WORKING CAPITAL MANAGEMENT A COMPARATIVE STUDY OF NATIONAL TRADING LIMITED AND SALT TRADING CORPORATION LIMITED

A Thesis

Submitted by

RABIN SAPKOTA

T.U. Regd. No.: 23309-95

Roll No. : 66(2060/062)

Submitted to

Office of Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirement for the Degree of

Master of Business Studies (MBS)

Narayangarh, Chitwan

October, 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by

RABIN SAPKOTA

Entitled

**WORKING CAPITAL MANAGEMENT A COMPARATIVE
STUDY OF NATIONAL TRADING LIMITED AND SALT TRADING
CORPORATION LIMITED**

has been prepared as approved by this department in the prescribed format
of faculty of Management. This thesis is forwarded for evaluation.

....

Mr. Baburam Panthi   Mr. Bharat Khanal

(Chairman and Thesis Advisor)   (Programme Incharge, MBS)

....

Mr. Chiranjibi Shrestha

(Principal)

Date :

VIVA-VOCE SHEET

We have conducted the Viva-voce examination of the

Thesis presented by

RABIN SAPKOTA

Entitled

WORKING CAPITAL MANAGEMENT A COMPARATIVE STUDY OF NATIONAL TRADING LIMITED AND SALT TRADING CORPORATION LIMITED

and found the thesis to be original work of the student and written

according to the prescribed format. We recommended the thesis to be

accepted as partial fulfillment of the requirement for

Master Degree in Business Studies (MBS)

<u>VIVA-VOCE COMMITTEE</u>

Chairperson, Research Committee:...

Member (Thesis Advisor):...

Member (External Expert):..

Date:

DECLARATION

I hereby, declare that the work reported in this thesis entitled **"Working Capital Management A Comparative Study of NTL and STC Ltd."**, submitted to Balkumari College, Faculty of the Management, Tribhuvan University, is my original work, which is prepared as the partial fulfillment of the requirements for the Master Degree of Business studies (MBS) under the supervision of Mr. Baburam Panthi, Lecturer of Balkumari College, Narayangarh, Chitwan.

………………………….

Rabin Sapkota

Researcher

October, 2010

ACKNOWLEDGEMENT

First of all, I am grateful to Mr. Baburam Panthi, Thesis advisor of Balkumari College, for the patient guidance, constant encouragement and valuable supervision at every step of my research study. Without such guidance, this work may not completed as this shape. So, again, I would like to express gratitude to him for his meticulous care.

I am indebted to all the lectures of Balkumari College, who helped me directly or indirectly to bringing out this thesis work. Moreover, I want to express thanks to all reputed authors whose writing have provided me the necessary guidance and invaluable materials.

Similarly, I would like to express debt of gratitude to my younger brother Pramod Lamichhane for his continuous inspiration and valuable support during the thesis work period.

Needless to say "error is human" and I can not be the exception, So I apologize for any errors and mistakes committed. I hope the possible errors would be covered by subsequent studies in future.

I am hopeful that this pain-staking task will serve as a stepping-stone for the concerned authorities, students and researcher.

Finally, I would like to offer special thank to Mr. Kamal Gurung for computer typing of this thesis.

Last but not least, I express my sincere gratitude to all staff of Balkumari Library, for their cooperation and encouragement throughout the thesis preparation period.

<div align="right">

Rabin Sapkota

Narayangarah, Chitwan

</div>

TABLE OF CONTENTS

LIST OF TABLE

LIST OF FIGURE

ABBREVIATIONS

B.S.	=	Bikram Sambat
CCC	=	Cash Conversion Cycle
Co.	=	Company
C.V.	=	Coefficient of Variation
F.Y.	=	Fiscal Year
HMG	=	His Ministry Government
i.e.	=	That is
ICP	=	Inventory Conversion Period
Ltd.	=	Limited
NTL	=	National Trading Limited
PDP	=	Payable Deferral Period
P.E.	=	Probable Error
Q.R.	=	Quick Ratio
Rs.	=	Rupees
RCP	=	Receivable Collection Period
S.D.	=	Standard Deviation
STCL	=	Salt Trading Corporation Limited
STF	=	Short Term Financing
%	=	Percentage
&	=	And
e.g.	=	Example

CHAPTER - I

INTRODUCTION

1.1   Background of the Study

Economic development depends predominantly on economic activities taking place in a country. Economic activities take root from the expansion of vital sectors like agriculture, industry, banking and trade, and advancement of informal economy. In other words, expansion of economic activities through the development of these indispensable sectors ushers ultimately into a strong economic base. Among these arenas, trading concern is the one that is imperative in the process of economic advancement of the country. The developing countries will remain associated with various forms of backwardness unless they tackle the problem of economic backwardness and economic development through industrialization. (Alexender, 1976:62-63)

The functioning of any business or industry relies on its ability to acquire and manage two types of capital viz. fixed capital and working capital. Working capital is the life blood to any business or commerce. Working capital is very essential to ensure the smooth operation of a business. Therefore, the company must pay due attention on the structure of working capital and its management. Maintaining an optimal level of working capital prevents a deadly halt on industrial production arising out both of shortages and surpluses of daily expenditure need. Maintenance of an optimal quantity of working capital offers an atmosphere of certainty, security and confidence to the business. It helps in maintaining solvency positions, goodwill, easy loans, and regular supply of goods, regular payment of salary and wages and strengthens the ability to face and mitigate crises and so on. Proper working capital management contributes in wealth maximization as well as profit maximization of business organization.

Working capital is the life blood and nerve of any business. Working capital is very essential to maintain the smooth running of a business. So, the company should always

concern on structure of working capital and its management. No business can run successfully without an adequate amount of working capital. Adequate working capital creates an atmosphere of certainty, security and confidence of business. Adequate working capital help in maintaining solvency positions, goodwill, easy loans, regular supply of goods, regular payment of salary and wages and ability to face crises and so on. Proper management of working capital management helps in wealth maximization as well as profit maximization of any business organization. In this modern business era, working I capital covers broad area. It covers almost half of the financial management. Therefore it is crucial aspects of financial management practice in any business.

Trade is one of the major aspects of the national economy. The efficiency of the trade administration is one of the primary responsibilities of the national government. As a trade sector involves imports and exports, both aspects assume important for the development of the economy. Import helps meeting the domestic needs for consumers. Goods which can't be produced within the country or which are not available adequately within the country are imported. On the other hand an export is the best channel for disposing off surplus domestic production for the purpose of earning the much-needed foreign exchange money. The ratio of export should be higher than the import if a country has to benefit from trade. It is called trade surplus, on the other hand, if import is greater than export it leads to trade deficit. Naturally a developing country like Nepal would need the public and private sector to coordinate the above activities and manage its trade efficiency. Thus success or failure of any business organization is heavily dependent the sort of efficiency in its working capital management.

1.2   Brief history of the sample trading companies

National-Trading Limited-(NTL)

National trading Limited (NTL) was established as a public limited company in March 1962AD (1st Chaitra, 2018 B.S) under the Nepal company Act. It was fully owned and controlled by the then his Majesty's Government of Nepal. NTL was -instituted with a

noble cause of channeling the commodity aids received from the People's Republic of China and USSR. These countries initiated many development projects in Nepal and used to provide volumes of goods as aid to support the cost of development projects through the sale of such commodities in the local market. NTL bags authorized capital of Rs. 30 crores, issued capital and paid up capital of Rs. 169,335,000 each. NTL serves through five regional offices in five development regions of the country. It also maintains six branch offices and eight sales depots across the business hubs of the country. Its head office is positioned at Teku of Kathmandu metropolis.

Previously, the department of commerce, HMG, handled this function in order to create a better channel to serve the growing needs of the national economy and the people at large. Later on, HMG set up the NTL as a State Trading Organization and was entrusted with the functions of engaging on all kinds of trading activities including quoting of goods imported from India for the purpose of establishing domestic prices, regularizing the import and export of industrial raw materials, machinery and equipment and consumer goods, to mention a few. At one juncture of time, NTL became the back bone of country's trade diversification since it commenced goods production as well as their export simultaneously to diverse market destinations. As the first leading trading organization at the national scale, NTL was handed over with the responsibility of dealing with both the import and export aspects of foreign trade. In order to achieve this end, the NTL adopts the following broad objectives:

- To establish the price of construction material and industrial raw materials available from local purchase as well as import
- To achieve price stabilization for consumer goods guaranteeing the unhindered supply from import.
- To supply bonded warehouse and duty free goods
- To act as an agent of the then HMG on the matter of import and distribution of goods. To ensure timely distribution and handling of import and export commodities
- To support the government economically by earning reasonable profit on Government's investment

Salt Trading Corporation Limited (STCL)

Salt Trading Corporation Limited was established on August 1963 A.D (27th Bhadra 2020 B.S) under the collaboration of HMG, National Trading Limited (NTL) and share of public. The amount invested by HMG, NTL and ordinary people were Rs. 200,000, Rs. 100,000 and Rs. 10,00,000 respectively. The development pace of STCL has remained speedy over its life from the very first day: of its operation. Therefore at present, it possesses Rs. 100,000,000 authorized capital, Rs. 24,777,700 paid- up capital and Rs. 50,000,000 issued capital. At present STCL have many branch offices all over Nepal. Its main office is situated at Kalimati of the capital city Kathmandu.

From the very inception, STCL's main objective was to-fulfill the daily need of the consumers ensuring-the reasonable price of the product. The specific objectives encompass:

- To avail the daily necessary things to the general people at reasonable price
- To carry out export and import functions ensuring regularity
- To act as an agent for domestic as well as foreign companies
- To make investments in new as well as old industries

The corporation has been able to attain adequate earning power, secure a healthy growth of asset base and achieve massive extension of its business across the country. This has been possible on the might of its sound financial position.

1.3   Statement of the Problem

Decision of Working capital management occupies an indispensable place in the management decision because the pain of procuring and maintaining entire fixed assets goes to dust if regular production and conduct of the business is halted by virtue of working capital shortages or ill-management. These days, Nepalese trading companies are facing the acute problems of working capital management. Many-a-time, such problems surface on account of our tiny market size, high production cost, lack of scientific inventory management system, little or no information on trading potential, severe

political instability coupled with business insecurity and pervasive uncertainty in the industrial and business sphere. Governments are changing frequently and so are the government policies; which pose a formidable challenge to the business world to shape their internal policies in the magnitude and direction of unpredictably varying state policies. Based on above discussion, the following research questions can be developed:

1.4   Objective of the Study

The basic objective of this study is to examine and measure the working capital structure of trading sectors. It aims at studying and uncovering the problems or challenges faced by the business and industrial sector in maintaining an optimal working capital level. However, the fundamental objective of this study is to craft a true insight into the working capital position of trading sector and to forward concrete recommendations for improvement if seem feasible. The principal objectives of this study are as follows:

- To give an overview on the working capital trend of National Trading Limited and Salt Trading Limited.

- To examine the composition of working capital, liquidity position, turnover, profitability, capital.

- To analyze the structure and cash conversion cycle of National Trading Limited and Salt Trading Limited.

- To analyze the relationship among different variables of working capital.

1.5   Research Questions

- To what extent the National Trading Lid and Salt Trading Corporation Ltd are being able to utilize their current assets properly

- What are the mechanisms or instruments being employed by National Trading Ltd. and Salt Trading Corporation Ltd. for working capital management?

- What is the liquidity and profitability position of National Trading Ltd and Salt Trading Corporation Ltd?

- How is the relationship between net working capital and other working capital variables in National Trading Ltd. and Salt Trading Corporation Ltd.?

- Is the amount of working capital sufficient, excessive or inadequate keeping in view of day- today operations of the corporations or payment of shorts-term obligations?

- Is the cash conversion cycle of National Trading Ltd. and Salt Trading Corporation Ltd. appropriate?

- How is the position of working capital shifting in these organizations- improving or deteriorating?

1.6   Importance of Study

It would be a far-cry for an enterprise to survive and grow with a weak financial position. However struggles an entity does in accumulating fixed -resources worth shefty capital the maintenance of optimal working capital always plays a determining role in the realization of company's goal. A faulty working capital management system results in the suppressed financial immunity of the company. The inability to pay daily expenditures in the form of electricity bills, water, communication, salaries and wages to workers etc. can push the company into the situation of bankruptcy either. The management of working capital has been regarded as one of the imperative factors in the decision making issue. It is undoubtedly very difficult to predict as to how much working capital is needed by a particular company, but is very essential for ensuring a smooth operation of the business and keeping away the company from going into insolvency. Thus, the issue of working capital management is the crux of management issues, a proper decision on working capital management should be a guideline to prepare company strategy for the long run.

This study might be valuable for the shareholders, management policy makers, customers, financing agencies, stock traders, researchers, scholars and students who want to investigate into the working capital management of trading companies. Thus, the need of the study can be highlighted as follows:

- The study would attempt to measure the efficiency of working capital in trading concerns by which they can correct and/or fine-tune their functioning so as to scale-up their performance

- Much study hasn't been carried out in the working capital management of trading sector leaving aside a handful of researches. This study, thus, can pave a concrete foundation for further research works.

- Because of the lacking of scientific inventory control system, a significant portion of investment made on Inventories goes waste. On the contrary, "the inventory level goes down below the requirement level inviting an obstacle on the production. This condition generates a need for an in-depth study on working capital management.

1.7 Limitation of the Study

Limitations are bound to occur despite my best endeavors. Only two big giant trading companies have been chosen for study. The recommendations drawn from the study of these big companies may not suit to the small and middle size firms. Besides, requirement of working capital relies not just on the size of the operation but is also affected by the micro differences on the nature of transaction they perform. Therefore, generalizing the findings of this study could mislead the readers, at worst: Besides, due to shortage of time, limited research facilities and compromised budget, this study can not go into the depth study of every component of working capital management. The study is partly based on secondary data which may or may not portray the exact landscape of the entire trading sector. We can pin point the major limitations of this study as follows:

- The whole study is concentrated on the aspect of working capital management, so it could not cover the overall situation of National Trading Ltd and Salt Trading Corporation Ltd.

- This study has been limited to analyze only two Trading companies among many trading companies placed in Nepal. They are National trading Ltd and Salt Trading Corporation Ltd.

- The study is based on the data of only the last seven years from 2002 to 2008 and the data are used in round figure of millions.

- There are innumerable factors having some degree of relationship with working capital but only a few of them are taken into consideration.

1.8 Organization of the Study

This study has been organized into five chapters. The title on each chapter is as follows:

Chapter I: Introduction -This chapter encapsulates the introductory part giving insight into the general overview of working capital and Trading, statement of the problem, objectives of the study, focus of the study, need of study, limitation of study, and its organization.

Chapter II: Review of Literature - This chapter presents a brief review of literature, which has further been organized into three sections. First section contains the review of conceptual frameworks of the working capital' management and introduction of National Trading and Salt Trading Ltd. Second section contains the review of related journals and articles. Last section contains the review of theses.

Chapter III: Research Methodology - This chapter includes the introduction, research design, sample and population, nature and sources of data, technique of data collection, tools for analysis of data.

Chapter IV: Presentation and Analysis of data - This chapter focuses the main objective of study. Data are collected through balance sheet and income statements of the companies. It deals with necessary data presentation with the use of tables, diagrams and analysis with the aid of different financial and statistical tools. In the end, this chapter presents the main findings supported by analysis.

Chapter V: Summary, Conclusion and Recommendations - In the last chapter, summary of the entire study, conclusions drawn thereupon and recommendations to the associated trading companies and relevant organizations are presented.

CHAPTER - II

REVIEW OF LITERATURE

The chapter 1 highlighted the introduction, problems and objectives of the study. This chapter the review of literature provides the bases and inputs for this study.

This chapter is broadly divided into three sections.

2.1   Conceptual Framework

2.2   Review of Articles/Journals

2.3   Review of the Previous Studies (Theses)

2.1   Conceptual Framework

2.1.1   Working Capital Management

Working capital management is concerned with problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationship that exist between them. The term current assets refers to those assets, which in the ordinary course of business can be or will be turned into cash within one year without undergoing a administration in value and without disrupting the operations of the firms. Current liabilities are those liabilities, which are intended at their inception to be paid in the ordinary course of business within a year out of the current assets or earnings of the concern. The goal of working capital management is to manage the firm's current- assets and current liabilities in such a way that a satisfactory level of working capital is maintained.

This is so because if the firm can not maintain a satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy. Each of current assets must be managed efficiently in order to maintain the liquidity of the firm while not keeping too high level of any one of them. Each of the short- term sources of financing must be continuously managed to ensure that they are obtained and used in the best possible way. The interaction between current assets and current liabilities is the main theme of the theory of working capital management.

2.1.2 Objective of Working Capital Management

The objective of working capital management is to maintain the optimum balance of each of the working capital components. This include ensuring that funds are held as cash in bank deposits for as long as and in the largest amount possible, there by maximizing the interest earned. However, such cash may more appropriately be invested in other assets or in reducing other liabilities. When considering these techniques and strategies, the management needs to recognize that each department has a unique mix of working capital components. The emphasis that needs to be placed on each component varies according to department.

The objective of working capital management is the same as the basic objective of the firm that is to maximize the value of firm. In the case of working capital, the objective is to minimize the cost of working capital and thereby contributes in the value maximization.

2.1.3 Concept of Working Capital

The term working capital refers to the amount of capital, which is readily available to an organization. That is, working capital is the difference between resources in cash or the assets readily convertible into cash (i.e. current assets) and organizational commitments to make cash payments at the moment (i.e. current liabilities). Current assets are liquid assets (cash and bank deposits, inventory, debtors and receivable), which are in the form of cash or soon be converted into cash in 'the ordinary course of business'. Current liabilities (bank overdraft, creditors and payables, other short-term liabilities) are those claims of outsiders, which are expecting to be matured within an accounting year. Working capital is a valuable metric that is calculated as current assets minus current liabilities.

Thus: Working Capital = Current Assets - Current Liabilities.

It is also known as operating capital. A positive working capital means that the company is able to pay off its short-term liabilities. A negative working capital means company

currently is unable to meet its short-term liabilities with its current assets. The scholars and experts have developed two different concepts of working capital. They areas follows:

Gross Working Capital

Gross working capital, simply called as working capital refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle). Cash, short-term securities, debtors, bills receivable and stock (inventory) are the major components of current assets.

Net Working Capital

Net working capital refers to difference between current assets and current liabilities. Net working capital can be defined positive and negative. A positive working capital will arise when current assets exceeds current liabilities. A negative net working capital appears when current liabilities are in excess to current assets. (Pandey, 1994:665)

2.1.4   Types of Working Capital

Working capital can be classified into two parts: permanent (fixed working capital) and fluctuating working capital.

Permanent Working Capital

It refers to that level of current assets, which is required on a continuous basis over the entire year. Enterprises concern cannot operate regular operation and sales functions in the absence of this portion of working capital. Therefore, the manager holds certain minimum amount of working capital to ensure uninterrupted production and sales function. This portion of working capital is directly related to the firm's expansion of operation capacity. (Srivastava, 1984: 481)

Variable Working Capital

It represents that portion of working capital, which is required over permanent working capital. If the nature of production and sales of a firm are directly related to seasonal

variation, it should stock extra raw material, work-in-process and inventory of finished goods. Therefore, this portion of working capital depends upon the nature of firm's production relation between labour and management. The underlying figure shows clearly the types of working capital.

Figure No. 2.1

Types of Working Capital
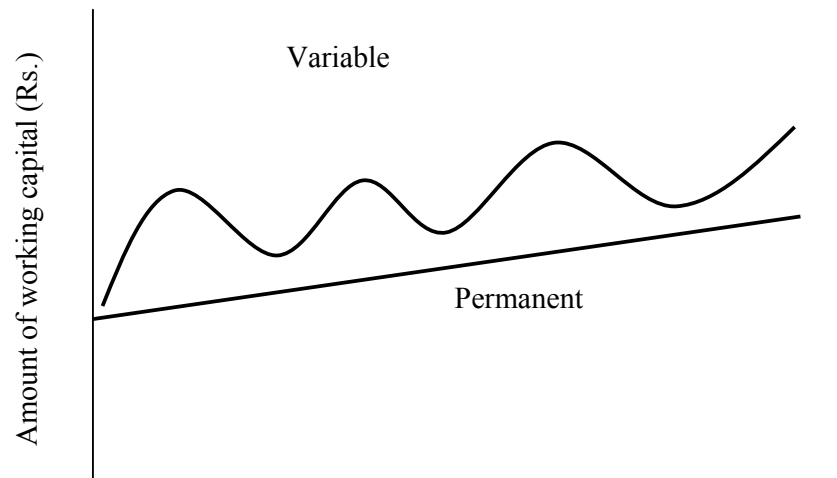
(Adopted from financial management by Pandey, 1995: 808)

2.1.5 Need of working capital

No organization can run in the absence of working capital. Working capital is the life blood for day to day operation of the business. The prosperity and growth of any business organization can no way be imagined if it lacks working capital for the payment of current expenditures. In this backdrop, the need of working capital can be specified as follows:

(i)   The transaction motive

It requires a firm to hold cash and inventories to facilitate smooth production and sales operations in regular. Thus, the firm needs working capital to meet the transaction motive.

(ii)   The Precautionary motive

This motive is the need to hold cash and inventories to guard against the risk of unpredictable change in demand and supply forces and other factors such as strike, failure of important customer, unexpected slow down in collection of account receivable, cancellation of some order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet any contingencies in future.

(iii)   The speculative motive

- It refers to desire of a firm to take advantages of these opportunities.
- Opportunities of profit making investment
- Opportunities of purchase raw materials at a reducing price on payment of immediate cash.
- To speculation interest rate and
- To make purchase at favorable price etc. Thus, the firms need the working capital to meet the speculative motive.

2.1.6   Financing of Working Capital

Every manufacturing and trading concern requires additional assets whether they are in the stable or growing conditions. When the growing firm wants to generate sustained normally require fixed capital as well as working capital. Additional portion of working capital is approximately dominated by the same rate as sales. But this portion of capital requirement depends upon the nature of firm. (I.M Pandey, Financial management, p-823). Therefore the most important function of financial manager is to determine the level of working capital and to decide how it as to be financed. Financing of any assets is concerned with two major factors- costs and risk. Therefore the financial manager must determine an appropriate financing mix or decide how current liabilities should be used to finance current assets. However, a number of financing mixes are available to the financial manager. Generally three kinds of financing are available for business.

- Long-term financing
- Short-term financing
- Spontaneous financing

(i)   Long-term Financing

long-term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earning and long-term debt from financial institution are the major sources of long-term financing. In company retained earning and long-term loan from Nepal Development Corporation and long- term other Commercial Banks.

(ii)   Short-term financing

Firm must arrange short-term credit in advance. The sources of short-term financing of working capital are as follows:

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

Bank Credit: Bank credit is the primary institutional sources of working capital financing. For the purpose of bank credit, amount of working capital requirement has not been estimated by borrowers and banks are approached with the necessary supporting data. After available of this data, bank determines the maximum credit based on the margin requirement of the security. The following types of loan provided by commercial banks.

Loan arrangement: Under this arrangement the entire amount of loan is repaid in installments, interest is payable on actual balance outstanding.

Over- Draft arrangement: Under this arrangement the borrowers is allowed to over draw on his current account with the bank up to stipulated limit. Within this limit any number of drawing are permitted. Repayments should be made in short period.

Commercial Papers: It is used only by the well established companies. The evidence of debts are unsecured short-term promissory not sold in the money market. It is sold either through dealers or directly to investors. Besides the above form of credit, bank provide loan against the warehouse receipt, inventory, receivables. In present context, most popular sources of short-term financing are short-term loan from commercial bank and other financial institutions. Short-term loan from public deposit is also a major source of working capital financing.

(iii)   Spontaneous Financing

This type of financing arises from the normal operation of the firms. The two major sources of such financing are trade credit (i.e. credit and bills payable) and accruals whether trade credit is free of cost or not actually depends upon the terms of trade credit. Financial manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of current assets financing is either short-term or long- term sources. Thus, the financial manager concentrates his power in short-term verses long-term financing. Hence, the financing of working capital depends upon the working capital policy which is perfectly dominated by the management attitude towards the risk-return.

2.1.7   Working Capital Cycle

The working capital cycle can be defined as the period of time, which elapses between the point at which, cash begins to be expended on the production of a product and the collection of cash from a customer.

Cash flow in a cycle into, around and out of a business. It is the business's lifeblood, every manager's primary task is to help keep it flowing, and to use the cash flow to generate profits. If a business is operating profitably, then it should, in theory, generate cash surpluses. If it does not generate surpluses, the business will eventually run out of cash and expire. The faster a business expands the more cash it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within business. Good management of working capital will generate cash will help improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits. There are two elements in the business cycle that absorb cash - Inventory (stocks and work-in-progress) and Receivables (debtors owing money). The main sources of cash are Payables (our creditors) and Equity and Loans.

Figure No. 2.2

Working Capital Cycle

(www.investmentorwords.com)

Each component of working capital (namely inventory, receivables and payables) has two dimensions TIME......and MONEY.......When it comes to managing working capital-TIME IS MONEY. If you can get money to move faster around the cycle (e.g. collect monies due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales), the business will generate more cash or it will need to borrow less money to fund working capital. Consequently, you could reduce the cost of bank interest or you have additional free money available to support additional sales growth or investment. Similarly, if you can negotiate improved terms with suppliers e.g. get longer credit or an increased credit limit; you effectively create free finance to help fund future sales.

If You	Then...
Collect receivables (debtors) faster	you release cash from the cycle
Collect receivables (debtors) slower	Your receivables soak up cash
Get better credit (in terms of duration or amount) from suppliers	You increase your cash resources
Shift inventory (stocks) faster	you free up cash
Move inventory (stocks) slower	you consume more cash

It can be tempting to pay cash, if available, for fixed assets e.g. computer, plants, vehicles etc. if you do pay cash, remember that this is now larger available for working capital. Therefore, if cash is tight, consider other ways of financing capital investment, loans, equity, leasing etc. Similarly, if you pay dividends or increase drawings, these are cash outflows and, like water flowing downs a plughole, they remove liquidity from the business.

2.1.8   Working Capital Policy

A firm's net working capital policy is not only important as an index of liquidity but it is also used as a measure of the firm's risk in this regard means chances of the firm being unable to meet its obligations on due date. (Pandey, 1995)

Working capital policy refers to the firm's basic policies regarding target level of each category of current asset and how current asset will be financed (Western and Brigham, 1996:333). So first of all, the firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk -return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current asset. Every firm has to find out the different sources of fund for working capital. Working capital investment policy refers to the policy that regulates current assets. The policy provides guidelines to monitor and manage current assets (Pradhan, 1986:142) .Working capital refer to the firm's policies regarding) Target levels for each, ii) How current as will be financed. (Brigham and Houston, 1982:695) There are two types of working capital policy.

- Current assets investment policy
- Current assets financing policy
-

A.   **Current assets investment policy:**

Current assets investment policy deals with the total amount of current assets to be carried to support the given level of sales. How much a firm will invest in current asset will depend on its operating cycle. There are three alternative current assets investment policies-fat cat, lean &mean and moderate. (Western and Brigham, 1996:344)

(i)   **Fat policy:** This is known as relaxed current assets investment policy, the firm holds relatively large amount of cash, marketable securities, inventories and cash conversion cycles. It also creates the longer receivable collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with lower risk.

(ii)   **Lean and mean policy:** In lean and mean policy, a firm holds the minimum amount of cash, marketable securities, inventory and receivable to support a given level of sales. This policy tends to reduce the inventory

and receivable conversion cycle. Under this policy firm follows light credit policy and bears the risk of losing sales.

(iii) **Moderate policy:** In this policy, a firm holds the amount of current assets in between the relaxed at restrictive policies. Both risk and return are moderate in this policy.

Figure No. 2.3

Current Assets Investment Policy
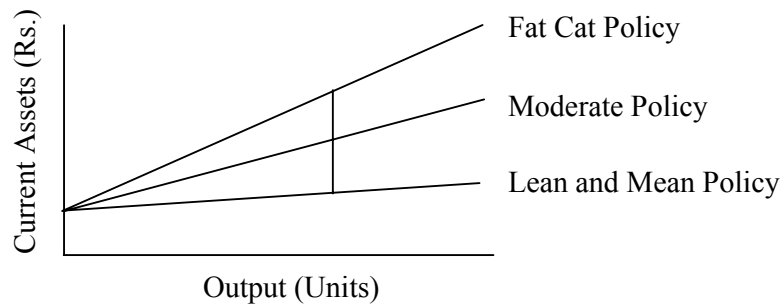
The relationship between output and current assets level for these alternatives is illustrated in above figure. We see from the figure that the greater the output, the greater the need of investment in current assets to support that output and sales. The relationship is based on the notion that it takes a grater proportional investment in current assets when only a few units of output are produces that it does later on, when the firm can use its current assets more efficiently.

B. **Current assets financing policy**

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

(i)   **Aggressive policy:** In this policy, the firm finances a part of its permanent current assets with short -term financing and rest with long-term financing. Some extremely aggressive firms may even finance a parts of their fixed assets with short-term financing. (I.M. Panday, 829). Public enterprises should follow aggressive policy if they depends more on short -term credit to finance the whole of current assets and a part of fixed assets. Although the short-term financing involves less cost, it is more risky than long-term financing, thus the aggressive financing mix is quite risky leading to high profitability and low liquidity. This approach suggests that financing mix should be between of two approaches. A major part of total current-assets should be financed by short-term sources and a part of the long term investment also should be financed by short-term sources.

Figure No. 2.4

Aggressive Financing Policy
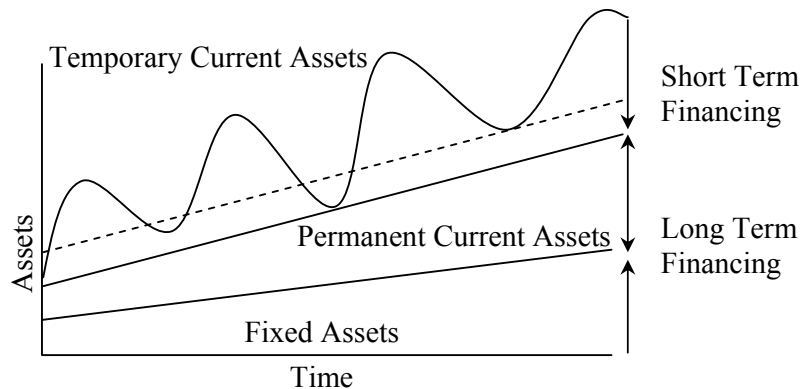
(ii)   **Conservative policy:** The financing policy of the firm is said to be conservative when it depends more on long-term funds for financing needs. In this policy, the firm finances its permanent current assets and a part of temporary current assets with long-term financing. (I.M. Pandey, 828). This approach restricts the use of short-term funds to only emergency situation or when there is an unexpected outflow of funds. (M.Y. Khan and P.K. Jain, 622) the liquidity position of the firm will be

relatively more than in hedging approach. The cost of financing under conservative approach will be higher the cost of financing than hedging approach. The cost of financing increases because it uses long term sources of current assets. Higher profit and higher risk is exit in this policy. The conservative financing policy is shown in figure below. (Pandey, 1995:749)

Figure No. 2.5

Conservative Financing Policy
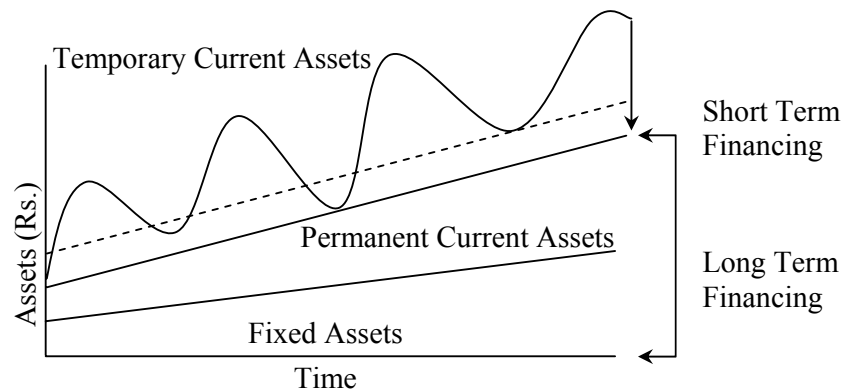
(iii)   **Matching policy:** Matching policy also known as hedging policy and it is called moderate approach to current assets financing involves making to the extent possible, the maturities of assets and liabilities, so that temporary current assets are financed with short-term non spontaneous debt and permanent current assets are financed with long-term debt or equity plus spontaneous debt. (E.F. Brigham and J.F. Houseton: 770) This approach therefore divides the requirements of total funds into permanent and seasonal components, each being financed by a different source. This policy follows the medium way between-aforementioned two extreme working capital policies. This policy helps public enterprises to consider both profitability and risk with adequate liquidity position. It deals to neither higher nor low level of current assets and current liabilities. This approach shown in below figure

Figure No. 2.6

Matching Financing Policy
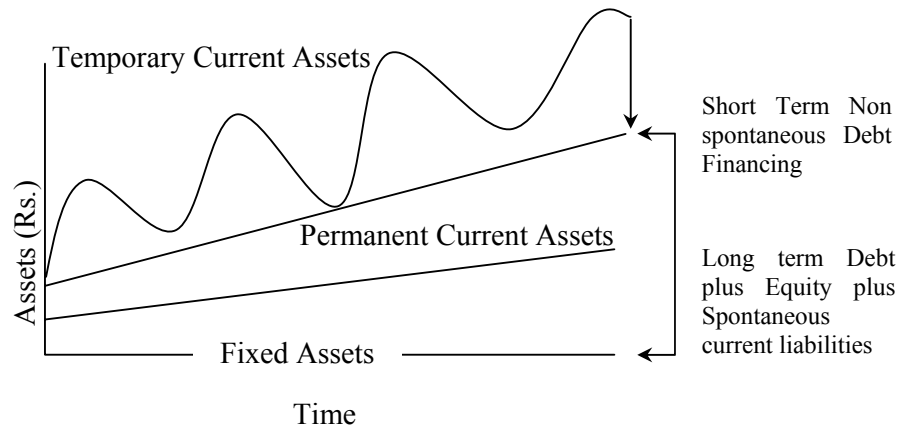
Conclusion, conservative or loose policy refers to that policy under which a firm keeps high level of investment in working capital variables like high level of receivable through liberal policy, high inventory and cash& bank balance while aggressive or tight working capital policy just follows the reserve policy to that of former policy. But average or moderate working capital policy follows the medium way between aforementioned two extreme policies.

2.1.9   Adequacy of Working Capital

The firm should maintain a sound working capital position. It should have adequate working capital to run its business operation. Both excessive as well as inadequate working capital position are dangers from the manager point of view. Excessive working capital means idle funds which earn no profits for the firm. Paucity of working capital not only impairs firm's profitability but results in production interruptions and inefficiencies. The dangers of excessive working capital are:

It results in unnecessary accumulation of inventories. Thus, chances of inventory mishandling, waste, theft and losses increase. It is an indication of defective credit policy and stock collection period. Consequently, higher incidence of bad debts results, which adversely affects profit. Excessive working capital makes management, complacement, which degenerates, into managerial inefficiency.

Tendencies of accumulating inventories tend to make speculative profit grow. This may tend to make dividend policy liberal and difficult to cope with in future when the firm is unable to make speculative profits.

The dangers of inadequate working capital are:

- It stagnates growth. It becomes difficult for the firm to under take profitable projects for no availability of working capital funds.

- It becomes difficult to implement operating plans and achieve the firm's profit target.

- Operating inefficiencies creep in when it becomes difficult even to meet day-to-day commitments.

- Fixed assets are not efficiently utilized for the lack of working capital funds. Thus, the firm's profitability would deteriorate.

- Paucity of working capital funds render the firm unable to avail attractive credit opportunities etc.

- The firm loses its reputation when it is not in a position to honor its short-term obligations. An enlightened management should, therefore, maintain a right amount of working capital on a continuous basis. A firm's net working capital position is not only important as index of liquidity but it is also used as a measure of-the firm's risk. Risk in this regard means chances of the firm being unable to meet its obligations on due date. Lenders consider a positive net working capital as a measure of safety. All other thing equal, the more the net working capital a firm has less likely that it will default in meeting its current financial obligations. Lenders such as commercial banks insist that the firm should maintain a minimum net working capital position.(Ramammorthy, 1976:11)

2.2   Review of Journals/Articles

Joseph A. Mauriello (1962) has presented the article on "working capital concept". This article looks afresh at the problem of determining working capital, and proposes a simple yet comprehensive restatement of principles with respect to current assets and current

liability .The working capital is measure of liquidity or the measure of the fluidity of capital and is an indicator of balance in the assets and liability structure of the company .Banks and the other short - term creditors are vitally interested in the amount of working capital from the stand point of evaluating the prospect of repayment of their claims against the company.

Nunn (1981) examined why firms have different level of working capital. His paper dealt with the strategic determinants of working capital (cash, short-term securities, account receivables and inventory) on a product line basis. He used factor analysis to test 1666 variables against the working capital policies of over 1700 business, or products lines, from 1971 to 1978. His final multiple regression models contained 19 variables pertaining to production, sales, accounting, comparative position and industry factors. His model was used to explain why working capital level differs among firms both within and across industries.

Prof. Dr. Shrestha, Manohar Krishna (1982) in his study "working capital management in public enterprises, a study on financial results and constraints" has considered ten-selected public enterprises and studied the Working capital management of those public enterprises. He states that managers often lack basic knowledge of working capital and its overall impact on the operative efficiency and financial viability of public enterprises. He has focused on the liquidity, turnover and profitability position of sampled enterprises. Based on these factors, he has brought certain policy issues of Nepalese public enterprises on the discussion floor. Such vital issues include lack of suitable financial planning, negligence towards working capital management, deviation liquidity and turnover of assets and inability to show positive' relationship between turnover and return on networking capital. He has also suggested the coping measures to overcome said policy issues such as identification of needed funds, regular checks, and development of management information system, positive attitude towards risk and profit, and determination of right combination of short-term and long-term sources to finance working capital requirements.

Pradhan, Radhe Shyam and Koirala, Kundan Dutt (1983) had jointly published an article on "some reflection of working capital management in Nepalese corporations". This article aims to find out the difficultly, problems and importance of current assets management and also aims to find out the motive for holding cash and inventory. The study uses only primary data to find out the basic constraints and distributed 200 questionnaires. For the purpose of study, they used manufacturing public corporations as sample companies. After analyzing the collected data, the major finding of this study were as follows:

- The prime motive for holding cash in Nepalese corporations is to provide a reserve for routine net cash outflows

- The major reason for holding inventories is to facilitate smooth operation of production and sales

- The major factor affecting the large investment in receivable is found to be the liberal credit policy followed by Nepalese corporation. The large paying practice of customer is also responsible for larger investment in receivable. However, corporations' reluctance and/or inability to improve inefficient collection of trade credit is one of the major factors jeopardizing receivable collection.

Acharya, K. (1985) has published his article on "problems and impediment in the management of working capital in Nepalese enterprises". He has presented that working capital management; especially in public sector, has been a relatively weak area. He has described operational problems as well as organizational problems faced by the Nepalese public enterprises regarding the working capital management. Some of the operational problems are:

- Public enterprises has slow inventory turnover.

- Change in working capital has low impact on profitability.

- Current liabilities are increasing largely than current assets.

- They have not followed the conventional proportion of debt and equity as 1:1.

- Absent and apathetic information management system.

Secondly, the organizational problems are:

- Lack of regular evaluation of financial result as well as regular internal and external audit system
- Most of public enterprises being unable to present their capital requirements with proper justifications.
- Functioning of finance department was not satisfactory.
- Some public enterprises are facing the problem of under utilization of capital.

Mr. Acharya is not satisfied with the performance of enterprises. To make an efficient use of funds for minimizing the risk of loss and thereby attain profit objectives, Acharya has forwarded the underneath suggestions and recommendations:

- Public enterprises should take care of negatively affecting policies directives from I IMG Nepal itself.
- Public enterprises should avoid fictitious holing of assets immediately.
- Finance staff must be acquainted with the modern scientific tools used for the presentation and analysis of data.

Lastly, he has suggested optimizing its level of investment because both of these situations will erode the efficiency of concern.

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

Zeng (2002) made an empirical study on the working capital channel and cross-sector co-movement. The paper studied cross-sector co-movement, one of the defining characteristics of the business cycle, in a monetary framework. He argues that monetary factors might be important for understanding this phenomenon through a working capital channel. The study showed that in a strictly portfolio adjustment model where firm borrow to finance working capital, a positive money supply shock drives the nominal interest rate down, thereby stimulating firm's borrowing and causing employment to rise in different sectors. A positive aggressive technology shock can also drive the nominal interest rate down upon impact and reduce co-movement when the elasticity of labor supply is large.

2.3 Review of Previous Studies (Thesis)

This segment presents the studies that have been conducted on working capital management of various public and private enterprises within the purview To Nepal. Tamrakar, Manik Ratan (1978) has conducted a research on "working capital management of National Trading Limited". He has used financial and statistical tools to analyze the working capital of National Trading Limited. The main objective of this study was to analyze the importance of the proper management of working capital in the long run for a company and to assess the relationship between the different components of current assets and current liabilities. The major findings of this research were as follows:

- There is very low inventory turnover and high collection period of outstanding debt.

- There is an improper financing of current assets and low earning capacity of National Trading Limited.

Kunwar, Naresh (2000) has carried out a research on "working capital management of pharmaceutical industry of Nepal with reference to Royal Drugs limited" he has used statistical as well as financial tools to analyze the financial statement of 2049/2050 to 2045/055. the main objective of his study is to analyze empirical testing affecting

working capital of Royal Drugs Limited as well as to know whether adequacy of working capital depends upon the nature of financing current assets or not. The major findings of this study are:

- It has used more long-term sources of financing than short-term sources.

- It has followed conservative working capital policy.

- The major components of current assets in Royal Drug Limited are cash & bank balance, receivable, inventory. Among these current assets inventory holds largest portion of current-assets.

- The overall proportion of current assets to total assets, current assets to net fixed assets are found increasing trend in the study period.

- Company can not efficiently utilize current assets.

- There is also inefficient management of receivable policy.

Liquidity position is satisfactory whereas return position is not satisfactory due to negative.

On the whole, working capital management of National Trading Limited is poor. Shrestha, Rojina (2003) has carried out a study on working capital management with respect to National Trading Limited and Salt Trading Limited. She has used financial as well as statistical tools to analyze the final statement often fiscal years from 2045 to 2057. Major finding of her study were as follows:

- Both trading companies have followed aggressive financing policy

- Investment in current assets is high in both with respect to its total assets and net fixed assets

- The net working capital turnover is also fluctuating year after year and even it reached to negative figure in the last year of the study period

- Liquidity position of National Trading Limited is unsatisfactory while that of Salt Trading Limited is satisfactory

- Overall, return position of Salt Trading Limited is not encouraging

- The relationship between current assets and current liabilities is significant.

- The relationship between current assets and sales of National Trading Limited is insignificant whereas that is significant in the case to Salt Trading Limited

- Correlation between net profit and net working capital is negative in both cases with insignificant relationship (the correlation coefficient of both companies being less than 6.P.E.). Net profit and net working capital are not correlated.

2.4   Research Gap

The above studies are concerned with the research title "Working Capital Management". Also considering other researches being carried out on the topic, it becomes apparent that some researchers have selected various manufacturing companies for the study while others have opted for only one company. Nevertheless, most of studies have been connected to manufacturing enterprises. The study on trading and banking sector in connection to working capital management seem markedly limited. Most of the studies have used financial tools and secondary data. They have included only summary, findings and conclusion in their study report but no concrete recommendations to solve the problems encountered.

As stated above, there is very limited study being carried out on working capital management of trading companies. Thus to fill up this gap, the researcher has aimed to conduct research on working capital management of two giant trading companies. The study attempts to throw light on working capital position of these companies and also suggest the possible measures for the improvement and stepping up of the trading sector.

CHAPTER - III

RESEARCH METHODOLOGY

The following instruments of research methodology have been employed to carry out the research on the said topic: research design, population &sample, nature and sources of data, data collection techniques and tools for analysis of data.

3.1   Research Design

The main objective of this study is to evaluate the working capital management of selected Trading companies and make comparison thereby establishing the relationship between two or more variables of working capital. Thus, the study has been based on descriptive and analytical method of research design. Both financial as well as statistical tools have been used so as to provide analytical insights and achieve prescribed results. A mix of primary and secondary data is used for the study.

3.2   Population and Sample

There are many trading- companies operating their business in the country. However, only two trading companies (National Trading Ltd and Salt Trading Corporation Ltd) have been taken as sample from the population for this study.

3.3   Nature and Sources of Data

The data have been collected from the primary source to the possible extent and the data insufficient for the study from primary source have been gathered from secondary source. The secondary data have been extracted from financial, statements, annual reports and publication of security board and Concerned Company and also from relevant business magazines, articles and other publications.

3.4   Collection of Data

Financial data have been gathered directly from the balance sheet and income statement of the company and other data have been collected from consulting relevant magazines, articles and publications.

3.5   **Tools of data analysis**

For the analysis of data, the following financial and statistical tools have been used:

3.5.1   Financial Tools

Financial tools are very essential tools to identify the financial strengths and weakness of any organization. In other to obtain the relationship between various variables, the ratio analysis is used. It shows the quantitative or -numerical relationship between two variables or more of financial statement.

3.5.1.1 Financial Ratio Analysis

Financial Ratio analysis is widely used to know the financial condition of the firm. Enterprises may able to judge their financial stability by using various ratios. It is the relationship between financial variable contained in the financial statement (i.e. B/S, P/L and income statement). It helps to spot out the financial strength and weakness of the firm. It the process of summarizing large quantity of financial data and making quantitative judgment about the firm's financial performance. Those various ratios are employed and grouped for the analysis of composition of working capital, liquidity position, turnover position, profitability position, types of working capital, cash conversion cycle and working capital required.

A.   Composition of Working Capital:

Composition of working capital is analyzing follows ratios:

   (i)   Ratio of Current Assets to Total Assets

   This ratio measures what percentages of the company's total assets are invested in the form of current assets. Higher ratio shows the risk and profitability of the company will decrease and vice-versa. It is calculated as:

   $$\text{Current Assets to Total Assets Ratio} = \frac{\text{Current Assets}}{\text{Total Assets}} \times 100$$

(ii)   Ratio of Current Assets to Fixed Assets

This ratio shows the relationship between current assts and fixed assets. Higher ratio indicates the sound position of working capital and vice-versa. It is calculated as:

$$\text{Current Assets to Fixed Assets Ratio} = \frac{\text{Current Assets}}{\text{Fixed Assets}} \times 100$$

(iii)   Ratio of Cash and Bank balance to Total Current Assets

This ratio measures the relationship of cash and bank balance to total current assets. Working capital is directly affected by this ratio. Lower ratio indicates the sound management and higher ratio indicate the weak cash management. It is derived as:

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}} \times 100$$

(iv)   Ratio of Cash and Bank Balance to Total Assets

This ratio indicates what percentage of total assets is invested in cash and bank balance. As the ratio increases, the risk and profitability would decrease. It is calculated as:

$$\text{Cash and Bank Balance to Total Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Assets}} \times 100$$

(v)   Ratio of Inventory to Total Current Assets

This ratio indicates the relationship of inventory to total current assets. The higher ratio indicates the liberal investment policy. If the ratio increases or percentage increases, it means the greater part of current assets is occupied by inventory. So the increase in the ratio is an indication of weak current assets management of the enterprises. This ratio is calculated as:

$$\text{Inventory to Current Assets Ratio} = \frac{\text{Inventory}}{\text{Current Assets}} \times 100$$

(vi)   Ratio of Inventory to Total Assets

This ratio shows the percentage of inventories to total assets. With the increase in ratio, working capital also increases. The increase in ratio also indicates the liberal policy or blocking of materials in stock. It is calculated as:

$$\text{Inventory to Total Assets Ratio} = \frac{\text{Inventory}}{\text{Total Assets}} \times 100$$

(vii)   Ratio of Receivables to Current Assets

This ratio indicates the share of receivables on current assets. As the receivable is the part of working capitals. It is affected by changing ratio of receivables. Higher ratio indicates the inability of company to collect receivables promptly. Thus, higher percentage indicates the greater working capital. It is calculated as:

$$\text{Receivables to Total Current Assets Ratio} = \frac{\text{Receivables}}{\text{Current Assets}} \times 100$$

(viii) Ratio of Receivable to Total Assets

This ratio indicates the percentage of total assets invested in the form of receivables. The increase in the ratio indicates the liberal credit policy followed by the company. As receivable is a part of working capital, if the ratio increases the working capital also increases. It is calculated as:

$$\text{Receivables to Total Assets Ratio} = \frac{\text{Receivable}}{\text{Total Assets}} \times 100$$

B.   Liquidity Ratio

It is most important ratio for the company. It reveals the solvency and financial strength of the firm. It shows the ability to meet its current obligations i.e. it determines the short-term solvency position of any organization. Thus, the following ratios are generally analyzed to find out firm's liquidity position:

(i)   Current Ratio

Current ratio is the basic yardstick of measuring the liquidity position of the firm. This ratio is computed as dividing current assets by current liabilities. It is determined as follows:

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

The higher ratio indicates the position of company is in liquid and able to pay its current obligation or bills. When this ratio reaches to 2:1, it indicates good liquid position of the firm. If the current assets are two times of current liabilities, there will be no adverse effect on daily operation. If the ratio is less than two, difficulty may arise while paying current liabilities and when the ratio is higher than two, it is very comfortable for creditors but on the other hand, it indicates the idle fund in business.

(ii)   Quick ratio

The quick ratio also known as 'acid test' ratio is a more stringent measure of liquidity than the current ratio. It establishes a relationship between quick or liquid assets and current liabilities. As the quick assets include all the current assets except inventories and prepaid amount. It is reliable to measure the company's liquidity. It is computed as dividing quick assets by current liabilities. Higher the quick ratio indicates better the liquidity position. Lesser quick ratio indicates the solvency position of the firm is not good. Generally, the liquidity position is 1:1 of the firm is considered sound.

Quick Assets Quick Ratio (Q.R) = $\dfrac{\text{Quick Assets}}{\text{Current Liabilities}}$

Where, Quick Ratio = Current Assets -Inventories-Prepaid Expenses.

C.   Activity or Turnover Ratio

The Activity or Turnover Ratio reflects the speed and rapidity with which assets are converted into sales that result in the efficiency of the enterprise. Through

there is no standard of ideal management generally, a greater turnover is regarded as efficient utilization of the assets. Higher the ratio, the better the profitability and use of capital of recourses will be.

The following are the important turnovers that are calculated to analyze the company's turnover position.

(i)   Inventory Turnover Ratio

Inventory Turnover Ratio, also known as stock turnover ratio, indicates the pace or speed of goods being sold in the market. The ratio shows the efficiency of business concerning in an inventory management. It establishes the relationship between cost of goods sold during the given period and average amount of inventory held during the period. Higher ratio indicates the better management of inventory and lower inventory turnover suggests the management should manage its inventory properly. This ratio is calculated as:

$$\text{Inventory Turnover Ratio} = \frac{Net\,Sales}{Average\,Inventory}$$

$$Or = \frac{Sales}{Closing\,Inventory}$$

$$\text{Where, Average Inventory} = \frac{Opening\,Stock + Closing\,Stock}{2}$$

(ii)   Current Assets Turnover Ratio

This ratio indicates the number of times the current assets are turned over during the year. It is relationship between sales and current assets; it shows the efficiency of utilizing current assets. A high current assets turnover ratio may reflect adequacy of current assets as respects of high turnover of" inventory or receivable where as low turnover ratio shows an inadequacy of current assets. It is computed by dividing sales by current, assets, i.e. gross working capital.

$$\text{Current Assets Turnover Ratio} = \frac{Sales}{Current\,Assets}$$

(iii)   Debtors/Receivable Turnover Ratio

The receivable turnover ratio is a relationship between account receivable and credit sales. It indicates the velocity of debt-collection of a firm. The higher ratio shows the management is more efficient in collecting the receivable it indicates that within a short period, the firm is collecting the cash from debtors a low ratio shows that debts are not being collected rapidly. The receivable turnover can be calculated as:

$$\text{Receivable Turnover Ratio} = \frac{\text{Sale}}{\text{Debtors/Account Receivable}}$$

(iv)   Net Working Capital Turnover Ratio

This ratio shows the number of times the working capital turned over during the year. Higher ratio indicates the utilization of net working capital and vice-versa. It is computed by dividing sales by net working capital.

$$\text{Net Working Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Net Working Capital}}$$

Where, Net working capital = Current Assets -Current Liabilities

(v)   Total Assets Turnover Ratio

It is a relationship between sales and total assets. This ratio indicates how much total assets being used to generate sales. A total asset includes current assets and fixed assets. A high ratio would mean better utilization of total assets and vice versa. Total assets turnover ratio can be computed as:

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

D.   Profitability Ratio:

Profitability ratios are calculated to enlighten the end" results of business activities that are the sole criteria of the overall efficiency of business concern. The relation of the return of the firm to either its sales or its equity or its assets is known as profitability ratio. The following are the important profitability ratio

(i)   Gross Profit Margin Ratio

This ratio reflects the overall efficiency of company's production and management since it indicates profit margin on the sales before deduction of operating expenses. Hence, gross profit margin is not the actual realized profit for the company. It only shows the efficiency towards its manufacturing or production costs. Profit is the sole objective of business whether it is manufacturing or service organization. Profit is not only the surplus of the business; it links directly or indirectly to the" several factors of internal and external phenomenon of the business activities. The higher percentage indicates the better efficiency of the company. It assesses the relationship between gross profit or losses with sales. Gross profit is obtained by deducting cost of goods sold from net sales. It can be calculated as:

Gross Profit Margin-Ratio $= \dfrac{\text{Gross Profit}}{\text{Sales}} \times 100$

Where, Gross profit = Net Sales - Cost of goods Sold.

(ii)   Net Profit Margin Ratio

This ratio is the overall measurement of the company's ability to earn net profit. This is very useful to the proprietors and prospective investors because it reveals the overall profitability of the concern. This is the ratio of net profit after taxes to net sales Net profit is obtained by deducting all the operating expenses and Tax from gross profit. A higher ratio is the indicator of the higher overall efficiency of the business and better utilization of total resources. It is calculated as:

Net Profit Margin Ratio $= \dfrac{\text{Net Profit After Tax}}{\text{Net Sales}} \times 100$

(iii)   Operating Ratio

The operating ratio is an important ratio, which is calculated to ascertain the relationship between operating expenses and volume of sales. The ratio is computed as follows:

$$\text{Operating Ratio} = \frac{\text{Cost of Goods Sold} + \text{Operating Expenses}}{\text{Net Sales}} \times 100$$

Where,

Operating Expenses

= Administration expenses + Selling & Distribution Expenses + Depreciation

Higher ratio indicates the lower efficiency of the company and vice-versa. Higher operating ratio means small amount of operating income to meet interest and dividends. So, it is not seems to be favorable for the company, while there is higher rate of operating ratio.

(iv) Return on Shareholder Equity

The most important ratio from shareholders' viewpoint- Return on Shareholders' Equity indicates the profitability of the owner's investment. Shareholder equity includes preference share capital, ordinary or common share capital, share premium and undistributed profit. This ratio is commonly used for measuring the return on owner's investment.

$$\text{Return en Shareholder's Equity} = \frac{\text{Net Profit After Tax}}{\text{Shareholder's Equity}} \times 100$$

Higher ratio indicates how well the firm has used the resources contributed by the owners. It is good for the firm to be the return of investment high. Higher ratio indicates the more efficient management and utilization of the shareholder's fund.

(v) Return on Net Working Capital Ratio

Determination of working capital has needed in any company. It is necessary to find the return which they could achieve from the use of net working capital greater the return on net working capital, lesser the needs for additional working capital. Profitability of company greatly affects their working capital needs. In fact the net profit is a source of working capital to the extent that it has been earned in cash the profit can be found by adjusting non cash items like depreciation the net profit. But, in practice the net cash inflows from operations

can not be considered as cash available for use at the end of the period. It is calculated as:

$$\text{Return on Net Working Capital} = \frac{\text{Net Profit After Tax}}{\text{Net Working Capital}} \times 100$$

E. Leverage Ratio (Capital Structure Ratio):

The leverage ratio is also known as long-term solvency. Leverage ratio is used to measure the financial risk and to know that how far the firm is using its debt for the benefits of shareholders. Leverage ratio also reflects the proportion of debt in total financing. There are different leverage ratios. Out of them only two important ratios are given below:

(i) Short-Term financing to Long- Term Financing Ratio

This ratio is computed by dividing short-term financing amount by the long-term financing amount. Fund raised from short-term financing can be used to increase current assets, working capital or to meet daily expenses. It is calculated by using following formula:

$$\text{STF to LTF Ratio} = \frac{\text{STF}}{\text{LTE}}$$

(ii) Short -Term financing to Total financing Ratio

This ratio shows the proportion of short-term financing out of total financing amount which is financed. That ratio is computed by dividing STF amount by total financing amount. If a firm uses more short-term financing, then an aggressive policy is said to be followed by the firm. It is calculated as follows:

$$\text{STF to TF Ratio} = \frac{\text{STF}}{\text{TF}}$$

Classification of Working Capital (On the basis of time)

From the point of view of manager, this classification is very important. On the basis of time working capital can be classified into two components:

Permanent or Fixed working capital: Every firm has to maintain a minimum level of inventories, cash and other current assets which is needed to conduct a business even during the dullest season of the year. This minimum level of current assets is called permanent capital. The amount of working capital is constantly and regularly required in the same way as fixed assts are required. So, it may also be called fixed assets. This amount varies from period to period, depending upon the growth of a company and the stage of the business cycle in which it operates.

Temporary or Variable working capital : Any amount of working capital over and above the permanent amount level of working capital is temporary working capital. It is required for short period and can not be permanently employed gainfully in the business. The additional working capital is required in order to meet the requirements arising out of fluctuation in sales and this additional amount is known as temporary or variable working capital. It is that part of total or gross working capital which varies with variation in the volume of business operation. The amount of working capital rises at the time of busy or brisk season and goes down at the slack season. So, it is also called seasonal working capital.

3.5.1.2 Working Capital Cash Flow Cycle/ Operating Cycle

The continuous flow from cash to supplier to inventory, to account receivable and back into cash is known as working capital cash flow cycle/ operating cycle. It continuously repeats. The cycle demonstrates the conversion of raw material and labor to cash. Hence, this concept is also called conversion cycle model (Weston & Brigham, 1987: 405). This model has been applied to more complex business and it is .useful when analyzing the following four factors of cash conversion cycle model.

(i)   Inventory Conversion Period (ICP)

This period indicates the average length of time required to convert materials into finished goods and then to sell those goods. It is calculated by dividing cost of goods sold by average inventory. It can be calculated as follow:

Days in Year Inventory Conversion Period $= \dfrac{\text{Days in Year}}{\text{Inventory Turnover}} \times 100$

(ii)   Receivable Collection Period (RCP)

This period determines the average length of time required to convert receivables into cash, that is, to collect cash following a sale. It also analyses to determine collection of debtors and also the efficiency of collection effects. It is one of the important financial tools for the measurement of cash conversion cycle. Generally, lower the collection period, more efficient is the management of credit. Receivable conversion period is known as average collection period or days sales outstanding (DSO). RCP can be calculated as follows:

$$\text{Receivable Collection Period} = \frac{\text{Days in Year}}{\text{Receivable Turnover}}$$

(iii)   Payable Deferral Period (PDP)

It is the average length of times between the purchase of materials and labors and the payment of cash for them. It indicates the speed of creditors payable. A high payable conversion period is favorable for the company but too much high period also can hamper the credit worthiness of the company. It is calculated as:

$$\text{Payable Deferral Period} = \frac{\text{Days in Year}}{\text{Payable Deferral Turnover}}$$

(iv)   Cash Conversion Cycle (CCC)

It is an important financial tool and also a quick and convenient way to analyze the ongoing liquidity of the firm overtime. Cash conversion cycle is the length of time between paying for purchase and receiving cash from the sales of finished goods. It generally, measure the length of time that firm's funds has tied up in working capital. Cash conversion cycle can be calculated as follows:

Cash Conversion Cycle =   Inventory   Conversion   Period   +   Receivable Collection Period -Payable Deferral Period.

As we know that inventory and receivable are inflow of business and payable deferral period is out flow of business. So, for the calculation of cash conversion cycle, RCP and ICP should add up and PDP should be deducted.

3.5.1.3 Requirement of Working Capital

Working capital is used to pay short-term obligations such as account payable and buying inventory. If working capital dips too low, the risk running of cash. Even very profitable business can run into trouble if they lose the ability to meet their short term obligation. The calculation assists in determining working capital needs for the next year. Working capital is used by leaders to help gauge the ability for a company to weather difficult financial periods. It is calculating by subtracting current liabilities from current assets. Due to differences in business and the fact that working capital is not a ratio but an absolute amount, it is difficult to predict what the ideal amount of working capital would be for business. To calculate working capital requirement this calculation uses to determine a target amount of working capital.

Working Capital Required = Days x Daily Sales x Variable Costs

3.5.2 Statistical Tools

Some statistical tools are used in this study are briefly described below:

(i)   Mean (X)

It is most popular and widely used to present the given data. Its value is obtained by adding together all items and by dividing this total by the number of items. The manufacturing company is calculated mean to compare their results. The formula used for calculate mean is as follow:

$$X = \frac{\sum \overline{X}}{N}$$

(ii)   Standard Deviation (S.D)

Standard deviation is the most popular and most useful measure of dispersion and given uniform, correct and stable result. The chief characteristic of standard

deviations is based on mean which does not give the clear picture about two distributions. Therefore, a standard deviation is superior to the mean deviation quartile deviation and range because it is used for further mathematical treatment. It is the positive square of deviation from the arithmetic mean of the distribution.

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

Where,

        X   = Value of observation

        X   = Mean of observation

        N   = Number of observation

(iii) **Correlation Coefficient (r)**

Correction analysis is the statistical tools generally used to describe the degree to which one variable is linearly related to other variables. Correction is an analysis of the covariance between two or more variables and correlation analysis deals to determine the degree of relationship between two or more variables. It enables only to determine the degree and direction of relationship or association between the variables. It does not tell about causes and effects relationship between the variables.

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

Where,

        r   = Correlation coefficient between x and y.

        x   = Deviation of variable x with its arithmetic mean & y =Deviation of variable y with its arithmetic mean.

Interpretation of correlation coefficient:

- It lies always between + land-1 .
- When r=+l, there is perfectly positive correction.
- When r=-l, there is perfectly negative correction.

- When r=0, there is no correlation.
- When r lies between 0.7 to 0.6999 (-0.7 to -0.6999) there is high degree of positive or (negative) correlation.
- When r lies between 0.5 to 0.699, there is a moderate degree of correlation.
- When r is less than 0.5, there is low degree of correlation.

(iv) **Probable Error (P.E) of Correlation Coefficient**

The probable error is measure of ascertaining the reliability the value of Pearson's Coefficient of Correlation. P.E is worked out as under for Karl Pearson's coefficient of correlation:

$$\text{P.E.} = 0.6645 \times \frac{1-r^2}{\sqrt{n}}$$

The probable error is used to test whether the calculated value of sample correlation coefficient is significant or not .A few rules for the interpretation of the significance of correlation coefficient are as follows:

If r, < 6P.E (r), then the value of r is not significant i.e. (insignificant)

If r > 6P.E. (r), then r is definitely significant.

In other situations, nothing can be calculated with certainty.

(v) **Simple Regression Analysis**

Regression analysis is the technique of studying how the variations in one series are related to variations in another series. In other words, regression is statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known values of other variables. The known value, which is used for prediction or (estimation), is called independent variable and unknown value that is to be estimated or (predicted) by known value is called dependent variable. The equation of regression line where the dependent variable Y is determined by the independent variable X is

Y = a + bx

Where,

a =   y-intercept

b =   slope of regression line i.e. (it measures the change in Y per unit change in X)

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

The chapter presentation and analysis of data has aimed at presenting the empirical data gathered in a lucid and simple manner and scrutinize & analyze the data collected carefully so as to help draw practical and ground-breaking conclusions there from. The principal focus of this chapter has been to assess whether the chosen companies have been able to utilize their working capital effectively keeping in view its contribution in the profitability of the company. The major variables for this study are current assets, current liabilities, sales, inventory, receivable, net working capital and net profit etc. To make this study more meaningful and increase its practicality, various financial and statistical tools have been employed for the analysis. This chapter begins with the composition of working capital followed by selected companies, then analysis of various financial ratios and the financial variables are also compared with the help of available statistical tools i.e. mean, standard deviation, correlation coefficient and probable error etc.

4.1 Composition of Working Capital

To operate day-to-day business activities, different kinds-of assets are required. Among this different types of current assets are required. The composition of working capital of trading companies is analyzed below:

4.1.1 Investment in Current Assets

The management of optimum level of current assets (gross working capital) in the company facilitates smooth and unhindered performance of day-to-day business activities. There should be proper management of current assets because in absence of it, the main objective of any business organization can not be obtained.

If the ratio of current assets to total assets is high, it does not necessarily convey an indication of high liquidity position because current assets consist of cash, receivables and inventories. For the qualitative consideration of the current assets its composition should be seriously examined. A high ratio of cash to current assets indicates a high liquidity position (in fact hundred percent liquidity) as it has zero conversion rate. Conversely, it is also an indication poor cash management as ideas of cash reserved involved an opportunity cost, so the quality of current assets can be judged with the individual holding of cash, receivables and inventories to its current assets holding. The ratio of cash, receivable and inventories to current assets are as follows:

a)   **Ratio of Cash and Bank to Current Assets**

Table No. 4.1

Ratio of Cash and Bank to Current Assets (In Percentage)

Year \ Company	2002	2003	2004	2005	2006	2007	2008	Average	S.D.	C.V.
National Trading Limited	6.47	8.32	3.73	4.90	31.35	3.38	1.49	8.52	9.16	95.2
Salt Trading Co. Limited	5.04	3.46	3.5	11.13	11.63	10.42	11.57	8.12	3.36	41.47
Average	5.76	5.89	3.62	8.02	21.49	6.9	6.53	8.32	6.7	80.55

Source: Appendix 5

Figure No. 4.1

Ratio of Cash & bank to Current Assets
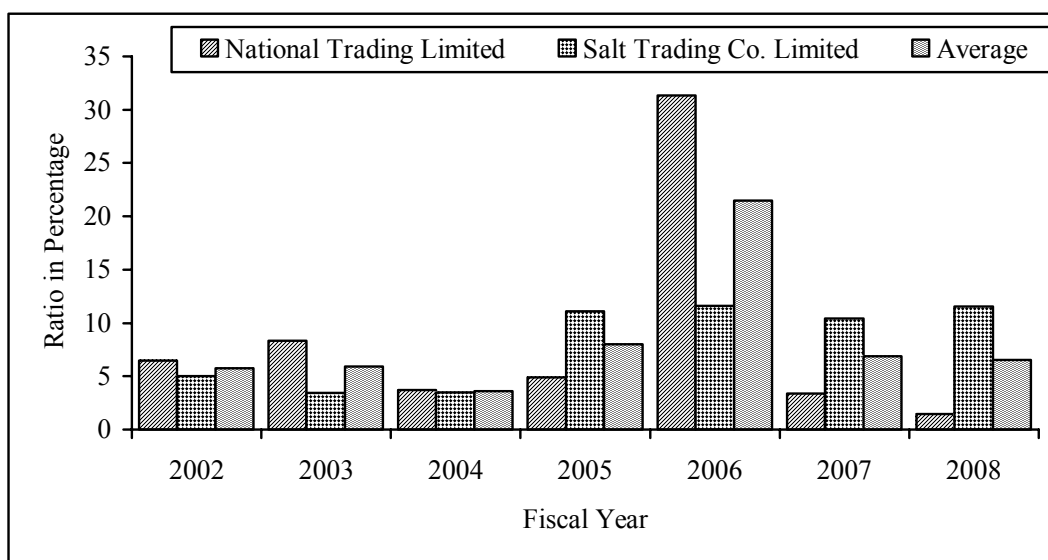
Source : Table No. 4.1

The table and figure above depicts the percentage of yearly ratio of cash and bank balance to current assets within the study period from 2002 to 2008. The Average ratio of cash and bank to current assets of National Trading Limited is 8.52 percent. The ratio is in fluctuating trend during the study period. The highest ratio is 31.35 percent in the year 2006 and lowest ratio is 1.49 percent in the year 2008.

Salt Trading Company has 8.12 percent of average ratio of cash and bank to current assets. The highest ratio is 11.63 percent in 2006 and lowest ratio is 3.46 percent in 2003. The ratio is higher than the average ratio in 2006 it varies from 3.46 percent to 11.63 percent.

The highest ratio exists in 2006 which is higher than the overall average and the ratio in the remaining years show lower ration in the comparison with the overall average. National Trading Co. Limited possessed higher ratio than the average while Salt Trading Co. Limited showed lower ratio than the overall average ratio of cash and bank balance to current assets.

The higher investment in cash and bank means the higher idle fund in the company, which earn nothing rather decrease the profitability of the company on the other hand lower investment in cash means unable to meet in maturing liabilities in time of firms risk of insolvency is high.

b)   Ratio of Receivable to Current Assets

Table No. 4.2

Ratio of Receivables to Current Assets

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average	S.D.	C.V.
National Trading Limited	3.74	0.65	2.55	1.01	0.72	0.18	0.12	1.28	1.17	91.65
Salt Trading Co. Limited	14.05	13.65	9.98	4.79	2.95	3.45	4.34	7.6	5.108	67.2
Average	8.9	7.15	6.27	2.9	1.84	1.82	2.23	4.44	2.58	58.04

Source: Appendix 6

Figure No. 4.2

Ratio of Receivables to Current Assets
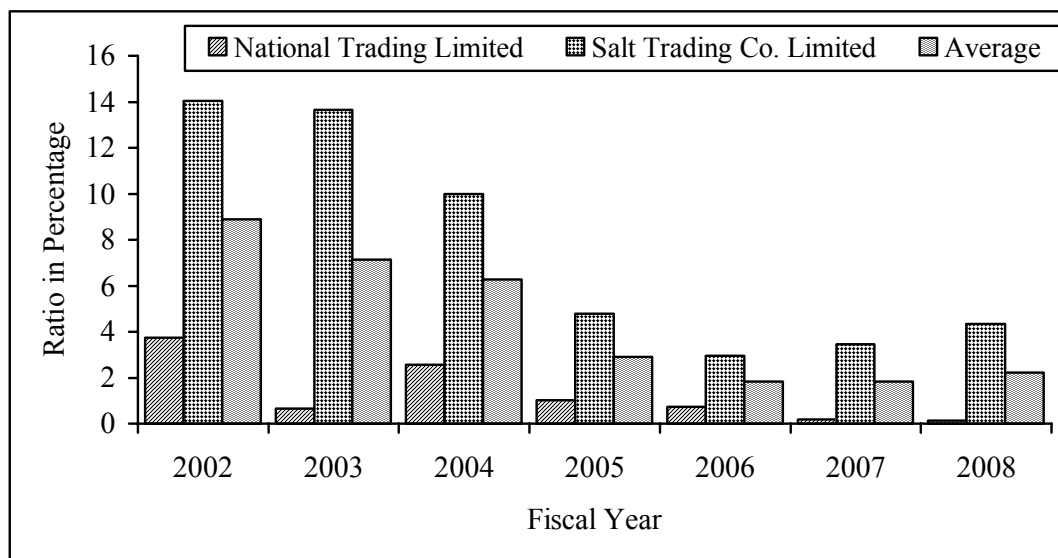
Source : Table No. 4.2

The table and figure above presents the percentage of yearly ratio of receivable to current assets for the study period from 2002 to 2008. The average ratio of receivable to current assets is 1.28 percent of National Trading Limited. The ratio is not high fluctuating in the study period. The most of year has highest ratio than the average. The ratio is varies from 0.65 to 3.74 percent. The average ratio of Salt Trading Co. Limited is 7.60 percent. The ratio is in decreasing trend during the study period. There is higher ratio till 2004 than the average ratio and then lower ratio occurs in the year 2006. The ratio varies from 2.95 to 14.05 percent.

The overall ratio of receivables to current assets is 4.4 percent. This ratio is in fluctuating trend during the study period. There is higher ratio till 2004 and then lower ratio exists till last period of the year than the average ratio. Salt Trading Co. Limited has higher ratio than overall average ratio of receivable to current assets.

c)   Ratio of Inventories to Current Assets

Table No. 4.3

Ratio of Inventory to Current Assets   (In Percentage)

Year Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	80.79	80.47	73.70	67.55	51.87	77.13	29.60	65.87
Salt Trading Co. Limited	18.72	33.25	40.93	22.46	45.06	46.52	37.76	36.0
Average	49.75	56.86	57.32	48.51	48.47	61.83	33.68	51.0

Source: Appendix-7

Figure No. 4.3

Ratio of Inventory to Current Assets
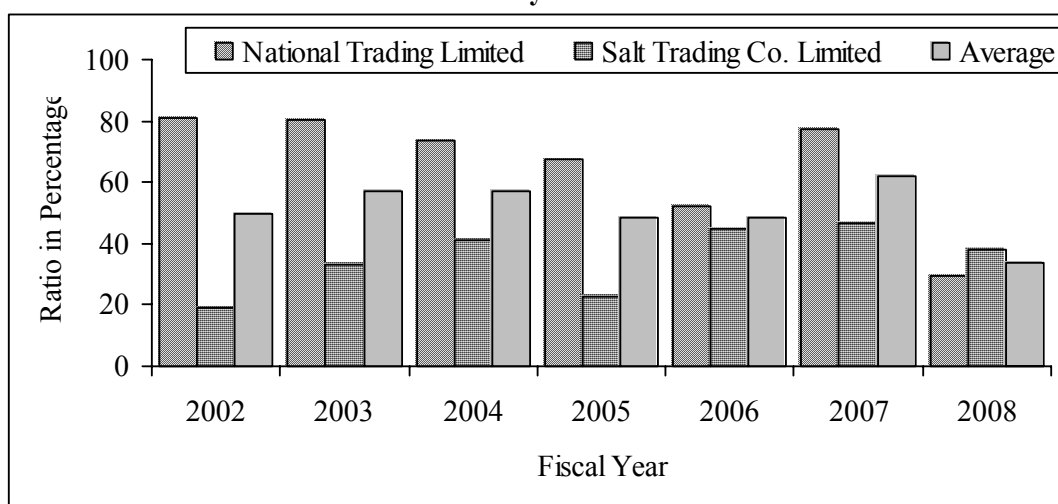
Source : Table No. 4.3

The table and figure above shows the percentage of inventory in current assets. The annual average ratio of inventory to current assets of the study period from 2002 to 2008 of National Trading Limited is 65.87 percent. The ratio is not in highly fluctuating trend during the study period from 2002 to 2008. The highest ratio is 80.79 percent in 2002 and lowest ratio is 29.60 percent in 2008. Till 2005, the ratio is higher than the average ratio, in 2005 the ratio is nearly equal to average ratio and rest year has lower ratio than average ratio. On the other hand, the average ratio of Salt trading Co. Limited is 36.00 percent.

The ratio is in fluctuating trend during the study period. The highest ratio is 46.52 percent in 2007 and lowest ratio is 18.72 in 2002.

The overall percentage of inventory to current assets is 51.00 percent. The highest ratio is 57.32 percent in 2004 and lowest ratio is 33.68 percent in 2008. National Trading Limited has higher ratio than the overall average inventory ratio. High variability of inventory to current assets ratio indicates that the company has been in consistent credit policy.

d)   Ratio of Current Assets to Total Asset

Table No. 4.4

Ratio of Current Assets to Total Assets (In Percentage)

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	88.95	88.56	47.76	85.29	89.60	90.40	97.71	84.18
Salt Trading Co. Limited	86.16	85.59	73.64	72.11	48.86	50.66	52	64.15
Average	87.56	77.08	60.70	78.70	69.23	70.52	75.34	74.16

Source: Appendix 8

Figure No. 4.4

Ratio of Current Assets to Total Assets
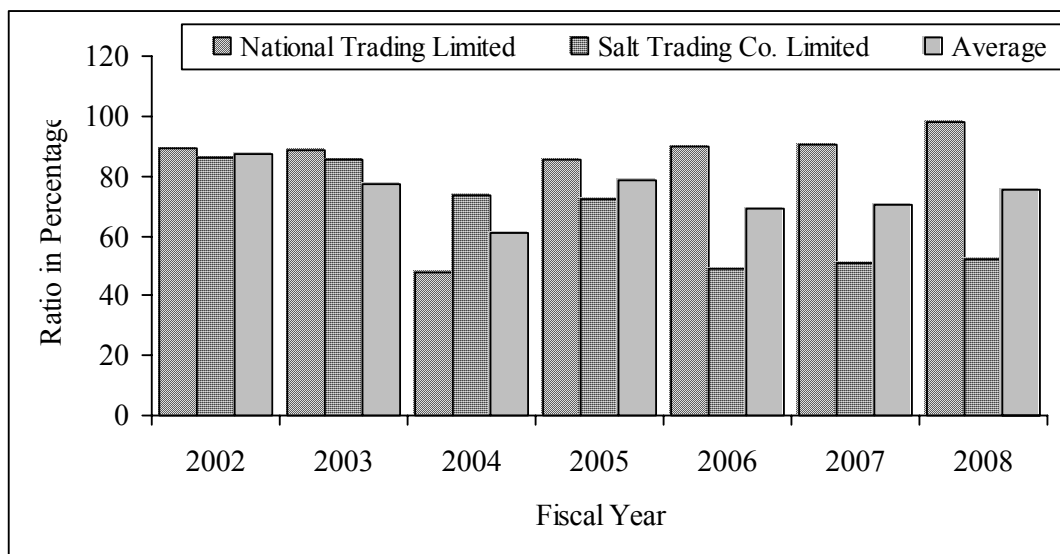
Source : Table No. 4.4

The figure and table presented above shows the ratio of current assets to total assets of the chosen companies in a yearly basis covering the study period from 2002 to 2008. The average ratio of current assets to total assets of National Trading Limited is 84.18 percent. The proportion of current assets to total assets is not highly fluctuated except 2004 during the study period. It is highest ratio is 98.71 percent in fiscal year 2008 and lowest ratio is 47.76 percent in the year 2004. On the other hand, the average ratio of current assets 64.15 percent of Salt Trading Co. Limited. The ratio is in fluctuating trend in the study period. The highest ratio is 86.16 percent in the year 2002 and lowest ratio 48.86 percent in the year 2006.

The overall average for the study period from 2002 to 2007 is 74.16 percent. The highest ratio is 87.56 percent in 2002 and lowest ratio is 60.70 percent in 2004. National Trading Limited has higher ratio than the average ratio. Higher ratio of current assets good liquidity position of the term but at the same time it reversely affects on the profitability of the firm.

4.2   Analysis based on Ratio Analysis

On the basis of this analysis different ratios are analyzed which are given below:

4.2.1   Liquidity Ratio

(i)   Current Ratio

Table No. 4.5

Current Ratio

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	1.33	1.30	1.33	1.17	1.02	1.01	3.60	1.54
Salt Trading Co. Limited	4.41	3.74	4.42	3.78	1.06	1.01	1.04	2.78
Average	2.87	2.52	2.88	2.78	1.04	1.01	2.32	2.16

Source: Appendix 9

Figure No. 4.5

Current Ratio
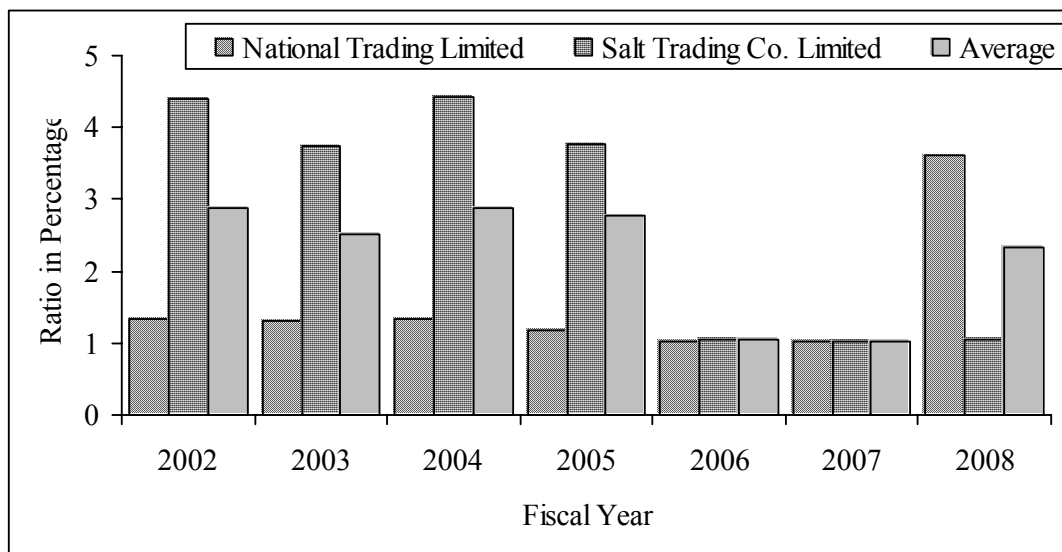
Source : Table No. 4.5

The table and figure above demonstrates the average current ratio of selected companies covering the study period from 2002 to 2008.

The current ratio of Salt Trading Limited is 2.78 times. The ratio is slightly fluctuated till 2006 and decreased during the study period. The highest ratio is 4.4i times in 2004 and lowest ratio is 1.01 times in 2007.

On the other hand, the average current ratio of National Trading Limited is 1.54 times. The ratio is in increasing trend till the fiscal year 2004 and then decreasing trend on the ward. The highest ratio is 3.6 times in 2008 and lowest ratio is 1.01 times in 2007.

The overall average ratio is 2.16 times. The highest current ratio is 2.88 times in 2004 and lowest ratio is 1.01 times in 2007. Salt Trading Co. Limited has the higher ratio than average and rest has lower ratio than average current ratio.

The current ratio is considered as perfect when the ratio comes to 2:1. The overall current ratio of the Company is satisfactory. But individually, National trading Limited has remained below the standard ratio i.e. 1.54 times. It reveals that national Trading Limited is not able to pay its bills and fails to meet short term obligations and is losing the opportunities unveiled by the market.

(ii)   Quick Ratio

Table No. 4.6

Quick Ratio (In Times)

Year \ Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	0.26	0.25	0.35	0.38	0.49	0.23	0.69	0.38
Salt Trading Co. Limited	3.58	2.50	2.61	2.67	0.58	0.54	0.65	1.88
Average	1.92	1.38	1.48	1.53	0.54	0.44	0.67	1.13

Source: Appendix 10

Figure No. 4.6

Quick Ratio

Source : Table No. 4.6

- 53 -
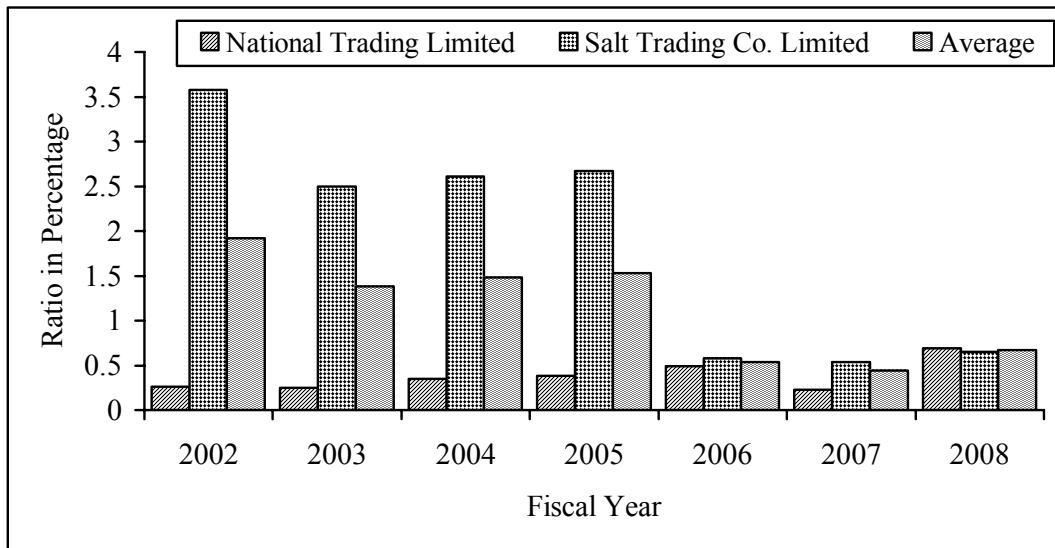
The figure and table above illustrates the year wise quick ratio of selected companies. The average quick ratio of National Trading Limited is 0.38 times. The ratio is fluctuating during the period of the study. The highest ratio is 0.69 times in 2008 and lowest ratio is 0.23 times in 2007. On the other hand, the average quick ratio of Salt Trading Co. Limited is 1.88 times. The ratio is in increasing trend till 2005 and then decreases during the study period except 2008. The highest ratio is 3.58 times in 2002 and lowest ratio is 0.54 times in 2007.

The overall average quick ratio of the study period from 2002 to 2008 is 1.13 times. The highest ratio is 1.92 in 2002 and lowest ratio is 0.44 in 2007. Salt Trading Co. Limited has higher ratio than average and rest has lower ratio than average ratio of quick assets.

The quick ratio is considered as ideal when the ratio comes to 1:1. National Trading Limited is below the standard ratio i.e. 0.38 times.

4.2.2   Activity Turnover Ratio

(i)   Analysis of Inventory Turnover Ratio

Table No. 4.7

Inventory Turnover Ratio   (In times)

Year \ Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	1.76	2.09	2.02	2.76	2.13	1.00	3.10	2.12
Salt Trading Co. Limited	8.72	5.06	.028	3.58	2.78	2.11	2.68	3.60
Average	5.24	3.58	1.15	3.17	2.46	1.56	2.89	2.86

Source: Appendix 10

Figure No. 4.7

Inventory Turnover Ratio
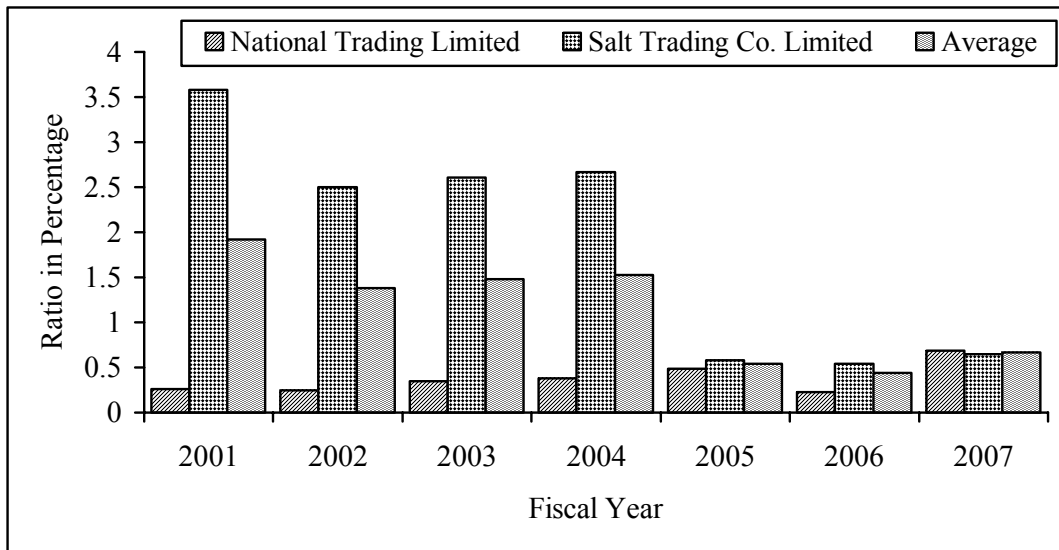
Source: Appendix 11

The above table and figure shows the inventory turnover ratio of the chosen companies for the study period from 2002 to 2008. The average inventory turnover ratio of Salt Trading Co. Limited is 3.60 times. The ratio is in fluctuating trend during the study period. The highest ratio is 8.72 times in 2002 and lowest ratio is 0.28 times in 2004. On the other hand, the average of inventory turnover ratio of National Trading Limited is 2.12 times. The ratio is in fluctuating trend .The highest ratio is 3.10 times in 2008 and lowest ratio is 1.0 times in 2007.

The overall average ratio is 2.86 times. This ratio has been lightly fluctuating during the study period. The highest turnover ratio is 5.24 times in 2002 and lowest ratio is 1.15 times in 2004. Salt Trading Co. Limited has higher ratio than the average ratio and rest has lower ratio than the average ratio of inventory turnover. The higher turnover indicates the good utilization of inventory and National Trading Co. Limited is poor in inventory management

(ii)   Analysis of Receivable Turnover Ratio

Table No. 4.8

Analysis of Receivable Turnover Ratio

Company \ Year	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	37.92	257.8	58.56	184.43	153.7	417.2	212.53	189.00
Salt Trading Co. Limited	11.61	12.33	14.67	50.93	42.45	28.44	23.87	26.33
Average	24.77	135.07	36.62	117.68	98.10	222.82	118.2	107.67

Source: Appendix 12

Figure No. 4.8

Analysis of Receivable Turnover Ratio
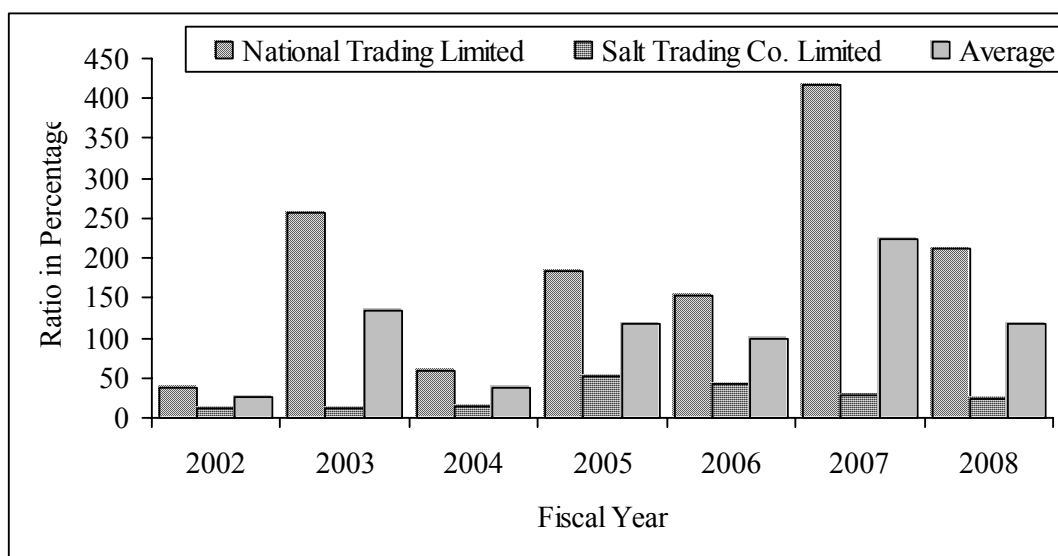
Source : Table No. 4.8

The above table and figure presents the receivable turnover ratio from the year 2002 to 2008. The average Receivables turnover ratio of National Trading Limited is 189 times. The ratio is in fluctuating trend. The highest ratio is 417.20 times in 2007 and lowest ratio is 37.92 times in 2002.

The ratio is varies from 37.92 times to 417.20 times. The average receivable turnover ratio of Salt Trading Co. Limited is 26.33 times. The ratio is in fluctuating trend during the study period. The highest ratio is 50.93 times in 2005 and lowest ratio 11.61 times in 2002. The ratio is varies from 11.61 times to 50.93.

The overall average receivables turnover ratio is 107.67 times. The average ratio is highly fluctuated trend during the study period. The highest turnover ratio is 222.82 times in 2007 and lowest turnover ratio is 24.77 times in 2002. National Trading Limited has higher average ratio than overall average ratio of receivable turnover. Salt Trading Co. limited in not able to collect the debts.

(iii)   Analysis of Current Assets Turnover Ratio

Table No. 4.9

Current Assets Turnover Ratio (In times)

Year Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	1.02	1.68	1.49	1.86	1.10	0.76	0.91	1.26
Salt Trading Co. Limited	1.63	1.68	1.46	2.44	1.25	0.98	1.01	1.49
Average	1.33	1.68	1.48	2.15	1.18	0.87	0.96	1.37

Source: Appendix 13

Figure No. 4.9

Current Assets Turnover Ratio (In times)
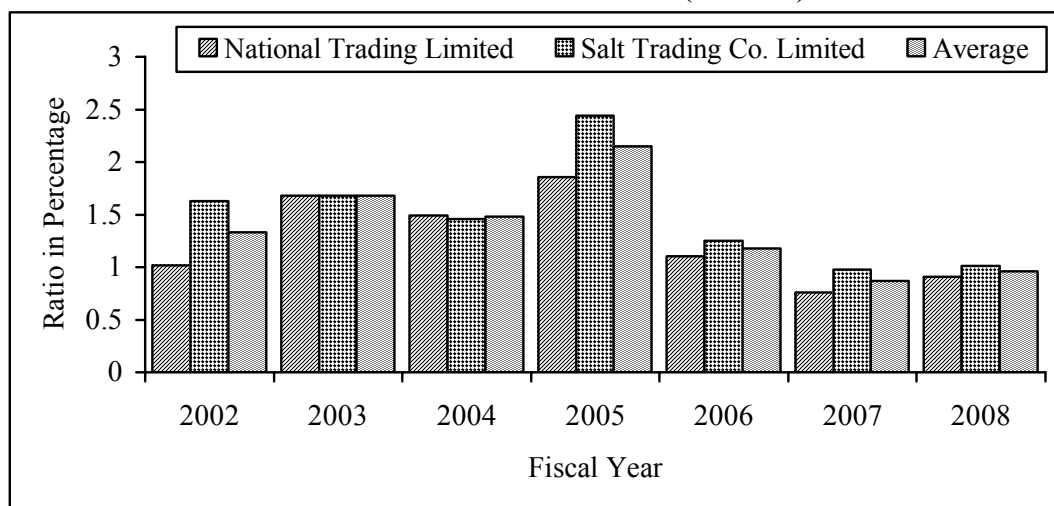
Source : Table No. 4.9

The above table and figure shows the average current assets turnover ratio for the study period from 2002 to 2008. The average ratio of National Trading Limited is 1.26 times. The ratio is in fluctuating trend during the study period. The highest ratio is 1.86 times in 2005 and lowest ratio is 0.76 times in 2007.

The average ratio of Salt Trading Co. Limited is 1.49 times. The ratio is fluctuated during the study period. The highest ratio is 2.44 times in 2005 and lowest ratio is 0.98 times in 2007. The overall average of current assets turnover ratio is 1.37 times. The ratio is fluctuating during the study period. The highest turnover ratio is 2.15 times in 2005 and lowest turnover ratio is 0.87 times in 2007. The ratio is not widely varied among selected companies. National Trading Limited has lower ratio than the overall average ratio and rest has higher ratio than overall average ratio of current assets turnover. Salt Trading Co. Limited has higher utilization of current assets.

(iv)   Total Assets Turnover Ratio

Table No. 4.10

Total Assets Turnover Ratio

Year Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	1.26	1.49	0.71	1.59	0.99	0.69	0.24	1.0
Salt Trading Co. Limited	1.41	1.10	1.08	1.76	0.61	0.51	0.53	1.0
Average	1.34	1.30	0.90	1.68	0.80	0.60	0.39	1.0

Source: Appendix 13

Figure No. 4.10

Total Assets Turnover Ratio
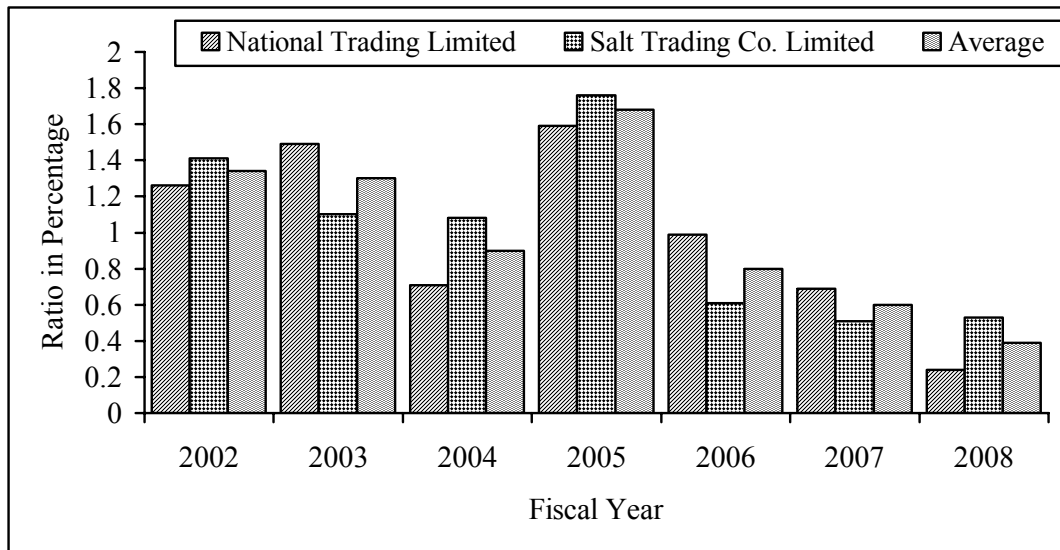
Source : Table No. 4.10

The table and figure presented above depicts the total current assets turnover ratio during the study period from 2002 to 2008. The average ratio of National Trading Limited is 1.0 times. The ratio is in fluctuating trend during the study period. The highest ratio is 1.59 times in 2005 and lowest ratio is 0.24 times in 2008.

The average ratio of Salt Trading Co. Limited is 1.0 times. The ratio is fluctuated during the study period. The highest ratio is 1.76 times in 2005 and lowest ratio is 0.51 times in 2007. The overall average of total assets turnover ratio is 1.0 times. The highest turnover ratio is 1.68 times in 2004 and lowest turnover ratio is 0.39 times in 2008. The ratio is not widely varied among selected companies. Both companies here equal average turnover ratio. Thus, these companies are equal in utilization of total assets.

(v)   Net Working Capital Turnover Ratio

Table No. 4.11

Net Working Capital Turnover Ratio

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	5.75	7.30	6.05	12.67	56.12	357	-33.12	58.82
Salt Trading Co. Limited	2.11	2.30	1.89	3.32	22.22	95.98	27.52	22.19
Average	3.39	4.80	3.97	8.0	39.17	226.49	-2.81	40.51

Source: Appendix 15

Figure No. 4.11

Net Working Capital Turnover Ratio
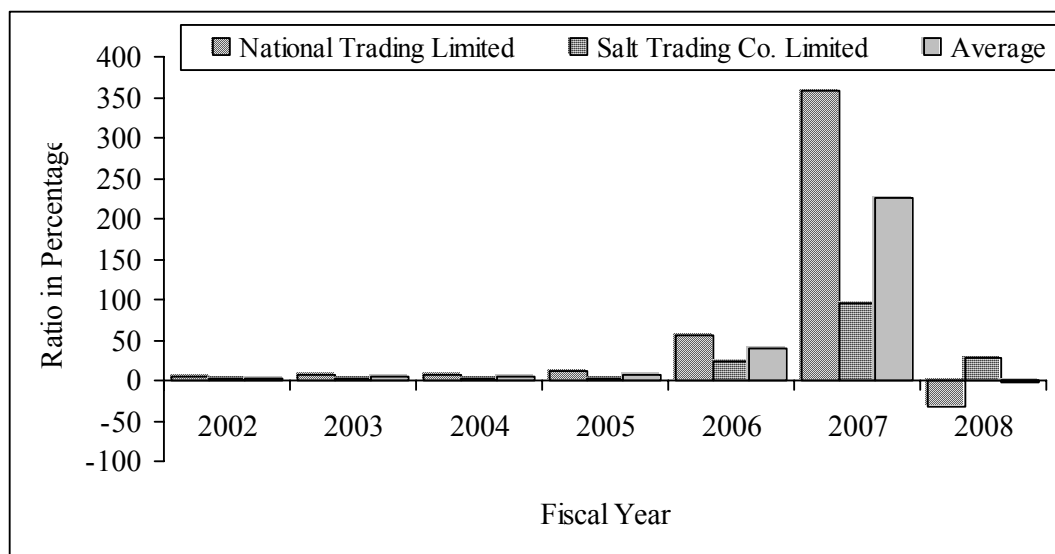
Source : Table No. 4.11

The above table and figure shows the net working capital turnover ratio of the trading companies being studied for the study period covering 2002 to 2008. The average ratio of National Trading limited is 58.82 times. The ratio is in fluctuating during the study period. The highest ratio is 257 times in 2007 and lowest ratio is -33.12 times in 2008.

The average ratio of Salt Trading Co. Limited is 22.19 times. The ratio is fluctuated during the study period. The highest ratio is 95.98 times in 2007 and lowest ratio is 4.85

times in 2003. The overall average of net working capital turnover ratio is 40.51 times. The ratio varied from -2.81 times to 226.49. The highest turnover ratio is 226.49 times in 2007 and lowest turnover ratio is -2.81 times in 2008. National Trading Limited has higher ratio than the overall average ratio and rest has lower ratio than overall average ratio of net working capital turnover. Salt Trading Co. Limited has higher utilization of current assets. National Trading Limited is suffering from excess of current liabilities over current assets with comparison to Salt Trading Co. Limited.

4.2.3 Profitability Ratio

(i)   Gross Profit Margin Ratio

Table No. 4.12

Gross Profit Margin Ratio   (In Percentage)

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	16.40	11.58	12.71	1.32	6.31	19.85	4.83	10.43
Salt Trading Co. Limited	9.08	10.25	10.51	7.58	11.70	13.97	14.18	11.04
Average	12.74	10.92	11.61	4.45	9.01	16.91	9.51	10.74

Source: Appendix 15

Figure No. 4.12

Gross Profit Margin Ratio   (In Percentage)
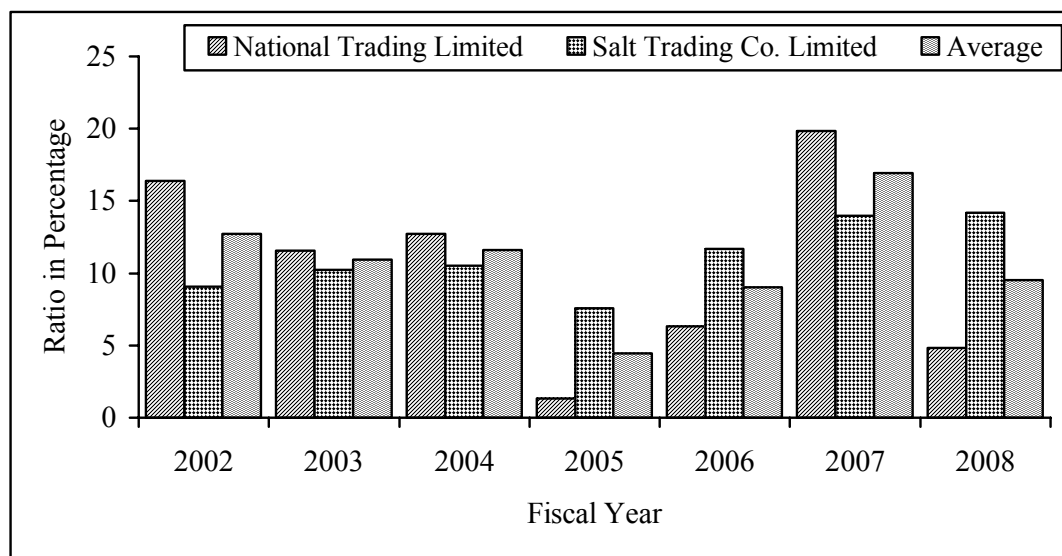
Source : Table No. 4.12

The above table and figure shows the percentage of gross profit of the companies under study from 2002 to 2008. Average gross profit margin of National Trading Limited is 10.43 percent. The trend of ratio is slightly fluctuating during the study period. The ratio is varies from 1.32 percent to 19.85. It is highest in the fiscal year 2007 and lowest in year 2005. The average gross profit margin of Salt Trading Co. Limited is 11.04 percent. The ratio is increased except the fiscal year 2005 of the study period. The highest ratio is 14.18 percent in 2008 and lowest is 7.58 percent in the fiscal year 2005. The overall gross profit margin is 10.74 percent. The highest ratio of profit is 16.91 percent in 2007 and the lowest ratio of profit is 4.45 percent in 2005. Salt Trading Co. Limited has higher average profit than overall profit and rest has lower profit than the overall average gross profit margin ratio. Salt Trading Co Limited has higher gross profit margin ratio, it is efficient on minimizing the cost of goods sold or manufacturing cost and maximizing the profit.

(ii)   Net Profit Margin Ratio

Table No. 4.13

Net Profit or Loss Margin Ratio (In Percentage)

Year Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	95.13	97.69	98.89	109.5	22.26	108.94	106.0	91.24
Salt Trading Co. Limited	147.01	92.65	92.65	94.46	92.22	91.10	90.77	100.12
Average	121.07	95.31	95.77	102.03	57.24	100.02	98.39	95.69

Figure No. 4.13

Net Profit or Loss Margin Ratio (In Percentage)
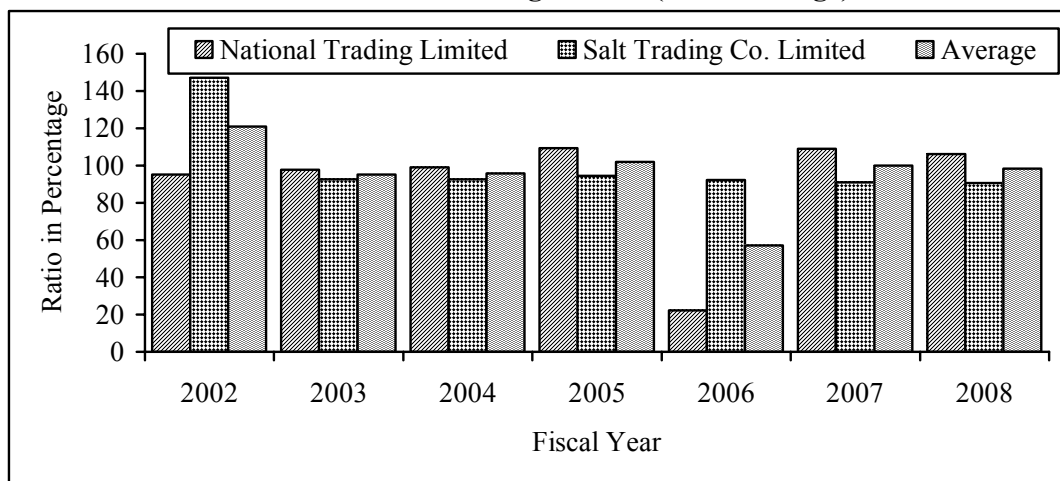
Source : Table No. 4.13

The above table and figure shows the net profit margin and or negative margin ratios of the companies during the study period from 2002 to 2008. The average net profit margin ratio of National Trading Limited is 2.99 percent in negative. It has negative profit throughout the study period leaving aside the fiscal years 2002, 2003 and 2004. The highest profit ratio is 4.41 percent in 2008 and lowest loss is 13.04 in 2007. The highest net loss margin ratio is 13.04 percent in 2 (W5 lowest loss margin ratio is 6.91 percent in 2006.

Average net profit margin ratio of Salt Trading Co. Limited is 5.20 percent. The ratio is i'1 fluctuating during the study period. The highest ratio is 20.36 percent in 2004 and lowest ratio is 1.42 percent in 2003.

The overall average percentage of net profit margin for the study period is 1.16 percent. Profit is positive in every year except in the fiscal year 2005, 2006 and 2007 of the study period. The average net profit margin ratio of Salt Trading Co. Limited is higher than overall profit margin ratio. It is able to minimize the operating cost and maximizing the profit.

(iii)   Operating Expenses Ratio

Table No. 4.14

Operating Expenses Ratio (In Percentage)

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	95.13	97.69	98.89	109.5	22.26	108.94	106.0	91.24
Salt Trading Co. Limited	147.01	92.65	92.65	94.46	92.22	91.10	90.77	100.12
Average	121.07	95.31	95.77	102.03	57.24	100.02	98 39	95.69

Source: Appendix 19

- 63 -

Figure No. 4.14

Operating Expenses Ratio (In Percentage)
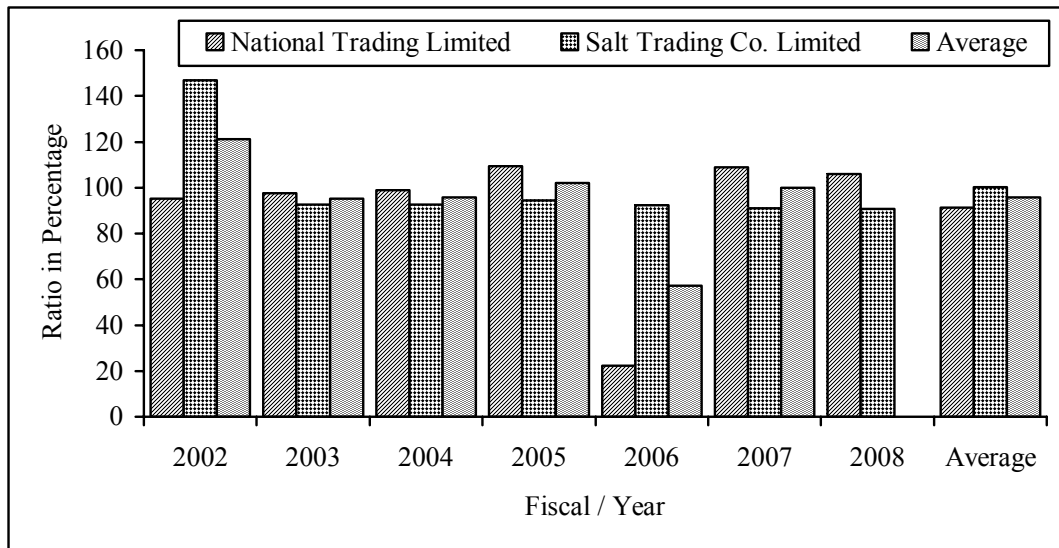
Source : Table No. 4.14

The above table and figure shows the ratio of operating expenses of the studied companies during the study period from 2002 to 2008. The average operating ratio of National Trading Limited is 91.24 percent during the study period. The ratio is in increasing trend except the year 2006. The ratios are higher than 100 percent in year 2005, 2007 and 2008.

The average operating expenses ratio of Salt Trading Co. Limited is 101.12 percent. This ratio is not highly fluctuating except year 2002 in the entire study period. The ratio is same in 2003 and 2004 i.e. 92.65 percent. The overall operating ratio is 95.69 percent. The highest ratio is 121.07 percent in 2002 and lowest ratio is 57.27 percent in 2006. The average operating expenses ratio of National Trading Limited is lower than overall average ratio. So, National Trading Limited is regarded to be more efficient on minimizing the cost than Salt Trading Co. Limited.

(iv)   Return on Shareholder Equity

Table No. 4.15

Ratio of Return on Shareholder Equity (In Percentage)

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	8.52	1.85	1.38	-48.41	-24.39	-18.94	13.49r	-9.5
Salt Trading Co. Limited	117.59	5.35	9.24	13.75	3.69	2.17	2.24	22.0
Average	63.06	3.60	5.31	-17.33	-10.35	-8.39	7.87	6.24

Source: Appendix 20

Figure No. 4.15

Ratio of Return on Shareholder Equity
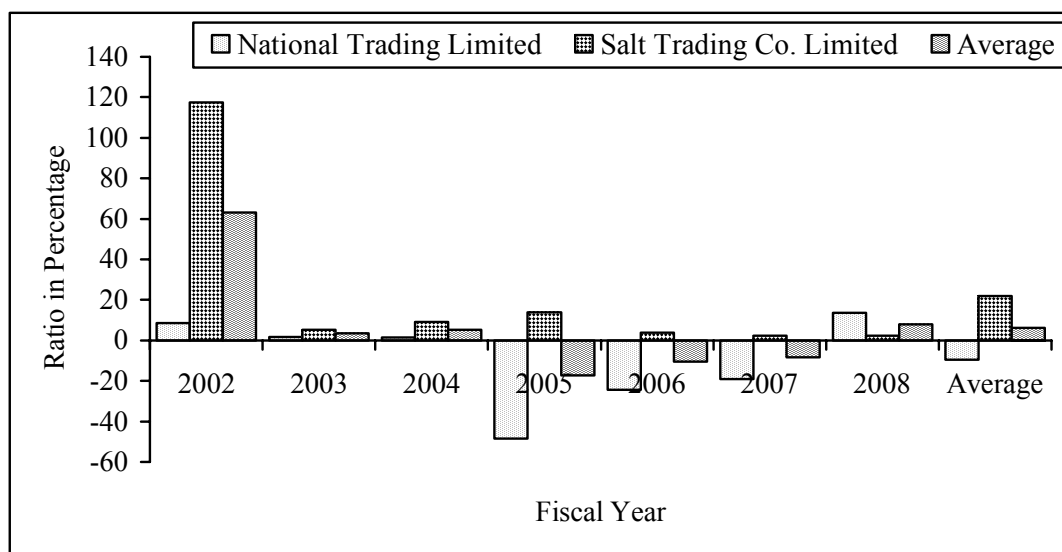
Source : Table No. 4.15

The above table and figure shows the ratio of return on shareholders' equity of the companies for the study period from 2002 to 2008. The average return on shareholder equity ratio of National Trading Limited is -9.5 percent during the study period. The ratio is positive except in year 2005, 2006 and 2007. The average return on shareholder equity of Salt Trading Co. Limited is 22.0 percent. This ratio varies from 2.17 percent to 117.59 percent. The ratio is positive in every year of the study. The overall return on shareholder equity ratio is 6.24 percent. The highest ratio is 63.06 percent in 2002 and lowest ratio is -17.33 percent in 2006. The average return on shareholder equity ratio of Salt Trading Co. Limited is higher than overall average ratio. So, Salt Trading Co. Limited has higher profit than National Trading Limited.

4.2.4 Analysis of different Working Capital

As explained earlier in the conceptual framework under literature review, working can be classified into permanent working capital and temporary working capital.

Table No. 4.16

Classification of Working Capital National Trading Limited

(Rs. in million)

Fiscal Years	Total Required Fund	Permanent Working Capital	Temporary Working Capital
2002	690.08	690,08	0
2003	698.90	690.08	8.82
2004	648.52	690.08	-41.56
2005	524.66	690.08	-165.42
2006	733.7	690.08	43.62
2007	535.13	690.08	-154.95
2008	1061.21	690.08	371.13
Average	698.89	690.08	8.81

Source: Appendix 22

Figure No. 4.16

Classification of Working Capital National Trading Limited
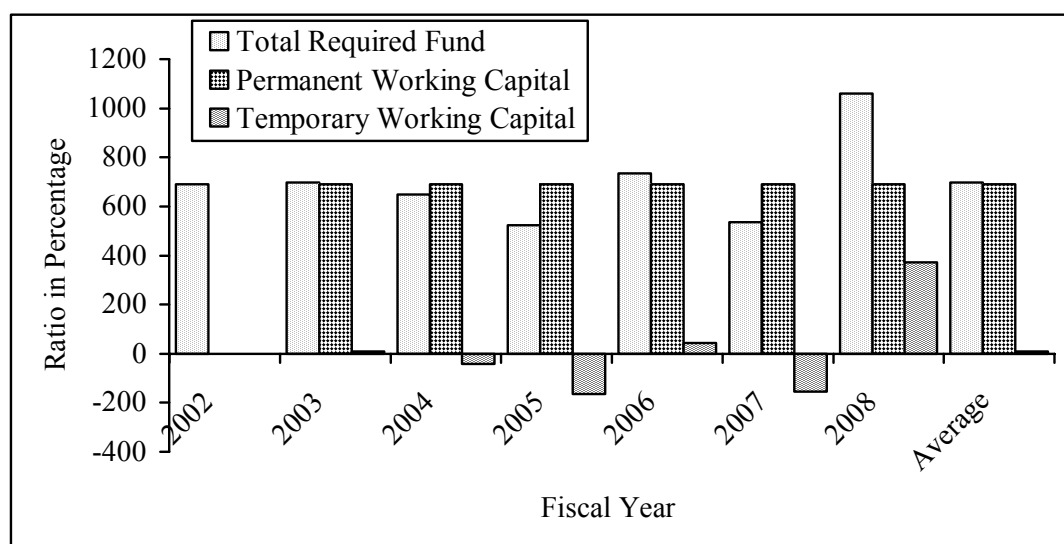
Source : Table No. 4.1

Table No. 4.17

Classification of working Capital

Salt Trading Co. Limited   **(Rs in million)**

Fiscal Years	Total Required Fund	Permanent Working capital	Temporary Working Capital
2002	888.47	888.47	0
2003	1114.81	888.47	226.34
2004	1681.07	888.47	792.6
2005	1597.56	888.47	709.09
2006	1752.86	888.47	864.39
2007	1884.21	888.47	995.74
2008	1891.94	888.47	1003.47
Average	1544.42	888.47	656

Source: Appendix 22

Figure No. 4.17

Classification of working Capital
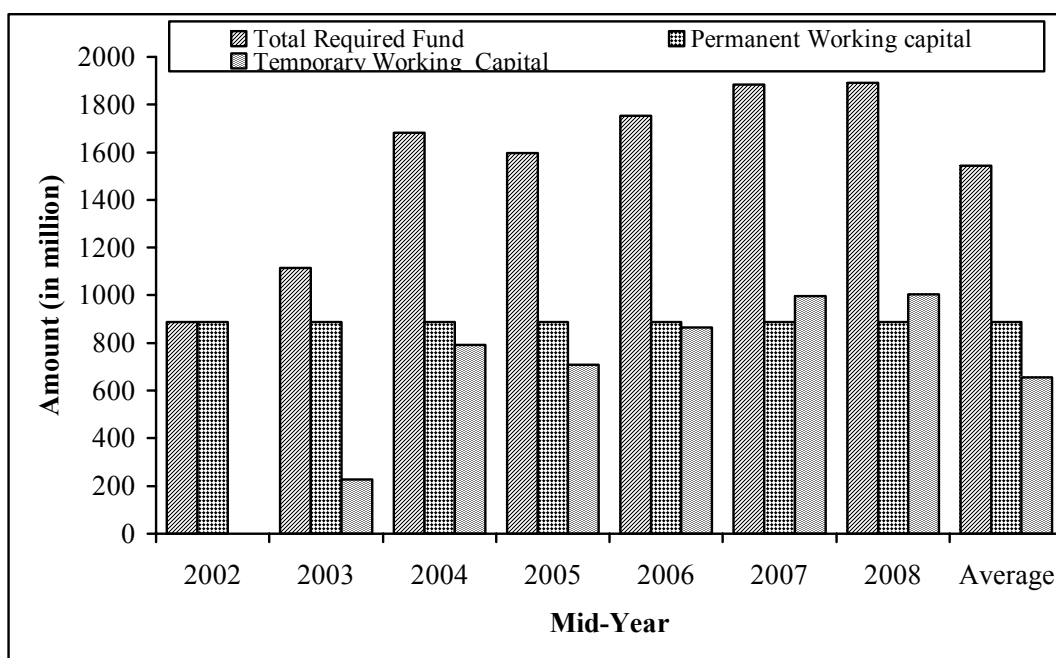
Source : Table No. 4.17

The above tables and figures show the total requirement of funds for both companies. The) also show the permanent and temporary working capital. The average fund required for National Trading is Rs. 698.89 million and for Salt Trading Co. Limited is Rs. l544.42 million. The highest investment in current assets of Salt Trading Co. Limited and National Trading Limited is Rs. l891 and Rs. 061.21 million respectively in fiscal year 2008, and lowest investment in current assets of both companies is Rs. 888.47 and Rs. 524.66 million respectively in fiscal year 2002 and 2005. Investment in current assets is in fluctuating trend of both companies during the study period. In other hand permanent working capital of both companies is Rs. 888.47 and Rs. 690.08 million respectively. Again temporary average working capital of National Trading Limited is Rs. 8.81 million and of Salt Trading Co. Limited is Rs. 656 million. The lowest level of temporary working capital of both companies is Zero in fiscal year 2002. The highest level of temporary working capital of both companies is Rs. 371.12 and Rs. l003.47 million in fiscal year 2008.

A careful assessment of the investment in current assets uncovers that there is a great variation in the requirement of funds for individual companies. The average of investment in current assets of National Trading limited is lower than the overall average which is given in appendix-22 with comparison to Salt Trading Limited. It means national Trading Limited has followed aggressive policy of working capital management or current assets management. But Salt Trading Co. Limited has followed conservative working capital policy.

4.2.5 Analysis of Cash Conversion Cycle

For the study of cash conversion cycle of trading companies, the subsequent calculations become inevitable:

i) Inventory Conversion Period

Table No. 4.18

Inventory Conversion Period (In Days)

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	204.55	172.25	178.22	130.43	169.01	360	116.13	190.10
Salt Trading Co. Limited	41.28	71.15	313.0	100.5	129.5	171	134.33	137.25
Average	122.92	121.70	245,63	115.5	149.2	266	125.23	163.68

Source: Table No. 4.7

Figure No. 4.18

Inventory Conversion Period (In Days)
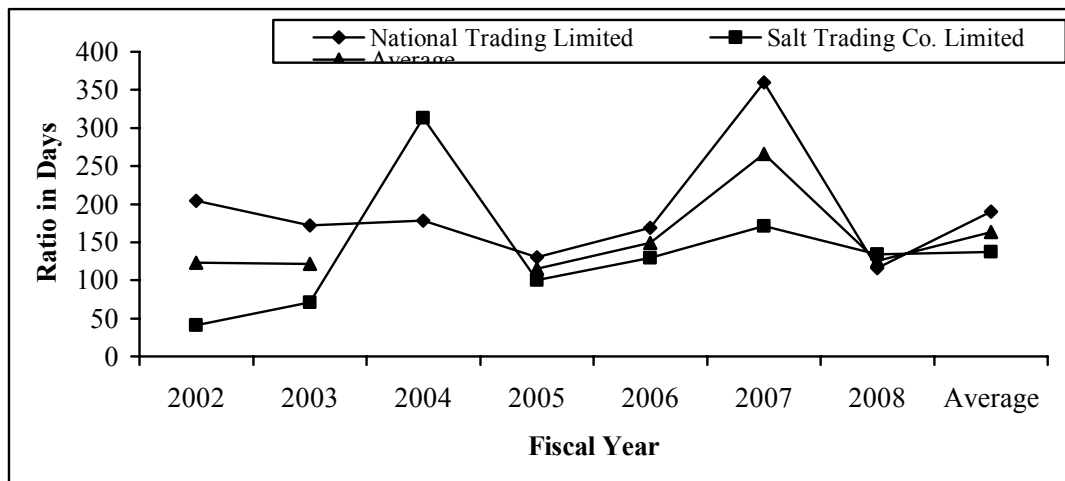
Source : Table No. 4.18

The above table and figure shows the inventory conversion period of the selected companies. The average inventory conversion period of National Trading Limited is 190.10 days. The highest ratio is 360 days in 2007 and lowest ratio is 116.13 "days in 2008. Again the average ratio of Salt Trading Co. Limited is 137.25 days during the study period. The highest ratio is 313 days in 2004 and lowest ratio is 41.28 days in 200 It. The ratio is wide varied among the selected companies. The overall inventory conversion period is 163.68 days. The highest ratio is 266 days in 2007 and lowest ratio is 115.5days in 2005. Salt Trading Co. Limited has lower average ratio than the overall average in comparison to National Trading Limited. It indicates Salt Trading Co. Limited is able to sell it inventory quickly.

ii)   Receivable Conversion Cycle

Table No. 4.19

Receivable Conversion Cycle

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading Limited	9.49	1.40	6.15	1.95	2.34	0.86	1.70	3.41
Salt Trading Co. Limited	31.01	29.20	24.54	7.07	8.48	12.66	15.10	18.29
Average	20.25	15.30	15.35	4.51	5.41	6.76	8.4	10.85

Figure No. 4.19

Receivable Conversion Cycle
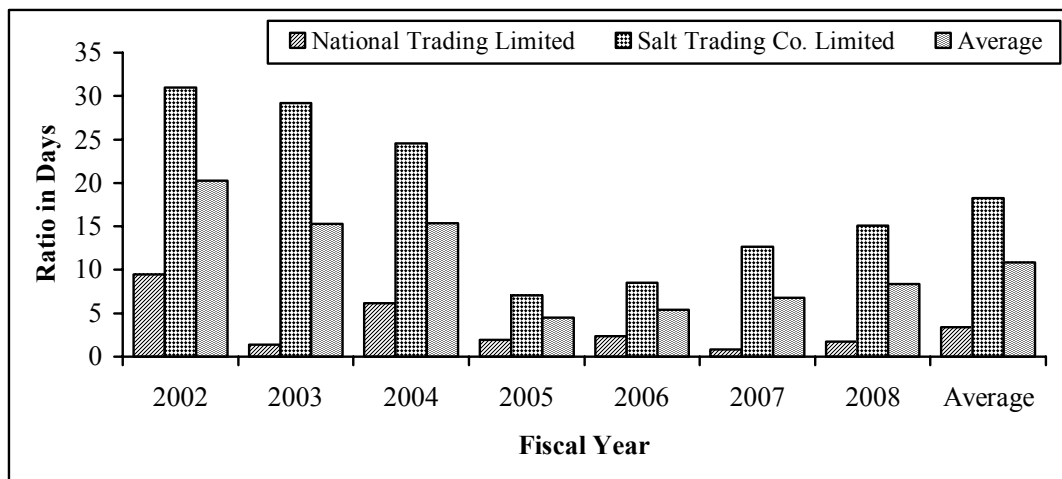
Source : Table No. 4.19

The above table and figure shows the receivables conversion period of the companies under study. The average receivables conversion period of National Trading Limited is 3.41 days. The highest ratio is 9.49 days in 2002 and lowest ratio is .86 days in 2007. Again the average ratio of Salt Trading Co. Limited is 18.29 days during the study period. The highest ratio is 31.09 days in 2002 and lowest ratio is 7.07 days in 2005. The ratio is wide varied among the selected companies. The overall receivables conversion period is 10.85 days. The highest ratio is 20.25 days in 2002 and lowest ratio is 4.51 days in 2005. National Trading Limited has lower average ratio than the overall average in comparison to Salt Trading Co. Limited. It indicates National Trading Limited is able to collect quickly receivable from its customer.

iii)   Payable Deferral Period

Table No. 4.20

Payable Deferral Period

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average
National Trading	150.6	135.8	98.36	56.69	46.88	75	37.67	85.86
Trading Co. Limited	14.48	13.69	20.25	10.27	31.01	39.43	34.19	23.33
Average	82.56	74.77	59.31	33.48	38.95	57.22	35.93	54.60

Figure No. 4.20

Receivable Conversion Cycle
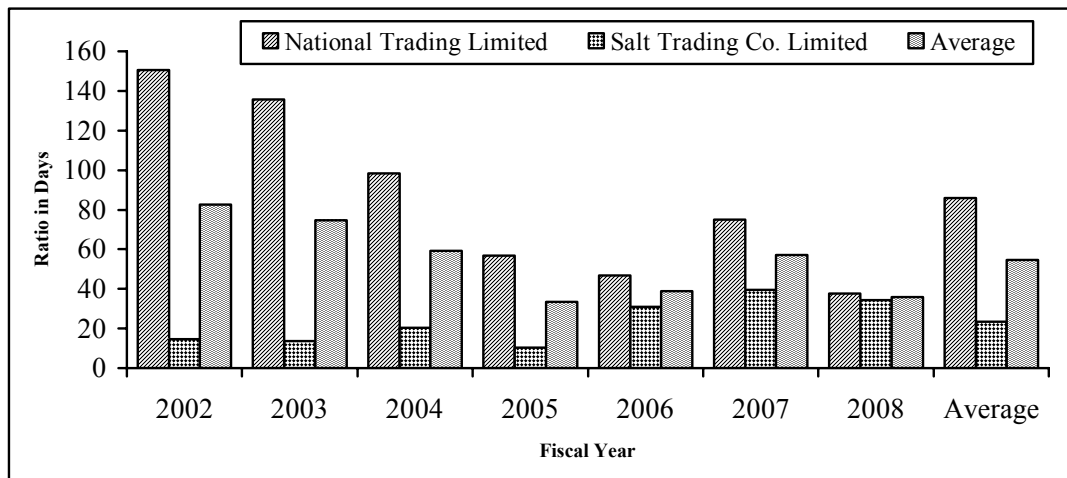
Source : Table No. 4.20

The above table and figure shows the payable deferral period of selected companies. The average payable deferral period of National Trading Limited is 85.86 days. The highest ratio is 150.63 days in 2002 and lowest ratio is 37.67 days in 2008. Again the average ratio of Salt Trading Co. Limited is 23.33 days during the study period. The highest ratio is 39.43 days in 2007 and lowest ratio is 10.27 days in 2005. The ratio is wide varied among the selected companies.

The overall payable deferral period is 54.60 4ays. The highest ratio is 82.56 days in 2002 and lowest ratio is 33.48 days in 2005. National Trading Limited has higher average ratio

than the overall average in comparison to Salt Trading Co. Limited. It indicates National Trading Limited has relatively long credit period from its creditors. It is favourable for the company to have long credit period without penalty.

iv) **Cash Conversion Cycle or Operating Cycle**

Table No. 4.21

Cash Conversion Cycle

Year / Company	2002	2003	2004	2005	2006	2007	2008	Average
Rational Trading Limited	63.41	37.80	96.01	75.69	124.4	285.86	80.16	109.45
Salt Trading Co. Limited	44.30	80.98	57.81	86.66	317.3	144.23	115.24	120.93
Average	60.61	62.23	201.6	86.53	115.7	215.05	97.7	115.19

Figure No. 4.21

Cash Conversion Cycle
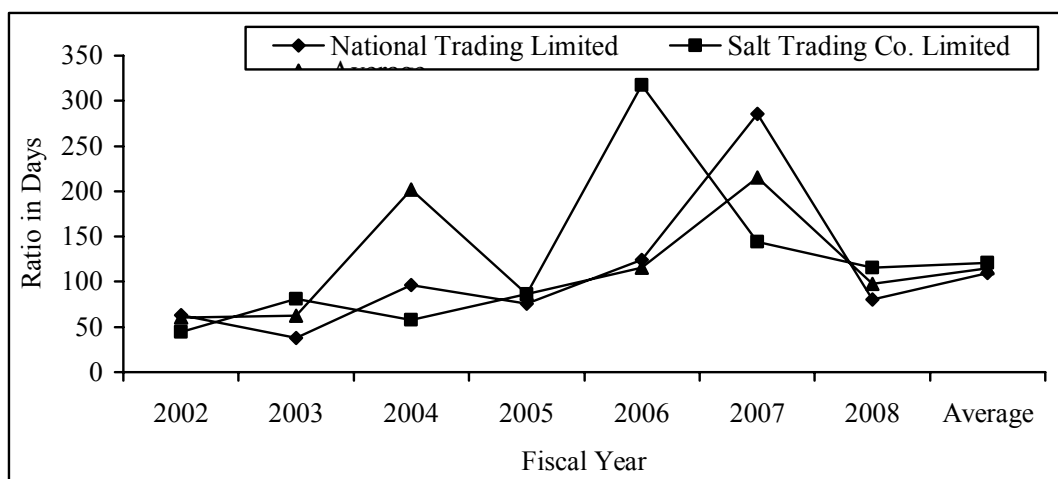
Source : Table No. 4.21

The above table and figure shows the cash conversion cycle of selected companies. The average cash conversion cycle of National Trading Limited is 109.45 days. The highest ratio is 285.86 days in 2007 and lowest ratio is 37.80 days in 2000-.Again the average ratio of Salt Trading Co. Limited is 113.06 days during the study period. The highest ratio is 317.33 days in 2006 and lowest ratio is 44.30 days in 2005.

The overall cash conversion cycle is 115.19 days. The highest ratio is 215.05 days in 2007 and lowest ratio is 60.61 days in 2002. Salt Trading Co Limited has higher average ratio than the overall average in comparison to National Trading Limited. It indicates Salt Trading Co. Limited has relatively short credit period from its creditors. The company with high cash conversion period is required to increase the speed of inventory conversion through proper management of inventory and also required to increase the collection speed of their sales.

4.2.6   Requirement of Working Capital

Manager is crucial to maintaining healthy cash flow and maximizing financial return by keeping operating funds working. Investing idle funds wisely may help generate income from working capital, increasing yields while maintaining liquidity working capital may be able to improve yields on idle working. The objective of financial decision-making is maximizing the shareholder's wealth. To achieve this, it is necessary to generate sufficient profit. The extent to which profit can be earned will naturally depend upon the magnitude of the sales, among other things. However, sales do not convert into cash instantly. There is invariably a time lag between the sales of goods and receipt of cash, which is referred to as the operating and cash cycle. Therefore, sufficient working capital is necessary to sustain sales activity. The requirement of working capital for the selected companies is presented in below table:

Table No.4.22

Requirement of Working Capital   (Rest in million)

Year Com.	2001	2002	2003	2004	2005	2006	2007	Average
NTLtd	908830.34	1346211.04	817966.94	1044744.96	143889.37	180092.27	992244.10	776282.7
STCLtd	2770510.32	3256341.49	5605321.26	14344629.14	4430727.65	3109719.74	3324680.02	5263132
Average	1839670.33	2301276.27	3211644.10	7694687.05	2287308.51	1644906.01	2158462.06	3019707

Source: Appendix 23

Figure No. 4.22

Requirement of Working Capital
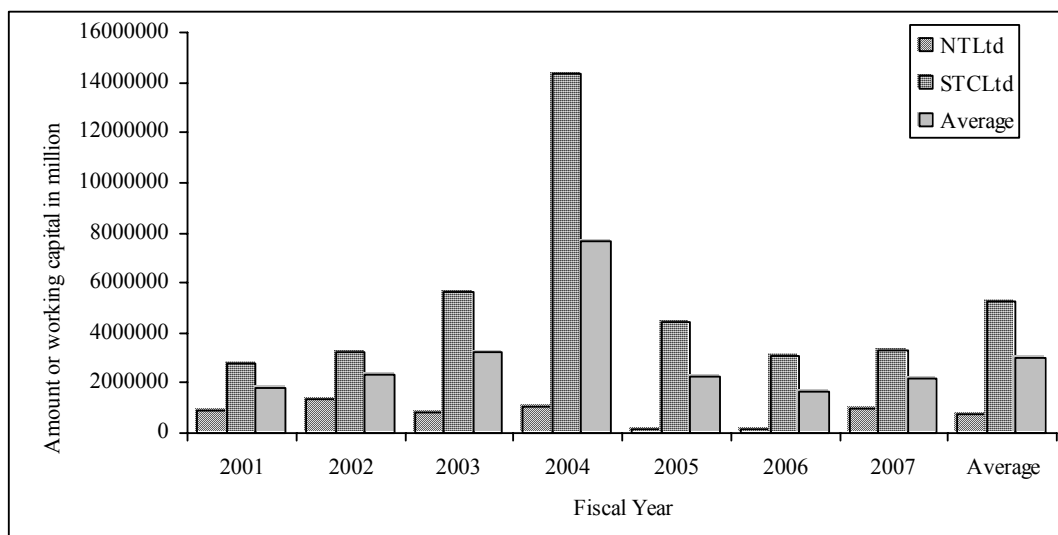
Source : Table No. 4.22

From the above table and figure requirement of working capital is varied even the individual company also. The average amount of working capital require is Rs. 776282.72 million in the National Trading Limited and Rs. 5263132.80 million in Salt Trading Co. Limited. The requirement of working capital is less in year 2006 and 2008 during the study period than the average requirement of the working capital in the case of National Trading Limited. The requirement of working capital is less in every year except in 2006, 2007 and 2008 than the average requirement of working capital in the case of Salt Trading Co. Limited. The overall average requirement of working capital is Rs. 3019707.76 million. The requirement of working capital is less than overall average up to year 2003 and then more than the average requirement till year 2006. National Trading Limited has less average requirement whereas Salt Trading Co. Limited has more requirement than the overall average requirement of working capital. It reveals that National Trading Limited has face working capital crisis in the course of operating activities.

4.3   Analysis of the Relationship of Working Capital Variables

i)   Relationship between Current Assets and Net Sales

To find out relationship between current assets and net sale, various calculation have taken from appendix 24 and 25. The following table shows the coefficient of correlation and regression analysis between current assets and net sales.

Table No. 4.23

Correlation Analysis between Current Assets and Net Sales

Companies	r	PE(r)	6PE(r)	Remark
National Trading Ltd	0.33	0.23	1.38	Insignificant
Salt Trading Co. Ltd	0.20	0.24	1.44	Insignificant

Source: Appendix 24/25

The above table shows that coefficient of correlation between current assets and net sale or value of 'r' is 0.33 in the case of National Trading Limited. It indicates that current assets and net sale are positive correlated. It implies that increase in current assets may not lead increase in net sales of national Trading. By considering probable error 'r' is less than 6PE(r), so the relationship between current assets and net sale is not significant.

On the other hand, the value of 'r' is 0.20 in the case of Salt Trading Co. Limited. It indicates that there is positive relationship between current assets and net sales. By considering the probable error 'r' is less than 6PE, so the relationship between current assets and net sales is not significant. So, it indicates increase in current assets may not increase innet sales.

To show the degree of relationship between current assets and net sales, net sale(Y) is assumed to dependent upon current assets. The regression line of net sales upon current assets is as follow: $Y = a + bX$

Table No. 4.24

Regression analysis between Current Assets and Net Sales

Year Company	Regression equation of	Regression equation	Value of constant 'a'	Regression coefficient 'b'
National Trading Ltd	Net Sales (Y) on Current Assets (X)	Y= 0.49X+555.30	555.30	0.49
Salt Trading Co. Ltd	Net Sales (Y) on Current Assets (X)	Y=0.46X+ 1566.67	1566.67	0.46

Source: Appendix 24/25

The above table shows the regression coefficient 'b' is positive i.e 0.49 of National Trading Ltd which indicates that one millions increase in current assets leads to average increase in net sales by Rs 555.30 million. The value of constant 'a' i.e 555.30 shows that net sales will be Rs 555.30 millions when current assets is zero.

In the case of Salt Trading Co. Limited, the regression coefficient 'b' is positive i.e 0.46 which indicates that one millions increase in current assets leads to average increase in net sales by Rs. 1566.67 millions. The value of constant 'a' i.e 1566.67 shows that "net sales will be Rs. 1566.67 millions when current assets is zero.

ii)   **Relationship between Receivable and Net sales**

Table No. 4.25

Correlation analysis between Receivable and Net sale

Companies	r	PE(r)	6PE(r)	Remark
National Trading Ltd.	0.34	0.23	1.38	Insignificant
Salt Trading co. Ltd.	-0.22	0.24	1.44	Insignificant

Source: Appendix 26/27

The above table shows that coefficient of correlation between receivables and net sales or value of 'r' 0.34 is in the case of National Trading limited. It indicates that receivables and net sales is positive correlated. It implies that increase in net sales leads to increase in receivables. By considering probable error 'r' is less than 6PE(r), so the relationship between receivables and net sales is insignificant.

On the other hand, the value of 'r' is -0.22 in the case of Salt Trading Co. Limited. It indicates that there is negative relationship between receivable and net sales. By considering the probable error 'r' is less than 6PE, so the relationship between receivables and net sales is not significant. To show the degree of relationship between receivables and net sales, receivable is assumed to dependent (X) upon net sales(Y). The regression line of receivables on net sales is as follow: X = a + bY

Table No. 4.26

Regression Analysis between Receivables and Net Sales

Companies	Regression equation Of	Regression equation	Value of constant 'a'	Regression coefficient 'b'
National Trading Ltd	Receivable (X) on Net Sales (Y)	X=0.01Y+0.024	0.024	0 .01
Salt Trading Co. Ltd	Receivable (X) on Net Sales (Y)	X=-0.012Y+133.57	133.57	-0.012

Source: Appendix 26/27

The above table shows the regression coefficient 'b' is positive i.e 0.01 of National Trading Limited which indicates that one millions increase in net sales leads to average increase in receivables by Rs 0.01 millions. The value of constant 'a' i.e 0.024 shows that receivables will be 0.024 millions when net sales is zero.

In the case of Salt Trading Co. Limited the regression coefficient 'b' is negative i.e -0.012 which indicates that one millions decrease in net sales leads to average increase in receivables by Rs 0.012. The value of constant 'a' i.e 133.57 shows that receivables will be Rs 133.57 millions when net sales is zero.

iii)   Relationship between Inventory and Net Sales

Table No. 4.27

Correlation analysis between Inventories and Net sale

Companies	r	PE(r)	6PE(r)	Remark
National Trading LTd.	0.32	0.23	1.38	Insignificant
Salt Trading co. Ltd.	-0.02	0.25	1.5	Insignificant

Source: Appendix 28/29

The above table shows that coefficient of correlation between inventory and net sales or value of 'r'0.32 is in the case of National Trading limited. It indicates that inventories and net sales are positive correlated. It implies that increase in net sales leads to increase in receivables. By considering probable error 'r' is less than 6PE(r), so the relationship between inventory and net sales is insignificant.

On the other hand, the value of 'r' is -0.02 in the case of Salt Trading Co. Limited. It indicates that there is negative relationship between inventory and net sales. By considering the probable error 'r' is less than 6PE, so the relationship between inventory and net sales is not significant.

To show the degree of relationship between inventory and net sales, inventory is assumed to dependent (X) upon net sales(Y). The regression line of inventory on net sales is as follow:

X=a + bY

Table No. 4.28

Regression Analysis between Inventories and Net Sales

Companies	Regression equation Of	Regression equation	Value of constant 'a'	Regression coefficient 'b'
National Trading Ltd	Receivable (X) on Net Sales (Y)	X=0.01Y+348.24	348.24	0.1
Salt Trading Co. Ltd	Receivable (X) on Net Sales (Y)	X=-0.005Y+598.59	598.59	-0.005

Source: Appendix 28/29

The above table shows the regression coefficient. 'b' is positive i.e 0.10 of National Trading Limited which indicates that one millions increase in net sales, leads to average increase in inventories by 0-10 Rs millions. The value of constant 'a' i.e 348.24 shows that receivables will be 348.24 million when net sales is zero In the case of Salt Trading Co. Limited the regression coefficient 'b' isnegative i.e -O.OOSwhich indicates that one millions decrease in net sales leads to average increase in inventory by RsO.OOSmillion. The value of constant[7] 'a' i.e 598.59 shows that inventory will be Rs 598.59 millions when net sales is zero.

iv)   Relationship between Net Sales and Net Working Capital

Table No. 4.29

Correlation Analysis between Net Sales and Net Working Capital.

Companies	r	PE(r)	6PE(r)	Remark
National Trading Ltd	0.06	0.25	1.5	Insignificant
Salt Trading Co. Ltd	0.54	0.18	1.08	Insignificant

Source: Appendix 30/31

The above table shows that coefficient of correlation between net sales and net working capital or value of 'r' is 0.06 in the case of National Trading Limited. It indicates that net

sales and net working capital is positive correlated. It implies that increase in net working capital leads to increase in net sales. By considering probable error 'r' is less than 6PE(r), so the relationship between net sales and net working capital is not significant.

On the other hand, the value of 'r' is 0.54 in the case of Salt Trading Limited. It indicates that there is positive relationship between net sales and net working capital. By considering the probable error 'r' is less than 6PE, so the relationship between net sales and net working capital is not significant. To show the degree of relationship between net sales and net working capital, net sales is assumed to dependent(X) upon net working capital(Y). The regression line of net sales on net working capital is as follow:

X=a+bY

Table No. 4.30

Regression Analysis between Net Sales and Net Working Capital

Companies	Regression equation of	Regression equation	Value of constant 'a'	Regression coefficient
National Trading	Net Sales (X) on Net Working Capital (Y)	X= 0.04Y+894.79	894.79	0.04
Salt Trading Co. Ltd	Net Sales (X) on Net Working Capital (Y)	X = 0.89Y+ 1728.36	1728.36	0.89

Source: Appendix 30/31

The above table shows the regression coefficient 'b' is positive i.e 0.04 of National Trading Limited which indicates that one millions increase in net working capital leads to average increase in net sales by Rs 0.04 millions. In the case of Salt Trading Co. Limited, the regression coefficient 'b' is positive i.e which indicates that one millions increase in net working capital leads to average increase in net sales by Rs 0.89 millions. The value of constant 'a' i.e 1728.36 shows that net sale will be Rs 1728.36 millions when net working capital is zero.

v)   Relationship between Net profit and Net Working capital

To find out relationship between net profit and net working capital, various calculation have taken from appendix 32 and 33. The following table shows the coefficient of correlation and regression analysis between Net Profit and Net Working Capital.

Table No. 4.31

Correlation Analysis between Net Profit and Net Working Capital

Companies	r	PE(r)	6PE(r)	Remark
National Trading Ltd	0.46	0.20	1.2	Insignificant
Salt Trading Co. Ltd	0.43	0.21	1.26	Insignificant

Source: Appendix 32/33

The above table shows that coefficient of correlation between net profit and net working capital or value of 'r' is 0.46 in the case of National Trading Limited during the study period. It indicates that net profit and net working capital are positive correlated. It implies that increase in net working capital leads to increase in net profit. By considering probable error 'r' is less than 6PE(r), so the relationship between net profit and net working capital is not significant. Similarly is-the case of Salt Trading Co. limited.

To show the degree of relationship, between net profit and net working capital, net profit is assumed to dependent(X) upon net working capital(Y). The regression line of net profit on net working capital is as follow:

X=a+bY

Table No. 4.32

Regression Analysis between Net Profit and Net Working Capital

Companies	Regression equation of	Regression equation	Value of constant 'a'	'Regression coefficient 'b'
National Trading Ltd	Net Profit (X) on Net Working Capital (Y)	X=0.02Y-18.62	18.62	0.02
Salt Trading Co. Ltd	Net Profit (X) on Net Working Capital (Y)	X-0.02Y+43.76	43.76	0.02

Source: Appendix 32/33

The above table shows the regression coefficient 'b' is positive i.e 0.02 of National Trading Limited which indicates that one millions increase in net working capital leads to average increase in net profit by Rs 0.02 millions. The value of constant 'a' i.e 18.62 shows that net profit will be Rs 18.62 millions when net working capital is zero. In the case of Salt Trading Co Limited, the regression coefficient 'b' is positive i.e 0.02 which indicates that one millions increase in net working capital leads to average increase in net profit by Rs 43.76 millions. The value of constant 'a' i.e 43.76 shows that net profit will be Rs 43.76 millions when net working capital is zero.

4.4   Major Findings

The major findings of this study during the period of seven year from 2002 to 2008 of National Trading Limited and Salt Trading Co Limited from the analysis of secondary sources are summarized below:

- The overall average of cash and bank to current assets is 8.32 percent. The average ratio of National Trading Limited is 8.52 percent which is higher than overall average, Salt Trading Co. Limited is 8.12 percent which is lower than overall average ratio. The ratio varies among the selected companies. Higher ratio of current assets indicates the good liquidity position of the firm but at the same time it reversely affects on the profitability of the firm. High invested in cash and bank means high idle funds are available. They can not invest for golden opportunity. Salt Trading Co. Limited has proper invested in cash and bank and it shows the sound liquidity management of the company,

- The overall percentage of inventory to current assets is 51 percent. The highest ratio is 61.83 percent in 2007 and lowest ratio is 33.68 percent in 2008. National Trading Limited has higher ratio than the overall average inventory ratio. High variability of inventory to current assets ratio indicates that the company has in consistent credit policy. Higher and lower both ratio is not good for any company because it creates unnecessary holding cost and opportunity cost.

- The overall ratio of receivables to current assets is 4.44 percent. This ratio is in decreasing trend except in 2008. Salt Trading Co. Limited has higher ratio than

overall average ratio of receivable to current assets. It has more risk to collect cash without bad-debts. National Trading Co. Limited has strong sales policy to sales in the cash.

- The overall average current asset to total assets for the study period from 2002 to 2008 is 74.16 percent. The highest ratio is 87.56 percent in 2002 and lowest ratio is 60.70 percent in 2004. National Trading Limited has higher ratio than the average ratio. Higher ratio of current assets is good liquidity position of the firm but at the same time it reversely affects on the profitability of the firm.

- The overall average current ratio is 2.16 times. The highest current ratio is 2.88 times in 2004 and lowest ratio is 1.01 times in 2007. Salt Trading Co. Limited has the higher ratio than average and rest has lower ratio than average current ratio. The current ratio is considered as perfect when the ratio comes to 2:1. The overall current ratio of the Company is satisfactory. But individually, National trading Limited has below the standard ratio i.e. 1.54 times. It reveals that national Trading Limited is not able to pay their bills and failed to meet short term obligation and are losing the opportunities.

- The overall average quick ratio of the study period from 2002 to 2008 is 1.13 times. The highest ratio is 1.92 in 2002 and lowest ratio is 0.44 in 2007. Salt Trading Co. Limited has higher ratio than average and rest has lower ratio than average ratio of quick assets. The quick ratio is considered as perfect when the ratio comes to 1:1. National Trading Limited has below the standard ratio i.e. 0.38 times. Salt Trading Co. Limited has sound Liquid position in comparison to National Trading Limited.

- The overall average inventory turnover ratio is 2.86 times. This ratio is lightly fluctuating trend during the study period. The highest turnover ratio is 5.24 times in 2002 and lowest ratio is 1.15 times in 2004. Salt Trading Co. Limited has higher ratio than the average ratio and rest has lower ratio than the average ratio of inventory turnover. The higher turnover indicates the good utilization of inventory and National Trading Co. Limited is poor in inventory management.

- The overall average receivables turnover ratio is 107.67 times. The average ratio is highly fluctuated trend during the study period. The highest turnover ratio is 222.82 times in 2007 and lowest turnover ratio is 24.77 times in 2002. National Trading Limited has higher average ratio than overall average ratio of receivable turnover. Salt Trading Co. limited in not able to collect the debts.

- The overall average of current assets turnover ratio is 1.37 times. The ratio is fluctuating during the study period. The highest turnover ratio is 1.68 times in 2003 and lowest turnover ratio is 0.87 times in 2007. The ratio is not widely varied among selected companies. National Trading Limited has lower ratio than the overall average ratio and rest has higher ratio than overall average ratio of current assets turnover. Salt Trading Co. Limited has higher utilization of current assets.

- The overall average of total assets turnover ratio is 1.00 times. The highest turnover ratio is 1.68 times in 2005 and lowest turnover ratio is 0.39 times in 2008. The ratio is not widely varied among selected companies. Both selected companies have equal total assets turnover ratio. It indicates that both these companies have equal utilization of total assets.

- The overall average of net working capital turnover ratio is 40.51 times. The ratio is varied from -2.81 times to 226.49. The highest turnover ratio is 226.49 times in 2007 and lowest turnover ratio is -2.81 times in 2008. National Trading Limited has higher ratio than the overall average ratio and rest has lower ratio than overall average ratio of net working capital turnover. Salt Trading Co. Limited has higher utilization of current assets. National Trading. Limited is suffering from excess of current liabilities over current assets with comparison to Salt Trading Co. Limited.

- The overall gross profit margin is 10.74 percent. The highest ratio of profit is 16.91 percent in 2008 and the lowest ratio of profit is 4.45 percent in 2005. National Trading Limited has lower average profit than overall profit and rest has higher profit than the overall average gross profit margin ratio. Salt Trading Co. Limited has higher gross profit margin ratio, it is efficient on minimizing the cost of goods sold or manufacturing cost and maximizing the profit.

- The overall average ratio of net profit margin for the study period is 1.10 percent. Profit is positive in every year except in the fiscal year 2005, 2006 and 2007 of the study period. The average net profit margin ratio of Salt Trading Co. Limited is higher than overall profit margin ratio. It is able to minimize the operating cost and maximizing the profit.

- The overall operating ratio is 95.69 percent. The highest ratio is 121.07 percent in 2002 and lowest ratio is 57.27 percent in 2006. The average operating expenses ratio of Salt Trading Co .Limited is higher than overall average ratio. So, Salt Trading Co. Limited is regarded to be more efficient on minimizing the cost than National Trading Limited.

- The overall return on shareholder equity ratio is 6.24 percent. The highest ratio is 63.06 percent in 2002 and lowest ratio is -17.33 percent in 2005. The average return on shareholder equity ratio of National Trading Limited is lower than overall average ratio. So, National Trading Limited has high profit than Salt Trading Co.-Limited.

- The overall return on net working capital ratio is -354.84 percent. The highest ratio is 13.01 percent in 2002 and lowest- ratio is -2237.84 percent in 2007. The ratio is negative except in year 2002, 2003 and 2004. The average return on net working capital of National Trading Limited is negative in comparison to Salt Trading Co. Limited. National Trading Limited has negative ratio due to negligence in day to operation, liberal receivable management, defective payable policy and higher cost of production, lower turnover of current assets less acceptability of goods lack of short run as well as long run profit planning and defective sales policies.

- While analysis the investment in current assets there is wide variation of fund required within individual companies. The average of investment in current assets of National Trading limited is lower than the overall average which is given in appendix-22 with comparison to Salt Trading Limited. It means national Trading Limited has followed aggressive policy of working capital management or current assets management. But Salt Trading Co. Limited has followed conservative working capital policy.

- The overall inventory conversion period is 163.68 days. The highest ratio is 266 days in 2007 and lowest ratio is 115.5 days in 2005. Salt Trading Co. Limited has lower average ratio than the overall average in comparison to National Trading Limited. It indicates Salt Trading Co. Limited is able to sell it inventory quickly.

- The overall receivables conversion period is 10.85 days. The highest ratio is 20.25 days in 2002 and lowest ratio is 4.51 days in 2005. National Trading Limited has lower average ratio than the overall average in comparison to Salt Trading Co. Limited. It indicates National Trading Limited is able to collect quickly receivable from its customer.

- The overall payable deferral period is 54.60 days. The highest ratio is 82.56 days in 2002 and lowest ratio is 33.48 days in 2005. National Trading Limited has higher average ratio than the overall average in comparison to Salt Trading Co. Limited. It indicates National Trading Limited has relatively long credit period from its creditors. It is better to have a long credit period form the creditor without any penalty. But in long run it will deteriorate the credit worthiness of the company. Firm can not get credit due to the company delay in paying obligations. So, company should pay the amount of payable to the creditors in the credit period.

- The overall cash conversion cycle is 115.99 days. The highest ratio is 215.05 days in 2008 and lowest ratio is 60.61 days in 2003. Salt Trading Co. Limited has higher average ratio than the overall average in comparison to National Trading Limited. It indicates Salt Trading Co. Limited has relatively short credit period from its creditors. The company with high cash conversion period is required to increase the velocity of inventory conversion through proper management of inventory and also require increasing the collection speed of their sales. It is better to have a long credit period form the creditor without any penalty. But in long run it will deteriorate the credit worthiness of the company. Firm can not get credit due to the company delay in paying obligations. So, company should pay the amount of payable to the creditors in the credit period.

- The value of correlation coefficient between current assets and net sales of national trading Limited is found positive relationship because of their positive value. The value of 'r' is less than the 6.P.E., they have insignificant relationship between current assets and net sales. The value of correlation coefficient between current assets and net sales of Salt Trading Co. Limited found positive relationship because of their positive value. The value of 'r' is less than the 6PE, it has insignificant relationship between current assets and net sales.

- The value of correlation coefficient between receivables and net sales of Salt Trading Co. Limited is found positive relationship because of their positive value, where as National Trading Limited is found positive value because of it's positive value. The value of 'r' is less than 6PE in the case of both companies. So, they have insignificant relationship between receivables and net sales.

- The value of correlation coefficient between inventories and net sales of Salt Trading Co. Limited is found negative relationship because of their negative value. The correlation between inventories and net sales of National Trading. Limited is found positive value and it indicates the positive relationship. The value of 'r' is less than 6PE in the case of both companies.

- The value of correlation coefficient between net sales and net working capital of all selected companies are found positive relationship because of their positive value. The value of 'r' is less than 6PE, so they have not significant relationship between net sales and net working capital.

- The values of correlation coefficient between net profit and net working capital of all selected companies are found positive relationship because of their positive value. The value of 'r' is less than 6PE; it is found that there are not significant relationship between net profit and net working capital.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1   Summary

Working Capital Management occupies a vital place in the overall organizational functioning, profit making and ultimately in the survival and prosperity of the enterprise. The deficit of needed working capital forces the company into bankruptcy. Therefore, working capital management is getting tremendous focus in all the business entities globally.

The two giant trading companies viz. Salt Trading Corporation Ltd. and National Trading Ltd. are taken for the study. The main objectives of STCL is to avail the daily necessary things to the general people at reasonable price, to carry out export and import functions ensuring regularity, to act as an agent for domestic as well as foreign companies, and to make investments in new as well as old industries.

National Trading Ltd. was set up as State Trading Organization and was entrusted with the functions of engaging on all kinds of trading activities including quoting of goods imported from India for the purpose of establishing domestic prices, regularizing the import and export of industrial raw materials, machinery and equipment and consumer goods, to mention a few.

The prime objective of this study is to examine and measure the working capital structure of trading organizations with an aim to reflect the entire trading domain. It aims at studying and uncovering the problems or challenges faced by the business and industrial sector in maintaining an optimal working capital level. However, the fundamental objective of this study is to craft a true insight into the working capital position of trading sector and to forward concrete recommendations for improvement if seem feasible.

Descriptive and analytical methods of research design have been used. Both financial as well as statistical tools have been used so as to provide analytical insights into the study. A mix of primary and secondary data has been used for the study.

The overall average of cash and bank to current assets is 8.32 percent. The average ratio of National Trading Limited is 8.52 percent which is higher than overall average while that of Salt Trading Co.

Limited is 8.12 percent, lower than overall average ratio. High investment in the form of cash and bank means greater security for the day-to-day expenses but, at the same time, it reflects unproductive fund being available.

The overall ratio of receivables to current assets is 4.44 percent. Salt Trading Co. Limited has higher ratio than overall average ratio of receivable to current assets. It has more risk to collect cash which may result in bad-debts. The ratio of National Trading Co. Limited is 1.28 percent which is much lower than the overall average. It denotes strong sales policy typified by strict cash sales.

The average operating expense ratio of NTL is lower than the overall average and that of the STCL is higher than the overall average. Which means greater efficiency in minimizing the cost than NTL The average gross profit margin of Salt Trading Co. Ltd. is higher than that of National Trading Ltd. which hints to greater efficiency in minimizing manufacturing cost thereby maximizing the profit. Nevertheless, the average net profit margin of National Trading Ltd. is lower vis-a-vis Salt Trading Corporation Ltd. which definitely is unlikely to happen but is the outcome of awfully miserable performance during the year 2005, 2006 and 2007.

5.2   Conclusion

A systematic and thorough analysis of the data collected using different financial and statistical tools apparently reveal that proper management of working capital is an

indispensable facet for day to day operation of business organization since it has a greater say in the success and failure of organization. Thus, the role of working capital management is of utmost significance for every business organization irrespective of their nature and scale of operation.

Analysis of data strongly help us draw conclusion that a good policy and proper management of current assets such as inventory, receivables, cash and bank balance, short term securities and current liabilities such as account payables, bills payable and other short term obligations vehemently affects the current functioning of the organization. In other words, a good working capital management policy necessarily affects on the profitability of the enterprise, shapes up the image of the organization in the eyes of the concerned stakeholders such as suppliers, creditors, banks and financial institutions, peer organizations, government and others in touch.

The study uncovers yet another realm of working capital management. An optimum maintenance of working capital management has two major outcomes. First, it ensures a needed liquidity requirement and prevents shortages of needed working capital thereby safeguarding the organization from day-to-day operational hindrances -due to needs of day-to-day expenses and second, it helps organization to minimize or avoid unproductive investment in current assets. In fact, a larger investment in current assets specifically in cash has unfavorable impact on the profitability of the company by virtue of it remaining idle which otherwise could have been utilized for profit making in lucrative alternatives. But, bluntly coming to this conclusion may, at times, prove fatal for the organization. It is because organizations stand on brink of losing promising opportunities should they rely on wait and face tactic rather than maintaining good liquidity strength in terms of cash and bank balance.

5.3   Recommendations

Based on the analysis of data and findings and conclusions there from, recommendations are forwarded for the concerned trading companies for adopting right working capital policy for the days ahead.

A lower attention towards working capital policy becomes evident from the fluctuation in the current assets holding of the companies. Due to lack of target for assets holding in the long ran and absent of sources of financing, most of the companies' financing situation is deteriorating. So, there must be compulsory formulation of working capital policy. They should be policy to prevent the holding of excessive or inadequate current assets in company.

From the assessment, it is suggested that the companies should estimate the appropriate requirement of cash for the upcoming events. If the cash appears more than requirement, the company should invest such idle fund in marketable securities. Both over investment and under investment in account receivable should be discouraged. The key determinants of the investment size are terms of sales, the section of customer to be given credit, paying practice of customers, efficiency in collecting receivables and so on. One of the ways to control investment in receivables is to find out receivables as a percentage of sales. The other ways are preparing a schedule of receivables, analyzing credit worthiness of customer, minimizing float and so on. Trading companies should adopt the definite credit and collection policies, which help to operate business with lower level of working capital. The management of working capital primarily rests on the effective inventory management. The company has to craft effective sales plan which helps for immediate marketability and it certainly decreased the problem of overstocking.

BIBILOGRAPHY

Acharya K., (1988). *"Problems and Implement in the Management of Working Capital in Nepalese Enterprises"* Nepalese Development Studies, Kathmandu

Agrawal, N.K, *"Management of Working Capital"* Sterling Publishers P. Ltd, New Delhi, India

Bryl, Muny D. (1969). *"Industrial Development: Audio for Accelerating Economic Growth"* McGrow Book Company, New York

Census of Mfg Establishment, (1996/97). Central Bureau of Statistics HMG/N Kathmandu, Nepal

"Economic Hand Book of Nepal" (1967) Department of Industry HMG, Nepal

"Economic Survey Report" (1990/91) Ministry of Finance HMG/N, Kathmandu

Gartaula, Keshav Prasad, (1992), *"A Study on Working Capital Management of Nepal Tea Development Corporation",* Unpublished Dissertation, T.U.

Giri, Basudev, (1996). *"Working Capital Management in Birgung Sugar Factory Limited"*, Unpublished Dissertation, T.U.

Giri, Hari Prasad, (2033 B.S). *"Audyogiikaranma Niji Chhetra Ko Dhen"* Paper Presented at Fourth Industrial Conference, NIDC, Kathmandu

Giri, Rajendra, (1986). *"Working Capital Management: A Case Study of Balaju Textile Industry Limited"*, Unpublished Dissertation, T.U.

"Industrial Policy of Nepal" (1957) HMG/N, Kathmandu.

"Industrial Policy" (1974). Ministry of Industry and Commerce HMG/N, Kathmandu.

Joshi, Arjun Lal, (1986). *"A Study on Working Capital Management of Biratnager Jute Mill Limited",* Unpublished Dissertation, T.U.

Pandey I. M (1988). *"Financial Management"* Vikas Publishing House P Ltd. New Delhi, India.

Pandey, I.M, (1999). *"Financial Management"*, Vikas Publishing House P Ltd., New Delhi, India

Panta, Bed Raj, (2034 B.S). *"Aarthik Bikash Ma Sangathanatmak Prabhav Kehi Ghatana Ek Bibechana"*, Kathmandu

Pathak Pradeep Kumar, (1992*), "An Evaluation of Working Capital Management of Nepal Lube Oil Limited, Nepal",* Unpublished Dissertation, T.U

Pradhan R.S. (1986). *"Management of Working Capital"*, National Book Organization, New Delhi, India.

Pradhan Surendra, (1985). *"Basics of Financial Management"*, Educational Enterprises Pvt. Ltd., Kathmandu, Nepal.

Pradhan   Suresh, (1989). "*A Study on Working Capital Policy of Manufacturing PEs. in Nepal",* Unpublished Masters Thesis, T.U.

Pradhan, R.S., (1994). "Industrialization in Nepal" NBU Publisher and Distributors, New Delhi.

Sapkota, Jibn Nath, (1994). *"A Study on Working Capital Management in Himal   Cement Company   Limited"* Unpublished Dissertation, T.U.

Shrestha, R.K., (1993). *"An Evaluation of Working Capital Management of Bottlers Nepal Ltd.   Kathmandu"* Unpublished Dissertation, T.U.

Shreshta, Prem Kumar, (1994), *"A Study on Working Capital Management in Bhrikuti Paper Mills Limited Nepal",*   Unpublished Dissertation, T.U.

Shrestha K. Manohar, (1983), *"Working capital Management in Selected PEs: A Study in Financial Result and Constraints"* ISDOC Volume-8, NO. 1-4

Shrestha,   Badri Prasad *"The Economy of the Nepal: A Brief Study in Problems and Process of Industrialization"* Vora and Company, Bombay, India.

Shrestha, Shailesh Man, (1990), *"A Study on Working Capital Management of Dairy Development Corporation Nepal"*, Unpublished Dissertation, T.U.

Shrestha, Sushil Chandra (1989), *"A Comparative Study of Working Capital Management   in Public   Sector   Brick   Factories",* Unpublished Dissertation, T.U.

Srivastava R M, (1984), *"Financial Decision Making : Text Problem and Cases"* Sterling Publishers Pvt. Ltd., New Delhi, India.

"Statistical Year Book of Nepal" (1995) NPC, Secretariat, CBS HMG/N

"The Fourth Plan 1970-75" (1972) NPC, HMG/N, Kathmandu"

"UN Committee for Industrial Development Report of 3rd Session" (1963).

Van Horn, Jams C. (1994), *"Financial Management and Policy",* Prentice Hall of India Pvt. Ltd, New Delhi, India.

Van Home, James C. (1991), "Financial Management and Policy", Prentice Hall, New Delhi, India.

Weston J. Fred, Besley Scott and Brigham Eugence F., (1996), "Essentials of Managerial Finance", The Dryden Press, USA.

Weston, J. Fred & Brigham Eugene   F., (1982) "Managerial Finance", The Dryden Press, Illinois, USA.

APPENDIX-1

Summarize Balance Sheet of National Trading Limited

Fiscal Year Particulars	2002	2003	2004	2005	2006	2007	2008
Assets :							
Fixed assets	260996	269757	236233	216220	217832	231509	235446
Share investment	596259	632709	685692	688390	63895	338626	276031
Gratuity Reserve Fund	-	-	-	-	-	-	-
Total Fixed Assets (a)	**857255**	**902466**	**709315**	**904611**	**851726**	**570135**	**511477**
Current Assets:							
Inventory	557541245	562403929	477983899	354400767	380570969	412788016	314057037
Debtors/Receivable	25816534	4554423	16519158	5300324	5264543	976898	4557501
Cash and Bank balance	44673385	58161656	24182989	25714533	229996446	18163220	583904159
Advanced and Deposit	62051652	73782718	129835443	139242525	128399431	105160209	158692339
Total Current Assets(b)	**690082816**	**698902726**	**648521481**	**524658149**	**733702303**	**535134547**	**1061211036**
Total Assets (a+b)	**775808279**	**789149288**	**1357837134**	**615119261**	**818874925**	**592147974**	**1112358704**
Capital and Liabilities:							
Share Capital	1695000	169335000	169335000	169335000	169335000	169335000	169335000
Capital Reserve	86749163	81710373	82640482	1689697	59745355	111178921	147442380
Surplus and Reserve	-	-	-	-	-	-	-
Current Liabilities:							
Short-Term Loan	109204334	94628562	127048000	200053000	521677691	385907000	919743347
Surplus and Reserve	-	-	-	-	-	-	-
Sundry Creditors	410519783	443475352	264667042	153974903	105422110	843401139	101334863
Provisions	-	-	97023449	92969073	92185480	63744756	69387875
Total Current Liabilities	**519724117**	**538103915**	**488738491**	**447473939**	**719285281**	**533991896**	**109046608**
Total Liabilities	689059117	98643873	7407139473	618498618	1506540818		

APPENDIX-2

Summarize Income Statement of National Trading Limited

Fiscal Year / Particulars	2001	2002	2003	2004	2005	2006	2007
Sales Revenue	978903694	1174112103	967386998	977527493	809139234	407548807	968608940
Cost of goods sold	818327048	1038141841	844445674	964602389	758055136	326657002	921835253
Gross Profit	**160576646**	**135970262**	**122941324**	**12925104**	**51083698**	**80891806**	**46773687**
Add: Misc & Operating Income							
Other Income	7448372	9026063	20210216	32451974	15967489	9636667	41103139
Dividend From Investment	1896675	2592480	3559270	4416808	3625998	3726318	3666525
Profit on Sale of Assets	-	-	-	-	-	-	-
Less: Operating Expenses							
Interest on Loan	26890435	28729458	29719700	25931060	22278405	30072952	29782861
Administrative Exp^n	110096386	10832996	109290182	104152202	102028376	115234662	102571779
Depreciation	2780456	3550375	2912752	2496391	2249352	2082646	1914967
Net profit/loss before bonus and tax	30154416	6875976	4786176	(82785767)	(55878948)	(53135469)	42726258
Less : Staff Bonus	1695465	412559	287171	-	-	-	-
Net profit before tax	28458951	6463417	4499005	(82785767)	(55878948)	(53135469)	4272658
Less : Tax	6640569	1809759	1030698	-	-	-	-
Net profit after tax	21818382	4653658	3468307	(82785767)	(55878948)	(53135469)	42726258

Appendix-3

Fiscal Year / Particulars	2001	2002	2003	2004	2005	2006	2007
Assets:							
Fixed Assets	42782690	445170022	462129130	46599199	1393158082	1379608052	1377867557
Share Investment	128836278	139636278	139642278	151781287	441759529	455721383	638654475
Gratuity Reserve Fund	-	-	-	-	-	-	-
Total Fixed Assets (a)	**171618968**	**584806300**	**601771408**	**617773276**	**1834917611**	**1835329435**	**1746522032**
Current Assets:							
Inventory	19996753	370716514	688133549	470669773	789888205	87658232	714440295
Debtors/Receivable	150109178	152192977	167778845	76545426	51678428	65072809	80292345
Cash and Bank balance	53822377	38530836	58823666	177781002	203881404	196258556	218938094
Advance and Deposit	664540957	553369410	766338389	872565696	707408920	746301011	878272814
Total Current Assets(b)	**1068440043**	**1114809737**	**1681074449**	**1597561897**	**1752856957**	**1884210608**	**1891943548**
Total Assets (a+b)	**1060088233**	**1699616037**	**2282845857**	**2215335172**	**3587774568**	**3719540043**	**3638465580**
Capital and Liabilities:							
Share Capital	24777700	24777700	24777700	24777700	24777700	24777700	24777700
Capital Reserve	-	-	-	-	-	-	-
Secured Loan	874763893	902800238	1359592890	1184072447	362889233	305668706	416532694
Surplus and Reserve	67990395	473842404	517719525	584204906	1546000307	1524163848	1374882494
Current Liabilities:							
Short-Term Loan	-	-	-	-	-	-	-
Sundry Creditors	70104289	71328270	138430575	111270387	188912700	202775675	182050960
Total Current Liabilities	**242527023**	**298195695**	**380755742**	**422280119**	**1654107328**	**1864929789**	**1822272692**
Total Liabilities	**1210059011**	**169961037**	**2282845857**	**2215335172**	**3587774568**	**3719540043**	**3638465580**

Summarize Balance Sheet of Salt Trading Co. Limited

Appendix-4

Fiscal / Particulars	2001	2002	2003	2004	2005	2006	2007
Sales Revenue	1743145018	1875868790	2461000708	3898942646	2193935368	18505515136	1916218180
Cost of goods sold	1584930453	1683662151	2202300714	3603256766	1937235347	1592061174	1644540991
Gross Profit	158214565	192206639	25869994	295685880	256700021	258490339	271677189
Add: Misc & Operating Income							
Other Income	4436000	7560074	4482620	8555765	27551148	34576890	26024744
Dividend From Investment	-	-	-	-	-	-	-
Profit on Sale of Assets	51227438	183544	-	7993	144783	840	96171
Less: Operating Expense							
Interest on Loan	2109782	105032677	111425761	115686298	119994903	154015234	161188663
Administrative Exp^n	4436000	52250335	75363707	75851818	82292322	88365099	90478776
Depreciation	93352837	2079885	2536865	3873130	3628563	4733230	4275438
Net Profit/Loss before Bonus and Tax	113979384	40587360	73856281	108838392	78480164	45954506	41855227
Less: Staff Bonus	1543518	4058736	7398962	-	-	-	-
Net Profit before Tax	**112435866**	**36528624**	**66457379**	**108838392**	**78480164**	45954506	41855227
Less : Tax	3346419	9870735	16340415	25135625	20604056	12306070	10511593
Net Profit after Tax	**109089447**	**26657889**	**50116904**	**83702767**	**57876108**	**33648436**	**31343634**

Appendix -5

Cash & Bank and Current Assets of Selected Companies

Fiscal Year	National Training Limited		Salt Trading Co. Limited	
	Cash & Bank	Current Assets	Cash & Bank	Current Assets
2002	44673385	690082816	53822377	1068440043
2003	58161656	698902726	38530836	1114809737
2004	24182989	648521481	58823666	1681074449
2005	25714533	524658149	177781002	1597561896
2006	229996446	733702303	203881404	1752856957
2007	18163220	537088343	196258556	1884210604
2008	583904159	3928751036	218938094	1891943548

Appendix-6

Receivable and Current Assets of Selected Companies

Fiscal Years		National Trading Limited		Salt Trading Co. Limited	
	Receivable	Current Assets	Receivable	Current Assets
2002	25816534	690082816	150109178	1068440043
2003	4554423	698902726	152192977	1114809737
2004	16519158	648521481	167778845	1681074449
2005	5300324	524658149	76545426	1597561896
2006	5264543	733702303	5167828	1752856957
2007	976898	537088343	65072809	1884210608
2008	4557501	3928751036	80292345	1891943548

Appendix-7

Inventory and Current Assets of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Inventory	Current Assets	Inventory	Current Assets
2002	557541245	69*0082816	199967531	1068440043
2003	562403929	698902726	370716514	1114809737
2004	477983899	648521481	688133549	1681074449
2005	354400767	524658149	470669773	159561896
2006	380570969	733702303	789888205	1752856957
2007	412788016	535134547	876578232	1884210608
2008	314057037	1061211036	714440295	1891943548

Appendix-8

Current Assets and Total Assets of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Current Assets	Total Assets	Current Assets	Total Assets
2002	690082816	775808279	1068440043	1240059011
2003	698902726	789149288	1114809737	1699616037
2004	648521481	1357837134	1681074449	2282845857
2005	524658149	615119261	1597561896	2215335172
2006	733702303	818874925	1752856957	3587774568
2007	537088343	594101770	1884210608	3719540043
2008	3928751036	3979898704	189194358	3638465580

Appendix-9

Current Assets and Current liabilities of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Current Assets	Current Liabilities	Current Assets	Current Liabilities
2002	690082816	519724117	1068440043	242527023
2003	698902726	538103915	1114809737	298195695
2004	648521481	488738492	7681074449	380755742
2005	524658149	447473939	1597561896	422280119
2006	733702303	719285281	1752856957	1654107328
2007	535134547	533991896	1884210608	1864929789
2008	1061211036	1090466085	1891943548	1822272692

Appendix-10

Quick assets and Current Liabilities of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Quick Assets	Current Liabilities	Quick Assets	Current Liabilities
2002	132541571	519724117	1068440043	242527023
2003	136498797	538103915	1114809737	298195695
2004	170537582	488738492	1681074449	380755742
2005	170257382	447473939	1597561896	422280119
2006	353131334	719285281	1752856957	1654107328
2007	124300327	533991896	1007632376	186492989
2008	747153999	1090466085	1177503253	1822272692

Appendix-11

Net Sales and Inventory of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Net Sales	Inventory	Net Sales	Inventory
2002	978903694	557541245	1743145018	199967531
2003	11740112103	562403929	1875868790	370716514
2004	967386998	477983899	2461000708	688133549
2005	977527493	354400767	389842646	470669773
2006	809139234	380570969	2193935368	789888205
2007	407548807	421788016	1850551513	876578232
2008	968608940	314057037	1916218180	714440295

Appendix-12

Net Sales and Receivable of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Net Sales	Receivable	Net Sales	Receivable
2002	978903694	25816534	1743145018	150109178
2003	1174112102	4554423	1875868790	152192977
2004	967386998	16519158	2461000708	167778845
2005	977527493	5300324	3898942646	76545426
2006	809139234	5264543	2193935368	51678428
2007	407548807	976898	1850551513	65072809
2008	968608940	4557501	191218180	80292345

Appendix-13

Net Sales and Current Assets of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Net Sales	Current Assets	Net Sales	Current Assets
2002	978903694	132541571	1743145018	1068440043
2003	1174112103	136498797	18755868790	1114809737
2004	967386998	170537582	2461000708	168104449
2005	977527493	170257382	3898942646	1597561896
2006	809139234	353131334	2193935368	1752856957
2007	407548807	124300327	18505515113	1007632376
2008	968608940	747153999	1916218180	1177503253

Appendix-14

Net Sales and Total Assets of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Net Sales	Current Assets	Net Sales	Current Assets
2002	978903694	775808279	1743145018	1240059011
2003	1174112103	789149288	1875868790	169961037
2004	967386998	1357837134	2461000708	2282845857
2005	977527493	615119261	3898942646	2215335172
2006	809139234	818874925	2193935368	3587774568
2007	407548807	594101770	1850551513	3718540043
2008	968608940	3979898704	1916218180	3638465580

Appendix-15

Net Sales and Net Working Capital of Selected companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Net Sales	Net Working	Net Sales	Net Working Capital
2002	978903694	170358699	1743145018	825913020
2003	1174112103	160798811	1875868790	816614042
2004	967386998	159782989	2461000708	1300318707
2005	977527493	77184210	3898942646	1175281777
2006	809139234	14417022	2193935368	98749629
2007	407548807	(1142651)	185055113	19280819
2008	968608940	(29255049)	1916218180	69670856

Appendix-16

Net Sales and Payables of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Net Sales	Payables	Net Sales	Payables
2002	978903694	410519783	1743145018	70104289
2003	1174112103	443475352	1875868790	71328270
2004	967386998	264667042	2461000708	138430575
2005	977527493	153974903	3898942646	111270387
2006	809139234	105422110	2193935368	188912700
2007	407548807	84340139	1850551513	202775675
2008	968608940	101334863	19116218180	182050960

Appendix-17

Gross Profit and Net Sales of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Gross Profit	Net Sales	Gross Profit	Net Sales
2002	160576646	978903694	158214565	1743145018
2003	135970262	1174112103	192206639	1875868790
2004	122941324	967386998	258699994	2461000708
2005	12925104	977527493	295685880	3898942646
2006	51083698	809139234	256700021	2193935368
2007	80891806	407548807	258490339	1850551513
2008	46773687	968608940	271677189	1916218180

Appendix-18

Net Profit/Loss and Net Sales of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Net Profit/Loss	Net Sales	Net Profit/Loss	Net Sales
2002	21818382	978903694	109089447	1743145018
2003	4653661	1174112103	26657889	1875868790
2004	3468308	967386998	50116904	2461000708
2005	(82785767)	977527493	83702767	3898942646
2006	(55878948)	809139234	57876108	2193935368
2007	(53135469)	407548807	33648436	1850551513
2008	42726258	968608940	31343634	1916218180

Appendix-19

Operating Expenses and Net Sales of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Net Operating Expenses	Net Sales	Net Operating Expenses	Net Sales
2002	931203890	978903694	1682719290	1743145018
2003	1150125212	1174112103	173799271	1875868790
2004	956650608	967386998	2280201286	2461000708
2005	1071250982	977527493	3682981714	3898942646
2006	180083264	809139234	2023156232	2193935368
2007	443974310	407548807	1685159503	1850551513
2008	1026321999	968608940	1739295205	1916218180

Appendix-20

Net Profit and Shareholder Equity of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Net Profit/Loss	Shareholder Equity	Net Profit/Loss	Shareholder Equity
2002	21818382	256084163	109089447	92768095
2003	4653661	251045373	26657889	498620104
2004	3468308	251975482	50116904	542497225
2005	(82785767)	1711024679	83702767	608982606
2006	(55878948)	229080355	57876108	1570778007
2007	(53135469)	280513921	33648436	1548941548
2008	42726258	316777380	31343634	1399660194

Appendix-21

Net Profit and Net Working Capital of Selected Companies

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Net Profit/Loss	Net Working Capital	Net Profit/Loss	Net Working Capital
2002	21818382	170358699	109089447	825913020
2003	4653661	160798811	26657889	816614042
2004	3468308	159782989	50116904	1300318707
2005	(82785767)	77184210	83702767	1175281777
2006	(55878948)	14417022	57876108	98749629
2007	(53135469)	(1142651)	33648436	19280819
2008	42726258	(29255049)	31343634	69670856

Appendix-22

Allocation of Working Capital of selected Companies (Rs in million)

Fiscal Years	National Trading Limited			Salt Trading Co. Limited		
	Total Required Fund	Permanent Working capital	Temporary Working Capital	Total Required Fund	Permanent Working Capital	Temporary Working Capital
2002	690.08	690.08	0	888.47	888.47	0
2003	698.90	690.08	8082	1114.81	888.47	226.34
2004	648.52	690.08	(41.56)	1681.07	888.47	792.6
2005	524.66	680.08	(156.42)	1597.56	888.47	709.09
2006	733.7	690.08	43.62	1752.86	888.47	864.39
2007	535.13	690.08	(154.95)	1884.21	888.47	995.47
2008	1061.21	690.08	371.13	1891.94	888.47	1003.47

Appendix-23

Requirements of Working Capital (Rs. In million)

Fiscal Years	National Trading Limited		Salt Trading Co. Limited	
	Sales	Variable cost	Sales	Variable cost
2002	978.90	928.42	1743.15	1589.37
2003	1174.11	1146.58	1875.87	1735.9
2004	967.39	845.54	2461.00	2277.66
2005	977.53	1068.76	3898.94	3679.11
2006	809.14	177.83	2193.94	2019.53
2007	407.55	441.89	1850.55	1680.43
2008	968.61	1024.4	1916.22	1735.02

Appendix-24

Relationship between Current Assets and Net Sale of National Trading Limited

Calculation of Mean, Standard Deviation, Correlation,

Coefficient and Simple Regression

Years	C.A.(X)	N.S.(Y)	$x^2=(X-\overline{X})$	$x^2=(X-\overline{X})^2$	$y^2=(Y-\overline{Y})$	$y^2=(Y-\overline{Y})^2$	xy
2002	690.08	978.90	-8.52	72.59	81.3	6609.69	675519.312
2003	698090	1174.11	0.3	0.09	276.51	76457.78	820585.48
2004	648.52	967.39	-50.08	2508.01	69.79	4870.64	627371.76
2005	524.66	977.53	-173.94	30255.12	10.14	102.82	512870.89
2006	733.70	809.14	35.1	1232.04	-158.25	25043.06	593666.02
2007	535.13	407.55	-163.47	267252.44	-559.84	313420.83	218092.23
2008	1061.21	9687.69	362.61	131486.01	1022	1.49	1027898.62
	ΣX=4890.2	ΣY=6283.23		ΣX²= 192276.27		ΣY²=426506.31	ΣXY=4476004.3