INTRODUCTION

1.1 Background of Study

Working capital is lifeblood of any organization. The management of working capital is not simple one, with the minor mistakes on decision making about the adequacy of the working capital, in a concern may put company into liquidation. The manufacturer have an adequate supply of raw materials to process or adequate cash to meet wages bills, other wise it causes a serious problem in it's operation.

In this manner, a basic question arises, about the management of working capital by Nepalese manufacturing enterprises. In this respect, the researcher selects the pharmaceutical industries with special reference of Royal drugs limited enterprises of HMG Nepal. This is an overall focus of study.

Manufacturing public enterprises are key instruments of country's economy. What happens in economy is a part of the effects coming from that performance of public enterprises, as well as their working capital management, so researcher has reflected brief introduction over industrialization and it's development in Nepal.

Nepal is one of the least development countries in the world the economy it totally dominated by agricultural sector. About 90 percent of 2.4 million people of the country live in rural areas. Population growing rate of 2.6 percent per annum has produced a broad based increased ratio.[1]

As a developing country Nepal, are striving to develop and modernize but economy rapidly on rational and social desired footings. But the structure of economy has still in primarily agricultural with a very small industry base, so to divest and modify agro based economy HMG of Nepal adopted mixed economic model with implicit objective to help the state and private sector economy that complement each other in the development process from very inception of economic planning process back in 1956. Since then substantial initiative has been taken in promoting, protecting, and developing PES. Though the role of private sector can not be denied in the process of economic development in an under-developed country like Nepal. The main responsibility for planned economic development ultimately rests on public sector and government is the best instrument for ensuring an equitable, social, and economic system, erecting basic infrastructure for economic development and guiding the nation towards a new economic direction.[2] It is believed that in order to achieve security,

[1] Statistical Year Book of Nepal 1999, Control Bureau of Statistics, Ktm.
[2] CCC ISC Performance of PES in Nepal (Macro Study) Minisher of Finance HMG/N KTM. 277 D. 35.

stability and high standard of living the countries must be industrialized. The most important reason for embarking on a performance of industrialization is to increase the national income.[3]

Historically industrial development process began after 1936 with the establishment of Biratnagar Jute Mill. It was established under the company act 1936 which was the first joint stock company of Nepal was also incorporated in 1937. During 1936-1944 a no of industries particular in the field of cotton, textile, sugar, match, hydropower. rice, oil, cigarettes were setup in the South Eastern Terai region. Due to positive impact of the Second World War, it created huge demand for Jute Products and gave excess profits to Biratnagar Jute Mill Due to it's success, during war period, a group of another five joint stock company were established in the country. Second World War became a vital role for boosting the development of these industries. After Second World War, boom period stared in the growth of joint stock companies. As a result many joint stock companies were established. But many of them filed to operate successfully and went on liquidation, because they neglected the financial and marketing aspects of their industries.

After 1956's Nepal started planned economic development, effort to obtain rapid economic growth. Then the development of modern industries in the public sector started with Planned economic development. In our country various manufacturing companies have been established and developed through government efforts funding from NIDC to industries under various, five year development plants. But due to poor performance negative return, lack of efficiency, inefficient in management, government has emphasized on privatization, so that public enterprises could be competitive, efficient and profitable. By the help of private companies the government will reduce it's investment in public sector, which are incurring continuously at loss. Now, most of the modern industries are established under foreign aid in the public sector during various plan periods. This is mainly due to small size of market, lack of infrastructures high rate of return, alternative sources of investment, free and cheaper imports of it. As a result of it, growth rate of industrial sector has remained low. The new democratic government has adopted the economic liberalization. This policy has given higher priority to private sector to develop industries, and government has launching a privatization process for public sector industries are not new industries coming in public sector. For this purpose, new industrial has been changed new policy for foreign investment has been published. A total of 16 public enterprises have been privatized under different modalities in three phases. More enterprises are in the pipeline for privatization in the government policy and programs.[4]

So, industrialization is universally accepted as a strategy of economic development. It is the key factor in the process of achieving economic growth; prosperity has long been recognized

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[3] D. Bryle Muny Industrial Development Guide, Accelerating Economic Growth, New York. Mc Graw Book Company 1969 (P:3).
[4] Fatta Bahadur K.C., Economic Review, March 1999 Ossasional Paper – II, NRB, P. 15.

in economic literature. It offers, prospects for expansion of employment, income and generates innovations, technological changes that bring about shifts in production frontier, thereby accelerating growth and factor productivity. Industrialization by broadening the middle class and creating a new industrial work force.[5]

1.1.1 Working Capital Practices

Working capital management practices in Nepalese manufacturing enterprises provide totally a different picture. The past trend of many manufacturing companies had given emphasis infixed asset, so they are facing financial problem all the time, in result shows lower efficiency. The government policy to concentrate more on fixed assets has overlooked the financing of working capital. So in order to create the culture of risk bearing ability through commercial prudence and professionalism, the aspect of working capital should be treated in the same way as fixed capital, while deciding the structure of the manufacturing companies, recently short term financial decision has never received much attention in the literature of finance. Because of earlier emphasis of financial management, was more long-term financial decision, which led to growth and development of many useful theories concerning these decisions as compared to short-term financial decision.[6]

However in recent years in has been realized that the area of working capital intricately inter woven with cusses of failure of the such situation where shortage of funds for working capital has cased many business to fail and in less server caused has stunted their growth.[7]

Working capital is lifeblood of enterprises. The inefficient management of working capital will lead to loss of profits in the short run, but it will lead to down fall of the enterprises in the long run. In this sense, the cost of inadequate planning in the use of working capital in immeasurable. A deeper understanding of the importance of working capital and it's satisfactory provision can lead not only to material saving, as well as economic use of capital but can also assert in furthering the ultimate aim of business.[8]

So maintaining the optimal level of working capital in the crux problem as it's strongly related to the trade off between risk and return. In such circumstances an utmost care should be taken in the management of such assets, because in adequate investment, not only threaten the solvency of enterprise but also affects the growth. Setting optimal level of working capital requires and exercises of determining that level of current assets, where cost, cost of liquidity and illiquidity total is minimum. The aspect of determining appropriate proportion of working capital in the structure of total assets comes under the preview of working capital policy. The unnecessary blocking of working capital, administrative negligence in day to day

[5] Govinda Pd. Regmi, "Industrial growth in Nepal 1994, Oxford and IBH Publishing Co. Ltd. New Delhi, P.l.
[6], Radhey Shaym Pradhan, Management of Working Capital (New Delhi, National Book Organization, 1986).
[7] Grass Marthn, Control of Working Capital (EXSAX : Gower Press Limited 1972) p. XI – XIII.
[8] R Howard Lesli, Working Capital It's Management and control (Lodon, Mc Donald and Evans Ltd.,1971) P.I.

operation and serious liquidity problem are the main causes, to failure the manufacturing companies of Nepal. Most of Nepalese manufacturing companies are operating in loss, though they are following aggressive approach of working capital management.

1.1.2 Development of Pharmaceutical Industries in Nepal and Royal Drugs Limited

Nepal is rich in medicinal plans, so the Aurvedic system of medicine flourished here. However the gate for modern was open only after establishment of British Residency in Kathamanu in 1916, where a small hospital was established for the residency staff. The hospital also provided service to local people. The no. of hospitals gradually increased after the establishment of Bir Hospital in 1890. The concept of producing modern medicine in Nepal developed only after His Majesty's Government drafted a master plan for the utilization of medicinal plants in 1955 and implement in 1961. As per the plan Royal Drugs Research Laboratory (RDRL) was established in 1964, which along with various research activities started manufacturing modern pharmaceutical dosage form in 1968. The manufacturing unit of RDRL was converted into Royal Drugs Limited (RDL) in 1972 for commercial production of modern drug formulations.

Simpler effort was also mode to develop pharmaceutical industries in private sector. Establishment of Nepal pharmaceutical work Pvt. Ltd., ad Godawari, Lalitpur was unsuccessful, However, Chemi Drug Industries, first started productions of modern Aurvedic Drugs and later engaged mainly in the production of Allopathic Drugs.
Royal Drugs Ltd. was an inspiration for other interested persons to start drug industry, though lack of information and technical know-how has made the decade of 1970 as a decade of more failure and less success. Some of the factories started during the period and already closed. Five factories established during late-seventies.

With the establishment of department drug administration (DDA) in 1979 in accordance with the drug act 1978, an environment was created for drug industry. Many industries were started in late eighties and early nineties. RDRL the principal organization of HMG for scientific research testing and analyses of drugs, which was under the ministry of forest and soil conservation, was brought to under minister of Health in 1993. This has a positive impact to drug industry and better quality control of marketed drug has become possible. The laboratory in functioning under DDA with a completely new setup to function as national drug control laboratory.

1979, the year DDA was established, there were five pharmaceuticals in private sector. In 1972, total production of drugs including that RDL was worth about 2 million rupees whereas total consumption was estimated to be about Rs. 11.5 million, which means the about 27.28 established private, pharmaceutical industries in Nepal. So the contribution of

Nepalese pharmaceutical industries in increasing, not only in values but also in percentage of total consumption. Market share of Nepalese industries will still rise in coming years.

Scenario of Nepalese Pharmaceutical Industries.

Nepal is considered as a very good market for Pharma Industry. The 600 crore existing market in about estimated at NRs. our of which local industries shares harbly absorbs at NRs. 2 billion only.

With the advent of democracy in 1990 liberalization policies of HMG encouraged local entrepreneurs to venture in to the area of pharmaceuticals. Though 100 percent dependency on the imported drugs has been reduces to some extent but it is possible for indigenous industries to survive in face of stiff competition from foreign companies non protective policies of HMG and their final encounter with WTO.

At present there are around thirty three local drug industries registered with DDA. They are set up in the areas of Kathmandu. Bhatapur, Morang, Rupandehi, Dharan Bara and Birgunj keeping hygiene and clean atmosphere into consideration. Raw materials for the drugs are obtained from USA, India, China, Singapore and European Countries like Switzerland Netherlands, France and Germany etc.

Pharmaceutical Industries of Nepal

Ace laboratories (Nepal) Ltd.

Milan pharmaceuticals Pvt. Ltd.

Apex pharmaceuticals Pvt. Ltd.

National Healthcare (Pvt.) Ltd.

Arya Pharma Lab Pvt. Ltd.

Nepal Pharmaceuticals Lab Pvt. Ltd.

Asian Pharmaceuticals Lab Pvt. Ltd.

Nepal Veterinary Drug Industries Pvt. Ltd.

Birat Pharma Lab (Pvt.) Ltd.

Omnica Laboratories Pvt. Ltd.

Chemi Drug Industries

Pharmaceutical Company of Nepal

Concept Pharmaceutical Pvt. Ltd.

Pharmaco Industries (Pvt.) Ltd.

CTL Pharmacentials Pvt. Ltd.

Redox Pharmaceuticals

Curex Pharmaceuticals Pvt. Ltd.

Royal Drug Ltd.

Deurali Janata Pharmaceuticals (Pvt.) Ltd.

Shiva Pharmaceuticals Pvt. Ltd.

Everest Pharmaceuticals Pvt. Ltd.

Siddhartha Pharmaceuticals Pvt. Ltd.

Florid Laboratories Pvt. Ltd.

Simca Laboratories Pvt. Ltd.

G.D. Pharmaceuticals Pvt. Ltd.

Time Pharmaceuticals (Pvt.) Ltd.

Hukum Pharmaceuticals Pvt. Ltd.

Vijaydeep Pharmaceuticals

Lomus Pharmaceuticals Pvt. Ltd.

Denim Laboratories Pvt. Ltd.

Maitri Pharma Laboratories Pvt. Ltd.

Ultra Pharmaceuticals Pvt. Ltd.

Manoj Pharmaceuticals Works

Deurali Janta Pharmaceuticals Pvt. Ltd.

Glory Pharmaceuticals Distributors.

Unique Pharmaceuticals Pvt. Ltd.

Quest Pharmaceuticals Pvt. Ltd.

Source: (DDA)

1.1.3 Brief Introduction of RDL

Royal Drugs limited was established in 2029 (1972 A.D.) in the public sector in an undertaking of HMG of Nepal. The company has it's beginning in plans which formulated a program for the production and marketing of some medicines by RDRL within the department of medical plants, minister of forest. Later a separate production unit under the same laboratory was created with the help of technical assistance of the British Government in the form of expertise and equipment. After a successful trail period of four years in manufacturing and marketing of pharmaceuticals, the production unit was converted into a company in accordance with a company act.

Aims & Objectives

1. To produce & distribute safe & quality medicine.
2. To sale the medicine in a reasonable fair prices to the general public.
3. To make the country self sufficient in essential drugs.
4. To produce the varieties of medicine according to different climate zone.
5. To replace old varieties by new varieties of medicine as per market demand.
6. To deliver medicine in time.
7. To help the other social industries by using their products in productions & packaging areas.

Royal drugs limited produces and markets 30 clinical groups of medicines that consists of 70 preparations in 92 varieties in the form of tables, capsules, powders, liquids, ointments and inject able fields.

The health scene in Nepal is quite complicated where in we have to combat both old and new diseases. Health is a common concern of the government and health care team including the pharmaceutical industry. So, pharmaceutical industry plays key role in total health care. Hence need for a fair degree of integration of all technical functions, namely research and development, quality control is imperative. Royal drugs limited produce high quality medicines. It has it's own quality control laboratory with all necessary facilities required for testing product manufactured, raw materials, packing materials and every batch of products are tested according to pharmaceuticals standards before they are released for distribution by highly skilled personals trained at home and aboard.

The medicines of Royal Drug Ltd. are consistently gaining popularity can be seen it's trend of salves volume. It produces safe, officious, and quality medicines under GMP condition of international standards and markets them at reasonably fair prices. RDL are marketed through 60 stockiest appointed by company. It also supplies medicines directly to various hospitals, institutions and foreign agencies.

RDL is enthusiastic to encourage assist home industries. It provides priority to home products indigenous resources and services whenever required. RDL has been in profit since its establishment except FY 2046/47. At the period of establishment authorized Capital was 1 crore 50 Lakhs, paid up capital 63 lakhs 42 thousnad is now increased 1 crore 50 lakhs of authorized capital and paid up capital of 7 crore 55 lakhs. In which, NIDC absorbs the share of seven lakhs and rest of all share belongs to ownership of government. RDL has also invested as share to Nepal herbs production and processing company of amount 13 lakhs 2 thousands. It has risen up its assets to 75 million rupees and contributes a substantial amount to the government in the form of custom, duties, import licenses, income tax etc. Hundreds of people allover Nepal benefited from it directly in the form of distributors, retailers and as associates, apart employing about 600 persons.

RDL aims to meet the national demand of small volume injections. It has the entire infrastructure for the preparation of these products. It will try to arrange the financial assistance from donor agencies. Apart from these it has a plan of producing MCH drugs and also for cardio vascular drugs in near future.

Though RDL has played vital role for the development of pharmaceutical industries in Nepal. Due to increasing no. of private industries in pharmaceutical sector, as well as third country's pharmaceutical industries make the market competitive and challengeable. RDL has played pioneer role for successful pharmaceutical industry by manufacturing allopathic medicines. It has opened the eyes for the rest, who came into the picture later on. It has served the country for 33 years as a best as it could under different situations.

Progress Report of FY 2064/65 and Target Determinations

In fiscal year 2064/65. It has successfully and distributed drugs of amount of Rs. 14.47 crore. Now, in Fy 2065/66, it has targeted to produce and sell of amount Rs. 19 crore of production units of 21,50,00,000 units including tablets, capsules, syrup, ointment, powder suspension, IV fluids, Jeevanjal and ENT.

1.2 Statement of Problem

Working capital management becomes difficult in many organizations. In most enterprise the management of working capital has been misunderstood as the management of money and the managers are found over conscious about the burdening of money rather then it's efficient utilization. Regarding the management of working capital sources most of public enterprise have never been though seriously. They are usually found to depend upon HMG even for overcoming the shortages of Working Capital in spite of trying to manage Working Capital needs form their own source, some of PES have used depreciation fund and utilized surplus to overcome of working capital.[9] Working capital management has been the most challenging area of modern corporate finance is as much as the management always faces a trade off between liquidity and profitability of firm[10].

The deficiency working capital practices, administrative Negligence in day to operation. Serious liquidity problem lower turnover of assets, negative rate of return, inappropriate

[9] Dr. K. Acharya " Problem and Implementattions in the working capital in Nepalease Enterpries (Bulletin ISC Vol. 10 3, Jan-March 1985)P.5

[10] Dr. K. Acharya " The Management of working capital in Public Enterprises of Nepal (Nepalease Development Studies 1988 P.4

financing policy are major problem of PEs of Nepal. Moreover various factors have been affected for low financial performance.

Practice that there is lack of appropriate assets mix policy. So under such circumstance improvement in the financial performance of Nepalese manufacturing PES can hardly imagined. Similarly is the problem fact by RDL over viewing financial statements of the Ltd. It has been that working capital of management is not satisfactory and encouraging. Very high levels of current assets are maintained. Though it shows the good liquidity position but badly affect the profitability position of the Ltd. in the long run. It is nothing, due to poor working capital management. The financial statements also shows, that level of current assets are not only increasing but also fluctuating widely during the study period

Of the current asset, inventory holds higher percentage than other current assets. Cash and bank balance has been increasing decreasing trend in the study period. Similarly volume of receivable is also fluctuating widely. The huge volume of idle cash balance of the company contributes for lower profitability. The turnover of receivable is also fluctuating. The balance a sheet of the factory clearly shows that, factory is running at lost, in most of the study period. It is nothing due to poor working capital management and adoption conservation approach of working capital policy.

Following are the research problems of this study.

i. Finding the relation of current Asset to Total Asset & current liabilities.
ii. Measuring the ratios (Profitability, Liquidity, Leverage & Turnover) with standard form.
iii. Findings of Proper investment in each type of working capital.
iv. Comparing the sound liquidity position of RDL during nine years.
v. Following appropriate working capital with reference to risk return trade off.
vi. Measuring the overall profitability of firm satisfactory.
vii. Showing the appropriateness of inventory conversion, receivable conversion and ultimately cash conversion cycle.
viii. Comparing the statistical extract.

So the researcher attempts to have an inside over the problem of Working Capital Management of RDL.

1.3 Objective of Study

The main objective of this study is to examine the overall working capital management of Royal Drugs Ltd. To achieve this basic objective, the following specific objective has also been considered in the study.

Research questionnaire

i. Whether the current assets management and present financial picture RDL is favorable or not?
ii. Whether the current Assets to total assets is in standard form or not?
iii. Whether the current assets to Net fixed Assets is in favorable condition or not?
iv. Whether the relation cash & Bank balance current asset & total Assets is good or not?
v. Whether the inventory to current assets and Total Assets is in good condition or not?
vi. Whether the receivable to current Assets and Total Asset is far curable or not?
vii. Whether the current Assets Turnover is far curable or not?
viii. Whether the Net working capital Turnover, cash Turnover, Receivable Turnover, Inventory Turnover is favorable or not?
ix. Whether the current ratio, quick ratio, Gross profit margin, net profit margin & operating ratio is favorable or not?
x. Whether return on Total Assets, Return on Net worth & return on Net working capital is favorable or not?
xi. Whether statistical findings show favorable condition to the RDL or not?

1.4 Need of Study

Working Capital is a firm's investment in short-term assets. It involves a large portion of the firm's total assets as more than half the typical firm's total investment is in current assets.

Need of the study is important for these reasons.

i. A large proportion of the financial manager's time is allocated to working capital management.
ii. More than half of the total assets are typically invested in current assets.
iii. The relation between sales growth the need to invest in current assets is close direct.
iv. Investment is fixed assets may be reduced by resting or leasing, but in inventories and receivable is usually unavoidable.

Working capital is the most crucial area in enterprise management because many instances have shown that regardless of excellent products, efficient marketing, efficient production, wide fixed assets management may a management has lost the control of its firm because liquidity crises resulted in takeover by creditors forced merger or bankruptcy[11]. So inquire into the efficient of current assets management and it's association with their financial performance of manufacturing enterprises in Nepal. In the present contest, the study is timely relevant.

[11] Burton, A, Colb Principles of Financial Management (Texas Business Publications 1983) P

Hence, this study wills diagnosis the relationship of working capital management to the efficiency of the RDL enterprise as a whole. It will also be helpful for new management to the efficiency as well as profitability with proper management of working capital and it's components.

1.5 Limitations of Study

Data collection of related field is very difficult in Nepal. In order to make a study on such topic more fruitful. It is essential that should be of frequent time intervals. Here, again such type of monthly, quarterly, half yearly, could not be obtained. Due to this, study has been forced to use annual data, which are available in financial statements i.e. profit and loss account, balance sheet.

The study is:

i. Limited to working capital management of RDL.
ii. Basically that of financial statement provided by the RDL are used analysis, hence they are secondary in nature. Some how the researcher has tired to analysis the primary data as receive from questionnaire, interview have with related personal of RDL.
iii. The study period is limited only to 9 fiscal year from 2056/57 to 2064/2065
iv. Mainly financial tools are embodied for analyzing the working capital, management of RDL.
v. Above, all there is time constraint, as it only a study to fulfill, partial requirement of confining MBS degree.

1.6 Research Methodology

This study is conducted on the basis of secondary data. The data is analysized with the help of both financial and statistical tools. Before presenting the analysis and interpretation of data, it is necessary that research methodology be described first. In the absence of methodology, it is likely that the conclusion drawn may be misunderstood. “Research methodology is a way to systematically solve the research problem”[12]. This study is basically a descriptive research.

Population and Sample (Random Sampling)
Statistical tools
Arithmetic mean (X)
The coefficient of variation (CV)
Standard deviation (sd)
Linear trend analysis
Financial tools
Liquidity ratio

[12] Kothari, C.R., “Research Methodology, Method and Technique”. Willey Eastern Ltd., 1st Ed. New Delhi, 1990. 10

Activity ratio
Profitability ratio
Leverage ratio

1.7 Organization of study

The study will be organized in five chapters. The title of each chapter is as follows.

Chapter one :- Introduction
Chapter two :- Review of Literature
Chapter three :- Research Methodology
Chapter four :- Presentation and analysis of data
Chapter five :- Summary, Conclusion and Recommendations.

Chapter one contains: Introductory matters, which describes the general background, objectives of the study, statement of the problem, need of study, hypothesis formulation and limitation of study and organization of overall study.

Chapter two deals with the concepts of working capital management and related aspect of it. It also improved need of working capital important determents and policy related to it and also deals with review of literature relating to working capital management. It has organized into three sections one contains the review of books related to working capital, section 2 contains, the review previous related research studies, International studies, and lastly the review of local studies and dissertations.

Chapter three contains methodology employed in the study. In includes the introduction, research design, nature, source of data, and tools of analysis and definition of key terms.

Chapter Four contains the presentation and analysis of data through the way of designed methodology from analysis interpretation, major findings have been deduced.

Chapter Five lastly, summary, conclusions, and recommendations of the study have been presented.

A bibliography and appendix have also been included in the last part of the study.

CHAPTER TWO
REVIEW OF LITERATURE

2.1 Conceptual Framework
2.1.1 Introduction
Working capital management refers to the proper management of firm's current assets and current liabilities. It is concerned with all decisions and acts that influence the determination of the appropriate level of current assets and their efficient use as well as the choice of the methods of financing them, keeping in a view of liquidity. It is needed to run the organizations, day to day in an efficient manner. Thus working capital and total current assets are synonymous. It is also called circulating capital, since it keeps on circulation, the course of business operation. Business starts with cash, which is converted into inventory after sometime. Inventory may be of raw materials, semi-finished goods, and finished goods. The inventory is converted into receivables and receivables into cash-again. Thus the cycle becomes complete. This kind of cycle keeps on operating the organizations. The length of cycle would different, defending upon the nature of business. Generally cycle would be short for non-manufacturing company.

Working capital is controlling nerve of business organizations. The terms working capital of ten is used to refer the firm's current assets (Primarily cash, marketable securities, account receivable, and inventories). Working capital refers to the fact that most of it's components very closely related with the label of production and sales working capital referred to as short term finance. Gross Working Capital refers to firm's total current assets. Net working capital to current assets minus current liabilities. Working capital, may be defined assets held for current use within a business less the among due to those await settlement in short term in whatever form. This idea embraces the recurring transaction from cash to inventories to receivables to cash that form, the conventional chain of business operations. Funds employed for short-term short term are mainly for working capital or operational business. Towards the day-to-day operation, a firm will have to provide money towards, the purchase of raw materials, payments of wages and salaries, to extend credit to buyers of goods as well as to meet other day to operations. Working capital management is concerned with the problems that arise in attempting manage the current assets, current liabilities and inter relationships that exist between them. The current assets refers to those asset which in the ordinary course of value and without disrupting the operation of the firm. The major 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 current assets or earnings of the concern. The basic current liabilities are bills payable capital overdraft outstanding expenses. The goal of working capital management is to manage the firm's current assets and current liabilities in such a way that the satisfactory level of WC is maintained.

The two concepts of working capital, gross and net are not exclusive; rather they have equal significance from management viewpoint. The gross working capital concept focuses attention on two aspects of current assets of management (a) optimum investment in current assets (b) Financing of current assets.

2.2 Concepts of Working Capital

There are two concepts of working capital: gross and net.

The term "Gross working capital" also referred to as working capital means the total current assets. Similarly, "Net working capital" can be defined in two ways: (I) the most common definition of net working capital (NWC) is the difference between current assets and current liabilities; (II) and alternative definition of NWC is that portion of a firm's current assets which is financed with long 0 term funds.[13]

WC has to be regarded as one of the conditioning factors in the long-run operations of firm which is often inclined to treat it as and issue of short-run analysis and decision-making. WC management involves deciding upon the amount and composition of CA and how to finance these assets.[14]

There are two concepts of working capital-gross concepts and net concept. Gross WC, 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) and include cash, short-term securities, debtors, bills receivable and stock (inventory). Net working capital refers to the different between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected for payments within an accounting year and include creditors, bills payable and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital will occur when current liabilities are in excess of current assets.[15]

The two concepts of working capital-gross and net are not exclusive; rather they have equal significance from management viewpoint. The gross working capital concepts focus attention on two aspects of current assets management. (a) Optimum investment in current assets and (b) financing of current assets. The consideration of the level of investment in current assets should avoid two-danger points-excessive and inadequate investment in current assets. Investment in current assets should be just adequate, nor more not less, to the needs of the business firm. Excessive investment in current assets should be avoided because it impairs firm's profitability, as idle investment earns nothing. On the other hand, Inadequate amount of current assets can

[13] Gitman, L.J. Principles of Managerial Finance, (New York : Harper and Row, 1976), p. 150.
[14] S.C. Kuchhalm Corporation Finance, (Allashabad : Chaitanya Publishing House, 1981), p. 128
[15] I.M. Pandey, Financial Management,(New Delhi : Vikas Publishing House Pvt. Ltd. 1994), p. 665

threaten solvency of the firm, if it fiats to meet its current obligations. It should be realized that the working capital needs of the firm might be fluctuating with changing business activity. This may cause etches or shortage of working capital frequently. The management should be prompt to initiate an action and correct imbalances.[16]

The definitions described above convey in some way or other, the same meaning. They virtually represent the characteristics of the WC. It seems that there is consensus on the following special characteristics of the WC.[17]

a) Short Life: - WC is characterized by assets with a life span of less than 1 year such as cash marketable securities, accounts receivable, and inventories etc. This short life span leads to high volatility in the level of investments required to finance WC.
b) Nearness to cash or liquidity:- This basic characteristic constitutes the first line of defense against technical insolvency. Cash is the most liquid assets haring zero conversion time and 100 percent conversation rate. But for inventory and marketable securities two factors i.e. (I) nearness to cash or amount of time required to convert assets into cash, and (II) Price realized on conversion must be considered.
c) Lack of synchronization: Since the enterprise cannot produce on order only and cannot insist on cash payments there is always the problem of synchronization in cash receipts and disbursements. It is also due to the level of investments in WC that is affected by the sales volume, production policies and collection policies.

   The basic characteristics of WC as mentioned above indicate that it is a term of capital intended to be kept moving or circulating and its potential for earning comes from movements. Though the expenditure can be controlled and planned its income is usually subject to random variation and is not controllable.[18]

2.2.1 Determinants of Working Capital

Manufacturing enterprises need higher volume of WC as compared to public utility enterprises. But quantitative amounts of WC needed to such enterprises can hardly be set due to the following environment that affects WC needs of a particular enterprise.

i) Manufacturing cycle:- It has a great impact on the WC needs because the shorter the manufacturing periods and efficiency in production, the lesser the need of WC to finance in WC and vice versa.
ii) Business fluctuation:- The situation whether an enterprise is operating in the bloom or recession and depression period also determine the WC needs of the enterprise.

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16 I.M. Pandey, Ibid, p. 665
17 Lqbal Mathu, Introduction to Financial Management (New York : Madmillan Publishing Co. Inc. 1979) p. 96-97
18 J.S. Gollaghar, "Working Capital Management Seminar Cum Workshop on Financial Management" CEDA, T.U., Kathamdnu.

iii) Production Policy:- The policy whether to follow uniform and level production plan or varying production plan determines the WC needs of the individual enterprise. Naturally, a firm following uniform production policy requires higher amount of WC and vice versa.

iv) Credit policy and availability of credit:- It funds are readily available from banks or credit facilities or it follows conservative sales policy then such firm needs lesser amount of WC and vice versa.

v) Growth and expansion activities:- The volume of assets or sales as well as expansion activities of the enterprises have direct bearing upon the needs of WC. The higher the volume and expansion activities, the higher the needs of WC and vice versa.

vi) Turnover of circulating capital:- How frequently and rapidly the working assets are converted into cash also determines the need of WC. And such turnover is determined by demand and sales policy of the particular enterprise.

vii) Competitive conditions:- An enterprise dominating in the market without having keen competition may be in a favorable situation for keeping less amount of WC.

viii) Price levels change:- Generally rising price levels will required a firm to maintain higher amount of WC. Same levels of CAs will need increased investment when price increase.

ix) Operating Efficiency:- Higher the operating efficiency lower will be WC and vice versa.

x) Others:- Factors such as coordination between production and distribution activities, conservative dividend policy as well as liberal depreciation policy strengthen the WC position of the enterprise.

John J. Hampton has suggested that a firm's working capital requirement is affected by four factors, which are as follows.[19]

Source of Changes in WC Needs

Source of change	**Working Capital Affected**	**Reason**
Sales Volume	Permanent	Different level of cash receivable and inventory need at new sales level.
Seasonal and cyclic factors	Variable	Receivable and inventory must be available on temporary basis.
Technology	Permanent	Level of inventory must support the new production capability.
Policies of firm	Permanent and variable	Some policies tie up working capital others free it.

2.2.2 Sources of Working Capital

[19] John J. Hamption, Financial Decision Making Concept Problem and Cases, (New Delhi : Prentice Hall of India Pvt. Ltd. 1986) p. 222.

Depending upon the timely needs of WC two different sources can be used to finance the WC needs of any enterprise.

a) For regular or permanent WC:- The issue of shares and debentures.
b) For variable or Seasonal WC:- Depending upon the volatile nature of the enterprise activities the following sources can be used a finance such WC indigenous bankers, commercial banks, public deposits, retained earning or ploughing back of profits and special finance corporations.

2.2.3 Working Capital Policy

The components of WC constitute the current assets and they're way financing i.e. current liabilities. The term current assets refers to those assets which is the ordinary course of business can be or will be turned into cash within one year without undergoing a diminution in value and without disrupting the operations of the firm.[20]

In an enterprise the level and quality of current assets and current liabilities is guided by the WC policy and management adopted by it. WC management involves all aspects of the administration of current assets and current liabilities.[21]

In other words, WC management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationships that exist between them.[22] But WC polices concerned with two sets of relation among balance sheet item.[23] The first policy question concerned the relationships among type of assets and the way these assets are financed. The second policy questions deals with the determination of the level of total Cash be hold.

The crux of the problem whole formulating working capital policy is to maintain optimality on (a) the level of investment is Cash and (b) The financing of current assets. There should be optimum investment in the level of current assets because excessive or idle investment in current assets earns nothing to the enterprise and consequently affects the profitability. On the other hand, inadequate level of investment in current assets threatens the solvency of the enterprise if it fails to meet obligation when they become due. So, WC policy should be designed to overcome such imbalance when they arise.

[20] M.Y. Khan and P.K. Jain Financial Management (New Delhi : Tata Mc Graw Hill Publishing Co. Ltd. 1993) P. 604.
[21] J.F. Western and E.F. Brigham, Op. Cit. P. 284
[22] K.V. Smith, Management of / Working Capital, (New York : West Publishing Company, 1974) P. 5.
[23] J.F. Weston and E.F. Brigham, op. Cit., P. 284

In the same way the financing aspects of currents should not be over looked in its management. Because whether to use long term or short-term funds to finance currents have significant impact on an enterprise risk or return, liquidity and profitability. As it is known funds long term as well as short term- involve cost. And cost of financing is a deciding factor in the use of type of funds in any enterprise.

Generally short-term funds have lower cost of financing and are preferred to be used in currents. But it may hold good always. Because depending upon the nature of management towards risk, liquidity and profitability, the enterprise can adopt one of the varieties of approaches to fit its particular WC financing requirements. The following are the main approaches of financing the WC need of the enterprise.[24]

a) Aggressive Approach

In the approach variable as well as a portion of permanent current assets is financed through short-term borrowing. Some aggressive firms may even finance a part of their fixed assets with short financing.[25] Hence, this sort of mix financing increases the profitability and exposes towards risk by financing relatively larger portion of its assets through lower cost short term borrowing.

Time

AGGRESSIVE FINANCING

[24] Iqbal Mathur, Introduction to Financial Management, (New York : Machmillan Publishing Co. Inc. 1979)
[25] I.M. Pandey, Op. Cit. P. 684

b) Conservative Approach

The financing policy of the firm is said to be conservation when it depends more on long-term funds for financing needs. Under a conservative plan, the firm finances its permanent assets and a part of temporary current assets with long term financing. Thus, in periods when the firm has no temporary current assets, it stores liquidity by investing surplus funds into marketable securities. The conservative plan relies heavily on ling term financing and therefore, is less risky. The conservative financing policy is shown in Fig.2. Note that when the firm has no temporary current asset e.g. at (a) and (b) the long-term funds released can be invested in marketable securities to build up the liquidity position of the firm.[26] It is less risk approach resulting lower returns.

Time

CONSERVATIVE FINANCING

c) Hedging or Matching Approach

The firm can adopt a financial plan, which involves the matching of the expected life of assets with the expected life of the source of funds raised to finance assets. Thus, a ten-year loan may be raised to finance a plan with an expected life of ten years; stock of goods to be sold in thirty days may be financed with a thirty- day bank loan and so on. The justification for the exact matching is that, since the purpose of financing is to pay for assets, the financing should be relinquished when the assets is expected to be relinquished using long term financing for short-term assets is expensive as funds will but

[26] I.M. Pandey, Op. Cit. P. 384

be utilized for the full period. Similarly financing long-term assets with short-term financing is costly as well as inconvenient as arrangement for the new short-term financing will have to be made on a continuing basis.[27] This approach of WC management entails moderate risk with moderate returns.

Conclusion

Conservative or loose WC 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 follows the minimum way between aforementioned two extreme working capital policies.

Putting it all together

a) Aggressive	b) Conservative	c) Matched
Assets Liabilities	assets liabilities	assets liabilities
and Equity	and Equity	and Equity

Source:- (George E. Pinches: Essential of Financing Management)
Alternative working capital policies

[27] I.M. Pandey, Op. Cit, P. 683

2.2.4 The Cost Trade-off

WC management involves decision upon the amount and composition of current assets and how the finance these assets. The relative proportion of liquid assets the lesser the risk of running out of cash of all other things are equal. Profitability, unfortunately, also will be less. The longer the composite maturity schedule of securities used to finance the firm the less the risk of cash insolvency, all other things being equal. Again the profits of the firm are likely to be less. Resolution of the trade off between risk and profitability with respect to these decisions depend upon the risk preference of management.[28]

Minimum Cost

2.3 Permanent and Variable Working Capital

The need or current assets arise because of the operating cycle. The operating cycle is a continuous process and, therefore, the need for current assets if felt constantly. But the magnitude of current assets needed is not always same, it increase and decrease over time. However, there is always a minimum level of current assets, which is continuously required by the firm to carry on its business operations. This minimum level of current assets is referred to as permanent, or fixed, working capital. It is permanent in the same way as the firm's fixed assets are. Depending upon changer in production and sales, the need for working capital, over and above permanent working production and sales, the need for working capital, over and above permanent working capital, will fluctuate. For example, extra inventory of finished goods will have to be maintained to support the peak periods of the sale and investment in receivables may also increase during such periods. On the other hand, investment in raw material, work in process and finished goods will fall if the marker is slack.

The extra working capital, needed to support the changing production and sales activities, is called fluctuating, or variables or temporary, working capital. Both kinds or working capital-permanent and temporary- are necessary to facilitate production and sale through the operating cycle, but temporary-working capital is created by the firm to meet liquidity requirements that will last only, temporarily. Figure a illustrates difference between permanent and temporary

[28] I.M. Pandey, Op. Cit. P. 680.

working capital. It is shown in Figure that permanent working capital is stable over time, while temporary working capital is fluctuating- sometimes increasing and sometimes decreasing. However, the permanent working capital line need not be horizontal if the firm's requirement for permanent capital is increasing (or decreasing) over period. For a growing firm, the difference between permanent and temporary working capital can be depicted through Figure a.

2.4 Adequacy of Working Capital

The firm should maintain a sound working capital position. It should have adequate working capital to run its business operations. Both excessive as well as inadequate working capital positions are dangerous from the firm's 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 also results in production interruptions and inefficiencies.

The dangers of excessive working capital are as follows:

* It results in unnecessary accumulation in inventories. Thus, chances of inventory mishandling, waste, theft and losses increase.

* It is and indication of defective credit policy and slack collection period. Consequently, higher incidence of bad debts results, which adversely affects profits.

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

Inadequate working capital is also bad and has the following dangers;

* It stagnates growth; it becomes difficult for the firm to undertake profitable projects for non-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 renders the firm unable to avail attractive credit opportunities etc.

* The firm loses its reputation when it is not in position to honor it short-term obligations. As a result, the firm faces tight credit terms.

An enlightened management should, therefore, maintain a right amount of working capital on a continuous basis. Only then a proper functioning of the business operations will be ensured. Sound financial and statistical techniques, supported by judgment, should be used to predict the quantum of working capital needed at different time periods.

A firm's net working capital in not only important as an 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. Lender considers a positive net working as a measure of safety. Lenders such as commercial banks insist that the firm should maintain a minimum net working capital position.

2.5 Dimensions of Working Capital Management

It has emphasized that the firm should maintain a sound working capital position, and that there should be optimum investment in working capital. Thus, there is an unavoidable need to manage working capital well. Working capital management refers to the administration of all aspects of current assets, namely cash, marketable securities, debtors and stock (inventories) and current liabilities. The financial manager must determine levels and composition of current assets. He must see that right sources are tapped to finance current assets, and the current liabilities are paid in time.

There are many aspects of working capital management, which make it an important function of the financial manager.[29]

* Working capital management requires much of the financial manager's time.
* Working capital represents a large portion of the total investment in assets.
* Working capital management has greater significance for small firms.
* The need for working capital is directly related to sales growth.

Empirical observations show that the financial managers have to spend much of their time to the daily internal operations, relating to current assets and current liabilities of the firms. As the largest portion of the financial manager's valuable time is devoted to working capital problems, it is necessary to manage working capital in the best possible way to get maximum benefit.

Investment in current assets represents very significant potion of the total investment in assets. This clearly indicates that the financial manager should pay special attention to the management

[29] J. Fred Waston and F. Brigham Eugene, Managerial Finance, Illionis : Dryden Press, 975, P. 123-124

of current assets on a continuing basis. Actions should be taken to curtail unnecessary investment in current assets.

It is particularly very important for small firms to manage their current assets, but it has to invest in current assets. Small firms in India face a severe problem of collecting their book debts (receivables). Further, the role of current liabilities in financing current assets if far more significant in case of small firms, as, unlike large firms, they face difficulties in raising long-term finances.

There is a direct relationship between sales and working capital needs. As sales grow, the firm needs to invest more in inventories and debts. These needs become very frequent and fast when sales grow continuously. The financial manager should be aware of such needs and finance them quickly. Continuous growth in sales may also require additional investment in fixed assets, but they do not indicate same urgency as displayed by current assets.

2.6 Estimating Working Capital Needs

A number of methods, in addition to the operating cycle concept, may be used to determine working capital needs in practice. Here three approaches which have been successfully applied in practice:

* Current assets holding period: The working capital requirements on the basis of average holding period of current assets and relating them to costs based on the company's experience in the previous years.

* Ratio of Sales: To estimate working capital requirements as a ratio of sales on the assumption that current assets change with sales.

* Ratio of fixed investment: To estimate working capital requirements as percentage of fixed investment.

2.7 Need for Working Capital

The need for working capital to run the day-to-day business activities cannot be overemphasized. It is known that aim at maximizing the wealth of shareholders. In its endeavor to maximize shareholders' wealth, a firm should earn sufficient return from its operations. Earning a steady amount of profit requires successful sales activity. The firm has to invest enough funds in current assets for the success of sales activity. Current assets are needed because sales do not convert into cash instantaneously. There is always an operating cycle involved in the conversion pf sales into cash.

Operating Cycle

There is difference between current and fixed assets in terms of their liquidity. A firm requires many years to recover the initial investment in fixed assets such as plant and machinery or land and buildings. On the contrary, investment in current assets such as inventories and book debts (accounts receivables) is realized during the firm's operating cycle, which is usually less than a year.[30]

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

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

These phases affect cash flows, which most of the time, are neither synchronized nor certain. They are not synchronized because cash outflows usually occur before cash inflows. They are not certain because sales and collections, which give rise to cash inflows, are difficult to forecast accurately. Cash outflows, on the other hand, are relatively certain. The firm is therefore required to invest in current assets for a smooth, uninterrupted functioning. It needs to maintain liquidity to purchase raw materials and pay expenses such as wages and salaries, other manufacturing, administrative and selling expenses and taxes as there is hardly a matching between cash inflows and outflows. Cash is also held to meet any future exigencies. Stocks of raw material and work-in-process are kept to ensure smooth production and to guard against non-availability of raw material and other components. The firm holds stock of finished goods to meet the demands of customers on continuous basis and sudden demand from some customers. Book debts are created because goods are sold on credit for marketing and competitive reasons. Thus a firm makes adequate investment in inventories and book debts for a smooth and uninterrupted production and sale.

The length of the operating cycle of a manufacturing firm is the sum of: (i) inventory conversion period (ICP) and (ii) book debts conversion period (BDCP). The inventory conversion period is the total time needed for producing and selling the product. Typically, it includes: (a) raw material conversion period (RMCP), (b) work-in-process conversion period (WIPCP). And (c) furnished goods conversion period (FGCP). The book debts conversion period is the time required to collect outstanding amount from customers. The total of inventory conversion period and book debts conversion period is sometimes referred to as gross operating cycle (GOC).

[30] Moyer, R.C. et. al., Contemporary Finance Management, West Publishing Co., 1984, P. 562.

pay- credit

purchases collection

ment sales

RMCP+WEPCP+FGCP

Inventory Conversion period Receivables conversion price

payables Net operating cycle

Gross operating

cycle

Fig. 1. Operating Cycle a Manufacturing Firm

In practice, a firm may acquire resource on credit and temporarily postpone payment of certain expenses. Payables that the firm can defer are spontaneous sources of capital to finance; investment the length of time the firm is able to defer payment on various resource purchases. The difference between (gross) operating cycle and payables deferral period is net operating cycle (NOC). It depreciation is excluded from expenses in the computation operating cycle, the net operating cycle also represents cash conversion cycle. It is net time interval between cash collections from sale of the product and cash payments for resources acquired by the firm. It also represents time interval over which additional funds, called working capital, should be obtained in order to carry out the firm's operations. The firm has to negotiate working capital from sources such as commercial bank. The negotiated sources of working capital financing are called non-spontaneous sources. If net operating cycle of a firm increases, it means further need for negotiated working capital.

The term working capital is concerned only with the management of current assets and current Liabilities. It is controlling nerve of business. So success or failure of any enterprises depends upon it. So far as the management of working capital in Nepalese manufacturing enterprises is concerned. Different management experts and student of MBS, deriving the working capital management of various enterprises, have undertaken a number of studies. Now, in this chapter the main focus will be on review of literature. Moreover in order to make this study more comprehensive it is important to go through relevant literature.

The purpose of this chapter is to provide an insight into working capital management and give a bird eye view of different experts thought regarding the theory of working capital and it's implications. Whole doing review of related literature of working capital management the researcher has gone through the different financial books bulletins, documents, reports and journals. Thus this chapter aimed at reviewing an available literature of working capital management in the context of Nepalese manufacturing companies.

They are organized as follows.

Review of Research Studies
Review of International Studies
Review of word studies
Review of Dissertations

2.8 Review of research Studies

It is also important to review the relevant research studies relating to working capital to add input in this study.

In this regard the review has been arranged in two ways.

(i) Review of international studies
(ii) Review of local studies.

2.8.1 Review of International Studies

It makes more relevant and to add input in this study some international studies are also reviewed below.

As it is not possible to estimate working capital needs accurately, the firm must decide about levels of current assets to be carried. The current assets holdings of the firm will depend upon working capital policy. It may follow a conservative or on aggressive policy. These policies have different risk return implications.[30] The financial manager should determine the optimum level of current assets so that the wealth of shareholders will be maximized. In fact Optimum level of each type of current assets should be fixed.[31] To find out corporate bankruptcy, Zeta mode was developed by Altman and other.[32] The authors extended the z core model to include, among other things, the capitalization of leases, and they updated it's application. A sample of 53 among bankrupt firms and 58 non-bankrupt firms were employed. Manufacturing and for the first time any study retailing companies were included. On the basis of discriminatory ability, 27 original variables were reduced to 7:the rectum on assets ratio, the stability of earning, the current ratio, the common equity to total capital ratio, and the size of total assets using the linear discriminate model, the authors were successful in predicating bankruptcy up to 5 years prior to failure. Successful classification ranged from 96 percent 1 year before failure to 70 percent 5 years before to failure, 0a better performance than the z 0s0core model. Both quadratic and linear models were tested, with the linear function winning out.

2.8.2 Review of Local studies

Besides reviewing of international studies some local studies are also reviewed in this study such as journal /articles, various published articles by different management experts relating to working capital management.

Prof. Dr. Manohar Krishna Shrestha[33] in his study "Working capital management in this public enterprises" states that manager often lacks basic knowledge of working capital and it's overall impact on the operative efficiency and financial viability of public enterprises. The study has been based on sample of ten public enterprises i.e. Birgunj sugar Factory, Janakpur Cigarette factory, Raghupati jute mills, Development corporation, national Trading Ltd., Royal drugs Ltd. National construction company of Nepal, Harisiddhi Brick and Tile factory Nepal, cheery Ghee industry Ltd. And chandesowori textile factory Ltd. The study has pointed at certain policy flows such as deficient financial planning, neglect of working capital management deviation between liquidity and turnover etc. He has suggested some measure for their effective funds, determination of management information system, and determination of sound combination of short term and long-term source to finance working capital requirements.

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30 [Ve]n Horme. james C., "A Risk- Reutrn Analysis of a Firm's working Capital Positions", Engineering Economist. Oct. 1970, P. 50-58.

31 E.W. Walker. "Towards a theory of Working Capital" , Engineering Economist, jan- FEb, 1946,P. 21-35.

32 Edward I. Altman, Robert G. Haldmanad P. Narayanan, "Zeta Analysis: A New Model to Identify Bankruptcy Risk Corporations" journal of Banking and finance. june 1997,P. 29-54.

33 Dr. Manohar Krishan Shrestha, "Working Capital Management in PEs.

Prof. Dr. Manohar Krishna Shrestha[34] found that receivable turnover calculated varied, from lowest record of 0.09 times 1 to the highest level of 25.7 times and was less than favorable in selected PEs of Nepal. And those revealing favorable turnover have still faced problem of managing account receivables. He pointed that PEs did not record a cautions policy to improve collection that would have helped a lot in raising the receivable turnover. The average collection period recorded a variation from a minimum 14 says to the maximum of 4027 days. In the same way the aging schedule of PEs has uniform patterns and the outstanding receivable in many instances were very old even exceeding ten years or so forth. It was groped under above three years old receivable. In the selected enterprises the ration of receivable CAs varied from a minimum of 0.15 time 1 to maximum 0.9 timed 1. He also found that most of the PEs has larger share of receivable to CAs. In most of them extension of additional relaxed credit was a usual phenomenon and they did not have larger amount of receivable outstanding. They had not taken seriously the task to speed up the collection of long outstanding receivable by devising suitable credit monitoring policy. The study, thus, concluded that determining the desired investment in account receivable was least considered in most of the PEs, A comparative study of "problems in management of WC in Nepalese enterprise" has been conducted by Achary[35] a states that of Nepalese enterprises the management of money and managers are found over conscious abut receiving of money rather than it's efficient utilization. Thus the existing problems in the finance are mostly directed towards the management of WC rather than in any area. In his number of studies it has been repeatedly found that the gross inefficiency exist in the operation of public enterprises. He has stressed on high cost of production, which have left these PEs in less secured position. Thus he further added the cost reduction is the only possible measure for smooth operation and long-term existence of the public enterprises in Nepal. The cost reduction program is highly associated with the optimization of working capital. He has focused some operational and organizational problems of Nepalese PEs not following traditional norm 2; 1 between their CAs and CLs, low rate of inventory turnover, change in WC in relation to fixed capital has very low impacts over the profitability not following conventional of debt equity as 1:1; then transmutation of capital employed into sales management information, ineffective use of performance evaluation tools and techniques and WC management has never been considered a managerial job.

Similarly, he has suggested that PEs finance staff must be acquainted with the modern scientific tools used for the presentation and analysis of data. He further suggests avoiding the system of crisis decision, which prevailed frequently in their operation. They have to follow system and method for decision-making. Lastly he has given emphasis to optimize its level of investment at a point of time. Neither over nor under investment in WCs desired by

[34] Prof. Dr. Manohar Krishna shrestha, "Receivables Management in selected PEs prashasan" , The Nepalese journal of ublic Administration. Ministry of General administration, Laltipur, March 1987,p. 73-88.

[35] Dr. k. Acharya "problems and Immpiments in the Management of WC in Nepalese.

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

This study is descriptive in nature. He has not used any data and research tools. The study has covered Nepalese PEs (but not mentioned the name of PEs.) Each selected enterprise does not represent the entire industry in which it fails. Pradhan[36] in his study aims at examining the various aspects of management of WC is selected manufacturing PEs of Nepal. The specific objectives undertaken in his study are:-

1. To conduct risk return analyzes of liquidity of working capital position.
2. To assess the short-term financial liquidity position of the enterprises.
3. To asses the structure and utilization of WC and
4. to estimate the transactions demand function of working capital and it's various.

His study has mentioned the following findings.

1. It has found that most of the selected enterprises have been activating a trade off between risks and return there by following neither an aggressive nor a conservative approach.
2. It has showed a poor liquidity of most of the enterprises. This poor liquidity position has been noticed as the enterprises have either negative cash flows or negative earnings before tax or they have excessive net current debts which cannot be paid with in a year.
3. The Nepalese manufacturing PEs have on a average half of their total assets in the form of CAs, of all the different components of CAs the share of inventories in total assets, on an average, is largest followed by receivable and cash in most of the selected enterprises.
4. The economics of scale have been highest for inventories followed by cash and gross WC, receivable and net WC.
5. The regression results also shows that the level of WC and its components and enterprises desire to hold depend not a sales but on holding costs also.

His study is the concerned with interrelationships that exist between managing CAs and CLs. The study manages to focus on net working capital concept. The study has employed ratio analysis discriminate analysis and econometric models for its analysis.

This study does not cover all the PEs in manufacturing sector. Each selected enterprises does not represent the entire industry in which it falls. The manufacturing PEs selected for the study differs in its working and nature. The study period covers ten years period form 1973 to 1982. he has mentioned only findings and conclusion in his study but not recommended any suggestions to solve the finding problems.

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[36] Prof. Dr. Radhe S. Pradhan, Management of Working Capital, (New Delhi : National Book Organization, 1986)

These studies show that WC management is the weakest or neglected part of financial management in most of the PEs in Nepal. It seems that Nepalese firms are following conservative approach in financing as well as investing working capital.

A study was conducted by the management consultant and company[37] on the performance on PEs of Nepal. In the study it was concluded that the assets management in general and current assets management in particular, was the weakest point in Nepalese PEs. It has not received due and serious attention as yet. it was pointed out that financial performance of the PEs was poor and indicative mismanagement of the resources. The report also pointed out that because of the lack of operational objectives, application of long range planning, use of modern management tools. Capital budgeting and efforts towards cost control had not been made 80 far. The study, Thus, there is poor CA management and mismanagement of resources in PEs of Nepal there by causing poor financial performance.

A comparison of financial performance of MPEs and private manufacturing enterprises was made by Rajendra Prasad Sharma. In 1985 altogether six textile industries, three from each public and private sector, were selected for the study. In the study it was concluded that the each public and private sector, although fluctuating ahs positive WC. There was very high liquidity position of public sector industries. Whereas majority of private sector industries has adverse situation. Among cash there was encouraging use of cash and bank. Though inventory covered the largest share (more than 60%) of the total assets in the both sectors the inventory turnover in public sectors while debtor's turnover was more or less similar in both sectors. He also found that trade credit and other internal provision through fluctuating in nature were the mach sources of financing WC in both sectors. And majority of private sector industries had relatively better use of fixed assets than other industries, moreover, the earning power of public sector textile industries was very low and even negative for many years while that of private sector was quite encouraging. He also pointed out that of private sector was quite encouraging. He also pointed out that both sectors seemed to have neither any sort of dividend policy nor did they pay any sort of dividend. Thus, there was negligible direct contribution of textile industries in the revenue generation of government during the period under study.

2.9 Review of Dissertations

Besides review of available books and research studies a number of studies have been made by students of MBS & MBA relating to working capital management in different PEs of Nepal. This section, hence will review some of those dissertations.

[37] Management consultants and company, Economic and management study of PEs in Nepal, Kathmandu, 1985, P. 11.

Arjun Lal Joshi, in his study seeks to have true insight into the working capital management in Briatnagar jute mill. The study has concerned with management of CAs and covers five years period. The study has embodied various financial ratios for measuring Biratnagar jute mills financial viability. The study is based on secondary data with opinion survey method and limited to goes concept of WC. The study has indicated mismanagement of inventory, no proper policy of cash holding and heavy dependence on short term bank credit. He has recommended for effective WC management program, following productive investment approach preparing effective sales plan and exhaustive research program using short term bank credit upto certain reasonable limit, maintaining optimum cash balance and making proper utilization of accumulated collection debts.

The scope of study is to identify the loopholes and managerial deficiencies of BJM on the part of WC management Mr. Shrestha has used ratio analysis to study but not hypothesis and correlation coefficient to verify the significance and relation between working capital components.

A analytical study of WC management in public sector brick factory conducted by Shrestha, tried to make a comparative assessment of WC management of public sector brick factory in Nepal. He has analyzed various components of WC like cash, inventory, receivable and current liabilities. The study based on two government brick factories: Harisiddhi and Bhaktapur brick factory. He has found that there is no proper relation between liquidity turnover and profitability of two brick factories. There is no combination between fixed capital and WC. The analysis indicates that the WC portion is totally neglected. He has suggested to use financial tools to forecast the WC. The factories have to keep the record up to data according to standard format. The management must have to be serious regarding WC management.

His study basically cooperative type. He analyzed various WC components through the significance of WC components between two factories.

Another study of WC management of Bottlers Nepal Ltd. Is conducted by Raghu Krishna Shrestha has focused his study on the appropriateness of investment in current assets to its total assets, liquidity position management of WC needs and utilization of current assets in BNL. From the study he found that the proportion of CAs to total assets was increasing year after year and the proportion of inventories did receivable and cash follow the highest respectively. He also found the liquidity position of BNL was very high resoling low profitability and concluded that efficiency of WC management in BNL was poor. For Those problems he suggested paying proper attention to increase investment in current assets with better utilization rather than increasing further investment. He suggested adopting suitable credit policy and providing discount to accelerate its debt collection period. He also recommended setting minimum target rate of return to minimize the gap of achievement.

In many study reports and journals it is clear that the proper management of WC is targeted factor in most of the PEs. In number of PEs, there are dazzling instances of inefficient cash management. Taken together on common thread joining all of the PEs is the lack of appropriate working capital policy to determine the liquidity needs and sources of financing them.

In determining the efficient cash management in public corporations opinion survey has been made by Prof. Dr. M.K. Shrestha. He found that many of PEs did not maintain yearly cash Budget properly. Due to operational inefficiency in respect of cash management, failure to control cash budget cash budget both shortage excess of cash in different time.

Yam Prasad Sharma has focused in his study, of working capital management of manufacturing companies of Nepal (Listed on Nepal stock exchange Ltd.) has tried to analyze the management of working capital of manufacturing industries, the objectives of this study areas as follows :(i) study of working capital management and polices adopted by these manufacturing industries (ii) empirical testing of variables affecting working capital management, such as, current assets, sales, current liabilities, net profit, total assets, cost of good sold, operation ratio, on the basis of this study he has analyzed, turnover position liquidity, profitability. It also aim to evaluate the relationship between variables, for this, researcher has set proper research methodology, use of quantitative method, statistical method and qualitative method, from this he has found that, overall profitability of listed PEs is negative. He has analyzed that Nepalese PEs is suffering from sickness and they must determine the appropriate Financing mix. These manufacturing companies undertake measures like, identification of needed funds, regular checks, development of marketing information system, the attitude towards risk and profit determination right combination of short term and long term sources of funds to finance working capital needs. He has further recommended that appropriate combination of investment in CA, minimizing operating cost, preparing effective sales plan, specific working capital policy improving liquidity position speedy cash conversion period by improving financial performance are the measure ways to make healthy efficient management of working capital of manufacturing PEs of Nepal.

Another recent case study done by Bishwas Raj Aryal (2003), study of working capital management of Nepal Battery Company Ltd. has found that inventory and receivables should be proper. The non-moving and obsolete items should be discarded to avoid unnecessary blockage up. Inventory and management should be integrated with credit policy. He has suggested to employ effective inventory control techniques. Working

Capital turnover. It is better to adopt appropriate working capital policy rather than conservative working capital policy, so that it can improve it's profitability in short run as well as long run. Company should be liberal in it's credit policy.

CHAPTER THREE

RESARCH METHODOLOGY

3.1 Introduction

The above-mentioned objectives will be fulfilled by well-settled research methodology. The study about selected pharmaceutical industry, Royal drugs limited, Nepal has been already streamline to some extent in earlier chapter regarding. Their growth, objectives statement of problem and working capital practice in general. At the same time relevant literature of working capital management has been reviewed in chapter II to have useful.

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

3.2 Research Design

Research design is highlighted for obtaining the basic objective of the study. It includes definite procedures and evaluating the study. This study attempts to make composition and establish the relationship between two or more variables this study be termed as analytical informative, descriptive challenging and feed back study. For the study of working capital management of RDL, financial tools, as will as statistical tools as a secondary data, and primary data as qualitative analysis of RDL are employed to achieve prescribed result.

3.3 Nature and Sources of Data

The study is basically depends upon secondary in nature, but to make research mare informative challenging and qualitative, primary information of RDL's executives are also analyzed. The secondary data have been collected financial statements of various years, unpublished official records of company provided by financial and account and other departments of RDL. To pick of hidden information of company, proforma of questionnaire are prepared and distributed to various related executive chief. All the collected data and information have been properly arranged tabulated and calculated to arrive at the realistic analytical steps.

3.4 Population and Sample

There are about 33 pharmaceuticals industries in Nepal in private sector except Royal Drugs limited. Nepal is a good market for Pharma Industries. They are increasing rapidly in coming years also. But Royal Drugs Ltd., is prime, oldest pharmaceutical enterprise established in public sector as undertaking of HMG Nepal. So researcher, is concentrating only with royal drugs Ltd. because it is more sensitive, keen interest and attention of all us so, it is a case study of RDL.

For this, data are collected for nine years to analyze and effectiveness of working capital management of RDL.

3.5 Tools and Analysis of Data

Quantitative method and qualitative method are applied for analyzing the working capital management of RPL.

3.5.1 Quantitative Method

3.5.1 (i) Financial Tools
3.5.1 (ii) Statistical Tools
3.5.2 Qualitative Method (Opinion Survey)

3.5.1 (i) Financial Tools

Various financial ratios are used to analyze the effectiveness of composition of working capital. Financial ratio analysis is widely used tools for financial analysis, which establish the number or quantitative relationship between two items i.e. variable of the financial statement. It is useful to make financial expression more meaningful and to draw appropriate conclusion from them, so to examine the working capital policy for RDL, ratios concerned with working capital has been extensively used in this study.

In order to make rational decisions in keeping with the objectives of the company and its financial viability an analysis is undertake by every interested parties such as creditors, investors and also by the company itself. Such analyzation varies according to the specific interests of party involved; this analysis is called financial analysis.

Under the analysis, following ratios are analyzed.

A) Composition of working capital

It is studied by analyzing following ratios:

1. Current assets total assets (CATA)

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

CATA =

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

2. Current assets to Fixed assets (CAFA)

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

CAFA =

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

3. Ratio of cash and Bank balance to current assent (CBCA)

It is calculated as:

CBCA =

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

4. Cash & Bank balance to total assets (CBTA)

This ratio is calculated as under and indicates what percentage of total assets is invested in cash and Bank balance.

CBTA =

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

5. Inventories to Total assets (ITA)

This ratio can be calculated as:

ITA =

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

6. Ratio of Inventory to current assets (ICA)

This ratio implies the percentage of current assets in form of inventory and derived as:

ICA =

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

7. Ratio of receivable to Total assets (RTA)

This ratio can be calculated as:

RTA =

This ratio indicates the percentage of total assets invested in the form of receivable. The increase in the ratio indicates the liberal credit policy followed by the company. The working capital is affected by the ratio because receivables are also a part of working capital, if the ratio increases the working capital also increases.

8. Ratio of Receivable to Current assets (RCA)

This ratio indicates the share of receivable on current assets and is derived as:

RCA =

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

B) Turnover position

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

1. Current assets turnover (CAT)

This ratio indicates the number of times the current assets are turned over during the year. It is computed by dividing sales by current assets, i.e. Gross working capital

CAT =

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

2. New working capital turnover (NWCT)

It is computed by dividing sales by net working capital, i.e., different of current assets and current liabilities,

NWCT =

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

3. Cash turnover (CT)

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

CT =

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

4. Receivables turnover

RT =

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

For the complimentary of this ratio, there is a ratio called average collection period (ACP), which indicates the number of days, it takes on an average to collect amount receivables. It is computed by dividing days in a year by receivables turnover.

ACP =

5. Inventory turnover (IT)

It is computed by dividing sales by inventory.

IT =

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

C) Liquidity Position

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

1. Current ration (CR)

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

CR =

The hither ratio indicates the position of the company is in liquid and able o pay its bills. Generally the current ratio of 2:1 is considered to be satisfactory. More ratio indicated the greater amount working capital and less ratio vice-versa.

2. Quick ratio or Acid-test ratio (QR or ATR)

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

QR or ATR =

As the quick asset doesn't include the amount invested in the inventory it is reliable to measure the company's liquidity. Generally the quick ratio of 1:1 of company is considered to be sound.

D) Profitability position

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

1. Gross profit ratio (GPM)

It is computed by driving gross profit is obtained by deduction cost of goods sold from net sales.

GPM =

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

2. Net profit margin ratio (NPM)

Net profit is obtained after deducting operating expenses and income tax form gross profit. It is computed by dividing net profit by sales.

NPM =

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

3. Operating ratio (OR)

The operating ratio is an important ratio that explains the changes in the net profit margin ratio. This ratio is computed by dividing all operating expenses by sales.

OR =

Higher ratio indicates the lower efficiency of the company and vice-versa. Higher operation ratio means small amount of operating income to meet interest, dividends etc.

4. Return on total assets (ROA)

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

ROA =

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

5. Retune of Net Worth (RNW)

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

RNW =

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

6. Return on Working Capital (RWC)

It is computed by dividing net profit after tax by current assets working capital. It measures the profit width respect to current assets.

RWC =

Higher the ratio higher the utilization of current assets to earn profit and vice-versa.

3.5.1 (ii) Statistical tools

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

A) Coefficient of Correlation by Karl person's method:

In order to test the relation ship and significance of the variables, during the period of study, it is applied. So, Karl Pearson's correlation coefficient (r) is calculated as.

where x = the first variable
Y = the next variable
N = No of year (observations)
dx = deviation of first variable from assumed mean
dy = devition of next variable from assumed mean

This coefficient can never be more than +1 and –1. Thus + 1 and – 1 are the limit of this coefficient. If the value of coefficient is +1, it shows the perfect correlation and if it is –1, negative correlation. More over if the coefficient of correlation is zero then it means there is no existence of correlation between the variables under study.

B) Probable error (P. E) of coefficient of correlation:

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

P.E. =

If r <P.E, It is not all significant, no evidence of correlation between variables
If r >P.E, there is the correlation, but not significant
If r > 6 × P.E, and greater than ± 0.5, than It is considered significant at all.

3.6 Qualitative Method (Opinion Survey)

In this section, only quantitative method does not pick all information, so qualitative analysis or primary information and opinions about the working capital management from related chief personnel are required. A list of questions (objective) is distributed to related officers of various department of RDL. on the basis of their replies analysis has been done. The questionnaires are distributed to the officers of different departments such as, sales department, purchase department, Account department and Finance department.

3.7 Definition of Key Term

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

1. Current assets

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

2. Current liabilities

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

3. Working capital

The term working capital here refers to the gross working capital. It includes the total volume of current assets, which are discussed on point 1.

4. Net working capital

The net working capital refers to the difference in between the company's current Assets and current liabilities.

5. Fixed assets

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

6. Total assets

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

7. Cash & Bank balance

It includes the cash in hand & cash at bank.

8. Receivables

It includes the trade debtors & other debtors.

9. Inventory

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

10. Net worth

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

CHAPTER FOUR

PRESENTATON AND ANALYSIS OF DATA

4.1 Introduction

The introductory setting already describe the meaning of working capital management, brief introduction of Royal Drugs Ltd., pharmaceutical industry in Nepal and its growth and importance. At the same time relevant literature that matter important to study is also streamlined in second chapter. Moreover research methodology consisting the method of research chosen in this study has been given detail in third chapter. Now the most important sensitive part of this study the consists of analysis and presentation of empirical data focus on how far the RDL is in a position to manage their working capital.

In order to manager examine the working capital mgmt of RDL; the necessary financial facts and figures as well as descriptive information are also fathered through the financial statement (annual). Questionnaire is used to obtain farther qualitative information. Only the important, Pertinent information are taken into account, The major variable are fixed assets Ca, CL Net profit, sales statistical tools are to be employed to measure the working capital management of RDL.

4.2 Position of Current Assets

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

A firm needs cash to purchase raw materials, pay expenses this is because of not perfect matching between cash inflow and outflow. Cash me also held to meet the future expenses. The stocks of raw materials are kept in order to ensure smooth productions and to protect the risk of non-availability of raw materials. To meet this obligation also cash in needed.

Any business organization aims to maximize return on shareholders investment. In order to accomplish this objective the business organization should earn sufficient return for its operations. Earning a steady amount of profit requires successful sales. So the firm has to invest enough funds to in current assets for the success of sale. As the sales do not converted into cash instantly the extra amount of working capital is needed.

The efficient management of current assets is an integral impact on maximization of owner's capital in this context. It is necessary to have proper analysis for current assets management. The proper analysis of current assets of industrial concern reflects the nature of and operation of its management. So the overall currant assets are firstly analyzed.

Table 1

Royal Drug Ltd.

Position of Current Assets

(in Million)

Particulars	2056/57	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65
Cash & Bank	7.60	3.55	14.88	5.73	4.74	28.77	10.80	25.40	37.94
Sundry debtors	14.69	16.89	12.44	18.30	21.07	13.17	25.29	18.48	19.26
Inventory	60.30	61.68	61.07	77.75	83.77	60.07	73.29	66.47	68.77
Advance deposits	12.50	13.65	5.32	11.8	14.09	10.40	12.39	12.39	18.04
Total	95.09	95.77	93.71	113.58	123.67	112.41	121.77	122.74	144.01

The above table represents current assets position of Royal Drugs Ltd. It also represents investment pattern of RDL in current assets and their fluctuation in years. As per the table shows overall other current assets items.

4.3 Composition of Working Capital (Financial ratio) analysis

The compositions of working capital are analyzed with the following ratios.

Proportion of Current Assets to Total Assets (% of CA to DA)

As the necessity of current assets depend upon the nature of business. It is required to meet the working capital, which is required to run the organization day-to-day activities. The table 2 given below represents the percentage of current assets to total assets.

Table 2

Royal Drugs Ltd.

Current Assets to Total Assets

(in Million)

Year	Current Assets	Total Assets	Ratio %	%Change
2056/57	95.09	136.96	69.42	-
2057/58	95.77	136.60	70.00	0.58
2058/59	93.71	133.34	70.14	0.14
2059/60	113.58	150.32	75.55	5.41
2060/61	123.67	160.72	76.95	1.40
2061/62	112.41	151.28	74.30	(2.65)
2062/63	121.77	162.44	74.96	0.664
2063/64	99.89	140.05	71.32	3.64
2064/65	109.87	148.51	73.98	2.66
Total	965.76	1320.22	-	11.84
Average	107.306	146.69	72.95	1.32

This ratio represents the proportion of Current assets investment to total assets investment of RDL for the selected 9 (nine) years of study period. The overall proportion of current assets on total assets is increasing year after year. In the fiscal 2056/57. Current assets absorb 69.42 percent of total assets, which is slights increased in 2057/58 by 0.58 percent. In 2059/60, current assets absorbs 75.55 percent of total assets, which is the highest absorption of C.A. during study period, which is due to holding of highest amount of inventory and sundry debtors. But in fiscal year 2058/59, the percentage of current assets decreased with percentage change of 2.5 percent as compared to 2061/62. In the average of 9 years period of study, 72.95 percent participation of current assets in total assets, with increasing trend of 1.32 average percent each year.

Proportion of Current Assets to Fixed Assets

Table 3

Royal Drugs Ltd.

Current Assets to Net Fixed Assets

(in Million)

Year	Current Assets	Net Fixed Asset	Ratio %	% Change
2056/57	95.09	41.85	227.21	-
2057/58	95.77	40.82	234.61	7.4
2058/59	93.71	39.62	236.52	1.91
2059/60	113.58	36.74	309.00	72.48
2060/61	123.67	37.05	333.79	24.79
2061/62	112.41	38.87	289.19	(44.6)
2062/63	121.77	40.66	299.48	10.29
2063/64	99.89	40.16	248.73	(50.75)
2064/65	109.87	38.3	284.41	35.68
Total	965.76	354.40	-	-
Average	107.306	39.37	273.66	57.20

Here the table shows, the proportion of current assets to fixed assets during the study period of 9 years. Generally, the ratio of current assets to Net Fixed assets is increasing in every year. In fiscal year 2056/57. It is 227.2 percent, which is increasing year after but in fiscal year 2061/2062, it is decreased by 44.6 percent because of less investment in inventory rather than other years.

The average increasing ratio during the study period is 57.20 percent. The overall ratio shows that investment in current assets (working capital) in comparison with it's fixed assets is favorable.

Proportion of Cash and Bank Balance to Current Assets

The main reason of holding the cash is for transaction motive. Precautionary motive and speculative motive. So to fulfill the daily business requirement such as payment of bills, purchase of raw materials, payment of debt, optimum cash balance or bank balance has to maintained. The table 4 presented below shows the proportion of cash to current assets.

Table 4

Royal Drugs Ltd.

Cash and Bank Balance to Current Assets

(in Million)

Year	Cash and Bank	Current assets	Ratio%	% Change
2056/57	7.60	95.09	7.99	-
2057/58	3.55	95.77	3.70	(4.29)
2058/59	14.88	93.71	15.87	12.17
2059/60	5.63	113.58	4.95	(10.92)
2060/61	4.74	123.67	3.83	(1.12)
2061/62	28.77	112.41	25.59	21.76
2062/63	10.80	121.77	8.87	(16.72)
2063/64	2.54	99.89	3.54	(6.33)
2064/65	3.79	109.87	3.45	0.91
Total	82.3	965.76	-	-
Average	9.14	107.30	8.53	(4.54)

The above table shows that the proportion of cash to current assets is highest in the F/Y 2060/61. The cash hold by the company in the F/Y 2061/62 is Rs. 28.77 million and it's 25.59 percent total current assets. Likewise the cash hold by the company in 2063/64 is minimum is about 2.54 percent of it's current assets. The proportion in the first F/Y 2056/57 is 7.99 percent. Which is decreased with ratio of 4.29 percent in FY 2057/58, but in fiscal year 2058/59, it increases highly and absorbs 15.87 percent of overall current assets. After it the ratio down rapidly up to fiscal year 2060/61, but in 2061/62 it rises up to 25 percent of ratio of current assets.

As the higher ratio is indicator of inefficient management. It seems unsound during 2058/59 and 2061/62. Where as in the average of the F/Y the ratio with current assets has come to 8.53 percent.

Proportion of Cash Bank Balance to Total Assets

The proportion of liquid Cash in comparison to the total assets shares the investment in cash out of total assets. The more ratio decreases the risk and provide nothing the profitability would decrease. The table 5 stands below to show the percentage of Cash/Bank balance to total assets.

Table 5

Royal Drugs Ltd.

Cash & Bank Balance to Total Assets

(in Million)

Year	Cash and Bank	Total Assets	Ratio%	% Change
2056/57	7.60	136.96	5.54	-
2057/58	3.55	136.60	2.59	(3.05)
2058/59	14.88	133.34	11.15	8.56
2059/60	5.63	150.32	3.74	(7.41)
2060/61	4.74	160.72	2.95	(0.79)
2061/62	28.77	151.28	19.01	16.06
2062/63	10.80	162.44	6.65	(12.36)
2063/64	2.54	140.05	1.81	(4.84)
2064/65	3.79	148.51	2.55	0.74
Total	82.3	1320.22	-	-
Average	9.14	146.69	6.22	(3.09)

The above table shows the investment in cash out of it's total assets in RDL during the period of study of 9 years. The ratio is 5.54 percent in F/Y 2056/57, which is fall down to 2.59 percent in in F/Y 2057/58 and increased to 11.15 percent in F/Y 2058/59. The above table shows that, there is alternative increase decrease in ratio of cash and bank to total assets in each year of study period. This shows the management attitude towards risk during overall study period, average ratio percent is 6.22.

Proportion of Inventory to Current Assets to Total Assets

One of the important parts of current assets is inventory. In the manufacturing company, like RDL, increasing of raw materials, as will as finished goods spare parts are very important. The shortage of raw materials, creates irregular in production, high manufacturing cost, unfavorable labor variance etc. caused. In the other hand excess inventory cause unnecessary handling of capital which earn nothing. It results high cost in inventory management. Not only the inventory of raw material, there should be proper management of finished goods or outputs, so that consumer never feels to have shortage it arises the excess inventory problem nor shortage of inventory problem. The following table 6 presents proportion of inventory to its current assets and total assets.

Table 6

Royal Drugs Ltd.

Inventory to Current Assets and Total Assets

(in Million)

Year	Inventory	Current Assets	% Ratio	Total Assets	% Ratio
2056/57	60.30	95.09	63.41	136.96	44.02
2057/58	61.68	95.77	64.40	136.60	45.15
2058/59	61.07	93.71	65.16	133.34	45.80
2059/60	77.75	113.58	68.45	150.32	51.72
2060/61	83.77	123.67	67.73	160.72	52.12
2061/62	60.07	112.41	53.43	151.28	39.70
2062/63	73.29	121.77	60.18	162.44	45.12
2063/64	66.47	99.89	66.54	140.05	47.46
2064/65	68.77	109.87	62.59	148.51	46.31
Total	613.17	965.76	570.85	1320.22	417.40
Average	68.13	107.30	63.49	146.69	46.38

The figures in the above table shows the percentage of inventory with respect to it's current assets and total assets. In F/Y 2056/57, it is 63.41 percent of current assets and 44.02 percent of total assets respectively. It is found to be increased 0.99 percent and 0.76 percent over current assets in F/Y 2057/58 and 2058/59 respectively. It is in increasing order up to FY 2060/61, but in Fiscal Year 2061/62, It is 53.43 percent inventory over current assets, which is decreased by 14.3 percent, and the average percentage ratio of inventory to current assets is 63.49 percent.

Similarly, ratio percent of inventory to total assets in F/Y 2056/57 is 44.02 percent which increasing up to F/Y 2060/61. But it has fallen down to 39.70 in F/Y 2061/62. Because, in this absorbs 70 – 80 m. The average ratio (%) of inventory to total assets 46.38 percent.

Proportion of Receivables to Current Assets and Total Assets

In this era of nut throat competition situation of the market, credit sales plays a vital role in the development and expansion of market, without increasing sales volume the company can't earn profit and therefore maximize Shareholder's wealth. Hence the company should keep some provisions for credit sales. The company has to arrange some working capital for this purpose. The nature and term of credit should be determined in advance in order to avoid the company from the deficiency of working capital. Such arrangement is basically terms receivable management. The receivable should be perfect. Higher degree of receivable results unnecessary hold up of working capital, lower degree of receivable may cause negative result in sales level. The following table – 7 shows the proportion of receivable to the current assets and total assets.

Table 7

Royal Drugs Ltd.

Receivable to Current Assets and Total Assets

(in Million)

Year	Receivable	Current Assets	% Ratio	Total Assets	% Ratio
2056/57	14.69	95.09	15.44	136.96	10.72
2057/58	16.89	95.77	17.63	136.60	12.23
2058/59	12.44	93.71	13.27	133.34	9.32
2059/60	18.30	113.58	16.11	150.32	12.17
2060/61	21.07	123.67	17.03	160.72	13.10
2061/62	13.17	112.41	11.71	151.28	8.7
2062/63	25.29	121.77	20.76	162.44	15.56
2063/64	18.48	99.89	18.50	140.05	13.19
2064/65	19.26	109.87	17.53	148.51	12.96
Total	158.59	965.76	147.33	1320.22	107.95
Average	17.62	107.30	16.37	146.69	11.99

The table shows that the receivables are highest in the fiscal year 2062/63 and 2063/64.Which is in ratio 20.76 percent and 18.50 percent. Receivables in the F/Y 2056/57 with respect to total assets are 10.72 percent which is increased by 1.51 percent in next FY 2057/58. After this, it is fall down to 9.32 percent. The tendency of receivables of study period shows alternative increase decrease phenomenon except 2057/58 with respect to current assets and total assets. It indicates the liberal credit policy of the company.

4.4 Turnover Position

By analyzing the current assets, net working capital cash, receivable, and inventory turnover ratios. The researcher can reflect the turnover position in terms of sale.

4.4.1 Current Assets Turnover or (gross working capital turnover)

For the manufacturing company like RDL, sale is the most important activity, the survival and growth of the company depends on the sales of the product. The companies showed make their sales policy as per the resource availability and market demand. The sales policy directly effects the production. Policy and in the same way the production policy effect the financial policy. i.e. the requirement of total assets and working capital by the company of run or it as per plan. Here three should always be co-ordination in between there three units of the company. Each and every information should smoothly pass through these units. Increase in sales certainly causes increase in production which require more units. Keep stock of material there showed be adequate amount of working capital. The amount of working capital is also affected by sales policy of the credit sales is increased more working capital will be required to met the daily requirement. In the other hand, tight credit sales policy is applied the amount of working capital to replace the amount held by credit sales will be decreased. The climate effect will be decrease in working capital need. The table – 8 represents the current assets or grass working capital turnover during the study period of in RDL.

Table 8

Royal Drugs Ltd.

Current Assets Turnover

(in Million)

Year	Sales	Current Assets	Ratio (times)
2056/57	79.94	95.09	0.84
2057/58	79.70	95.77	0.83
2058/59	89.32	93.71	0.95
2059/60	116.04	113.58	1.02
2060/61	111.97	123.67	0.90
2061/62	122.40	112.41	1.08
2062/63	122.02	121.77	1.00
2063/64	86.73	99.89	0.86
2064/65	103.70	109.87	0.94
Total	911.82	965.76	8.42
Average	101.31	107.30	0.93

The above table shows that the current assets turn over, is 0.84 in F/Y 2056/57, which is again fall down by 0.83 times in next F/Y. In these two F/Y Period, there are fewer amounts to sales as compared to investment in current assets. The ratio of current asset turnover is FY 2059/60 increased to 1.02 times. Due to highly increase in sales as slightly increase in current asset. In Fiscal Year 2060/61, it is again decreased to 0.90 times. It is because of increase in current assets but not corresponding increase in sales. In the next F/Y 2061/62, the turnover is 1.08 times which is better than those previous Fiscal Years, and creates the greatest amount of sales with respect to overall period of study. In an average of the study period, the current assets turnover position of the company is 0.93 times; such turnover ratio is not so satisfactory as financed over current assets.

4.4.2 Net Working Capital Turnover

It is excess amount of current over current liabilities. Such working capital is the margin of safety maintained by the company. In case of trading and financial firms, the need of working capital will be limited. But in manufacturing company like RDL, the size of working capital depends upon production cycle and business cycle. The net working capital position maintained by the RDL is presented below in table 9.

Table 9

Royal Drugs Ltd.

Net Working Capital Turnover

(in Million)

Year	Sales	Net Working Capital	Ratio (times)
2056/57	79.94	62.40	1.28
2057/58	79.70	61.78	1.29
2058/59	89.32	59.32	1.50
2059/60	116.04	61.12	1.89
2060/61	111.97	62.61	1.78
2061/62	122.40	62.10	1.97
2062/63	122.02	63.27	1.92
2063/64	86.73	44.23	1.96
2064/65	103.70	22.75	4.55
Total	911.82	499.58	18.14
Average	101.31	55.50	2.01

The above table 9 presents that, Net Working Capital turnover in FY 2056/57 is 1.28 times. Which has increased in next FY 2057/58, 2058/59 and 2059/60. It is because as sales has increased there has been slight increase in net Working Capital. In Fiscal Year 2060/61, due to decrease in sales, the turnover ratio has fallen down to 1.78 which again increased to 4.55 in next FY 2064/65 with increase in sales.

These all changes occurred due to fluctuating sales activities.

4.4.3 Cash Turnover (Cash Conversion Cycle)

It is one of the main parts of current assets which have greatest value to meet the current obligations, occurred in the business. It should be just adequate to run business and excess cash has no meanings as it earns nothing. So the company always sees the risk return trade off to maintain the just adequate cash balance. The table 10 shows the cash turnover position of the RDL during the period of study.

Table 10

Royal Drugs Ltd.

Cash Turnover

(in Million)

Year	Sales	Current Assets	Ratio (times)	Cash Conversion Days
2056/57	79.94	7.60	10.51	34
2057/58	79.70	3.55	22.45	16
2058/59	89.32	14.88	6.03	60
2059/60	116.04	5.63	20.61	17
2060/61	111.97	4.74	23.62	15
2061/62	122.40	28.77	4.25	85
2062/63	122.02	10.80	11.29	31
2063/64	86.73	2.54	34.14	10
2064/65	103.70	3.79	27.36	13
Total	911.82	82.3	127.97	-
Average	101.31	9.14	14.21	31

The above table 10 shows the turnover position of the cash and bank balance maintained by the RDL during the period of study. The company has able to make 10.51 time turnover in FY 2056/57 which has again increased to 22.45 times in FY 2057/58. It is due to less cash balance with respect to previous Fiscal Year 2056/57 even if there has been changed in volume of sales. It is further decreased to 6.03 times in the FY 2058/59, where company has maintained large amount of cash of 14.88 m. So average turnover position has found 14.21 times. It is due to the fluctuating amount of sales volume. The company has able to maintain cash conversion cycle of 31 days (i.e. 1 Month)

$$\text{Cash conversion day} = \frac{360}{\text{Ratio (time)}}$$

4.4.4 Receivable Turnover Position

Receivable is one of the components of working capital. In order to increase the business activities the company has to increase the sales volume. The sales volume can be increased by giving products in credit to the customers. In such case level of receivables goes up. The table 11 presented below shows the receivables turnover position of the RDL during the study period and average collection period of it's receivables.

Table11

Royal Drugs Ltd.

Receivable Turnover

(in Million)

Year	Sales	Receivables	Ratio (times)	Avg.collection period
2056/57	79.94	14.69	5.44	67days
2057/58	79.70	16.89	4.71	77days
2058/59	89.32	12.44	7.18	50days
2059/60	116.04	18.30	6.34	57days
2060/61	111.97	21.07	5.31	68days
2061/62	122.40	13.17	9.29	39days
2062/63	122.02	25.29	4.82	75days
2063/64	86.73	18.48	4.69	77days
2064/65	103.70	19.26	5.38	67days
Total	911.82	158.59	53.16	
Average	101.31	17.62	5.90	64days

As per table 11 presented above, the receivable turnover in FY 2056/57 is 5.44 times has found to be decreased by 0.73 times in next FY. In the FY 2058/59, the company has only receivables of 12.44 million corresponding there has been increase on sales. In FY 2059/60, there has again fallen down in receivable turnover ratio, which is 6.34 times. In above table shows that, in FY 2061/62, the company has maintained the highest turnover during the study period and is 9.29 times. It's because company, has increased in sales, and company being able to decrease in receivables. The average receivables turnover during study period 5.90 times.

The average collection period of credit sales has found to be best in FY 2061/62 is only 39 days. In the FY 2057/58, average collection period in 77 days , which has further decreased to 50 days and again increased by 7 days, and 11 days, in next FY2059/60 and 2060/61. During the period of observation average collection is 64 days.

$$\text{Avg,call. period} = \frac{\text{receivables x 365}}{\text{Sales}}$$

4.4.5 Inventory Turnover Position

Inventory is also the one component of current assets which also showed be maintained effectively and efficiently. It has already been stated that working capital, production and sales are correlated in general cause. The production should be increased to meet the higher level of sales target. To produce more, more raw materials will be required. The stock level of raw materials should be properly maintained to meet the raw materials requirement for higher level of production of production. Hence to full fill this requirement, the company has to increase it's working capital the table 12 presented below show the inventory turnover position of RDL, during the period of study.

Table 12

Royal Drugs Ltd.

Inventory Turnover

(In million)

Year	Sales	Inventory	Ratio (times)
2056/57	79.94	60.30	1.32
2057/58	79.70	61.68	1.29
2058/59	89.32	61.67	1.45
2059/60	116.04	77.75	1.50
2060/61	111.97	83.77	1.33
2061/62	122.40	60.07	2.03
2062/63	122.02	73.29	1.66
2063/64	86.73	66.47	1.30
2064/65	103.70	68.77	1.50
Total	911.82	613.17	
Average	101.31	68.13	1.48

The above total present shows the number of times inventory is replacing during the year. The ratio of average inventory turnover during the period of study has been 1.48 times. The inventory turnover position in FY 2056/57 is 1.32 times. In this year company has to keep stock for 276 days. Inventory turnover in other FY, 2057/58, 2058/59, 2059/60, is 1.29 times, 1.45 times and 1.50 times respectively. In FY 2061/62, the company has able to create fair inventory turnover position i.e. 2.03 times. It is because, sales has been increased to 122.40 m., whereas inventory position is only 60.07 m.

4.5 Liquidity position

Liquidity position shows the ability to pay the bills. Liquidity fulfills the current need of money. Since the study is focused on working capital management of the company. So liquidity position plays vital role to manage the working capital. Here the current ratio and acid test ratio of RDL during 9 years period of study are observed

4.5.1 Current Ratio

It is the simple relationship of current assets to current liabilities. Current assets includes, cash and bank balance, inventory, receivables and other miscellaneous current assets, where as current liabilities include creditors, cash credit taken. Provision for taxation, unclaimed dividend and other miscellaneous current liabilities. The current ratio of the RDL for the period of study is calculated in the table 13 presented below.

Table 13

Royal Drugs Ltd.

Current Ratio

(in Million)

Year	Current Assets	Current Liabilities	Ratio
2056/57	95.09	32.70	2.90:1
2057/58	95.77	34.00	2.81:1
2058/59	93.71	34.40	2.72:1
2059/60	113.58	52.48	2.16:1
2060/61	123.67	61.08	2.01:1
2061/62	112.41	50.31	2.24:1
2062/63	121.77	58.50	2.08:1
2063/64	99.89	55.66	1.79:1
2064/65	109.87	87.12	1.26:1
Total	965.76	466.25	-
Average	107.30	51.80	2.21:1

The above table shows that, company's average current ratio 2.21:1. It shows that company has enough current assets to pay current obligations i.e. no shortage of current assets. It is known that, perfect current ratio to overall companies is 2:1 which has perfect matched in FY 2060/61. The current ratio in this FY is 2:01. During the other FY of company, in 2056/57, 2057/58, 2058/59 the current ratios 2.90, 2.81, 2.72 shows excess current assets then that of current liabilities. Excess current is not beneficial to the company, because, it shows the investment in unproductive assets, and working nothing. The table, of study period has showed that, the company has somehow tried to maintain optimal current ratio.

4.5.2 Quick ratio (Acid test ratio)

Quick ratio or acid test ratio is the relationship in between quick assets and current liabilities. It is the measurement of company's ability to convert its current assets, quickly into cash in order to meet it's current liabilities. The high inventory level, which can't convert quickly into cash. So the study of quick ratio is reliable. It can be computed by dividing quick assets by correct liabilities. The quick ratio of RDL, during the period of study is presented below.

Table 14

Royal Drugs Ltd.

Quick Ratio

(in Million)

Year	Quick Ratio	Current Liabilities	Ratio
2056/57	34.78	32.70	1.60:1
2057/58	34.09	34.00	1:1
2058/59	32.04	34.40	0.93:1
2059/60	35.83	52.48	0.68:1
2060/61	40.35	61.08	0.66:1
2061/62	52.34	50.31	1.04:1
2062/63	48.48	58.50	0.82:1
2063/64	33.42	55.66	0.60:1
2064/65	41.10	87.12	0.47:1
Total	352.43	466.25	-
Average	39.15	51.80	0.80:1

(Quick asset = current assets – Inventory)

The above table present the quick ratio of the RDL, where quick assets includes of cash and bank balance, Sundry debtors, advance deposits. The quick ratio is considered as perfect when the ratio becomes 1:1. Here, study shows that, the average quick ratio is only 0.80, which is not favorable and satisfactory to the company. It is due to high level current liabilities and inventory absorbs high percent of current assets. The quick ratio is favorable during initial period of study, but, it is unfavorable ratio in the middle period of study. Any way the company has maintained it's quick ratio 1.04:1 in FY 2061/62, which is favorable to the company.

4.6 Profitability Position

Behind the establishment of a manufacturing company, there is objective of earning profit or getting maximum return on investment. Profitability of company of is concern of all parties of the country. Effective utilization of resources to earn maximum amount profit is the basic though of company. Profitability is the measure of efficiency. To measure the profitability position of the RDL, the researcher has tried to analyze the profitability ratio, such as gross profit margin, Net Profit margin, operating ratio, return on assets and net worth, and return on working capital.

4.6.1 Gross Profit Margin

It is the profit of excluding the deduction of operating expenses and income tax. It is obtained by deducting cost of goods sold from net sales. The ratio is the relationship between gross profit to net sales which explains that percentage return of gross profit out of total assets. The ratio measures the efficiency of company and soundness of management. Higher percentage indicates the better efficiency. The table below of 15 show the gross profit earned by the company during period of study and sales made there off.

Table 15
Royal Drugs Ltd.
Gross Profit Margin

(in million)

Year	Gross Profit (Loss)	Sales	% Ratio
2056/57	(2.78)	79.94	(3.42)
2057/58	(2.76)	79.70	(3.49)
2058/59	(3.57)	89.32	(3.99)
2059/60	(3.51)	116.04	(3.02)
2060/61	2.95	111.97	2.6
2061/62	(0.45)	122.40	(0.36)
2062/63	4.18	122.02	3.43
2063/64	(20.31)	103.70	(22.42)
Total		911.82	

The above table 15 shows the percentage ratio of gross profit margin. Almost, all FY has suffered with heavy loss, so the gross profit margin (%) has seen on negative ratio. The company has higher cost of good sold that of net sales. The ratio 3.43 percent has seen a little bit satisfactory in FY 2062/63. Where, it has gross profit of 4.18 m. During all period of study, except 2062/63, the gross profit efficiency of company is not at all satisfactory. The average ratio of gross profit margin is found to be in negative. The company has needed better management to run the company in long run in all respects.

4.6.2 Net Profit Margin

Net profit is the profit, which comes after deducting operating expenses and income tax from gross profit. This ratio is the relationship on net profit after tax to sales. This ratio shows the ability of management to operate business with sufficient success. The ratio of net profit to sales essentially expresses the cost price effectiveness of the operation. The operating expenses mainly affect the net profit of company. The table 16 presented below shows the net profit margin of RDL, during the period of study.

Table 16

Royal Drugs Ltd.

Net Profit Margin

(in million)

Year	Net Profit after tax (loss)	Sales	% Ratio
2056/57	(1.17)	79.94	(1.46)
2057/58	(1.66)	79.70	(2.08)
2058/59	(4.60)	89.32	(5.12)
2059/60	(1.10)	116.04	(0.94)
2060/61	1.15	111.97	1.02
2061/62	1.32	122.40	1.07
2062/63	2.96	122.02	2.42
2063/64	(19.56)	86.73	(22.55)
2064/65	(23.00)	103.70	(22.17)

The above table presents that the company, has not success to earn profit. However the company has created profit in FY 2056/57. It has run continuously in loss upto FY 2059/60. After 2059/60, company has been able to earn a bit profit. In FY 2064/65, company has suffered with maximum loss of ratio 22.17 percent. The profit earned by company in FY 2059/60 is of ratio 1.02 percent which further increased in FY 2062/63. The company is totally suffered with loss in almost all FY during the period of study.

4.6.3 Operating Ratio

The operating ratio establishes the relationship between total operating expenses and sales volume. It is an important ratio that explains the changes in the net profit margin ratio. I t also measures the efficiency of the company as regards to minimizing costs. Operating ratio is an indicator of operational efficiency. The table 17 presented below shows the operating ratio of the RDL, during the period of study.

Table 17

Royal Drugs Ltd.

Operating Ratio

(in Million)

Year	Cost of Goods Sold + Operating Expenses	Sales	% Ratio
2056/57	82.73	79.94	103
2057/58	82.47	79.70	103
2058/59	94.09	89.32	105
2059/60	119.55	116.04	102
2060/61	109.94	111.97	98
2061/62	123.931	122.40	100
2062/63	120.580	122.02	98.91
2063/64	107.049	86.73	123.42
2064/65	126.962	103.70	122.43

The above table shows that operational efficiency of overall period of study is not satisfactory. Operating ratio of FY 2060/61 has seen a little bit satisfactory than others. It is due to, higher production expenses as well as operating expenses. Although operating ratio is in increasing order. The company has showed tried to minimize cost of goods as well as operating expenses.

4.6.4 Return on Total Assets

I t measures the percentage of return on the overall total assets employed for every activities of the company. It gives the profit giving efficiency of the company in relation to total assets. The return on total assets employed of RDL is presented below in table 18 during the period of study.

Table 18

Royal Drugs Ltd.

Return on Total Assets

(in Million)

Year	Net Profit After Tax (Loss)	Total Assets	% Ratio
2056/57	(1.17)	136.96	(0.85)
2057/58	(1.66)	136.60	(1.21)
2058/59	(4.60)	133.34	(3.44)
2059/60	(1.10)	150.32	(0.73)
2060/61	1.15	160.72	0.71
2061/62	1.32	151.28	(0.87)
2062/63	2.96	162.44	1.82
2063/64	(19.56)	140.05	(13.96)
2064/65	(23.00)	148.51	(15.48)

The above table shows that, the return on total assets in the FY 2056/57 is –0.85 percent, where the company has employed 136.96 million of total assets. Almost, return of on assets ratio has seen negative, due to negative (-ve) net profit after tax, the raito (%) is decreased in FY 2057/58, which further decreased in FY 2058/59. The ratio has seen improved in FY 2060/61, 2061/62 and 2062/63, because of minimum amount of net profit after tax. Hence the overall return on employed assets in unproductive.

4.6.5 Return on Net Worth

It gives the percentage return on the owner's capital invested. The conclusions drawn on the basis of preceding ratios may not give true result because they give profit in sales and total assets i.e. net worth is needful to study. The table 19 presented below shows the ratio of return on woner's capital employed during the period of study in RDL.

Table 19

Royal Drugs Ltd.

Return on Net Worth

(in Million)

Year	Net Profit After Tax (Loss)	Net Worth	% Ratio
2056/57	(1.17)	75.49	(1.54)
2057/58	(1.66)	75.49	(2.19)
2058/59	(4.60)	75.49	(6.17)
2059/60	(1.10)	75.49	(1.45)
2060/61	1.25	75.49	1.66
2061/62	1.32	75.49	1.74
2062/63	2.96	75.49	3.92
2063/64	(19.56)	75.49	(25.91)
2064/65	(23.00)	75.49	(30.46)

The above table 19 shows that relationship between net profit after tax with net worth, which is (1.54) percent FY 2056/57. Since the company is running continuously loss upto FY 2059/60. So, the company has suffered with loss, there is no way to distribute return to the shareholders. It indicates that, the company has not used the available resources of firm. But it has improved somehow, in FY 2060/61, 2061/62 and 2062/63. In these three FY, company has able earn a little bit profit. The return on net worth ratio are 1.66 percent and 1.74 percent. Thought the company has not earned maximum profit, in these three FY, the company has tried to use available resource which is the better indication of the future of company.

4.6.6 Return on Current Assets (Working Capital)

This is the ratio of return on current assets or working capital employed by the company. It measures the profit with respect to it's total current assets. It gives the utilization of current assets effectiveness. The table 20 presented below shows the relationship in between NPAP and CA of RDL during the period of study.

Table 20

Royal Drugs Ltd.

Return on Net Working Capital

(in Million)

Year	Net Profit After Tax (Loss)	Total Assets	% Ratio
2056/57	(1.17)	95.09	(1.23)
2057/58	(1.66)	95.77	(1.74)
2058/59	(4.60)	93.71	(4.90)
2059/60	(1.10)	113.58	(0.96)
2060/61	1.15	123.67	0.92
2061/62	1.32	112.41	1.17
2062/63	2.96	121.77	2.43
2063/64	(19.56)	99.89	(19.58)
2064/65	(23.00)	109.87	(20.93)

The above table presents the return on current assets employed during the period of study. In FY 2056/57, 2057/58, 2058/59, 2059/60, 2063/64 and 2064/65, the return on current assets –ve. It means, employed current assets have no efficient utilization. In FY 2059/60, employed current assets is 113.58 m. but ratio of return on current assets is further decreased to –0.96 percent. In FY 2060/61, employed current assets of 123.67 m. has created profit of 1.15 m with ratio of 0.92 percent which on 2061/62, employed current assets has been decreased to 112.41 m., however, increased the profit ratio of 1.17 percent, shows the better utilization of current assets than previous periods of study.

4.7 Presentation and Analysis of Primary Information

To make research more reliable, analytical, informative, and challenging, qualitative analysis (primary information) plays vital role, so, the in this case study of RDL, the researcher efforts to analyze the primary information as obtained from the questionnaire distributed to the related executives, personal of the company. The Performa of questionnaire attempts to analysis the important aspect of working capital management of RDL, includes the identification of that asset which is more difficult to manage, major reason for the importance of current assets management, the more problematic current assets, major motive for holding cash inventory and major factor affecting the investment in A/R.

Table 21

Results of Questionnaire

Q.N. Stems	**1**	**2**	**3**	**4**	**5**	**6**
a	4 (67%)	3 (83%)	2 (33.3%)	6 (100%)	6 (100%)	6 (100%)
b	2 (33%)	1 (17%)	2 (33.3%)	x	x	x
c	x	x	2(33.3%)	x	x	x
Total Responses	6	4	6	6	6	6

Note:- Q.N. : refers Q.N. of questionnaire provided to related personals.

- Stem : indicates the choices, specialized in each question.
- The figure indicates the no. of responses, over total.
- Figure in parenthesis indicates, % over total respondents.

4.8 Statistical Analysis

In order to study the significance of the various variables, Karl Pearson's correlation coefficient is applied.

Examining the relationship between current assets and total assets, during the period of study, Karl Pearson's correlation coefficient (r) is calculated in appendix V, and result is under, r = 0.99 P.E. = 0.055, r > 6 x P.E, So correlation coefficient in between current assets and total assets during the period of study is positive and statically significant at all. Similarly in relationship between other variables, Inventory to current assets as appendix VI result is, r = 0.90, P.E. = 0.0427, Receivables to current assets as appendix VII result is r = 0.69, P.E. = 0.11, sales to inventory as appendix X, r = 0.54, P.E. = 0.51, sales to working capital as appendix VIII, r = 0.84, P.E. = 0.081 current assets and current liabilities as appendix XIII r = 0.32, P.E. = 0.20, are positively correlated between each other and r > 6 P.E., relationship is statically significant at all.

But examining the relationship between other variables, such as sales to receivables refer as appendix XI, result is r = 0.43, P.E. = 0.18, sales to cash as appendix XII, result is r = 0.41, P.E. = 0.18, is found, positively correlation each other, but not at statically significant as other variables before.

The relationship between, cash to current assets as appendix VIII, is found, r = 0.092, P.E. = 0.22 shows the no relationship and not at all significant. It shows the management of cash is not proper, does not contribute to hold current assets.

4.9 Major Finding of the Study

A. Major Finding of Financial Tools and Working Capital Policy

i) Study shows that more amounts is financed by long-term source of fund i.e. general and less amount is financed from short term sources of fund. The fixed assets, permanent current assets and some proportion temporary current assets are financed from long term fund and other remaining portion are financed from short term sources. So company is following conservative working capital policy.

ii) The major components of current assets in RDL are cash and Bank balance, receivable, inventory. During the period of study the proportion of cash and bank balance, receivables, and inventory to current assets on an average are 8.53 percent, 16.37 and 63.43 percent respectively. It is found that inventory holds the largest portion of that current assets.

iii) The overall proportion of current assets on total assets are increasing upto FY 2060/61. It is increased from 69.42 percent to 76.95 percent and in range and fall down to 74.30 percent in FY 2061/62. The average ratio of current assets to total assets is of 72.95 percent. The ratio of current assets to net fixed assets are increased from 267.71 percent to 333.79 percent upto FY 2060/61. But it is fall down to 289.19 percent in FY 2061/62. Average percent of change in year is 57.20 percent. It clearly shows that investment in current assets is high with respect to total assets net fixed assets.

iv) Of the current assets, cash and bank balance holds the smallest portion in RDL. it is fallen down in FY 2057/58, as compare to FY 2058/59 which again decreasing in nest following two years. In FY in 2061/62. It is found to be increased. The average cash and bank balance in the company with respect to current assets is 8.53 percent and with respect to total assets is 6.22 percent. This type of variation is due to company's policy wards the investment in Herb production and processing company as well as in National saving paper of NRB.

v) Of the current assets inventory holds the largest portion of RDL, ranging from 53.43 percent to 67.53 percent and in fluctuating trend with on average of 63.43 percent. The inventory to total assets ratio (%) in fluctuating with 39.70 percent to 52.12 percent with in average of 46.38 percent. These fluctuating of the investment in inventory is due to fluctuating sales volume.

vi) The receivables position with respect to current assets and total assets in RDL in alternative increasing and decreasing trend upto FY 2059/60. In FY 2060/61, it is again found to increased. Till the end of study period the position of receivables with

C.A. and T.A. are 16.37 percent and 11.99 percent. These fluctuations in the position of receivables are affected by fluctuating sales volume of the company.

B. Turnover Position

The turnover position of RDL are not in fluctuating trend. The gross working capital turnover in ranging from 0.83 times to 1.08 times with an average of 0.93 times. The net working capital turnover is ranging from 1.28 times to 4.55 times in a average trend of 2.01 times. The cash turnover is ranging from 4.25 times to 34.14 highly fluctuating times with a average of 14.21 times. The company is not able to efficient utilization of C.A. because it can not create sales as investment in CA.

The receivables turnover position in an company is ranging from 4.69 times to 9.29 times, with or average of 5.90 times. This ratio shows how rapidly debts are collected. The average ratio 5.90 times indicates shorter time lag between credit sale and cash collection. The average collection period ranges from 39 days to 77 days and average collection period of 64 days (about 2 months) indicates not efficient management of receivable collection policy adopted by company. The inventory turnover position of RDL is ranging from 1.20 to 2.03 time with an average of 1.48 times. The inventory management system of DDL is not so satisfactory. But signify that inventory does not sell fast and stays on shelf or in were house for a long time.

C. Findings of Liquidity

The liquidity position of company is analyzed with current ratio and quick ratio. It is ranging in between 1.26:1 to 2.90:1. The company has able to maintain it's current ratio of 2.21:1 in an average of the study period. The overall current ratio of the company is found to be satisfactory. But there seems, enough current assets to meet obligations of C.L. Investment in enough current asset is not so good. It is better to decrease in investment in inventory and maintain the ratio 2:1 of CA:CL. The company is not making full use of its current borrowing capacity. It signals excessive inventories poor credit management interms of overextended account receivable.

The quick ratio of the company is also ranging in between 0.60:1 to 1.06:1 with fluctuating trend. The company has able to maintain it's current ratio of 0.80:1 in an average of the study period. The quick ratio is not favorable to the company. It is not in the ratio of 1:1. The company has not been able to convert C.A. quickly in cash in order to meet C.L.

D. Findings of Profitability

Profitability is the measure of efficiency. It is analyzed from various angles. The gross profit margin and net profit margin of the RDL shows that, RDL is continuously incurring with heavy loss in almost all period of study except FY 2060/61, 2061/62 and 2062/63. The incurred loss is in alternative increasing and decreasing trend. The company is able to earn profit in FY 2060/61, 2061/62, 2062/63. The overall gross profit during the period of study is negative. Net profit margin of company indicates no return on average during the period of study. The net profit margin ratio is in negatively increasing trend upto FY 2059/60. Then after it has reduced in it's loss and then able to earn profit on next FY 2061/62.

The operating ratio ranges from 98 percent to 123.42 percent. The negative net profit margin gross profit margin high level of operating ratio indicates the operational inefficiency in RDL. Such high operating ratio shows that only a relatively small percentage share is available for meeting financial liabilities like interest tax and dividends.

The return on total assets, employed in RDL is not satisfactory. The return on total ratio is negative with increasing trend up to FY 2058/59. Then after it has utilized it's assets with efficient manner. The company is able to receive return during 2060/61,2061/62 and 2062/63. Average return on total assets negative similarly return on net worth is also negative almost all period of study except FY 2060/61,2061/62 and 2062/63. The average return on worth is also negative. Similarly return on employed current assets in negative up to FY 2060/61.After than, it has able to receive return on current assets. So the overall return position of company is negative, not in favorable condition. It is because of inefficient utilization of currents assets, total assets and shareholders Wealth.

Findings of Statistical Data

Besides the major finding on financial tools, the major findings on statistical tools are presented below.

Table 22

Gist of Statistical Findings

S.N	Variables	Correlation Coefficient	Probable Error (P.E)	Remark
1	Current assets to total assets	0.99	0.055	Statistically significant, Positively correlation between variables
2	Inventory to Current assets	0.90	0.04	Statistically significant, Positively correlation between variables
3	Receivables to current assets	0.69	0.11	Statistically significant, Positively correlation between variables
4.	Cash to Current Assets	0.092	0.22	Not correlation between the variables, not at all significant
5	Sales to working capital	0.89	0.046	Statistically significant, Positively correlation between variables
6	Sales to Inventory	0.54	0.15	Statistically significant, Positively correlation between variables
7	Sales to Receivable	0.43	0.18	Not as statistically significant, Positively correlation between variables
8	Sales to cash	0.41	0.18	Not at statistically significant, Positively correlation between variables
9	Current Assets to current Liabilities	0.32	0.20	Statistically significant, Positively correlation between variables

(Note: Above table represents 2056 to 2064 only)

Finding of Primary Data

One of the importance aspects of working capital management is to point out, how for working capital is different to manage as compared to fixed capital 65 percent of respondents of RDL is of the opinion that working capital is more difficult to manage than fixed capital

35 percent of respondents opine that fixed capital is more difficult to manage than working capital.

So, in RDL, from opinion, working capital is more difficult to manage than that of fixed capital then next aspect to be.

The next important aspect to be considered is the reason for the importance of current assets management; so far as the importance of current assets management, 82 percent of respondents of RDL opine that, a lot of time has taken to it as well as 18 percent respondents opine that, investment in current assets is large and volatile. Among the different types of current assets, it is found that, management of inventories cash and receivables is equally problematic in nature. The opinion of all respondents shows the equal problem in all respects of current assets. The another aspect of primary analysis is major motive for holding cash. The total response from company is, sufficient cash is required to provide a reserve for net outflows of cash. They do not hold cash for unexpected drain of cash in the events of fire, strikes, machine breakdown.

With respect to receivables management, the major factor affecting the larger investments in receivables is found to be liberal credit policy of RDL. The major reason for holding inventories is to facilitate smooth operation of products sales, majority of respondents of RDL preferred for it, not for to take advantage of price increases.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The brief introduction of the study, pharmaceutical industrialization and it's role importance in Nepal, Royal Drugs contribution toward, cheap, quality products and overall picture of DRL presented in the introductory setting. This chapter includes concept working capital like. The Third chapter i.e. review literatures gives the concept of working capital were different views of different resource scholars, writers are reviewed. Then the journals of articles published by different management experts who are available are also reviewed. Further more, the available dissertations in context of working capital management from various researchers are been reviewed. The appropriate research methodology is presented in chapter iii, with the help of methodology described in chapter iv, the data are presented and analyzed in chapter v. Now, in this chapter an effort has been made to present summary of findings, and give some suggestions for future Course of action.

The basic objective of this study is to examine the management of working capital in REL. To accomplish the objectives set earlier in first chapter the necessary data as from secondary and primary source are collected from financial statements of the RDL. Questionnaire, distributed to chief of various departments of RDL. The secondary data has analyzed though ratio analysis as a financial tools and correlation coefficient as statistical tools. The major ratio analysis consists of composition of working capital position, turnover position, liquidity position, and profitability position. In order to test, relationship between the various variables of working capital. Karl Pearson's correlation coefficient (r) is calculated and analyzed.

The findings which are revealing through this study are presented in the following section.

5.2 Conclusion

In conclusion, it can be said safely, that the management of working capital cannot be neglected by RDL. Otherwise it can seriously erode its financial viability. Thus managers must understand the factors determining working capital needs, so that such undertaken pharmaceutical industry of Nepal is also suffering from huge losses due to poor working capital management and lack of special working capital policy.

The proportion of current assets with respect to total assets and net fazed assets in RDL shows that current asset absorbs higher percentage of those total assets. As the higher ratio indicates the greater amount of W.C. the risk and profitability would decrease. It is due to higher proportion of inventory and receivables. There is positive correlation between current assets and total assets.

As well as statically significant, and there is significant difference between two variables. It could adverse effect in RDL 'S wealth maximization goal in the long. Run.

The company has cash balance, with respect to current assets and total assets are in increasing decreasing trend. The cash conversion cycle is of 31 days. There is a excess cash balance in FY 2061/62. Since, company has invested its cash in herbs production and processing company.

Inventory management is one of the important parts of manufacturing company. It absorbs higher percentage of total current assets, which means large funds tie-up of in it. So far as liquidity is concerned inventory is a lease liquid current asset in itself. There is the correlation in between current asset and inventory. There is unsound management of inventory. Receivable constitute an important part of assets of the company. So far as the RDL"S receivable is concerned. It also occupies larger portion of current assets and total assets, of average 15.09 percent and 11.04 percent during the study period. The average receivable collection period is too long of 64 days about (2months). It concludes liberal credit policy. The working capital should be arranged in such a way that it should generate maximum turnover, the proportion of working capital to sales in RDL is an average during the study period of 0.93 times which is to low is able to turn it's working capital into sales once in 392 days more than year. IT is due to inefficiency of inventory conversion receivables, cash collection. It shows less utilization, of W.C.

Though the current ratio shows the sound liquidity position RDL, but acid test ratio, shows not a so sound management of current assets. It's because of higher percentage of inventory. There is position correlation as well as statistically significant different between variables. It shows fair liquidity position of the company.

There is the profitability position, of RDL, during the study period of is not satisfactory. Except 3 Fiscal Years. The company is incurring with heavy loss except 3 FY. The return on worth, total assets is also negative. It concludes the financial performance of RDL, in not so satisfaction. It is due to high production cost operating expenses. Most of variables are also positively correlated, with each, they are statically significant. It means, both variables are moving in same direction. There is no proper utilization of resources available to the firm. It is still followed conservative W.C. which reduces risk but hamper in profitability in long run. So, company can improve it's by policy by following appropriate W.C. policy which could maximize it's profitability.

If RDL, undertake measure like, identification of need funds, regular cheeks, development of MIS positive attitude towards risk, profit determination right combinations of short term and long term sources and funds to finance, working capital needs, appropriate combination of investment in C.A., minimizing production, operating cost, prepare effective sales plan, Improving liquidity, speedy cash conversion, Proper inventory techniques, RDL can over in these problems and improve its financial performance as well as working capital.

5.3 Recommendations

Based on findings of the analysis mentioned above, the researcher has provided some practicable recommendation in the following section.

Effective Working Capital Management

The fluctuation in the current assets holding lead to conclude that RDL, is not examine its appropriate working capital policy. And due to lack of target for current assets holding in the long run and absence of source of financing most to RDL financial situation is not so sound. So there must be compulsory formulation of appropriate working capital policy not only conservative. Besides there should be policy to prevent the holding of excessive and inadequate current assets in the company. In RDL, the most important current assets are cash debtors, inventory which are given below.

i. Effective Management of Cash

The function of investment in money assets is to meet operational requirements in day to day business, to provide a reserve of liquidity for major schedule out flows of cash, to exploit opportunities, to avoid unexpected drains of cash and so on. There are many ways to effective management of cash in RDL, minimization of float, better synchronization of cash flows, slowing disbursements. If cash appears more than requirement, the company showed invests such ideal found in marketable securities. Here, statistical relationship between cash and current assets are not correlated. So management of cash should be proper.

ii. Effective Management of Receivable

In RDL, there is larger investment receivable so there should be neither over investment no lower investment A/R. Those policies involving receivable management involves trade off between risk and return. The main determinants of the size of investment are terms of sale, the selection of customers to give credit, efficiency in collecting receivables and so on. One way to control investment in receivable is to find out receivable as percent of sales. The other way are preparing schedule of receivable analysis credit worthiness of customers, minimizing flout and so on. It shows adopt a definite credit and collection policies. The credit purchase helps for lowering the requirements of working capital but in could also have credit sales. The credit sales increase the total sales volume and profit but it also increase collection lost, bad debt losses, administration cost, management should consider the trade off between cost and profit adopt.

iii. Effective Inventory Management

The investment in inventory with respect to C.A. made by RDL ranges from 3.43 percent to 68 percent. The average investment in inventory with respect to C.A. is 63.43 percent and 46.38 percent w.r.t. to total assets. Such highly fluctuated investment in inventory shows that there is no specific policy related with inventory management. Such highly varied amount in inventory shows that they are investing randomly and in adhoc way. The effective management of working capital wholly depends upon proper management of inventory, because, it absorbs higher percentage of current assets. For this company shows make effective sales plan. Which help for immediate marketability and certainly decreases the problem of overstocking. The management must minimize the wastage, scraps, there should be good store keeping system better material handling system and timely inspection system. Moreover, the analysis is also useful. The non moving and obsolete items shows be discarded to avoid unnecessary blockage up of inventory.

RDL, Must Improve Turnover Position

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

The company must speed the circulating the assets to complete. It's round because it leads to lesser need of working capital. To increase turnover, utilization of inventories those lying in the store, should be marketed as soon as possible. It should adopt modern inventory system. The proportion of cash budget and monitoring the again schedule and their quick collection will result higher turnover of assets.

Minimize the Operating Cost

RDL is incurring continuously loss except, FY 2060/61, 2061/62 and 2062/63 during the period of study, one of the cases is high operating cost of production. The management should give attention towards the purchasing of raw materials, unnecessary expenses, misuse of facilities, heavy expenses on overheads are the major causes for high operating cost.

To overcome such short comings management should be stick for use of facilities, not only these but also right number of workers in right place providing necessary training from time to time also contribute for lower administrative and operating cost. Further, to control, and reduced production cost and high operating expenses, RDL as far as possible shows utilize it's full capacity. And also the adoption of standard and marginal cost techniques will also be a good measure in controlling and classifying the costs as well as for identifying the responsibility centers for the losses. The curtailment of cost increase the profit margin.

Prepare Effective Sales Plan

Sales directly effect to need of current assets. As the sales increase the working capital level will also increases. In the absence of sales forecast, the level of current assets can not, forecasted. But for it, market, competition and production condition should be also analyzed. However, RDL, has also appointed different areas of Nepal. So, there should be, proper co-operation interaction, between different sales agents, product, marketing and sales department during the planning of sales. Due to lack of this, RDL is not able to meet the target sales in previous years of study.

Positive Attitude Towards Risk

Since, the risk is the opportunity for company to make profit, those management should not consider it is dangerous. It is the ability to manage the current assets properly and efficiently. RDL is in risk, because of adoption of conservative working capital policy. It is also the one cause of incurring loss continuously. When the management properly utilizes the current assets, predicting the further return and timing of cash generation, there will be self generation of funds by which company should not depend upon permanent financing for the current assts or temporary assets. To develop the managed ability to take risk, there should be training, participation n management, conferences, foreign enterprise tours etc for the managerial level employees.

Increase the Efficiency of Personnel and Staff

Skilled and efficient manpower is the basic need of company. Since, the Royal drugs is pharmaceutical company, efficient, trained, technical manpower are the key of the company. So, training program should be held for higher and lower level of employees. To make known the rent technology to the technical person, they should have frequent training program in home country as well as in abroad. Not only the technical personnel. Financial managers, A/C officers, inventory controller sales officer, and other general employees must give frequent training programs, organized by different association of Nepal. The skilled manpower decreases the operating cost and increases the profitability. The upper label manager, like G.M. should not be appointed from political environment.

Appendix I

Royal Drugs Limited

Profit and Loss Account

For FY (2056/57, 2057/58, 2058/59)

(in Million)

Statements	FY 2056/57		FY 2057/58		FY 2058/59	
Sales	79.94		79.70		89.32	
Loss Cost of Good Sold						
Purchase of raw materials	56.87		57.49		56.36	
Subsidy of raw materials	1.04		0.019		-	
Manufacturing Expenses	11.64		13.00		13.82	
Administrative Expenses	-		-		12.52	
Depreciation (Spare parts)	9.97		13.25		4.94	
Depreciation on Unique Machine	3.69		3.49		-	
Total Production cost	83.22		87.50		87.64	
Initial Inventory (Finished goods)	8.03		8.02		13.04	
Final Inventory (Finished goods)	(9.67)		(13.04)		(7.79)	
Less Material subsidy	(1.04)		(0.019)		-	
Less Capital subsidy	(2.19)		-		-	
Total Production and other expenses	82.73		82.47		92.89	
Gross Profit (Loss)		(2.78)		(2.76)		(3.57)
Non operating income-micleneous income	0.94	1.07	0.97	1.10	1.68	1.81
Interest income (13% N.S.P.)	0.13		0.13		0.13	
Wastages : Finished goods	-	-	-	-	0.68	(1.64)
Raw Materials	-	-	-	-	0.95	-
Gross Profit before provision	-	(1.71)		(1.66)		(3.4)
Provisions					-	
For interest	-				-	
Dividend (2041/42, 2052/43)	-				-	
Bonus for employee	-				-	
Provident fund	-				-	
Tax Expenses	-				-	
General Reserve find					-	
P/L (Net) this year	(1.71)		(1.66)		(4.68)	
Last year Profit (loss)	1.48		(0.23)		(1.89)	
Net Profit Shifted to B/L.	(0.23)		1.89		(6.50)	

Appendix II

Royal Drugs Limited

Profit and Loss Account

For FY (2059/60, 2060/61, 2061/62)

(in Million)

Statements	FY 2059/60	FY 2060/61	FY 2061/62
Sales	116.04	111.97	122.40
Loss Cost of Good Sold			
Purchase of raw materials	80.55	73.26	65.45
Subsidy of raw materials	-	1.86	4.07
Manufacturing Expenses	20.00	21.81	24.39
Administrative expenses	17.65	17.06	22.18
Depreciation (Spare parts)	5.25	2.04	1.84
Depreciation on Unique Machine	-	-	-
Total Production cost	123.46	116.06	117.96
Initial Inventory (Finished goods)	7.79	11.39	16.82
Final Inventory (Finished goods)	(11.69)	(18.43)	(7.85)
Less Material subsidy	-	-	(4.07)
Less Capital subsidy	-	-	-
Total Production and other expenses	119.65	109.02	122.85
Gross Profit (Loss)	(3.51)	2.95	(0.45)
Non operating income-micleneous income	2.27 2.40	0.73 0.754	2.60 4.46
Interest income (13% N.S.P.)	0.13	0.24	1.86
Wastages : Finished goods	-	(1.61)	(1.61)
Raw materials	-	-	-
Gross Profit before provision	(1.10)	(2.09)	2.40
Provisions			
For interest			
Dividend (2041/42, 2042/43)			
Bonus for employee (10%)		(0.409)	(0.24)
Residence for employee (5%)		(1.104)	(0.12)
Provident fund			
Tax Expenses (30%)		(0.627)	(0.72)
General Reserve find			
P/L (Net) this year	(1.10)	1.14	1.32
Last year profit (loss)	(6.50)	(7.91)	(6.76)
Net Profit Shifted to B/L	(7.61)	(6.70)	(5.44)

Appendix III

Royal Drugs Limited

Profit and Loss Account

For FY (2062/63, 2063/64, 2064/65)

(in Million)

Statements	FY 2062/63		FY 2063/64		FY 2064/65	
Sales	122.02		86.73		103.70	
Loss Cost of Good Sold						
Purchase of raw materials	70.02		58.71		57.94	
Subsidy of raw materials	3.79		3.54		-	
Manufacturing Expenses	27.73		30.90		35.31	
Administrative expenses	24.84		20.53		26.39	
Depreciation (Spare parts)	1.79		2.17		2.01	
Depreciation on Unicef Machine	-		-		-	
Total Production cost	128.38		115.87		121.66	
Initial Inventory (Finished goods)	7.85		13.86		19.14	
Final Inventory (Finished goods)	(14.60)		(19.14)		(13.84)	
Less Material subsidy	(3.79)		(3.54)		-	
Less Capital subsidy	-		-		-	
Total Production and other expenses	117.84		107.04		126.96	
Gross Profit (Loss)	-	4.18		(20.31)	-	(23.25)
Non operating income-micleneous income	3.14	1.84	0.75	0.36	0.25	0.022
Interest income (13% N.S.P.)	1.29		0.39		0.22	0.25
Wastages : Finished goods	0.73	(1.61)	-	-	-	
Raw materials	0.88	-	-	-	-	
Gross Profit before provision		5.70	-	(19.56)		(23.00)
Provisions	-	-				
For interest	-	-				
Dividend (2041/42, 2042/43)	-	-				
Bonus for employee (10%)	(0.57)	-	-			
Residence for employee (5%)	(0.285)	-	-			
Provident fund	(0.17)	-	-			
Tax Expenses (30%)	(1.71)	-	-			
General Reserve find						
P/L (Net) this year	2.96	-	(19.56)		(23.00)	
Last year profit (loss)	(5.44)	-	(24.78)		(22.04)	
Net Profit Shifted to B/L	(2.47)		(22.04)		(45.04)	

Appendix V

Examine the Relationship Current Assets and Total Assets

(in Million)

Year (n)	Current Assets (x)	dx (x – x)	dx^2	Total Assets y	dy (y – y)	dy^2	dxdy
2056/57	95.09	(12.21)	149.08	136.96	(9.73)	94.67	118.80
2057/58	95.77	(11.53)	132.94	136.60	(10.09)	101.80	116.80
2058/59	93.11	(14.19)	201.35	133.34	(13.35)	178.22	189.43
2059/60	113.58	6.28	39.43	150.32	3.59	11.49	22.54
2060/61	123.67	16.37	267.97	160.72	14.03	196.84	229.67
2061/62	112.67	5.37	28.83	151.28	4.59	21.06	24.64
2062/63	121.77	14.47	209.38	162.44	15.75	248.06	227.90
2063/64	99.89	(7.41)	54.90	140.05	(6.64)	44.08	49.20
2064/65	109.87	2.57	6.60	148.51	1.82	3.31	4.67
	x = 107.30	Σdx =(0.28)	Σdx^2 =1090.48	y =146.69	Σdy = (0.03)	Σdy^2 = 899.53	Σdxdy =983.18

Now : Correlation coefficient

= 0.99

Then P.E. = = = 0.272

Appendix VI

Examine the Relationship Between Inventory and Current Assets

Year (n)	**Current Assets (x)**	**dx (x – x)**	**dx^2**	**Inventory y**	**dy (y – y)**	**dy^2**	**dxdy**
2056/57	95.09	-12.21	149.08	60.30	-7.83	61.30	95.60
2057/58	95.77	-11.53	132.94	61.88	-6.25	39.06	72.06
2058/59	93.11	-14.19	201.35	61.07	-7.06	49.84	100.18
2059/60	113.58	6.28	39.43	77.75	9.62	92.54	60.14
2060/61	123.67	16.37	267.97	83.77	15.64	244.60	256.02
2061/62	112.67	5.37	28.83	60.07	-8.06	64.96	43.28
2062/63	121.77	14.47	209.38	73.29	5.16	26.62	74.66
2063/64	99.89	(7.41)	54.90	66.47	-1.66	2.75	12.30
2064/65	109.87	2.57	6.60	68.77	0.64	0.40	1.64
	x = 107.30	Σdx =(0.28)	Σdx^2 = 1090.48	y =68.13	Σdy = 0.2	Σdy^2 = 582.07	Σdxdy =716.19

Now : Correlation coefficient

= 0.09

Then P.E. = = = 0.0427

Appendix VII

Examine the Relationship Between Receivables and Current Assets

(in Million)

Year (n)	**Receivables (x)**	**dx (x – x)**	**dx^2**	**C.A. y**	**dy (y – y)**	**dy^2**	**dxdy**
2056/57	14.69	-2.93	8.58	95.09	-12.21	149.08	35.77
2057/58	16.89	-0.73	0.53	95.77	-11.53	132.94	8.40
2058/59	12.44	-5.18	26.83	93.71	-14.19	210.35	73.50
2059/60	18.30	0.68	0.46	113.58	6.28	39.43	4.27
2060/61	21.07	3.45	11.90	123.67	16.37	267.97	56.47
2061/62	13.17	-4.45	19.80	112.67	5.37	28.83	-23.89
2062/63	25.29	7.67	58.82	121.77	14.47	209.38	110.98
2063/64	18.48	0.86	0.73	99.89	-7.41	54.90	-6.37
2064/65	19.26	1.64	2.68	109.87	2.57	6.60	4.21
	x =17.62	Σdx =1.01	Σdx^2 =130.33	y =107.30	Σdy =-0.28	Σdy^2 =1090.48	Σdxdy =263.35

Now : Correlation coefficient

= 0.69

Then P.E. = = = 0.11

Appendix VIII

Examine the Relationship Between Cash and current Assets

(in Million)

Year (n)	Cash (x)	dx (x – x)	dx^2	C.A. y	dy (y – y)	dy^2	dxdy
2056/57	7.60	-1.54	2.37	95.09	-12.21	149.08	18.80
2057/58	3.55	-5.59	31.24	95.77	-11.53	132.94	64.45
2058/59	14.88	5.74	32.94	93.71	-14.19	201.35	-81.45
2059/60	5.63	-3.51	12.32	113.58	6.28	39.43	-22.04
2060/61	4..74	-4.4	19.36	123.67	16.37	267.97	-72.02
2061/62	28.77	19.63	385.33	112.67	5.37	28.83	105.41
2062/63	10.80	1.66	2.75	121.77	14.47	209.38	24.02
2063/64	2.54	-6.6	43.56	99.89	-7.41	54.90	48.90
2064/65	3.79	-5.35	28.62	109.87	2.57	6.60	-13.74
	x =9.14	Σdx =0.04	Σdx^2 =558.49	y =107.30	Σdy =-0.28	Σdy^2 =1090.48	Σdxdy =72.33

Now : Correlation coefficient

= 0.092

Then P.E. = = = 0.22

Appendix IX

Examine Relationship Between Working Capital and Sales

(in Million)

Year (n)	Receivables (x)	dx (x – x)	dx^2	C.A. y	dy (y – y)	dy^2	dxdy
2056/57	79.94	-21.37	456.67	95.09	-12.21	149.08	260.92
2057/58	79.70	-21.61	466.99	95.77	-11.53	132.94	249.16
2058/59	89.32	-11.99	143.76	93.71	-14.19	201.35	170.13
2059/60	116.04	14.73	215.97	113.58	6.28	39.43	92.50
2060/61	111.97	10.66	133.63	123.67	16.37	267.97	174.50
2061/62	122.40	21.09	444.78	112.67	5.37	28.83	113.25
2062/63	122.02	20.71	428.90	121.77	14.47	209.38	299.67
2063/64	86.73	-14.58	212.57	99.89	-7.41	54.90	108.03
2064/65	103.70	2.39	5.71	109.87	2.57	6.60	6.14
	x =101.31	Σdx =0.03	Σdx^2 =2489.98	y =107.30	Σdy =-0.28	Σdy^2 =1090.48	Σdxdy =1474.3

Now : Correlation coefficient

= 0.89

The P.E. = = = 0.046

Appendix X

Examine the Relationship Between Sales and Inventory

(in Million)

Year (n)	**Sales (x)**	**dx (x – x)**	**dx^2**	**Inventory y**	**dy (y – y)**	**dy^2**	**dxdy**
2056/57	79.94	-21.37	456.67	60.30	-7.83	61.30	67.32
2057/58	79.70	-21.61	466.99	61.68	-6.25	39.06	135.06
2058/59	89.32	-11.99	143.76	61.07	-7.06	49.84	84.64
2059/60	116.04	14.73	216.97	77.75	9.62	92.54	141.70
2060/61	111.97	10.66	113.63	83.77	15.64	244.60	166.72
2061/62	122.40	21.09	444.78	60.07	-8.06	64.96	-169.98
2062/63	122.02	20.71	428.90	73.29	5.16	26.62	106.86
2063/64	86.73	-14.58	212.57	66.47	-1.66	2.75	24.20
2064/65	107.70	2.39	5.71	68.77	0.64	0.40	1.52
	x =101.31	Σdx =0.03	Σdx^2 =2489.98	y =68.13	Σdy =0.2	Σdy^2 =582.07	Σdxdy =658.04

Now : Correlation coefficient

= 0.54

Then P.E. = = = 0.15

Appendix XI

Examine the Relationship Between Sales and Receivables

(in Million)

Year (n)	Sales (x)	dx (x – x)	dx^2	Receivable y	dy (y – y)	dy^2	dxdy
2056/57	79.94	-21.37	456.67	14.69	-2.93	8.58	62.61
2057/58	79.70	-21.61	466.99	16.89	-0.73	0.53	15.77
2058/59	89.32	-11.99	143.76	12.44	-5.18	26.83	62.10
2059/60	116.32	15.01	255.30	18.30	0.68	0.46	10.2
2060/61	111.57	10.26	105.26	21.07	3.45	11.90	35.39
2061/62	122.40	21.09	444.78	13.17	4.45	19.80	-93.85
2062/63	122.02	20.71	428.90	25.29	7.67	58.82	158.84
2063/64	86.73	-14.58	212.57	18.48	0.86	0.73	-12.53
2064/65	107.70	6.39	40.83	19.26	1.64	2.68	10.47
	x =101.31	Σdx =3.91	Σdx^2 =2525.09	y =17.62	Σdy =1.01	Σdy^2 =130.37	Σdxdy =249.04

Now : Correlation coefficient

= 0.43

The P.E. = = = 0.18

Appendix XII

Examine the Relationship Between Sales and Cash

(in Million)

Year (n)	**Sales (x)**	**dx (x – x)**	**dx^2**	**Inventory y**	**dy (y – y)**	**dy^2**	**dxdy**
2056/57	79.94	-21.37	456.67	7.60	-1.54	2.37	32.90
2057/58	79.70	-21.61	466.99	3.55	-5.59	31.24	120.79
2058/59	89.32	-11.99	143.76	14.88	5.74	32.94	-68.82
2059/60	116.04	15.01	225.30	5.63	-3.51	12.32	-52.68
2060/61	111.97	10.26	105.26	4.74	-4.4	19.36	-45.14
2061/62	122.40	21.09	444.78	28.77	19.63	385.33	413.99
2062/63	122.02	20.71	428.90	10.80	1.66	2.75	34.37
2063/64	86.73	-14.58	212.57	2.54	-6.6	43.56	96.22
2064/65	107.70	6.39	40.83	3.79	-5.35	28.62	-34.18
	x=101.31	Σdx =3.91	Σdx^2 =2525.09	y =9.14	Σdy =0.04	Σdy^2 =558.52	Σdxdy =497.43

Now : Correlation coefficient

= 0.41

Then P.E. = = = 0.18

Appendix XIII

Examine the Relation between Current Assets and Current

(in Million)

Year (n)	Current (x)	dx (x – x)	dx^2	Current Liabilities y	dy (y – y)	dy^2	dxdy
2056/57	95.09	-12.21	149.08	32.70	-19.1	364.81	4454.33
2057/58	95.77	-11.53	132.94	34	-17.8	316.84	205.23
2058/59	93.71	-13.59	184.68	34.40	-17.4	302.76	236.46
2059/60	113.58	6.28	39.43	52.48	0.68	0.46	4.27
2060/61	123.67	16.37	267.97	61.08	9.28	86.11	151.91
2061/62	112.41	5.11	26.11	50.31	-1.49	2.22	-7.61
2062/63	121.77	14.47	209.38	58.50	6.7	44.89	96.94
2063/64	99.89	-7.41	54.90	55.66	3.86	14.89	-28.60
2064/65	109.87	2.57	6.60	87.12	35.32	1247.50	90.77
	x =107.30	Σdx =0.06	Σdx^2 =1071.13	y =51.80	Σdy =0.05	Σdy^2 =2380.50	Σdxdy =5203.72

Now : Correlation coefficient

= 0.32

Then P.E. = = 0.20

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PROFORMA OF QUESTIONNAIR
(A STUDY OF WORKING CAPITAL MANAGEMENT)

Name of the respondent: **Position:**
Organization: Royal Drugs Limited **Department:**

1. Which of the following two statements do you agree with?
    a. Working capital is more difficult to manage than fixed capital.
    b. Fixed capital is more difficult to manage than working capital.

2. Who do you think is the reason for the importance of current assets management?
    a. A lot of time has to be devoted to it.
    b. Investment in current assets is large and volatile.
    c. It has limited access to capital markets.
    d. Others (Please specify)

3. Which of the following assets has more problems?
    a. Management of cash in hand and at bank.
    b. Management of Sundry Debtors (Receivables)
    c. Management of inventories.
    d. Others (Please specify)

4. What is the major motive for holding cash in your organization?
    a. Sufficient cash is required to provide a reserve for routine net outflows of cash.
    b. To meet scheduled major outflows of cash. e.g. tax, dividend. etc.
    c. To avoid unexpected drains of cash in the even of fire, strikes, machine breakdown, etc.
    d. Others (Please specify)

5. What is the major factor affecting the larger investment in Sundry Debtors (Receivables)?
    a. The liberal credit policy.
    b. Paying practice of customer is late.
    c. Collection of trade credit is not efficient.
    d. Others (Pleas specify)

6. Why do you hold inventories? Please tick a major one.
    a. To facilitate smooth operation of production and sales.
    b. To guard against the risk of unpredictable changes in demand for and supply of inventories.
    c. To take advantage of price increase.
    d. Others (Please specify).