

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the poorest and least developed countries in the world with about the 30.85 percentage of its population is living below the poverty line. Agriculture is the mainstay of the economy providing a livelihood for over 68 percentage of the population and accounting for 40 percentage of GDP and its annual per capita income about US \$320 in 2007/2008. Industrial activity mainly involves the processing of agricultural products including jute, sugarcane, tobacco, ghee, soap, noodles, matches, shoes, chemicals, cement, bricks etc. Industrial growth rate is not sufficient for general growth of the national economy. But it can be said that industrialization is the back-bone of the national economy and it is important factor for achieving the basic objective or country's economic and social progress.

In Nepal, industrialization started very lately. It's completely new phenomenon in Nepal. Industrialization in Nepal had started only after the establishment of Council of Industry in 1936. Before that, there were cottage and unorganized small industries, operated to produce handicraft goods. The contributions of traditional entrepreneurs like goldsmith, blacksmith, etc. are also the source to industrialization. Biratnagar jute mill opened the door of the organized industry in the country. After that, industrial growth was accelerated as some other industries were set up in Biratnagar with collaboration of some Indian businessmen.

After dawn of democracy in 1951, Manufacturing industrial development started getting regular attention from the government. Nepal started planning industrial development with the launching of the first five-year development in 1956. After planned programs, several industries were established in the public sectors. Even after planned effort from industrialization, Nepal remained as a slow industrialized country in the world. The situation of manufacturing industrial development growth was not satisfactory. Thus, the government changed its policy from state lead economy to market-lead economy after mid 1980s.

The government of Nepal took the privatization policy in order to contribute to the manufacturing and processing industrial development. Nepal was the first country to formulate privatization act among the SAARC countries and before the privatization, it implemented the liberalization. In the end of the ninth plan (1997-2002), 17 public industries were privatized. The government has motivated the private industries with the procedures of one window policy and by forming industrial Act. Policy more liberal and effective for the investment on joint ventures and collaboration. The first industrial policy was announced in 1992, which encouraged private sectors to participate in business. Its objectives were- to increase the contribution of industrial sector- to put emphasis on the development of industries utilizing local resources and to reduce pressure of underemployment (*Industrial Policy; 1992: 50*).

The industrial sector which of various kinds, provides many facilities to the industrial sectors. Many institutions, government agencies, chambers, and associations are facilitating for the development of industrial sectors. Federation of Nepal Chambers of Commerce and industry, industrial enterprises development institute, industrial promotion board and Nepal transfer and warehousing company play effective role in the industrial development of Nepal. There should be good co-ordination between government and industrial sectors for industrialization. Industrial sector has to consider the interest of people, society and government. The government facilitates the industrial sector in many ways. It is responsible for the formulation of appropriate policy, rules, regulations, Act and providing facilities, which are needed for the smooth operation of to operate the industrial activities and solve the various industrial problems. Different analysis shows that the economic growth of industrial sector is not satisfactory. Instability of the government, unclear policies, security problems, undeveloped infrastructure, unhealthy competition and Political crisis etc are external problems on the one hand, and on the other hand, they are suffering from the problems of internal operation. The economic indicators are unsatisfactory and most of economic sectors are unbalanced. Although agriculture plays a vital role in Nepalese economy, this sector is not sufficient enough for economic development. So it needs to emphasis on the development of economic sector.. Industry is one of the branches of business that helps for

- Social and life style change.

- Optimum utilization of resources.
- Modernization.
- Poverty elevation.
- Improving all the factors of economic growth of country.

So, industrialization is the most important factor for Nepal's economic development. In spite of the all there possible factors in the country, Still lagging behind economically unfavorable and immature industrial policies and many loopholes in financial policies, undeveloped capital market, money market and banking facilities and in numeral other problems, such as lack of institutional support for entrepreneurial development, unstable and polluted political environment etc.

1.2 Focus of the Study

The main purpose of this study is comparative financial analysis of manufacturing and processing companies. This study mainly focuses on the comparative financial analysis of Bottlers Nepal Ltd. and Bottlers Nepal,(terai). Especially, more attention has been paid to factors considered appropriate for the financial mix. The manufacturing companies should pay necessary attention to the financial components and try to focus upon the study of overall financial position analysis by using appropriate tools.

Optimal financial position plays a vital role in every organization. So, this study tries to evaluate the optimality of their financial analysis, using various financial variables with the purpose of comparative analysis. The study evaluates the financial analysis based on various variables related to the income statement, balance sheet, cash flow analysis and similar related variables. The decision on Financial position primarily affects the overall cost of capital, value of the organization, EPS ratio, liquidity ratio and organization is financial performance.

1.3 Introduction of the Companies under Study

Manufacturing and processing sectors are playing leading role in the economic growth in Nepal. They are mainly:-

1.3.1 Bottlers Nepal Limited

Bottlers Nepal Ltd was established in **1973** as a private ltd **Company Act 1964**. It was converted into public company in **1984**. The main objective of the company is to produce and bottle soft drinks under the brand name of Coke, Fanta, Sprite etc.

The company has established a subsidiary company Nepal (Terai) limited, in Chitwan District. F and N coca cola pvt ltd; Singapore, the major shareholder of the company, is managing the company since September **1993**. The installed capacity of the plant is **220** bottling per minute (BPM).

1.3.2 Bottler Nepal Limited (Terai)

Bottlers Nepal (Terai) ltd, a subsidiary company of Bottler Nepal Ltd, Balaju, Kathmandu was established in **1986** under the **Company Act, 1964** with the objective of producing the bottling soft drinks under the brand name of Cock, Fanta, Sprite, etc.

The company's situation in Chitwan district is under the management of F and N Coca cola pvt, ltd; Singapore since September, **1993**. The installed capacity of the plant **350** bottling per minute (BPM).

1.4 Statement of the Problem

Nepal is the country which has adopted mix and dual economy, needs industrial development and improvement because it has been depending upon agricultural sector that contributes the least and it support the economic development of the nation that is about 40 percentage of Gross Domestic Product.

Although, manufacturing industrial sectors should be one of the alternatives for the improvement of economic factors, they have many more problems, barriers due to which some of them are n the verge of closure. The problems are describe as below on the basis of listed manufacturing companies in SEBO/N.

- The manufacturing and processing industrial sectors are not able to utilize the available resources and the total production capacity is still very low. According to fiscal year 2006/2007, the cigarettes and jute industries have utilized 87

percent and 72 percent of their production capacity respectively. Also matchstick, sugar, shoe, cement and beer and have utilized the production capacity of 65 percent, 31 percent, 40 percent, 49 percent and 72 percent respectively.

Source: Annual Report of SEBON 2006/2007

- Total market capitalization of manufacturing sector is very low. i.e 1.15 percent
- Annual turnover 0.12 percent, (Rs 26.08 million).
- The financial performance of the listed manufacturing and processing companies are very low in the comparison of the other companies listed in NEPSE.
- Political crassness, Government instability, Strike and difficulty environment.
- The most of manufacturing companies are weak to provide return on equity capital. Because most of the companies don't declare dividend to their equity holders (SEBO/N Annual report; 2008/2009).

Thus the problem toward which this study is directed is assessment of financial operation of BNL and BNLT . So, the present research tries to solve the following research questions

- What is the position of BNL and BNLT to meet their current obligation?
- What are the sources of long term financing of BNL and BNLT?
- What is the relation between the major financial indicators (i.e. sales, net income, fixed assets, current assets, current liabilities etc.) of BNL and BNLT?
- What is the comparative position of BNL and BNLT in terms of liquidity, profitability, turnover, leverage?

1.5 Objective of the Study

The main objectives of the research are to examine and study an analysis of financial performance of the listed manufacturing companies in Nepal.

- To study about the financial liquidity position
- To examine the liquidity, profitability, leverage position of selected companies.
- To find out the relationship between financial indicators (i.e. sales, net income, fixed assets, current assets, current liabilities etc).
- To compare financial position of selected company.

- To recommend the corrective measures for betterment of financial performance of these companies.

1.6 Signification of the Study

The present research work is the study of the financial statement of listed manufacturing companies in Nepal. This study will be significant in the following ways:-

- The study is based on the financial performance of mfg. and processing company limited which helps the concerned companies to formulate strategies to face the increasing competition and to achieve the target objective.
- This study will provide information to these who are planning to invest in mfg. and processing company limited
- With the help of the report this study the management may apply corrective measures for the company's performance.
- The study will help general public to know about the overall financial position of mfg. and processing company limited.
- It explores the problem and potentialities of the stated listed manufacturing and processing companies. It will be useful to the potential investor, lender, creditors, management, government and shareholders.
- The study will be helpful for future researcher. At last the researcher can say the study will be beneficial for all persons who directly or indirectly keep keen interest on Nepalese economic and financial position.

1.7 Limitation of the Study

As every research has its own limitation, this study is not biased. Basically the research is done for the partial fulfillment for MBS degree in management. This study is concerned with the financial performance of sample of listed and regularity manufacturing companies only. The limitations of the study are given below:-

- The study is concerned with analysis financial position of the selected company. It is only concerned with financial aspect of the companies. .
- Findings and suggestions may not be applicable exactly to other private or public companies.

- This analysis is based on financial statement which records historical facts. Thus this analysis fails to disclose current worth of the companies.
- Due to availability of limited information this study will not cover every part of the performance aspects.
- This study is fully based on the secondary data. Reliability of the finding depends upon the trustworthiness of the sources of data.
- Mostly information data collected from the annual reports of SEBO/N was for three previous years only, the companies having some offices in Kathmandu valley are included in opinion survey.
- Financial constraints and time are also the major limitations of the study.

1.8 Organization of the Study

This study has been comprised of three chapters, each devoted to some aspects of financial performance. The titles of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here.

Chapter I: - Introduction

The first chapter deals with the subject matter consisting of introduction, historical development of industry in Nepal, a brief profile of the cited manufacturing companies, identification of the problem, significance of the study, objectives, limitations, research hypothesis and organization the study.

Chapter II: - Review of Literature

The second chapter concerns with literature review that includes a discussion on the conceptual framework and review of major-studies relating to the study.

Chapter III: - Research Methodology

The third chapter describes the research methodology adopted in carrying out the present research. It deals with research design, sources of data, data processing procedures, population and sample, period of the study, method of analysis and financial and statistical tools.

Chapter IV: - Presentation and Analysis of Data

The fourth chapter is concerned with presentation, analysis and interpretation of data. The segment where the data required for the study are presented, analyzed and interpreted by using the tools and technique of financial management such as ratio analysis and statistical tools i.e., coefficient of variation, correlation coefficient and regression analysis.

Chapter V: - Summary, Conclusion & Recommendations

The fifth and the final chapter are concerned with the suggestive framework that consists with the overall findings, conclusions and recommendations of the study. The bibliography and appendices are incorporated at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

“Literature review is basically a ‘stock taking’ work of available literature. So, it provides required depth of knowledge for conducting research. The purpose of literature review is thus to find out what principles are established and research studies have been conducted in the field of study, and what remains to be done” (*Wolf and Pant; 1999: 30*). To make meaningful research study, the conceptual review has been done through the study of various books and articles. In addition, researches conducted by the previous researchers in the field of financial performance have also been reviewed by studying their research work, thesis, dissertation etc. So, this chapter ‘Literature Review’ has been divided into the following two sections.

- Theoretical\Conceptual review
- Review of related studies

2.1 Theoretical \Conceptual Review

In this section, books by different writers are reviewed. This makes clear about the conceptual foundation of this study. Views of different writers and scholars have been reviewed to may be exact a board concept on the field. Under this section, concept of financial performance, definitions and assumptions are well reviewed to make the study more clear.

2.1.1 Concept of Financial Performance

Profit is essential for an enterprise for its survival and growth and to maintain capital adequacy through profit retention. Profit is one of the indicators of sound financial performance. It is usually the result of sound business management i.e. cost control, credit-risk management and general efficiency of operation. Profit is important for any business concern including cement industries but sole objective of such institution is not profit.

“Financial performance analysis is the purposeful and systematic presentation of information in the financial statement by developing relationship between one fact with other in order to measure the profitability, solvency, liquidity, operational

efficiency and the growth potential of the business”. (Sharma; 1998: 235)“Financial performance analysis is the process of identifying the financial strengths and weaknesses of the properly established relationship between the items of the balance sheet and profit and loss account. Financial analysis is the key tool for financial decision and starting point for making plan before using sophisticated forecasting and budgeting procedure. The value of this approach is that the quantitative relation can be used to diagnose strength and weaknesses of the firm's performance” (Pandey; 1998: 500).

2.1.2 Financial Statement

Financial information is needed to predict, compare and evaluate the firm’s earning ability. Financial information about the firm can be obtained from financial statements. The Income statement, the Balance sheet and Cash flow statement are called financial statement. Financial statements are the end produced of accounting activity carried out during the accounting period. The financial statements are historical records and relate to a past period, normally of one year duration. However some business enterprises prepare their financial statements more frequently. In U.K financial reporting has become relatively standardized and dependable. The financial statements represent fairly the financial condition of the companies preparing them, auditors focus on the choice of accounting principles and their consistent application. A financial statement is a record of the effects of management's decisions and of management's success in completing the assets conversion cycle. Financial statement considered followings:-

- Income statement
- Balance sheet
- Cash flow

2.1.2.1 Income Statement

One of the major statements of financial information is the income statement. It is also known by several other titles such as profit and loss statements, statement of earnings and statement of operations. The income statement portrays, as a flow statement of the operations over/during a particular period of time. Since the purpose of every business firm is to earn profit, the operations of a firm in a given period of

time will truly be reflected in the profit earned by it. Thus the income statement reports the results of preparation in terms of income net profit in a year. In operational terms, "The accounting report that summarizes the revenue items the expenses items and the difference between them for an accounting period is called the income statement". (Khan and Jain; 1992: 166) "Income statement is prepared to ascertain the net profit or loss from the business operations. It is also called profit and loss account. It contains all the items of revenue or gains, losses and pirating expenses, relating to the accounting period but the emphasis in this account are on indirect expenses" (Sharma; 1998: 151).

2.1.2.2 Balance Sheet

The Balance Sheet is the statement of the firm's assets or resources and owner's equity and liabilities or debt. It is also called the statement of the financial position because it shows the position of the firm on a certain date. Balance sheet communicates information about the assets, liabilities and owner's equity for a business firm as on a specific date. "A Balance Sheet is an accounting statement prepared from accounting balance at a given date. It shows the financial position of a business by dictating the source of funds. A balance sheet shows the assets and liabilities group, properly classified and arranged in specific manner" (Juneja, Chawala and Saxena; 1991: 21).

2.1.2.3 The Statement of Cash Flow

Cash flow is very important for a business firm to continue business activities such as payment of daily expenses, financial liabilities, purchases of assets etc. value of the firm and assets of the firm depends on the cash flow. Cash flow statement is the statement of the cash inflow and out flow, which shows the available to investors the long run, and the position of firm.

Cash flow includes the cash receipt and the cash payment. To calculate net cash flow, we need to add such non - cash expenses into net income calculate from income statement. Similarly, non - cash incomes are deducted. So,

Net Cash flow (NCF) = Net Income + Non Cash expenses – Non Cash Revenues.

Or,

Net Cash flow (NCF) = cash from operating activities + cash from investing activities
+cash from financing activities

2.1.3 Financial Statement Analysis

"Financial Statement Analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements." (Jain and Narang: 1988). The first task of financial analysis is to select the information relevant to the decision under consideration from the total information contained in the financial statement. The second step involved in financial analysis is to arrange the information in a way to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusions. "Financial Analysis is the process of selection, relation and evaluation," (*Meigsetal; 1978: 1049*).

2.1.4. Tools of Financial Statement Analysis

2.1.4.1 Fund Flow Statement Analysis

"Funds flows statement summarizes, for a given period, the resources made available to finance the activities of an enterprise and the uses to which such resources have been put. Over the years, it is being treated as an integral part of the financial statements. It reflects the management's efforts in generating funds from various sources and the uses to which they are put for generating income without sacrificing the financial health of the entity. Thus Fund flow Analysis is an important tool employed for financial analysis. It involves expression of the different sources of fund by which the funds between dates have been generated and the application of the fund so generated" (*Manmohan and Goyal, 1983: 509*).

"The funds flow statement describes the sources from which additional funds were derived & the use to which these sources were put" (*R.N Anthony*).

2.1.4.2 Comparative Financial Statement Analysis

"Comparative financial Analysis is the statement of the financial position of a business so designed as to provide time perspective to the consideration of various elements of financial position embodies in such statements. The focus of the financial

analysis is on key figures contained in the financial statements and the significant relationship that exist between them.” (Khan and Jain; 1992: 79) “Financial Analysis may be of two type’s vertical analysis and horizontal analysis. When a financial statement like balance sheet or a profit and loss account of a certain period only is analyzed, the analysis is called vertical analysis. Since it measures the position of the business at a point of time it is also known as static analysis” (*Saravanaver; 1992: 20*). In horizontal analysis, a series of statements relating to number of years are reviewed and analyzed. It is also known as dynamic analysis because it measures the change of position or trend of the business over a number of years. Comparative of financial analysis considered following are:-

- Comparative income statement
- Comparative balance sheet
- Comparative cash flow analysis

Comparative Income Statement

"Comparative Income Statement shows the pirating result for a number of accounting periods so that changes in absolute date from one period to another period may be stated in terms of absolute change or in terms of percentage" (*Jain and Narang; 1998: 34*).

Comparative Balance Sheet

Comparative Balance Sheet shows the changes in financial position of a firm, for a number of accounting periods, in absolute terms or in terms of percentage.

Comparative Cash Flow Analysis

Comparative cash flow analysis shows the particular period cash inflows and cash out flows. It analyze and other users of financial information can compare the present value of the future cash flow of the firm. Historical cash flow information could be useful to check the accuracy of past assessment.

2.1.4.3 Ratio Analysis

“A ratio is simply one number expressed in terms of another .it is found by dividing one number by the other” (*A.N. Anthony*).

“Ratio analysis is the systematic use of ratio to interpret the financial statement so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined” (*Khan and Jain; 1992: 80*).

“Financial ratios help us to find the symptoms of problems. The cause of any problem may be determined only after locating the symptoms. The operational and financial problems of a corporation can be ascertained by examining the behavior of these ratios (*Pradhan; 1986: 14*).

Types of Financial Ratios

- Liquidity ratios
- Capital structure /debt ratios
- Assets management ratios
- Profitability ratios
- Market value ratios

Liquidity Ratios

The liquidity ratios measure the ability of a firm to meet its short term obligations and reflect the short term financial strength /solvency of the firm. The ratios which indicate the liquidity of a firm are: I) Net working Capital II) current ratios III) acid test /quick ratios and IV) turnover ratios.

- Current Ratios
- Acid test /Quick ratio
- Net Working capital

I. Current Ratios

The current ratio is the mathematical relationship between current assets and current liabilities.

”The current ratio of a firm measures its short term solvency, i.e. its ability to meet short term obligations. Current ratio equal to 2.1 i.e. current assets double the current liabilities, is considered to be satisfactory one. If the ratio is less than 2 difficulty may be experienced in the payment of current liabilities and day to day operations of the business may suffer” (*Jain and Narang; 1998: 60*).

II. Acid Test /Quick Ratios

Quick ratio is the mathematical relationship between quick assets and current liabilities. Quick ratio equal to 1:1 is considered to be satisfactory one. It is considered that if the quick assets are equal to current liabilities, then the firm may be able to meet its short term obligations without any financial difficulties to it.

III. Net Working Capital (NWC)

Net working capital represents the excess of current assets over current liabilities. NWC is the difference between Current assets and current liabilities. Current assets refer to assets which can be converted into cash over a short period, usually not exceeding one year by a company.

Capital Structure /Debt Ratio

Leverage ratio or capital structure ratio may be defined as financial ratios which throw light on the long term solvency of a firm reflected in its ability to assure the long term creditors with regard to (I) periodic payment of interest during the period of the loan and (II) repayment of principal on maturity or in predetermined installments at due rates. Following ratios are included under leverage ratio.

- Debt – equity ratio
- Debt to total assets ratio
- Debt – total capital ratio
- Interest coverage ratio

I Debt –Equity Ratio

“This ratio establishes the relationship between debts and shareholder's funds (equity) It indicates the safety margin to long –term creditors. A low debt –equity ratio implies the use of more shareholders funds than long term debt which means a larger safety for creditors. A ratio of 1:1 is taken as ideal ratio, lesser the better” (*Sharma; 1998: 246*).

II. Debt –Total Capital Ratio

This is ratio between debt and total capital of a company. It is a variation of the debt and gives indications as to the ability of meeting the liability out of its long term

funds. It indicates the margin of safety to long term creditors. A low debt to total capital ratio implies the use of more equity than debt. This ratio is particularly useful when an organization is facing serious situation of survival (Sharma, 1998: 247).

III. Debt to Total Assets Ratio

This ratio measures the extent to which borrowed funds have been used to finance the company's assets. It is related to calculate total debt to the total assets of the firm. The total debt includes long term debt and current liabilities. The total assets consist of permanent assets and current assets.

IV. Interest Coverage Ratio

This ratio measures the debt servicing capacity of a firm insofar as fixed interest on long term loan is concerned. As the name suggests, this ratio shows how many times the interest charges are covered by the EBIT out of which they will be paid.

Assets Management Ratios

“Assets management ratios measures how quickly certain current assets are converted into cash. The greater the rate of turnover or conversion, the more efficient the utilization/management, other things being equals.” (Khan and Jain; 1992: 110) The three relevant turnover ratios are:

- Inventory turnover ratio
- Debtors turnover ratio
- Fixed assets turnover ratio
- Total assets turnover ratio

I. Inventory Turnover Ratio

“This ratio establishes the relationship between costs of goods sold and average inventory. It measures the ability of the firm to utilize the inventory. It indicates the speed with which it is converted into cash. Generally, a high ratio indicates either the same volume of sales has been maintained with lower investment in stocks or the volume of sales has increased without an increase in the amount of stocks” (Sharma; 1998: 249).

II. Debtors (Receivables) Turnover Ratio and Collection Period

Debtor's turnover ratio is a test of the liquidity of a debtor of a firm. It shows how quickly receivables or debtors are converted into cash. The liquidity of a firm's receivables can be examined in two ways.

- Debtors /Receivables turnover.
- Average collection period.

“The debtors’ turnover shows the relationship between credit sales and debtors of a firm whereas; average collection period measures the liquidity of a firm's debtors. This ratio is in fact interrelated with and dependent upon the receivables turnover ratio” (*Khan and Jain; 1981: 113*).

Profitability Ratio

I. Profitability ratios in relation to sales

- Gross profit margin
- Net profit margin

(a) Gross Profit Margin

This ratio establishes a relationship between gross profits to net sales and is generally expressed in percentage. It indicates the degree to which the selling price of goods per unit may decline without resulting in losses from operations to the firm. It also helps in ascertaining whether the average percentage of mark up on the goods is maintained.

(b) Net profit Margin

It established the relationship between net profits to net sales and is generally expressed in percentage. It indicates the net margin earned and what proton of sales is left to pay dividend and create reserves. Higher the ratio, the more efficient is the operating management. Profitability ratio based on investment includes.

II. Profitability Ratios in Relation to Investment

- Return on shareholders’ equity(ROSE)
- Return on capital employed (ROCE)
- Return on assets (ROA)

(a) Return on Shareholder's Equity (ROSE)

This ratio measures a relationship between net profit after interest and tax, shareholder's fund. It indicates the firms' ability of generating profit per rupee of shareholder's fund. Higher the ratio, the more efficient the management and utilization of shareholder's funds.

(b) Return on Capital Employed (ROCE)

This ratio provides a test of profitability related to the sources of long term funds. "A comparison of this ratio with similar firms, with the industry average and over time would provide sufficient insight into how efficiently the long term funds of owners and creditors are being used. The higher the ratio, the more efficient is use of the capital employed" (*Khan and Jain; 1981: 104*).

(c) Return on Assets (ROA)

It studies a relationship between net profit and total assets. "It indicates the firm's ability of generating profit per rupee of total assets. It also evaluates the present return on the total assets as a guide for returns expected on future purchase of assets. Higher the ratio, the more efficient is the operating management" (*Sharma; 1998: 260*).

Market Value Ratios

The market value ratio represents a group of ratio that the firm's stock price to its earning and book value and give a management an indication of what investors think about the company's past performance and future prospects.

I. Price Earnings Ratio

It measures the amount investors are willing to pay for each rupee of the firm's reported profit. The Higher P/E ratio, the greater is the investor confidence.

II. Market to Book Value Ratio

The ratio of stock market price and its book value gives the indication of how investors regard the company.

2.1.5 Limitations of Ratio Analysis

Ratio analysis is a widely used technique to evaluate the financial position and performance of business firm. But there are certain problems in using ratio analysis. The analyst should be aware of these problems. The followings are the limitations of ratio analysis.

It is difficult to decide on proper basis of comparisons.

- Different companies have different accounting periods, implying differences in the composition of the assets, particularly current assets. This may limit the comparative study of ratios between two firms..
- The price level change makes the interpretation of ratio invalid.
- Fails to disclose current worth of enterprises.
- The ratio calculated at a point of time is less informative and detected as they suffer from short-term change.
- Ignores qualitative aspects.
- The ratios are calculated from past data statement that are no indicators of future.

2.1.6 Predictive Power of Financial Ratios

Reliance on certain ratios depends on the analyst's perception of their predictive power relative to the problem at hand a perception based on their subjective beliefs or empirical analysis. In predicting the future value of a stock, an investor might feel that the return on investment ratio and various profit margin ratios would be the greatest help. Most estimates of the predictive power of financial ratios are best on the analyst's past experience with them. By their very nature, then, these estimates tend to be subjective and to differ from one analyst to the next.

A number of empirical studies have tested the predictive power of financial ratios. In many of these studies, financial ratios are used to predict business failure. Others have tested the power of financial ratios to predict corporate bond rating. With these ratios as the dependent variable, regression analysis and discriminate analysis have been employed, using various financial ratios for a sample of companies. The best ratios for predictive purpose are debt-to-equity, cash flow- to-debt coverage and its stability,

return on investment, size, and earnings stability. On the basis of these studies, it appears that a handful of ratios can be used to predict the long-term credit standing of a firm.

2.1.6.1 Predicting Financial Distress

For our purposes, financial distress is the event of particular interest (For a discussion of failure and bankruptcy laws). William H. Beaver was the first to use statistical techniques to predict corporate failure. A broad definition of failure was employed, namely, the inability to meet financial obligation of any type. Beaver collected a large sample of firms that failed. Another firm was compared with each of these companies---a firm that did not fail, that was in the same industry, and that was of approximately the same size as the firm that failed. The data collected for the non-failed companies were for the same years as those for the failed firms. These samples were used to test the predictive ability of 30 financial ratios. The mean values of the ratios for the two samples were compared over the 5-year period prior to failure. The mean ratio for the failed firms was found to be significantly lower and to deteriorate markedly as failure approached. Although not all of the ratios predicted failure equally well, many showed excellent predictive power.

In a similar type of study, Edward I. Altman employed multiple discriminate analyses to predict bankruptcy, using a various financial ratios. Altman worked with a sample of corporations that field for bankruptcy. Like Beaver; he collected a paired sample of non-bankrupt firms on a stratified random basis. Starting with 22 financial ratios, he selected the 5 that did the best combined job of predicting bankruptcy. These ratios were used to discriminate between bankrupt and non-bankrupt firms, using data from 1 to 5 years prior to bankruptcy. As expected, the predictive accuracy of the multiple discriminate models declined with the increase in years prior to bankruptcy; however, the model was able to failure quite well up to 2 years before bankruptcy. The Z score model itself was following:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + .6X_4 + 1.0X_5$$

Where,

X_1 = working capital to total assets

X_2 = cumulative retained earnings to total assets

X_3 = earnings before interest and taxes to total assets

X_4 = market value of equity to book value of total liabilities

X_5 = sales to total assets

The Z ratio is the overall index of the multiple discriminate functions. Altman found that companies with Z score below 1.81 (including negative amounts) always went bankrupt, whereas Z score above 2.99 represented healthy firms. Firms with Z scores in between were sometimes misclassified, so this represents an area of gray. On the basis of these cutoffs, Altman suggests that one can predict whether or not a company is likely to go bankrupt in the near future (*Vanhorne; 2005: 366*).

2.1.6.2 Zeta Model

Because of a changing underlying environment for bankruptcy as well as the desire for other improvements in the Z score model, the Zeta model was developed by Altman and others. The authors extended the Z score model to include, among other things, the capitalization of leases, and they updated its application. A sample of 53 bankrupt firms and a matched sample of 58 non-bankrupt firms were employed. Manufacturing and, for the first time in any study, retailing companies were included. On the basis of discriminatory ability, 27 original variables were reduced to 7: the return on assets ratio, the stability of earnings, the interest coverage ratio, the retained earnings to total assets ratio, the current ratio, the common equity to total capital ratio, and the size of total assets. Using a linear discriminate model, the authors were successful in predicting bankruptcy up to 5 years prior to failure. Successful classification ranged from 96 percent 1 year before failure to 70 percent 5 year before failure, a better performance than the Z score model. Both quadratic and linear models were tested, with linear function winning out.

Unfortunately for those of us interested in the process, the Zeta model was developed with a private party, called ZETA services, Inc., so that the coefficients are not published. While the model is used in practice, one must be a subscriber to the service to obtain its output. This output consists of Zeta scores for each of the past 10 years on several thousand firms, together with certain other financial data (*Vanhorne; 2005: 367*).

2.1.6.3 Other Studies

In addition to the studies described, there has been other empirical work on distress prediction. Space does not permit a thorough review, but we will mention one study. Abdul Aziz and Gerald H. Lawson use a cash-flow-based model (CFB) to predict corporate bankruptcy. The various components of cash-flow operating, investing, financing, and liquidity changes are employed. Testing the predictive accuracy of the model for 1 to 5 years prior to bankruptcy, the authors find 92 percent accuracy for 1 year prior to the event, decline to 72 percent 5 years before. In comparing their results with those for Altman's Z model and the Zeta model, the CBF model is found to be slightly more accurate than the former and slightly less accurate than the latter. However, the comparisons are mixed with little in the way of statistically significant differences; all three models do a good job.

Additional studies have used regression analysis, discriminate analysis, conditional probability models, and LOGIT techniques to predict financial failure on the basis of financial ratios. Some of these studies are listed in the references at the end of the chapter. It appears that the signs of potential failure are evident before actual failure occurs. For the creditor, the lag allows time to take corrective actions (*Pradhan Radheshyam; 2004:64*).

2.1.6.4 Some Final Observations

As a result of the empirical testing of financial ratios, we have a better understanding of which ratios are important in predicting certain types of events. Rather than analyze a host of ratios indiscriminately, the financial analyst can hone in on those ratios that are really important with respect to the problem at hand. These are the ratios that have predictive ability. In addition to telling us which ratios are important, empirical testing can show us how these ratios can best be combined so that the analysis is most meaningful in prediction of a future event. As a result of this work, financial ratio analysis has become more scientific and objective than before.

One indication of this is expert systems. Computer software mimics the reasoning process of experienced financial analysis. When the company being analyzed is relatively straightforward in its financial statements, the software routine will analyze the statements and draw conclusions about the company's financial condition and

performance. The idea with an expert system is to leverage the talent of experienced financial analysis.

2.1.7 Trend Analysis

Different type of tools can be used to know the actual position of business concern, out of which trend analysis is one, which shows percentage changes in several successive years instead of between two years.

This method is immensely helpful in making comparative study of financial statement of several years. This method of analysis involves the computation of percentage relationship that each statement bears to the same item in the base year. A base year for the purpose of comparison is the earliest year. Comparison is made for the creation duration. This explains the direction to which the concern is proceeding. Trend analysis facilitates the horizontal study of data. But trend ratios are generally not computed for the entire item in the statements, as the fundamental objective is to make comparison between items having same logical relationship to one another.

Trend analysis reveals whether the current financial position of the company has improved over the past year or not. It shows which of the items moved in the favorable direction and which of them is in unfavorable direction. Though it is an important tool of analysis, it is bound by certain limitations. They are not trends for single balance sheet or income statement may not be very informative.

The study of a trend will indicate the direction of movement over a long period of time. One can get a better view of things unaffected by short-term percentage changes.

2.2 Historical Development of Industry in Nepal

According to the history of industry in Nepal, there was development of the industries some fifteen hundred years ago. At that time, especially cottage and small industries were established and operated and local people made the handicrafts good, wooden, statues and arts and they were famous around the world. Some historical facts indicate that Lichhivi Kings tried to promote exports oriented industries like wood carving

works, food products, statues, paper, silver coin etc. King Prithivi Narayan Shah has put stress to the industrial development to protect cottage industries by discouraging imports.

The “Udhyog Parisad” was constituted to develop industrial and commercial activities within the country in early 1935. After the establishment of the board, other specialized organization succeeded named Khani Adda, Krishi Parisad, Nepal Kapada Ra Gharelu Illam prachar Adda and enactment of 'Company Law' in 1936 AD. The company Act was forced in 1936 and the various small, medium and large- scale industries were established in the private sectors. In the same year Biratnagar Jute Mill was established as first joint stock enterprises with an Authorized Capital of Rs 1.6 million and Paid -Up capital of Rs 0.8 million.

Nepalese planed started from after drown of democracy. Planned development was started in 2013 B.S. and the program of industrial development was considered for growing the economic development of country. So, Nepalese government initiated a periodical plan for industrialization.

During the first three (2013-2018BS) year plan, Industrial policy of Nepal was declared in 2014. This policy was replaced by a new policy in 2018B.S. The government had established a number of industries under the public sector. Industrial Development Center was established in 2014B.S, which was turned into Nepal Industrial Development Corporation in 2016B.S. The main objectives of the corporation were to provide financial and technical assistance to private industrialists and entrepreneurs.

During second three (2019-22BS) year plan, several industries like Matches, Sugar , Textiles, Metal, Transport, Hotels etc. were established by private sectors and in the public sector also various types of industries were started like Bansbari Leather and Shoe Factory, Janakpur Cigarette Factory and Birgunj Sugar mill, and. The industrial Estate of Balaju and Patan was established in the second plan.

During third three (2027-33B.S) year plan gave higher priority to the private sector as the previous plans. Industries established were a beer factory, a flourmill, a ghee

processing plant and a cement factory. The other achievement in this field of industrial development was the establishment of Industrial Services Center with a view of providing consultancy services, training and information. A new industrial policy was formulated in 2031 B.S.

The fifth three (2032-2037 BS) year plan was started in 2032 B.S, whose main objective was to increase the production of mass consumer goods, maximum utilization of labour force and regional of labour force and regional allocation of development resources. Moreover, the plan shifted emphasis from infrastructure to directly production investments. Industry established in this infrastructure to directly production investment. Industry established in this plan period under the government sector was Bhaktapur Brick Factory, Hetauda Textiles Factory and Agriculture Lime Industry. In the private sector, very few small-scale industries like flour, biscuit, soap and sugar were established.

The objective of sixth plan was to increase production, increase output and to create more employment opportunities. In the private sector, sweet, biscuit, shoes and rice etc and in the public sector were Herbs Production and Processing Company Limited , Bhirkuti Paper Industries, Lumbini Sugar Factory, Nepal Paper Industries, and Butwal Spinning Mills Ltd were established.

The objective of seventh three (2042-47) year plan was to focused on increase in industrial contribution to enhance gross domestic production to meet basic minimum needs of the people, to setup import substitution industries and to create employment opportunities. The policies were to promote industries based on local raw material, to increase contribution to GDP, emphasize the development of water resource, promote export trade, control population and so on. In the public sector, the industries established were Udaypur Cement Factory, Industrial District Management Limited and Economic Services Center Limited while in the private sectors was readymade garments, beer, distillery, cement, soap and cigarette.

The Eight three (2049-54 BS) year plan was launched in 2049 B.S after the restoration of Multiparty Democracy in the country. The plan focused on promotion of export oriented and import substitute Industries Act 2049 B.S and Industrial Policy

2049 B.S were introduced. The main objectives of this plan were to achieve sustainable economic growth to reduce poverty and regional imbalance (Joshi: 2058; 194).

The Ninth Plan had started from 2054 B.S and end of 2059B.S. The ninth plan had been implemented to continue liberal economy policy and strategy. This plan has focused the need of the country and the desire of the people.

The tenth plan had started from 2059 B.S and end of 2064B.S. The tenth plan had been implemented to continue liberal economy policy and privatization strategy and also the company ACT 2063. This plan has focused the need of the country and the desire of the people. The objectives of the plan are:-

- Targeted employment programs of deprived helpless, disable and senior citizens.
- Development of social sector through the development of infrastructure likes transaction, communication, health, drinking water, education and so on.
- Stress will be given on by participatory economic development for good governance.
- High, sustainable and broad based economic growth by formulating and implementing open and liberal economic policies and effective economic reform.

Three years eleventh plan has started from 2065. This plan has focused the need of the country and the desire of the people. The objectives of the plan are:-

- The main objective of this plan is to realize changes in the life of people by reducing poverty and existing unemployment and establishing sustainable peace.

The mainly focuses agriculture based industries, communication, electricity etc on this plan.

Source: National planning commission 2059 to 2064.

2.3 Review of Related Studies

There are so many studies, which are related on financial performance of manufacturing companies. They might be useful to this researched about those valuable inputs to this study.

There is more study about the public manufacturing companies as well as multination companies than private sectors. “The overall financial performance of private as well as multination company is better than that of public sector enterprises. The financial score of private sector enterprise is higher than that of public enterprises. Which can be concluded by observing the different studies?”

Much literature is available about public as well as private enterprises in general but there is no literature available with regard to beverage products. General literature merely emphasizes significance, development, scope and prospect of the enterprises. There is very limited literature about individual co-operative financial analysis of this type of industries.

Ratio analysis has a very broad scope. One aspect looks at the general (quantitative) factors of the company. The other side considers tangible and measurable factors (quantitative) factors. This means crunching and analyzing numbers from the financial statement. If used in conjunction with other methods, quantitative analysis can produce excellent results. Ratio analysis isn't just comports different numbers from the balance sheet, income statement, and cash flow statement. It's comparing the numbers against previous year, other companies, the industry or even the economy in general. Ratio look set the relationship between individual values and relate them to how a company has performed in the past, and might reform in the future. So, Review of literature is to study the concept that is developed in the area of same kind of research. It also helps to avoid the unnecessary duplication in the study. Many studies: thesis and researches have been done on financial performance analysis. They are mainly review of related studies are:-

- Review of Articles/Journals
- Review of Thesis

2.3.1 Review of Articles

J.K Pathak and O. Rajbhandari (1974) has made first research work on *Economic and Management Study of Public Enterprise in Nepal* .The study covered a period of eight years between 1964/65 and 1971/72. The study was based on financial reports of the enterprises questionnaire and meeting with chief executive. It has concluded that " due to the lack of proper governance in the sector of public enterprises the aim towards economic growth has not been achieved. Secondly no positive steps have been forwarded taken by the managerial level and no effective actions have been implemented in the overall topic of property management".

- Financial performance of the enterprises is poor and indicate mismanagement of available various types of resource.
- Financial reporting is very poor, this making all the more difficult for their management.
- Because of the lack of operational objectives application of long-range planning use of modern management tools, capital budgeting and effort toward cost control has not been made so far.
- The performance of public enterprise not only depends on its operation but also on the personality or nature of managers. But the nature of the managers of public enterprises in Nepal is mostly poor and further more these managers' deputations of government have not been trained in this area.

Monohar Krishna Shrestha (1983) has made a study on the "*Financing of EPS in Nepal*". His research reveals that:

- Turnover of public enterprises is sometimes seriously hampered by not allowing public enterprises suffered from turnover due to lower price.
- The fixed assets turnover is not much satisfactory as expected be achieved. In aggregate, the fixed assets turnover varies from 18% in the year 1971/72 to 50% in the year 1978/79.
- Account receivable turnover of public enterprises is very high, collection period in aggregate records is taken at a period of nine months for all public enterprise.
- There seems to be much fluctuation in inventory in turnover as it deviates from the lower of 1.09 to highest of 18.
- Most of the corporation have experienced lower turnover of working capital.

- The net worth turnover shows two different results. Some public enterprises have lowest turnover but does not seem to be much deviated and some public enterprises faced serious variation in net worth turnover.

A study conducted by **Radheshyam Pradhan** (1984) on financial ratios has focused on "*Behaviors of Financial Ratios in selected Public Corporation in Nepal.*"

The objective of this study was to compute analyze and interpret the financial ratios so as to determine their behaviors in Nepalese manufacturing and non-manufacturing groups of corporation and also in the sick and non-sick group of corporation. This study was based on secondary data. They were gathered for a period of twelve years from 1973 to 1984. The study has selected from the manufacturing sector and ten from non-manufacturing sectors. In this study altogether twenty-two financial ratios were calculated.

The major conclusions of this study are as follows.

Liquidity Ratios

- Generally Manufacturing Corporation had higher liquidity ratios as compared to the non-manufacturing corporation.
- Over the period of time liquidity ratio has declined in both Manufacturing and Nonmanufacturing Corporation.
- Liquidity ratios of the non-sick periods were higher than the ratios of the sick periods of corporations.

Turnover Ratios

- Generally the manufacturing corporations had a higher turnover in cash and receivables then the non-manufacturing corporation.
- On an average the turn over current assets, cash, receivable, inventories, fixed assets and total assets increased in manufacturing corporations over the period of time.
- The non-sick corporation has an average higher turnover asset, current assets, net working capital, cash, receivables and inventories then the sick corporations.

Profitability Ratios

Normally the manufacturing corporations had higher ratios of return on total assets profit margin on sales and return on net worth as compare to non Manufacturing Corporation.

Leverage Ratios

- The ratio of debt to total assets and total debt to net worth of Non Manufacturing Corporation were higher than the ratios of manufacturing corporations.
- The debt ratio appeared to have been increasing in the manufacturing as well in the non-manufacturing corporations. Expect for the ratio of total debt to net worth in the non-manufacturing corporation.
- The average ratio of total debt to total assets of Sick Corporation was higher than the non-manufacturing corporation.

Sanjaya Kumar Shrestha (1993) conducted a research with the objective of assessing the *"Financial Performance of Dairy Development Corporation."* He has used certain financial tools i.e. profitability analysis, ratio analysis, trend analysis, common size and comparative financial statement and fund flow analysis with a view to suggesting the strengths and weakness of various aspects of financial performance to evaluate financial health. The study covered seven year period (FY 2041/42 to 2047/48 B.S.). Some of the major findings of the research are:

- Sales have more than doubled during the study period expect during the accident period.
- Operating profit is always negative and profitability position are found to have been extremely dismal and widely fluctuating over the study period and had been incurring substation losses in most of years because of excessive coast of production.
- Liquidity position of the corporation is found fluctuating adopting no particular trend. It is satisfactory from the liquidity point of view but relatively much investment in the less productivity working capital.
- DDC is highly leveraged firm. The total assets of DDC have been financed more by debts capital 60% and the ownership capital 40% in an average.

- The corporation doesn't utilize its' resources effectively i.e. the assets have not been efficiently managed and utilized to generate adequate sales and profits. However the inventory turnover ratio of DDC seems moderate.
- Foreign aid and long term loan have been the most significant constituents of the total capital fund and increased over the study period, while the corporation fund is more or less constant through out the study period.

Radheshyam Pradhan, (2003) a collection of the selected published and unpublished research works in Nepalese finance under those books Pradhan studied formal Reposed "*Prediction of Financial Distress in Nepal: A Consensus Approach.*" This study provides behavioral evidence from 63 executives of Nepalese industries on the appropriateness of the choice of variables of prediction of financial distress. The study indicated the consensus on the short-term liquidity ratio as the important indicators of financial distress. The study also revealed that there is no significant difference between the choice of financial ratios by the private and public sector enterprise. This study was based on primary data generated through questionnaire. Nineteen enterprise in public sector and forty four enterprise in private sectors covered in this study represents the major enterprise in Nepal. The results suggest that there is a high degree of consensus among the respondents with respect to relative important of financial ratios for the predication of financial distress.

Particularly, the results support statistical models that used short-term liquidity as important predictors of sickness. The research entitled "*The Predictive Power of the Ratios of Nepalese Manufacturing PEs*" was undertaken by **Kalpna Paudel** (2005), submitted on February 1991. It analyzed six years financial statement from 2039/40 to 2044/45 B.S. Paudel took four profit making, four loss incurring and two other types (total ten) mfg. public enterprises for the study. The study was based on secondary data with the view to analyze the liquidity turnover, leverage and profitability ratios of manufacturing PEs and to judge their predictive power, to identify the appropriate ratio, to predict the financial health and performance of manufacturing PEs. Following are the major findings of the study.

- The average of liquidity ratios of profit making manufacturing PEs were found higher than loss incurring PEs but they had not predictive power as indicated by hypothesis testing.

- Turnover ratio of profit making manufacturing PEs was found higher than loss incurring ones. This was confirmed by the result of hypothesis testing suggesting that these ratios do possess predictive power.
- Likewise, the debt to net worth ratio, long term debt to total capitalization ratio and total debt to total assets' ratio of the profit making public enterprises were lower than those of the loss incurring ones. However the hypothesis testing confined their predictive power except the debt to net worth ratio.
- At the end, the researcher has ranked the following six ratios in order of their strength of predictive power. Total debt to total assets (the lower the better) operating ratio (the lower the better) inventory turnover ratio (higher the better) total assets turnover ratio (the higher the better) and quick ratio (the lower the better). So the study suggested every manufacturing public enterprise to calculate periodically the above mentioned six ratios of their own and check the figure of these ratios and if they were not justifiable, then try to improve the ratios by improving the financial performance in that regard.

Financial Statements of Some are Nepali Corporations

In July 2003, Publication of New Business Age, reporters has worked on Financial Statements of some are Nepali Corporations. A brief of the cover story: "A Probe into Necon Air. Salt Trading Corporation and Oriental Hotels" has been illustrated below. An analysis of the profitability of the company depicts that the company is incurring losses on each ticket sold and the contribution towards the fixed cost is negative as the revenue per passenger is decreasing year on year, whereas expenditure is increasing every year. Necon's liquidity position is very alarming with acute shortage of cash. The current ratio stood at 1.32 which is less than the minimum required standard of 2:1 hence the company is facing the risk of not being able to settle its current liabilities and may face liquidity and solvency problem. The net worth on Necon is already in negative with accumulated losses as at Ashad 2058 accumulating to Rs. 247, 847, 226 million against equity of Rs. 136 m 604 500 respectively.

The revenue of balance sheet reveals that the entire investments of the company have been financed by borrowing both short term and long term. Neon will have difficulty in borrowing additional funds in the future as it has excessively used the borrowing to finance its investment and with the alarming liquidity position and its inability to

service its interest and current maturity of debts. Another report on Salt Trading Corporation was presented under the same cover story. The review of the balance sheet reveals that the entire investment of the company have been financed by borrowing short term and long term STCL have used excessive borrowing rather than its owner's equity to fund its assets (debt ratio is calculated to be 92. 17 percentage). The debt equity ratio of SICL is 5:1 against a standard 2:1 This implies that STICL will have difficulty in borrowing additional funds in the future as:

- It has excessively used the borrowing to finance its investment.
- Has an alarming liquidity position
- Is unable to service it interest and current maturity of debts.

The debt of STCL has been increasing year on year. The company has not been able to service its debt to the commercial banks and financial institutions. Every year it has been obtaining new facilities with the newly established commercial banks whereas it has been defaulting in repayment of dues to the other commercial banks. The financial institutions are exposed to the risk of losing their investment in the company. Similarly financial analysis of (Raddison Hotel) oriental hotels calculates its ratio to be at 0.92 in the pervious year which is significantly lower than the standard required of 2:1 The Company is in liquidity crisis as the current ratio is 0.85 in the current year. The company has inadequate fund to meet the reported current liability. The operating leverage of the company is in the negative in the review year, which has deteriorated in the current year as compared to the operating leverage of 10.90 in the previous year. The profit before depreciation, interest and taxes was not sufficient even for covering the depreciation charge of the current year, which depicts the financial crisis in the organization. The interest coverage ratio of the company which stood at -0.28 (previous year minimal of 0.21) further puts light on the financial illness of the company (*New Business Age; 2003*).

2.3.2 Review of Thesis

This section is developed to the review of major related studies in thesis concerning financial performance analysis. There are many studies can be found in the topic of financial performance analysis of manufacturing companies in Nepal. In this part, past thesis are reviewed.

Previous studies are reviewed in this section. It consist thesis done by previous master's level student.

Arun Kumar Neupanne (1997) studied on “*A Comparative Financial Study about Birgunj Sugar Factory.*” The main objectives of the study were to analyze weather the financial performance of public enterprises i. e Birgunj Sugar Factory and Lumbini Sugar Factory are sound or not. The study was conducted from the year 2048/2049 to 2052/2053. The major findings were.

- Liquidity position of Lumbini Sugar Factory was better than Birgunj Sugar Factory.
- Total assets turnover ratio of Birgunj Sugar Factory was not better than that of Lumbini Sugar Factory.
- Net worth of Lumbini Sugar Factory was higher than Birgunj Sugar Factory.
- Overall profitability ratio of Lumbini sugar factory was better than Birgunj Sugar Factory.

The conclusion of the study was profitability position of Lumbini Sugar Factory was better than that of Birgunj Sugar Factory because average profitability ratio of Lumbini Sugar Factory was positive due to high amount of net profit whereas Birgunj Sugar Factory incurred net loss. The liquidity position of the Lumbini Sugar Factory was better than that of Birgunj Sugar Factory.

The long term solvency of Lumbini Sugar Factory was better than that of Birgunj Sugar Factory. The assets utilization of Birgunj Sugar Factory was better than that of Lumbini Sugar Factory because assets turnover ratio of Birgunj Sugar Factory was higher than that of Lumbini Sugar Factory.

Chamatkar Paudel (2003) conducted a study on “*An Analysis of Financial Performance of Manufacturing Company in Reference to the Bottlers Nepal Limited.*”

With the objectives of:

- To study the strength and weakness of various aspects of financial and operational structure with evaluate the financial wealth.

- The improvement of the financial performance of bottlers Nepal on the basis of finding.
- To examine the financial position.
- To inquire into the short term and long term financial strength.

This thesis is conducted through basically secondary data. The data had been collected from financial statement, reports and official records of BNL. The various ratios analyses are used to analyze the data. The major findings are:

- All the liquidation position is normal and sufficient condition for the company.
- The total asset through net worth is better and there is not any financial risk.
- The company sales increasing trend with new strategy.

The sufficient profit must be earned to sustain the operation of the company to be able to obtained funds.

This thesis is some points have been considered:

- The company has to increase its current assets to some extent, which is below the CR standard.
- His recommended, the company has to maintain it's ratios as well as total capital.
- Company has a sufficient margin to increase its sales at present due to increment of production capacity.
- Company has to expand in its sales in different kinds and explore the products.

Pardeep Kumar Pathak (2004) conducts a study on “*An Analysis of Financial Performance of Manufacturing Company in Reference to Nepal Lube Oil Limited (NLO Ltd).*”

It is considering three years financial statement (i.e. balance sheet, profit and loss account, income statement etc) of NLO ltd; he used ratio analysis, correlation of coefficient and tests of hypothesis as tools for the purpose of analyzing the financial performance of manufacturing company. According to some of the objectives are:

To study about the profitability and wealth evaluation and the short term and long term financial strength of mfg. and processing comp. Ltd; the comparative of financial analysis to profitability analysis, ratio analysis, trend analysis and funds flow analysis.

This thesis is conducted through basically secondary data. The data had been collected from financial statements, reports and officials records of NLO, report of auditors general and research project and other related document. The primary data have been collected through interviews and distribution of questionnaires to chief executives, members of boards, directors and employees. The various ratio analyses are used to analyze the data. The major findings are: The profitability position of NLO under study was good. Net Worth of the company has been continuously increasing due to the increase in profit. Against the increasing profit trend, company occurs some financial weakness. It has no long term debt and might have loosed the benefits of financial leverage and some has the recommendation are:

- It is recommended to have setting proper credit policy.
- It is recommended to have effective inventory control; they should pay attention to capacity utilization, ordering cost, and carrying cost.
- The firm should try to maintain the considerable liquidity position.
- NLO Ltd. is recommended to avoid the risk and have profitability to the company.

Ramakant Bhatara (2007) has prepared a thesis on “*Analysis of Financial Position of Nepalese listed Manufacturing Company in Reference to the Unilever Limited and Bottlers Nepal Limited.*”

With the Objectives of:

The Unilever Limited and Bottlers Nepal Limited study make comparison of overall financial position of the stated listed mfg., com. and the judge the credit worthiness of the stated listed mfg., companies to evaluate the capacity to re-pay the loan and interest.

This thesis is conducted through basically secondary data. Among the various tools, the following are some important tools used in analyzing financial statements; they

are comparative financial statement, and trend analysis, common size financial statement, and ratio analysis cash flow and funds flow analysis. The researcher has collected the data from secondary sources and analysis by comparative study on financial tools with statistical models.

The Major Findings are:

This study is found that the overall financial position of both the company is good during the study period. The bottlers Nepal Limited is more liquid than Unilever Limited and more secured to invest on it. For the long term money lenders/bankers both the companies are secured to provide loan as there is high probability of getting interest and principle at the time when it become due.

This Thesis Some has the Recommendation are:

- The company has to increase its current assets to some extent.
- His recommended, the company has to maintain it's ratios as well as total capital.
- Company has to full utilize its capacity to promote its sales and in ordered to ensure the future earning power of the company.

Madab Thapaliya (2008) conducted a study on “*A Comparative Study on Working Capital Management of Unilever Limited and Nepal Lube Oil Limited.*” The main objectives of the study were to analyze to examine the influence of working capital on profitability and the position of working capital in ULN Ltd., and NLO Ltd. This thesis was study the relationship of working capital pattern between the manufacturing and blending companies.

Among the various tools, the following are some important tools used in analyzing financial statements, and statistical tools. The researcher has collected the quantitative and qualitative data. The data has been directly extracted from the balance sheet and income statement of the company. The primary information has been collected through interview with the official of ULN and NLO Limited.

The major findings are:

- To find the major components of current assets in ULN and NLO Ltd are cash and bank balance, sundry debtors, inventory and miscellaneous current assets.
- As per the trend analysis the rate of change of 'b' cash and bank balance in both companies are positive.
- Profitability ratios is the net result of a large number of policies and decision, it can be examine by the calculating of gross profit margin, net profit margin and operating expenses ratio.
- Leverage ratios are calculated to examine the long term solvency of the firm.

This Thesis some has the Recommendation are:

- The firm should try to maintain the considerable liquidity position.
- Unilever Limited should give great attention to the inventory management.
- It is recommended to have setting proper credit policy.
- It is recommended to have effective inventory control; they should pay attention to capacity utilization, ordering cost, and carrying cost.
- NLO Ltd. is recommended to avoid the risk and have profitability to the company.

Diwakar Acharya (2008) has prepared a thesis on *“Problems and Prospects of Listed Manufacturing Companies in SEBO/N.”*

It is considering three years financial statement (i.e. balance sheet, profit and loss account, income statement etc) of NLO ltd; he used ratio analysis, correlation of coefficient and tests of hypothesis as tools for the purpose of analyzing the financial performance of manufacturing company.

The objectives are:

- To identify the major problems of the listed manufacturing companies.
- To highlight the prospectus of the listed manufacturing companies.
- To identify the total number and the size of the listed manufacturing companies.

The Major Findings are:

All the sampled companies have not the same condition of problem related to motivation. Most of the manufacturing companies have taken financial and stock

market related problem as vast problems and the labor union and human resources related problems show various in the opinions and rank.

The some has Recommendations are:

- His recommended, they should raise the debt or long term loan in low percentage and interest rate, if needed.
- The government need to implement proper trade and tariff law to control cost of new technology and the private sectors should sent their employed for abroad study to gain such technological knowledge.

Sarlata Acharya (Rayamajhi) (2008) conducted a study on “*Comparative Study of Financial Performance of Unilever Nepal Limited And Nepal Lube Oil Limited,*”

The main objectives of the study were to identify the Liquidity position of UNL and NLOL, to analyze the financial strength and weakness of UNL and NLOL and to see the relationship between profit and investment.

She has adopted descriptive and analytical study of the collected data as research design. They study, comparative evaluation of financial performance of two firms. Many tools and techniques can be used to analyze the financial performance. In this way all the tools used in this study can be classified in two categories; financial tools and statistical tools.

The major findings are:

- UNL and NLOL both seems to be equity based company.
- The total debt to total assets ratio for UNL shows the lower ratio than that of NLOL on average.
- The simple regression equation of Net Profit on Total Debt of NLOL depicts that if the firm uses total debt above 171 million, its net profit will be negative.

Some of her major Recommendation are:

The necessity for both companies to increase their short term solvency position. Net profit margin of ULNL is higher than NLOL. NLOL’s lower net profit ratio indicates lower operating efficiency and the simple regression analysis of net income on total

debt also suggests that NLOL should decrease its total debt to increase net income where as UNL should increase its total debt to raise net income.

2.4 Research Gap

In the process of browsing through the various research works that are related to the present research problem, none of those were found directly related to the area chosen for this purpose. So the research gap seems to be a bit far. That means the present research problem is different from the previous related literature of the similar researches in terms of its objectives and data presentation.

The above-mentioned studies in the context of Nepalese manufacturing companies were done in the last decades with respect to financial performance analysis. Above, all the researchers are study most of the used on secondary data and data collected only in Kathmandu valley office.

The studies also observed defects in financial position. As for example, in many enterprises, their debt capital was comparatively higher than equity ratio. So the company was regarded as highly levered company. But with the progress of time, there have been a very few signs of recovery. Some measures were taken to bring down the amount of debt capital. Despite the company's performance have not better signs of recovery. The defective financial position shown in the studies actually necessitated further study on the subject. It would have been of great benefit to this study if the gap created by the previous studies can be filled up. Further, this study will not only help research student to carry further studies but it will also be helpful to the interested groups in the selected companies such as investors, creditors etc to analyze their position at present and search for the prospective investors. So in this regard, this research can be varied from the previous ones in terms of objective, research methodology and data presentation mode which has been termed as a research gap in the study.

CHAPTER - III

RESEARCH METHODOLOGY

Research Methodology is the investigation tools of any certain area and it means clearly observation of certain objective. Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation backed by collection presentation and interpretation of relevant details or data. Research is a systematic & organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well throughout activities of gathering, recording analysis & interpreting the data with the purpose of finding answers to the problem.

Research methodology is a roadmap of the study or research to solve the research problems systematically. It involves research designs, population and sampling, sampling procedures, sources of the data, data collection techniques etc.

3.1 Research Design

“Research design is a plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of research is more specific. It is outline, the scheme, and the paradigm of the operations of the variables. Strategy includes the methods to be used to gather and analyze the data. In other words, strategy implies how the problems encountered in the research will be tackled” (*Kerlinger, F.N; 1986:56*).

A well set research design is necessary for every research work. It is a plan structure and strategy of investigation conceived to obtain answer to research questions and to control variables. The research design of this study is descriptive as well as analytical. This study is an examination of efficiency of company for serving their product and finding strength and weakness of both companies. The study evaluates the financial position of both companies and carries out basic difference in the financial management practices of these enterprises.

3.2 Population and Sampling

A population in most studies usually consists of a large group of its large size it is fairly difficult to collect detailed information from each member of population. Rather than collecting information from each member a sub group is chosen which is believed to be representative of population. This sub group is called a sample and method of choosing this subgroup is done by sampling. The sampling allows the researcher more time to make an intensive study of a research problem.

In this thesis, the researcher has selected all listed Manufacturing Companies as population and only the two manufacturing companies as sample who are listed in SEBO/N into the fiscal year 2008/09. There are about Eighteen Manufacturing Companies listed in SEBO/N. Total listed of manufacturing companies are serial number of base the date in listed on SEBO/N:-

- Bottlers Nepal Ltd. (Balaju)
- Bottlers nepal (terai)

3.3 Nature and Sources of Data

Data collection and considered as an integral part of the research activity. The sources of information are generally classified as primary and secondary.

The study is mainly based upon secondary data; the data relative to financial performance and directly obtained from concerned companies and the supplementary data and performance records of concerned companies, journal, booklets, articles and other organization are also used. The researcher also has collected data by cross questions and discussion with them during the field visit and observation time.

For secondary data, researcher had collected various reports mainly balance sheet. Profit & loss A/C, etc. from listed companies and SEBO/N. Other articles, reports and internet also had considered for such data collection. Problem of collecting data is very acute in every company. These data are collected in crude form in the initial stage and then, properly synthesized, arranged, tabulate and calculated to serve the objectives of the study. Technically, processing implies editing, co-design

classification and tabulation of the collected data so that they are amenable to analysis.

3.4 Data Collection Techniques

Different types of data from several sources are necessary for this study. Therefore, both quantitative and qualitative data have been collected. Quantitative data are collected through reports etc. published by relevant companies. And Qualitative data have been collected through office visits and information interviewing with some staff.

Secondary data are collected from relevant manufacturing companies. Concerned companies helped as a source of various book, journals and other published reports. Data are collected through annual reports, minutes and memorandum of association relative websites of concerned organization. Concept paper made by concerned organization, newsletters, bulletin and brochure also helped in collection data for the study. Similarly methods like surfing in website is also used for the collection of data and information.

3.5 Data Procedure and Analysis Tools

This study is mainly based on the secondary data. Thus, after collection of financial statement, master sheet of financial data was prepared and necessary financial data have been extracted and tabulated as per the need of this study. They are financial ratio and percentage method. In order to process the data, financial statement and other available information were reviewed. These data were grouped in different tables and charts according to their nature and analytical tools are used for analyzing quantitative data to reach true and sincere conclusion.

The collected data through various instrument and sources have been edited, coded and processed analyzed and tabulated using simple financial and statistical methods. Major findings were based on the analysis and presentation of data. The major data analysis tools used for the analysis and presentation of data are as follows:

3.5.1 Financial Tools

The financial tools are useful indicators of a firm's performance and financial situation. Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statement. Most ratios can be calculated from information provided by the financial statements. The financial ratios can be used to analyze trends and to compare the firm's financial position to the firms. For financial performance analysis of the selected companies, the following financial ratios are selected.

A) Liquidity Ratio

Liquid ratio measure the firm's ability to meet its maturing short-term obligations considering current assets liquidity ratios are employed to measure the company's ability to meet short term obligation. These ratio provide insight in to the present cash solvency in the event of financial condition. The ratio is used to measure the company's short term obligation with short-term resources available at given part of time. The ratio is also known as solvency ratio or working capital ratio. The liquid ratio can be divided as follows:

1. Current Ratio

The current ratio is a ratio of the firm's total current assets to its total current liabilities. A high ratio shows an excessive amount of current assets and the firm is in liquidity position. A low ratio indicates that a firm may not be able to pay its obligations. In general rules current ratio **2:1** is considered as acceptable of satisfactory. The current ratio can be calculated by:

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

Where,

Current assets = cash in hand + bank balance + stock + Bills receivables + sundry debtors + Marketable securities + Work-in- progress + Prepaid expenses etc.

Higher the current assets indicate the better liquidity position. 2:1 is considered as the standard of an adequate ratio. Less than this ratio indicates poor solvency position of the company and vice-versa.

2. Quick Ratio

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

Where,

Quick assets = total current assets – stock – prepaid expenses

Higher the quick ratio better is the liquidity position. 1:1 is the standard of quick ratio

B) Leverage / Capital Structure Ratio

The ratio which is analysis by evaluating the long term functional position of a concern is known as capital structure ratio. By determining this ratio, we can study about the paying capacity of the concern to its long-term liabilities, financial health and stabilities etc. the capital ratio can be classified as follows:

1) Debt to Equity Ratio

$$\text{Debt-Equity Ratio} = \frac{\text{Total debt}}{\text{Shareholders equity(fund)}}$$

A higher debt to equity ratio shows a large share of financing by creditors relatively to the owners and, therefore a large claim against the assets of the firm; a low ratio implies a smaller claim of creditors.

2 Debt to Total Capital Ratio

$$\text{Debt to total capital Ratio} = \frac{\text{Long-term debts}}{\text{Capital employed (permanent capital)}}$$

Where,

Total permanent capital = Shareholder's equity + long-term debt.

As this ratio is like the Debt-equity ratio, it gives results similar to the Debt-equity ratio in respect of the capital structure of the firm.

3) Interest Coverage Ratio

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest charge}}$$

Higher interest coverage ratio measures the better debt Servicing Capacity of the firm and vice-versa.

4) Total Debt to Net worth Ratio

$$\text{Total debt to Net worth Ratio} = \frac{\text{Total debt}}{\text{Net worth}}$$

Where,

Total debt = long term debt + short term debt

A higher debt to net worth ratio shows a large share of capital is used in capital structure.

C) Profitability Ratio

Profitability ratio measure the overall efficiency of management evaluate the business, as shown by the return generated on sales and investment. It is the end result of corporate policies and decisions. It measures how effectively the firm is being operated and managed. Besides owners and managers, creditors are also interested to know the financial soundness of the firm. Owners are eager to know their returns whereas managers are interested in their operating efficiency. So they calculate profitability ratios because expectations of both owners and managers are evaluated in terms of profit earned by the firm. This ratio can be divided as follows:

1. Gross Profit Margin

It is the ratio between gross profit and sales of a firm and is calculated as:

$$\text{Gp ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100\%$$

2. Net Profit Margin

Net profit margin is the ratio between net income and sales of a firm. It shows the firm's ability to generate net income per rupee of sales and is calculated as:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}} \times 100\%$$

A higher profit ratio would ensure adequate return to the owners as well as enable firm to withstand adverse economic condition when the selling price declines. Cost of production is rising and demand for the production is falling. A low profit margin has the just opposite implication.

3. Return on Shareholders Equity

Return on shareholder equity measures the return on the owner's investment in the firm. Higher ratio of return on equity is better for owners. It is calculated as follows:

$$\text{Return on Shareholders Equity} = \frac{\text{Net profit after tax}}{\text{Total shareholders equity}} \times 100\%$$

Where,

Total shareholders equity = ordinary share capital + preference share capital + reserve & surplus + undistributed profit – accumulated loss – preliminary expenses – discount & commission on issue of share and debentures.

The ratio reveals how primitively the owner's funds have been utilized by the firm. Higher ratio shows perfect use of owner's funds and vice-versa.

4. Return to Capital Employed

Return to capital employed measures the return on the total capital. Higher the ratio is better to the owners and debt holder. It is calculated as:

$$\text{Return to Capital Employed} = \frac{\text{Net profit after tax + interest}}{\text{capital employed}}$$

Where,

Capital Employed = equity Share capital + preference share capital + reserve & surplus + share premium + debenture + bonds + long-term loan + undistributed profit – non-business assets – p/l a/c (dr.) – preliminary expenses – discount & commission on issues of share and debenture.

This ratio indicates how efficiency the management has used the long term source of finance.

5. Return on Assets

The return on assets which is often called the firm's return on total assets measure the overall effectiveness of management in generating profit with its available assets. The higher the firm's return on assets the better it is doing in operation and vice versa. It is calculated as follows:

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

Where

Total assets = total fixed assets + total current assets

It measures the profit abilities of the funds of a firm. Higher ratio indicates the higher return of the assets used in the business thereby indicating effective use of the resources available and vice-versa.

6. Dividend Per Share

$$\text{Dividend Per share} = \frac{\text{Dividend available to share holder}}{\text{No.s of shares outstanding}}$$

A higher dividend per share indicates the higher profit earning of the company. So, the higher dividend per share ratio is preferable to the share holders.

D) Turnover Ratio/ Assets Management Ratio

Asset management ratios are also known as turnover ratios or activity ratios or efficiency ratios. These ratios look at the amount of various types of assets and attempt to determine if they are too high or too low at current operating levels.

They provide the measure for how effectively the firm's assets are being managed. Following ratios are calculated to measure how efficiently a firm employs the assets:

1. Inventory Turnover Ratio

Inventory turnover ratio measures how a firm's average investment in inventory is capable of generating sales. It is the test of liquidity of firm's investment in inventories. It is calculated as cost of goods sold divided by average inventory:

$$\text{ITOR} = \frac{\text{Cost of good sold}}{\text{Average Inventory}}$$

2. Receivables Turnover Ratio/ Debtors Turnover Ratio

Debtor's turnover ratio is a test of the liquidity of a debtor of a firm. It shows how quickly receivables or debtors are converted into cash. The liquidity of a firm's receivables can be examined in two ways.

- Debtors /Receivables turnover.
- Average collection period.

“The debtors’ turnover shows the relationship between credit sales and debtors of a firm whereas; average collection period measures the liquidity of a firm's debtors. This ratio is in fact interrelated with and dependent upon the receivables turnover ratio” (Khan and Jain; 1981: 113).

$$\text{RTOR} = \frac{\text{Annual credit sales}}{\text{Average account receivable}}$$

3. Fixed Assets Turnover Ratio

Fixed assets turnover ratio indicates the firms ability to generate sales based on it's various fixed assets like plant land and other long-term assets. It measures the effectiveness of firm's ability to make efficient utilities of fixed assets. It is calculated as:

$$\text{FATOR} = \frac{\text{Sales}}{\text{net fixed assets}}$$

4) Total Assets Turnover Ratio

Total assets turnover ratio measures the efficiency of assets management in relation to all of the firm's assets items. It s calculated as:

$$\text{TATOR} = \frac{\text{Sales}}{\text{Total Assets}}$$

3.5.2 Statistical Tools

Statistical method is the mathematical techniques used to facilitate the analysis and ,interpretation of numerical data secured from groups of individuals or groups of observations from a single individual. In this research study some statistical tools are also used for analysis. The statistical tools that have been used are as follows:

3.5.2.1 Arithmetic Mean

An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group of which it is a part a typical of all values in the group . arithmetic mean of a give set of observation is their sum divided by number of observation. in general, if $X_1, X_2, X_3, X_4, \dots, X_N$ are given observations, then mean usually denoted by \bar{X} is given by;

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_N}{N}$$

Where,

N= number of observation

3.5.2.2 Standard Deviation (S.D)

Standard deviation is the square root of the average of the squared distances of the observation from the mean. It enables us to determine with a great deal of accuracy where the value of a frequency distribution are located in the relation to the mean. The standard deviation is also useful in describing how far individual items in a distribution depart from mean of the distribution.

Standard deviation is denoted by $(\sigma) = \sqrt{\frac{\sum(X - \bar{X})^2}{n}}$

3.5.2.3 Coefficient of Variance (C.V.)

C.V. is an absolute measure of dispersion. It relates the standard deviation and the mean by expressing the standard deviation as a percentage of the mean. The unit of measure, then, is “Percent” rather than the same units as the original data.

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

3.5.2.4 Correlation Coefficient Analysis

The co-efficient of correlation is an important measure to describe how well another explains one variable. It measures the degree of relationship between the two causally related variables. Karl Pearson's co-efficient of correlation between two variables x and y is usually denoted by r which is the numerical measure of linear association

between the variables. Karl Pearson's coefficient of correlation is most widely used in practice. The Karl Pearson's coefficient of correlation is denoted by the symbol (r). It measures the relationship between two variables. In the present context, the coefficient of correlation is calculated in order to examine the relationship between two variables. The formula for computing (r) is:

$$r = \frac{\sum xy}{\sqrt{(\sum x^2 \times \sum y^2)}}$$

Interpretation of Correlation Coefficient The coefficient of correlation as obtained by the above formula shall always lie between +1. When r is +1 there is perfect positive correlation between the variables.

When r is -1 there is perfect negative correlation between the variables.

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

When r is between 0.5 to 0.699, there is moderate degree of correlation between the variables.

When r is less than 0.5 there is low degree correlation between the variables. When r is zero, there is no correlation between the variables.

Probable Error (P. Er)

After computing the value of the correlation the next step is to find the extent to which it is dependable error of correlation coefficient usually denoted by P.E.(r) is an old measure of testing the liability of an observed value of correlation coefficient .

$$\text{Probable error} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

The main objective of this study is to examine the Financial Performance of these Companies. In this chapter all the relevant data and information of listed Manufacturing Companies which are regular annual report existing 2004/5 to 2009/10 in SEBO/N. for the purpose of presentation of data, the published most recent financial statements of the listed companies of the study are analyzed. The collected and tabulated data have been analyzed using different financial and statistical tools. This chapter includes presentation, analysis and integration of collected data with organizing sequentially as per the objectives of the study.

4.1 Financial Performance Analysis

4.1.1 Current Ratio

Current ratio is the relationship between current assets and current liabilities. It is also known as short – term solvency ratio as well as working capital ratio. This ratio is calculated by dividing current assets by current liabilities.

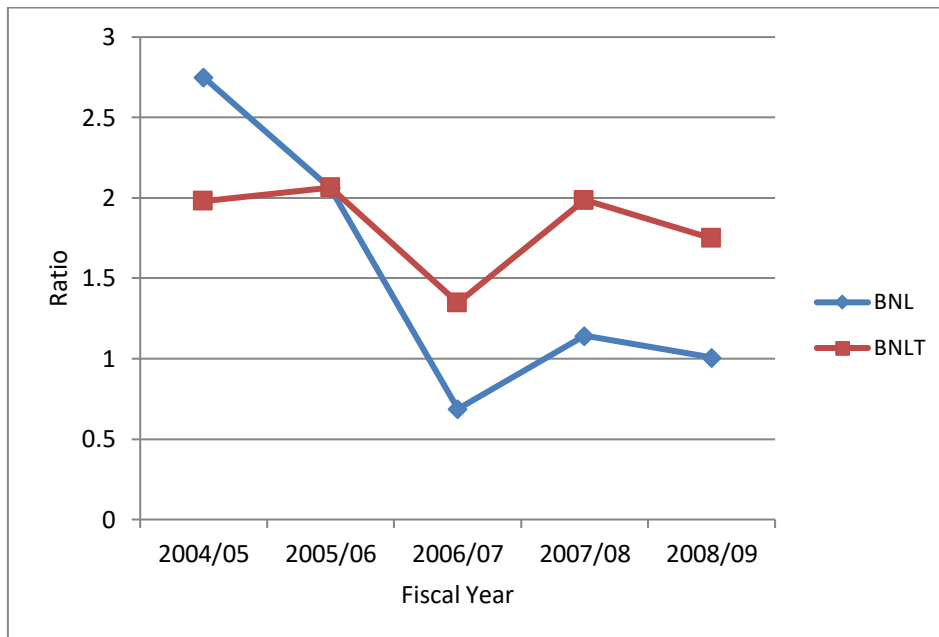
Table 4.1
Current Ratio

| Fiscal Year | BNL (in 000) | | | BNLT (in 000) | | |
|-------------|----------------|---------------------|----------------|----------------|---------------------|----------------|
| | Current Assets | Current Liabilities | Ratios (Times) | Current Assets | Current Liabilities | Ratios (Times) |
| 2004/2005 | 453211 | 164399 | 2.75 | 298685 | 150817 | 1.9804 |
| 2005/2006 | 436045 | 210702 | 2.06 | 225149 | 109043 | 2.064 |
| 2006/2007 | 511066 | 743338 | 0.6875 | 352902 | 261897 | 1.3474 |
| 2007/2008 | 389716 | 340941 | 1.143 | 306334 | 154148 | 1.9872 |
| 2008/2009 | 505069 | 501179 | 1.008 | 418925 | 239343 | 1.7503 |
| Average | | | 1.5297 | | | 1.8259 |
| SD | | | 0.76175 | | | 0.26124 |
| CV | | | 0.497977 | | | 0.143079 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.1

Current Ratios of the Selected Manufacturing Companies



Above the table and figure represent the current ratios of the selected manufacturing companies. The ratio 1.5297 on average of BNL it indicates that the organization has current assets of Rs. 1.5297 for each rupees of current liabilities. As current liabilities are paid from the assets. The ratio of BNLT The trend of current ratio of companies shows that the company can meet its short-term obligation, which is decreasing trend but increasing in year 2008/2009. By the same way, the CV of Bottlers Nepal Limited is less than other sample companies. It shows less fluctuation of current ratio of this company. The average current ratio of BNL is 1.5297 similarly that of BNLT is 1.8259.

The above table shows that the average current ratio during study period . the ratio on BNL on average indicates that the organization has current assets of rs 1.5297 for each rupee of current liabilities . as current liabilities are paid from current assets , it seems that BNL will not to pay its current liabilities at the time of requirement . It ranges between highest and lowest in fiscal year 2004/05 and 2006/07 respectively.

The overall ratio of BNL in decreasing slowly. While comparing with the average funds that in fiscal year 04/05 and 05/06 s higher than the average ratio but n other

year it is lesser than the average. The ratio of BNLT on average indicating 1.3541 indicates that the organization can be paid the current liabilities within a year.

4.1.2 Liquid (quick) Ratio

Quick ratio is the quantitative relationship between quick assets and current liabilities. Quick assets represent the excluding inventory from current assets. It can be calculated by dividing quick assets by current liabilities. One defect of Current Ratio is that it fails to convey any information on the composition of the current assets of a firm. Quick Ratio is a measure of liquidity designed to overcome the defect of Current Ratio. The term quick refers to current assets which can be converted into cash immediately or at a short notice without diminution of value. The current assets excluded from this category are inventory and prepaid expenses.

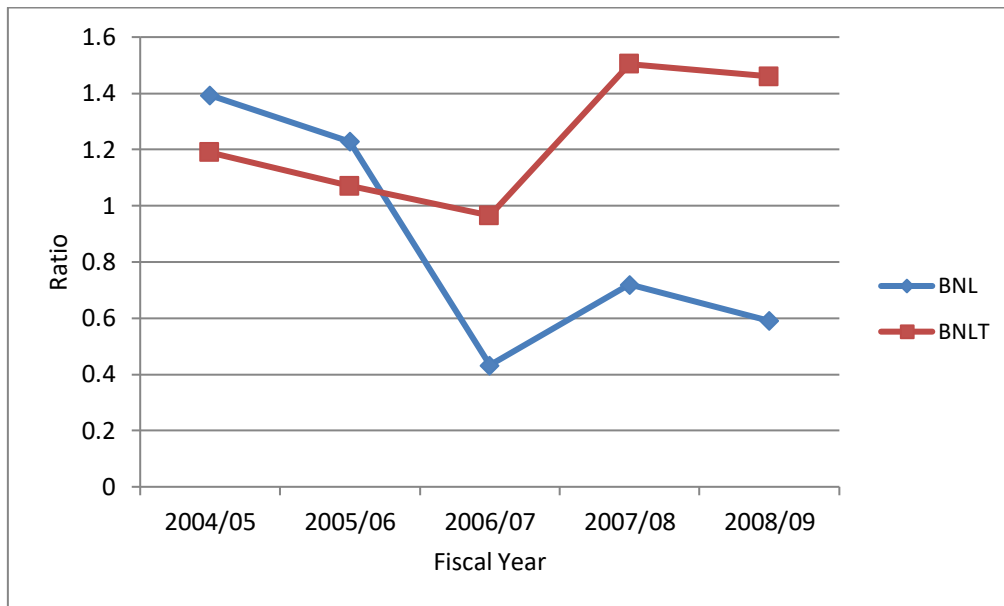
Table 4.2
Liquid Ratio

| Fiscal Year | BNL (in 000) | | | BNLT (in 000) | | |
|-------------|-----------------|---------------------|----------------|-----------------|---------------------|----------------|
| | Quick Assets | Current Liabilities | Ratios (Times) | Current Assets | Current Liabilities | Ratios (Times) |
| 2004/2005 | (453211-224070) | 164399 | 1.393 | (298685-119274) | 150817 | 1.1895 |
| 2005/2006 | (436045-176936) | 210702 | 1.229 | (225149-108415) | 109043 | 1.07 |
| 2006/2007 | (511066-189256) | 743338 | 0.433 | (352902-100102) | 261897 | 0.9652 |
| 2007/2008 | (511066-144004) | 743338 | 0.72 | (306334-74537) | 154148 | 1.5037 |
| 2008/2009 | (505069-208754) | 501179 | 0.5913 | 418925-69427) | 239343 | 1.4602 |
| Average | | | 0.873 | | | 1.2377 |
| SD | | | 0.37014 | | | 0.21211 |
| CV | | | 0.4239 | | | 0.171376 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.2

Liquid Ratios of the Selected Manufacturing Companies



As a traditional rule, the standard of quick ratio is 1:1. The quick ratio of above companies shows poor short term solvency position of firm. The above table shows the liquid ratio of manufacturing companies. Among the companies the fluctuation of this ratio is highest for BNLT. BNL has its highest and lowest value 1.393 and 0.433. similarly the highest and lowest ratio for BNLT is 1.5037 and 0.9652 respectively. The figure above shows the trend of liquid ratio of the companies. BNLT has both highest and lowest value of liquid ratio among these sample companies. The 1:1 ratio can not be maintained by any of these companies. The average quick ratio of BNL 0.873 means that the firm's quick assets are 0.873 times of current liabilities as a conventional rule, the quick ratio 1:1 is employed as a standard of comparison. The quick ratio of BNL 0.873 times again shows poor short term solvency position of the company .

4.1.1.3 Total Debt to Total Equity Ratio

This ratio expresses the relationship between debt capital and equity capital and reflects the relative claim of them on the assets of firm. Total debt to net worth ratio shows the debt financing proportion in the companies' capital structure. It is the relationship between total debt and net worth of the company. The relationship between creditors' funds and total assets is known as proprietary Ratio. This Ratio

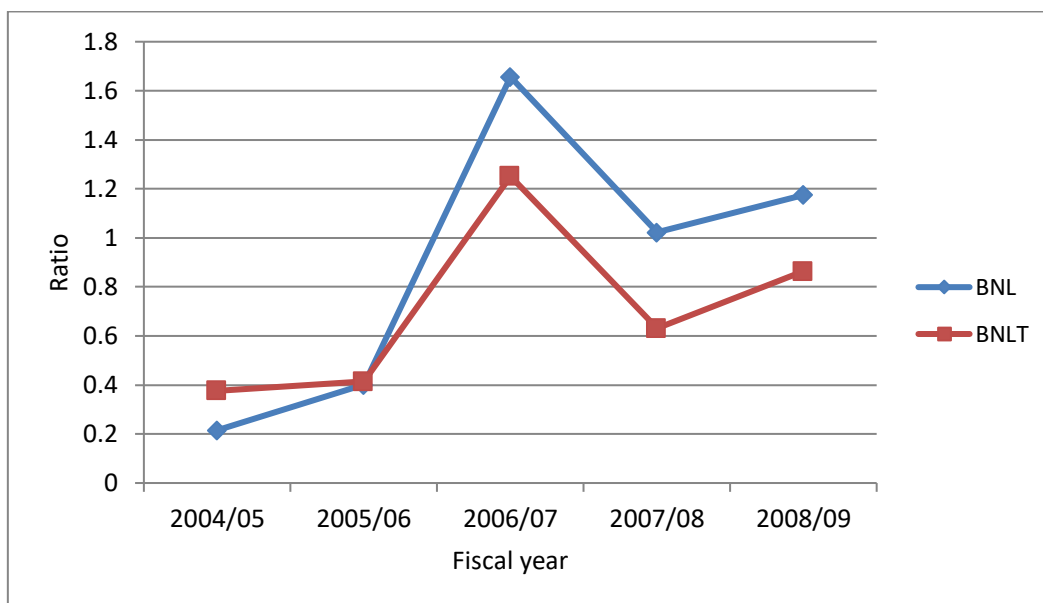
measures the proportion of total assets financed by owners' funds. This Ratio intends to show the long-term financial composition/strength of the company. Higher Ratio means high financial risk and lower Ratio means not-proper utilization of leverage benefit. So, an average position between the two extremes is favorable .It is calculated by dividing total liabilities by total assets.

Table 4.3
Total Debt to Equity Capital Ratio

| Fiscal Year | BNL (in 000) | | | BNLT (in 000) | | |
|-------------|--------------|--------------|----------|---------------|--------------|----------|
| | Total Debt | Total Equity | Ratios % | Total Debt | Total Equity | Ratios % |
| 2004/2005 | 164000 | 761889 | 21.52 | 150817 | 401174 | 37.59 |
| 2005/2006 | 282702 | 704570 | 40.12 | 109043 | 263244 | 41.42 |
| 2006/2007 | 743338 | 448762 | 165.64 | 261897 | 20930 | 125.12 |
| 2007/2008 | 540941 | 529030 | 102.25 | 154148 | 244657 | 63.00 |
| 2008/2009 | 634511 | 539816 | 117.54 | 239343 | 277260 | 86.32 |
| Average | | | 89.39 | | | 70.69 |
| SD | | | 52.546 | | | 32.306 |
| CV | | | 0.5876 | | | 0.45701 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.3
Total Debt to Equity Capital of the Selected Mfg. Companies



Above table and figure shows that, Bottler Nepal Limited has collected its capital as total debt in lowest amount. Total debt to total capital ratio shows the relationship between the debt and total assets of the companies. Lower the ratio is beneficial to the company. In recent year it is decreasing in trend. Both BNL and BNLT has lower ratio. But it is increasing in recent year. Similarly the ratio for BNL and BNLT is 1.6564 and 0.2152 and 1.2512, 0.3759 highest and lowest respectively. The ratio is increasing for both BNL and BNLT in recent year shows higher debt position of these companies.

4.1.1.4 Debt Assets Ratio

The debt assets ratio, simply known as debt ratio, shows the proportion of total debt used in financing total assets of a firm. It is calculated as

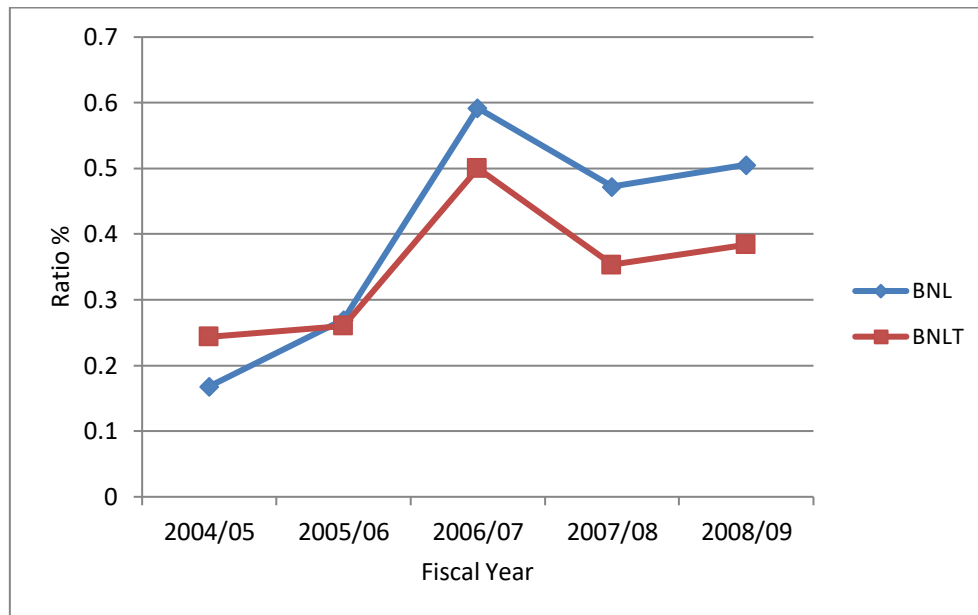
D.A ratio= total debt/total assets.

Table 4.4
Debt Assets Ratio

| Fiscal Year | BNL (in 000) | | | BNLT (in 000) | | |
|-------------|--------------|--------------|----------|---------------|--------------|----------|
| | Total Debt | Total Assets | Ratios % | Total Debt | Total Assets | Ratios % |
| 2004/2005 | 164000 | 975266 | 16.82 | 150817 | 618920 | 24.36 |
| 2005/2006 | 282702 | 1048353 | 16.82 | 109043 | 418772 | 26.03 |
| 2006/2007 | 743338 | 1255758 | 59.19 | 261897 | 523642 | 50.01 |
| 2007/2008 | 540941 | 1145308 | 47.23 | 154148 | 436202 | 35.34 |
| 2008/2009 | 634511 | 1255774 | 50.53 | 239343 | 622673 | 38.43 |
| Average | | | 40.148 | | | 34.83 |
| SD | | | 15.73 | | | 9.281 |
| CV | | | 0.391994 | | | 0.2664 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.4
Debt Assets Ratio



The above table shows that the trend of debt assets ratio of manufacturing companies in recent years. The ratio of BNL and BNLT in fiscal year 04/05, 05/06, 06/07, 07/08 and 08/09 are 0.1682, 0.2603, 0.5919, 0.4723, 0.5053 and 0.2436, 0.2603, 0.5001, 0.3534, 0.3843 respectively.

The % of total assets which is financed with debt capital by the company. Low debt assets ratio from the debt holders point of view is considered to be beneficial that they receive a cushion of protection against possible losses at the time of liquidation. However from the firm's management point of view the low ratio is not able to take leverage advantage of debt. The above mean debt of BNL is better than the BNLT because BNLT has low debt assets ratio.

4.1.1.5 Equity Multiplier

The equity multiplier, also referred to as the leverage factor, simply states the relationship of total assets to equity of a firm. It measures the extent to which the total assets of a firm is greater than the firm's equity capital. It is calculated as

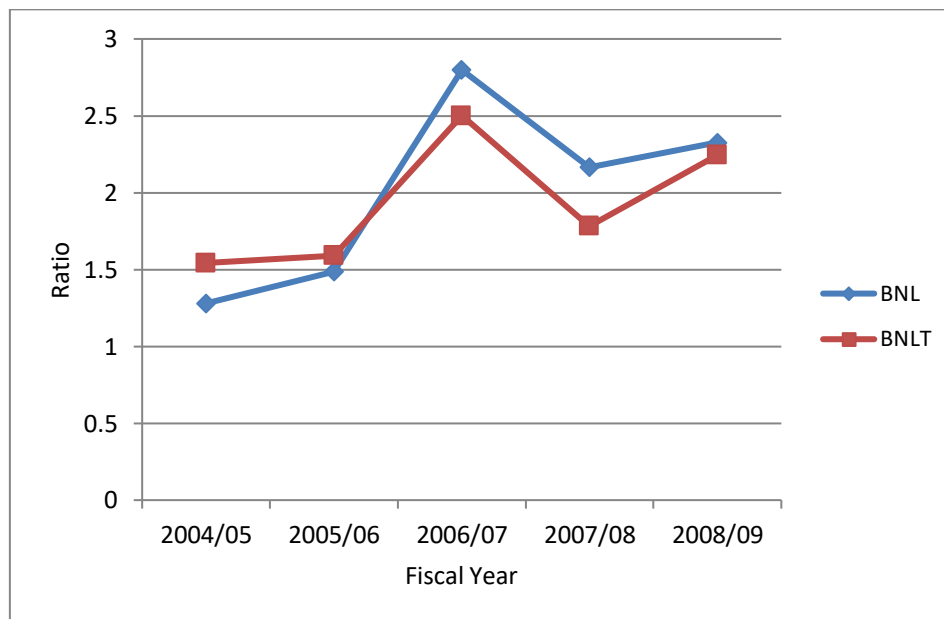
$$EM = \text{total assets} / \text{total equity}$$

Table 4.5
Equity Multiplier

| Fiscal Year | BNL (in 000) | | | BNLT (in 000) | | |
|-------------|--------------|--------------|----------------|---------------|--------------|----------------|
| | Total Assets | Total Equity | Ratios (Times) | Total Assets | Total Equity | Ratios (Times) |
| 2004/2005 | 975266 | 761889 | 1.28 | 618920 | 401174 | 1.5427 |
| 2005/2006 | 1048353 | 704570 | 1.4879 | 418772 | 263244 | 1.5908 |
| 2006/2007 | 1255758 | 448762 | 2.7982 | 523642 | 20930 | 2.5018 |
| 2007/2008 | 1145308 | 529030 | 2.1649 | 436202 | 244657 | 1.7829 |
| 2008/2009 | 1255774 | 539816 | 2.3263 | 622673 | 277260 | 2.2458 |
| Average | | | 2.011 | | | 1.9328 |
| SD | | | 0.5569 | | | 0.37771 |
| CV | | | 0.27687 | | | 0.19542 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.5
Equity Multiplier



The above table shows that the EM of BNL is 1.28, 1.4879, 2.7982, 2.1649, 2.3263 from the year 004/005 to 2008/9 respectively it mean ratio is 2.011 and std donation is 0.5569. Similarly, EM of BNL(T) is 1.5427, 1.5908, 2.5018, 1.7829, 2.2458 from the year 04/09 to 08/09 respectively. Mean ratio of BNL(T) is 1.9328 and standard deviation is 0.37771.

The above chart shows that the EM of BNL is increase up to the year 2006/07 from 2004/5 and decrease in the year 2007/2008 similarly, EM of BNLT (T) is increase up to the year 2006/07 from 04/05 and decreases in the year 2007/08 and again group. Equity multiplier measures the extent to which the total aspect of a firm is grater than firm's equity capital.

4.1.1.6 Interest Coverage Ratio

Interest coverage ratio is the ratio between earning before interest and tax and interest. It measures the debt servicing capacity of the company. It is also known as 'Time-Interest-Earned Ratio'. This Ratio measures the debt servicing capacity of a firm insofar as fixed interest on long term debt is concerned. Higher Ratio is 80 preferable both from the view point of lenders as well as from the view point of the owners. This Ratio, as the name suggests, shows how many times the interest charges are covered by the EBIT out of which they will be paid. In other words, it indicates the extent to which a fall in EBIT is tolerable in the sense that the ability of the firm to service its interest payments would not be affected. It is determined by dividing the operating profits or earning before interest and taxes (EBIT) by fixed interest charges on debts.

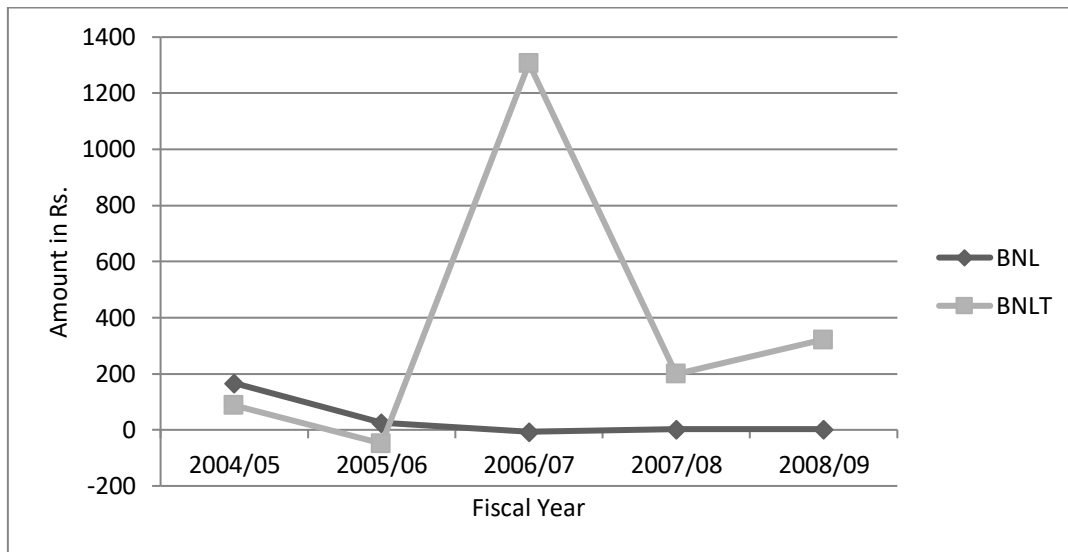
Table 4.6
Interest Coverage Ratio

| Fiscal Year | BNL (in 000) | | | BNLT (in 000) | | |
|-------------|--------------|-----------------|----------|---------------|-----------------|----------|
| | EBIT | Interest Charge | Ratios | EBIT | Interest Charge | Ratios |
| 2004/2005 | 44141 | 265 | 166.5698 | 19091 | 219 | 87.1735 |
| 2005/2006 | 32292 | 1329 | 24.2979 | -25491 | 524 | -48.647 |
| 2006/2007 | -59838 | 8875 | -6.7423 | 24820 | 19 | 1306.32 |
| 2007/2008 | 51062 | 20790 | 2.4561 | 20773 | 104 | 199.7403 |
| 2008/2009 | 56653 | 26193 | 2.1629 | 103266 | 321 | 321.7009 |
| Average | | | 37.75 | | | 373.2575 |
| SD | | | 65.2183 | | | 482.3317 |
| CV | | | 1.7276 | | | 1.2922 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.6

Interest Coverage Ratio of the Manufacturing Companies



Above the figure and table represent that, Bottler Nepal Limited; Balaju has the positive and more than one, interest coverage ratio, it means strong considering interest coverage ratio. Higher interest coverage ratio means lower utilization of borrowing capital and vice-versa so higher interest coverage ratio is preferable. The interest coverage ratio measures to what extent firm's EBIT can decline before the is unable to pay its interest. It is a measure of debt serving capacity of a firm. The average of interest ratio of BNL is 37.75 it indicates that the firm is able to satisfy interest claim of debt holder even if the firm's curved EBIT falls to $(1/37.75)$ of the current level above the figures of BNL is decreasing trend in the year 2007. It is negatively downward sloping then it is little upward. Similarly, for BNLT the interest coverage ratio is 87.1735,-48.647, 13.6.31, 199.74, 321.701 firm 2004/05 to 2008/09 respectively. Its mean ratio is 373.2566 it indicates that the firm is able to satisfy interest claim debt holder even if firm's current EBIT falls to $(1/373.2566)$ of the current level. In comparison BNLT is more preferable than BNL in the point of view of Debt holder as well as creditors.

4.1.1.7 Gross Profit Margin

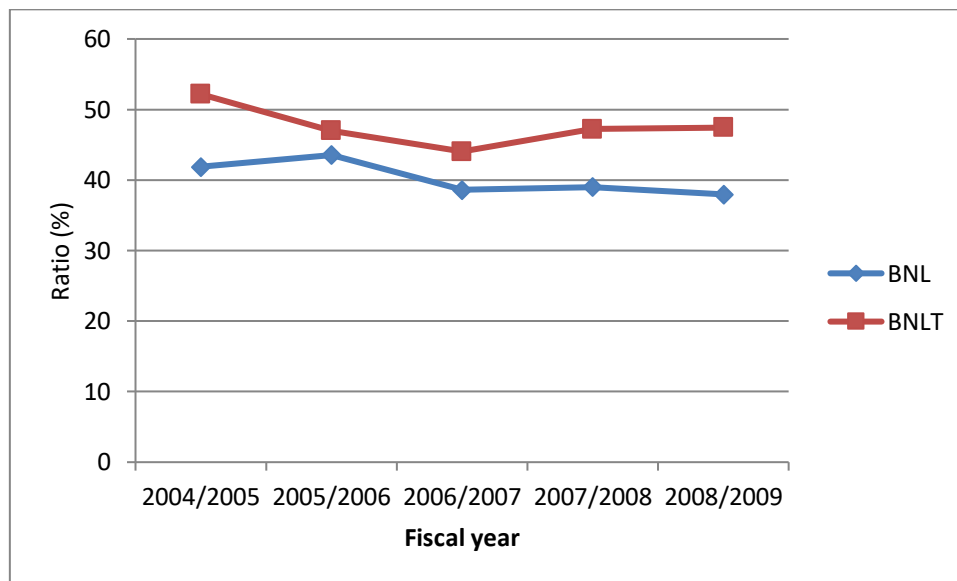
This ratio establishes a relationship between gross profits to net sales and is generally expressed in percentage. It indicates the degree to which the selling price of goods per unit may decline without resulting in losses from operations to the firm. It also helps in ascertaining whether the average percentage of mark up on the goods is maintained.

Table 4.7
Gross Profit Margin

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|---------------|-----------|----------|---------------|-----------|----------|
| | Gross Profit | Net Sales | Ratios % | Gross Profit | Net Sales | Ratios % |
| 2004/2005 | 257389 | 614739 | 41.86 | 209361 | 401320 | 52.168 |
| 2005/2006 | 270747 | 621827 | 43.54 | 166379 | 354095 | 46.987 |
| 2006/2007 | 244932 | 634190 | 38.62 | 225059 | 484987 | 44.05 |
| 2007/2008 | 291448 | 746282 | 39.03 | 224306 | 475109 | 47.211 |
| 2008/2009 | 380827 | 1002720 | 37.97 | 294660 | 621174 | 47.435 |
| Average | | | 40.168 | | | 48.047 |
| SD | | | 2.16 | | | 2.09 |
| CV | | | 0.0524 | | | 0.0435 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.7
Gross Profit Margin



The above table shows that gross profit margin of BNL is 41.86%, 43.54%, 38.62%, 39.02%, 37.97% from fiscal year 2004/05 to 2008/09 respectively. The mean ratio of gross profit is 40.204% and standard deviation is 21.06% and CV is 0.0524.

Similarly, gross profit margin of BNLT is 52.16%, 46.98%, 46.40%, 47.21% and 47.43% from 2004/05 to 2008/09 respectively. And standard deviation is 20.09% and CV is 0.0435.

The above chart shows that the gross profit margin of BNL is fluctuating trends and its highest ratio is 43.54 in fiscal year 2006/07 and lowest in fiscal year 2008/09. Higher gross profit margin is preferred as it allows greater cushion to absorb the expenses. Gross profit ratio of BNL 40.20% means earned a profit after meeting cost of sales, 40.205 on its sales. And BNLT has 48.04% means earned a profit after meeting cost of sales. The ratio of BNLT is preferable than BNL because its ratio is higher than BNL and low CV.

4.1.1.6 Net Profit Ratio (Margin)

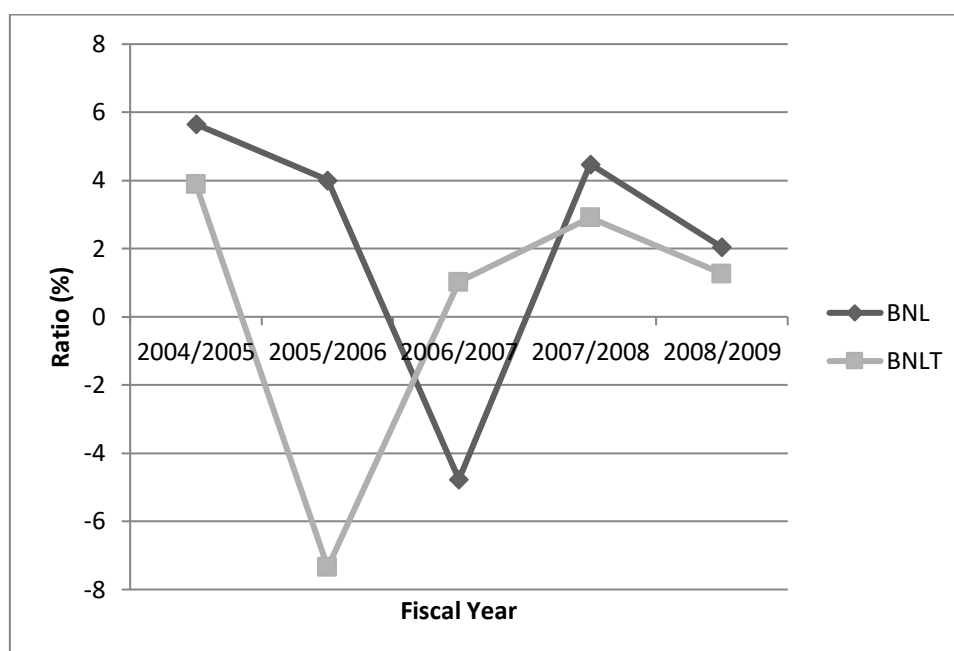
This ratio is relationship between net profit and net sales. Net profit margin measures the over all profitability of a business by establishing the sales. It is calculated by dividing net profit after tax by net sales. The Net Profit Margin measures the relationship between profit and sales and indicates management's efficiency in manufacturing, administering and selling the product. This Ratio is the overall measure of the firm's ability to turn each rupee sales into net profit. A high Net Profit Margin would ensure adequate return to the owners as well as enable the firm to withstand adverse economic conditions. A low Net Profit Margin has the opposite implications. However, a firm with low Net Profit Margin can earn a high rate of return on investment if it has a higher Inventory Turnover. The Net Profit Margin is measured by dividing profit after taxes by sales.

Table 4.8
Net Profit Margin

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|---------------|-----------|----------|---------------|-----------|----------|
| | Net Income | Net Sales | Ratios % | Net Income | Net Sales | Ratios % |
| 2004/2005 | 34735 | 614739 | 5.65 | 15625 | 401320 | 3.89 |
| 2005/2006 | 24962 | 621827 | 4.01 | -26015 | 354095 | -7.35 |
| 2006/2007 | -30308 | 634190 | - 4.77 | 49095 | 484987 | 1.023 |
| 2007/2008 | 33415 | 746582 | 4.475 | 13818 | 475129 | 2.908 |
| 2008/2009 | 20531 | 1002720 | 2.047 | 78585 | 621174 | 1.2650 |
| Average | | | 2.2824 | | | 4.465 |
| SD | | | 3.712 | | | 6.965 |
| CV | | | 1.62671 | | | 1.55977 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.8
Net Profit Margin of the Manufacturing Companies



The net profit margin is the sign of management efficiency to operate the business and it shows that cost and price effectiveness of business operation. The above table shows that the NP margin of BNL from 2004/05 to 2008/09 is 5.65%, 4.01%, -4.77%, 4.475% and 2.047% respectively. Mean ratio of BNL is 2.2824% and standard deviation is 3.712%. Similarly the net profit margin of BNLT is as shown in figure and the table.

The above chart shows that the net profit margin of BNL and BNLT is fluctuating trend. The BNL bear the loss in fiscal year 07/08 and BNLT bear loss in fiscal year 06/07. The highest ratio of BNL is 5.65% in fiscal year 05/06 and the lowest ratio is -4.77% in the year 07/08. Similarly BNLT highest ratio is 12.65% whose corresponding fiscal year is 08/09 and the lowest ratio -7.3465% during fiscal year 2006/2007.

Higher the net profit margin is preferred by owners, the management as well as the creditors. The average ratio of both of the companies is not satisfactory. The net profit margin of BNLT is better than that of BNL.

4.1.1.9 Return to Capital Employed

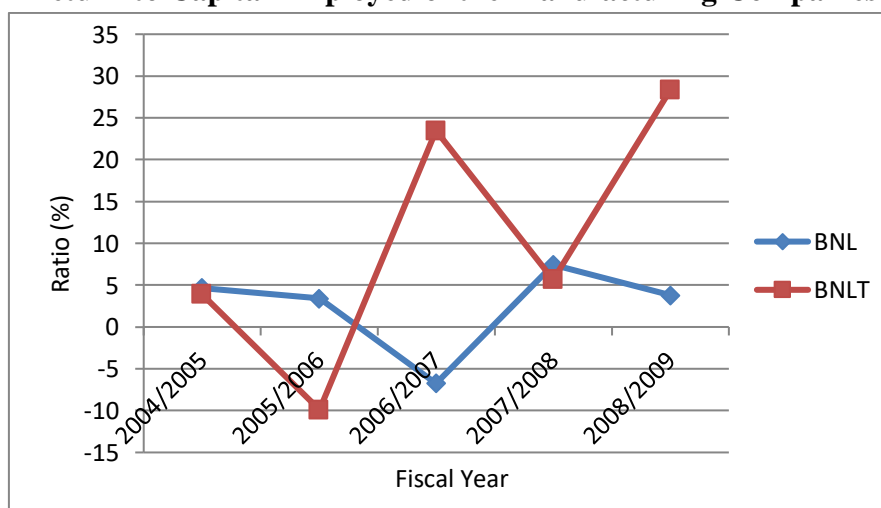
Return to capital employed is an indicator of the earning capacity and overall efficiency of the capital employed in the business. This ratio is determined by dividing Net profit by total capital employed. The relationship between the after tax return earned by both equity holder and lender and the capital they provided indicates the efficiency of management for capital utilization. The Ratio is similar to the ROA except in one respect. Here the profits are related to capital employed. The funds employed in net assets or the funds financed by permanent sources are known as capital employed. This Ratio shows the effectiveness of management in generating profit by the utilization of available capital. Higher the Ratio, the more efficient is the use of capital employed.

Table 4.9
Return to Capital Employed

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|---------------|------------------|----------|---------------|------------------|----------|
| | Net Income | Capital Employed | Ratios % | Net Income | Capital Employed | Ratios % |
| 2004/2005 | 34735 | 761889 | 4.65 | 15625 | 401174 | 3.894 |
| 2005/2006 | 26291 | 776570 | 3.3855 | -26015 | 263244 | -9.9 |
| 2006/2007 | -30308 | 44872 | -6.753 | 49095 | 209306 | 23.456 |
| 2007/2008 | 54205 | 729030 | 7.435 | 13818 | 244657 | 5.649 |
| 2008/2009 | 20531 | 539816 | 3.8033 | 78585 | 277260 | 28.34 |
| Average | | | 2.578 | | | 10.2878 |
| SD | | | 4.85 | | | 13.918 |
| CV | | | 1.8818 | | | 1.3526 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.9
Return to Capital Employed of the Manufacturing Companies



The above table shows that the ROCE of BNL 4.65,3.3855, -6.753,7.435, 3.8033 from 2004\05 to 2008\09 respectively. Average ROCE is 2.578% and Standard deviation is 4.85% and C.V. is 1.8818, similar there ROCE of BNLT is 3.894, -9.9, 23.456,5.649, 28.34 from 2004\05 to 2008\09 respectively. The average ROCE is 10.2896% and standard deviation is 13.918% and C.V is 1.3526 ROCE is the indicator of the earning capacity and overall efficiency of the capital employed in the business. Higher ROCE is more efficient in the use of capital employed. So BNLT is preferable than BNL in average and C.V. of BNL is less than BNL so BNLT is better become it is less risky.

4.1.1.10 Returns to Shareholders Equity

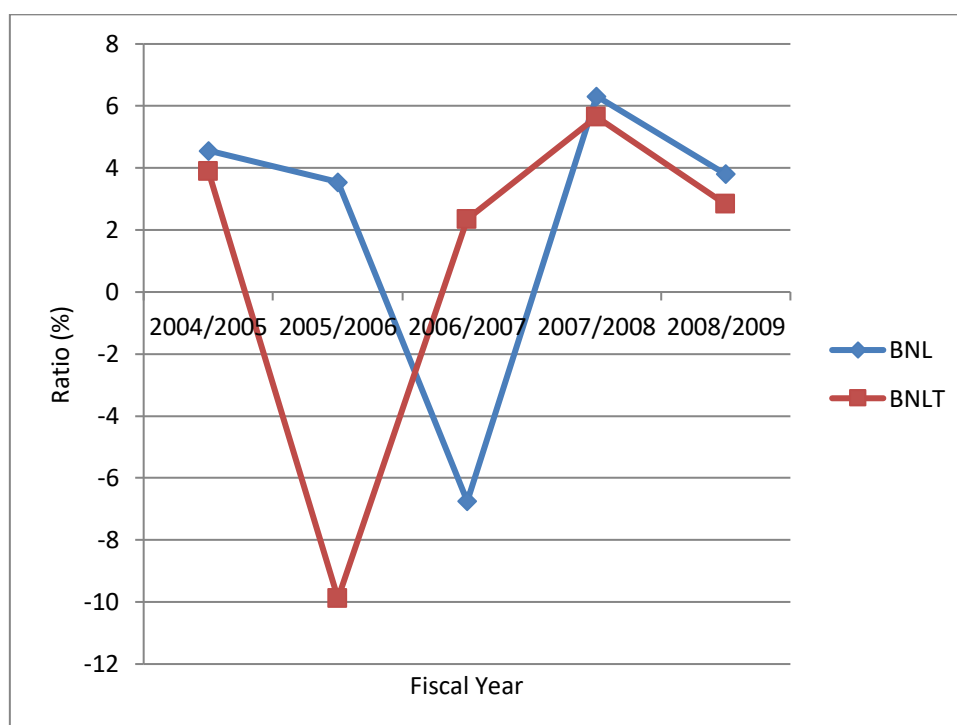
A return to shareholders equity is the relationship between net profit and shareholders equity capital. It measures the profitability of the owner's investment in equity. Higher this ratio is profitability. The Return on Shareholders" Equity (ROSE) {or simply Return on Equity (ROE)} indicates how well the company's management is able to provide return to its owners. The return on common stock is not fixed. The residue of the earnings, on which the stockholders have claim, may be distributed to them or retained in the business. Nevertheless, the net profit after taxes represents their return. The shareholders' equity includes the total of equity capital, reserve & surplus minus deferred expenditure. ROE is regarded as an important measure because it reflects the productivity of shareholder's capitals well as the operational efficiency of management. We use the following formula to calculate ROE. $ROE = \frac{\text{Net income}}{\text{shareholder's fund}}$.

Table 4.10
Returns to Shareholders Equity

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|---------------|--------------------|----------|---------------|--------------------|----------|
| | Net Income | Shareholder's Fund | Ratios % | Net Income | Shareholder's fund | Ratios % |
| 2004/2005 | 34735 | 761889 | 4.56 | 15625 | 401174 | 3.894 |
| 2005/2006 | 24962 | 704570 | 3.54 | -26015 | 263244 | -9.882 |
| 2006/2007 | -30308 | 448762 | -6.753 | 49095 | 20930 | 2.3456 |
| 2007/2008 | 33415 | 529030 | 6.316 | 13818 | 244657 | 5.647 |
| 2008/2009 | 20531 | 539816 | 3.803 | 78585 | 277260 | 2.834 |
| Average | | | 2.2916 | | | 1.0291 |
| SD | | | 4.625 | | | 1.3917 |
| CV | | | 2.0171 | | | 1.35242 |

Sources: Annual Report on manufacturing companies (2004/05 to 2008/09)

Figure 4.10
Returns to Shareholders Equity of the Manufacturing Companies



4.1.1.11 Returns to Assets

Returns to assets are computed in terms of relationship between (Net Profit and Interest) and assets for measuring the productivity of the assets.

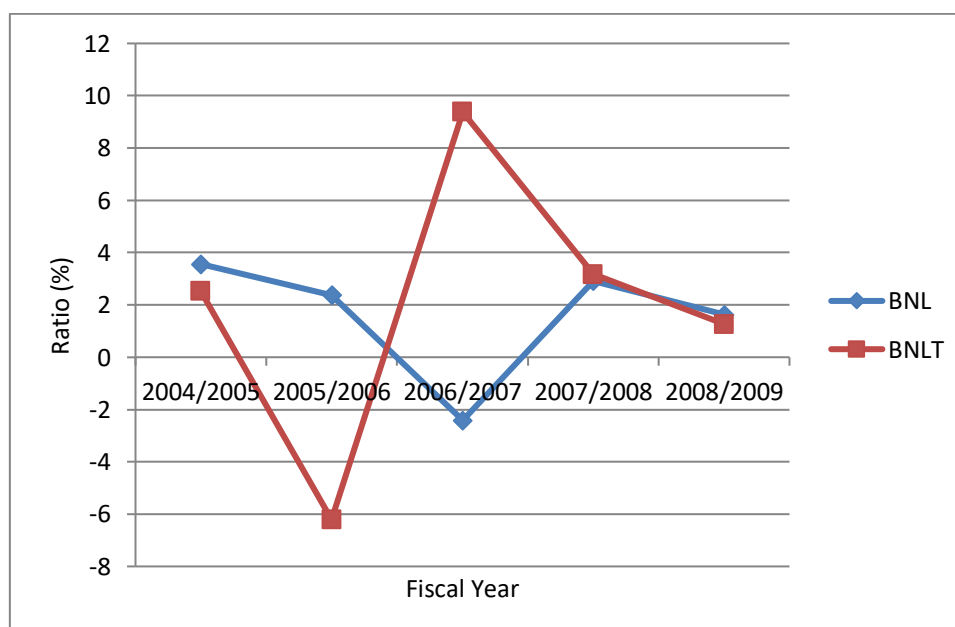
Table 4.11
Returns to Assets

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|---------------|--------------|----------|---------------|--------------|----------|
| | Net Profit | Total Assets | Ratios % | Net Profit | Total Assets | Ratios % |
| 2004/2005 | 34735 | 975266 | 3.56 | 15625 | 618920 | 2.52 |
| 2005/2006 | 24962 | 1048353 | 2.38 | -26015 | 418772 | -6.21 |
| 2006/2007 | -30308 | 1255758 | -2.413 | 49095 | 523642 | 9.375 |
| 2007/2008 | 33415 | 1145308 | 2.917 | 13818 | 436202 | 3.1677 |
| 2008/2009 | 20531 | 1255774 | 1.6349 | 78585 | 622673 | 1.2621 |
| Average | | | 4.5729 | | | 4.229 |
| SD | | | 6.261 | | | 6.3879 |
| CV | | | 1.3736 | | | 1.5126 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.11

Return to Assets of the Manufacturing Companies



The above table shows that the ROA from 2004/05 to 2008/09 of BNL is 3.56%, 2.381%, -2.413%, 2.917% and 1.349% respectively; the mean value is 1.615% and

standard deviation is 6.261%. Similarly the ROA for BNLT from 2004/05 to 08/09 is 2.525%, 6.212%, 9.375%, 3.1677% and 12.21% respectively and mean ratio is 4.295%.

The above chart shows that the ROA of BNL is fluctuating trend. The highest ROA is 3.56% and similarly for BNLT highest value is 12.21%. The ROA measures the overall effectiveness of management in generating profit with its available assets, the higher the firm's return on assets the better it is doing in operation and vice versa.

4.1.1.12 Inventory Turnover Ratio

Inventory turn over ratio measures how firm's average investment in inventory is capable of generating sales. It is the test of liquidity of firm's investment in inventories. It is calculated as cost of goods sold divided by average inventory.

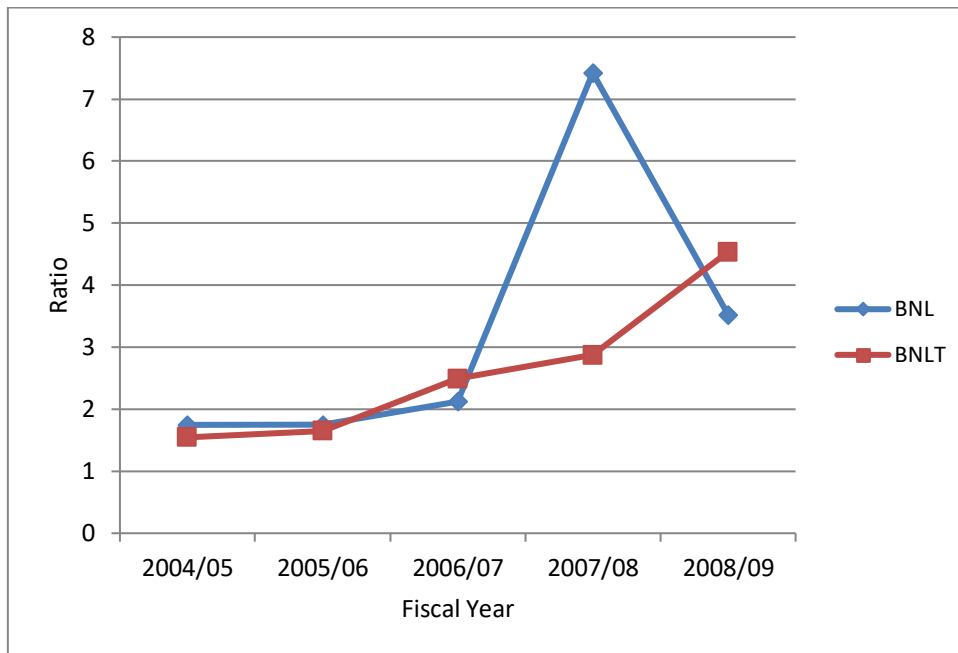
ITOR = COGS/average inventory.

Table 4.12
Inventory Turnover Ratio

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|---------------|-------------------|--------------|---------------|-------------------|--------------|
| | COGS | Average Inventory | Ratios Times | COGS | Average Inventory | Ratios Times |
| 2004/2005 | 357389 | 204525 | 1.7474 | 191959 | 124167.5 | 1.5459 |
| 2005/2006 | 351080 | 200503 | 1.7509 | 187716 | 113844.5 | 1.6488 |
| 2006/2007 | 389258 | 183096 | 2.1259 | 259928 | 104258.5 | 2.4931 |
| 2007/2008 | 455134 | 61311 | 7.4233 | 250803 | 87319.5 | 2.8722 |
| 2008/2009 | 621894 | 176379 | 3.5258 | 326514 | 71982 | 4.536 |
| Average | | | 3.31466 | | | 2.6192 |
| SD | | | 2.15593 | | | 1.08145 |
| CV | | | 0.65042 | | | 0.41289 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.12
Inventory Turnover Ratio



A Low inventory turnover ratio indicated that the firm is holding excessive stock inventory or is unable to turn it over in terms of sales. The excessive investment in inventory is unproductive, as idle assets earn nothing over its inventory at higher rates for BNL the inventory turnover is 3.31466 indicated that the firm is turning over its inventory into sales in 3.31466 times. For BNLT the inventory turnover ratio indicates that the company is also holding excessive stock of inventory. Both company's has low inventory turnover ratio. The BNL inventory turnover ratio in FY 2007/2008 is more than other fiscal years. Similarly the BNLT inventory turnover ratio in FY 2008/2009 is more than other fiscal year.

Above figures shows that the inventory turnover ratio of BNL is increasing trend up to 2007/2008 but decreased in 2008/2009. Similarly, BNLT inventory turnover ratio is increasing trend. In comparatively BNL's inventory ratio is higher than the BNLT.

4.1.1.13 Receivable Turnover Ratio

Receivable turnover ratio measures how many times the account receivables or debtors turnover occur during the year. It is general measures of the productivity of

receivable investment and the test of liquidity of debtors of a firm. It is calculated by dividing annual credit sales by average receivables or debtors.

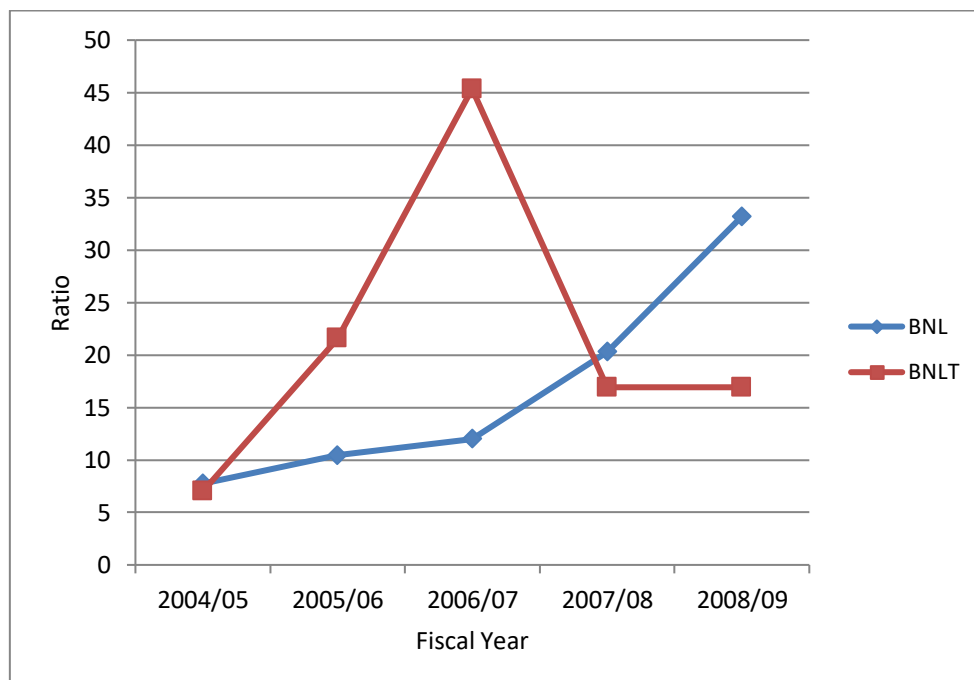
$$\text{RTOR} = \frac{\text{Annual CR Sales}}{\text{Average Accounts Receivables}}$$

Table 4.13
Receivable Turnover Ratio

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|-----------------|-----------------------------|--------------|-----------------|-----------------------------|--------------|
| | Annual CR Sales | Average Accounts Receivable | Ratios Times | Annual CR Sales | Average Accounts Receivable | Ratios Times |
| 2004/2005 | 614739 | 79353 | 7.7468 | 401320 | 57246 | 7.01 |
| 2005/2006 | 621827 | 59462 | 10.4575 | 354095 | 16413 | 21.574 |
| 2006/2007 | 34190 | 52823 | 12.0059 | 484987 | 10695 | 45.347 |
| 2007/2008 | 74582 | 36803 | 20.2859 | 475109 | 28085 | 16.9168 |
| 2008/2009 | 1002720 | 30205 | 33.1971 | 621174 | 37601 | 16.898 |
| Average | | | 16.7386 | | | 21.5491 |
| SD | | | 9.2322 | | | 12.8122 |
| CV | | | 0.55155 | | | 0.59457 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.13
Receivable Turnover Ratio



A low receivable turnover ratio indicated that the firm is making excessive investment in receivables or it is unable to make timely collection of credit sales. As a matter of fact low RTOR is the sign of inefficient of firms receivable management.

The above table shows that RTOR of BNL is 7.7468, 10.4575, 12.0059, 20.2859, 33.1971 from 2004/2005 to 2008/2009 it shows that RTOR is increasing trend. Similarly, RTOR of BNLT is 7.01, 21.574, 45.347, 16.9168, 16.898 it shows that the RTOR is fluctuating trend. In average BNLT RTOR has 21.54916 and BNL has 16.73864. Compositely higher RTOR shows better liquidity of debtors and quick collection of receivable so BNLT's RTOR is better than BNL

4.1.1.14 Fixed Assets Turnover Ratio

Fixed assets turnover ratio indicates the firm's ability to generates sales based on its various fixed assets like plant and equipments, machinery and other long term assets. It is calculated by dividing sales by the fixed assets net depreciation.

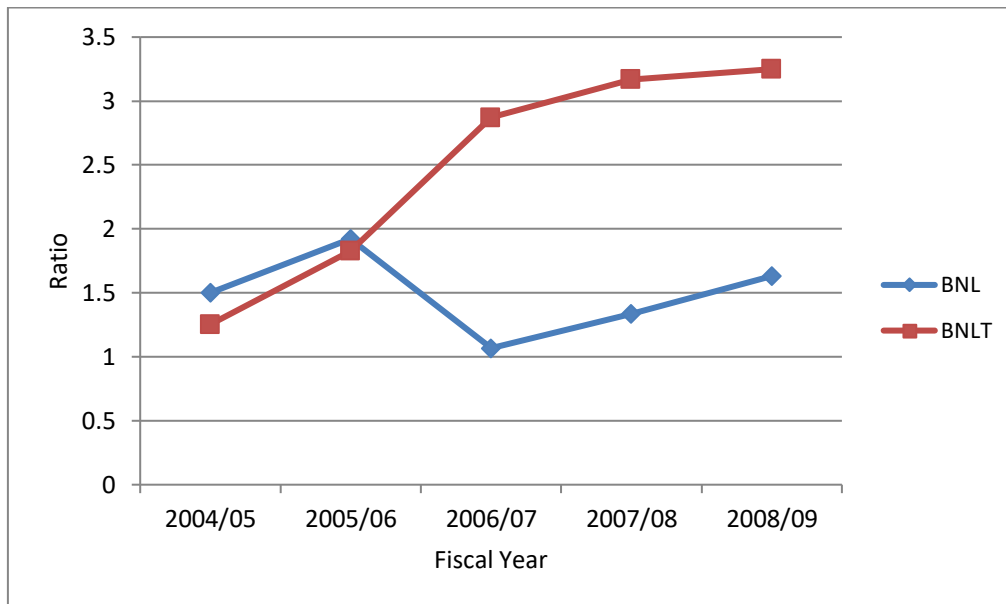
$$\text{FATOR} = \frac{\text{Sales}}{\text{net fixed Assets}}$$

Table 4.14
Fixed Assets Turnover Ratio

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|---------------|------------------|--------------|---------------|------------------|--------------|
| | Sales | Net fixed Assets | Ratios Times | Sales | Net fixed Assets | Ratios Times |
| 2004/2005 | 614739 | 409427 | 1.5014 | 401320 | 320235 | 1.2532 |
| 2005/2006 | 621827 | 323573 | 1.9217 | 354095 | 193623 | 1.8287 |
| 2006/2007 | 634190 | 593868 | 1.0678 | 484987 | 168848 | 2.8723 |
| 2007/2008 | 746582 | 558538 | 1.3366 | 475109 | 149939 | 3.1686 |
| 2008/2009 | 1002720 | 614402 | 1.6320 | 621174 | 19113 | 3.2494 |
| Average | | | 1.4919 | | | 2.47444 |
| SD | | | 0.2858 | | | 0.79361 |
| CV | | | 0.19157 | | | 0.32072 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.14
Fixed Assets Turnover Ratio



A high fixed assets turnover ratio indicate that the firm is using its fixed assets as efficiently as other firm in the industry and low FATOR ratio, is indicates of has the firm is using its FTOR not as efficiently.

It above figure, FATOR of BNL. Is 1.5014, 1.9217, 1.0678, 1.3366, and 1.6320 from 2005 to 2009 respectively, It shows FTOR of BNL is fluctuating trend . FTOR of BNLT is 1.2532, 1.8287, 2.8723, 3.1686, 3.2494, from FY 2005 to FY 2009 respectively. It shows that the FTOR of BNLT is increasing trend.

BNLT FATOR is higher than BNL in averages. A low FATOR indicates that the firm is using its fixed assets not as efficiently as other from in the industry . In aggregate both companies average FATOR is low. So it points out that the firm needs to re-evaluate overall strategies, marketing efforts and capital expenditure program.

4.1.1.15 Total Assets Turnover Ratio

Total assets turnover ratio measures the efficiency of assets management in relation to all of the firm's assets items. It is calculated as sales divided by total assets.

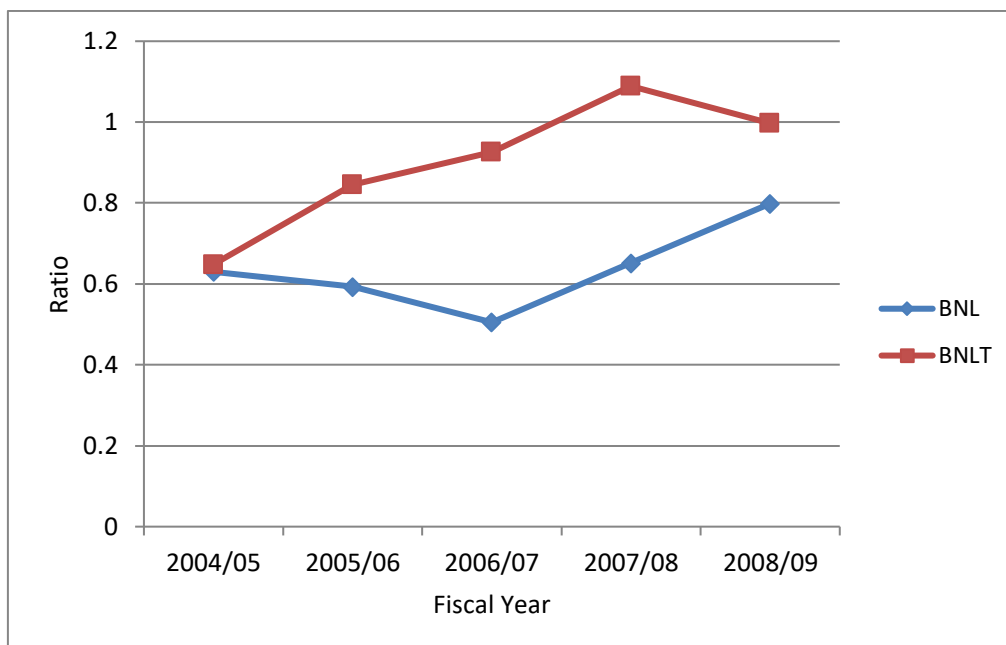
$$\text{TATOR} = \frac{\text{Sales}}{\text{Total Assets}}$$

Table 4.15
Total Assets Turnover Ratio

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|---------------|--------------|--------------|---------------|--------------|--------------|
| | Sales | Total Assets | Ratios Times | Sales | Total Assets | Ratios Times |
| 2004/2005 | 614739 | 975266 | 0.6303 | 401320 | 618920 | 0.6484 |
| 2005/2006 | 621827 | 1048353 | 0.5931 | 354095 | 418772 | 0.8455 |
| 2006/2007 | 634190 | 1255758 | 0.505 | 484987 | 523642 | 0.9261 |
| 2007/2008 | 746582 | 1145308 | 0.6518 | 475109 | 436202 | 1.089 |
| 2008/2009 | 1002720 | 1255774 | 0.7985 | 621174 | 622673 | 0.9975 |
| Average | | | 0.63574 | | | 0.9013 |
| SD | | | 0.09559 | | | 0.14978 |
| CV | | | 0.15036 | | | 0.16618 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.15
Total Assets Turnover Ratio



Total assets turnover ratio provides the good indication regarding the efficiency of investment in all types of assets. The above table shows that the total assets turnover ratio of BNL is 0.6303, 0.5931, 0.505, 0.6518, and 0.7985 respectively from 2004/05 to 2008/09 and mean ratio is 0.63574 and standard deviation is 0.09559.

Similarly, assets turnover ratio of BNLT is 0.484,0.5455,0.921,1.089,0.9975 from 5004/05 to 2008/09 respectively. Mean ratio is 0.9013 and standard deviation is 0.14978.

The above chart shows that the total assets turnover ratio of BNL is in fluctuating trend in 1st three years it decreases then goes upward again. The highest ratio in 2008/09 and lowest at 2006/07. Total assets turnover ratio of BNLT is in increasing trend up to the year 2007/08 then it s decrease in year 2008/09.

A low assets turnover ratio indicates the firm is unable to generate sufficient business volume n terms of generating sales revenue. In overall assets turnover ratio of BNLT is better than that of BNL. It indicates that the BNLT is able to generate sufficient business volume than BNL.

4.1.1.16 Dividend Per Share

The dividend per share shows the relationship between dividends paid by the company to equity capital. Higher dividend paid is profitable for the investors and for the capitalization of the company.

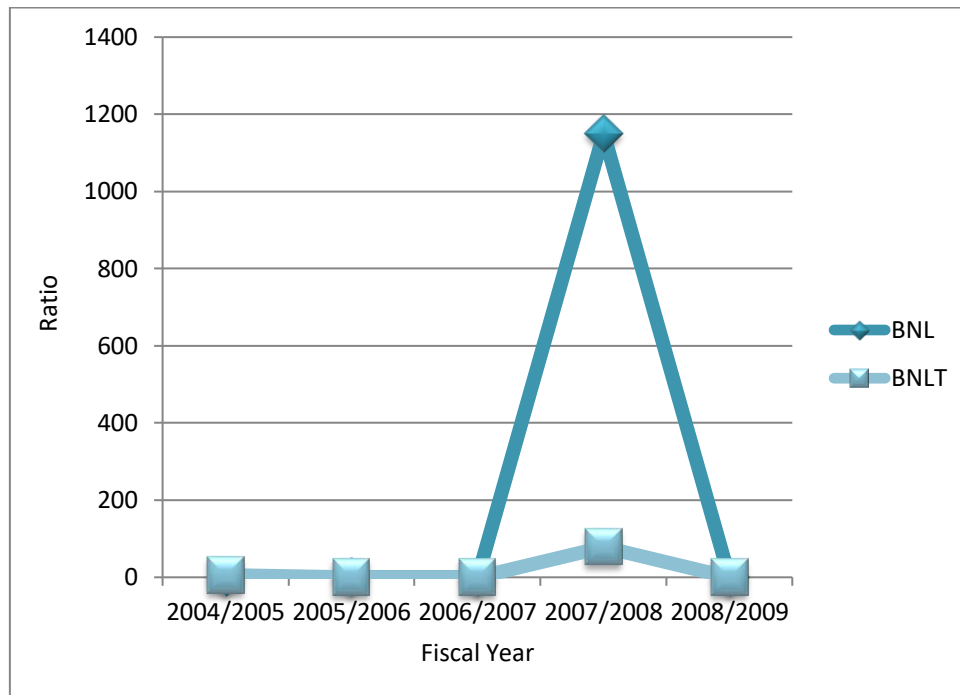
Table 4.16
Dividend Per Share

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|-----------------|-----------------------------|------------|-----------------|-----------------------------|------------|
| | Dividend Amount | Number of Outstanding share | Ratios Rs. | Dividend Amount | Number of Outstanding share | Ratios Rs. |
| 2004/2005 | 0 | 0 | 0 | 6050000 | 1210000 | 5 |
| 2005/2006 | 0 | 1948890 | 0 | 0 | 1210000 | 0 |
| 2006/2007 | 0 | 1948890 | 0 | 0 | 1210000 | 0 |
| 2007/2008 | 3800316011 | 1948890 | 1149.99 | 94501000 | 1210000 | 78.1 |
| 2008/2009 | 0 | 1948890 | 0 | 0 | 1210000 | 0 |
| Average | | | 229.999 | | | 16.722 |
| SD | | | 459.996 | | | 31.0045 |
| CV | | | 2 | | | 1.6657 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.16

Dividend Per Share of the Manufacturing Companies



The above table and graph shows that, there are two companies have provides the dividend to the equity holders. The DPS of BNL's id only fiscal year 2007/08 respectively. Both companies is not provided the regular dividend.

4.1.1.17 Earning Per Share

Earning per share refer to the income available to common shareholder on per share basis. It enables us to compare whether the earning based on per share basis has changed over past period or not. The investor favors high EPS.

It is calculated as follows:

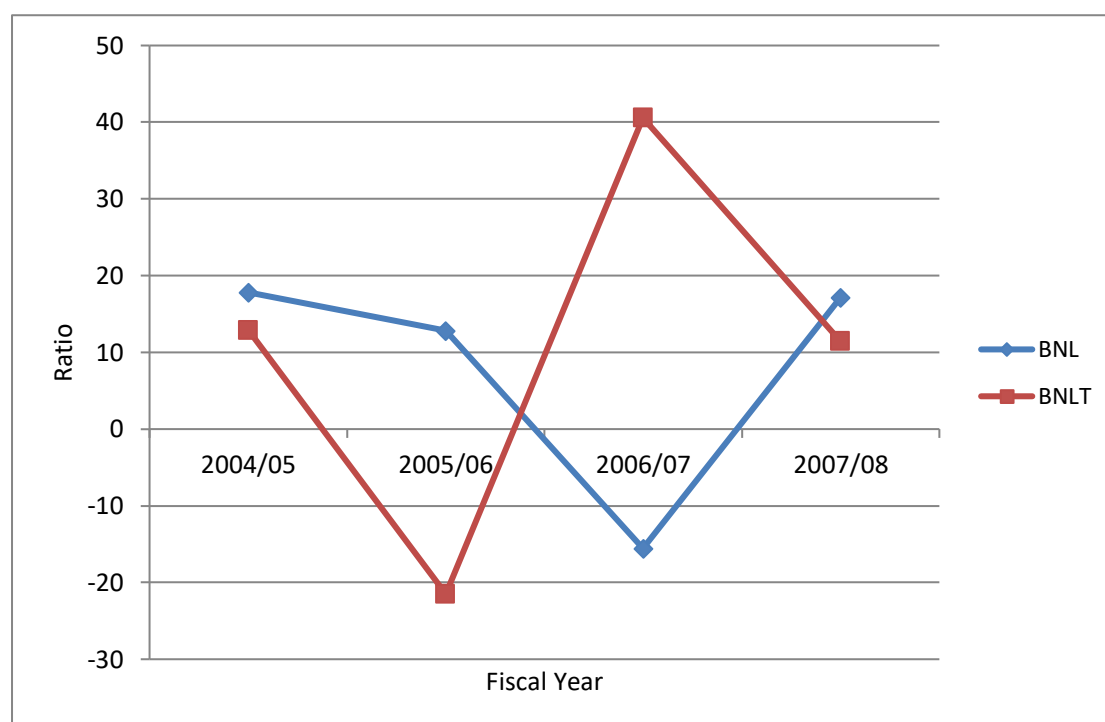
$$\text{Earning per share} = \frac{\text{earning available to equity shareholder}}{\text{Number of share outstanding}}$$

Table 4.17
Earning Per Share

| Fiscal Year | BNL (in 000) | | | BNLT(in 000) | | |
|-------------|---|-----------------------------|------------|---|-----------------------------|------------|
| | Earning Available to equity Shareholder | Number of Share outstanding | Ratios Rs. | Earning Available to Equity Shareholder | Number of Share outstanding | Ratios Rs. |
| 2004/2005 | 34735000 | 1948890 | 17.822 | 15625000 | 1210000 | 12.9132 |
| 2005/2006 | 24962000 | 1948890 | 12.8083 | 26015000 | 1210000 | -21.5 |
| 2006/2007 | 30308000 | 1948890 | -15.5514 | 49095000 | /1210000 | 40.574 |
| 2007/2008 | 33415000 | 1948890 | 17.15 | 13818000 | 1210000 | 11.4198 |
| 2008/2009 | 20531000 | 1948890 | 10.5347 | 78585000 | 1210000 | 4.946 |
| Average | | | 8.5528 | | | 21.6706 |
| SD | | | 12.352 | | | 29.24233 |
| CV | | | 1.4442 | | | 0.74109 |

Sources: Annual Report on Manufacturing Companies (2004/05 to 2008/09)

Figure 4.17
Earning Per share



The above table shows that the EPS of BNL is 17.822, 12.8083, -15.5514, 17.15, 10.5347 from the FY is 2004/05 to 2008/09. The average EPS is 8.5528 and standard

deviation is 12.352. Similarly the EPS of 2004/05 to 2008/09. Respectively the Mean ratio of EPS is 21.6706 and standard deviation is 29.24233.

The figure shows that the EPS of both companies is fluctuating trends. The BNL higher EPS is Rs. 12.8083 and BNLT higher EPS is Rs. 40.574. The lower EPS is Rs. 15.5514 and Rs. 21.5.

In the companies, the average EPS of BNL is higher than the BNLT i.e. Rs. 21.6706 > 8.5528.50 BNL is better than BNLT Earning Per share measures the earning available to the shareholders. So higher EPS is benefices to the shareholders print of view.

4.1.2 Testing Data Statically

Karl Pearson's Coefficient of Correlation

The co-efficient of correlation is an important measure to describe how well another explains one variable. It measures the degree of relationship between the two causally related variables. Karl Pearson's co-efficient of correlation between two variables x and y is usually denoted by r which is the numerical measure of linear association between the variables. Karl person's coefficient of correlation is most widely used in practice. The Karl person's coefficient of correlation is denoted by the symbol (r). It measures the relationship between two variables. In the present context, the coefficient of correlation is calculated in order to examine the relationship between two variables. The formula for computing (r) is:
$$r = \frac{\sum xy}{(\sum x^2 \cdot \sum y^2)}$$

Interpretation of Correlation Coefficient The coefficient of correlation as obtained by the above formula shall always lie between +-1 When r is +1 there is perfect positive correlation between the variables.

When r is -1 there is perfect negative correlation between the variables.

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

When r is between 0.5 to 0.699, there is moderate degree of correlation between the variables.

When r is less than 0.5 there is low degree correlation between the variables.

When r is zero, there is no correlation between the variables.

Probable Error (P. Er)

After computing the value of the correlation the next step is to find the extent to which it is dependable error of correlation coefficient usually denoted by P.E.(r) is an old measure of testing the liability of an observed value of correlation coefficient .

$$\text{Probable error} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

4.1.3.1 Correlation between Current Assets and Current Liabilities

Table 4.18

Correlation between Current Assets and Current Liabilities

| | BNL | BNLT |
|----------------|--------|--------|
| R | 0.6789 | 0.9536 |
| r ² | 0.4609 | 0.9093 |
| PE | 0.1626 | 0.0273 |
| 6× PE | 0.9757 | 0.1638 |

Source: Annex-1

The above table depicts that the correlation coefficient of BNL between current assets and current liabilities of BNL is 0.6789 and PE is 0.1626. Correlation coefficient appeared less than six times probable error i.e. $r_{xy} < 6 \times PE$ i.e. $0.6789 < 0.9757$. it shows that there is nothing to be concluded between current assets and current liabilities.

Similarly, the correlation coefficient of BNLT is 0.9536 and PE is 0.0273. correlation appeared greater than 6 times of PE i.e. $r_{xy} > 6 \times PE$. It implies that. The calculated value of r is highly significant In other words current assets increases almost to the same degree with increase in the amount of current liabilities.

4.1.3.2 Correlation Between net Income and Sales

Table 4.19
Correlation Between net Income and Sales

| | BNL | BNLT |
|-------|--------|--------|
| R | 0.1607 | 0.9444 |
| r^2 | 0.0258 | 0.8919 |
| PE | 0.2938 | 0.0326 |
| 6* PE | 1.7631 | 0.1956 |

Source Annex- 2

The above table depicts that the correlation coefficient of BNL between net income and sales of BNL is 0.1607 and PE is 0.2938. Correlation coefficient appeared less than six times probable error i.e. $r_{xy} < 6 * PE$ i.e. $0.1607 < 1.7631$. It shows that there is nothing to be concluded between net income and sales.

Similarly, the correlation coefficient of BNLT is 0.944 and PE is 0.0326. Correlation appeared greater than 6 times of PE i.e. $r_{xy} > 6 * PE$. It implies that the calculated value r highly significant. In other words net income increases almost to the same degree with increase in the amount of sales.

4.1.3.3 Correlation between net Income and Shareholder Equity

Table 4.20
Correlation between net Income and Shareholder Equity

| | BNL | BNLT |
|--------|--------|----------|
| r | 0.6720 | - 0.1501 |
| r^2 | 0.4516 | 0.02553 |
| PE | 0.1654 | 0.29506 |
| 6 * PE | 0.9926 | 1.77036 |

Source Annex -3

The above table depicts that the correlation coefficient of BNL between net income and shareholder equity of BNL is 0.6720 and PE is 0.1654. Correlation coefficient appeared less than six times probable error i.e. $r_{xy} < 6 * PE$ i.e. $0.6720 < 0.9926$. It

shows that. There is nothing to be concluded between net income and Shareholder Equity

Similarly, the correlation coefficient of BNL is -0.1501 and PE is 0.29506.

Correlation appeared less than 6 times of PE i.e. $r_{xy} < 6 \times PE$. It means that there is insignificant of the value of r.

4.1.3.4 Correlation between Sales and fixed Assets

Table 4.21
Correlation between Sales and fixed Assets

| | BNL | BNLT |
|----------------|--------|---------|
| r | 0.6288 | -0.3498 |
| r ² | 0.3954 | 0.1224 |
| PE | 0.1826 | 0.2647 |
| 6* PE | 1.095 | 1.5883 |

Source Annex-4

The above table depicts that the correlation coefficient of BNL between sales and fixed assets of BNL is 0.6288 and PE is 0.1826. Correlation coefficient appeared less than six times probable error i.e. $r_{xy} < 6 * PE$ i.e. $0.6288 < 1.095$ It shows that. there is nothing to be concluded between sales and fixed assets.

Similarly, the correlation coefficient of BNLT is -0.3498 and PE is 0.2647. Correlation appeared lesser than 6 times of PE i.e. $r_{xy} < 6 * PE$. It means that there is insignificant of the value of r.

4.2 Major Findings

- The Current Ratio of firms measures its short-term solvency, i.e. its ability to meet short-term obligations. The BNL and BNLT Current ratios are lies under the standard 2:1 which indicates the poor liquidity position.
- The Quick Ratio is a more rigorous and penetrating test of the liquidity position of a firm. Generally, speaking quick ratio 1:1 is considered satisfactory as a firm can easily meet all current claims. . The ratios are bellow of 1:1; it means all the companies have poor quick short-term payment capacity. But comparatively we

can say that the condition of BNLT is more satisfactory than BNL because its liquidity position is more than the standard.

- Total debt to equity capital ratio shows the debt financing proportion in the companies' capital structure. It is the relationship between total debt and net worth of the company. BNLT has collected its capital as total debt in lowest amount than BNL. But both companies debt equity ratio is higher than average 50%.
- Debt assets ratio measures the proportion of total debt used in financing total assets. Both companies DA ratio is below the 50% range.
- Equity multiplier measures the extent to which the total assets of a firm is greater than firms equity capital. Both companies more than 50% assets was financed by the equity capital.
- Interest coverage ratio is the ratio between earning before interest and tax and interest. BNL and BNLT have the positive and more than one, interest coverage ratio in average, it means strong considering interest coverage ratio.
- Gross profit margin is the relationship between gross profit and sales both companies gross profit margin is more than 40%. It is preferred in overall.
- Net profit margin shows the firms ability to generate net income per rupees of sales. Both companies net profit margin s low.
- Return to Capital Employed is an indicator of the earning capacity and overall efficiency of the capital employed in the business. BNLT's ROCE is better than BNL.
- Returns to Assets are computed in terms of relationship between (Net Profit and Interest) and assets for measuring the productivity of the assets. BNLT's ROA is satisfactory than BNL.
- ITOR is the relationship between cost of sales and average inventories. It is the test of liquidity of a firm investment in the inventories. The excessive investment in inventories is unproductive as idle assets on nothing. Both companies inventory turnover is low. It means both companies holding excessive investment in stock.
- RTOR is the relation ship between the credit sales and debtors. This ratio indicate that the firm is making excessive or lower investment in receivables. The BNLT is better in RTOR than BNL.

- EPS measures the earning capacity of the share holders equity. BNLT has greater EPS than BNL. It means the return of share holders of BNLT is more satisfactory than BNL.
- Both companies have provides the dividend to the equity holders. BNL only distribution of low dividend only in a year 2007/08, also the BNLT is low dividend rate distribution only two(2004/05 and 2007/08) years. BNL has more DPS than BNLT. Both companies are multinational but they are not provided dividend regularly.
- Number of limited companies is increasing rapidly for listing.
- The contribution of manufacturing companies in market capitalization is poor i.e. below 50 Percentage. By the same way, it is in decreasing trend. The reason of decreasing in contribution manufacturing companies is the poor financial performance of the company.
- The manufacturing sector represents by less than 20 percentages of total companies that hold there AGM.
- The correlation between current assets and current liabilities of BNL is 0.6789 but its 6* PE is 0.9757 it means there is nothing can be concluded between current assets and current liabilities. Similarly BNLT's correlation is 0.9536 and 6* PE is 0.1638 it shows there is perfectly positive correlation.
- The correlation between net income and sales BNLT is 0.8919 and 6* PE is 0.1956 it means the positive correlation between two variables. Similarly correlation of BNL is 0.1607 and 6* PE is 1.7631 it means there s nothing can be concluded between net income and sales.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATION

This researcher attempts to analyze the financial performance of Bottlers Nepal Ltd. (Balaju), Bottlers Nepal Ltd. (Terai). This chapter deals with the conclusions derived from the study of financial performance of two listed manufacturing companies on the basis of the analysis of the data and findings. The chapter consists of three sections; the first section provides the summary of the study, the second section draws the conclusion of the study whereas the third, the final section proposes recommendations to deal with problems observed on the basis of findings.

5.1 Summary

Bottlers Nepal Ltd was established in 1973 as a private ltd company Act 1964. It was converted into public company in 1984. The main objective of the company is to produce and bottle soft drinks under the brand name of Coke, Fanta and Sprite etc.

Bottlers Nepal (Terai) ltd, a subsidiary company of Bottler Nepal Ltd, Balaju, Kathmandu was established in 1986 under the company Act, 1964 with the objective of producing the bottling soft drinks under the brand name of Cock, Fanta, Sprite, etc.

The study was under taken to examine the financial position of listed manufacturing companies in term of liquidity, solvency and stability and to explore the reason behind the high or low leveraged nests with a view to suggesting some measure for further improvement in the coming year. Therefore it is bit difficult to evaluate and compare all the aspect of financial performance. But this study endeavors to evaluate comparative position of these companies to some extent. To conclude this study the whole study has been divided into five chapters in different aspects. The summary of each chapter has been presented below.

Introduction chapter or first chapter provides the brief historical background of the manufacturing companies in Nepal. A brief description of the contribution given by the industrial sector is presented here. Not only industrial sectors' contribution but also government's efforts are also described. This study endeavors to analysis

financial performance of two manufacturing companies of Nepal. Only few companies have been given attention to financial performance. In the research work, which sector focused by the researcher shown in the 'focus of study'. And described about the purposed of this study. To analysis financial performance three companies are selected profiles of these companies are described after that. Sorts of problem under taking by these study are explained in the 'statement of problem, with the research question. This question are What are the sources of long term financing of BNL and BNLT? What is the position of BNL and BNLT to meet their current obligation? What is the relation between the major financial indicators (i.e. sales, net income, fixed assets, current assets, current liabilities etc.) of BNL and BNLT? What is the comparative position of BNL and BNLT in terms of liquidity, profitability , turnover, leverage?

Every study has its objectives. This study has also objectives of to find out financial performance of concerned companies using different financial tools which are kept in the 'objective of the study'. Similarly, 'significant of the study' and 'limitations of the study' are also presented in this first chapter. The literature related to financial performance has been reviewed in second chapter. Review of literature is most important that provides significant knowledge in the field of researcher. Thus, the review of various books, research studies and articles has been used to make clear about the concept of financial performance in this chapter. Concept about financial performance has reviewed from different same as review from different journals and previous thesis are also review in this chapter in this chapter to make study more realistic. Third Chapter needs sequential steps to adopt realistic study. Thus, through research methodology researcher can get appropriate guidelines and knowledge about the various sequential steps to adopt a systematic analysis, which is explained in this chapter. Most data used in this study are secondary in nature. These data are taken from the annual reports provided by the concerned companies. Three years data are taken as sampled analysis of financial ratios, statistical tools; Chi-Square Test analysis. In the Fourth Chapter, secondary data has been presented and analyzed, provided by the concerned companies in the firm of annual reports. Methods, mention in the chapter third are used here to analysis, financial as well as statistics tools are used. This method is used in this chapter to get realistic findings of financial performance. Detail calculations are presented in the appendix to support this chapter,

which are presented after fifth chapter. In the Fifth Chapter summary, conclusion and recommendations of the study are presented separately to understand the study.

5.2 Conclusion

Comparison among concerned companies has been done by taking data of these companies. To analysis financial performance different types of tools and technique are used which are presented in the chapter fourth from the same chapter following conclusion can be drawn.

From the study, it is found that the overall financial performance of these companies some has well during the study period that is BNL (Balaju and Terai). The BNL (Balaju and Terai) both companies are various aspect of financial and operation structure some have strength.

From the above calculation the current ratio of the sampled companies has not meet standard ratio i.e 2:1. In the overall average current ratio of companies shows that the company can meet its short-term obligation, which is decreasing trend but increasing in year 2008/2009. By the same way, the CV of Bottlers Nepal Limited is less than other sample companies. It shows less fluctuation of current ratio of this company.

The debt equity ratio of the sample companies is highest or more than 50% it indicates that greater contribution at a firm's financing by debt holder than those of equity holder. A high debt equity ratio is not desirable from the point of view of management.

The interest coverage ratio of BNLT is highest than other sample companies. It shows that the operating profit of the BNLT is much better than BNL. Sample companies' average coverage ratio indicates that the firm able to satisfy interest claim by the debt holder. However the average ratio of both of the companies is satisfactory.

The net profit margin is satisfactory in the case of BNLT. It shows that the mgmt efficiency to operate the business is higher. But BNL has lower NP margin.

ROA of both companies nearer to 4%, the ROA measure the overall effectiveness of management in generating profit with its available assets.

ITOR measures how firm's average investment in inventory is capable of generating sales. Both companies ITO is low that is nearer to 3 times. Low inventory T/O ratio indicates that the firms holding excessive investment in inventory or is unable to turn it over in terms of sales.

FATOR indicates the firm's ability to generate sales based on its various fixed assets like plant and machinery, furniture, building and other long term assets. FATOR of BNL is in averages 1.4919 and BNLT is 2.4744. a low FATOR indicates that the firm is using its fixed assets not as efficiently as other firm in the industry.

5.3 Recommendation

The manufacturing sectors need to consider some of these facts because their performance and productivity etc. are poorer than the other sectors, on the basis of the research study. The following recommendations are recommended for the manufacturing sectors.

- Most of the sampled manufacturing companies has poor current and quick ratio than the other sectors. The average current ratios of BNL and BNLT are 1.5297 and 1.8259 respectively. Also the average quick ratios are 0.873, 1.2377 respectively. It represents the poor current solvency payment capacity of the whole manufacturing sector. So, for solving this problem, these companies need to manage i. e., increase their current assets, especially quick assets(except BNLT)
- The companies have to collected large proportion of their capital through the debt, long-term debt and loan than the equity capital. The company reducing the amount of current liabilities.
- *The BNL and BNLT have collected its capital as total debt in lowest amount. BNL and BNLT company will be considered increasing debt position to supporting the increasing net worth position.
- It seems that most of the companies who are at loss have invested their assets on fixed assets then in the current assets. The fixed production cost will rise and the

price of product will also rise. So, it would be one reason of incapability of the companies to compete in both national and international market.

- ITOR of both companies are low. It indicates that the firm is holding excessive stock of inventory or is unable to turn it over in terms of sales. The excessive investment in inventory is unproductive. So both companies should be increase their sales revenue by improving new strategies or promotion mix.
- The Interest Coverage Ratio of the sampled companies is not at too bad trend. The average interest coverage ratios of both BNL and BNLT are the strong capacity of interest coverage ratio.
- Net Profit Margin of sampled companies are lower the net profit ratio indicates lower operating efficiency. So, all sampled companies should increase its net profit by increasing its operating efficiency and minimizing its operating cost.
- The return on equity of both companies are low. In comparison BNLT is better than BNL. Both companies should increases the net income by improving management efficiency.
- The EPS of BNLT is better than BNL in average. So BNL should increases the net income by increasing the sales amount.
- DPS of both companies are good. But it is not regular so company should provide the dividend of every year.
- On the other hand, financial and stock market is not developed in Nepal. Poor loan and banking facilities and unfair competition of the banks and investing sectors create pollution in financial market. Interest rate and their spread are also high. So, it can be recommend that the central bank of Nepal should implement proper monetary policy to control inflation rate and proper banking and financial institution related policies to provide best banking facilities to manufacturing sector.
- At last, the researcher want to recommended that, the manufacturing sectors should implement effective reward and punishment system and provide quality of work life, entertainment and best staff relation to motive to support the effective financial performance them.

| <u>Capital liabilities</u> | 2004\05 | 2005\06 | 2006\07 | 2007\08 | 2008\09 |
|--|----------------|----------------|----------------|----------------|----------------|
| <u>Capital & Reserve</u> | | | | | |
| Share capital | 194889 | 194889 | 194889 | 194889 | 194889 |
| Reserve and R/E | 567000 | 509681 | 253873 | 334141 | 344927 |
| <u>Long term Liability</u> | | | | | |
| Bank Loan | - | 72000 | - | 200000 | 133332 |
| Grand total | 761889 | 776570 | 448762 | 673148 | 729030 |
| <u>Assets:-</u> | | | | | |
| Fixed Assets | 409427 | 323573 | 593868 | 558538 | 614402 |
| W.I.P. | - | 176107 | 38196 | 84426 | 23645 |
| Investment | 112628 | 112628 | 112628 | 112628 | 112628 |
| <u>Current Assets:-</u> | | | | | |
| Inventories | 224070 | 176936 | 189256 | 144004 | 208754 |
| Trade & other receivables | 80845 | 63657 | 52823 | 36803 | 30205 |
| Cash & Bank | 1917 | 35926 | 3464 | 2428 | 3658 |
| Prepaid, advances, loans and deposit | 146379 | 159526 | 224159 | 204609 | 262453 |
| Deferred Tax assets | - | - | 41364 | 1872 | - |
| Total | 453211 | 436045 | 511066 | 389716 | 505069 |
| <u>Less:-Liabilities and Provisions</u> | | | | | |
| Current Liabilities | 164399 | 210702 | 74338 | 340941 | 501179 |
| Provisions | 64592 | 64781 | 63905 | 75360 | 93684 |
| Deferred tax liabilities | - | - | - | - | 7340 |
| Total Current liabilities and Provision | 228991 | 275483 | 807243 | 416301 | 602213 |
| Net Current Assets | 224220 | 160562 | (296177) | (26586) | (97144) |
| Deferred expenses | 15614 | 3700 | 247 | 24 | 19618 |
| Grand Total | 761889 | 776570 | 448762 | 729030 | 673148 |

BNL Balance Sheet

Income Standard of BNL (000)

| Particular | 2004\05 | 2005\06 | 2006\07 | 2007\08 | 2008\09 |
|---|----------------|----------------|----------------|----------------|----------------|
| Sales | 614739 | 621827 | 634190 | 746582 | 1002720 |
| Cost of sales | 357350 | 351080 | 389258 | 455134 | 621894 |
| Gross Profit | 257389 | 270747 | 244932 | 291448 | 380827 |
| Other Income | 1161 | 859 | 1092 | 1317 | 30701 |
| <u>Business Expenses</u> | | | | | |
| Distribution Expenses | 19736 | 16955 | 21179 | 25972 | 34823 |
| Administrative Expenses. | 137461 | 155663 | 186637 | 217565 | 244810 |
| Profit from Operation | 101353 | 98988 | 38208 | 49228 | 131895 |
| Interest | 265 | 1329 | 8875 | 20790 | 26193 |
| Depreciation | 49175 | 64165 | 60227 | 65415 | 67872 |
| Amortization | 6602 | 503 | 532 | 1031 | 2571 |
| Impairment | - | - | - | 37672 | - |
| Dividend from BNLT | (5492) | - | - | (83484) | - |
| Profit loss on sale of Fixed assets | - | (2861) | (385) | 10071 | (10) |
| Provision. For staff | 2540 | 1793 | - | 1770 | 1763 |
| Provision. For bonus | 4387 | 3096 | - | 3364 | 3046 |
| Profit before Tax | 43876 | 30963 | (68713) | 30272 | 30460 |
| Income Tax | 8503 | 5539 | 2959 | 2209 | 717 |
| Deferred Tax | 462 | 638 | (41364) | 39492 | 9212 |
| Net Profit after Tax | 34735 | 24962 | (30308) | (11429) | 20531 |
| Balance BD | 365178 | 399913 | 342593 | 178483 | 167054 |
| Provision for Tax in Respect Year | - | 24332 | 1377 | - | - |
| Depreciation Expenses for last year | - | 57949 | - | - | - |
| Profit available for appropriation | 399913 | 342594 | 310908 | 167054 | 187585 |
| Proposed Dividend | - | - | 224122 | - | 9744 |
| Balance of profit transfer to Balance sheet | 399913 | 342594 | 86786 | 167054 | 177840 |

Income Statement of BNL T

| Particular | 2004\05 | 2005\06 | 2006\07 | 2007\08 | 2008\09 |
|---|----------------|----------------|----------------|----------------|----------------|
| Sales | 401320 | 354095 | 484987 | 475109 | 621174 |
| Cost of sales | 191959 | 187716 | 259928 | 250803 | 326514 |
| Gross Profit | 209361 | 166379 | 225059 | 224306 | 294660 |
| Other income | 8139 | 7815 | 18324 | 25072 | 41618 |
| Business Expenses | | | | | |
| Distribution Expenses | 74293 | 56959 | 79417 | 77369 | 92046 |
| Administrative Expenses | 96770 | 84548 | 89668 | 107704 | 90513 |
| Profit from Operation | 46437 | 32687 | 74298 | 64303 | 153719 |
| Interest | 219 | 524 | 19 | 104 | 321 |
| Depreciation | 17567 | 58072 | 440446 | 39752 | 29918 |
| Deferred Expenses write off | 6800 | 101 | 1826 | 1050 | 4219 |
| (profit) loss on sale of fixed Assets | - | 5 | (56) | (777) | (1) |
| Provision for staff | 1092 | - | 1263 | 1209 | 5960 |
| Provision bonus | 1887 | - | 2399 | 2297 | 10294 |
| Profit before tax | 18872 | (26015) | 24801 | 20669 | 102945 |
| Provision for tax | 3020 | - | - | 1392 | 20475 |
| Deferred tax | 227 | - | (24294) | 5459 | 3885 |
| NPAT | 15625 | (26015) | 49095 | 13818 | 78585 |
| Balance BD | 262941 | 279222 | 141291 | 108887 | 122705 |
| Depreciation Expenses in respect of earlier years | - | 106569 | - | - | - |
| Tax Expenses in respect of earlier years | (656) | 5346 | 6232 | - | 9682 |
| Proposed dividend | - | - | 96800 | - | 36300 |
| Balance profit transfer to Balance sheet | 279222 | 141292 | 87354 | 122705 | 155308 |

Bottler's Nepal Ltd Terai Balance Sheet

| Capital Liabilities | 2004/05 in (000) | 2005/06 in (000) | 2006/07 in (000) | 2007/08 in (000) | 2008/09 in (000) |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Capital and Reserve | | | | | |
| Share capital | 1,21,000 | 121000 | 121000 | 121000 | 121000 |
| Reserve and Retained Earning | 280174 | 142244 | 88306 | 123657 | 156260 |
| Total | 401174 | 263244 | 209306 | 244657 | 277260 |
| Assets:- | | | | | |
| Fixed Assets:- | 320235 | 193623 | 168848 | 149939 | 191163 |
| Capital w.i.p. | - | - | 1892 | 1462 | 12585 |
| Current Assets:- | | | | | |
| Inventories | 119274 | 108415 | 100102 | 74537 | 69427 |
| Trade & other receivables | 57246 | 16413 | 10695 | 28085 | 36760 |
| cash and Bank | 14856 | 21474 | 26521 | 20327 | 38094 |
| Prepaid ,advances . Loan and deposit | 107309 | 78847 | 191290 | 644551 | 259695 |
| Deferred Tax Assets | - | - | 24294 | 18835 | 14950 |
| Total Current Assets | 298685 | 225149 | 352902 | 306334 | 418925 |
| Less Current Liabilities Provision | | | | | |
| Current liabilities | 150817 | 109043 | 261897 | 154148 | 239343 |
| Provision | 85523 | 46945 | 53515 | 58956 | 131348 |
| Deferred tax liabilities | - | - | - | - | - |
| Total Current liabilities and Provision | 236340 | 155988 | 315412 | 213104 | 377691 |
| Net Current Assets | 62345 | 69161 | 37490 | 93231 | 41235 |
| Deferred Revenue Expenditure | 18594 | 460 | 1076 | 25 | 32277 |
| Grand Total | 401174 | 263244 | 209306 | 244657 | 277260 |

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