

WORKING CAPITAL MANAGEMENT OF UNILEVER NEPAL LIMITED.

By:

MADHU THAPA

Birendra Multiple Campus

T.U. Regd. No.: 7-1-286-13-99

Exam Roll No.: 190066 /064-066.

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

**In Partial Fulfillment of the Requirement for the Degree of
Master of Business Studies (M.B.S.)**

Bharatpur, Chitwan, Nepal

October, 2012



TRIBHUVAN UNIVERSITY
BIRENDRA MULTIPLE CAMPUS

Bharatpur, Chitwan
DEPARTMENT OF MANAGEMENT

520253
520689
526159
Fax : 056-520253

Use Only for Thesis

(Ref.) :

Date :

RECOMMENDATION

This is to certify that the thesis

Submitted by:

MADHU THAPA

Entitled:

WORKING CAPITAL MANAGEMENT OF UNILEVER NEPAL LIMITED.

has been prepared and approved by this department in the prescribed format of the faculty of management, T.U. This thesis is forwarded for examination.

.....

Udaya Shrestha

Thesis Supervisor

Birendra Multiple Campus

.....

Sushil Dahal

Thesis Supervisor

Birendra Multiple Campus

.....

Baikuntha Pd. Bhushal

Head of Research Department

Birendra Multiple Campus

.....

Keshav Bhakta Sapkota

Campus Chief

Birendra Multiple Campus

Date:



TRIBHUVAN UNIVERSITY
BIRENDRA MULTIPLE CAMPUS
Bharatpur, Chitwan
DEPARTMENT OF MANAGEMENT

520253
520689
526159
Phone : 056-520253
Fax : 056-520253

Use Only for Thesis

(Ref.) :

Date :

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

MADHU THAPA

Entitled

**WORKING CAPITAL MANAGEMENT OF
UNILEVER NEPAL LIMITED.**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirements for the degree of

Master of Business Studies (M.B.S.)

Viva – Voice committee

Head, Research Department:

Member (Thesis Supervisor) :.....

Member (External Expert) :.....

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled, **Working Capital Management of Unilever Nepal Limited** submitted to Birendra Multiple Campus, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement for the Master's in Business Studies (M.B.S.) under the supervision and guidance of **Sushil Dahal**, Lecture of Birendra Multiple Campus.

October, 2012

.....

Madhu Thapa
Department of Management
Birendra Multiple Campus
T.U. Regd. No.: 7-1-286-13-99

ACKNOWLEDGEMENT

I am pleased to present this thesis entitled, **Working Capital Management of Unilever Nepal Limited** in partial fulfillment of the requirement for the degree of master's in Business Studies (MBS). I am thankful to Birendra Multiple Campus for providing me such an opportunity to experience the practical knowledge in my subject.

I am indebted to numerous individuals and organizations whose support and assistance made this study possible. I am primarily indebted to my thesis supervisor Lecture Sushil Dahal, Birendra Multiple Campus for his incisive guidance and efficient supervision in carrying out this study. This work would not have been materialized in this form without his continuous encouragement, patient guidance and valuable suggestions and comments at every stage of this work.

I also want to give many thanks to Manager of Unilever Nepal Limited for providing up to date records of data in the desired form.

At last, but not the least, I would like to express my gratitude towards all members of my family especially to my husband Mr. Pramod Raj Bhatta and for typing thesis and correcting mistakes and also my sincere thanks goes to all these people who have inspired me directly as well as indirectly to complete this work like the one in your hand. Needless to say, the error is of human kind and I am also not exception. So, I am solely responsible for any deficiencies that may have remained in this work.

October, 2012

Madhu Thapa

Bharatpur – 10, Chitwan

TABLE OF CONTENTS

Recommendation	
Viva-voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	

Page No.

CHAPTER I : INTRODUCTION

1.1 General Background	1
1.2 Focus of The study	4
1.3 Statement of the Problems	5
1.4 Objectives of the Study	7
1.5 Significance of the Study	7
1.6 Limitations of the Study	8
1.7 Organization of the Study	9

CHAPTER II : REVIEW OF LITERATURE

2.1 Conceptual Framework	10
2.1.1 Concept of Working Capital	14
2.1.2 Types of Working Capital	15
2.1.3 Sources of Working Capital	17
2.1.4 Issue of Working Capital	19
2.1.5 Goals of Working Capital	19

2.1.6 Needs of Working Capital	20
2.1.7 Approaches to Estimating Working Capital Needs	22
2.1.8 Liquidity vs. Profitability: Risk – Return Trade Off	22
2.1.9 The Cost of Trade Off	23
2.1.10 Objectives of Working Capital	24
2.1.11 Working Capital Cycle	24
2.1.12 Working Capital Policy	25
2.1.13 Determinants of Working Capital	29
2.2 Review of Journals / Articles	32
2.3 Review of Thesis	36
2.4 Research Gap	43

CHAPTER III : RESEARCH METHODOLOGY

3.1 Research Design	45
3.2 Population and Sample	46
3.3 Nature and Sources of Data	47
3.4 Data Gathering Procedure	47
3.5 Data Processing	47
3.6 Methods of Data Analysis	48
3.6.1 Financial Tools	48
3.6.1.1. Liquidity Ratio	48
3.6.1.2 Activity or Turnover Ratio	49
3.6.1.3 Structure of Working Capital	49
3.6.1.4 Working Capital Cash Conversion Cycle	53
3.6.2 Statistical Tools	54
3.6.2.1 Correlation Co-efficient	55
3.6.2.2 Probable Error	55

CHAPTER IV : DATA PRESENTATION AND ANALYSIS

4.1	Structure of Working Capital	56
4.1.1	Amount of Working Capital	56
4.1.2	Structure of Total Current Assets on Total Assets and Fixed Assets	57
4.1.3	Structure of Net Working Capital on Total Assets and Fixed Assets	59
4.1.4	Structure of Inventory on Total Assets and Current Assets	60
4.1.5	Structure of Debtors on Total Assets and Current Assets	61
4.1.6	Structure of Cash and Bank Balance on Total Assets and Current Assets	62
4.1.7	Structure of Loan, Advance and Deposit on Total Assets and Current Assets	63
4.1.8	Analysis of Average Structure of Working Capital Component on Total Assets and Current Assets	64
4.2	Utilization of Working Capital	65
4.2.1	Current Assets Turnover Ratio	66
4.2.2	Inventory Turnover Ratio	67
4.2.3	Receivable Turnover Ratio	69
4.2.4	Cash and Bank Balance Turnover Ratio	70
4.2.5	Net Working Capital Turnover Ratio	71
4.2.6	Loan, Advance & Deposit Turnover Ratio	73
4.3	Liquidity Position	74
4.3.1	Current Ratio	74
4.3.2	Quick Ratio	76
4.4	Working Capital Cash Conversion Cycle	77
4.4.1	Inventory Conversion Period	77
4.4.2	Receivable Collection Period	79
4.4.3	Payable Deferral Period	80

4.4.4	Cash Conversion Cycle	81
4.5	Analysis of Working Capital Relationship	82
4.6	Working Capital Policy	84
4.7.1	Working Capital Investment Policy	84
4.7	Major Findings	85

CHAPTER V: SUMMARY, CONCLUSIONS &RECOMMENDATIONS

5.1	Summary	89
5.2	Conclusions	90
5.3	Recommendations	91

Bibliography

Appendices

LIST OF TABLES

Table No.	Titles:	Page No.
4.1	Amount of Working Capital	57
4.2	Structure of Current Assets on Total Assets and Fixed Assets	58
4.3	Structure of Net Working Capital on Total Assets and Fixed Assets	59
4.4	Structure of Inventory on Total Assets and Current Assets	60
4.5	Structure of Debtor on Total Assets and Current Assets	61
4.6	Structure of Cash & Bank Balance on Total Assets and Current Assets	62
4.7	Structure of Loan, Advance & Deposit on Total Assets and Current Assets	63
4.8	Average Proportion of Components on TA and CA	64
4.9	Current Assets Turnover Ratio	66
4.10	Inventory Turnover Ratio	68
4.11	Receivable Turnover Ratio	69
4.12	Cash and Bank Balance Turnover Ratio	70
4.13	Net Working Capital Turnover Ratio	72
4.14	Loan, Advance and Deposits Turnover Ratio	73
4.15	Current Ratio	75
4.16	Quick Ratio	76
4.17	Inventory Conversion Period	78
4.18	Receivable Collection Period	79
4.19	Payable Deferral Period	80
4.120	Cash Conversion Cycle	81
4.21	Correlation between Working Capital Variables	82
4.22	Analysis of Working Capital Investment Policy on Average Basis	84

LIST OF FIGURES

Figures No.	Title	Page No.
2.1	Temporary Working Capital	17
2.2	The Cost of Trade Off	23
2.3	Current Assets Investment Policy	26
2.4	Aggressive Financing Policy	27
2.5	Conservative Policy	28
2.6	Moderate Policy	29
4.1	Average Proportion of Components on TA and CA	65
4.2	Current Assets Turnover Ratio	67
4.3	Inventory Turnover Ratio	68
4.4	Receivable Turnover Ratio	70
4.5	Cash & Bank Balance Turnover Ratio	71
4.6	Net Working Capital Turnover Ratio	72
4.7	Loan, Advance & Deposits Turnover Ratio	74
4.8	Current Ratio	75
4.9	Quick Ratio	77
4.10	Inventory Conversion Period	78
4.11	Receivable Collection Period	80
4.12	Payable Deferral Period	81

ABBREVIATIONS

CA	:	Current Assets
CBB	:	Cash and Bank Balance
CCC	:	Cash Conversion Cycle
CL	:	Current Liabilities
F/Y	:	Fiscal Year
FA	:	Fixed Assets
GWC	:	Gross Working Capital
ICP	:	Inventory Conversion Period
LAD	:	Loan, Advance and Deposits
LTL	:	Long-Term Liabilities
NBCLtd.	:	Nepal Battery Company Limited
NLOLtd.	:	Nepal Lube Oil Limited
NTC	:	Nepal Tele Communication Corporation
NWC	:	Net Working Capital
PDP	:	Payable Deferral Period
PEs.	:	Public Enterprises
QA	:	Quick Assets
r	:	Correlation Co-efficient
RCP	:	Receivable Collection Period
Rs.	:	Rupees
TA	:	Total Assets
TR	:	Turnover Ratio
ULN Ltd.	:	Uni-Lever Nepal Limited
WC	:	Working Capital
WCM	:	Working Capital Management