

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Financial institution refers to a business concern, which is mainly confined to finance for the development of the trade, commerce and industry. Financial institution can be considered as the mechanism of the economic growth of a country. Commercial Banks are the backbone of the financial system. The growth of banking in Nepal is not so long in with other developed or developing countries. Nepal had to wait for a long time to come to the present banking system. The development of any country cannot be imagined without economic activities. The development of the banking system is one of the grounds for economic development. So, we should take a bank as strong means for the economic development. The development of a bank is interwoven with the development of a person, a society and a nation. It is impossible to fulfill the needs without bank whether it is inside the nation or in foreign country whether it is individual development or business and whether it is the people or the government. So, to solve the problems relating to economic development, development of banking system is necessary.

Commercial banks are the major component in the financial system. A sound banking system is important in the economy as it plays key role in the inter-mediation, maturity transformation, accepting deposits, facilitating payments, credit allocation and maintaining financial discipline among borrowers. It provides overall working capital, which is the basic need of trade, industry and even to agricultural sectors.

Working capital is a controlling nerve of center of every business organization because no business can run smoothly without the proper control upon it. Thus, it plays the crucial role in the success and failure of the organization. As the management of current assets and current liabilities of the business organization is necessary for day-to-day operations, it plays the key role in the success and failure of the organization not only in the short run but also in the long run. In the concern of the management of working capital there have

been made number of studies from different management experts and students in various organization.

The management of working capital plays a vital role for existence of any business organization successfully. It is the centers on the routine day-to-day administration of current assets and current liabilities. Therefore, working capital management in business organization is very important, mainly for four reasons. Firstly, business organization must need to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidity base. Secondly, they must select the type of current assets, suitable for investment so as to increase their operational efficiency. Thirdly, they are required to ascertain the turnover of current assets, which determine profitability of the concerns. Lastly, they must find out the appropriate source of funds to finance current assets.

## **1.2 Highlight of Bank**

Bank is a commercial institution, licensed to accept deposits and acts as a safe custodian of the spendable funds of its customers. Banks are concerned mainly with functions of banking i.e. receiving, collecting, transferring, buying, lending ,investing, dealing, exchanging, and servicing (safe deposit, custodianship, agency, trusteeship) money and claims to money both domestically and internationally. The principal activities of a bank are operating current accounts receiving deposits, taking in and paying out notes and coins and making loans.

Bank is a financial institute where the money is deposited and supplied to the needy person for their different transaction who comes in the bank to fulfill their requirement of cash. Actually, the bank collects money from general public by attracting them with sound interest rate in their deposit. Through the money they have collected from the public, they provide loans to the business house, industry and needy people etc. Now a day bank also provides education and property loans. The bank charges the different interest rate, highly for loan and low for depositors. So, the difference gives actual

profits. Just by collecting cash from saver and providing loans to the investors, we can say that actually the bank acts as an agent between the saver and the investor.

Banking in modern sense started with the inception of Nepal bank limited (NBL) on B.S. 1994-07-30. NBL had a Herculean responsibility of attracting people toward banking sector from predominant money. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branch at urban centers. Government however had onus of providing banking services to the nook and corner of the country and also managing financial system in a proper way. Thus, Nepal Rastra bank (NRB) was set up on B.S. 2013-01-14 as a central bank under Nepal Rastra Bank act 2012 B.S. Since then it has been functioning as the government's bank and has contributed to the growth of financial sector. Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corner of the country. Keeping this in mind, government set up Rastriya Banijya Bank (RBB) in B.S. 2022-10-10 as fully government owned commercial bank (Khadka and Singh, 2066).

According to the encyclopedia America “a bank is a business organization that receives and holds deposits of funds from others make loan or extents credits and transfer funds by written order of deposits”.

"The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people." (Grywinski, 1991:87)

Without bank it would be quite impossible for the industrialist and entrepreneurs to go directly to general public for getting they are saving for investment. So, the simplest definition is that, bank takes the saving of the public by providing them with certain rate of interest and earns some profit by doing this inter-mediation. This is the broadest form of banking but in this age banking is such a vague term. It does a lot more than deposits and credits. Remitting of the money, issues of the money, guarantee, letter of credit, controlling monetary activities of country etc, are also major function of the bank.

Commercial banks are the backbone of the financial system. Commercial bank is financial institution which collecting the idle funds, mobilizing them into productive sector and causing and overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

The main activities of commercial bank are as follows:

- ) Accepting various types of deposits from people, institution or company.
- ) Providing general utility functions.
- ) Providing information and other services.
- ) Providing overseas trending services.
- ) Providing loan to various productive sectors to earn a lot of profit from it.
- ) Acting as agency functions.

### **1.3 Profile of Everest Bank Limited**

Everest Bank Limited was established in 1992 AD, under the company Act. Everest Bank Limited started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. Everest Bank Limited is extending its five new branches in the different location of the nation in this fiscal year 2009/10. The bank is providing customer friendly services through a network of 37 branches. This bank was established as a joint venture bank with Punjab National Bank with 20% share holding. The Punjab National Bank is one of the largest nationalized banks in India having 112 years of banking history. Punjab National Bank is a technology driven bank serving over 35 billion customers through a network of over 4500 branches spread all over the country with a total business of around INR 2178.74 billion. Everest Bank Limited recognized the value of offerings a complete range of services and has pioneered in extending various customer friendly products such as home loan, education loan, EBL flexi loan, EBL property plus (future lease rental), Home

equity loan, vehicles loan, Loan against share, loan against life insurance policy and loan for professional.

Everest Bank Limited was the first bank to introduce Any Branch Banking System (ABBS) in Nepal. All the branches of the bank are connected with ABBS which enables the customers to do all their transactions from any branches other than where they have their account. Everest Bank has introduced the Mobile Vehicle Banking System to see the segment deprives of proper banking facilities through Birtamod branch, which is the first of its kind.

### **Present capital structure of EBL**

#### **Present capital structure of Everest Bank Limited**

Share capital and reserves	Amount in NRS
Authorized Capital	2,00,00,00,000
Issued Capital	1,39,16,35,700
Paid of Capital	1,39,16,35,700

Source: Annual Report of Everest Bank Limited, 2012/13

### **Promoters /Shareholders**

#### **Share holding Pattern [In Percent]**

Subscription	% Holding
Promoter share holder	50%
Punjab National bank	20%
General Public	30%
Total	100%

Source: Annual Report of Everest Bank Limited, 2012/13

## 1.4 Statement of the Problem

This study is related to find out overall view of working capital of the sampled bank. Efficient and effective working capital management can strengthen bank's financial position. The problem of the study is to obtain results about interrelation ship between current assets and current liabilities of Everest Bank Limited.

Working capital management is necessary for efficient and effective management in banking institution. Commercial banks are great monetary institutions which are playing important role to the general welfare of the economy. It can be visualized that the banking development in Nepal is got in its initial stage. So, we have to go still a long way to make the country rich with a sound and modern banking system. In the light of the very facts commercial banks are the backbone of the country. It is highly useful to make the present study on Everest Bank Limited. Working Capital management can be evaluated by how to manage the assets and capital fund, which is the best sector to invest and how to run the banking sector. The present study is to analyze and examine the liquidity, profitability, debt management with financial performance in this bank.

Without proper working capital management of any business cannot run in right way. They cannot achieve their objectives. So, following research questions are the main issues are to be dealt for the purpose of this study.

- ) How are the sources of funds created and mobilized?
- ) What is the size of working capital of Everest Bank?
- ) Whether the working capital is adequate or not?
- ) What is the condition of utilization of working capital?
- ) What is the liquidity position of the bank?
- ) What is the profitability of the bank?

## **1.5 Objectives of the Study**

The basic objective of the present study is to examine the working capital management and its effectiveness in Nepalese Commercial Banks especially in Everest Bank Limited.

The specific objectives of this study are as follows:

- ) To assess the size and structure of working capital of sample bank.
- ) To examine the utilization of working capital of sample bank.
- ) To assess the leverage and profitability of Everest Bank Limited.

## **1.6 Significance of the Study**

Working capital is regarded as the life blood for any organization because it is needed for sustaining the organization in daily operation. If the business cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even push into bankruptcy. So, the goal of working capital management is likely to become management is to manage the assets and current liabilities in such a way that a satisfactory level of working is maintained. “Survey indicates that the largest portion of most financial managers “time is devoted to the day- today internal operations of the firm which fall under the heading of working capital management.” Very few studies have been performed on the financial performance of EBL. But no one has studied typically on its working capital management. Different researchers have written their dissertations on working capital management, however almost all of them are related to financial sectors and does not address the real situation of service sector public enterprises like EBL. It is thus clear that no full-fledged academic research study on working capital management of Everest Bank Limited has been carried out. The present study, therefore, bridges this long felt gap in the field or research. This is only a beginning and it could be further developed continued in this field.

## **1.7 Limitation of the Study**

Although efforts have been made to research the objectives of the study, the following limitations can not be ignored

- ) The study is confined only to Everest Bank Limited.
- ) The study concerns the analysis of only 7 years data from 2063/64 to 2069/70.
- ) The study is only concentrated in working capital management and the financial performance of the EBL.
- ) The study is mainly based on secondary data. Therefore, the accuracy of the result depends on the accuracy of the data provided by the EBL.
- ) The study follows limited tools such as ratio analysis, mean, and coefficient of variation, correlation.

## **1.8 Organization of the Study**

The whole study is divided into five main chapters, which are as follows.

### **Chapter –I: introduction**

This chapter deals with brief introduction of the related topic. This chapter presents the background of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study etc.

### **Chapter –II: Review of Literature**

The review of literature deals with some related matters of the study. It consists of the theoretical framework and the reviews of related studies.

### **Chapter –III: Research Methodology**

This chapter contents are research design, data collection and procedure, period covered, sources of the data, methods of analysis.

### **Chapter –IV: Data Presentation and Analysis**

The fourth chapter is the data presentation and analysis, which deals with the presentation & analysis of collected data.

### **Chapter –V: Summary, Conclusion and Recommendation**

The fifth chapter provides summary, conclusion and recommendations of this study.



## **CHAPTER- II**

### **REVIEW OF LITERATURE**

The previous study provides the foundation to the present study, which gives guideline for the research work. So, it can not be ignored. The purpose of literature review is to develop some expertise in related area to see what new contribution can be made and to receive some ideas for developing research design. There must be continuity in research. This continuity in research is ensured by linking the present study with past research studies.

This chapter deals with the review of literature concerned with working capital management. Every study is very much based on past knowledge. For, review study, the researcher used own knowledge, different books, research work, relevant study on this topics, journals, articles, thesis work performed previously. It is divided into two parts.

- conceptual review
- review of different studies

#### **2.1 Conceptual Framework**

##### **2.1.1 Concept of Working Capital**

Working capital is one of the most important aspects of any organization. Working capital refers to the firm's short term current assets and liabilities. The management of current assets and current liabilities of the business organization is necessary for day- to-day operations. It plays the key role in the success & failure of the organization not only in the short run, in the long run also. So, working capital is the lifeblood and controlling never of center of every business organization. No business can run smoothly & healthy without the proper control upon it. Thus, it plays the crucial role in the success and failure of the organization.

There are needed various types of assets i.e. fixed & current assets commercial bank in order to carry out its functions without any interruptions some fixed assets which have

physical existences and are required to produce goods and services over long period are called tangible fixed assets i.e. land, building, plant, machinery, furniture etc. Some other fixed assets which do not generate goods and services directly but it reflects the right of the firm is called intangible fixed assets i.e. patents, copyrights, trademarks, goodwill. These both fixed assets are written off over a period of time. Current assets are those resources of the firm; they are used in daily operation. It includes cash, marketable securities, account receivable, stock of raw material and so on. Among these some assets are required to meet the need of regular production & some for day today expenses & short -term obligations. Current liabilities are those claims of outsiders, which are expecting to be matured with in an accounting year. It includes creditors, bill payable and outstanding expenses.

There are two concepts of working capital i.e. gross concept & net concept. Gross working capital concept refers to the firm's investment in current assets where as net working capital refers to the difference between current assets and current liabilities. The assets which can converted into cash within an operating cycle (i.e. one year) are called current assets, where current liabilities refers to that part of payables which should be paid within same period (i.e. one accounting year). Cash marketable securities, receivables and inventories constitute the current assets. Creditors, bills payable, bank overdraft and outstanding expenses or advance income constitute the current liabilities. To decide the optimum level of the current assets and the extent to which current assets should be financed with equity capital and the extent to which those current assets should be financed with capital and borrowed capital is the main task of working capital management. (Pandey, 1999:807)

The term working capital and total current assets are same or synonymous "it is also known as circulating capital. Circulating capital represents that part of fund, which circulates from one item of current assets to another in the ordinary course of business. The idea embraces the recurring transaction from cash to inventories then to receivables to cash. (Kuchhal, 1998:128)

"Net working capital can be positive or negative. A positive net working capital arises, when current assets exceed current liabilities and negative working capital occurs when current liabilities are in excess of current assets.( Pandey, 1999:808)

Working capital refers to the resources of the firm that are used to conduct operations of day to day work that makes the business successful. Without cash, bills can not be paid without receivable the firm can not allow timing difference between delivering goods to services and collecting the money to pay for them, without inventories the firm cannot engage in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets the management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of the firm's those items that can be converted into cash with in the year. Net working capital is defined as the difference between current assets and current liabilities. (Hampton & Wagner, 1989,3-4). There are specially two concepts of working capital: gross concept and net concept. Symbolically, it can be expressed as:

Gross working capital = total current assets

Net working capital = total current assets - total current liabilities

**Walker (1964)** the financial manager should determine the optimum level of current assets, so that the wealth of shareholders will be maximized. In fact optimum level of each type of current assets should be fixed.

**Agrawal (1998)** "Working capital management is the effective life blood of any business. Hence the management of working capital plays a vital role for existing of any public enterprises successfully while studies it. It is the centers on the routine day to-day administration of current assets and current liabilities. Therefore, working capital management in public enterprises is very important mainly for four reasons. Firstly, public enterprises must need to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidity base. Secondly, they must select the type of current assets, suitable for investment so as to raise their operational efficiency.

Thirdly, they are required to ascertain the turnover of current assets which determine profitability of the concerns. Lastly, they must find out the appropriate source of funds of finance current asset."

**Pandey (1999)** one of the well known Indian Professor has described some of the important conceptual aspects of Working Capital Management in his book "Financial Management". According to him "There are specially two concepts of working capital: Gross concept and Net concept. The gross working capital simply called as working capital refers to the firm's investment on current assets. Current assets are those assets which can be converted into cash with in accounting year and included cash, short term securities, debtors, bill receivables, stock, inventories and pre-paid expenses. The term net working capital refers to the differences between current assets and current liabilities. Current liabilities are those claims of outsiders which can expected to mature for payment with in an accounting year and includes creditors, bills payable, bank overdraft and outstanding expenses or accrued income. Net working capital can be negative or positive. A negative net working capital occurs when current liabilities are excess over current assets.

**Van Horne (2000)** a distinguished Professor has categorized the various components of working capital. He has also described the different methods for efficient management of cash and marketable securities. In his view "working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivables, inventories and the administration of current liabilities. It means the working capital management is concerned with the problem that arises in attempting to manage the current assets, current liabilities and inter-relationship that exist between them."

**Chandra (2001)** wrote a book called 'financial management': Theory and practice. He has included a topic of working capital management in overall consideration. Net working capital is the difference between current assets and current liabilities.

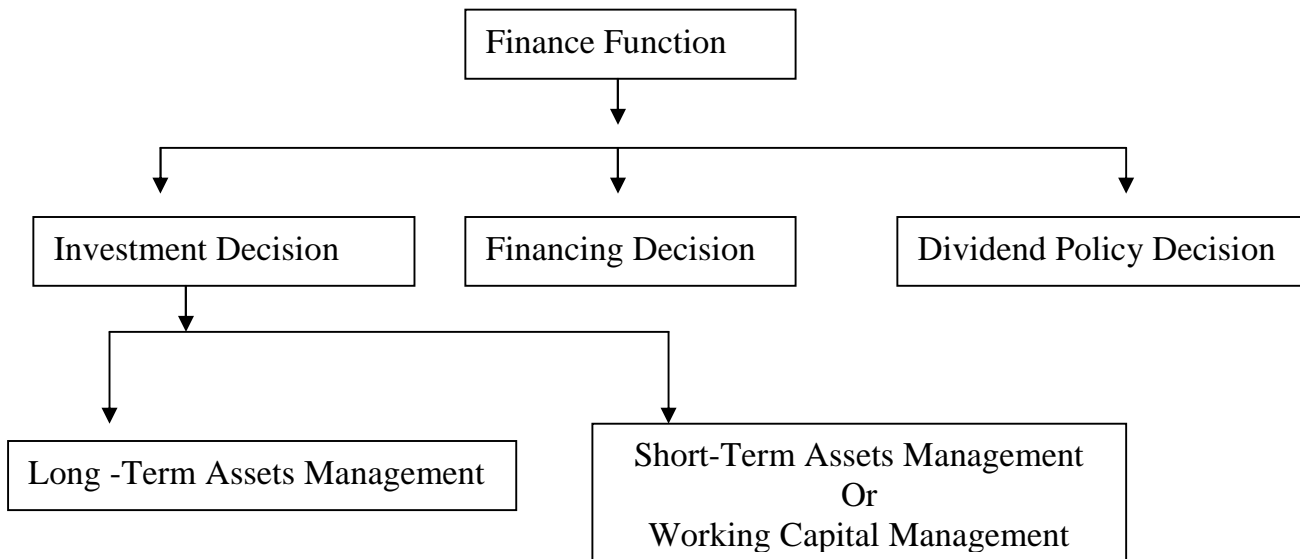
Management of working capital refers to the management of current assets as well as current liabilities. The major thrust is understandable because current liabilities arise in the context of current assets. It may be mentioned here that it is an accounting concept with little economic meaning. It makes little sense to say that a firm manages its net working capital, what a firm really does is to take decisions with respect to various current assets and current liabilities.

### **2.1.2 Working Capital Management**

The management of the funds of business can be described as financial management. Financial management is mainly concerned with two aspects. Firstly, as long-term investment and sources of funds secondly, as current uses and sources of funds. Both of these types of funds play a vital role in every business finance. The excess working capital as well as inadequate working capital is harmful for business. So, proper management of working capital is the best possible option to improve organization operational viability. Otherwise the organizations likely to become insolvent and may even be forced into bankruptcy.

Normally, the finance function can be dividend policy decision but the most important decision for business is investment decision. It include the long term assets management and short term assets management i.e. working capital management

**Figure No. 1**  
**Working Capital Management as a Finance Function**



Working capital management is the process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. “Working capital management involves decision regarding the account and the composition of current assets and to finance these assets. These decisions involve trade-off between risk and profitability.” (Kuchhal, 1988:156)

“An effective management of working capital is the primary means of achieving the firm’s goals of adequate liquidity.” (Hampton,1998:180)

Proper management of working capital must ensure, adequate amount of working capital as per need of a business firm. To have adequate and efficient circulation of working capital. It is necessary that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed.

### **2.1.3 Types of Working Capital**

Working capital can be classified into two parts. Permanent (fixed) working capital and temporary (variable) working capital. The working capitals are essential for continuous production and sales.

#### **a) Permanent (Fixed) Working Capital**

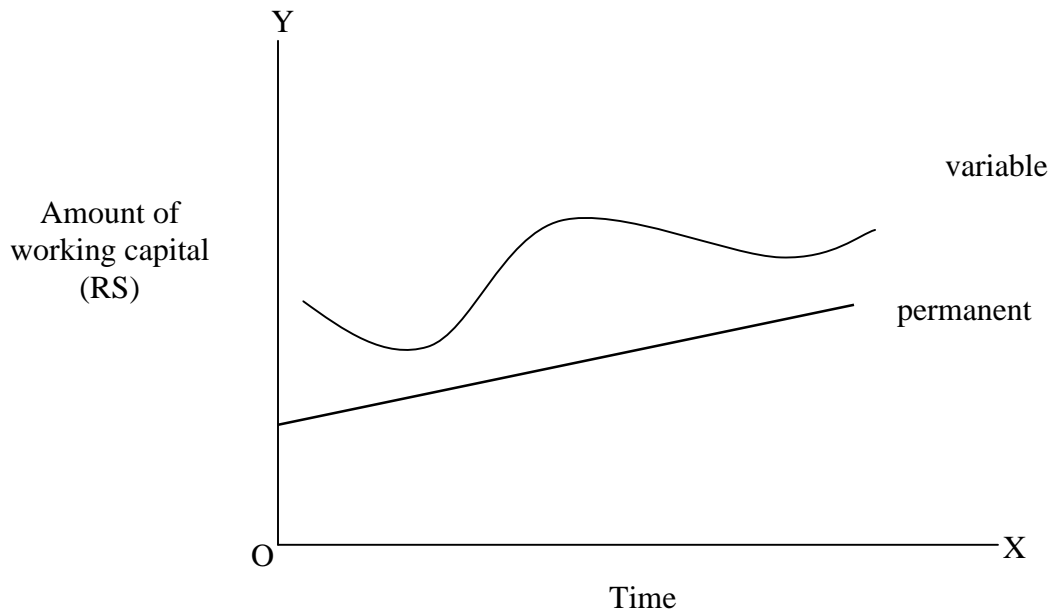
A manufacturing concern cannot operate regular production and sales functions in the absence of portion of permanent working capital. Permanent working capital refers to that level of current assets, which is required on a continuous basis over the entire year. The portion of working capital is directly related to the firm's expansion of operation capacity. So, a manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted production and sales function. The minimum working capital which is a firm has to provide out of long term sources are issue of share debenture, retention or plugging back of profits, general reserves etc.

#### **b) Temporary (Variable) Working Capital**

Variable working capital represents that portion of working capital which is required over permanent working capital. So, this portion of working capital depends upon the nature of firm's production relation between labor and management. Bank loan, public deposits, trade credit and other payables, provision for taxation, depreciation provision etc. are short-term sources, which are provided by a firm, which having seasonality in their business. This type of business needs a large amount of capital for holding inventory during the peak period. But, as soon as the peak period is over, this working capital becomes idle.

If a firm has sound management on this portion of working capital, it can easily win over other competitors in today's competitive and aggressive market. The type of working capital are shown at figure as this below

**Figure No. 2**  
**Types of Working Capital**



Source: I.M. Pandey, 1999: Eighth Edition:802

#### **2.1.4 Working Capital Policy**

Working capital policy refers to the firm's basic policies 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 different financing policy according to the attitude of financial manager's attitude towards the risk-return trade off. One of the most important decisions of finance managers 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. Thus, working capital policy is related to the level of each category of current assets and financing of current liabilities on it, which are as follows.



### **a) Current Assets Investments 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. Fat cat, lean and mean and moderate policy.

#### **i) Fat cat 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 lower risk.

#### **ii) Lean and Mean Policy**

The policy is also known as restricted current assets investment policy. In lean and mean policy, a firm holds the minimum amount of 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 which means the risk of losing sales.

#### **iii Moderate Policy**

In moderate policy, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and return are moderate in this policy. ( Brigham and Houston, 2001:697)

### **b) Current Assets Financing Policy**

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

### **i) Aggressive Policy**

In this policy, all the fixed assets of a firm are financed with long term capital, but some of the firm's permanent current assets are financed with short- term, non spontaneous sources of fund. In other words, the firm finances not only temporary current assets but also a part of permanent current assets with short-term financing. If short term financing finances 50% of the permanent current assets, in general, interest rate increases with time i.e. shorter the times lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of leading period.

Thus, under normal the firm borrows on a short term financing rather than long term financing. On the other side, if the firm finances its permanent current assets by short term financing, then it runs the risk of renewing the borrowing again and again. This continued financing exposes the firm to certain risk. It is because; in future interest expenses will fluctuate widely. And also it may be difficult for the firm to raise the funds during the stringent credit periods. In conclusion, there is higher risk, higher return and low liquidity position under this policy. (Weston and Brigham, 2001:748)

### **ii) Conservative Policy**

Conservative approach “refers to a financing mix which is less risky leading to low profitability and high liquidity, the approach would be to finance all funds required from long term funds.”(Pradhan, 1986:67) In conservative policy, the firm uses to finance not only fixed or permanent current assets, but also part of the temporary current assets i.e. with short term financing. This policy leads to high level of current assets, with long conversion cycle, low level of current liabilities and higher interest cost. In conclusion, the risk and return are lower than that of aggressive policy and risk adverse management follows this policy.

### iii) **Moderate Policy**

In this policy, the firm finances the permanent current assets with long term financing and temporary with short-term financing. It lies in between the aggressive and conservative policies. It leads to neither high nor low level of current assets and current liabilities. (Brigham and Houston, 2001)

### **2.1.5 Need for Working Capital**

No business can run smoothly and efficiently without the proper management of working capital. Working capital is the effective lifeblood and controlling nerve center of every business organization. Most of firms aim is maximizing the wealth of shareholders. In endeavor to do so, a firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sale among the other things. For constant operation of business every firm needs to hold the working capital components such as cash, receivable, inventory etc. So, every firm needs working capital to meet the following motives.

- ) A firm holds cash and inventories to facilitate smooth production and sales operation. So, the firms need the working capital to meet the transaction motive.
- ) The working capital is needed to the firm to meet any contingency in future. So, precautionary motive is the need to hold cash and inventories to guard against the risk of unpredictable change in demand and supply forces and other factors such as strike, failure of important customer, cancellation of some order for goods and other unexpected emergency.
- ) The firm needs the working capital to meet the speculative motive. It refers to the desire of a firm to take advantages of the various opportunities i.e. opportunities of profit making investment, an opportunity of purchasing raw material at a reduced price on payment of immediate cash, to speculate on interest rate, and to make purchase at favorable price etc. (Pandey,1999:809)

### **2.1.6 Factors Affecting Working Capital**

A large number of factors influence working capital needs. All factors are of different importance. The importance of factors is change for a firm over the time. Thus, an analysis of relevant factors should be made in order to determine total investment in working capital. Business firm need higher volume of working capital. The following is the description of factors which generally influence the working capital requirements of firms.

#### **a) Nature and Size of Business**

Nature and size of the business affects the working capital. Trading and financial firms have a very less investment in fixed assets but require a large sum of money to be invested in working capital. Retail stores, for example; must carry large stock of a variety of goods to satisfy varied and continuous demand of their customer.

#### **b) Manufacturing Cycle**

The manufacturing cycle starts with the purchase and use of raw materials and completes with the production of finished goods. Longer the manufacturing cycle, larger will be the firm's working capital requirements. An extended manufacturing time span means a larger tie up of funds in inventories.

#### **c) Production Policy**

Working capital requirement is also determined by its production policy. If a firm produces seasonal goods, then its production and sales volume fluctuates with different seasons. This type of fluctuation production policy affects the working capital policy of the firm.

#### **d) Growth and Expansion Activities**

More working capital is needed for the firm's growth and expansion activities.

### **e) Business Fluctuation**

Most of the firms face seasonal and cyclical fluctuations in the demand for their products and services. These business variations affect specially the temporary working capital requirement of the firm. When there is an upward swing in the economy, sales will increase, corresponding the firm's investment in inventories and book debt increases. Under boom, additional investment in fixed assets may be made by some firms to increase their production capacity.

### **f) Price Level Charge**

Generally, rising price level will require a firm to maintain higher amount of working capital, same levels of current assets will need increased investment when price increases. (Pradhan, 2000:146)

### **2.2.1 Review of Articles**

**Shrestha, (1982)** in an article has considered ten selected public enterprises (PEs) and studied the working capital management in those PEs. He has focused on the liquidity, turnover and profitability position of those enterprises. In this analysis he found that four PEs had maintained adequate liquidity position. Two PEs had excessive and the remaining four had failed to maintain desirable liquidity position. On the turnover side two PEs had negative working capital, four adequate turnovers, one had high turnover and remaining three had not satisfactory turnover on net working capital. He had also found that out of ten PEs six public enterprises were operating at losses while only four were getting some percentage of profits. With reference to those finding he had bought certain policy issues such a lack of suitable financial planning negligence of working capital management, deviation between liquidity and turnover and return on net working capital. To end he had made some suggestive measures to overcome from the above policy issues, identification of needs funds regular checks of accounts development of management information system positive attitude towards risk and profit and

determination of right combination of short term and long term sources of funds to finance working capital needs.

**Pradhan (1988)** has written article on "The Demand for working capital by Nepalese corporations." for the analysis nine manufacturing public corporations were selected with the 12 years data from 1973-1984 for the analysis the regression equation has been adopted. From the study he concluded that: The earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exist with respect to the presence of economics of scale, rate of capital cost, and capacity utilization rates and the speed with which actual cash and inventories are adjusted rates to describe cash and inventories respectively. The pooled regression result shows the presence of economic of scale with respect to the demand for working capital and its various components. The regression results, suggests strongly that the demand for working capital and its components is a function of both sales and their capital costs. The estimated results shows that the conclusion of capacity utilization variable in the modern seems to have contributed to the demand functions of cash and net working capital only. The effects of capacity utilization on the demand for inventories, receivable and gross working capital is doubtful. The basic 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. Neither over nor under investment in working capital is desired by the management of in enterprise because both of these situations on will erode the efficiency of the concern.

**Shrestha (1995)** in her article "Portfolio Behavior of commercial Banks in .Nepal" Selecting two local commercial banks, three joint venture banks and one development bank as a sample for the study. Some major findings of her study are given below.

- ) Total deposits have been the major sources of find for all the banks.
- ) Capitals and reserve funds do not seem to have changed much over the year.

- ) The user of fund analysis shows that the resources of commercial banks are allocated in the liquid funds, investment on securities, loans and advances. Bills purchased and discounted.
- ) Among the portfolio, for Nepalese banks loan and advances share highest volume of the resources and the bills purchased and discounted the least over the year.

The excess reserves of the commercial banks show unused resource. The cash reserve exceeds much more than the required cash reserve.

**Weinurb and Visscher (1998)** have carried out a study on industry practice relating to aggressive, conservative working capital policies. This study looked at ten diverse industry groups over an extend time period to examine the relative relationship between aggressive and conservative working capital practices. Results of strongly show that the industries had significantly different current assets management policies. Additionally, the relative industry ranking of the aggressive/conservative liability management was also significantly different. Interestingly, it is used when there is a high and significant negative correlation between industry current assets and liability policies. Relatively, aggressive working capital management seems balanced by conservative working capital financial management.

### **2.2.2 Review of Previous Thesis**

A number of studies have been done by students of MBS, relating to working capital management in Nepal. This section is focused to review some of those dissertations.

**Bhandari (1990)** in his thesis entitled "working capital management (A case study of Nepal Bank limited)" has done research work for the ten years period, 2034 to 2043 B.S. He has drawn some major findings form his study were as follows: the bank has heavy liquid assets that reflect the improper utilization of the banks fund due to heavy growth in deposit and other borrowed capital; the volume of share capital became insufficient. Rate of return on shareholders investment ifs considered insufficient; the bank could not fully utilize its fund and not paid attention to the portfolio management in investment.

**Shrestha (1992)** has carried out "a comparative study of working capital management in Bhaktapur Brick Factory and Harishiddhi Factory." His main objective is to focus on the components of working capital cash, inventory, receivable and current liabilities. He had done comparative assumed of looking capital management of Bhaktapur Brick Factory (BBF) and Harishiddhi Brick Factory (HBF). He had used financial ratios as a major tool of analysis. In addition to this, he had used mean index, standard deviation and coefficient of variation. The major findings of his study are as follows:

- ) There is no proper relationship between liquidity and profitability of two brick factories.
- ) Both rick factories have followed various working capital. There is no good combination between fixed capital and working capital.
- ) BBF has been seriously suffered from negative return whereas HBF has generated positive return. However, both factories profitability position is not satisfactory.
- ) Overall management and working capital not strong in both brick factories.

**K.C. (2000)** in his thesis entitled "comparative study of working capital management of NBL and NABIL Ltd." He has examined the management of working capital in NBL and NABIL. The specific objectives undertaken in his study are:

- ) To Study the current assets and current liabilities and their impact and relationship to each other of NBL and NABIL.
- ) To analyze the comparative study of working capital management of NBL and NABIL.
- ) Recommendation and suggestions for the improvement of working capital management NBL and NABIL in the future.

Study has mentioned the following findings:

- ) The average cash and bank balance and loans and advances are higher on NABIL than NBL.



- ) Management of loans and advances is more problematic in NBL than NABIL. Interest income of NBL is better than NABIL.
- ) Liquidity management policies of these two banks are significantly different. NABIL has the better utilization of deposits in income generating activity than NBL. It also shows that NABIL has better investment efficiency in loan and advances.
- ) Due to more conservative looking capital policy risk of insolvency is lesser but cost of fund is higher on NBL than NABIL.
- ) Profitability position of NABIL is far better although NBL earned higher interest than NABIL.

**Subedi (2003)** has carried out a study "working capital Management of manufacturing companies listed in NEPSE." His main objective is to examine the working capital policy of Nepalese manufacturing companies listed in Nepal stock exchange limited. He has identified the following points as major findings:

There is wide variation of the current assets within individual manufacturing companies. The ratio of cash to current assets is widely varied among manufacturing companies during the study period from 1997 to 2001. The overall company average of receivable to current assets ratio is 16 percentages. There is wide variation in the ratio of inventory to current assets among the manufacturing companies. There is no consistency in the company average of current assets to total assets in manufacturing companies. The liquidity position of Nepalese manufacturing companies is not similar among different companies.

**Lamsal (2004)** has conducted research study on "A comparative study of working capital management of NABIL and standard Charter Bank Nepal limited." The main objectives are:

- ) To study the current assets and current liabilities and their impact on liquidity and profitability

- ) To analyze the liquidity, assets utilization, long term solvency and profitability position of both banks.
- ) To analyze the comparative study of working capital management between NABIL and SCBNL.

The major findings of his study were:

- ) The major components of current assets in NABIL and SCBNL are cash and bank balance, loan and advance and government securities.
- ) The liquidity position of SCBNL is better than NABIL
- ) The turnover position of NABIL has better than SCBNL. The NABIL has better utilization of deposits in income generating activity than SCBNL.
- ) Long term debt to net worth ratio of NABIL is always higher than SCBNL on that study period.
- ) Net profit to total assets ratio and net profit total deposit ratios are always higher on SCBNL than NABIL. Cost of services to total assets ratio of NABIL is always higher than the same of SCBNL on the study period.
- ) The average value of interest earned to total assets ratio of NABIL is higher than SCBNL.

**Marahatta (2008)** has conducted the research on "A study on working capital management of agriculture development Bank limited." she has used financial as well as statistical tools to analyze the financial data of 2060/061 to 2064/065. She has also used primary and secondary sources of data. The main objective of this study is to appraise the working capital management of agriculture development bank limited and to find out the relationship between the different variable of working capital. The major findings of this study of ADBL during the five years study period are summarized below:

- J The major components of current assets of this bank are cash and bank balance, loan and advances and government securities. In the study period, the proportion of cash and bank balance, loan and advances and government securities to total current assets on average are 7.88% 65.85% and 8.04% respectively. The trend value of cash and bank balance is 0.3245. Similarly, the But, the trend value of government securities is higher than cash and bank balance and loan and advances, which are 32.89.
- J The average net working capital of this bank is 0.2865. All of the net working capital is positive in the study period. Positive net working capital indicated the sufficient amount of net working capital and negative net working capital indicates the insufficient amount of net working capital. The net working capital ranges from 9126.19 million to 30094.69 million. The CV. of ADBL is 0.085.
- J The current ratio of ADBL is ranges from 1.52 to 8.19. Likewise, the average current ratio is 3.99. This shows the liquidity position or short term solvency during the study period.
- J The average ratio of fixed deposit to total deposit ratio is 0.374. The ratio ranges from 0.366 to 0.386. Therefore, it concluded that more long term and costly sources of funds and risk depends upon the ratio.
- J Saving deposit to total deposit ratios are ranges from 0.534 to 0.559. It is fluctuated. The average ratio is 0.547.
- J The average value of loan and advance to total deposit ratio, loan and fixed deposit ratio and loan and advances to saving deposit ratio are 1.029, 2.75, and 1.883 respectively. It shows, every bank is better investment efficiency on it.
- J The average value of interest earned to total assets ratios and net profit to total deposit ratios are 0.124 and 0.051 respectively.
- J The value of correlation coefficient (r) of ADBL is 0.8109 in loan and advances and total deposits.

**Dungana (2012)** has conducted research on "Working Capital Management of Unilever Nepal limited"(ULNL). The main objectives are as follows.

- ) To assess the liquidity and profitability position of ULNL.
- ) To determine the structure and utilization of work capital of ULNL.
- ) To know the working capital policy of ULNL.
- ) To provide appropriate recommendation.

The major findings of this study are:

- ) Current structure levels of ULNL aren't stable.
- ) Current assets turnover ratio has found increasing trend.
- ) The company has not been able to convert current assets quickly in cash in order to meet current liabilities. The current ratio and quick ratio revealed and unsatisfactory liquidity position of ULNL and thereafter to increase the financial position for work capital.
- ) ULNL is following moderate working capital financing mix policy.

### **2.3 Research Gap**

Many research studies have been conducted by the different students, experts and researchers about working capital management. There have been found numerous research studies on financial companies and public enterprises regarding working capital. Very few studies are related to a case study of a single financial company and some others are comparative in nature. Case study of working capital managements of single company can be hardly found. From the review of related studies, rare study have been found (working capital management) as a case study in the context of Everest Bank Ltd (EBL). The financial and statistical tools used by most of the researchers were ratio analysis, test of hypothesis and regression analysis. This research includes different tools like ratio analysis, correlation analysis and trend analysis as specific tools. Thus, the research study made on "A case study of working capital management of Evert Bank limited" will be an effort to analyze on detail about working capital management of the Everest bank as a case study in present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people as well.

## **CHAPTER -III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is the combination of two words like research and methodology. Research means to search again to find out something new and more about a phenomenon. Research and methodology are the two sides of the same coin. To search again various tools, technique and method are used systematically that is called research methodology in simple way. It facilitates the research work and brings reliability and validity on it. It is a format or a set of methods that has to follow as guiding principles in a scientific study.

Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. It consists of a source of data, method of data collection and method of tools used for analyzing data.

#### **3.2 Research Design**

A research design is the management of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design in the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive and analytical research design has been used. It is process which gives us an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study.

Mostly, secondary data has been used for analysis in this study. Hence, research design of this study is based on mainly analytical method.

### **3.3 Population and Sample**

To population refers to the industries of the same nature and its services and product in general. Thus, total of 31 commercial banks operating in Nepal constitute the population of the data and the bank under study constitutes the sample for the study. Among them only single bank i.e. Everest bank is selected as the sample bank to carry out the study.

### **3.4 Nature and Source of Data**

For the purpose of this study, data are collected mainly from the secondary sources. The secondary data are based on the second hand information. Secondary data is gathered much more quickly than primary. Secondary sources are booklets, magazines, bulletins, official documents, annual reports, websites etc. For the purpose of study, these sources have been referred.

### **3.5 Method of Data Collection**

It indicates the sources of data and how they collected. In this study data are collected through published sources. They were collected from the correspondent of EBL for the period of five years were obtained from the field visit of its human resources Department at its head office located at Lazimpat. The data regarding the profile of EBL and other related documents were collected from internet websites also.

### **3.6 Method of Data Analysis**

Various financial and statistical tools have been used to complete the research study such as ratio analysis, standard deviation, coefficient of variance, coefficient of correlation, t-statistics etc. After collecting data as necessarily required, they were separated and analyzed presentation and analysis of the collected data is the main theme of the research work. Collected raw data were first presented in systematic manner in tabular forms and then analyze by applying different financial and statistical tools to achieve the research objectives. For presentation purpose, different types of tables, charts, figures and Figures are used as per necessary.

### **3.6.1 Financial Tools**

Financial analysis is the process of identifying the financial strengths and weaknesses of the organization by properly establishing relationships between the items of the balance sheet and the profit and loss account. Ratio analysis is a powerful tool of financial analysis. An arithmetical relationship between two figures is known as ratio. Ratio analysis is a technique of analysis and interpretation of financial statement through mathematical expression. In financial analysis, ratio is used as a benchmark for evaluating the financial position and performance of a firm. These several ratios are as follows.

#### **3.6.1.1 Liquidity Ratios**

Liquidity ratios are used to judge the ability of banks to meet its short term liabilities those are likely to nature in the short period. With the help of liquidity ratios much insight can be obtained into present cash solvency of the banks and its ability to remain solvent in the event of adversities. It is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. The following ratios are evaluated under liquidity ratios:

##### **a) Current Ratio**

This ratio indicates the ability of the bank to meet its current obligation. This is the main important tool to measures the liquidity positing of the financial institution. It is calculated as follows:

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

## **b) Cash Reserve Ratio**

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to take immediate payment to the depositor.

It is computed as follows:

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

### **3.6.1.2 Capital Structure Ratios**

Capital structure ratio shows the long-term solvency or liquidity position of a firm. It indicates whether the firm is financially sound or solvent as far its long-term obligations are concerned. These ratios measure the firm is ability to pay the interest regularly and to repay the principal on the due date. These ratios are also known as long-term solvency of a firm can be measured by following ratio:

#### **a) Debt to Capital Employed Ratio**

Debt to capital employed ratio shows the quantitative relationship between debt and capital employed of a company. This ratio is computed by dividing the total debts by the capital employed.

$$\text{Debt to Total Capital Ratio} = \frac{\text{Total Debts}}{\text{Capital Employed}}$$

Total Debts = Long term Debt + Current Liabilities

Capital Employed = Shareholder's equity + Long term Debt

Total Capital = Capital Employed + Current Liabilities



## **b) Loans and Advances to Current Asset Ratio**

Loans and advances to current assets ratio measure the extent to which the banks are successful in utilizing the outsiders' funds for the profit generating purpose. The following formula is used to determine the loans and advances to current asset ratio.

$$\text{Loans and Advances to Current Asset Ratio} = \frac{\text{Loans and advances}}{\text{Current Asset}}$$

### **3.6.1.3 Activity Ratios**

For smooth operations a firm needs to invest in both short-term and long-term assets. Activity ratios describe the relationship between the firm's level of operations and assets needed to sustain the activity. Activity ratios can also be used to forecast a firm's capital requirement. Activity ratios enable the analysis to forecast these requirements and to assess the firm's ability to acquire the assets needed to sustain the forecasted growth. The following ratios can be calculated as the activity ratios.

#### **a) Total Assets Turnover Ratios**

The total assets turnover ratio reflects the efficiency of management for investments in each of the individual assets item. It shows the effected utilizations of assets in the generation of income. It can be calculated as:

$$\text{Total Assets Turnover Ratios} = \frac{\text{Total Income}}{\text{Total Assets}}$$

### **b) Capital Employed Turnover Ratios**

This ratio shows the relationship between total income and capital employed. It determines the efficiency in the utilization of total permanent capital in the revenue generation. Higher the capital employed turnover ratios, the better and efficient utilization of the capital employed. It can be calculated as:

$$\text{Capital Employed Turnover Ratios} = \frac{\text{Total Income}}{\text{Capital Employed}}$$

### **c) Cash and Bank Balance Turnover Ratio**

This ratio shows the relationship between total income and cash and bank balances. It is the efficiency ratio of the banks in managing and utilizing its cash and bank balances. It can be calculated as:

$$\text{Cash and Bank Balance Turnover Ratios} = \frac{\text{Total Income}}{\text{Cash and Bank Balance}}$$

### **d) Loans and Advances to Total Deposit Ratio**

Loan and advances to total deposits ratio measures the extent to which the banks are successful utilizing the outsiders' funds for the profit generating purpose. It can be calculated as:

$$\text{Loans and advances to Total Deposit Ratio} = \frac{\text{Loans and Advance}}{\text{Total deposits}}$$

### **3.6.1.4 Profitability Ratios**

A company should earn profit to survive and grow over a long period of time profits are essential, but it would be wrong to assume that every action initiated by management to company should be aimed at maximizing profits. Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratio the lenders and investors want to decide whether to invest in a particular business or not.

#### **a) Return on Loans and Advances**

This ratio shows that return on loans and advances during the year. Higher ratio or net income to loan and advance is better. This is calculated as follows.

$$\text{Return on Loans and advances} = \frac{\text{Net profit after tax}}{\text{Loan and advances}}$$

#### **b) Return on Total Deposit**

The ratio of return on total deposit measures the capacity of bank to generate profit from its investment on total deposit. In other words return on total deposit is the contribution of total deposit to net profit after tax. So, this ratio is the proportion of return from total deposit and it is calculated as follows.

$$\text{Return on total deposit} = \frac{\text{Net profit after tax}}{\text{Total Deposit}}$$

### c) Return on Total Assets

This ratio is measured the rate of return earned by the firm as a whole for all its investors. It is calculated by dividing net profit by total assets. A higher ratio indicates the efficiency of overall financial resources to invest. So that, the higher ratio, the better will be the performance. It is computed by using the following formula.

$$\text{Return on Total Assets} = \frac{\text{Net profit after tax}}{\text{Total Assets}}$$

### d) Return on Capital Employed

This ratio establishes a relationship between the total earnings available to all the investors and permanent capital. It shows how well the firm has used the economic resources received from all the investors to earn profit. This ratio is calculated as below.

$$\text{Returned on capital Employed} = \frac{\text{NPAT}}{\text{Capital Employed}}$$

## 3.6.2 Statistical Tools

The relationship between different variables rate to the study topics are also drawn out using statistical tools. The statistical tools employed in this study are:

### 3.6.2.1 Arithmetic Mean or Average

It is a single value within the range of the data that is used to represent all the values in the series.

It is calculated by:

$$\text{Mean } (\bar{x}) = \frac{\text{Sum of values of all Terms } (\sum x)}{\text{Number of Terms (N)}}$$

Where,

$\bar{x}$  = Arithmetic Mean

$\Sigma x$  = Sum of values of all terms and,

n = Number of terms

### 3.6.2.2. Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions.

Denoted by Greek letter  $\sigma$  (read as sigma),

Standard deviation is extremely useful for judging the representatives of the mean.

Standard deviation is represented as:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (x - \bar{x})^2}{N}}$$

Where,

$\sum x^2$  = Sum of squares of the deviations from the mean

n = Number of items

### 3.6.2.3 Coefficient of variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. The larger the coefficient of variation, the greater the risk relation to the average is considered.

Mathematically,  $\frac{\sigma}{\bar{x}} = \frac{\text{Standard Deviation}}{\text{Arithmetic Average}}$

### 3.6.2.4 Coefficient of correlation

The coefficient of correlation measure the degree of relationship between to sets of figures. Among the various methods of it, Karl Pearson's method is applied in the study. It is calculated as under:

$$\text{Coefficient of correlation (r)} = \frac{xy}{\sqrt{x^2 \cdot y^2}}$$

The formula for the calculation of t value is,

$$t = \frac{r(\sqrt{n-2})}{\sqrt{1-r^2}}$$

### 3.6.2.5 Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement of determination of its financial situation. The trend line is represented by following equation.

$$y_0 = a + bx$$

Where,

$y_0$  = estimated value of y for given value of x in coordinate axes,

a = y intercept of mean of y value.

b = slope of the line or rate of change.

x = variable in time axis

To find the values of a and b, we have to solve the following equations:

$$y = Na + b \quad x \quad (1)$$

$$xy = a \quad x + b \quad x \quad (2)$$

Where, N = Number of years.

## **CHAPTER - IV**

### **PRESENTATION AND ANALYSIS OF DATA**

#### **4.1 Introduction**

This chapter consists the presentation of empirical data and analysis them with the help of various financial and statistical tools. This chapter has presented the analysis of components of working capital of EBL. Similarly, the liquidity ratios, capital structure ratios, activity ratios and profitability ratios are the major financial ratios and standard deviation, coefficient of correlation, trend analysis etc are the main statistical tools, which helps to know the financial position of bank.

#### **4.2 Analysis of Composition of Current Assets**

Current assets are those types of resources of the firm; they are used in daily operation. The components of current assets at EBL are cash and bank balance, loans and advances, investments, money at call and short notice and other current assets. Every bank has to maintain the appropriate level of current assets to run the business smoothly because the success or failure of any bank depends upon the proper management of current assets. The level of current assets is analyzed as year-wise.

**Table 4.1****Components of Current Assets of EBL**

(Rs. in million)

Fiscal Year	Cash & bank balance	Loans & Advances	Investments	Money at Call & Short Notice	Other Current Assets	Total Current Assets
2063/64	1552.97	9801.31	4200.52	66.96	178.01	15799.77
2064/65	2391.42	13664.08	4984.31	–	222.66	21262.47
2065/66	2667.97	18339.09	5059.56	346.00	376.22	26788.84
2066/67	6164.37	23884.67	5948.48	–	492.17	36489.69
2067/68	7818.82	27556.36	5008.31	–	536.19	40919.68
2068/69	6122.86	31057.7	7743.93	–	851.47	45776.95
2069/70	10363.3	35911.00	7863.63	–	1127.3	55265.2
Average	5297.39	22887.74	5829.82	85.99	540.57	34614.52

Sources:- Appendix 1

Above table 4.1 represents the different current assets of the EBL which shows the highest level of current assets of Rs 55265.20 million in the fiscal Year 2069/70 and the lowest level of current assets of Rs 15799.77 million in the F.Y 2063/64. On an average it holds the level of current assets of Rs 34614.52 million.

The amount of components of current assets i.e. cash & bank balance, loan & advances, investments, money at call & Short notice and other current assets are Rs. 10363.30 million, Rs 35911.00 million, Rs 7863.63 million and Rs 1127.30 million respectively in the F.Y 2069/70. Where as the amounts of these items are Rs 1552.97 million, Rs 9801.31 million, Rs 4200.52 million, Rs 66.96 million and Rs 178.01 million respectively in the F.Y 2063/64. The bank has the highest level of cash & bank balance in the F.Y.2069/70. Similarly, it has highest level of loans & advances, investment, money at call & short notice and other current assets in the F.Y. 2069/70,2069/70,2065/66 and 2069/70 respectively but it has the lowest level of all these items are in the F.Y. 2063/64.

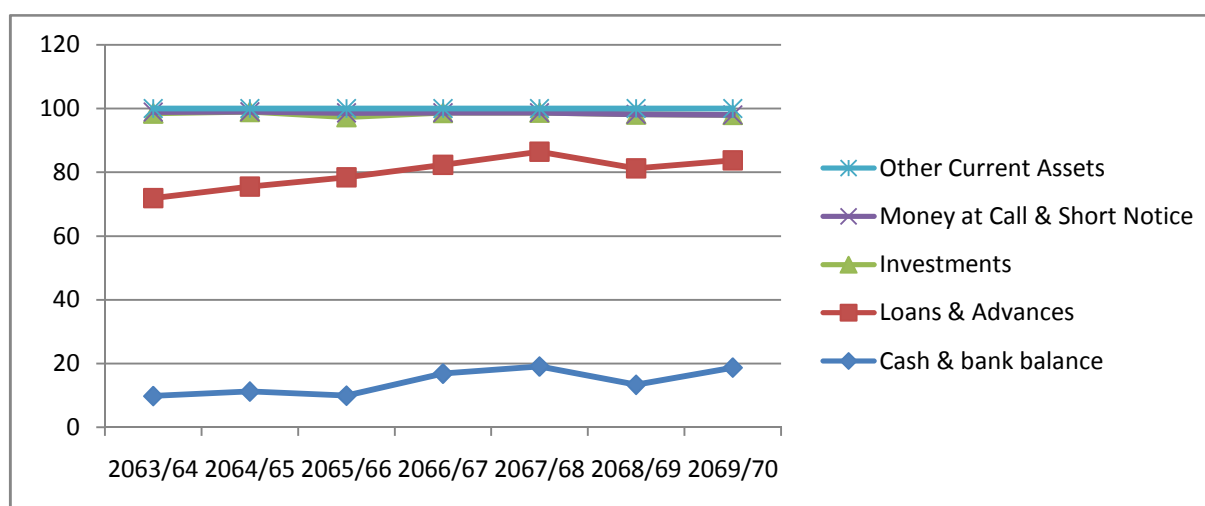


**Table 4.2****Components of Current Assets of EBL**

(In Percentage)

Fiscal Year	Cash & bank balance	Loans & Advances	Investments	Money at Call & Short Notice	Other Current Assets	Total Current Assets
2063/64	9.83	62.03	26.59	0.42	1.13	100
2064/65	11.25	64.26	23.44	–	1.05	100
2065/66	9.96	68.46	18.89	1.29	1.40	100
2066/67	16.89	65.46	16.30	–	1.35	100
2067/68	19.11	67.34	12.24	–	1.31	100
2068/69	13.38	67.85	16.91	0	1.86	100
2069/70	18.75	64.98	14.23	0	2.04	100
Average	14.17	65.77	18.37	.25	1.45	100

Sources:- Appendix 1

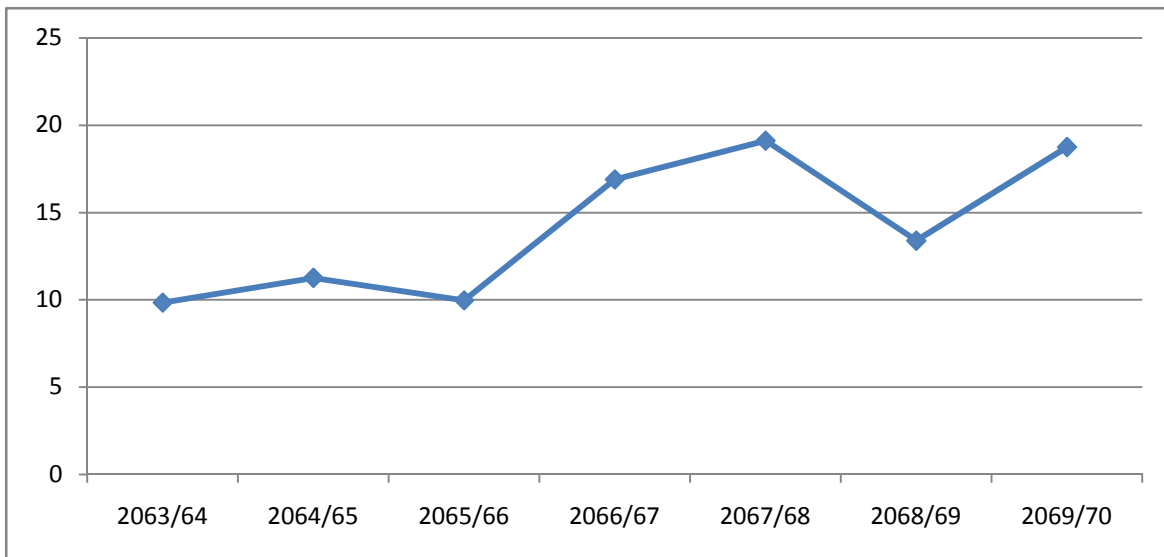
**Figure 4.1****Components of Current Assets of EBL**

Above table 4.2 shows the percentage of these current assets. It has been found that the highest level of cash & bank balance in current assets is 19.11% in the F.Y 2067/68 and the lowest level is 9.83% in the F.Y 2063/64. On an average it holds 14.17% in current assets. The highest percentage of investment is 26.59% in the F.Y 2063/64 and lowest

percentage is 12.20% in the F.Y 2067/68. On an average it holds 18.37% in current assets. The trend of loans & advances is highest i.e.68.46% in the F.Y 2065/66 and the lowest is 62.03% in the F.Y. 2063/64 with an average of 65.77%. , the level of other current assets is highest i.e.2.04% in the F.Y 2069/70 and the lowest is 1.05% in the F.Y. 2064/65 with an average of 1.45%. and money at call & short notice is highest i.e.1.29% in the F.Y.2065/66. On an average it holds 0.25% .The Figure 4.1 illustrates the same information in similar way as that of table.

#### 4.2.1 Trend of Cash and Bank Balance

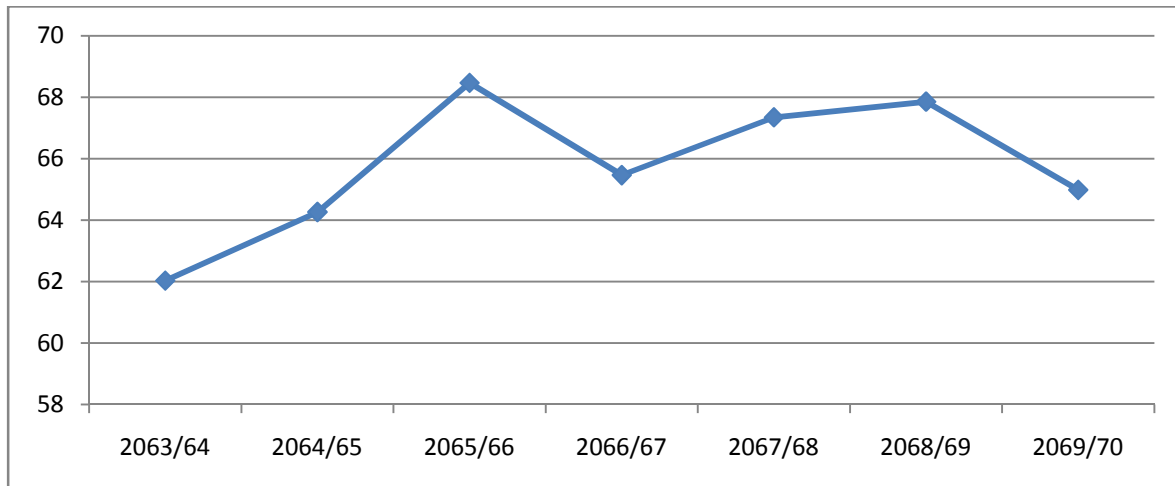
Cash and Bank Balance is one of the major components of current assets of the banks. Cash and bank balance of EBL is increases over the study period. The percentages of cash & bank balance in the F.Y. 2063/64 to 2069/70 are 9.83%, 11.25%, 9.96%, 16.89% 19.11% ,13.38% and 18.75% respectively. It is highest i.e. 19.11% in the fifth F.Y. 2067/68 and the lowest i.e. 9.83% in the first F.Y. 2063/64 of the study period. The average level of cash & bank balance of the EBL in current assets is 14.17%. The above trend value of cash & bank balance percentage represents that EBL has efficient utilization of cash balance to invest in any sector because of its increasing trend of percentages. It can be shown in Figure as follows.



**Figure 4.2** Trend Lines of Cash & Bank Balance of EBL

### 4.2.2 Trend of Loans and Advances

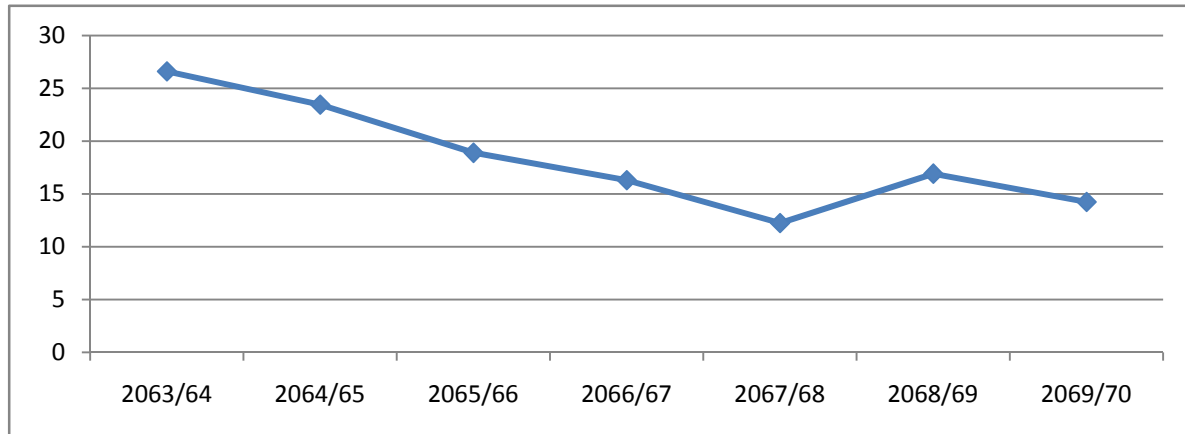
Loans and Advances is another major component of current assets of the organizations. It is fluctuated over the study period of EBL. In percentage, the loans & advances of the F.Y.2063/64 to 2069/70 are 62.03%, 64.26%, 68.46%, 65.46% ,67.34% ,67.85% and 64.98% respectively. The highest percentage of loans and advances is 68.46% in the F.Y. 2065/66 and the lowest percentage is 62.03% in the F.Y. 2063/64. The average percentage of loans & advances is 65.77%. The trend line of loans & advances shows that the utilization of resources is fluctuated. It can be presented in the following Figure.



**Figure 4.3** Trend Lines of Loans and Advances of EBL

### 4.2.3 Trend of Investment

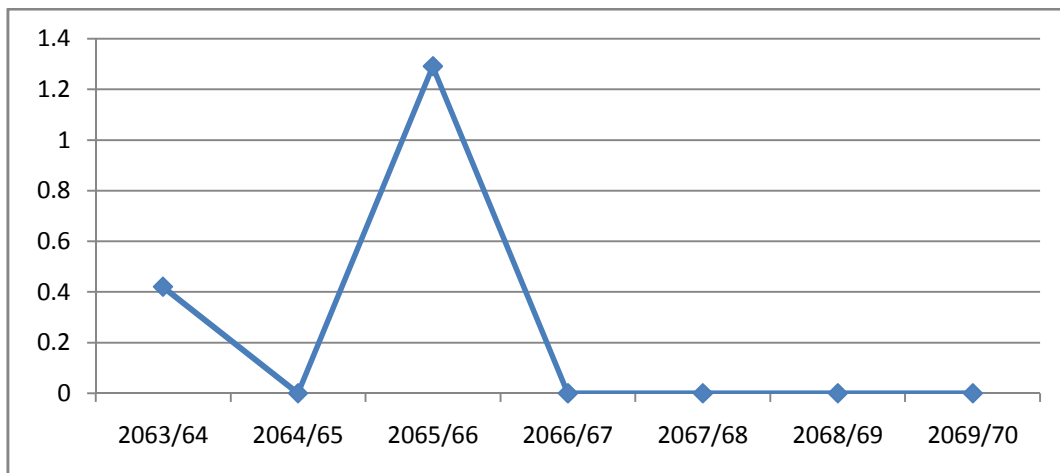
Investment is also another major component of current assets of the banks. Investment of EBL is fluctuated over the study period. The percentages of investment in the F.Y. 2063/64 to 2069/70 are 26.59%, 23.44%, 18.89%, 16.30%, 12.24%, 16.91% and 14.23% respectively. The level of it is the highest of 26.59% and the lowest of 12.24% in the F.Y. 2063/64 and 2067/68 respectively with the average of 18.37%. The trend line of investment of EBL is decreasing during the study period, which is presented below in the Figure.



**Figure 4.4** Trend Lines of Investment of EBL

#### 4.2.4 Trend of Money at Call and Short Notice

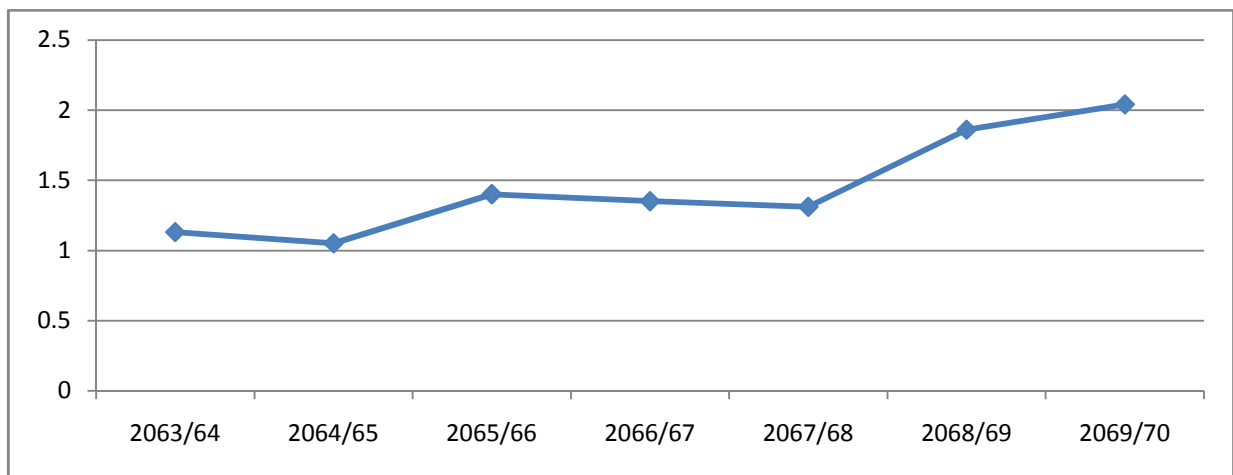
Money at call Short Notice is also another component of current assets of the banks. It is fluctuated over the study period. The level of it is highest in the F.Y. 2065/66 i.e.1.29% where as its weight is lowest with 0.42% in the F.Y. 2063/64 over the study period. Its average is 0.25%. The trend line of money at call and short notice is fluctuated. It can be shown in Figure as follows.



**Figure 4.5** Trend Lines of Money at Call and Short Notice of EBL

#### 4.2.5 Trend of Other Current Assets

Another component of current assets is Other Current Assets. Other current assets of EBL are fluctuated over the study period. In percentages the other current assets of the F.Y.2063/64 to 2069/70 are 1.13%, 1.05%, 1.40%, 1.35%, 1.31%, 1.86% and 2.04% respectively. The level of it is the higher of 2.04% in the F.Y.2069/70 and the lower of 1.05% in the F.Y.2064/65. The average percentage of other current assets of EBL in current assets is 1.45%. The trend line of other current assets is fluctuated during the study period. It can be presented in Figure as follows.



**Figure 4.6** Trend Lines of Other Current Assets of EBL

#### 4.3 Net Working Capital

Net Working Capital is qualitative concept. It indicates liquidity position of firm. Net working capital refers to the difference between current assets and current liabilities. The concept of net working capital helps the management to look for permanent sources for its financing since working capital under this approach, does not increase with increases in short term borrowing. Net working capital can be positive and negative. A negative net working capital occurs when current liabilities are excess of current assets and when

current assets exceed current liabilities a positive net working capital will arise there. It is expressed as follows.

Net Working Capital = Current Assets – Current Liabilities

Neither excessive nor negative working capital they both may be dangerous and harmful to the organization should have just adequate working capital to serve in competitive market. It enables a firm to determine how much amount is left for operational requirement. This concept is useful to running business, which is running in the present. It can analyze profitability, liquidity position and risk return position of business enterprise.

**Table 4.3** Net Working Capital of EBL  
(Rs in million)

Fiscal Year	Current Assets	Current Liabilities	Net Working Capital	% change in NWC
2063/64	15799.77	10446.08	5353.69	-
2064/65	21262.47	14288.35	6974.12	30.27
2065/66	26788.84	18435.89	8352.95	19.77
2066/67	36489.69	27293.33	9196.36	10.10
2067/68	40919.68	27799.31	13120.37	42.67
2068/69	45775.95	27625.95	18150.00	38.33
2069/70	55265.2	38459.7	16805.52	-7.41
Average	34614.52	23478.37	11136.14	19.10

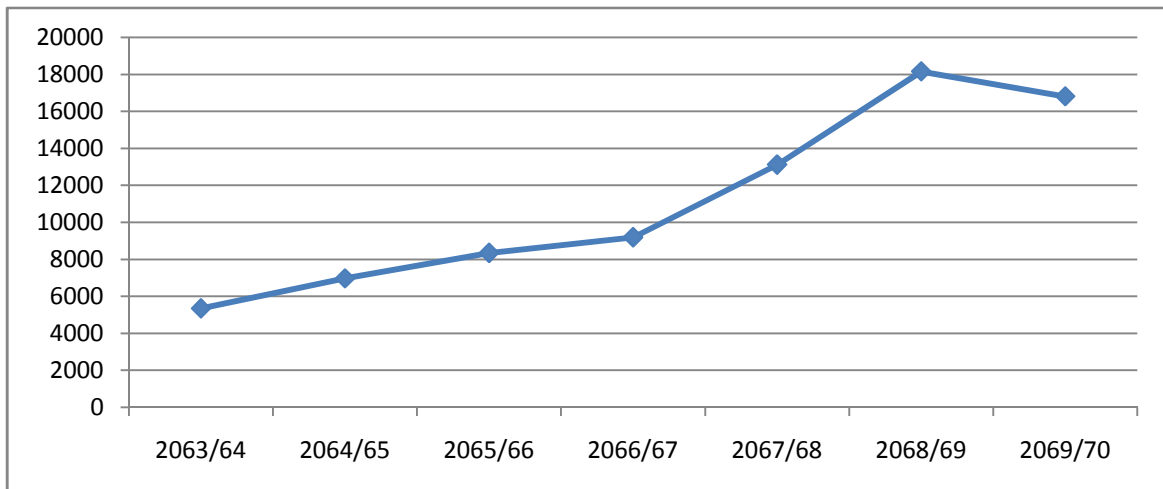
Sources: - Appendix 1

$$\% \text{ change in NWC} = \frac{Y_1 - Y_0}{Y_0}$$

Where,

$Y_0$  = Base Year

$Y_1$  = Current Year



**Figure 4.7** Trend Line of Net working Capital of EBL

The above table 4.3 shows that the amount of net working capital of EBL is increasing over the study period. During the study period of 7 F.Y. from 2063/64 to 2069/70, the highest amount of net working capital is Rs 18150 million in 2068/69 and the lowest amount is Rs 5353.69 million in 2063/64. The average amount of current assets of the bank is Rs 34652.14 million and that of current liabilities is Rs 23478.37 million. The bank has the average of net working capital of Rs 11136.14 million. The highest level of change in net working capital is by 42.67% in F.Y.2067/68 and lowest percentage of change in net working capital is -7.41% in F.Y.2069/70. On average the level of net working capital is changed by 19.10%. Above analysis shows EBL has positive net working capital. The Figure 4.7 illustrates the same information in similar way as that of table.

#### **4.4 Financial Analysis**

Financial analysis is a powerful financial tool to measure the financial performance of banks. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firm's operation. Ratio analysis is an important technique of financial analysis. Ratio is the numerical or arithmetical relationship between two variables. Ratio

analysis is the process of determining and interpreting numerical relationship between variables of financial statements. It helps to measure profitability, solvency and performance of any business operations. The various ratios are as follows.

#### 4.4.1 Liquidity Ratio

The ability of a firm to meet its short term obligation is known as liquidity. Liquidity ratio measures the ability of the firm to meet its current obligations. The main objective of working capital management is keeping sound liquidity position. Without sound liquidity position, bank is not able to operate its function. So, a commercial bank must maintain satisfactory liquidity position. To measure the liquidity position of the bank, the following measures of liquidity ratio has been calculated.

##### 4.4.1.1 Current Ratio

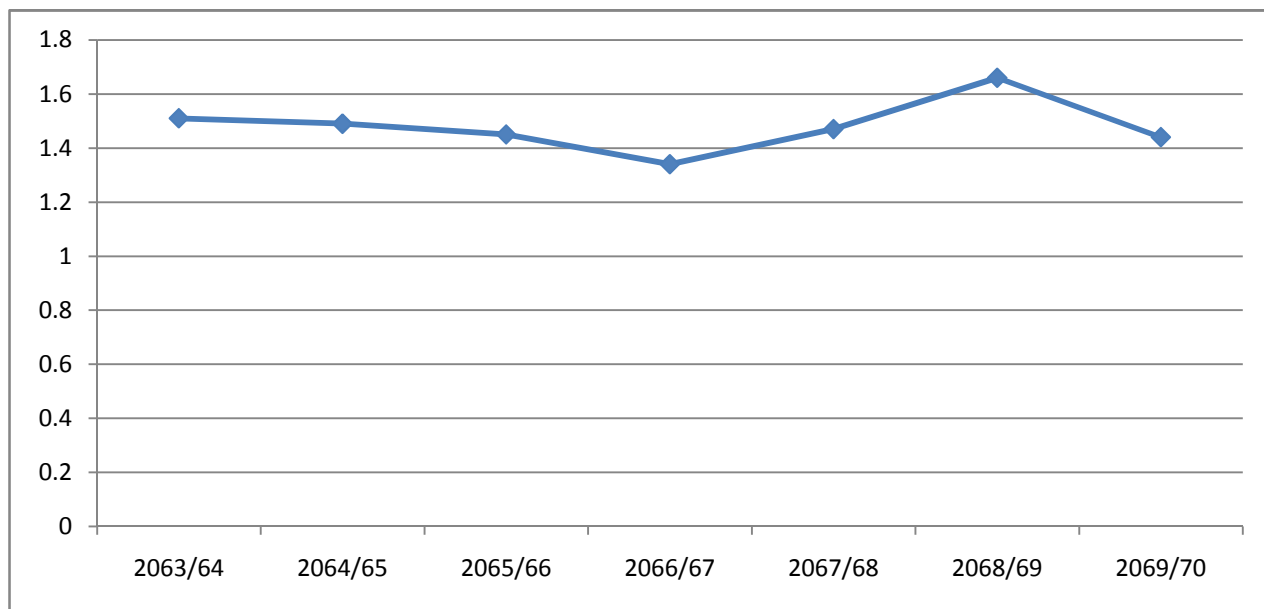
Current ratio shows the relationship between current assets and current liabilities. It is calculated by dividing current assets by current liabilities. The objective of computing this ratio is to measure the ability of the firm to meet its short-term financial obligations. Higher current ratio indicates better liquidity position. Current ratio of EBL can be presented below in the table and Figure.

**Table 4.4** Current Ratio (In times)

Fiscal Year	EBL		
	Current Assets	Current Liabilities	Current Ratio
2063/64	15799.77	10446.08	1.51
2064/65	21262.47	14288.35	1.49
2065/66	26788.84	18435.89	1.45
2066/67	36489.69	27293.33	1.34
2067/68	40919.68	27799.31	1.47
2068/69	45775.95	27625.95	1.66
2069/70	55265.2	38459.7	1.44
Mean	1.48		
Standard Deviation	0.089		
C.V	6.014%		

Sources:- appendix 1 and Appendix 3





**Figure 4.8** Current Ratio

Above table 4.4 represents the current ratio of Everest Bank Limited. The mean of current ratio of EBL is 1.482:1. This is lower than the standard current ratio 2:1. The current ratio of the bank is in fluctuating order with lower than the standard ratio. The highest current ratio is 1.51 times in the F.Y. 2063/64 and lowest ratio is 1.34 times in the F.Y. 2066/67. Standard deviation of current ratio of EBL is 0.089. Similarly, coefficient of variation of EBL is 6.01%. So, there is more variation in current ratio. At conclusion, above analysis shows that bank is unable to maintain standard ratio 2:1. But there is good liquidity position due to not too low ratio or nearest ratio. The Figure 4.8 also indicate that the current ratio of EBL is declining from the FY 2064/65 till the FY 2066/67 after that in the next two fiscal year ie2067/68 & 2068/69 is rises upward and next fiscal year is declining ie2069/70.

#### **4.4.1.2 Cash Reserve Ratio**

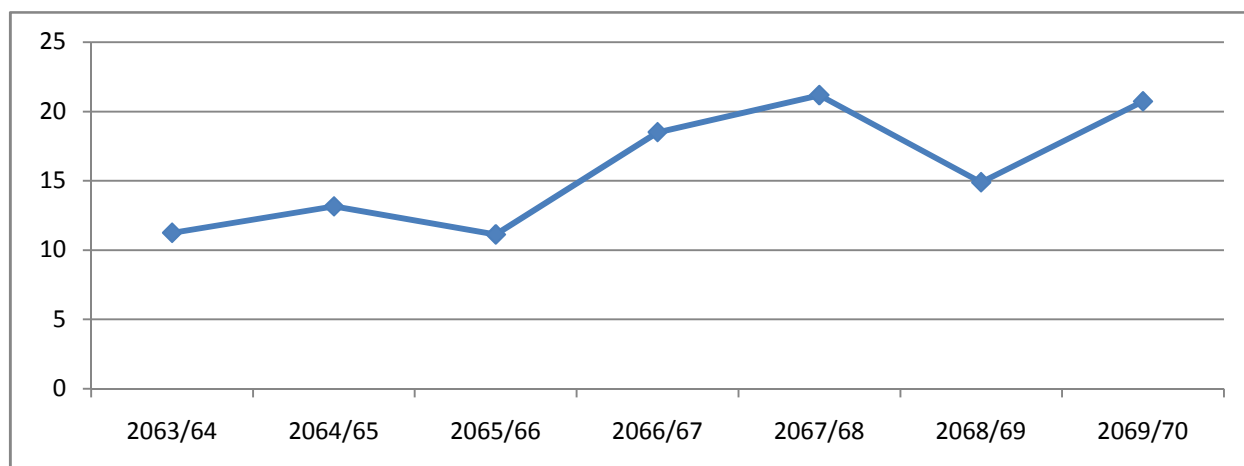
Cash and bank balance are the most liquid current assets. The ratio between cash and bank balance to total deposit measure the ability of the bank to meet the unanticipated cash and all types of deposits. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. Higher the ratio the greater

will be the ability to meet sudden demand of deposits. But very high ratio is not desirable since bank is to pay interest on deposits. It is presented under in the table and Figure.

**Table 4.5** Cash Reserve Ratio (in percentages)

Fiscal Year	EBL		
	Cash & bank balance	Total Deposit	Cash Reserve Ratio
2063/64	1552.97	13802.44	11.25
2064/65	2391.42	18186.25	13.15
2065/66	2667.97	23976.3	11.13
2066/67	6164.37	33322.95	18.50
2067/68	7818.82	36932.31	21.17
2068/69	6122.86	41,127.90	14.89
2069/70	10363.3	50,006.10	20.72
Mean	15.83		
Standard Deviation	3.977		
C.V	25.123%		

Sources:- Appendix 1 and Appendix 4



**Figure 4.9** Cash Reserve Ratio

Above table 4.5 shows the cash reserve ratio of the EBL. The mean of cash reserve ratio of EBL is 15.83. Its cash reserve ratio is fluctuating over the study period. The highest cash reserve ratio of EBL is 21.17% in the F.Y. 2067/68 and lowest ratio is 11.13% in the F.Y. 2065/66. Similarly, standard deviation of cash reserve ratio is 3.977. Coefficient of variation of EBL is 25.123%. It shows that EBL is maintaining adequate liquidity

position regarding cash reserve ratio. Too low ratio is also not preferable. Bank should meet its obligations any time when necessary. Above Figure 4.9 represents the same information in similar way as that of table.

#### 4.4.2 Capital Structure Ratio

Capital structure ratio is also another important tool of the financial ratio. These ratios are calculated to judge the long-term financial position of the bank as well as to measure the financial risk and the bank's ability of using debt to shareholder's advantage. The following ratios are calculated for this purpose.

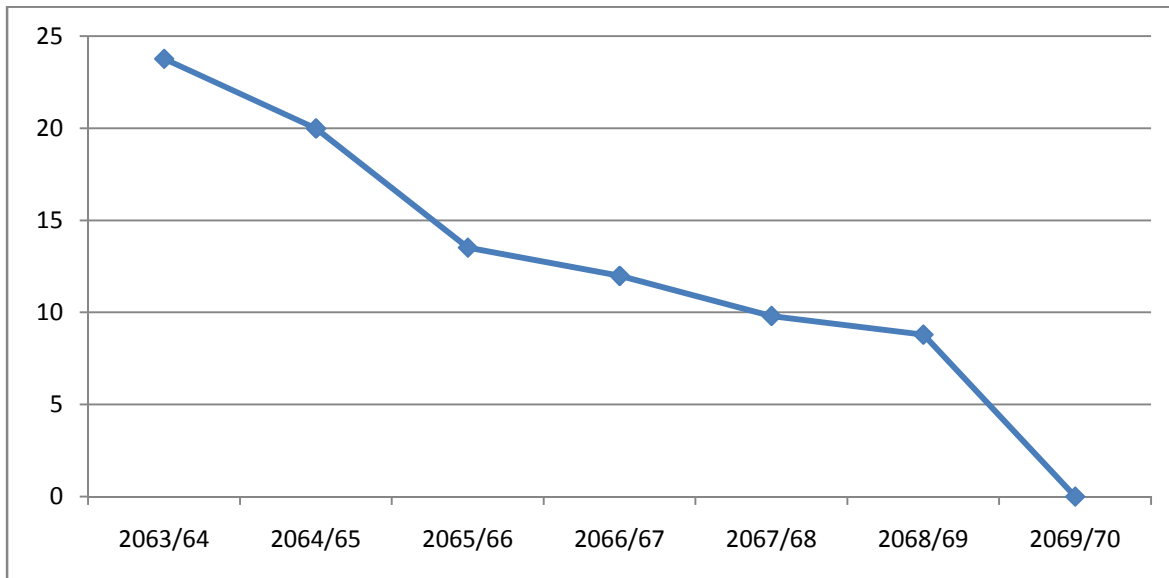
##### 4.4.2.1 Debt to Total Capital Ratio

This term shows the relationship between the long term debt and total capital. A low ratio represents security to creditors in extending credit. On the contrary, a high ratio represents a greater risk to creditors as well as shareholders. Debt to total capital ratio of EBL can be presented below in the table and Figure.

**Table 4.6** Debt to Total Capital Ratio

Fiscal Year	EBL		
	Long Term Debt	Capital Employed	Debt to Total Capital Ratio
2063/64	300	1262.81	23.76
2064/65	300	1501.52	19.98
2065/66	300	2221.24	13.51
2066/67	300	2503.63	11.98
2067/68	300	3059.14	9.8
2068/69	300	3413.55	8.79
2069/70	0	4177.31	0
Mean	12.55		
Standard Deviation	7.18		
C.V	57.21%		

Sources:- Appendix 1 and Appendix 5



**Figure 4.10** Debt to Total Capital Ratio

Above the table 4.6 represents the debt to total capital ratio of EBL. The mean of debt to total capital ratio of EBL is 12.55. The debt to total capital ratio of EBL is decreasing during the study period. It shows the bank is improving its debt position. The highest debt to total capital ratio is 23.76% and lowest ratio is 0% in the F.Y. 2063/64 and 2069/70 respectively. Similarly, standard deviation and coefficient of variation of EBL are 7.18% and 57.21% respectively. It's clear that the creditors of EBL have less risk in extending credit due to decreasing trend of debt to total capital ratio. The Figure 4.10 also shows that the debt to total capital ratio of EBL is decreasing with the lowest (0%) and the highest (23.76%) in the FY 2069/70 and 2063/64 respectively over the study period of five Fiscal years.

#### **4.4.2.2 Loans and Advances to Current Assets Ratio**

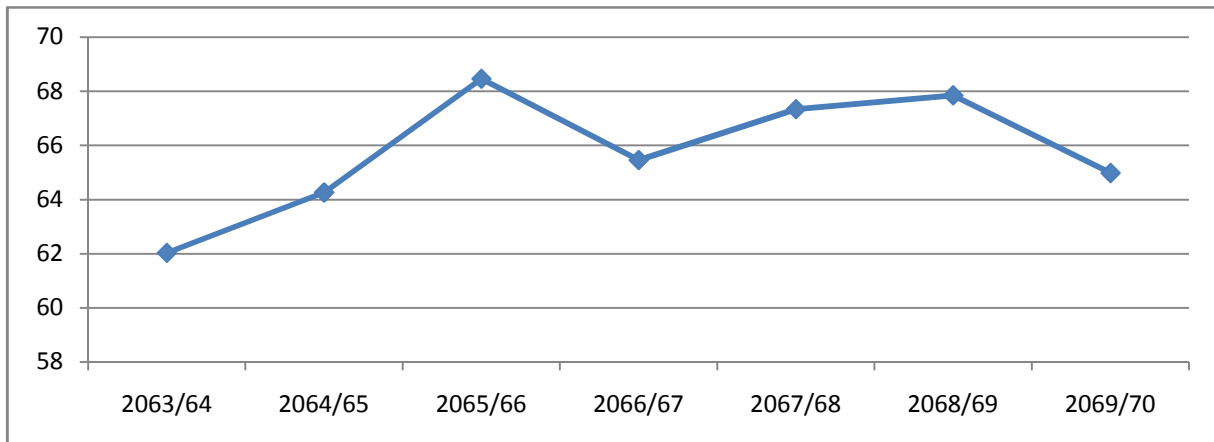
Loan and Advances are also included in the current assets of commercial banks because generally it provides short term loans, advances, overdrafts, cash-credit and foreign bill purchased and discounted. All commercial banks mobilized their collected funds as loan and advances to the customers. The banks must maintain its loan and advances in appropriate level to find out portion of current assets, which is granted as loan and

advances. Loans and advances to current assets ratio of EBL can be presented in the table & Figure as follows.

**Table 4.7** Loans and Advances to Current Assets Ratio  
(In percentages)

Fiscal Year	EBL		
	Loans and Advances	Current Assets	Loans & Advances to Current Assets Ratio
2063/64	9801.31	15799.77	62.03
2064/65	13664.08	21262.47	64.26
2065/66	18339.09	26788.84	68.46
2066/67	23884.67	36489.69	65.46
2067/68	27556.36	40919.68	67.34
2068/69	31057.7	45775.95	67.85
2069/70	35910.97	55265.21	64.98
Mean	65.77		
Standard Deviation	2.10		
C.V	3.19		

Sources:- Appendix 1 and Appendix 6



**Figure 4.11** Loans and Advances to Current Assets Ratio

Analyzing the above table 4.7, it has been found that the loans and advances to current assets ratio of EBL are fluctuating during the study period. The highest loans & advances to current assets ratios of EBL are 68.46% in the F.Y. 2065/66 & lowest ratio is 62.03% in the F.Y. 2063/64. The mean and standard deviation of loan and advances to current assets ratio of EBL are 65.77% and 2.10% respectively. Similarly, coefficient of variation of loans and advances of EBL is 3.19%. EBL has low risk in loan & advances to current assets. At conclusion, it shows that the EBL is trying to maximum mobilize its collected funds as loans and advances to the customers. Given Figure 4.11 also shows that the loans and advances to current assets ratio of EBL is fluctuating with the highest (68.46%) and lowest (62.03%) in the FY 2065/66 and 2063/64 respectively over the study period of 7 fiscal years.

#### **4.4.3 Activity Ratios**

Activity ratios indicate the relationship between sales & resources. These ratios reflect how efficiently the company is managing its resources. Thus, these ratios measure the degree of effectiveness in use of resources of funds by a firm. The following ratios are calculated on it.

##### **4.4.3.1 Total Assets Turnover Ratio**

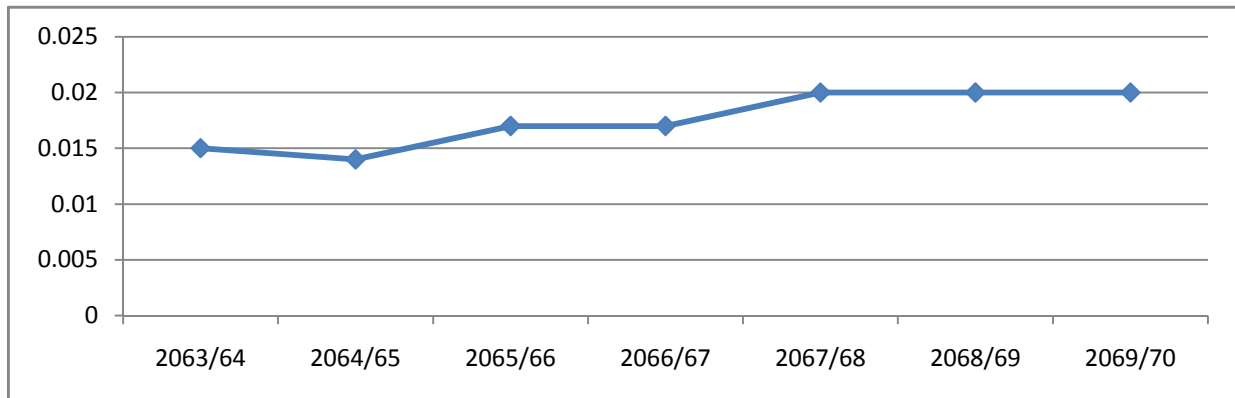
Total assets turnover ratio measured the turnover of all firms' assets. The total assets include current asset & fixed assets. A higher ratio implies efficient utilization of total assets and vice-versa. So, a higher ratio is preferable. But it is known that high ratio may not be better from the liquidity point of view. This ratio is presented below table & Figure.

**Table 4.8****Total Assets turnover Ratio**

(In times)

Fiscal Year	EBL		
	Total Income	Total Assets	Total Assets Turnover Ratio
2063/64	237.29	15959.28	0.015
2064/65	296.41	21432.57	0.014
2065/66	451.22	27149.34	0.017
2066/67	638.73	36916.85	0.017
2067/68	831.77	41382.76	0.02
2068/69	931.3	46236.2	0.02
2069/70	1090.56	55813.1	0.02
Mean	0.0176		
Standard Deviation	0.002		
C.V	11.37%		

Sources:- Appendix 1 and Appendix 7

**Figure 4.12****Total Assets Turnover Ratio**

Above table depicts the total assets turnover ratio of EBL. The total assets turnover ratio of EBL is decreases in the F.Y.2064/65 i.e. 0.014 times, which is the lowest ratio also. After that it is constant in the next two F.Y. and Similarly it is increased in the F.Y. 2067/68,2068/69 & 2069/70 i.e. 0.02 times, which is the highest ratio also. The mean of total assets turnover ratio of EBL is 0.0176 times. Similarly, the standard deviation of total assets turnover ratio is 0.002 times and coefficient of variation of EBL is 11.37%.

Above analysis shows that EBL is trying to efficient utilize of its total assets. The Figure 4.12 shows that the total assets turnover ratio of EBL is sloping downward in the FY 2063/64 and it is constant in the FY 2065/66 and FY 2066/67 after that it is rising upward in the FY 2067/68.and it is constant in FY2068/69 & FY 2069/70.

#### 4.4.3.2 Net Working Capital to Total Assets Ratio

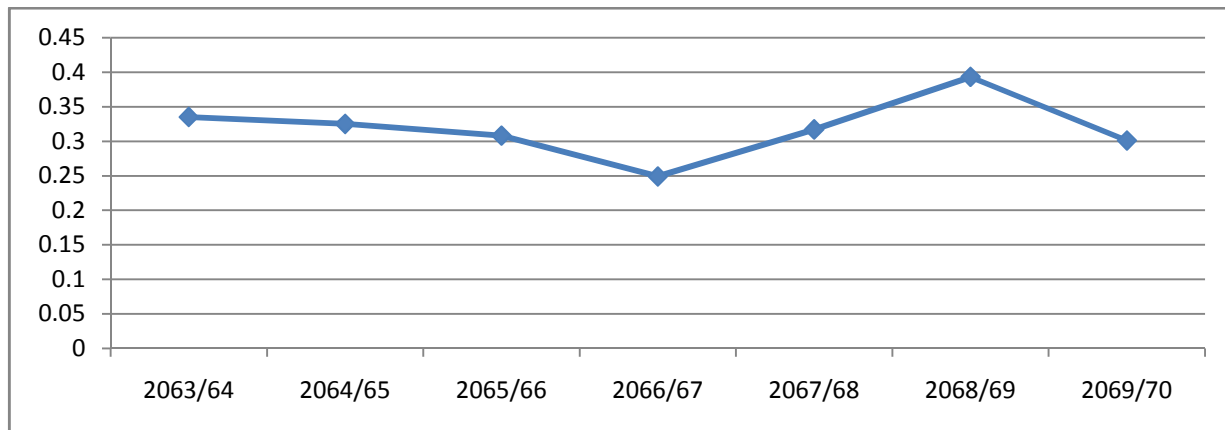
Working capital management is the management of all short term assets used in daily operations. Investing in raw material, inventories, work-in-progress, account receivables are all known as working capital investment. The proper management of a firm's working capital is very crucial to the financial manager in the competitive scenario. Furthermore, the total investment in the current assets that can be converted into cash within one year is called gross working capital but the difference between current assets and current liabilities is known as net working capital. It is presented below table & Figure.

**Table 4.9** Net Working to Total Assets Ratio (In times)

Fiscal Year	EBL		
	Net Working Capital	Total Assets	Net working Capital to Total Assets Ratio
2063/64	5353.69	15959.28	0.335
2064/65	6974.12	21432.57	0.325
2065/66	8352.95	27149.34	0.308
2066/67	9196.36	36916.85	0.249
2067/68	13120.37	41382.76	0.317
2068/69	18150.00	46236.2	0.393
2069/70	16805.52	55813.1	0.301
Mean	0.318		
Standard Deviation	0.04		
C.V	12.57%		

Sources:- Appendix 1 and Appendix 8





**Figure 4.13** Net Working Capital to Total Assets Ratio

From the above table, it can be found that net working capital to total assets ratios of EBL are slowly fluctuated during the study period. The highest net working capital to total assets ratio is 0.393 times and lowest ratio is 0.249 times in the F.Y. 2068/69 and 2066/67 respectively. The mean and standard deviation of the networking capital to total assets of EBL are 0.318 and 0.04 respectively. Similarly, coefficient variation of EBL is 12.57%.

#### 4.4.3.3 Capital Employed Turnover Ratio

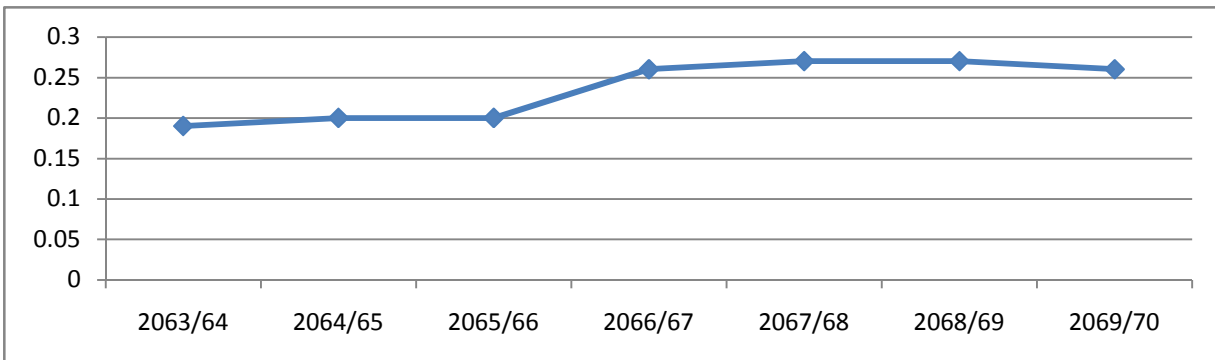
Capital employed represent the long term sources of fund availed and used to finance fixed assets and net current assets. This ratio measures the efficiency of the banks in the utilization of permanent source of capital. Usually, greater ratio serves as an indicator of better utilization of long term funds provided by owners and creditors. This ratio is shown under in the table and Figure.

**Table 4.10****Capital Employed Turnover Ratio**

(In times)

Fiscal Year	EBL		
	Total Income	Capital Employed	Capital Employed Turnover Ratio
2063/64	237.29	1262.81	0.19
2064/65	296.41	1501.52	0.20
2065/66	451.22	2221.24	0.20
2066/67	638.73	2503.63	0.26
2067/68	831.77	3059.14	0.27
2068/69	931.3	3413.55	0.27
2069/70	1090.56	4177.31	0.26
Mean	0.236		
Standard Deviation	0.034		
C.V	14.41		

Sources:- Appendix 1 and Appendix 9

**Figure 4.14****Capital Employed Turnover Ratio**

Above table 4.10 represents the capital employed turnover ratio of EBL. The capital employed turnover ratio is increased in second F.Y. and it is constant in third F.Y. after that it is increasing trend during the study period. The highest ratio of capital employed turnover ratio is 0.27 times and lowest ratio is 0.19 times in the F.Y. 2067/68, F.Y. 2068/69 and 2063/64 respectively. Similarly, the mean and standard deviation of this ratio is 0.236 times and 0.034 times. The Coefficient of variation is 41.41% .It measures the risk about the mobilization of permanent source of capital. So,

above analysis shows this ratio is satisfactory. Its increasing ratio of succeeding F.Y. shows EBL has better utilization of long term funds provided by owners and creditors. The Figure 4.14 also shows that the capital employed turnover ratio is almost remain constant during the period of 2063/64-2065/66 after that it indicates increasing trend till the FY 2067/68.

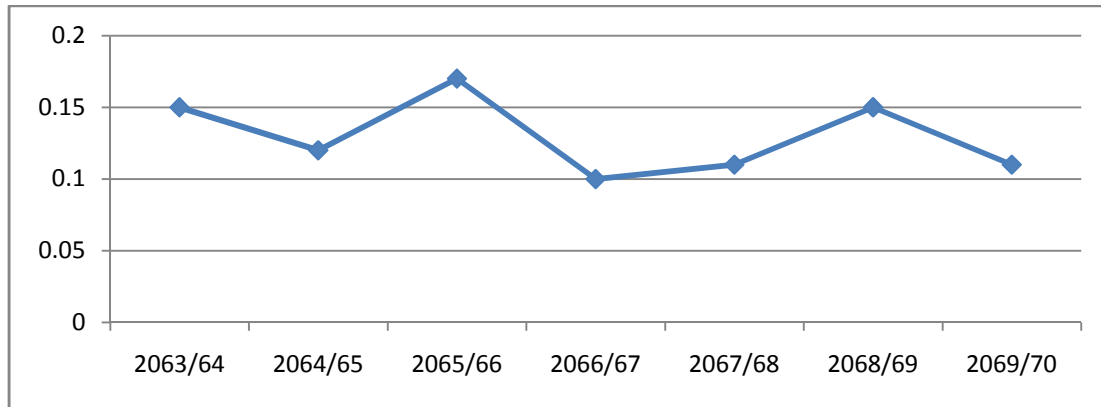
#### 4.4.3.4 Cash and Bank Balance Turnover Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the efficiency of the banks in utilization of the cash and bank balance to generate income. A high cash and bank balance turnover ratio indicates efficient utilization of current assets in income generation while a low ratio indicates inefficient management utilization of current assets under cash and bank balance. This ratio can be presented in the table & Figure.

**Table 4.11** Cash and Bank Balance Turnover Ratio (In times)

Fiscal Year	EBL		
	Total Income	Cash and Bank Balance	Cash & Bank Balance Turnover Ratio
2063/64	237.29	1552.97	0.15
2064/65	296.41	2391.42	0.12
2065/66	451.22	2667.97	0.17
2066/67	638.73	6164.37	0.10
2067/68	831.77	7818.82	0.11
2068/69	931.3	6122.86	0.15
2069/70	1090.56	10363.31	0.11
Mean	0.13		
Standard Deviation	0.024		
C.V	18.46%		

Sources:- Appendix 1 and Appendix 10



**Figure 4.15** Cash and Bank Balance Turnover Ratio

Above table 4.11 depicts that cash and bank balance turnover ratio of EBL is fluctuated over the study period. The highest cash and bank balance turnover ratio is 0.17 times and lowest ratio is 0.10 times in the F.Y.2065/66 and 2066/67 respectively. Similarly, the mean & standard deviation of this ratio is 0.13 times and 0.024 times. The coefficient of variation is 18.46% respectively. It shows that there is more variation in cash and bank balance turnover ratio maintained by EBL. On the basis of above analysis, it can be concluded that there is fluctuation in utilization of resources in EBL. The Figure 4.15 illustrates the same information in similar way as that of table.

#### **4.4.3.5 Loans and Advances to Total Deposit Ratio**

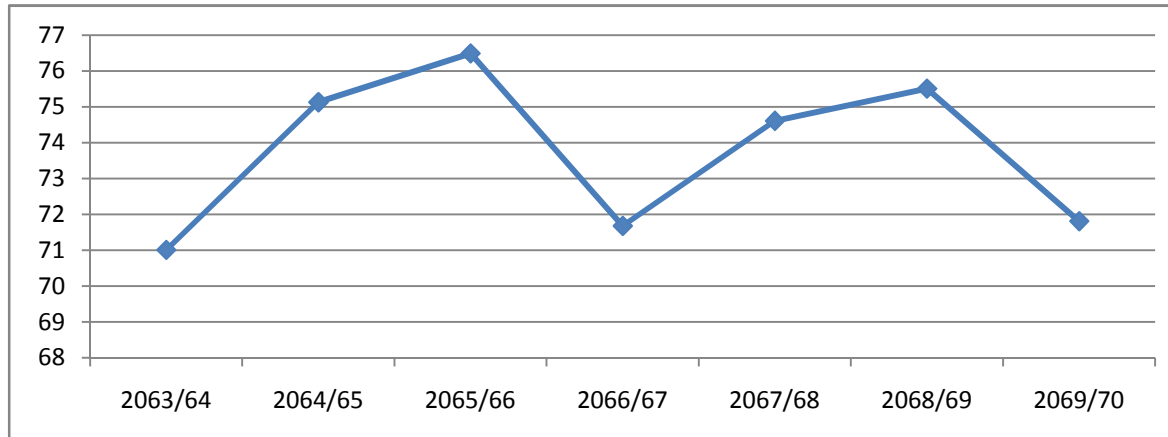
This ratio shows the relationship between loans & advances and total deposit. It measures the extent to which banks are able to extend loans and advances from the total deposits collected by the banks from the public. A high ratio indicates the better mobilization of collection deposit and vice-versa. This ratio of EBL is shown under in the table and Figure.

**Table 4.12** Loan and Advances to Total Deposit Ratio

(In times)

Fiscal Year	EBL		
	Loans and Advances	Total Deposits	Loans & Advances to Total Deposit Ratio
2063/64	9801.31	13802.44	71.01
2064/65	13664.08	18186.25	75.13
2065/66	18339.09	23976.3	76.49
2066/67	23884.67	33322.95	71.68
2067/68	27556.36	36932.31	74.61
2068/69	31057.7	41127.90	75.51
2069/70	35911	50006.10	71.81
Mean	73.75		
Standard Deviation	2.03		
C.V	2.75		

Sources:- Appendix 1 and Appendix 11

**Figure 4.16** Loan and Advances to Total Deposit Ratio

Analyzing the above table 4.12, it has found that loans and advances to total deposit ratio has fluctuated. The highest loans and advances to total deposit ratio is 76.49 times and lowest ratio is 71.01 times in the F.Y. 2065/66 and 2063/64 respectively. The mean of EBL is 73.75 times. Similarly, the standard deviation and coefficient of variation are 2.03 times and 2.75% respectively. It shows that there is less variation in this ratio. So, it's

clear that EBL has low risk due to lower standard deviation and coefficient of variation. At conclusion, above analysis shows that there is better mobilization of total deposits on the sector of loans & advances to generate adequate profit. The Figure 4.16 also shows that the loans and advances to total deposit ratio of EBL is fluctuating with highest (76.49 times) and lowest (71.01times) in the FY 2065/66 and 2063/64 respectively during the study period.

#### **4.4.4 Profitability Ratios**

Success and failure of bank depends upon its profitability showing how efficiently it is utilizing its deposit. Profitability ratio indicates the degree of success in achieving desired profit. Profitability ratio measure the overall performance of the bank by determining the effectiveness of the bank in generating profit and calculating by establishing relationship between profit and assets. Various profitability ratios are calculated to measure the efficiency of the bank. The various ratios to measure the efficiency of the bank are as follows.

##### **4.4.4.1 Return on Loans and Advances Ratio**

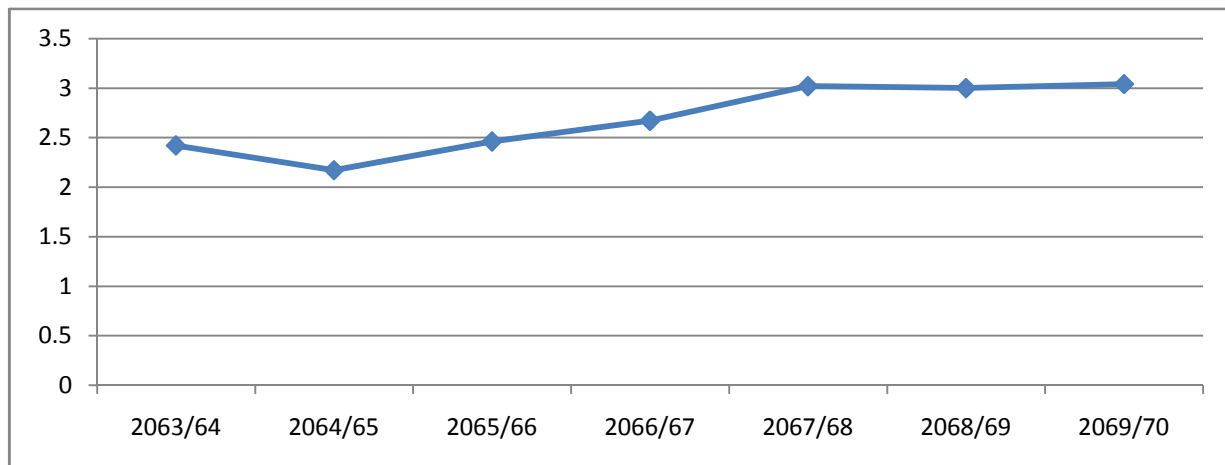
It measures the earning capacity of commercial banks on its deposits mobilized on loan and advances. Mostly loan and advances include loan, cash credit, overdrafts bills purchase & discounted. A higher ratio shows the utilization of loan & advances for earning profit. This ratio of EBL is presented below in the table and Figure as follows.

**Table 4.13****Return on Loan and Advances Ratio**

(In percentages)

Fiscal Year	EBL		
	NPAT	Loans and Advances	Return on Loan & Advances Ratios
2063/64	237.29	9801.31	2.42
2064/65	296.41	13664.08	2.17
2065/66	451.22	18339.09	2.46
2066/67	638.73	23884.67	2.67
2067/68	831.77	27556.36	3.02
2068/69	931.3	31057.7	3.00
2069/70	1090.56	35911	3.04
Mean	2.68		
Standard Deviation	0.322		
C.V	12.01		

Sources:- Appendix 1 and Appendix 12

**Figure 4.17****Return on Loans and Advances Ratio**

Above table 4.13 represent the return on loan & advances ratio of EBL. The return on loans and advances ratio is decreased at first and after that it is slightly increasing in other next F.Y. during the study period. The highest return on loan & advances ratio of EBL is 3.04% and lowest ratio is 2.17% in the F.Y. 2069/70 and 2064/65 respectively. The mean

of return on loans and advances ratio of EBL is 2.68%. Similarly, the standard deviation and coefficient of variation of EBL is 0.322% and 12.01% respectively. It shows that there is more variation in return on loans & advances. Above analysis shows that EBL has better mobilization of its collected funds to earn profit. The increasing trend of this ratio shows that EBL has satisfactory position on mobilization of loans & advances. The Figure 4.17 illustrates the same information in similar way as that of table.

#### 4.4.4.2 Return on Total Deposit Ratio

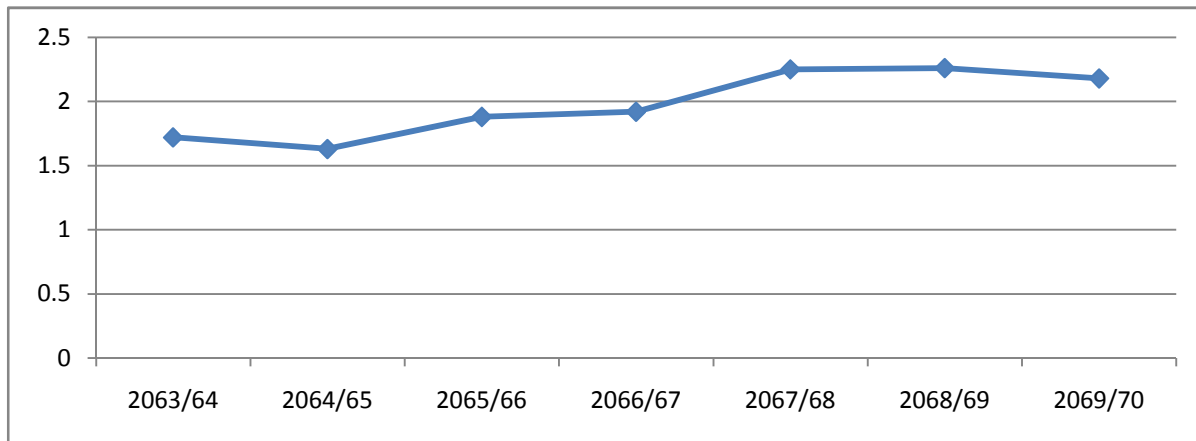
The main objective of the bank is collected more deposit and utilization in various sectors i.e. to earn high profit there by maximizing return on its total deposits. This ratio reflects the extent to which the banks have been successful in mobilization its total deposits. A higher ratio is preferable because it is an indication of better utilization of total deposit. Therefore, higher ratio is preferable for bank. It is presented under in the table & Figure as follows.

**Table 4.14** Return on Total Deposit Ratio  
(In percentages)

Fiscal Year	EBL		
	NPAT	Total Deposit	Return on Total Deposit Ratio
2063/64	237.29	13802.44	1.72
2064/65	296.41	18186.25	1.63
2065/66	451.22	23976.3	1.88
2066/67	638.73	33322.95	1.92
2067/68	831.77	36932.31	2.25
2068/69	931.3	41127.90	2.26
2069/70	1090.56	50006.10	2.18
Mean	1.98		
Standard Deviation	0.24		
C.V (%)	12.12		

Sources:- Appendix 1 and Appendix 13





**Figure 4.18** Return on Total Deposit Ratio

From the above table, it has been found that firstly, the return on total deposit ratio is decreased after that it is slowly increasing during the study period. The highest ratio is 2.26% and lowest ratio 1.63% in the F.Y. 2068/69 and 2064/65 respectively. The average return on total deposit ratio of EBL is 1.98%. Similarly, the standard deviation and coefficient of variation of EBL are 0.24 and 12.12% respectively. At conclusion, EBL is efficiently using its collected total deposit in various sectors to earn adequate profit. The Figure provided above also represents that the return on total deposit ratio of EBL has slightly declined in the FY 2064/65 after that it is rising upward in the subsequent Fiscal Years.

#### **4.4.4.3 Return on Total Assets Ratio**

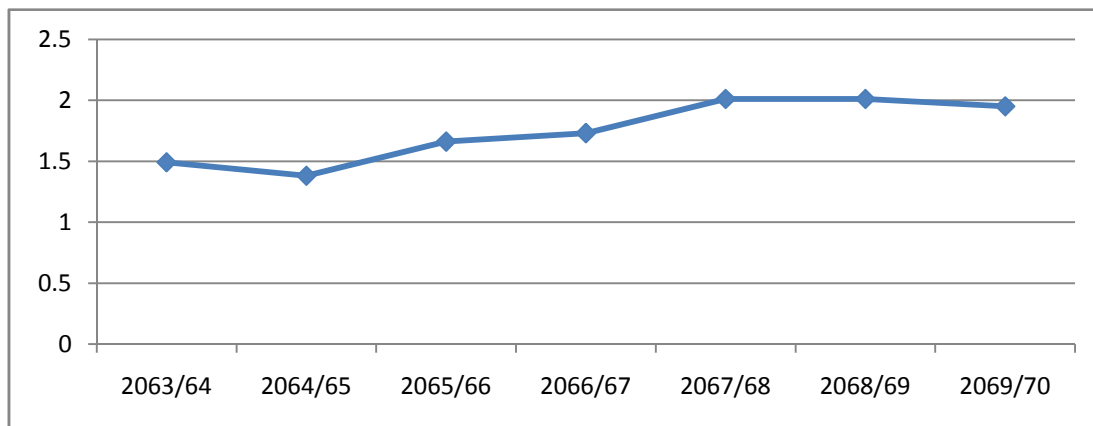
This ratio establishes the relationship between net profit and total assets. This ratio is calculated to reveal the profitability of the banks with respect to total assets. It measures the profitability of all financial resources invested In the banks assets. Hence, the higher ratio implies that the available source and tools are employed efficiently. Return on total assets of EBL is presented below in the table & Figure.

**Table 4.15****Return on Total Assets Ratio**

(In percentages)

Fiscal Year	EBL		
	NPAT	Total Assets	Return on Total Assets Ratio
2063/64	237.29	15959.28	1.49
2064/65	296.41	21432.57	1.38
2065/66	451.22	27149.34	1.66
2066/67	638.73	36916.85	1.73
2067/68	831.77	41382.76	2.01
2068/69	931.3	46236.2	2.01
2069/70	1090.56	55813.1	1.95
Mean	1.75		
Standard Deviation	0.24		
C.V (%)	13.71		

Sources:- Appendix 1 and Appendix 14

**Figure 4.19****Return on Total Assets Ratio**

Above table 4.15 represents that the return on total assets ratio of the EBL, which is decreased in second F.Y.2063/64 and after that it is increasing in other next F.Y. The highest ratio is 2.01% and lowest ratio is 1.38% in the F.Y. 2067/68 and 2064/65 respectively. Similarly, the mean & standard deviation of this ratio of EBL is 1.75 % and 0.24% respectively. The coefficient of variation of EBL is 13.71%. It shows that there is less variation in this ratio. The above analysis helps to conclude that EBL has not more

satisfactory utilization of its working fund of assets to earn high profit. But its increasing trend of ratio shows that EBL is trying to improve & give the best performance on it. The above Figure 4.19 illustrates the same information in similar way as that of table.

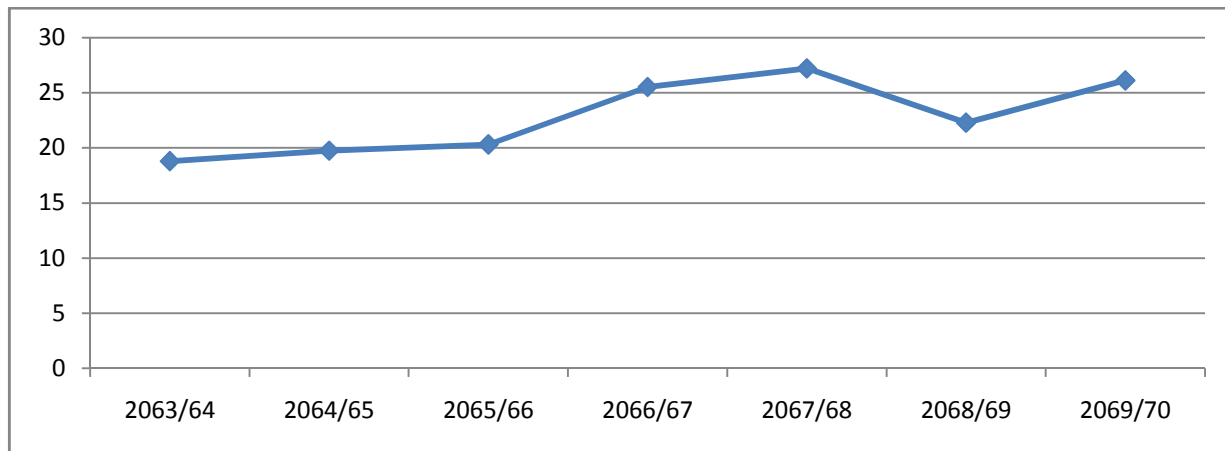
#### 4.4.4.4 Return on Capital Employed Ratio

The prior purpose of the bank is wealth maximization i.e. to earn high profit there by maximizing return on its capital. It shows whether the amount of capital employed has been properly used or not. So, this ratio shows the efficiency of the firm on the utilization of total capital. A higher ratio is preferable because it is an indication of the better utilization of capital employed. Return on capital employed of EBL has presented under in the table & Figure.

**Table 4.16** Return on Capital Employed Ratio (In percentages)

Fiscal Year	EBL		
	NPAT	Capital Employed	Return on Capital Employed Ratio
2063/64	237.29	1262.81	18.79
2064/65	296.41	1501.52	19.74
2065/66	451.22	2221.24	20.31
2066/67	638.73	2503.63	25.51
2067/68	831.77	3059.14	27.19
2068/69	931.3	3413.55	22.28
2069/70	1090.56	4177.31	26.11
Mean	23.56		
Standard Deviation	3.49		
C.V (%)	14.81		

Sources:- Appendix 1 and Appendix 15



**Figure 4.20** Return on Capital Employed Ratio

Analyzing the above table, it has been found that the return on capital employed ratio of EBL is increasing over the study period. The highest return on capital employed ratio of EBL is 27.19% in the F.Y.2067/68 and the lowest ratio is 18.79% in the F.Y. 2063/64. Similarly, the mean and standard deviation of this ratio is 23.56% and 3.49% respectively. The coefficient of variation of EBL is 14.81%. It shows that there is more variability in this ratio. On the basis of above analysis, it can be concluded that the increasing trend of this ratio shows that EBL has better utilization of capital employed for earning profit. The Figure 4.20 also shows that the return on capital employed ratio of EBL is in increasing trend with the highest (27.19%) and lowest (18.79%) in the FY 2067/68 and 2063/64 over the study period.

#### **4.5 Co-efficient of Correlation**

The coefficient of correlation measure the degree of relationship between two sets of figure. This analysis interprets and identifies the relationship between two of more variable. Under this topic, this study tries to find out relationship between the following variables.

- i Coefficient of correlation between current assets and current liabilities.
- ii Coefficient of correlation between total deposit and net profit.
- iii Coefficient of correlation between total deposit and loan and advances

The above analysis tools analyze relationship between these the relevant variables and helps the bank to make sound policies regarding deposit collection, fund utilization i.e. loan & advances and investment. Similarly, this statistical tool helps the bank for maximizing its profit also.

For the purpose of decision-making, interpretation is based on following term.

- When  $r=1$ , there is perfect positive correlation
- When  $r=-1$ , there is negative correlation.
- When  $r=0$ , there is no correlation.
- When  $r$  is less than 0.5, there is low degree of correlation.
- When  $r$  lies between 0.5 to 0.669, there is a moderate degree of correlation.
- When  $r$  lies between 0.7 to 0.999 (-0.7 to -0.999), there is a high degree of positive or negative correlation.

#### **4.5.i Probable Error (P.E) of Correlation Coefficient**

The probable error is measurement of ascertaining the reliability of the value of pearsonians coefficient of correlation. The probable error is used to test whether the calculated value of sample correlation coefficient is significant or not. The interpretation of the significance of correlation coefficient is as follows.

i If  $r < P.E$ , then the value of  $r$  is not significant. (i.e. insignificant)

ii If  $r > 6 * P.E$ , then  $r$  is definitely significant.

iii In other situation, nothing can be calculated with certainty.

#### **4.5.1 Coefficient of Correlation between Current Assets and Current Liabilities**

This coefficient of correlation analyzes the relation between current assets and current liabilities are reliable or not. The following table 4.17 describes the relationship between current assets and current liabilities of EBL with comparatively under five fiscal years study period. In the following case, current assets are independent variables (X) and current liabilities are dependent variables (Y).

**Table 4.17** Correlation Coefficient between Current Assets and Current Liabilities

Findings	EBL
Coefficient of Correlation (r)	0.9825
Probable Error (P.E)	0.0088
6 P.E	0.0531

Sources:-Appendix 16

The above table represents the coefficient of correlation between current assets and current liabilities of EBL are 0.9825. It shows there is high degree of positive correlation between two variables. It means this correlation of EBL is perfect correlation. Similarly, probable error (P.E) is 0.0088 and 6P.E is 0.0531. It shows that “r” is greater than 6P.E. so, it reveals that relationship between current assets and current liabilities is significant. At conclusion, there is perfect correlation in correlation of coefficient between current assets and current liabilities of EBL.

#### **4.5.2 Coefficient of Correlation between Total Deposit and Net Profit**

This coefficient of correlation describes the relationship between total deposit and net profit, which shows it is significant correlation or not. The following table 4.18 shows the relationship between total deposit and net profit of EBL during the study period. In the following case, total deposit is independent variables (X) and net profit is dependent variables.

**Table 4.18** Correlation Coefficient between Total Deposit and Net Profit

Findings	EBL
Coefficient of Correlation (r)	0.9930
Probable Error (P.E)	0.0035
6 P.E	0.0213

Sources:-Appendix 17

From the above table, it has found that coefficient of correlation between total deposit and net profit of EBL is 0.9930 i.e. there is high degree of positive correlation between

two variables. It means correlation of coefficient between total deposit and net profit of EBL is perfect correlation. Similarly, probable error (P.E) is 0.0035 and 6P.E is 0.0213, which shows that “r” is greater than 6P.E. Therefore it reveals that relationship between total deposit and net profit is significant. At conclusion, correlation of coefficient between total deposit and net profit of EBL has significantly correlated.

#### **4.5.3 Coefficient of Correlation between Total Deposit and Loans and Advances**

The relationship between total deposit and loans and advances are analyzed by this coefficient of correlation. Its result clears that it is significant or not. The following table 4.19 describes the relationship between total deposit and loans & advances of EBL with comparatively under five fiscal year study period. In the following case total deposit independent variables (X) and loans & advances is dependent variables (Y).

**Table 4.19** Correlation Coefficient between Total Deposit and Loans and Advances

Findings	EBL
Coefficient of Correlation (r)	0.9976
Probable Error (P.E)	0.0012
6 P.E	0.0072

Sources:-Appendix 18

Above table represents the coefficient of correlation between total deposit and loan and advances of EBL is 0.9976. It shows there is high degree of positive correlation between two variables. It means correlation of coefficient between total deposit and loans and advances of EBL is perfect correlation. Similarly, probable error (P.E) is 0.0012 and 6P.E is 0.0072, which shows that “r” is greater than 6P.E. Therefore, it reveals that relationship between total deposit and loans and advances is significant. At conclusion, correlation of coefficient between total deposit and loans and advances of EBL is Positive correlation.

## 4.6 Findings of the Study

Basically all data has been obtained from secondary sources in this research work. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of working capital management of the selected banks with comparatively applying Seven fiscal years data from 2063/64 to 2069/70.

The major findings of the study derived from the analysis of financial tools of the Everest Bank Limited are given below.

- i) Trend of components of current assets are increasing during the study period except investment and money at call & short notice which, shows that utilizing of resources has decreased on it and better utilization on other components of current assets.
- ii) EBL has the highest and lowest level of current assets of Rs 55265.20 million and Rs 15799.77 million in the F.Y. 2069/70 and 2063/64 respectively during the study period. The average of this ratio of EBL is 242301.61 million. It shows that satisfactory level for EBL.
- iii) The amount of net working capital of EBL is increasing over the study period of time. During the study period of seven fiscal years from 2063/64 to 2069/70, the highest amount of net working capital is Rs.18150.00 million in 2068/69. And the lowest amount is Rs.5353.69 million in the F.Y. 2063/64. The percentage change in net working capital is fluctuating. The above analysis shows that EBL has Negative net working capital.
- iv) The current ratio of EBL is in fluctuating order with lower than the standard ratio, which is highest and lowest as 1.66 times and 1.34 times in the F.Y.2068/69 and 2066/67 respectively. Similarly there is good liquidity position due to nearest standard current ratio.



- v) The cash reserve ratios of EBL is fluctuating in seven Fiscal Years. The highest cash reserve ratio of EBL is 21.17% and lowest ratio is 11.13% in the fiscal year 2066 /67 and 2065/66 respectively. It shows that EBL is maintaining adequate liquidity position regarding cash reserve ratio.
- vi) The debt to total capital ratio of the EBL is decreasing, where the highest ratio is 23.76% and lowest 0% respectively with a mean of 12.55% it shows the bank is improving its debt position. Similarly C.V. of EBL is 57.21%. It's clear that the creditors of EBL have less risk in extending credit.
- vii) The loans and advances to current assets ratio of EBL are fluctuated during the study period. The highest loans and advances ratio i.e. 68.46% and lowest i.e. 62.03% are in the F.Y. 2065/66 and 2063/64 respectively. It shows that EBL is trying to maximum mobilize its collected funds as loan and advances to the customers and it has low risk also.
- viii) The total assets turnover ratios of EBL range from 0.015 times to 0.02 times with average of 0.0176 times during the study period. Which implies that EBL is tried to efficient utilize of its total assets.
- ix) Net working capital to total assets ratios of EBL is slowly fluctuated. It has highest as 0.393 times and lowest as 0.249 times in the F.Y. 2068/69 and 2066/67 respectively with the mean of 0.318 times. This ratio represents that there is positive and fluctuating trend on the utilization of net working capital in the study period.
- x) The capital employed turnover ratios of EBL is slowly increasing. It has highest as 0.27 times and lowest as 0.19 times in the F.Y. 2067/68 and 2063/64 respectively with the average of 0.236 times. It shows that its increasing ratio of succeeding F.Y. represents that EBL has better utilization of long term funds provided by owners and creditors.

- xi) The cash and bank balance turnover ratios of EBL is fluctuated as highest i.e. 0.17 times and as lowest i.e. 0.10 times in the F.Y.2065/66 and 2066/67 respectively with the mean of 0.13 times during the study period. It concluded that there is fluctuated in utilization of resources in EBL and it has more risk also.
- xii) The loans and advances to total deposit ratio is fluctuating during the study period. It has highest and lowest ratio as 76.49 times and 71.01 times in the F.Y. 2065/66 and 2063/64 respectively with the mean of 73.75 times. Analyzing this ratio, it clear that there is better mobilization of total deposits to generate adequate profit and EBL has maintained lower risk on it.
- xiii) The return on loans and advances ratio of EBL: is decreased at first F.Y. and after that it is slowly increasing in other F.Y. during the study period. The highest and lowest ratios are 3.04% & 2.17% respectively. The mean of this ratio is 2.68%. It shows that EBL has satisfactory position in mobilization of its collected funds to earn profit but it has more risk.
- xiv) The return on total deposit ratios of EBL range from 1.72% to 2.18% with average of 1.98% during the study period. It has highest as 2.26% and lowest as 1.63% in the F.Y. 2068/69 and 2064/65 respectively. It concluded that EBL is efficiently using its collected total deposit.
- xv) The return on total assets ratio of EBL which is decreased in second & seven F.Y. 2064/65, 2069/70 and after that is increasing in another next fiscal years. The highest and lowest ratios are 2.01% and 1.38% in the F.Y. 2068/69 and 2064/65 respectively with the mean of 1.75% during the study period. Increasing trends of ratios shows that EBL is trying to give the best performance.
- xvi) The return on capital employed ratio of EBL is increasing from the lowest ratios i.e. 18.29% and highest ratio i.e. 27.19% in the F.Y. 2063/64 and

- 2067/68 respectively with the mean of 23.56% over the study period. It shows that EBL has better performance in the mobilization of capital employed.
- xvii) The coefficient of correlation between current assets and current liabilities is 0.9825. So, there is high degree of positive correlation between two variables of sample bank as EBL. Similarly, coefficient of correlation ( $r$ ) is greater than 6P.E. It examines that the relationship between current assets and current liabilities is significant.
  - xviii) The coefficient of correlation between total deposit and net profit of EBL is 0.9930. This correlation coefficient ( $r$ ) is greater than 6P.E. It shows that there is high degree of positive correlation between two variables and these relationships of EBL is significant.
  - xix) The coefficient of correlation between total deposit and loans & advances of EBL is 0.9976. Thus, there is high degree of positive correlation between two variables. Similarly, coefficient of correlation ( $r$ ) is greater than 6P.E. It represents the relationship of EBL is significant.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

The summary, conclusion and recommendation of the study are concluded in this chapter. The final and most important task of the researchers is to enlist fact findings of the study and give suggestions for further improvement. The analysis is performed with the help of financial tools and statistical tools, which is associated with comparison and interpretation under financial analysis, various ratios related to the working capital management are used and under statistical analysis some relevant statistical tools are used.

#### **5.1 Summary**

Economic development, which is largely, depends on the development of any country. It demands transformation of savings or resources into the actual investment. Capital formation is the prerequisite in setting the overall pace of the economic development of the country. It is the financial institution that transfers funds from surplus spending units to deficit units. Banking sector plays a vital role for the country's economic development. Bank is a resource mobilizing institution, which aspect deposits from various sources, an invest such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism etc. banks help to mobilize the small saving collectivity to huge capital markets. Commercial banks basically help to promote the money market by providing expert managerial skills and by using advanced and often state of the art technologies to serve the customers in an efficient and effective manner. There are thirty- one commercial banks at present competing with each other in their business in Nepal.

In financial sector, there are various commercial banks established as joint venture. After implementation of the open market policy, in competitive financial market performance of joint venture banks are very good. This study is mainly concerned on the case study of Everest Bank Limited on working capital management. The main objectives of the study are as follows.

- ) To assess the leverage and profitability of Everest Bank Limited.
- ) To identify the financial position of Everest Bank Limited.
- ) To assess the size and structure of working capital of sample bank.
- ) To analyze the utilization of working capital of sample bank

To fulfill this objective and other specific objective as described in chapter one, an appropriate research methodology has developed, which include the ratio analysis as a financial tools and statistical tools. The major ratio analysis consists of the composition of working capital position, liquidity ratio, capital structure ratio, activity ratio and profitability ratio. The latest five fiscal years data i.e. balance sheet and profit & loss A/c are presented in the chapter four and by using it, the main ratios and their trend position are studied there.

Studied of sample bank is introduced. Problems are stated to set the objectives of the study. The objectives are to evaluate the working capital management and financial analysis of EBL and to identify their strengths and weaknesses. Theoretical framework of ratio analysis, correlation between two variables, its importance and limitations, research methodology and limitations of the study are mentioned. The findings of major ratios are presented on a comparative basis. Besides, statistical analysis i.e. mean, standard deviation, coefficient of variance of all ratios and correlation of coefficient of current assets with current liabilities, the total deposits with net profit and loans & advances is also done of the selected bank. This analysis gives clear picture of the performance of the bank with regard to its operation. All of the information and data are collected from bank i.e. websites, annual reports etc. The operating efficiencies of the sample bank and their abilities to ensure adequate returns to the shareholders have been measured.

## **5.2 Major Findings of the study**

Basically in this research study, financial and statistical tools are used to interpret the results about working capital management of sample bank as EBL by applying the current seven fiscal years data from 2063/64 to 2069/70. The major conclusions (i.e.

mainly focuses on liquidity, capital structure, activity, profitability position and coefficient of correlation) of this study are as follows.

- i) The liquidity ratios include current ratio and cash reserve ratio in this research study. These both ratios are fluctuating over the study period. The mean of current ratio and cash reserve ratio are 1.48 and 15.83 respectively. Current ratio shows that there is good liquidity position because of its nearest standard ratio. The cash reserve ratio shows that EBL is maintaining adequate liquidity position.
- ii) The capital structure ratios include the debt to total capital ratio and loans & advances to current assets ratio in this study. The mean of debt to total capital ratio is 12.55%. It's decreasing trend of ratios show that EBL is improving its debt position. The mean of loans & advances ratio is 65.77%. It shows that the bank is trying to maximum mobilize its collected funds as loans & advances to the customer as well as EBL has maintained lower risk on it.
- iii) The activity position of EBL is analyzed with various ratios. EBL has better utilization of its total deposits on the sector of loans & advances as well as it has lower risk also. Similarly, EBL is trying to efficient utilization on its total assets and permanent source of capital as well as it has fluctuated utilization on its cash & bank balance. EBL has satisfactory position in the sector of loans & advances than others activity ratios.
- iv) The profitability position of EBL is analyzed with return on loans and advances ratio, return on total deposit ratio, return on total assets ratio, and return on capital employed ratio. The mean of these ratios are 2.26%, 1.98%, 1.75% and 23.56% respectively. These ratios represent that EBL has not satisfactory profitability position but it is not bad. Return on capital employed ratio implies that EBL has better profitability position than other profitability ratios. Normally, there is efficiently utilizing of resources to generate

adequate profit. As well as EBL has maintained high risk also there. Similarly, EBL is trying to give best performance up coming days.

- v) The coefficient of correlation between two variables like as current assets and current liabilities, total deposit and net profit as well as total deposit and loans and advances of sample bank 'EBL' is nearly 1. It means there are high degrees of positive correlation between these two variables. Similarly, correlation of coefficient (r) is greater than 6P.E. and the relationship between two variables of EBL is closer to perfect correlation. Therefore, it indicates that the relationship between two variables is significant.

### **5.3 Conclusions**

On the basis of entire research study some conclusions have been found. This study particularly deals about the working capital position of EBL with financial analysis by using various statistical tools. The major conclusions of the study are as follows.

- a) Analyzing the liquidity ratios of EBL, it has been found that EBL is unable to maintain standard ratio but it has good liquidity position and low risk also because of its nearest standard current ratio.
- b) On the basis of analyzing the capital structure ratios of EBL, it can be concluded that EBL is improving its debt position due to decreasing trend of debt to capital ratio.
- c) In the case of the loans and advances to current assets ratio, it shows that EBL has tried to maximum mobilize its collected funds on it as well as it has low risk also.
- d) In the case of the turnover ratios of EBL, it can be found that the turnover position is better. EBL has better utilization of total deposits on the sector of loans & advances as well as it has lower risk also. Similarly, EBL is trying to efficient utilization of its total assets and permanent source of capital also as well as it has fluctuated utilization on its cash & bank balance.

- e) Analyzing the profitability ratios, it has been found that the profitability position of EBL is normally well. There is efficiently utilizing of resources to generate adequate profit. As well as EBL has maintained high risk also there. Similarly, EBL is trying to give best performance upcoming days.
- f) On the basis of evaluation of the coefficient of correlation between two variables of EBL, it concluded that there is high degree of positive correlation between two variables and it is significantly correlated also. It indicates that EBL has exercised the sound policies regarding related activities.

#### **5.4 Recommendations**

On the basis of major findings of the study, some important recommendations have been address to. EBL has 20 years of commercial experiences in the Nepalese commercial banking sector. But if that so, with a competent managerial team & other some weaknesses have come into light through the study. For improving them, the recommendations have been given, which are as follows.

- In order to obtain the sound financial management of the banking sector, the company needs to maintain the positive working capital. Therefore, to keep pace with the positive trend the sample bank should have optimum level of investment in current assets as well as in current liabilities.
- The liquidity position in terms of current ratio of EBL is below than normal standard. Therefore, EBL should increase the current assets.
- The turnover ratio of EBL shows a fluctuating trend. Despite its fluctuation it has satisfactory level in the sector of loans & advances over the study period. To improve its turnover position of other turnover ratio, the studied bank needs to give proper attention on income generating activities.
- EBL is suggested to improve its profitability position, and improve its overall efficiency and returns to its shareholders by minimizing its high cost deposits and operating in proper and efficient way.



- EBL has been suggested to improve its deposits and credits to increase its volume of banking operations.
- In order to improve in profitability in both short and long runs, EBL should be implemented the matching working capital management policy instead of adopting conservative working capital policy.
- Both high and low operating costs are harmful for every organizational activity. Generally, unnecessary expenses, the unskilled manpower, over staffing, misuse of facilities etc. may be the caused for imbalances of operating cost. So, EBL is suggested to pay attention over the adequate balance of operating cost.
- The studied bank is advised to concentrate more on risk free securities and low risk loans.
- The bank should maintain positive relationship between loans and advances and deposits in coming years for maximizing benefits.
- The sample bank should keep in pace with the changing banking technologies, improve organizational structure, provide quality services to its customers and actively participate in social welfare programmes. Organizational culture that acquires, develops, utilizes and maintains the employees in a high morale is preferred.

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## Appendix-1

### Everest Bank Limited Seven years Balance Sheet

(Figures in Rs. Millions)

Particular	2063/64	2064/65	2065/66	2066/67	2067/68	2068/69	2069/70
<b><u>Assets:</u></b>							
<b>Current Assets</b>							
Cash & Bank Balances	1552.97	2391.42	2667.97	6164.37	7818.82	6122.86	10363.30
Money at call & Short Notice	66.96	–	346.00	–	–	–	–
Investment(short term)	4200.52	4984.31	5059.56	5948.48	5008.31	7743.93	7863.63
Loan & Advance	9801.31	13664.08	18339.09	23884.67	27556.36	31057.70	35911.00
Other current Assets	178.01	222.66	376.22	492.17	536.19	851.47	1127.30
<b>Total Current</b>	<b>15799.77</b>	<b>21262.47</b>	<b>26788.84</b>	<b>36489.69</b>	<b>40919.68</b>	<b>45775.95</b>	<b>55265.20</b>
Fixed Assets	152.09	170.10	360.51	427.16	463.09	460.29	547.93
Non Banking	7.44	–	–	–	–	–	–
Long term Assets	–	–	–	–	–	–	–
<b>Total Assets</b>	<b>15959.28</b>	<b>21432.57</b>	<b>27149.34</b>	<b>36916.85</b>	<b>41382.76</b>	<b>46236.20</b>	<b>55813.10</b>
<b><u>Capital &amp; Liabilities:</u></b>							
<b>Current Liabilities:</b>							
Short term Deposits	9560.09	12559.59	17530.12	26272.97	26492.03	26066.00	36998.60

Bills Payables	15.81	26.78	49.43	148.66	145.51	49.72	692.40
Proposed & Unpaid Dividend	114.67	68.15	140.79	218.08	276.25	576.90	30.65
Income tax Liability	755.51	15.28	41.14	20.52	(1.14)	26.90	9.30
Other Current Liabilities	–	1618.56	674.41	321.10	482.06	424.43	728.72
Loan & Borrowing	–	–	–	312.00	404.60	482.00	–
<b>Total Current Liabilities</b>	<b>10446.08</b>	<b>14288.35</b>	<b>18435.89</b>	<b>27293.33</b>	<b>27799.31</b>	<b>27625.95</b>	<b>38459.70</b>
<b>Shareholder's Equity:</b>							
Share capital	518	518	831.40	1030.47	1279.61	1391.57	1761.13
Reserves and Fund	444.81	683.52	1089.84	1173.16	1479.53	1721.98	2416.18
<b>Total Shareholder's Equity</b>	<b>962.81</b>	<b>2116.35</b>	<b>2492.54</b>	<b>3052.47</b>	<b>3369.71</b>	<b>3113.55</b>	<b>4177.31</b>
Debenture & Bonds	300	300	300	300	300	300	–
Fixed Deposits	4242.35	5626.66	6446.18	7049.98	10440.28	15061.90	13007.50
Long term Liabilities	8.04	16.05	46.03	69.92	84.02	134.81	168.66
<b>Total Capital &amp; Liabilities</b>	<b>15959.28</b>	<b>21432.57</b>	<b>27149.34</b>	<b>36916.85</b>	<b>41382.76</b>	<b>46236.20</b>	<b>55813.10</b>

## Appendix- 2

### Everest Bank Limited

#### Comparative Profit and Loss Account

(Figures in Rs. Millions)

Particulars	2063/64	2064/65	2065/66	2066/67	2067/68	2068/69	2069/70
1. Interest Income	903.41	1144.41	1548.66	2186.81	3102.45	4331.03	4960.00
2. Interest Expenses	401.40	517.17	632.61	1012.87	1572.79	2535.88	2873.33
<b>Net Interest Income</b>	<b>502.01</b>	<b>627.24</b>	<b>916.05</b>	<b>1173.94</b>	<b>1529.66</b>	<b>1795.15</b>	<b>2086.66</b>
3. Commission & Discount	96.84	117.72	150.26	202.09	208.12	203.47	233.52
4. Other Operating Incomes	48.90	67.97	79.13	106.40	142.31	148.06	179.82
5. Exchange Fluctuation Income	14.40	28.40	64.45	62.53	47.88	46.26	109.68
<b>Total Operating Income</b>	<b>662.15</b>	<b>841.33</b>	<b>1209.90</b>	<b>1544.97</b>	<b>1927.98</b>	<b>2192.94</b>	<b>2609.74</b>
6. Staff Expenses	70.92	86.12	157.96	186.92	226.36	293.13	352.05
7. Other Operating Expenses	143.56	177.55	233.77	292.01	352.51	383.11	467.29
8. Exchange Fluctuation Loss	-	-	-	-	-	-	-
<b>Operating Profit Before Provision for Possible Loss</b>	<b>447.67</b>	<b>577.67</b>	<b>818.17</b>	<b>1066.03</b>	<b>1349.10</b>	<b>1516.70</b>	<b>1790.39</b>
9. Provision for Possible Losses	70.47	89.70	99.34	93.08	77.01	98.30	252.05

<b>Operating Profit</b>	<b>377.20</b>	<b>487.97</b>	<b>718.83</b>	<b>972.95</b>	<b>1272.09</b>	<b>1418.40</b>	<b>1538.34</b>
10. Non-Operating Income/Loss	2.96	1.32	4.52	5.00	12.33	1.43	25.16
11. Provision for Possible Loss Written Back	-	11.69	20.20	8.04	83.55	56.34	150.35
<b>Profit from Ordinary Activities</b>	<b>380.16</b>	<b>500.97</b>	<b>743.55</b>	<b>986.00</b>	<b>1367.98</b>	<b>1476.17</b>	<b>1713.84</b>
12. Income/Expenses from Extra Ordinary Activities	-	(0.80)	(19.00)	(5.55)	(61.19)	(12.05)	-
<b>Net Profit after Considering all Activities</b>	<b>380.16</b>	<b>500.18</b>	<b>724.56</b>	<b>980.45</b>	<b>1306.79</b>	<b>1464.12</b>	<b>1713.84</b>
13. Provision for Staff Bonus	34.56	45.47	65.87	89.13	118.80	133.10	155.80
14. Provision for Income Tax							
) Current year's	106.75	144.37	216.91	276.86	357.02	427.53	478.36
) Up to Previous Year	1.56	13.93	-	-	-	0.56	-
) Current Year's Differed Tax	-	-	(9.45)	(24.28)	0.79	(28.38)	(10.88)
<b>Net Profit/Loss</b>	<b>237.29</b>	<b>296.41</b>	<b>451.22</b>	<b>638.73</b>	<b>831.77</b>	<b>931.30</b>	<b>1090.56</b>



### Appendix- 3

#### Current Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	1.51	0.0009
2064/65	1.49	0.0001
2065/66	1.45	0.0009
2066/67	1.34	0.0196
2067/68	1.47	0.0001
2067/68	1.66	0.0324
2067/68	1.44	0.0016
	X=10.36	$d^2=0.0556$

Here,

Average ( $\bar{x}$ ) = 1.48

Standard deviation ( $\dagger$ ) = 0.089

C.V. = 6.014%

## Appendix- 4

### Cash Reserve Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	11.25	20.9764
2064/65	13.15	7.1824
2065/66	11.13	22.0900
2066/67	18.50	7.1289
2067/68	21.17	28.5156
2068/69	14.89	.8886
2069/70	20.72	23.9521
	X=110.81	$d^2=110.7340$

Here,

Average ( $\bar{x}$ ) =15.83

Standard deviation ( $\sigma$ )=3.977

C.V. =25.123%

## Appendix- 5

### Debt to Total Capital Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	23.76	125.59
2064/65	19.98	55.20
2065/66	13.51	.91
2066/67	11.98	.32
2067/68	9.81	7.53
2068/69	8.79	14.15
2069/70	0.00	157.50
	$\bar{X}=87.82$	$d^2=361.20$

Here,

Average ( $\bar{x}$ ) =12.55

Standard deviation ( $\sigma$ ) =7.18

C.V. =57.21%

## Appendix- 6

### Loans and Advances to Current Assets Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	62.03	13.988
2064/65	64.26	2.280
2065/66	68.46	7.236
2066/67	65.46	0.096
2067/68	67.34	2.465
2068/69	67.85	4.326
2069/70	64.98	0.624
	X=460.38	d <sup>2</sup> =31.015

Here,

Average ( $\bar{x}$ ) = 65.77

Standard deviation ( $\sigma$ )=2.10

C.V. =3.19%

## Appendix- 7

### Total Assets Turnover Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	0.015	0.00000676
2064/65	0.014	0.00001296
2065/66	0.017	0.00000036
2066/67	0.017	0.00000036
2067/68	0.02	0.00000576
2068/69	0.02	0.00000576
2069/70	0.02	0.00000576
	$\bar{X}=0.123$	$d^2=0.00003772$

Here,

Average ( $\bar{x}$ ) = 0.0176

Standard deviation ( $\sigma$ )=0.002

C.V. =11.37%

## Appendix- 8

### Net Working Capital to Total Assets Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	0.335	0.000279
2064/65	0.325	0.000045
2065/66	0.308	0.000106
2066/67	0.249	0.004802
2067/68	0.317	0.00002
2068/69	0.393	0.00558
2069/70	0.301	0.000299
	$\bar{X}=2.228$	$d^2= 0.011113$

Here,

Average ( $\bar{x}$ ) = 0.3183

Standard deviation ( $\sigma$ ) =0.04

C.V. =12.57%

## Appendix- 9

### Capital Employed Turnover Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	0.19	0.002116
2064/65	0.20	0.001296
2065/66	0.20	0.001296
2066/67	0.26	0.000576
2067/68	0.27	0.001156
2068/69	0.27	0.001156
2069/70	0.26	0.000576
	$\bar{X}=1.65$	$d^2= 0.00817$

Here,

Average ( $\bar{x}$ ) = 0.236

Standard deviation ( $\sigma$ ) = 0.034

C.V. = 14.41%

## Appendix- 10

### Cash and Bank Balance Turnover Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	0.15	0.0004
2064/65	0.12	0.0001
2065/66	0.17	0.0016
2066/67	0.10	0.0009
2067/68	0.11	0.0004
2068/69	0.15	0.0004
2069/70	0.11	0.0004
	X=0.91	$d^2= 0.0042$

Here,

Average ( $\bar{x}$ ) = 0.13

Standard deviation ( $\sigma$ ) = 0.024

C.V. = 18.46%



## Appendix-11

### Loans and Advances to Total Deposit Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	71.01	7.51
2064/65	75.13	1.90
2065/66	76.49	7.51
2066/67	71.68	4.28
2067/68	74.61	0.74
2068/69	75.51	3.10
2069/70	71.81	3.76
	$\bar{X}=73.75$	$d^2=28.80$

Here,

Average ( $\bar{x}$ ) = 73.75

Standard deviation ( $\sigma$ )=2.03

C.V. =2.75%

## Appendix- 12

### Return on Loan & Advances Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	2.42	0.0676
2064/65	2.17	0.2601
2065/66	2.46	0.0484
2066/67	2.67	0.0001
2067/68	3.02	0.1156
2068/69	3.00	0.1024
2069/70	3.04	0.1296
	$\bar{X}=18.78$	$d^2=0.7238$

Here,

Average ( $\bar{x}$ ) = 2.68

Standard deviation ( $\sigma$ ) =0.322

C.V. =12.01

### Appendix- 13

#### Return on Total Deposit Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	1.72	0.0676
2064/65	1.63	0.1225
2065/66	1.88	0.0100
2066/67	1.92	0.0036
2067/68	2.25	0.0729
2068/69	2.26	0.0784
2069/70	2.18	0.0400
	$\bar{X}=13.84$	$d^2=0.3950$

Here,

Average ( $\bar{x}$ ) = 1.98

Standard deviation ( $\sigma$ ) = 0.24

C.V. = 12.12%

## Appendix- 14

### Return on Total Assets Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	1.49	0.0676
2064/65	1.38	0.1369
2065/66	1.66	0.0081
2066/67	1.73	0.0004
2067/68	2.01	0.0676
2068/69	2.01	0.0676
2069/70	1.95	0.0400
	$\bar{X}=1.75$	$d^2=0.3882$

Here,

Average ( $\bar{x}$ ) = 1.75

Standard deviation ( $\sigma$ ) = 0.24

C.V. = 13.71%

## Appendix-15

### Return on Capital Employed Ratio

Fiscal Year	EBL	
	X	$d^2=(X-\bar{X})^2$
2063/64	18.79	22.75
2064/65	19.74	14.59
2065/66	20.31	10.56
2066/67	25.51	3.80
2067/68	27.19	13.18
2068/69	27.28	1384
2069/70	26.11	6.50
	X=164.93	$d^2=85.23$

Here,

Average ( $\bar{x}$ ) = 23.56

Standard deviation ( $\sigma$ ) = 3.49

C.V. = 14.81%

## Appendix- 16

### Calculation of Correlation Coefficient between Current Assets and Current

#### Liabilities

X	Y	X=X- $\bar{X}$	Y=Y- $\bar{Y}$	X <sup>2</sup>	Y <sup>2</sup>	XY
15799.77	10446.08	(18814.72)	(13032.28)	353993742.43	169840284.8	245198690.90
21262.47	14288.35	(13352.02)	(9189.98)	178276476.23	84455706.14	122704790.80
26788.84	18435.89	(7825.72)	(5042.48)	61241915.88	25426590.14	39461032.61
36489.69	27293.33	1875.18	3814.92	3516294.67	14553625.51	7153658.92
40919.68	27799.31	6305.18	4320.92	39755276.82	18670361.99	27244181.20
45775.95	27625.95	11161.43	4147.57	124577487.76	17202348.76	46292822.24
55265.20	38459.70	20650.68	14981.32	426450525.46	224439991.70	309374453.40
<b>242301.65</b>	<b>164348.65</b>			<b>1187811719.25</b>	<b>554588909</b>	<b>797429630.10</b>

Here,

Average value of current assets ( $\bar{x}$ )=34614.52

Average value of current liabilities ( $\bar{Y}$ )= 23478.38

$$\text{Coefficient of correlation}(r) = \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

=0.9825, there is a high degree of correlation.

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

$$= 0.0088$$

$$6\text{P.E.} = 6 \times \text{P.E.} = 6 \times 0.005 = 0.0531 \text{ (Significant)}$$

## Appendix- 17

### Calculation of Correlation Coefficient between Total Deposit and Net Profit

X	Y	X-X̄	Y-Ȳ	X <sup>2</sup>	Y <sup>2</sup>	XY
13802.44	237.29	(17248.17)	(402.32)	297499269.80	161862.53	6939307.25
18186.25	296.41	(12864.36)	(343.20)	165491684.70	117787.22	4415065.75
23976.3	451.22	(7074.31)	(188.39)	50045821.55	35491.33	1332738.83
33322.95	638.73	2272.34	(0.88)	5163542.06	0.78	(2002.91)
36932.31	831.77	5881.70	192.16	34594428.50	36924.92	1130219.62
41127.90	931.30	10077.29	291.69	101551831.30	85082.22	2939431.16
50006.10	1090.56	18955.49	450.95	359310709.50	203354.61	8547952.43
<b>217345.25</b>	<b>4477.28</b>			<b>1013657287.38</b>	<b>640530.61</b>	<b>25302712.12</b>

**Here,**

Mean value of Total Deposit ( $\bar{X}$ ) = 31050.61

Average value of current liabilities ( $\bar{Y}$ ) = 639.61

Coefficient of correlation (r) = 0.9930, there is a high degree of correlation.

P.E. = 0.0035

6P.E. = 0.0213 (Significant)