools to meet the diversified objectives for working capital management.

The researcher has also tried to find out the relation of working capital on net profit and sales. After analyzing the above facts, the researcher has also tried to study about future strategies and policies and practices of management of working capital management. Thus much focus is given to various dimensions of the concept. Few earlier related researches have been reviewed in this cheaper. Every manufacturing firm needs various types of assets in order to carry out its functions without any interruption. They are fixed and current assets. Some fixed assets have physical existence and are required to produce goods and services over a long period. These types of fixed assets do not generate goods and services directly. However, it reflects the right of the firm. It is called intangible fixed assets. It represents patents, copyrights, trademarks, and goodwill. Both fixed assets are written off over a period. Current asset are either held in the form of cash or expected to be converted into cash within an operating cycle of the business. It includes cash, marketable

securities, and account receivable, stock of raw materials, work in progress and finished goods. Among these, some assets are required to meet the need of regular production and some for day to day expenses and shot term obligations. Current liabilities are those claims of outsiders, which are expecting to be matured within an accounting year. It includes creditors, bills payable and outstanding expenses.

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

Working capital is the life blood and controlling nerve center for any types of business organization because without proper control upon it no business organization can run smoothly. As the management of current assets and current liabilities is necessary for day to day operations of any organization, it deals with that part of assets which are transformed from one form during the course of manufacturing cycle. Therefore the role of working capital management is significant for every business organization. There have been done a number of studies on working capital management from different experts in various enterprises. The main purpose of this chapter is to review the available literature on working capital management in the context of Nepalese enterprises including the available information of DNP.

2.2 Review of Books

2.2.1 Concept of Working Capital

The importance of efficient working capital management is an aspect of over all financial management. Thus, a firm plans its operation with adequate working capital requirement or it should have neither excess nor inadequate working capital. However, there are no sets of rules or formulas to determine the working capital requirements of the firm. It is because of a large number of factors that influence the working capital requirement of the firm. A number of factors affect different firm in different ways. Internal policies and environment changes also affect the working capital. Generally, the following factors affect the working capital requirements of the firm.

There are two concepts of working capital:

a) Gross working concept
b) Net working concept.

Working capital management is the effective lifeblood of any business. Hence, the management of working capital plays a vital role for existence of any public enterprises. It is the centre of the routine for 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 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 investment to arise their operational efficiency. Thirdly, they are required to ascertain the turnover of current assets, which determine the profitability of the concerns. Lastly, they must find out the appropriate sources of funds to finance the current assets.

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

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

Working capital refers to a firm's investment in short term assets, cash, short- term securities, account receivables and inventories. Gross working capital is defined as firm's total current assets, Net working capital is defined as current assets minus current liabilities. If the term 'working capital' is used with further qualification it generally refers to gross working capital.

Working capital management is concerned with the problems that arise in attempting to mange the current assets, the current liabilities and inter-relationship that exists between them. The current assets refers to those assets which is in ordinary course of business can be turned into cash within one year without undergoing diminution in value and without disrupting the operation of the form. The major current assets are cash, marketable securities, account receivable and inventory. Current liabilities are those liabilities, which are intended at their inception to be paid in the ordinary course of business within a year, out of the current assets or earnings of the concern. The basic current liabilities are account

payable, bills payable, bank overdraft and outstanding expenses. The goal of working capital management is to manage the firm's current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. This is so because if the firm can't maintain the satisfactory level of working capital, it is likely to become insolvent and may be forced into bankruptcy. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the short term sources of financing must be managed efficiently in order to maintain that liquidity of the firm while not keeping too high level of any one of them. Each of the short term sources of financing must be continuously managed to ensure that they are obtained and used in the best possible way. The interaction between current assets and current liabilities is, therefore, the main theme of the theory of working capital management.

There are specially two concepts of working capital; gross and net. Gross working capital refers of the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year and includes cash, short term securities, debtors, bills receivables and stock.

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 payment within an accounting year and include payable, bank overdraft and outstanding expenses or accrued income. Net working capital can be positive or negative. A positive net working capital arises when current assets exceed current liabilities. A negative working capital occurs when liabilities are in excess of current assets. 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 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 source of funds. It is not very useful for comparing the performance of different firms as a measure of liquidity of the some firm over a time.

2.2.2 Types of Working Capital

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

a. Permanent Working Capital

Permanent working capital refers to that level of current assets, which is required on a continuous basis over the entire year. A manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted production and sales functions. This portion of working capital is directly related to the firm's expansion of operation capacity.

b. Temporary/Variable Working Capital

Working capital which is temporary or intermittently employed should be called variable working capital. Variable working capital is the additional amount of current assets i.e particularly cash, receivables and inventories that is required during the more active duration of business.

2.2.3 Working Capital Policy

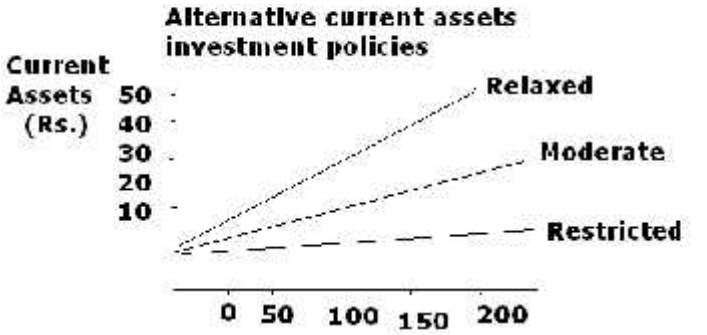
Working capital policy refers to the firm's basic polices regarding I) target levels for each category of current assets and II) how current

assets will be financed. So, first of all in working capital management, firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt 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.

A. Current Assets Investment Policy

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

Figure 2.1



Source: weston, Besley and Brigham, Ressential of Managerial finance' 1996:345

I. **Relaxed Policy:** This is known as relaxed current assets investment policy. In this policy, the firm holds relatively large amount of cash, marketable securities and inventory and cash conversion cycles. It also creates the longer receivable collection

period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with the lower risk.

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

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

2.2.4 Current Assets Financing Policy

The components of working capital constitute the current assets and liabilities. The term current assets refers to those assets which in the ordinary course of business can be or will be turned into current assets within one year without undergoing a diminution in value and without disrupting the operations of the firm (Khan and Jain 1993: 604)

After establishing the level of current assets, the firm must determine how these should be financed. The investment in current assets may be broken in to two parts: permanent current assets and temporary current assets. The former represents what the firm requires even at the bottom of its sales cycle, the later reflects a variable component that moves in the line with seasonal fluctuations (Chandra, 1997:428). Working capital management involves all aspects of the administration of current assets and current liabilities. Working capital management is concerned with the problems that arise in attempting to manage the

current assets, current liabilities and interrelationships that exist between them. But working capital policies concerned with two sets of relation among balance sheet item (Weston and Brigham, 1984:284). The first policy question concerns with the relationship among type of assets and the way these assets are financed. The second policy question deals with the determination of the level of total current assets to be hold.

Generally short term funds have lower cost of financing and are preferred to be used in currents but it may hold good always. Because depending upon the nature of management towards risk, liquidity and profitability, the enterprise can adopt one of the varieties of approaches to fit its particular working capital financing requirements. The following are the main approaches of financing the working capital need of the enterprise (Mathur, 1979:279)

a) **Aggressive Approach:** In this approach variable as well as a portion of permanent current assets is financed through short term borrowing. Some aggressive firms may even finance a part of their fixed assets with short financing. Hence this sort of mix financing increases the profitability and exposes towards risk by financing relatively larger portion of its assets through lower cost short term borrowing.

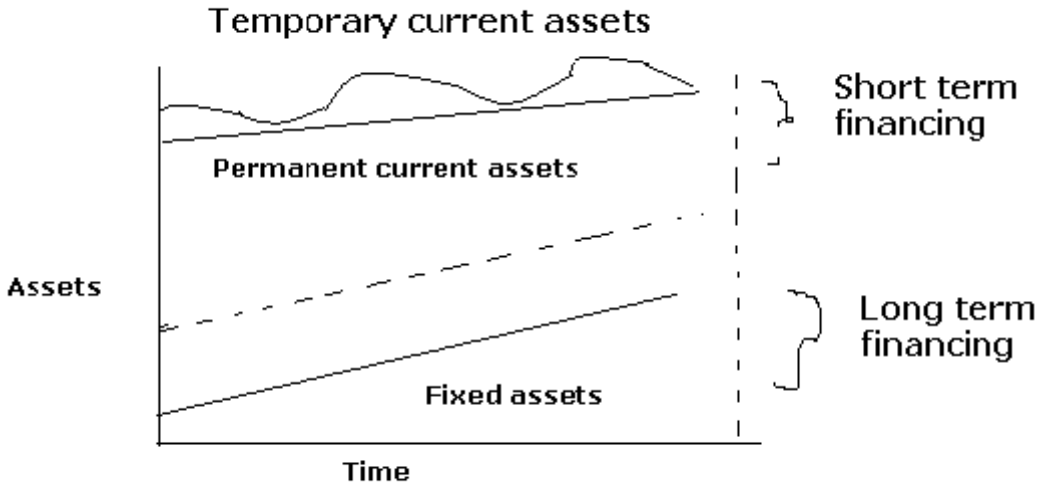


Fig: 2.2 Aggressive financing

b) **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 a part of temporary current assets. It stores liquidity by investing surplus funds into marketable securities. The conservative plan relies heavily on long-term financing and therefore, is less risky. The conservative financing policy is shown in fig. Note that when the firm has no temporary current assets e.g at a) and b) the long term funds released can be invested in marketable securities to build up the liquidity position of the firm. It is less risk approach resulting lower returns.

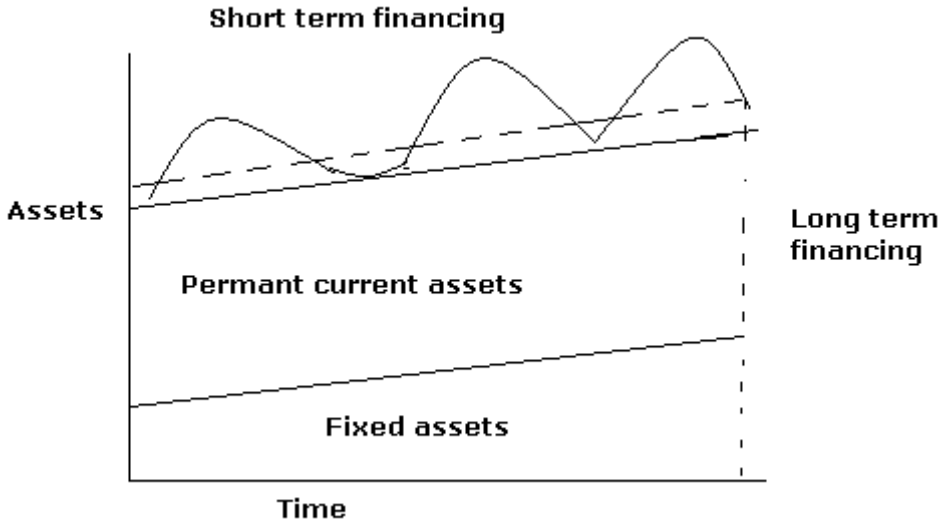


Fig: 2.3 Conservative financing

c) **Hedging or Matching Approach:** The firm can adopt a financial plan, which involves the matching of the expected life of assets with the expected life of the source of funds rose to finance assets. Thus, a five year loan may be raised to finance a plan with an expected life of five years. Stock of goods to be sold in thirty days may be financed with a thirty day back loan and so on. The justification for the exact matching is that since the purpose of financing is to pay for assets, the financing should be relinquished using long term financing for short term assets is expensive as funds will not be utilized for the full period. Similarly financing long-term assets with short –term financing is costly as well as inconvenient as arrangement for the new short-term financing will have to be made on a continuing basis. This approach of working capital management entails moderate risk with moderate returns.

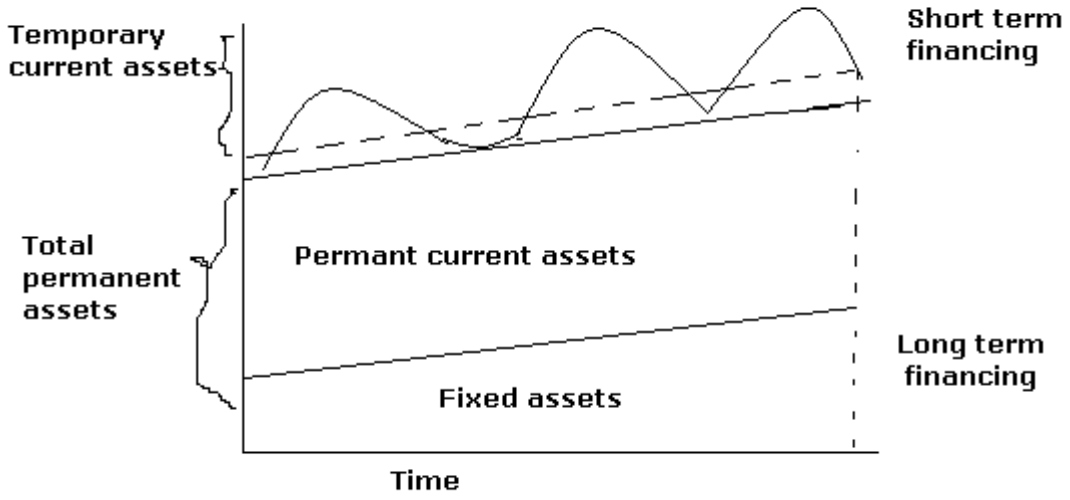


Fig: 2.4 Hedging or matching approach

d) **The cost trade off:** Working capital management involves decision upon the amount and composition of current assets and how to finance these assets. The risks of running out of current assets of all other things are equal. Profitability, unfortunately also will be less. The longer the composite maturity schedule of securities used to finance the firm the less risk of current assets insolvency, all other things being equal. Again the profits of the firm are likely to be less. Resolution of the trade off between risk and profitability with respect to these decisions depend upon the risk preference of management (Panday, 1994:380)

2.2.5 Operation Cycle

There is difference between current and fixed assets in terms of their liquidity. A firm requires many years to recover the initial investment in fixed assets such as plant and machinery or land and buildings. On the contrary, inventories in current assets such as inventories and book debts (accounts receivables) is realized during the firm's operating cycle, which is usually less then a year. Operating cycle

is the time duration required to convert sales, after the conversion of resources into inventories, into current assets. The operating cycle of a manufacturing company involves three phases:

- Acquisition of resources such as raw materials, labor, power and fuel etc.
- Manufacture of the product which includes conversion of Raw materials into work – in – progress into finished goods.
- Sales of the product either current assets of or credit. Credit sales create book debts for collection.

These phases affect current assets flows, which most of the time, are neither synchronized nor certain. They are not synchronized because current assets outflows usually occur before current assets inflows. They are not certain because sales and collections, which give rise to current assets inflows, are difficult to forecast current assets accurately. Current assets outflows, on the other hand, are relatively certain. The firm is therefore required to invest in current assets for a smooth, uninterrupted functioning. It needs to maintain liquidity to purchase raw materials and pay expenses such as wages and salaries, other manufacturing, administrative and selling expenses and taxes as there is hardly a matching between current assets inflows and outflows. Current assets are also held to meet any future exigencies. Stokes of raw materials and work in proceed are kept to ensure smooth production and to guard against non- availability of raw materials and other components. The firm holds stock of finished goods to meet the demands of customers on continuous basis and sudden demand from some customer's book debts for a smooth and uninterrupted production and sales. The length of the operating cycle of a manufacturing firm is the sum of I) inventory conversion period(IPC) and II) account receivable period(ARP) or days sales outstanding (DSO).

The inventory conversion period is the total time needed for producing and selling the product. Typically, it includes a) Raw materials conversion period (RMCP) b) work in process conversion period (WIPCP) and c) furnished goods conversion period (FGCP). The account receivable period is the time required to collect outstanding amount form customers. The total of inventory conversion period and book debts conversion period is sometimes referred to as gross operating cycle (GOC) (Moyer, 1991:562)

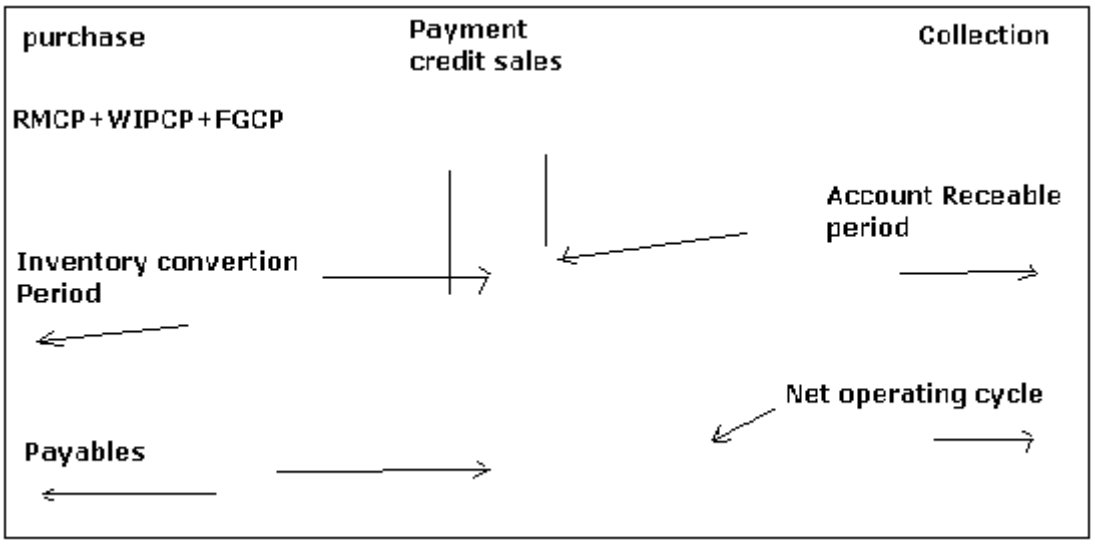


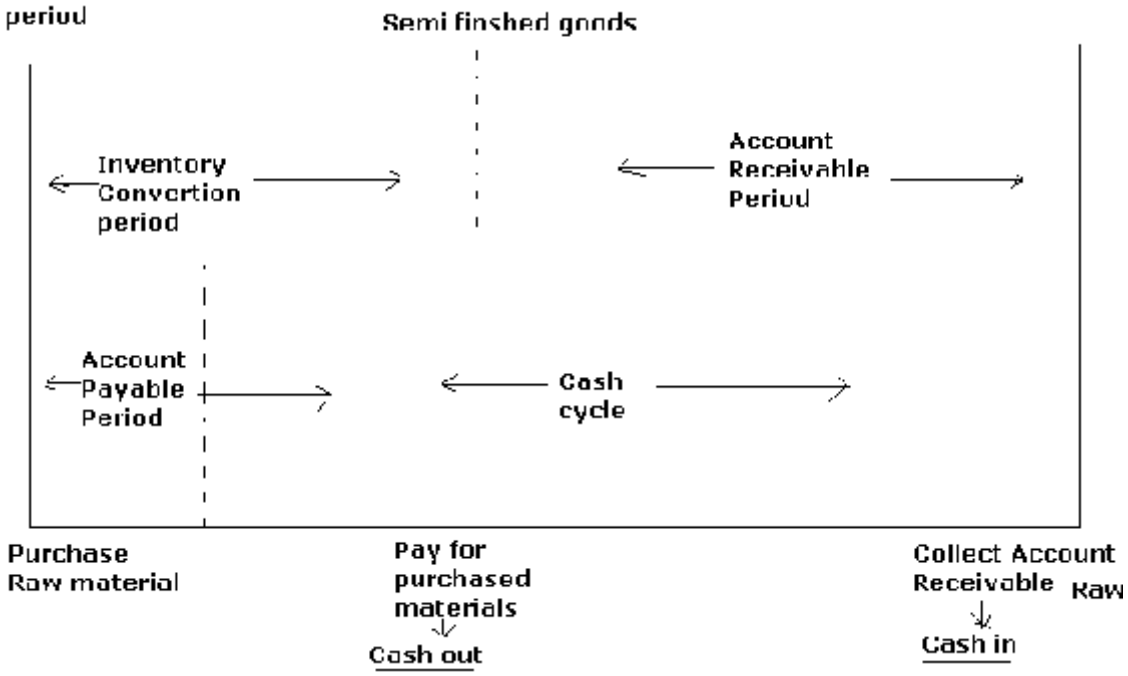
Fig: 2.5 operating cycle of a manufacturing firm

In practice, a firm may acquire resource on credit and temporary postpone payment of certain expenses. Payables that the firm can defer are spontaneous sources of capital to finance investment, the length of time the firm is able to defer payment on various resource purchases. The difference between (gross) operating cycle and payables deferral period is net operating cycle (NOC). If depreciation is excluded from expenses in the computation operating cycle, the net operating cycle also represent current assets conversion cycle. It is net time interval between current assets collections from sale of the product and current assets payments for resources acquired by the firm. It also represents time interval over which

additional funds, called working capital, should be obtained in order to carry out the firms operations. The firm has to negotiate working capital from sources such as commercial bank. The negotiated sources of working capital financing are called non spontaneous sources. If net operating cycle of a firm increases, it means further need for negotiated working capital.

2.2.6 Cash Cycle

The cash cycle is the length of time from the payment for the purchase of raw materials to manufacture a product until the collection of account receivable associated with the sales of the product. Mathematically it is the difference between operating cycle account payable period.



The cash cycle results in the value that equals the length of time between the firm's actual cash expenditures to pay for (invasion) productive resources and (materials and labour). Its own cash receipt from the sale of products (i.e. the length of time between paying for

labour and materials and collecting on receivables). The cash cycle thus equals the average length of time an amount is tied up in current assets (Weston and Brigham, 1984:3423)

2.2.7 Determinants of Working Capital

The importance of efficient working capital management is an aspect of overall financial management. Thus, a firm plans its operation with adequate working capital requirement or it should have neither excess nor inadequate working capital. However, there are no sets of rules or formulas to determine the working capital requirements of the firm. It is because of a large number of factors that influence the working capital requirement of the firm. A number of factors affect different firm in different ways. Internal policies and environment changes also affect the working capital. Generally, the following factors affect the working capital requirements of the firm.

I. Nature of Business

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

ii. Size of Business

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

iii. Manufacturing Cycle

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

iv. Production Policy

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

v. Credit Policy

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

vii. Growth and Expansion of Business

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

viii. Price Level Change

Price level changes also affect the working capital requirement of a firm. Generally, a firm requires maintaining the higher amount of working capital if the price level rises. Because the same level of current assets needs more funds due to the increasing price. In conclusion the implication of changing price level on working capital provision will vary depending on the concerned firms.

ix. Operating Efficiency

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

x. Profit Margin

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

2.3 Review from Journals, Research

Altman and Haldmanad(1981), in their study stated that, the firm must decide about levels of current assets to be carried, as it is not

possible to estimate working capital needs accurately. The current assets holdings of the firm will depend upon working capital policy. It may follow a conservative or on aggressive policy. These policies have different risk return implications. The financial manager should declare the optimum level of current assets so that the wealth of shareholders will be maximized. In fact the optimum level of each type of current assets should be fixed. To find out corporate bankruptcy, zeta mode was developed by Altman and other.

The authors extended the 2 core model to include, among other things, the capitalization of leases and they updated its application. A sample of 53 among bankrupt firms and 58 non-bankrupt firms were employed manufacturing and for the first time any study retailing companies were included. On the basis of discriminatory ability, 27 original variables were reduced to 7. Using the linear discriminate model, the authors were successful in predicating bankruptcy up to 5 years prior to failure. Successful classification ranged from 96% of 1 year before failure to 75% 5 years before to failure, better performance then the core model. Both quadratic and linear models were lasted, with the linear functions winning out (Attman and Haldmanad, 1981, 54). Manohar Krishna Shretha in his study “working capital management in public enterprises” states that manager often lacks basic knowledge of working capital and its overall impact on the operative efficiency and financial viability of public enterprises.

The study has been based on sample of ten public enterprises ie Birgunj Sugar factory, Jankpur Cigrette factory, Raghupati Jute mills, Dairy Development corporation, National Trading Ltd, Royal Druds Ltd, National construction company of Nepal, Harisiddhi Brick and tile factory of Nepal, Cheery ghee industry ltd and chandeshowan textile

factory Ltd. the study has pointed at certain policy, such as deficiency in financial planning, negligence of working capital management, deviation between liquidity and turnover etc. He has suggested some measure for their effective funds, determination of management information system, and determination of sound combination of short term and long term source to finance working capital requirements. Manohar Krishna Shretha found that receivable turnover calculated varied from lowest record of 0.09 times 1 to the highest level of 25.7 times and was less than favourable in selected public enterprise of Nepal. And those revealing favorable turnover have still faced problem of managing account receivables. He pointed that public enterprises did not record a cautions policy to improve collection that would have helped a lot in raising the receivable turnover. The average collection period records a variation from a minimum 14 days to the maximum of 4027 days.

In the same way the schedule of public enterprises has uniform patterns and the outstanding receivable in may instances were very old even exceeding ten years or so forth. It was groped under above three years old receivable. In the selected enterprises the ratio of receivable to current assets varied from a minimum of 0.15 times 1 to maximum 0.9 timed 1. He also found that most of the public enterprises has larger share of receivable to current assets. In most of them extension of additional relaxed credit was a usual phenomenon and they did not have larger amount of receivable outstanding. They had not taken seriously the task to speed up the collection of long outstanding receivable by devising suitable credit monitoring policy. The study thus, concluded that determining the desired investment in account receivable was least considered in most of the public enterprises (Shretha, 1987:73 – 88).

A comparative study of “Problems in the management of working capital in Nepalese enterprises has been conducted by K. Acharya states that of Nepalese enterprises the management of money and managers are found over conscious about receiving of money rather then its efficient utilization. Thus the existing problems in the finance are mostly directed towards the management of working capital rather then in any area. In his number of studies it has been repeatedly found that the gross inefficiency exists in the operation of public enterprises. He has stressed on high cost of production which have left these public enterprise in less secured position. Thus we further added that cost reduction is the only possible measure for smooth operation and long – term existence of the public enterprises in Nepal. The cost reduction program is highly associated with the optimization of working capital. He has focused some operational and organizational problems of Nepalese public enterprise not following traditional norm 2:1 between their current assets and current liabilities. Low rate of inventory turnover, change in working capital in relation to fixed capital has very low impacts over the profitability not following conventional of debt equity as 1:1, then transmutation of capital employed into sales management information. Ineffective use of performance evaluation tools and technique and working capital management has never been considered a managerial job.

Similarity, he has suggested that public enterprises finance staff must be acquired with the modern scientific tools used for the presentation and analysis of data. He further suggests avoiding the system of crisis decision which prevailed frequently in their operation. They have to follow system and method for decision making, lastly we have given emphasis to optimize its level of investment at a point of time, neither over nor under investment in working capital desired by the management

of enterprises. Both of these situations will erode the efficiency of the concern.

This study is descriptive in nature. He has not used any of the research tools. The study has considered Nepalese public enterprises (but not mentioned the name of public enterprises). Each selected enterprise does not represent the entire industry in which it fails.

Radheshyam Pradhan in his study aims at examining the various aspects of management of working capital has selected manufacturing public enterprises of Nepal. The nine public enterprises selected for the study were 1) Agriculture tools factory 2) Balaju Textiles Ltd, 3) Bansbari Leather and shoe factory, 4) Birgunj sugar factory 5) Brick and Tile factory, 6) Dairy development cooperation 7) Janankpur cigarette factory 8) Nepal tea development cooperation, 9) Royal drugs limited. The specific objectives undertaken in his study are:

- ✓ To conduct risk return analysis of liquidity of working capital position.
- ✓ To assets the short – term financial liquidity position of the enterprises.
- ✓ To asses the structure and utilization of working capital and
- ✓ To estimate the transactions demand function of working capital. This study has mentioned the following findings.

1. It has found that most of the selected enterprise has been activating a trade off between risks and return by following neither an aggressive nor a conservative approach.
2. It has showed a poor liquidity of most of the enterprises. This poor liquidity position has been noticed as the enterprises have either

negative cash flows or they have excessive net current debts which can't be paid within a year.

3. The Nepalese manufacturing public enterprises have on a average half of their total assets in the form of current assets, of all the different components of current assets the share of inventories in total assets, on an average is largest followed by receivable and cash in most of the selected enterprises.
4. The economics of scale have been highest for inventories followed by cash and gross working capital, receivable and net working capital.
5. The regression results also shows that the level of working capital and its components and enterprises derive to hold not depend on sales but on holding cash also.

His study is concerned with interrelationships that exist between managing current assets and current liabilities. The study manages to focus on net working capital concept. The study has employed ratio analysis models for its analysis. This study does not cover all the public enterprises in manufacturing sector. Each selected enterprises does not cover all the public enterprises in manufacturing sectors. Each selected enterprises selected for the study differs in its working nature. The study period covers ten years period from 1973 to 1982, He has mentioned only findings and conclusion in his study but not recommended any suggestions to solve the found problems. These studies show that working capital management is the weakest or neglected part of financial management in most of the public enterprises in Nepal. It seems that Nepalese firms are following conservative approach in financing as well as investing working capital. A study was conducted by the management consultant and company on the performance of public enterprises of

Nepal. In the study it was concluded that the assets management in particulars, was the weakest point in Nepalese public enterprises. It has not received due and serious attention as yet. It was pointed out that financial performance of the public enterprises was poor and indicated mismanagement of the resources. The report also pointed out that it is because of the lack of operational objectives application of long range planning, use of modern management tools. Capital budgeting and efforts towards cost control had not been made so far. The study describes that there is poor current assets management and mis management of resources in public enterprises of Nepal there by causing poor financial performance.

A comparison of financial performance of manufacturing public enterprises and private manufacturing enterprises was made by Rejendra Prasad Sharma. In 1985 altogether six textile industries, three from each public and private sector were selected for the study, In the study it was concluded that each public and private sector, although fluctuating has positive working capital. There was very high liquidity position of public sector industries. Whereas majority of private sector industries have adverse situation. Among cash there was encouraging use of cash and bank. Though inventory covered the largest share (More than 60%) of the total assets in the both sectors, the inventory turnover in public sectors was more while debtor's turnover was more or less similar in both sectors. The inventory turnover in public sectors was more while debtor's turnover was more or less similar in both sectors. He also found that trade credit and other internal provision though fluctuating in nature were the much sources of financing working capital in both sectors. And majority of private sector industries had relatively better use of fixed assets than other industries. Moreover, the earning power of public sector textile

industries was very low and even negative for many years while that of private sector was quite encouraging. He also pointed out that net profit of private sector was quite encouraging. He also pointed out that both sectors seemed to have neither any sort of dividend policy nor did they pay any sort of dividend. Thus, there was negligible direct contribution of textile industries in the revenue generation of government during the period under study,

Weinurb and Vissher (1998) have carried out study on industry practices relating to aggressive conservative working capital practices. This study looked at ten diverse industries groups over an extend time period to examine the relative relationship between the aggressive and conservative working capital practices. Results strongly show that the industries had significantly different current assets management policies. Additionally the relative industry ranking of the aggressive conservative assets policies exhibited remarkable stability over time. Industry policies concerning relative aggressive conservative liability management were also significantly different. Interestingly it is evident that there is a high significant negative correlation between industry assets and liabilities policies. Relative aggressive working capital assets management seems to be balanced by relatively conservative working capital financial management.

2.4 Review form Thesis

Arjun Lal joshi in his study seeks to have true insight into the working capital management in Biratnagar Jut mill. The study has concerned with management of current assets and covers five years period (2036/37 to 2040/41). The main objective of his study was to examine the management of working capital of Biratnagar jute mill. The

study has embodied various financial ratios as research methodology for measuring Biratnagar jute mills financial viability. The study is based on secondary data with opinion survey method and limited to gross concept of working capital.

The study has indicated mismanagement of inventory, no proper policy of cash holding and heavy dependence on short-term bank credit. He was recommended for effective working capital management program, following productive investment approach, preparing effective sales plan and exhaustive research program, using short-term bank credit up to certain reasonable limit, maintaining optimum cash balance and making proper utilization of accumulated collection debts. The scope of study is to identify the loopholes and managerial deficiencies of Biratnager jute mill on the part of working capital management. Mr. Joshi has used ratio analysis to study about hypothesis and correlation co-efficient to verify the significant relation between working capital components.

An analytical study of working capital management in public sector brick factory conducted by Sushil Chandra Shrestha, tried to make a comparative assessment of working capital management of public sector brick factory in Nepal. The objective of his study was the comparative analysis of the working capital management.

He comprises of various ratios in research methodology. He has analyzed various components of working capital like cash, inventory, receivable and current liabilities. The study is based on two government brick factories: Harisidhi and Bhaktapur brick factory.

He has found that there is no proper relation between liquidity turnover and profitability of two brick factories. There is no combination

between fixed capital and working capital. The analysis indicates that the working capital portion is totally neglected. He was suggested that the factories use financial tools to forecast the working capital. The factories have to keep the record up to date according to standard format. The management must have to be serious regarding working capital management. His study was basically co-operative type. He analyzed various working capital components through the significance of working capital components between two factories.

Bishnu Pd. Aryal (2002) in his study of working capital management of Nepal Telecommunication (NTC) in the year 2002 has kept the objective of the study as:

1) To appraise working capital of NTC with respect to cash, receivables and inventory management.
2) To know how far NTC is being able to utilize its current assets properly.
3) To evaluate credit policy of NTC and its effectiveness.
4) To study the relationship between sales and different variables of working capitol.
5) To shed light on creation and mobilization of fund in NTC.

For this he used tools as financial ratio analysis, trend analysis, fund flow analysis, arithmetic mean, coefficient of variation, standard deviation, correlation, probable error, co-efficient of determination, simple regression analysis ‘T” statistics. Further he gave the conclusion as the overall financial management of NTC was quite satisfactory during his study of five years period. He further writes that NTC has good liquidity position and there was not problem of technical insolvency. Beside this, the research has also indicated some critical aspects of working capital management and has supplemented precise suggestions

and recommendation too. He again weights that NTC being public utility keeps a larger volume of working capital, which indicates excess liquidity position but the sales is quite low as compared to it. The corporation has been facing serious problem of outstanding collection overall capital structure of the corporation seems to be ideal for both the creditors and the corporation. But a large portion of long term fund was invested in current assets, where almost half of total current assets were funded by long term sources hastily. The researcher conclude the study by emphasizing the control over investment in current asserts, application of cash management techniques, concentration of outstanding debt collection and retirement of long term loans.

Another study conducted by Mr. Hari Pd. Pokherel in the year 2005 on the topic "Working Capital Management in Nepal" (A case study of Bottlers Nepal Ltd.) has kept the objective of the study as:

1) To appraise various aspects of working capital of Bottlers Nepal in terms of liquidity, profitability, efficiency and size.
2) To examine how far Bottlers Nepal is being able to utilize its current assets properly.
3) To show the relationship between sales and different variables of working capital such as receivable, cash and inventory. For this he used financial tools to see composition of working capital, turnover position, liquidity position, profitability position, cash conversion cycle. He also used the following statistical tools like: mean, standard division, correlation, coefficient and simple regression analysis and hypothesis test for data analysis.

Alter analysis he found that overall financial management of Bottlers Nepal Ltd. was quite satisfactory during five year study period. The corporation has sound liquidity position and there was no problem in technical insolvency. All the variables of working capital as well as volume of sales was in increasing trend and the corporation was operating with attractive profit. Beside this, the researcher has also indicated some

critical aspects of working capital management and has supplemented precise suggestions and recommendation too. The corporation investment in working capital is less. The company has been facing the problems of collecting receivables. The position of cash is not sufficient to meet daily administrative expense. Overall capital structure of the company seems to be idle; lastly, researcher concludes the study by emphasizing on reducing the average collection period as well as on increasing the position of cash.

The above mentioned persons have studied on working capital management. Some have taken single manufacturing company and some have taken a no. of companies. There are many similarities between them but also there are multiple gaps among the researchers view regarding working capital management where as some have used various statistical analysis. The main difference between the other studies and this study is that this study uses the statistical tools like correlation analysis and simple regression analysis to find out the relation of working capital with profitability of the company. It means how working capital affects the profitability of the firm.

Prem Kumar Shrestha (2005) has carried out a research on "A Study on Working Capital Management in Bhrikuti Paper Mils Limited." His main objective is to analyze the current assets and current liabilities and their impact and relationship to each other. His major findings are as follows:

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

Gurung (2009) has carried out his research on "A Study on Working Capital Management of Nepal Lever Limited. "The main

objective of his study is to examine 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 Ltd. is satisfactory hut not perfect 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.

Shrestha (2010) has carried out his research on "A Study in Working Capital Management of Dairy Development Corporation." The main objective of the study is to analyze the current assets and current liabilities and their impact and relationship to each other. The major findings of his study are as follows:

- The major components of current assets in DDC are inventory, cash and bank balance, sundry debtors and miscellaneous current assets in which inventory hold the major portion respectively in each year.
- The company's investment in the form of working capital has been increasing. The average investment in current assets is lower with respect to 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 return position DDC is negative i.e. not in favorable condition. It is because of inefficient utilization of CA, TA and shareholder's wealth.

Aryal (2009) has conducted his study on "working capital Management in Nepal Telecommunication Corporation "His study mainly aimed on examining the working capital position on NTC and to analyze and assess the size growth, liquidity, profitability and efficiency of working capital, The major findings of his study are as follows:

- There was sufficient amount of cash meet the current obligation of the corporation, which indicated the sound liquidity position and no problem of technical insolvency.
- All the variables of working capital as well as volume of sale s were in increasing trend and the corporation was operation with (satisfactory profitability position) attractive profit.
- The corporation has been facing serous problem on outstanding debt collection, A significant portion of current assets is held by account receivable and average collection period is increasing every year.
- Overall capital structure of the company seems to be ideal fro both the Creditors and corporation.

Bansal (2009) had carried out a research entitled "A Study on Working Capital Management of Commercial Bank". During the study, she had used secondary data & used many financial tools analyzing the working capital management. The major findings of the study are as follows.

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

Shrestha (2010), has conducted a research entitled "Working Capital Management of Siddhartha Bank Limited." His main objective was to evaluate the performance of the working capital management of Siddhartha bank ltd. To achieve this basic objective, other specific objectives were also setted. To fulfil the objectives of the research required data were collected from concerned banks and downloaded from official websites. The Supplementary data and information were acquired from various sources like newspapers, magazines, brochures, booklets, periodicals and bulletins, published and unpublished reports. Various statistical and financial tools were applied to present the data.

From the study, following major findings were obtained:

- The composition of current assets on total assets of SBL was fluctuating trend over the study. The composition of cash & bank balance to current assets of SBL is in fluctuating trend.
- The composition of NWC on Current assets of SBL during the 5 year study period was in decreasing trend. The net working capital of SBL has been increasing trend over the study period (061/062 to 065/066).
- The current ratio of the bank was decreasing trend, which stands 1.13 of F/Y 061/062, 1.05 at F/Y 062/063, 1.07 at F/Y 063/064, 1.07 at F/Y 064/065 and 1.06 at F/Y 065/066 respectively.
- The quick ratio of the bank is also representing by the current ratio the quick ratio of the bank was quite. Fluctuating, which stands 0.16 at F/Y 061/062, 0.15 at F/.y 062/063 & 063/064, 0.18 at F/Y 064/065 and 0.23 at F/Y 065.066.

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

The above mentioned objectives will be fulfilled by well-settled research methodology. The study is about selected food and beverage industry, Bottlers Nepal Ltd. has been already streamline to some extent in earlier chapter regarding their growth, objectives statement of problem and working capital practice in general. At the same time relevant literature of working capital management has been reviewed in chapter (II).

Feed back information is an input in this study on working capital management of BNL but the proper analysis of this study is meaningful only on the right choice of research tools that help to give meaningful conclusion. The main objective of this study is to analyze the working capital management of NBL. Therefore in this chapter focus has been made on research design, nature, and source of data, tools used for analysis definition of key terms.

3.2 Research Design

Research design is highlighted for obtaining the basic objectives of the study. It includes definite procedures and evaluation the study. The study attempts to make composition and establish the relationship between two or more variable. This study is based on descriptive analytical research design. For the study of working capital management of BNL, financial tools, as well as statistical tools with the help of

secondary data a qualitative analysis of BNL are employed to achieve prescribed result.

3.3 Nature and Sources of Data

The study basically depends upon secondary data. The secondary data have been collected from financial statements of various years as well as unpublished official records of company provided by financial account and other departments of NBL. All the collected data and information have been properly arranged, tabulated and calculated to arrive at the realistic analytical steps.

3.4 Tools and Analysis of Data

Quantitative methods are applied for analyzing the working capital management of BNL.

3.4.1 Financial Tools

Various financial ratios are used to analyze the effectiveness of composition of working capital. Financial ratio analysis is widely used tools for financial analysis, which establish the quantitative relationship between two items i.e variables of the financial statement. It is useful to make financial expression more meaningful and to draw appropriate conclusion from them. So to examine the working capital policy for BNL, ratios concerned with working capital has been extensively used in this study. In order to make rational decisions in keeping with the objectives of the company and its financial viability, an analysis is undertaken by every interested parties such as creditors, investors and also by the company it self. Such analysis varies according to the specific interests of

party involved. This analysis is called financial analysis. Under the analysis, following ratios are analyzed:

A. Working capital policy Applied: The working capital policy can be applied in the Nepalese public enterprises as follows:

Aggressive Policy:

C.E<TFA
Or TCL>TCA

Conservative policy

C.E = 0
TCA = 0

Moderate policy

C.E >TFA
Or TCA >0
Where,
C.E = Total equity including general reserves total long term loan.
TFA = Total fixed assets
TCL = Total current liabilities
TCA = Total current assets

B. Operating cycle and cash conversion cycle:

1. Operating Cycle (OC): The operating cycle is the sum of inventory conversion period and account receivable period. The time that elapses between the purchases of Raw Materials to the sales is referred to as operating cycle. It is calculated as:

OC (Days) = Inventory conversion period (ICP) + Account Receivable Period (ARP) or Days sales outstanding (DSO)

Where,

ARP indicated the number of day that taken on an average to collect amount receivables.

2. Cash Conversion Cycle (CCC): The cash cycle is equal to the operating cycle Len accent payables period. It is calculated us:

CC (Days) = Operating Cycle (OC) – Account payable period (APP)

Where, $APP = \frac{\text{Payables}}{\text{Cost of goods sold}} \times 365 \text{ (days)}$

APP is the average length of time between the purchases of Raw Materials and labor and the payment of cash for them.

C. Ratio used in Accessing the Structure of Working Capital

It is studied by analyzing following formulas and ratios

i. Current Assets to Total Assets (CATA)

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

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

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

ii. Current Assets to Net Fixed Assets (CAFA)

This ratio shows the relationship between the current assets and fixed assets and cash be calculated as:

$$\text{CAFA} = \frac{\text{Current Assets}}{\text{Net Fixed Assets}} \times 100\%$$

If the ratio is large, it indicates the sound working capital.

iii. Cash and Bank Balance to Current Assets (CBCA)

It is calculated as:

$$\text{CBCA} = \frac{\text{Cash and Bank balance}}{\text{Current Assets}} \times 100\%$$

The large ratio indicates the sound working capital management and vice-versa. The working capital is directly affected by it.

iv. Cash and Bank Balance to Total Assets (CBTA):

The ration is calculated as under and indicates what percentage of total assets is invested in cash and bank balance.

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

As the ratio increases the risk would decrease and if the ratio is grater the working capital would be greater.

v. Inventories to Current Assets (ICA)

The ratio implies the percentage of current Assets in form of inventory and derived as:

$$ICA = \frac{\text{Inventories}}{\text{Current Assets}} \times 100\%$$

The increase in the ratio is an indication of liberal inventory policy followed by company. If the ratio increases or percentage increases means greater part is occupied by inventory. On the other hand, a current assets is termed as working capital, if the ratio is high the firm will had greater volume of working capital.

vi. Inventories to Total Assets (ITA)

This ratio can be calculated as:

$$ITA = \frac{\text{Inventories}}{\text{Total assets}} \times 100\%$$

This ratio indicated the percentage of total assets invested in the form of inventories are a part of working capital. So, if the percentage increased the working capital automatically increased. The increase in the ratio also indicates liberal inventory policy or blocking of materials is stock.

vii. Receivables to current Assets (RCA)

This ratio indicates the share of receivables on current asses and is derived as:

$$RCA = \frac{\text{Receivables}}{\text{Current Assets}} \times 100\%$$

The low percentage indicates the low working capital and vice-versa. If the percentage is greater the factory is unable to collect receivables promptly.

viii. Receivables to Total Assets (RTA)

This ratio can be calculated as:

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

This ratio indicates the percentage of total assets invested in the form of receivables. The increase in the ratio indicates the liberal credit policy following by the company. The working capital is attracted by the ratio because receivables are also a part of working capital. If the ratio increases the working capital also increases.

D. Ratio Used In Assessing Working Capital Utilization

By analyzing the variable turnover ratios the factory's turnover position can be knows. The following ratios have been calculated.

i. Current Assets Turnover (CAT)

This ratio indicates the number of times the current assets are turned over during the year. It is computed by dividing sales by current assets, ie Gross Working Capital.

$$\text{CAT} = \frac{\text{Sales}}{\text{Current Assets}} \times (\text{Times})$$

As the ratio increases, it is utilization of current assets. If the ratio is low, a greater volume of working capital high ratio indicates lower working capital.

ii. Net Working Capital

It is computed by dividing sales by net working capital ie, difference of current assets and current liabilities.

$$\text{NWCT} = \frac{\text{Sales}}{\text{Net Working Capital}} \times (\text{Times})$$

Higher ratio shows the utilization of net working capital and vice-versa.

iii. Cash Turnover (CT)

This ratio is computed by dividing sales by cash balance and it measure the speed with cash move through an enterprises operation.

$$\text{CT} = \frac{\text{Sales}}{\text{Cash and Bank Balance}} \times (\text{Times})$$

This ratio shows the number of the average cash balance is turned over during the year.

iv. Receivables Turnover (RT)

It is calculated as:

$$\text{RT} = \frac{\text{Sales}}{\text{Receivables}} \times (\text{Times})$$

It indicates the number of times the receivables are turned over during the year. It gives the general measure of the productivity of the receivable investment. The higher ratio indication the lower amount of working capital and lower ratio vice-versa.

vi. Inventories Turnover (IT)

$$IT = \frac{\text{Cost of goods Sold}}{\text{Inventories}} \times (\text{Times})$$

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

E. Liquidity position

It is the most important part for the company. It shows the ability of the company to pay its current obligations. The liquidity position of BNL is computed by analyzing current ratio and quick ratio.

i. Current Ratio (CR)

This ratio is computed by dividing current assets by current liabilities.

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}} \times (\text{Times})$$

The higher ratio indicates the position of the company is in liquid and able to pay its bills. Generality the current ratio of 2:1 is considered to be satisfactory. High ratios indicated the greeter amount working capital and low ratio vice-versa.

ii. Quick Ratio or Acid – Test Ratio (QR or ATR)

It is computed by dividing the quick assets by current liabilities.

$$\text{QR or ATR} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} \times \text{(Times)}$$

Where,

Quick Assets = Current Assets – Inventories

As the quick assets doesn't include the among invested in the inventories. It is reliable to measure the company's liquidity generally the quick ratio of 1:1 of company is considered to be sound.

F. Profitability Position

The main objective of the company is to earn maximum profit. The positions of the profit ability of the company are analyzed with the help following ratio.

i. Gross Profit Margin (GPM)

It is compote by dividing gross profit by sales.

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

Where,

Gross Profit = Sales – Cost of good sales

The gross profit margin ratio reflects the efficiency with company produces each unit of product. The higher percentage indicates the better efficiency of the company.

ii. Net Profit Margin (NPM)

Net profit is obtained after deducting operating expenses and income tax from gross profit. It is computed by declaring Net Profit by sales.

$$\text{NPM} = \frac{\text{Net profit after tax}}{\text{Sales}} \times 100\%$$

This ratio is the overall management of the company's ability to earn net profit.

iii. Return on total assets (ROA)

This is computed by dividing net profit tax by total assets.

$$\text{ROA} = \frac{\text{Net profit after tax}}{\text{Total assets}} \times 100\%$$

The ROA is useful measure of profitability of all financial resource invested in the company's assets.

iv. Return on Net worth (RNW)

It is computed by dividing net profit after tax by net worth.

$$\text{RNW} = \frac{\text{Net profit after tax}}{\text{Net worth}} \times 100\%$$

It indicates the return to the share holders, how well the firm has used the resources of the owners. It judges whether the firm has earned of satisfactory return for its shareholders or not. Higher the ratio, higher the return to the shareholders and vice – versa.

G. Working Capital Management and Profitability Liquidity

TRADE OFF: This study is know as 'The smith first study' the first study of smith (1974) come as an overview of management of of working capital. He illustrated he idea by using the rate of return on net worth on equity investment as a measure of profitability and net working capital and current ratio as a measure of liquidity.

3.5.2 Statistical Tools

Various financial tools are mentioned above to analyze the working capital management of BNL. Here brief introduction of statistical tools have been used this study is given below.

A. Trend Line

The series formed by the values of variable at different periods of time is called trend line. This graph is constructed to show the changes in the values of a variable with the changes in time. Time is taken an x-axis and the values of the variable in the along y-axis, then the points are plotted and they are joined by straight line to get required trend line.

B. Coefficient of Correlation by Karl Persons Method

In order to test the relationship and significance of the variable, during the period of study, it is applied, so, Karl person's correlation co-efficient (r) is calculated as:

$$r_{xy} = \frac{n\sum xy - \sum x.\sum y}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}}$$

Where,

r_{xy} = Correlation co-efficient

x = The first (Independent) variable

y = The next (Dependent) variable

n = Number of observation

$\sum x,y$ = Total sum of the product of two variables

$\sum x$ = Total sum of independent variable

$\sum y$ = Total sum of dependent variables

$\sum x^2$ = Total sum of squire dependent variable

$\sum y^2$ = Total sum of squire of dependent variable

Interpretation of correlation Coefficient (r) –

C. The coefficient of correlation as obtained by the above formula always lies between + 1 to –1.

D. When r is +1, then there is positively perfect correlation between the two variables.

E. When r is –1, then there is negatively perfect correlation between the variables.

F. When the value of r is between 0.7 to 0.999, then there high degree of correlation between variables.

G. When r is between 0.5 to 0.999, then there is moderate degree of correlation between the variables.

H. When r is less than 0.5, then there is low degree of correlation between the variable.

I. When r is 0 (zero), then there is no correlation between the variable or the variables are correlated.

Probable Error (P.E) of Coefficient of Correlation

P.E of r is very useful in interpreting the value of r and is worked out as under for Karl person's co-efficient of correlation.

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

If r < P.E it is not all significant no evidence of correlation between variables.

If r > P.E, there is the correlation but not significant.

If r > 6 x P.E, and greater than ± 0.5, then it is considered significant at all.

Simple Regression Analysis

In case of simple regression analysis, a single variable is used to predict another variable on the assumption of linear regression i.e. relation of the type defined by (y = a + bx) between given variables. The variable to be predicted is called dependent variable and the variable on which predictions called in dependent variable. The simple regression equation indicates the amount of change in the value of the independent variable for a unit change in dependent variable.

3.5 Definition of Key term

In order to clarify the term used in this section the following key term are defined.

i. Current Assets

It includes the cash and bank balance and those other assets which can be converted into cash within a year such as: Inventory, debtors, or receivables, advances to employees, deposits, prepaid rent and insurance, interest receivable on bonds and other sundry Current assets.

ii. Current Liabilities

All the payment that has to be made by the company within an accounting period is included in current liabilities. In includes Sandy creditors, provision for taxation, unclaimed dividend and provision for bonus, housing and income tax.

iii. Fixed Assets

It consists of the assets of the company like site development, building, plans and machinery, furniture and fixture office appliances, computer.

iv. Total Assets

It includes the total of current assets, net fixed assets, and misc assets (which includes the capital expenditure in progress)

v. Long Term Loan

It includes the loan taken from other institutions which have maturity life and then other years (which includes bond, debentures, bank loan etc.)

vi. Cash and Bank balance

It includes the cash in hand and cash at bank.

vii. Receivables

It includes the trade debtors and other debtors.

viii. Inventories

In includes the raw materials at cost scrap raw material at direct standard cost; work in progress at direct standard cost. Stores and spares at cost finished goods at direct standard cost.

ix. Net Worth

In includes the paid up capital general reserve, housing reserve and other reserve of the company.

ix. Payables

It includes bills payables and other payables.

3.6 Limitation of Research Methodology

Each methodology suffers from some kind of limitations. Therefore, the methodology used in this research can’t be different from the common limitation of same types of researches. However in analyzing working capital management of the selected sample, the tools applied can't best describe the relationship between the variables under study since working capital management tools are based on various assumptions. Hence, the reliability, accuracy and validity of the research findings based on this sample.

CHAPTER - IV
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The introductory setting already describes the meaning of working capital management, brief introduction of BNL and its growth and importance. At the same time relevant literature that matters important to study is also streamlined in second chapter. Moreover research methodology consisting the method of research chosen in this study has been given in detail in third chapter. Now the most important sensitive part of this study consists of analysis and presentation of empirical data focus on how far the BNL is in a position to manage their working capital. In order to manager examine the working capital management of BNL; the necessary financial facts and figures as well as descriptive information are also fathered through the financial statement (annual). Questionnaire is used to obtain further qualitative information. Only the important, pertinent information are taken into account. The major variable are fixed assets, current assets, current liabilities, net profit, sales and statistical tools are to be employed to measure the working capital management of BNL.

4.2 Working Capital Policy of BNL

In the literature review (Chapter II), it is said that working capital policy can be seen in three ways: aggressive, moderate and conservative. The formula to see weather the company has aggressive, moderate and conservative policy applied have been described in research methodology (Chapter - III) and the data are presented in the table below.

Table 4.1

Working Capital Policy of BNL

Rs. in '000'

Year	C.E	TFA	Result	Policy Applied
2062/063	727143	326069	C.E > TFA	Moderate
2063/064	761889	409927	C.E > TFA	Moderate
2064/065	776570	323573	C.E > TFA	Moderate
2065/066	807243	593868	C.E > TFA	Moderate
2066/067	507996	558538	C.E <TFA	conservative

Source: Annual Report of BNL from (2062-2067).

Table 4.1 shows that the working capital policy applied by BNL (capital employed and total fixed assets). The data of 5 years shows that BNL is applying moderate policy approach. This table shows moderate risk with moderate return.

4.3 Operating Cycle and Cash Conversion Cycle of BNL

The time that elapses between the purchase of Raw materials and the collection of cash for sales is referred to as operating cycle where as the time length between the payment of raw materials purchase and the collection of cash for sales is referred to as the cash cycle.

Table 4.2

Operating Cycle and Cash Conversion Cycle of BNL

Rs. in '000'

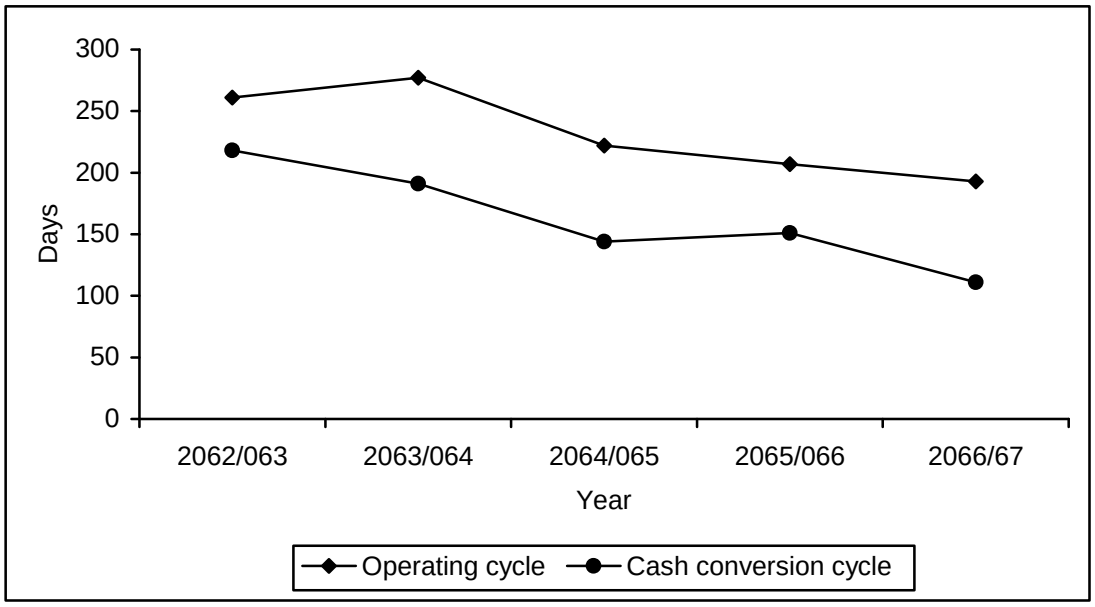
Year	Inventory conversion period (TCP)	Account Receivable period (ARP)	Account Payable Period (APP)	Operating cycle	Cash conversion cycle
2062/063	189	72	43	261	218
2063/064	229	48	86	277	191
2064/065	184	38	78	222	144
2063/064	177	30	56	207	151
2066/067	155	18	82	193	111
Total	894	206	345	1100	815
Average	178.8	41.2	69	220	16

Source: Annual Report of BNL from (2062-2067).

In this table shows that the operating and cash conversion cycle of five different years from 2062/2063 to 2066/2067.during the study period cash conversion cycle and operating cycle both are in decreasing trend. Decreasing trend of operating cycle and cash conversion cycle shows the better management performance of working capital policy. Higher working capital policy represents better management of receivable and payable during the period. In a result we can say that the company, working capital policy is going to improve day by day

Figure 4.1

Operating Cycle and Conservation Cycle of BNL



4.4 Ratio used in Assessing Structure of Working Capital

Various current assets like cash, receivables and inventories are compared with total current assets and total assets. Likewise ratio of current assets with total assets and ratio of current assets with total assets is also compared here.

4.4.1 Position of Current Assets

As current assets are the main parts which are required to run day to day business activities and total of which is known as working capital as the gross concept. Its position has become needful to study. Most of business organizations require some amount of working capital and its requirement differ according to the size of the organization.

A firm needs cash to purchase raw materials, pay expenses, and could have shortage of cash for this. This is because of not perfect matching between cash inflow and outflow. Cash means are also held to

meet the future expenses. The stocks of raw materials are kept in order to ensure smooth productions and to protect the risk of non-availability of raw materials. To meet this obligation also cash is needed. As the necessity of current assets depends upon the nature of business, it is required to meet the working capital, which is required to run the organization day to day activities. The Table 4.3 given below represents the position of current assets.

Table 4.3

Position of Current Asset

Rs. in 000

Particulars	2062/063	2063/064	2064/065	2065/066	2066/067
Inventories	184980	224070	176936	189256	144003
Trade and other receivables	124178	80845	63657	52823	36802
Cash and bank	13755	1917	35926	3464	2428
Other current assets	-	-	-	-	-
Prepaid advance, loans and deposit	124918	146379	159526	224159	204609
Total	447831	453211	436045	469702	387892

Source: Annual Report of BNL from (2062-2067).

The Table 4.3 shows the position of current assets in the period of study. This also shows the investment pattern of BNL. There is quite fluctuation in current assets but when we analyse the current asset ratio to total assets ratio during the study period, it is in decreasing trend means less amount of current assets involve in operating cycle. That minimizes the operating cost on working capital and maximizes the profitability of the company.

4.4.2 Ratio of Current Assets to Total Assets

As the necessity of current assets depends upon the nature of business, it is required to meet the working capital, which is required to run the organization day to day activities. The table 4.4 given below represents the percentage of current assets to total assets.

Table 4.4

Ratio of Current Assets to Total Assets

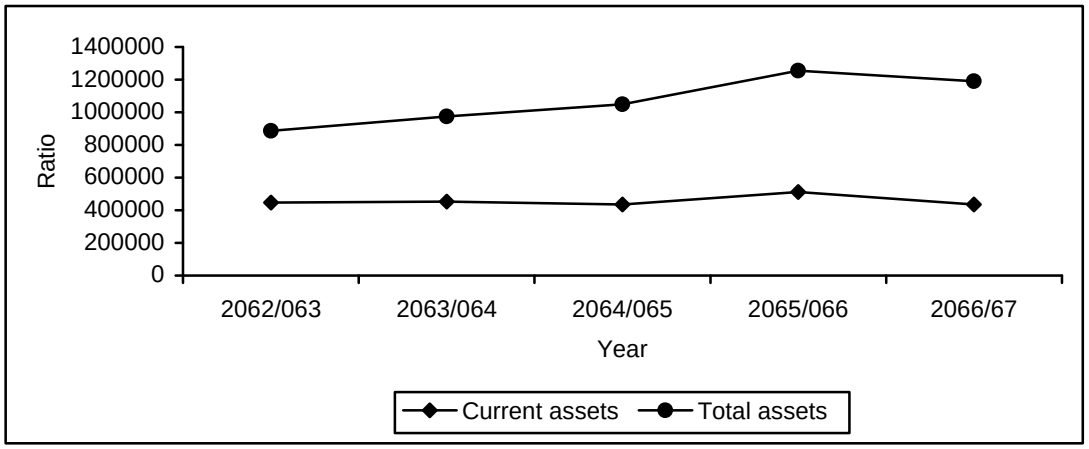
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Ratio (%)	50.52	46.47	41.59	40.70	36.5	43.156
% change	-1.89	-4.04	-4.88	-0.89	-4.20	-

Source: Appendix-A.

Table 4.4 shows the ratio of current asset to total assets. On an average the ratio of current assets to total assets is 45654.2 it means that BNL has high amount of working capital on average. High ratio also means that the risk of the company is lower and profitability of the company is higher. The higher ratio is in the year 2062/63 which is and the lower ratio is the year 2066/67 which is 36.5 percent. –ve change represent the +ve change in working capital situation i.e. less amount of current assets investment in working capital.

Figure 4.2

Ratio of Current Assets to total Assets



4.4.2 Ratio of Current Assets to Net Fixed Assets

In table 4.5 we look at the ratio of current of net fixed assets of the study period. The current assets and net fixed assets are two main components of total assets. If investments in there two are not done simultaneously in the required proportion then it affects the liquidity of the firm. So, this ratio shows the clear picture of the investment in current assets and fixed assets.

Table 4.5

Ratio of Current Assets to Net Fixed Assets

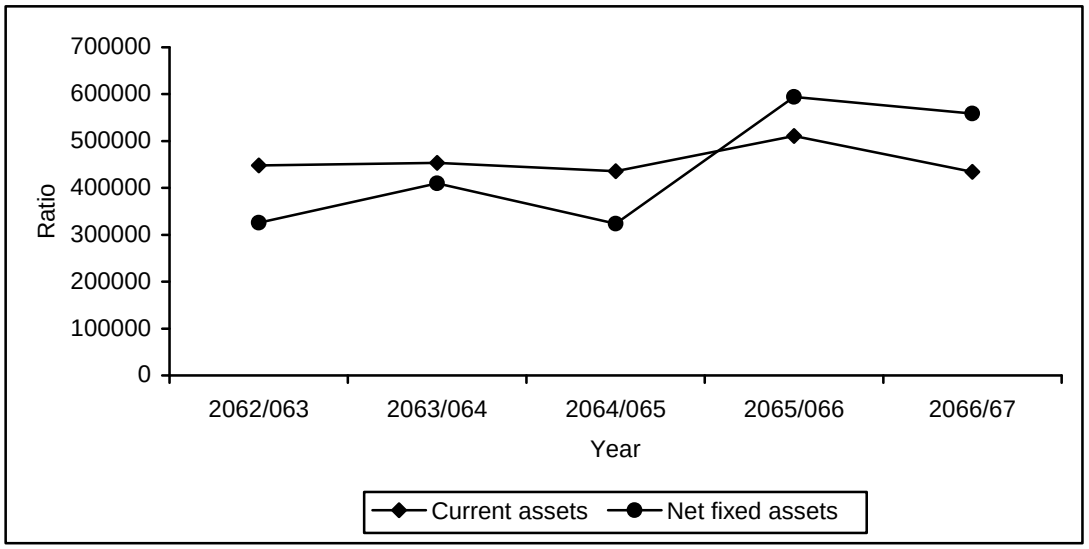
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Ratio (%)	137.33	110.69	134.76	86.057	77.80	109.32
% change	-5.28	-26.64	24.07	-48.703	-8.257	-

Source: Appendix-B.

Table 4.5 shows the ratio of current asset to net fixed assets. Higher the ratio means sound working capital. On an average this ratio is 109.32 percent. It means sound working capital. The higher ratio is in the year 2062/063and lower is in the year 2066/067 which is 77.80 percent.

Figure 4.3

Ratio of Current Assets to Net Fixed Assets of BNL



4.4.3 Ratio of Cash and Bank Balance to Current Assets and Total Assets

Cash and bank balance occupies a significant portion in current assets. By looking at its proportion in current assets and total assets, we can find what the position is of cash liquidity in working capital needs of the firm.

Table 4.6

Ratio of Cash and Bank Balance to Current Assets to Total Assets

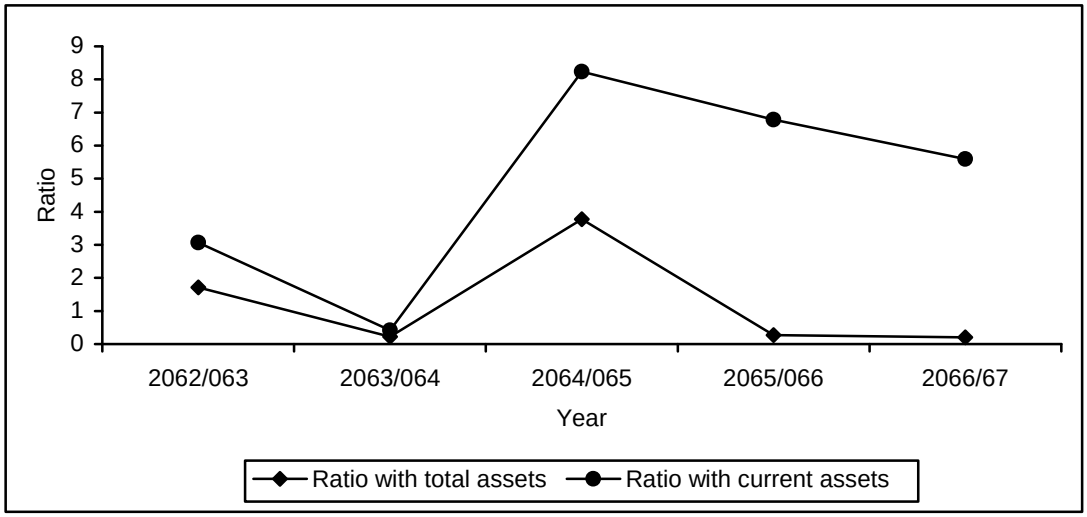
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Cash and bank balance to current assets ratio (%)	3.07	0.42	8.24	6.78	5.59	3.813
Cash and bank balance to total assets ratio (%)	1.71	0.22	3.77	0.2758	0.20	1.235

Source: Appendix-C.

Table 4.6 shows the ratio of cash and bank balance to current assets and to total assets. The average ratio of cash and bank balance to current assets is 3.813 percent. This ratio is higher in the year 2064/065 which is 8.24 percent and lower in the year 2063/064 which is 0.42 percent similarly, the average ratio of cash and bank balance to total assets is 1.235 percent. This ratio is higher in the year 2064/065 which is 3.77 percent and lower in the year 2066/067which is 0.20 percents.

Figure 4.4

Ratio of Cash and Bank Balance to Current Assets and Total Assets



4.4.4 Ratio of Inventories to Current Assets and Total Assets

The inventory in the current assets and total assets occupies significant portion. Inventory is not considered as quick liquid gaining current assets because it takes to convert the inventory in to cash. Inventory may tie up the working capital if it is not properly managed. So this ratio gives a clear picture of amount of investment in the inventory of BNL.

Table 4.7

Ratio of Inventories to Current Assets and Total Assets

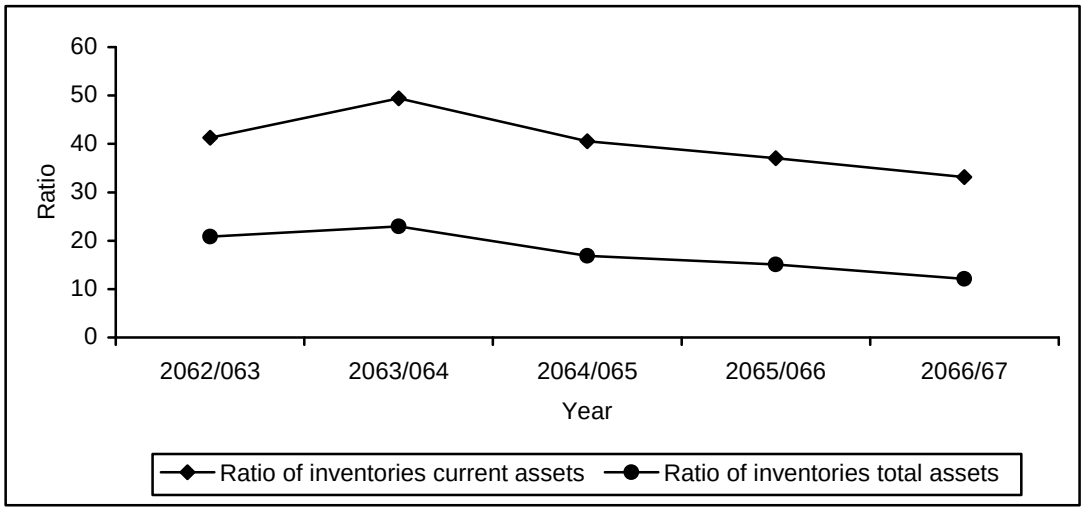
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Inventories to current assets ratio (%)	41.31	49.44	40.58	37.0316	33.137	40.30
Inventories to total assets ratio (%)	20.87	22.98	16.88	15.071	12.10	17.58

Source: Appendix D.

Table 4.7 shows the ratio of inventories to current assets and to total assets. The average ratio of inventories to current assets is 40.30 percent. This ratio is higher in the year 2063/064 which is 49.44 percent and lower is the year 2066/067 which is 33.137 percent. Similarly, the average ratio of inventories to total assets is 17.58 percent. This ratio is higher in the year 2063/064 which is 22.98 percent and lower in the year 2066/067 which is 12.1 percent.

Figure 4.5

Ratio of Inventories to Current Assets and Total Assets



4.4.5 Ratio of Receivables to Current Assets and Total Assets

Receivables are another important portion of current assets. Receivables are the inventory sold in the credit. It soaks up the cash. This badly affects the working capital management of the firm. If there is no proper policy to collect the receivable then firm certainly feels shortage of funds. So, this ratio helps to proper management of receivable which is helpful in management of working capital:

Table 4.8

Ratio of Receivables to Current Assets and Total Assets

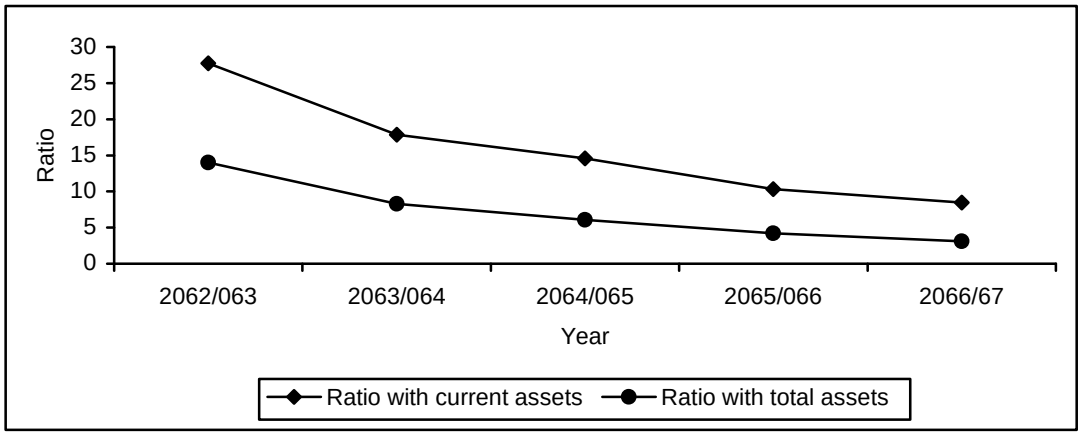
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Receivables to current assets ratio (%)	27.73	17.84	14.60	10.33	8.468	15.7936
Receivables to total assets ratio (%)	14.01	8.29	6.07	4.206	3.0922	7.1336

Source: Appendix-E.

Table 4.8 shows the ratio of receivables to current assets and total assets. The average ratio of receivables to current assets is 15.79% .This ratio is higher in the year 2062/63 which is 27.73% and lower in the year 2066/67 which is 8.4680%. Similarly, the average ratio of receivables to total assets is 7.13%. This ratio is higher in the year 2062/63 which is 14.01% and lower in the year 2066/67 which is 3.099.

Figure 4.6

Ratio of receivables to Current Assets and Total Assets



4.5 Ratio used in Accessing Working Capital Utilization

Here, the turnover ratio is used. The turnover ratio is also called as the assets management ratio. Firms invest in assets to generate revenue both in the current period and in the future periods. So, this ratio measures how effectively firm is managing its assets in the view of current and projected sales levels. For the manufacturing company like BNL, sales are the most important activities. The survival and growth of the company depends on the sales of the product. The company should make their sales policy as per the resource availability and market demand. The sales policy directly affects the production policy and in the same way the production policy affects the financial policy. Increase in sales certainly causes increase in production, so the amount of working capital is also affected by sales policy. More credit sales more working capital will be required to meet the daily requirement. In the other hand, if tight credit sales policy is applied, the climate affect will be decreased in working capital need.

4.5.1 Current Assets Turnover (Gross Working Capital Turnover)

The table 4.9 represents the current assets or gross working capital turnover during the study period of BNL

Table 4.9

Current Assets Turnover

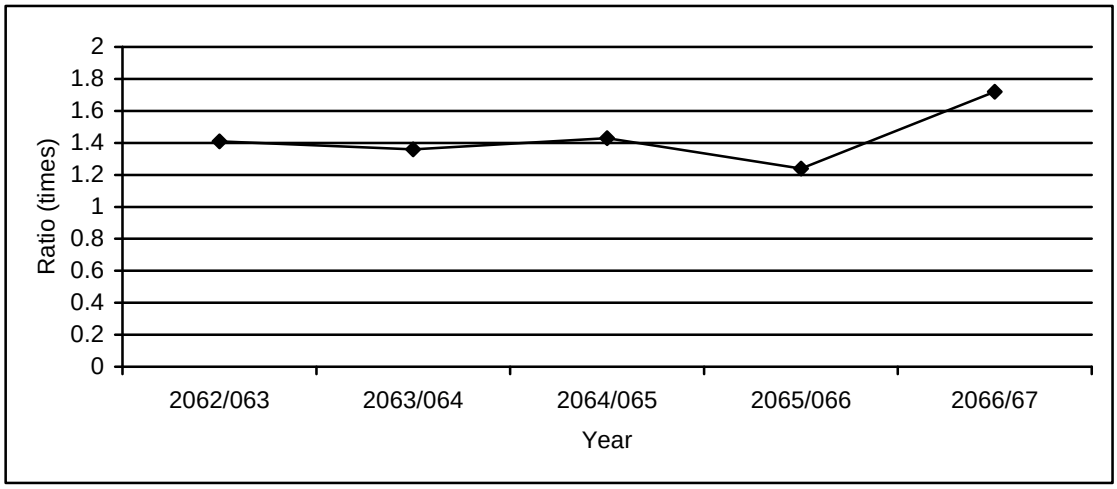
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Sales to current assets (times)	1.41	1.36	1.43	1.24	1.72	1.43

Source: Appendix-F.

The turnover position of current assets is 1.41 times in the year 2062/64. It is 1.36, 1.43, 1.24 and 1.72 times in the year 2063/064, 2064/065, 2065/066 and 2066/067 respectively. On an average current assets turnover is 1.43 times. Higher turnover position is better for the company so in year 2066/067 is better turnover in the analysis period.

Figure 4.7

Current Assets Turnover Position of BNL



4.5.2 Net Working Capital Turnover

Table 4.10

Net Working Capital Turnover

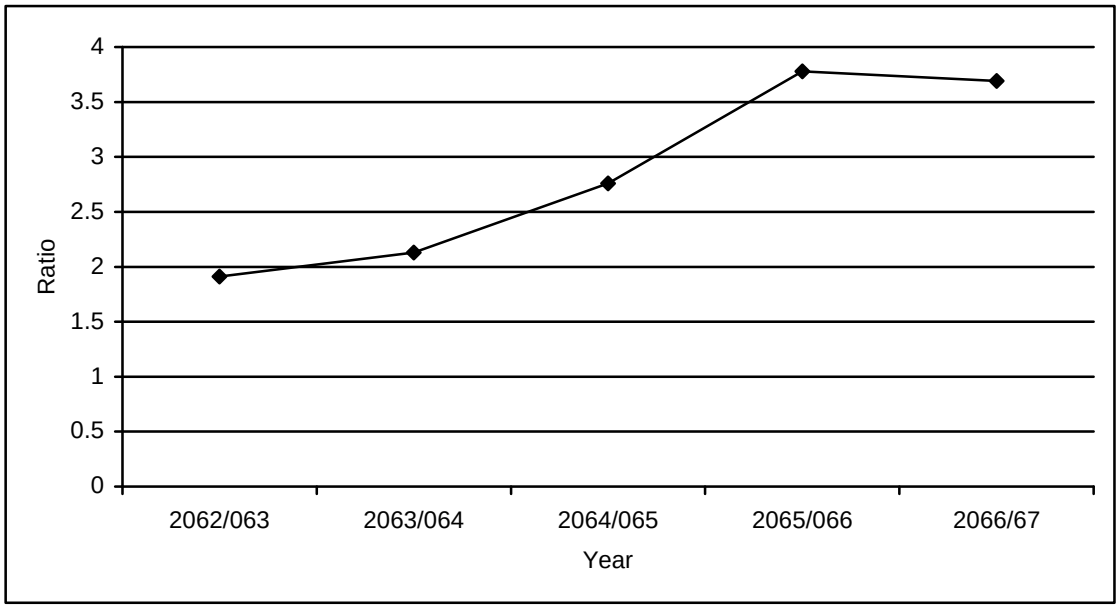
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Sales to net working capital (times)	1.91	2.13	2.76	3.78	3.69	2.854

Source: Appendix-G.

The turnover position of net working capital is 1.91 times in the year 2062/63. it is 2.13, 2.776, 3.78 and 3.69 times in the year 2063/064, 2064/065, 2065/066 and 2066/067 respectively. On an average, net working capital is 2.85 times.

Figure 4.8

Net Working Capital Turnover Position of BNL



4.5.3 Cash Turnover

The table 4.11 represents the cash turnover during the study period of in BNL.

Table 4.11

Cash Turnover

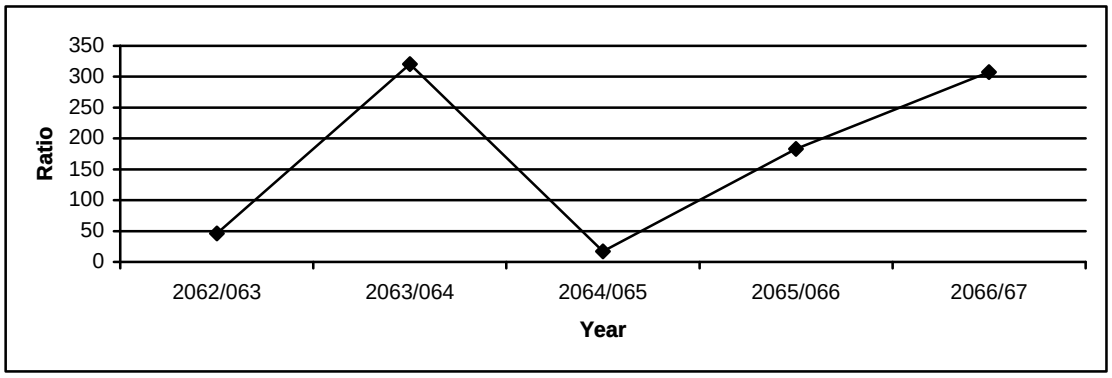
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Sales to cash and bank balance (times)	45.96	320.68	17.31	183.08	307.488	174.9

Source: Appendix-H.

The turnover position of cash is 45.96 times in the year 2062/63. It is 320.68, 17.31, 183.08 and 307.488 times in the year 2063/064, 2064/065, 2065/066 and 2066/067. On an average cash turnover is 174.9 times. Higher cash turnover position is better for the company.

Figure 4.9

Cash Turnover Position of BNL



4.5.4 Receivables Turnover

The table 4.12 represents the receivable turnover during the study period of in BNL.

Table 4.12

Receivable Turnover

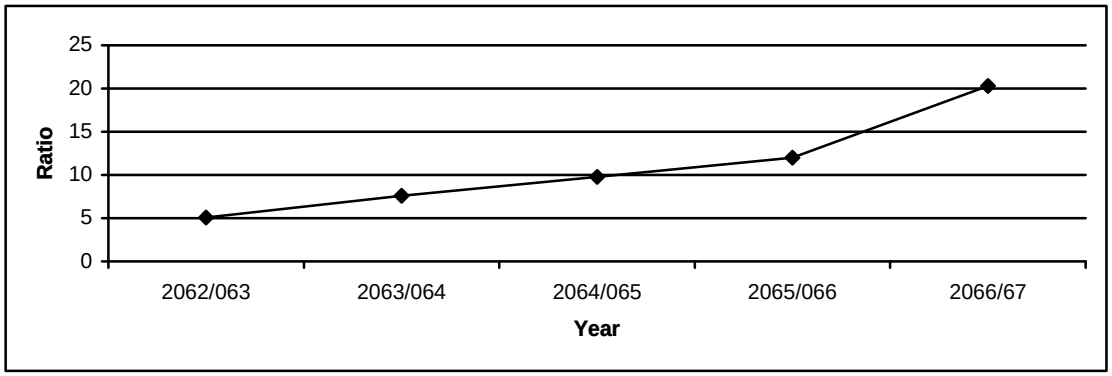
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Sales to receivables ratio (times)	5.09	7.60	9.77	12.005	20.286	11.00649

Source: Appendix-I.

The turnover position of receivables is 5.09 times in the years 2062/063.It is 7.60, 9.77, 12.005 and 20.29 in year 2063/064, 064/065, 065/066, 066/067 respectively. Average receivables turnover is 11. In year 2066/067 has higher receivable turnover ratio.

Figure 4.10

Receivables Turnover Position of BNL



4.5.5 Inventories Turnover

The table 4.13 represents the inventories turnover during the study period of in BNL.

Table 4.13

Inventories Turnover

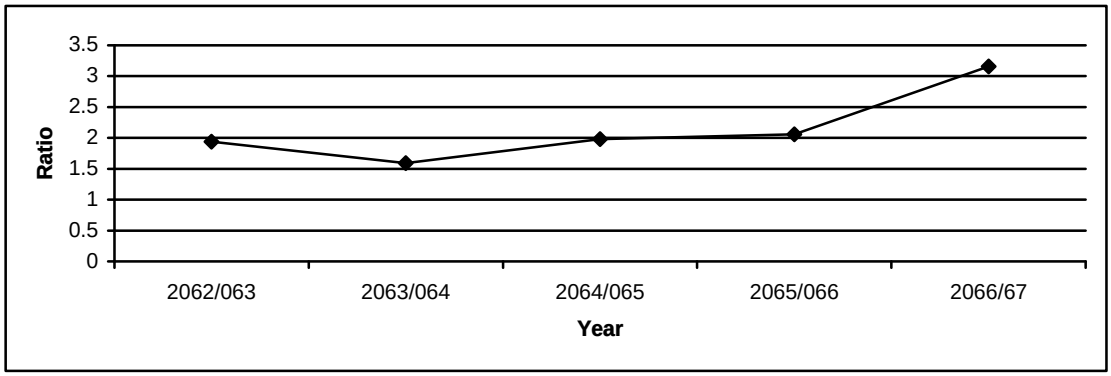
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Cost of goods sold to inventories (times)	1.94	1.59	1.98	2.056	3.16	2.1452

Source: Appendix-J.

The turnover position of inventories is 1.94 times in the year 2062/63. It is 1.59, 1.98, 2.056, and 3.16 times in the year 2063/064, 2064/065, 2065/066 and 2066/067.On average inventories turnover is 2.1452 times.

Figure 4.11

Inventories Turnover Position of BNL



4.6 Liquidity Position

Liquidity position shows the ability of the firm to pay its liabilities. Liquidity fulfils the current need of money. Since the study is focused on working capital management of the company, So liquidity position plays vital role to manage the working capital. Here the current ratio and acid test ratio of BNL during research period of study as observed.

4.6.1 Current Ratio

It is the simple relationship of current assets to current liabilities. Current assets includes, cash and bank balance, inventory, receivables and other miscellaneous current assets where as current liabilities include creditors, cash credit taken, unclimbed dividend and other miscellaneous current liabilities. The current ratio of the BNL for the period of study is calculated in the table 4.14 presented below.

Table 4.14

Current Ratio

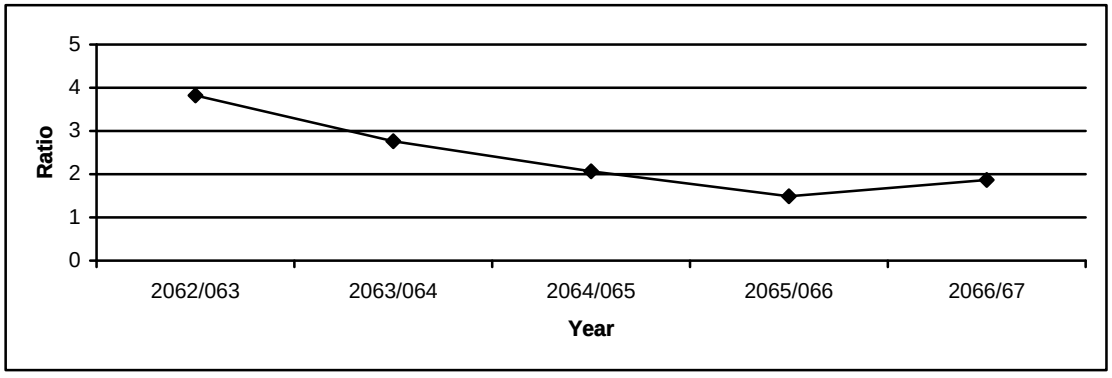
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Current assets to current liabilities (times)	3.82	2.76	2.07	1.488	1.87	2.401

Source: Appendix-K.

The average current ratio of BNL is 2.401 times. In the year 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067are 3.82, 2.76, 2.07, 1.488, and 1.87 times respectively.

Figure 4.12

Current Ratio of BNL



4.6.2 Quick Ratio (Acid Test Ratio)

Quick ratio or acid test ratio is the relationship between quick assets and current liabilities. It is the management of company's ability to convert its current assets quickly into cash in order to meet its current liabilities. It is believed that inventories can't be converted quickly in to cash. So, here inventory is not taken as it is not considered as quick assets. It can be computed by dividing quick assets by current liabilities. The quick ratio of BNL, during the period of study is presented below.

Table 4.15

Quick Ratio

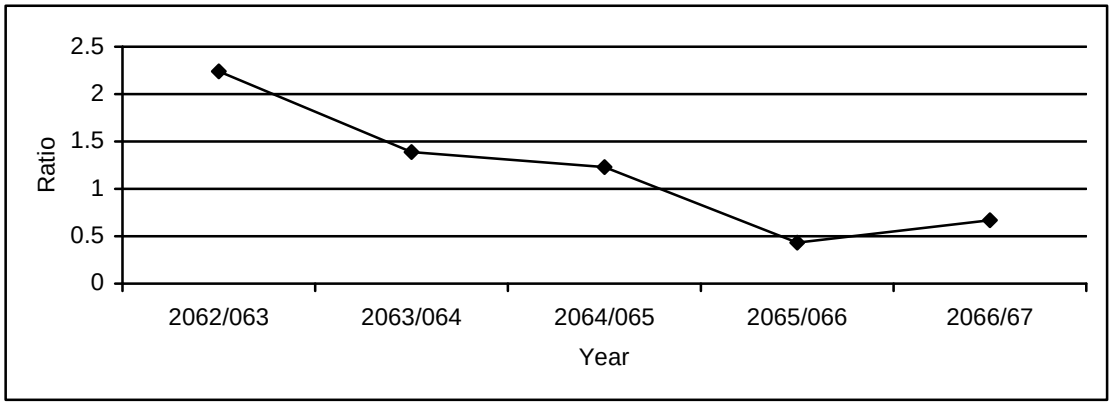
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Current assets less inventory to current liabilities (times)	2.24	1.39	1.23	0.433	0.67	1.1929

Source: Appendix-L.

The quick ratio of BNL 2.24 times in the year 2062/63. It is 1.39, 1.23, and 0.67 times in the year 2063/064, 2064/065, 2065/066 and 2066/067 respectively. On an average current ratio is 1.1929 times.

Figure 4.13

Quick Ratio of BNL



4.7 Profitability Position

The objective behind the establishment of a manufacturing company or any firm is of earning profit or getting maximum return on investment. Profitability of company is of concern of all parties of the firm. Effective utilization of resources to earn maximum amount of profit is the basic thought of company. Profitability is the measure of efficiency. To measure the profitability position of the BNL, we tried to analyse the profitability ratio, such as gross profit margin, net profit margin, return on assets and net worth.

4.7.1 Gross Profit Margin

It is the profit of excluding the deduction of operating expenses and income tax. It is obtained by deducting cost of goods sold from net soles. The ratio is the relationship between gross profit to net sales which explains that percentage return of gross profit out of total sales. The ratio measures the efficiency of company and soundness of effective management. Higher percentage indicates the better efficiency. The table below of 4.16 show the gross profit earned by the company during period of study and sales made there off.

Table 4.16

Gross Profit Margin

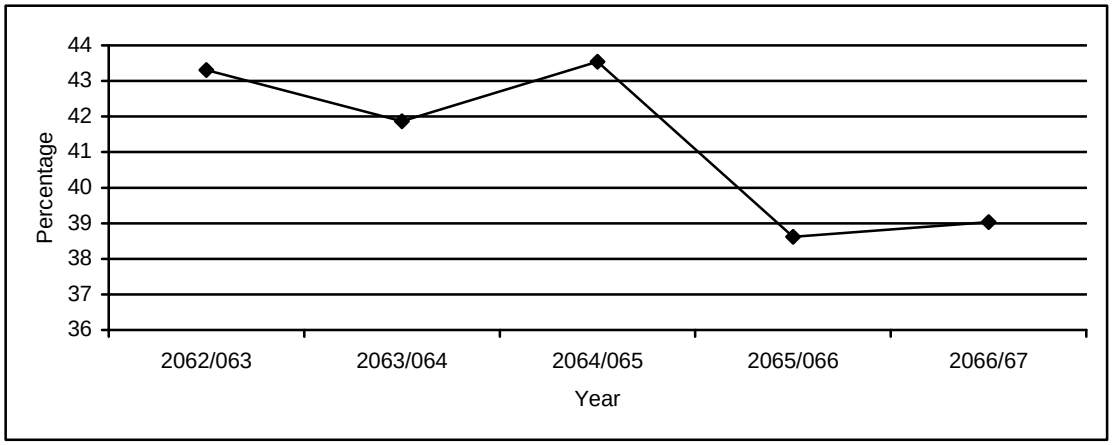
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Gross profit margin (%)	43.31	41.87	43.54	38.62	39.03	41.27

Source: Appendix-M.

The average gross profit margin of BNL 41.27 percent. The average profit of the year 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 are 43.31, 41.87, 43.54, 38.62 and 39.03 respectively.

Figure 4.14

Gross Profit Margin of BNL



4.7.2 Net Profit Margin

Net profit is the profit, which comes after deducting operating expenses and income tax from gross profit. This ratio is the relationship on net profit after tax to sales. This ratio shows the ability of management to operate business with sufficient success. The ratio of net profit to sales essentially expresses the cost price effectiveness of the operation. The operating expenses mainly affect the net profit of company. The Table 4.17 percent below shows the net profit margin of BNL, during the period of study.

Table 4.17

Net Profit Margin

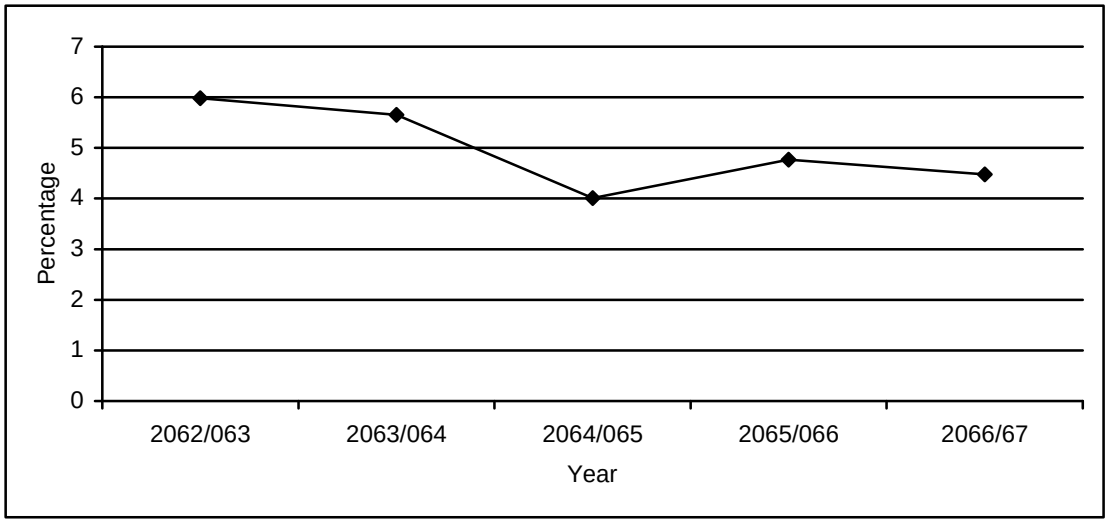
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Net profit margin (%)	5.98	5.65	4.01	4.77	4.475	3.069

Source: Appendix-N.

The average net profit margin of BNL is 3.069 percent. It is 5.98, 5.65, 4.01, 4.77 and 4.475 percentage in the year 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 respectively.

Figure 4.15

Net Profit Margin of BNL



4.7.3 Return on Total Assets

It measures the percentage of return on the overall total assets employed for every activities of the company. It gives the profit giving efficiency of the company in relation to total assets. The return on total assets employed of BNL is presented below in Table 4.18.

Table 4.18

Return on Total Assets

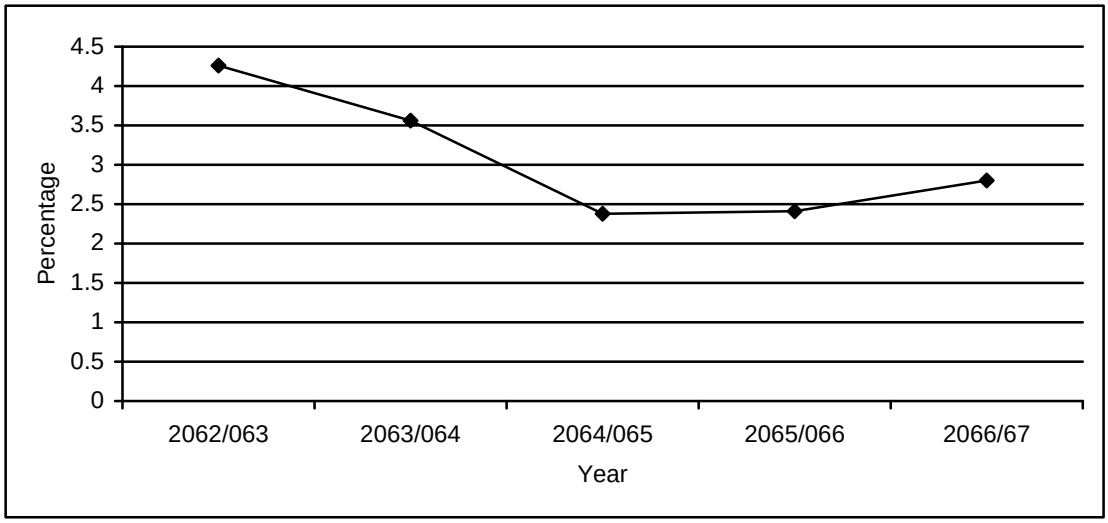
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
ROA (%)	4.26	3.56	2.38	2.41	2.80	2.12

Source: Appendix-O.

The average ROA of BNL is 2.12. The year 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 is 4.26, 3.56, 2.38, 2.41 and 2.80 percent respectively.

Figure 4.16

ROA of BNL



4.7.4 Return on Net Worth

It gives the percentage return on the owner's capital invested. The conclusions drawn on the basis of preceding ratios may not give true result because they give profit in sales and total assets. The table 4.19 presented below the ratio of return on owner's capital employed during the period of study in BNL.

Table 4.19

Return on Net Worth

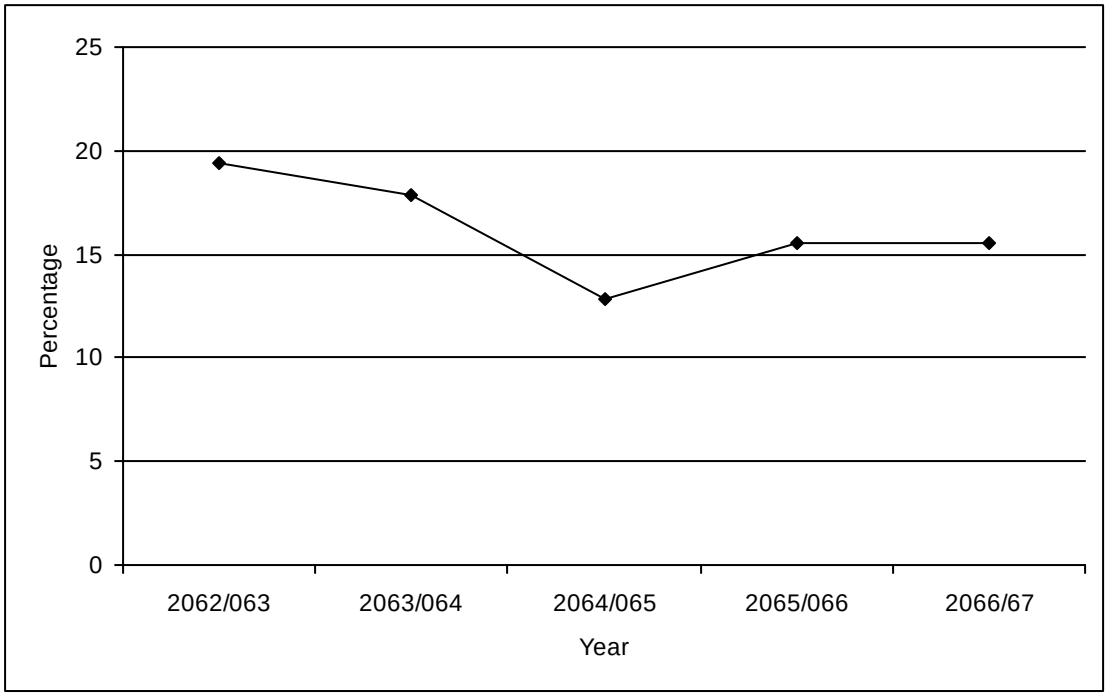
Year	2062/63	2063/64	2064/65	2065/66	2066/67	Average
Return on net worth (%)	19.40	17.82	12.81	18.57	15.53	16.826

Source: Appendix-P

The average return on net worth of BNL is 16.82. It is 19.40 percent, 17.82 percent, 12.8 percent, 18.57 percent and 15.53 percent in the year 2062/063, 2063/064, 2064/065, 2065/066 and 2066/067 respective

Figure 4.17

Return on Net Worth of BNL



4.8 Working Capital Management and Profitability Liquidity Trade Off

To find out the measure of profitability, RNW is compared with NWC and current ratio here.

Table 4.20

Working Capital Management and Profitability Liquidity Trade Off

Year	Return on Net worth	Current Ratio (times)	Net working Capital
2062/063	19.40	3.82	330632
2063/064	17.82	2.76	288812
2064/065	12.81	2.07	225343
2065/066	18.57	1.488	36208
2066/067	15.53	1.87	30272
Total	84.13	12.00	614435
Average	16.83	2.401	122887

Source: Annual Report of BNL from (2062-2067).

Table 4.20 shows that there is fluctuation of RNW when it is compared to liquidity. It shows that whenever the liquidity have increased in comparison to previous year, the return have also increased and vice-versa. In the year 2062/063, the return increases when liquidity increases in comparison to the earlier year 2060/061. Similarly, whenever liquidity decreases the return also decreases in the year 2065/066 in comparison to the previous year 2064/065.

4.9 Statistical Analysis

In order to study the significance of the various variables, Karl Person's correlation coefficient and regression analysis is applied.

Table 4.21

List of Statistical Findings of Correlation

S.N.	Variables	R	P.E. ratio	r^2	6 P.E.	Sig./Insig.	Relation
1.	Sales and current assets	0.274	0.064	0.75076	10.384	Insignificant	Low degree
2.	Sales and fixed assets	0.591	0.219	0.349221	1.314	Insignificant	Moderate
3.	Sales and net working capital	0.061	0.14	0.003721	0.84	Insignificant	Low degree
4.	Net profit and net working capital	0.642	0.33	0.412164	1.98	Insignificant	Moderate
5.	Gross profit and ICP	-0.664	0.001	0.440896	0.006	Insignificant	Low degree
6.	Gross profit and ARP	0.416	0.001	0.173056	0.0006	Significant	Low degree
7.	Gross profit and APP	0.355	0.01	0.126025	0.06	Significant	Low degree
8.	Gross profit and CCC	0.293	0.001	0.085849	0.006	Significant	Low degree

Examining the relationship between sales and current assets, during the period of study, the correlation coefficient (r), the result are under r = 0.27, P.E. - 0.064. The value of r < 6PE. The correlation between these two variables is not all significant. There is no evidence of correlation between the variables.

The correlation coefficient between sales and fixed assets is r = 0.591, PE = 0.219. Since, r < 6PE, so it is not all significant. There is no evidence of correlation between the variables.

Similarly, the correlation coefficient (r) between sales and net working capital is 0.061, PE = 0.14. Since, r < 6PE, so it is not

statistically significant. The correlation between the variables is positive which means if there is increase in sales then there is not working capital and vice-versa.

The correlation coefficient (r) between net working capital and net profit is 0.642 and PE = 0.33. Since, r < 6PE, so it is not statistically significant. There is no evidence of correlation between the variables.

Again, the correlation coefficient (r) between gross profit and inventory conversion period is r = -0.664, PE = 0.001, since r > 6PE and greater than ± 0.5, so it is statistically significant. The correlation between the variables is negative. If there is increment in ICP then there is decrease in gross profit.

The correlation coefficient (r) between gross profit and account receivable period is (r) = 0.42 and PE = 0.0001, since, r < PE, so there is positive correlation but not significant. But there is some increment in gross profit if there is increase in ARP and vice-versa.

Similarly, the correlation coefficient (r) between gross profit and account payable period is (r) = 0.355 and PE = 0.01. Since r > 6PE, so it is statically significant. There is negative correlation between the variables. The correlation between the variables is negative which means if there is increment in APP then there is decrease is gross profit and vice-versa.

Again, the correlation coefficient (r) between gross profit and cash conversion cycle is (r) 0.293 and PE = 0.001. Since, r > 6PE, so it is not all significant. There is no evidence of correlation between the variables.

Table 4.22

List of Statistical Findings of Regression

S.N.	Variables	Constants (a)	Coefficient (b)	F-ratio	Remarks
1.	Sales and current assets	439452	0.37	0.243	The regression line y on x is not significant.
2.	Sales and fixed assets	292468.35	0.27	1.614	The regression line y on x is not significant.
3.	Sales and net working capital	234914.82	1.48	0.011	The regression line y on x is not significant.
4.	Net profit and net working capital	37221.96	8.687	2.102	The regression line y on x is not significant.
5.	Gross profit and ICP	593.00	1.551	2.371	The regression line y on x is not significant.
6.	Gross profit and ARP	82.371	0.0001	0.53	The regression line y on x is significant.
7.	Gross profit and APP	3.977	0.0001	0.167	The regression line y on x is significant.
8.	Gross profit and CCC	379.679	-0.001	0.371	The regression line y on x is significant.

Note : test at 5% significance level.

The regression equation between sales and current assets is y = 439452 + 0.37x. It shows that whenever there is 1 percent increase in sales then the value of current assets also increases and vice-versa.

The regression equation between sales and fixed assets is y = 292468.35 + 0.27x. It shows that whenever there is 1 percent increase in sales then the value of fixed assets also increases and vice-versa.

The regression equation between sales and net working capital is y = 234914.82 + 1.48x. It shows that whenever there is 1 percent in sales then the value of net working capital also increases and vice-versa.

The regression equation between net profit and net working capital y = 37221.96 + 8.69x. It shows that whenever there is increase by 1 percent in net profit then the value of net working capital increases. In others words it can be said that to increase in profit increase the liquidity.

The regression equation between gross profit and inventory conversion period is y = 593 + 1.55x, it shows that whenever there is 1 percent increase in ICP then the value of gross profit decrease in ICIP then value of gross profit decrease and vice-versa. In other words, it can be said that the profitability can be increased by reducing the no. of days of ICP.

The regression equation between gross profit and account receivable period is y = 82.37 + 0.0001x. It shows that whenever there is 1 percent increase in ARP then the value of gross profit increases and vice-versa. In other words, it can be said that the profitability can be increased in increasing the number of days of ARP. This is only in short run but in the long run, profitability will increase by decreasing the number of days of ARP. This above case occurred due to haphazard way of management of receivables.

The regression equation between gross profit and account payable period is y = 3.977 + 0.0001x. It shows that whenever there is 1 percent increase in APP then the value of gross profit increases and vice-versa. In other words, it can be said that profitability can be increased by reducing the number of days of APP. The negative relation between APP and profitability defines that profitable firms wait longer to pay the bills.

The regression equation between gross profit and cash conversion cycle is y = 379 + 0.0001x. It shows that whenever there is increase by 1 percent in CCC then the value of gross profit decreases and vice-versa. In other words, it can be said that profitability can be increase by reducing the number of days of CCC.

4.10 Major Findings

i. The operating cycle of BNL ranges from 193 days to 277 days on an average of 220 days i.e. it is taking almost 8 months to convert purchased raw materials to the finished goods for sales. It is a quite long time. But we can also see that, ICP has taken longer time i.e. 179.8 days means almost 6 months not the ARP which is in average of 41.2 days means almost one and half months. Similarly, an average time in cash cycle is 163 days i.e. almost 6 months. It means that company is taking quite a long time in cash collection also.

ii. On an average out of total assets the proportion of current assets is 43.16 and on an average the proportion of current assets in net fixed assets 109.32. It shows that current assets components of BNL.

iii. The major components of current assets of BNL, are cash and bank balance, receivables inventories. During the period of study the proportion of cash and bank balance, receivables and inventories to current assets on an average are 3.813 percent, 15.79 percent and 40.30 percent respectively. It is found that inventories hold the largest portion in the current assets.

iv. Of the current assets, cash and bank balance holds the smallest portion in BNL. It is fallen down in FY 2061/062, compared to FY 2060/061 which again increases in the following year 2062/063. In FY 2063/064, it is again found to be decreased. This position is found to be increasing and decreasing in the subsequent coming years. The average cash and bank balance in the company with respect to current assets is 3.81 and with respect to total assets is 1.24.

v. Of the current assets inventories holds the largest portion of BNL, ranging from 33.14 percent to 49.44 percent and in fluctuating trend with an average of 40.30 percent. The inventories to total assets ratio is fluctuating with 12.1 percent to 22.98 percent with an average of 17.58 percent there fluctuating of the investment in inventories are due to fluctuating sales value.

vi. The receivables position with respect to current assets and total assets in BNL in alternative decreasing increasing trend up to FY 2060/061, in FY 2061/062, it is again found to be decreased. Then in the following year it again increases and in the next subsequent two years it again decreases. Till the end of study period the position of receivables with current assets and total assets are 15.79 percent and 7.13 percent. These fluctuations in the position of receivables are affected due to fluctuating sales volume of the company.

vii. The turnover positions of BNL are in fluctuating trend in some cases. The gross working capital turnover is ranging from 1.24 times to 1.72 times with an average of 1.43 times. The net working capital turnover is ranging from 1.91 times to 3.78 times in an

average trend of 2.85 times. The cash turnover is ranging from 17.31 times to 320.68 highly fluctuating times with an average of 174.9 times. This shows the company is not been able to efficiently utilize the current assets.

viii. The receivables turnover position in a company is ranging from 5.09 times to 20.28 times, with or average of 11 times. The ratio shows how rapidly debts are collected. The average ratio 11 times indicates no longer time lag between credit sales and cash collection. This indicates not a bad management of receivables collection policy adopted by company. The inventories turnover position of BNL is ranging from 1.59 to 3.16 times with an average of 2.14 times. The inventories management system of BNL is not so satisfactory. But it also signifies that inventories do not sell fast and stays on self or in warehouse for a long time.

ix. The liquidity position of company is analysed with current ratio and quick ratio. The current ratio is ranging in between 1.48 to 3.82 times. The company is able to maintain it's current ratio of 2.4:1 in an average of the study period. The overall current ratio of the company is found to be satisfactory. There seems to be enough current assets to meet obligations of current liabilities. The high investment in current assets is not so good. It is better to decrease in investment in inventories and maintain the ratio 2:1 of current assets and current liabilities. The company is not making full use of its current borrowing capacity. It signals excessive inventories, poor credit management in terms of over extended account receivables.

x. The quick ratio of the company is ranging in between 0.43:1 to 2.24:1 times with a fluctuating trend. The company has been able to maintain it quick ratio of 1.19:1 times in an average of the study period. The quick ratio is not favourable to the company. It is not in the ratio of 1:1. The company has not been able to convert quick assets quickly in cash in order to meet the obligation of current liabilities. This is due to haphazard way of management of receivables.

xi. Profitability is the measure of efficiency. It is analysed from various angles. The gross profit margin and net profit margin of the BNL shows that, BNL is continuously in profit during the period of study. The gross profit margin is in fluctuating trend ranging from 38.62 percent to 43.87 percent with an average of 41.27 percent during the study period. Although the company is able to earn profit in the study period but the gross profit margin decreases in the recent years in comparison to earlier years during the period of study. This shows that company cost of goods sold have increases subsequently in the recent years.

xii. Net profit margin of company indicates 3.07 percent return on aver are during the period of study. The net profit margin ratio fluctuates from 4.01 percent to 5.98 percent. The earlier years shows high amount of net profit but it has decreased in the recent years. It means that the expenses of company have increased quite heavily in the recent years.

xiii. The return on total assets, employed in BNL is not satisfactory. The return on total assets ratio is positive with fluctuating trend. The ratio ranges from 2.38 percent to 4.26 percent with 2.12

percent in average. This shows that the company has not efficiently utilized its assets. The company has been able to increase its return in the year 2060/061 and 2061/062 but in total company return on assets does not look satisfactory.

xiv. Similarly return on net worth is also in fluctuating trend. This ratio ranges from 12.81 percent to 19.40 percent with 16.83 percent in average. The company has increased this ratio in the year 2060/061, 2062/063 and 2061/062 as compared to previous years. But besides these years the company, this ratio have usually decreases. This shows that the company has not efficiently utilized currents assets, total assets, and shareholders wealth.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The brief introduction of the study, its role importance in Nepal is presented in the introductory setting. The second chapter i.e. review of literature gives the concept of working capital, different views of different resource scholars, writers are reviewed. Then, the journals of articles published by different management experts which are available are also reviewed. Further more, the available dissertations in context of working capital management from various researchers are been reviewed. The appropriate research methodology is presented in chapter III, with the help of methodology described. The data are presented and analysed in chapter IV. Now, in this chapter an effort has been made to present summary of findings, and give some suggestions for future course of action.

The basic objective of this study is to examine the management of working capital in BNL. To accomplish the objectives set earlier in first chapter, the necessary data as from secondary and primary sources are collected from financial statements of the BNL. For primary data, questionnaires are distributed to chief of various departments of BNL. The secondary data has been analysed though ratio analysis as a financial tools and correlation coefficient and regression equation as a statistical tools. The major ratios analysis consists of ratios for accessing the structure of working capital, ratios for accessing working capital utilization, liquidity ratio and profitability position. In order to test relationship between the various variables of working capital, Karl Pearson's correlation coefficient (r) and regression equation between the

two variables called a dependent and independent are calculated and analysed. Similarly, with he help of formula descried in chapter III. i.e. research methodology, which working capital policy company is applying is also calculated.

5.2 Conclusion

In conclusion, it can be said safely, that the management of working capital can not be neglected by BNL. Otherwise it can seriously erode its financial viability. Thus manager must understand the factors determining working capital needs because of the manufacturing industries of Nepal is also suffering from huge losses due to poor working capital management and lack of special working capital policy. The proportion of current assets with respect to total assets and net fixed assets in BNL shows that current assets absorb higher percentage of those total assets. As the higher ratio indicates the greater amount of working capital the risk would decrease.

The company has cash balance with respect to current assets and total assets are in increasing fluctuating trend. The cash conversion cycle is of 163 days. The company has to reduce cash conversion cycle to increase the profitability.

Inventories management is one of the important parts of manufacturing company. It absorbs higher percentage of total current assets, which means large funds tie up of in it. So far as liquidity is concerned inventories are less liquid current assets in itself. So, reduction in time lag in the period of inventory increases the profitability.

Receivables constitute an important part of asset of the company. So far as the receivable of BNL is concerned, it also occupies larger

portion of current assets in total assets. But the receivables are managed in the haphazard way. This shows the positive relation between the profitability and ARP. It means that increase in the time lag of ARP increases profitability. But in the long run ARP time must be decreased to increase profitability. The average receivable collection period is too long of 45 days about (1 and half months). It concludes liberal credit policy. The working capital should be arranged in such a way that it should generate maximum turnover.

Though the current ratio and quick ratio both shows the sound liquidity position of BNL but they are not in the efficient ratio of 2:1 and 1:1 because of higher percentage of inventory and as well as receivables. The profitability position of BNL, during the study period is not satisfactory. The return on net worth, on total assets net profit margin and gross profit margin are in fluctuating trend. It concludes the financial performance of BNL and are not satisfactory. It is due to high production cost operating expenses. As there is negative correlation between the net profit and net working capital, the increment in net working capital have reduced profit. There is no proper utilization of resources available to the firm. It is still following moderate working capital policy which reduces risk but hamper in profitability in long run. So, company can improve its policy which could maximize its profitability.

If BNL undertake the measures like identification of need funds, regular checks and development of management information system, positive attitude towards risk, profit determination, right combinations of short and long terms sources and funds to finance, working capital needs, appropriate combination of investment in current assets, minimizing production and operation cost, prepare effective sales plan, improve liquidity by speedy cash conversion, proper inventory management

technique, BNL can overcome these problems and improve its financial performance as well as working capital.

5.3 Recommendations

Based on findings of the analysis mentioned above, some practicable recommendation in the following section is given.

1. Effective Working Capital Policy Management

The above research shows that the BNL is using just moderate policy. It means that BNL investment in total fixed assets is lower than L (Total equalities including general reserve + long term). Fixed assets are also one of the major components of investments if investment in fixed assets increases then working capital policy also changes to aggressive. Although aggressive policy looks risky but as there is risk the profit also increases.

2. Reduce the Period of Operating Cycle and Cash Conversion Cycle

The reduction in operating cycle and cash conversion cycle means that reduction in no. of days of ICP and RP and CCC. In the long run it concludes that decrease in the time lag increases profitability which can be seen by regression equation also.

Speeding up the payments to supplies i.e. decreasing in APP might increase profitability of the company as company often receives a substantial discount for prompt payment. However, in financial statements, discount received in prompt payment should be booked as financial income and should not effect operating income.

3. Effective Management of Cash

The function of investment in money assets is to meet operational requirements in day to day business, to provide a reserve of liquidity for major schedule outflows of cash, to exploit opportunities, to avoid unexpected drains of cash and so on. There are many ways for effective management of cash in BNL, minimization of float, better synchronization of cash flows, showing disbursements. So management of cash should be proper.

4. Effective Management of Receivables

In BNL, there is larger investment receivable, so there should be neither over investment nor lower investment account receivable. Those policies involving receivable management involves trade off between risk and return. The main determinants of the size of investment are terms of sales, the selection of customers to give credit, efficiency in collecting receivables and so on. One way to control investment in receivable is to find out receivable as percent of sales. The other way are preparing schedule of receivable analysis credit worthiness of customers, minimizing float and so on. It helps to adopt a definite credit and collection policies. The credit purchase helps for lowering the requirements of working capital but it could also increase credit sales. The credit sales increase the total sales volume and profit but it also increases collection cost, bed debts losses, administration cost, management should consider the trade off between cost and profit adopt.

5. Effective Inventory Management

The investment in inventory with respect to current assets made by BNL ranges from 33.14 percent to 49.44 percent. The average investment in inventory with respect to current assets is 40.30 percent and 17.58

percent with total assets. Such highly fluctuated investment in inventory shows that there is no specific policy related with inventory management. Such high varied amount in inventory shows that, they are investing randomly. The effective management of working capital fully depends upon proper management of inventory because it absorbs higher percentage of current assets. For this company should make effective sales plan, which help for immediate marketability and certainly decreases the problem of overstocking. The management must minimize the wastage, scraps, there should be good stock keeping system better material handling system and timely inspection system. Moreover, the analysis is also useful. The non moving and obsolete items should be discarded to avoid unnecessary blockage up of inventory.

6. BNL, Must Improve Turnover Position

It is found that current assets turnover, net working capital turnover is very low, which indicates that less utilization of current assets, net working capital, higher level of current assets with unmanaged production and sales have contributed for lower turnover. If the company utilize the current assets in proper way the workings capital will be lower. In such situation, the company will be able to meet current obligation till maturity date.

To increase turnover, utilization of inventories those lying in the store, should be marketed as soon as possible. It should adopt modern inventory system. The preparation of cash budget and monitoring the schedule and their quick collection will result in higher turnover of assets.

7. Minimize the Operating Cost

BNL profit is in decreasing condition except in the year 2062/063 and 2064/065 as comparison to the previous year during the period of study. One of the causes is high operating cost of production. The

management should give attention towards the purchasing of raw materials, unnecessary expenses and misuse of funds. Heavy expenses on overheads are the major causes for high operation cost.

To overcome such short comings management should be strict for misuse of funds. The management also manage right number of workers in right place providing necessary training from time to time also contribute for lower administrative and operating cost. Further, to control and reduce production cost and high operating expenses of BNL as far as possible should utilize it's full capacity. Also the adaptation of standard and marginal cost techniques, this will also be a good measure in controlling and classifying the costs as well as for identifying the responsibility centres for minimization of losses. The cut off cost increase the profit margin.

8. Positive Attitude Towards Risk

Since, the risk is the opportunity for company to make profit. The management should not consider it is dangerous. It is the ability to manage the current assets properly and efficiently. BNL is just managing the moderate working capital policy. This has decreased the profit of the company when the management properly utilizes the current assets. Predicting the further return and timing of cash generation, there will be self generation of funds by which company should not depend upon permanent financing for the current assets or temporary assets. To develop and to manage ability to take risk, there should be training participation of management in conferences, foreign enterprise tours etc. for the managerial level employees.

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