# CHAPTER ONE
# INTRODUCTION

## 1.1 General Background

Financial institutions are currently viewed as catalyst in the process of economic growth of a country. A key factor in the development of an economy is the mobilization of the domestic resources. As intermediaries the financial institution helps the process of institution in the economy ha of late grown to an enormous extent. The government in turn is required to regulate their activities so that the financial policies are implemented as per the requirements of the country. Policies such as lending to the priority sector, lending to the educated unemployed people creation of entrepreneurship in the society are certain examples, which the government in developing economics try to implement with the help of financial institutions. The important of financial intermediations has been stressed by R.C. Brayant in these words. Economists and historians agree that the process of modern economic growth has been closely associated with the expansion and increasing diversification of financial intermediation (Shrestha, 1995: 1-2).

Financial institution can be considered as the catalyst to the economic growth of a country. The development process of country involves the mobilization and development of the resources. Development of the trade commerce and industry are the prime requisite for the attainment of the economic social and political goals. To fulfill the purpose of planning financial function often dominate the other functions.

There is always lack of finance in under development economy because natural resources are either underutilized in productive sectors or even other purposes i.e., social welfare and so on like wise, underdeveloped countries are not deficient in land, water, mineral, forest or power resources. (Dewett, 1995: 454)

So in these countries for the rapid development of the economy. there should be proper mobilization of resources. Due to various difficulties or even ignorance of people. Such resources have not been properly utilized. Hoarding could be one of the reason for this. So banks and other financial institutions play a vital role to encouraged thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They pursue rapid economic growth, development the bank habit among the people, collecting the small scattered resources in one bulk and utilizing them in further productive purpose and rendering other valuable services to the country. Thus, this gives the individual to borrow the funds against future income which may improve the economic well being of the borrower.

Earlier the function of banks were different from modern commercial banks in many aspects. The banks, which operated in the past, combined central banking functions. Such as issues of currency with commercial banking function like accepting deposit and financing business. It is one of the major saving mobilization activities that accommodates ideal saving of the households and creates the capital for the economic development. It also helps to monisite productive sectors. Advancing loan is another part of function of commercial bank.

Rural people of underdeveloped countries like Nepal need various banking facilities. In most of the countries the banks are generally concentrated in the urban and semi urban sectors and rural sectors is neglected due to risk and low return. But the main source of national income of developing countries comes from the very rural sectors. In fact, the rural development is the key to the economic development without which other sector of the economy cannot be flourished.

## 1.2 Evaluation of Banking Sector in Nepal

"The bank of Venice" the first public banking institution was established in Italy in 1157 A.D. as so in 1694. "The bank of England" was established with changed the process of establishing the banking institutions remarkably. This was a big landmark in the history of Banking development. The idea of commercial banks who rapidly dispersed to all over the word only after the establishment of this bank.

Banking service is the oldest service industry in Nepal. It has gone through a various stages of evaluation and development since the Vedic times 12000 to 1400 B.C). Though, the modern banking institution has a very recent origin in Nepal. Some crude operation were in practice even in ancient time. In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Sankhadhar, a Sudra merchannt of Kantipur in 879 to 880 A.D. after having paid all outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. Towards the end of 8th Century, Gunakama Dev had borrowed the money to rebuilt Kathmandu valley. In 11th century during Malla there was an evidence of Professional money lenders and bankers. It is further believed that money lending business. Particularly for financing the foreign trade with Tibet, became quite popular during regime of Mallas. However, in the absence of any regulatory Measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced.

These inconveniences led the Prime minister Ranodeep (1877-1885) to establish Tejarath Addaha in Kathmandu, which was a government financial institution supplying credit to people at 5% rate of interest against security of gold, silver and ornaments. The government servants were also entitled to take loans from Tejarath repayable from their salary at the source. During the time of Chandra Shamsher (1901-1929), credit facilities were extended to some other parts of the country by opening its branches. It is believed that the so-called well-to-do persons used to take loans from private money leaders even at the higher rate of interest than those from the government institution. For they were not prepared to disclose in public anything that was likely to affect their prestige when they were approached by this type of clients, the professional money leaders used to raise loans in their own names from Tejarath at 5% rate of interest against gold and ornaments which were not their own but brought to them by their clients as security for the loans to be finance from the funds raised from Tejarath itself. Thus, without any resource of their own part, the money leaders could manage very well to exploit their special type of clients just playing the role of Middleman between their clients and the government institutions. To control spurious rates of interest and also to curb unfair practice on the part of unscrupulous moneylenders, legislative measure were also taken later, with the growing necessities of the commercial banks in the world, Nepal Bank Limited, the first commercial bank of Nepal, come into being in 1937 A.D. replacing the oldest system of banking. In the present scenario different types of banks are being practiced in Nepal, but among them commercial banks play a vital role in economic development of the country.

As mentioned above, with the motive to develop the trade and industry in the country commercial bank called Nepal bank limited was established in 1937 A.D. It was established under the Nepal Bank Act of 1936 A.D. and this bank was inaugurated by the late King Tribhuwan Bir Bikram Shah Dev. At that time the authorized capital of Nepal bank Limited (MBL ) was Rs 1 crore, divided into 100000 shares of Rs, 10000 each. Nepal bank limited had a responsibility of attracting people towards banking sector from predominant sahu–Maharjan's transaction and of introducing other banking services as well. Being a commercial bank, it was natural that Nepal Bank limited paid more attention to profit generating business. But it is the duty of the government to look into the neglected sectors. Therefore Nepal bank limited was established with 51% ownership of His Majesty's Government (HMG) and 49% of the equity participation from the private sectors. With the development of the banking sector and to help the government formulate monetary policies, Nepal Rastra Bank was set up in 1956 A.D. (14th Baisakh 2013) the central bank of the country. Since then it has contributed to the growth government of financial sector.

The growth and development of a country is possible only when competitive banking services reach each and every corner of the country. However, as the central bank, Nepal Ratra Bank had its own limitations and as a commercial banks it was not logical for Nepal Bank limited to go to unprofitable sectors. So, to catch up with these problems the government established Rastriya Banijya Bank in 2022 B.S. (1965 A.D.) under Banijya Bank act 1965 A.D. as a fully state owned commercial bank. then the establishment of Nepal industrial Development cooperation. Employee provided fund. Agriculture Development Bank etc. followed the formation of financial institutions.

With the aim to provide quality-banking service enhance the efficiency and healthy competition foreign investment and New technology in banking sectors was introduced. Nepal Arab Bank, the first Joint venture Bank was established in 1984 A.D. (2041 B.S). The Bank was the outcome of the joint venture with the Dubai Bank limited of united Arab Emirates. The footstep of this bank was followed by Indosuez Bank a joint venture bank with a bank of Paris in 1986 A.D. (2041 B.S.) and later Nepal Graindlays Bank Ltd. now renamed as Standard Chartered Bank, a Joint Venture with a bank of united Kingdom was established in 1987 A.D. (2042 B.S).

## 1.3 Focus of the Study

Bank is a business organization where monitory transactions occur. It creates funds from its clients saving and lends the same to needy person or business companies in term of loans, advance and investment. The concept of financial institution in Nepal was introduced when the first commercial bank, the Nepal bank ltd. was established in Kartik 30, 1994 B.S. as a semi government organization.

Commercial banks are the heart of the financial system. They hold the deposits of many persons government establishment and business units. They make funds available through their lending and investing activities to borrowers individuals, business firms and government establishment. In doing so, they assist both the flow of goods and services from the procedures to consumers and the financial activities of the government. They provide large portion of medium of exchange and they are the media through which monitory policy is affected. These facts shows that the commercial banking system of the nation is important to the functioning of the economy.

In the fiscal year 2039/2040, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. The establishment of joint venture banks gave a new horizon to the financial sectors of the country proper financial decision-making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions of bank are concerned with current assets and current liabilities. The working capital management of a bank is different from other types of business enterprises. A bank plays a significant role to fulfill the requirement of working capital of any other type of business enterprise. It also needs efficient management. Investment in working capital other business enterprise is a part of current assets of bank's working capital and we can consider deposits and short term borrowing as a part of current liabilities. So this study is a reference is regarding the working capital management.

## 1.4 Profile of MBL

### 1.4.1 General Introduction

When the government adopted open market and liberal economic policy, then only there was a suitable environment for commercial Banks to be established. As a result modern commercial Bank were establishing by Banks and Nepalese private banks in form of committed by the government.

Machhapuchhre Bank Ltd. has been established in 1998 by Nepalese promoters in Western part of Nepal. The commercial Act 2031 and company Act 2021. It gained approved from NRB and was registered with office of company registers on the Falgun 22054 B.S. Begin its Operations on 17th Aswin 2057 B.S. MBL is fully computerized Banks and its head office is situated at Naybazar Pokhara, Kaski.

At the time of begging, authorized capital 240 million and issued capital 120 million and paid up capital 84 million. Now it has authorized capital 1000 million and issued and paid up capital 550 million with the structure. MBL is the first private commercial Bank to keep sophisticated GLOBUS system in Nepal. It provides any where banking facilities to this valuable customers.

The bank has been promoted individuals and companies with local roots from different walks of life with a vision and dedication to provide the best financial products and services effectively and professionally.

The share structure of MBL has 70 percent of promoter 25 percent public and 5 percent from employees.

### 1.4.2 General Function of MBL

As like in other business concern commercial banks are also very Much concerned about making profit because profit is the Major element of each every business endeavor for their survival, further development and fulfilling social expectations.

In modern business, the effectiveness and efficiency of the business organization and or their managed are measured from the profit earned by them. Banks deal with money and perform several finance monitory and economic activities that are essential for economic development of a country. It is a service industry there for its profit plans are of a different formal than those is a manufacturing units. Unlike the manufacturing units as bank has resources mobilization and utilization plan and its aims at maximizing profit out of their activities.

MBL being a commercial banks and also business concern performs various kind of profitable banking business activities which are under the control the Nepal Rastra bank Act 2012, commercial Act 2031 foreign exchange regularized Act 2019, umbrella Act (Bank and financial institution ordinance 2060) and other specific law of Nepal. The main activities

1. Acceptance of deposit
2. Providing loans and advance
3. Providing overdarft
4. Opening various types of costumer A/C
5. remittance (transfer of fund)
6. Opening letters of credit (A/C) on behalf of their customers
7. Bills discounting or purchasing or collection on behalf of the customers.
8. Issuing guardntees against the bidding financial and performance of activities.
9. Obtaining mortgage of properties as collateral sector safe custody of valuable.
10. safe custody of valuable

### 1.4.3 The Main Vision Mission and Objective

MBL has defined its objectives and goals in its mission and vision statement which states as follows:

**Vision**

The vision of the bank has been status as bankers with state of the art technology strive for growth with profitability is the core vision that shall be achieved with professionalism and excellence.

**Mission and Objective**

MBL strives to facilitate its customer needs by delivering the best of services in combination with the latest technologies and the best international practices.

The drown of the new millennium has heralded widespread changes in the way of financial services are delivered and financial market operate. In lights of this fact, MBL seeks to infinity and exploit the financial opportunities through proper challenging of technology into services and product it offers to the benefit of its customer the community and country.

The mission of the bank states as with the slogan, Service with a person touch" we at MBL our goal is to aim and achieve the highest standard of professionalism and service to client by providing customized financial products client by providing customized financial products and services through proactive management.

If further states our term of innovative and dynamic master-Minds march across the geographical and cultural boundaries with contemporary completely designed and differentiated quality financial products and services to achieve strategy advantages in a dynamic environment. Thus the objective and goals set by the bank can be noted from above statements as follows:

1. To aim and achieve higher standard of professional
2. To aim and achieve to provide-higher standard of customized products and services to their clients
3. To create life long relationship with their customer.
4. To achieve strategic advantage in the dynamic environmental every thing designed deferential financial product.
5. To maintain management proactively

## 1.5 Statement of the Problem

Working capital Management has been regarded as one of the conditioning factors in the decision making issues. Working capital of the organization can not be managed in an easy way and it should not be managed in an easy way and it should not be neglected. Further, the bankers problem in this regard is more difficult than that of mfg and non-mfg business organizations. Commercial banks are great monitory institution, important to the general welfare of the economy. They have a vastly sobering and exacting responsibility. They must be ready to pay on demand warning or notice, a good share of their liabilities. Different types of deposits are the main source of fund which they can use to giving loans and advances to different sectors. Hence in order to have a higher return from their transaction. Banks must try to increase their deposits as well as their investment. To fix the level of deposits and the capacity of mobilization these deposit is main problem of working capital management of bank. Banks can get higher profit if they invest their increasing deposits in proper places. Otherwise profitable of the bank can not be expected. Following are the major problems that have been identified for the purpose of this study.

- How the working capital is managed in MBL ?
- What are the Major Factors effecting the Management of working capital in MBL ?
- What are the components of working capital which affect the operating income of Machhapuchchhre Bank?

## 1.6 Objectives of the Study

A banker's efficiency mainly consists in attracting more deposit, increasing loans and advances and maximizing profit. The first two are concerned with the mobilization and channeling of national saving to more productive uses, whereas the third aims at the stability and growth of the bank. These motives can not be fulfilled without an efficient and effective management of working capital of the bank.

The Major objective of this study is to evaluate the working capital position of Bank of Kathmandu limited. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of MBL from the long-range view point. The specified objectives of this study are as follows:

- To analyze the performance of working capital in MBL
- To analyze the position of CA and CL and their impact
- To analyze the impact of working capital policy on profitability.

## 1.7 Significance of the Study

Working capital is the size of investment in each type of current assets. Each of the current assets should be managed efficiently and effectively. It is because decision regarding working capital affects not only the profitability of the firm in the short term but also its very survival in the long-run. The management of working capital should not be neglected by enterprises. Otherwise, they will seriously erode their financial viability. As the commercial banks in Nepal are exacting grater and greater influenced on the economy of the country. An effective and efficient management of third current assets is needed to better the profitability of the firm.

The need of the study like this arises from the real nature of the banking business and also forms the impact that, it has in the level of deposits and loans depends upon the working capital policy. The study of this type will be most important for the bankers. the economists, and the public at large. It provides the literature to he researcher who wants to carry on further research in this field. Therefore, it has been felt very necessary to evaluate the position of working capital management and to focus on the importance of the working capital management in MBL.

## 1.8 Limitation of the Study

This study is simply a partial requirement of Master of Business study (MBS) Program. So this study will be limited of following factors.

- This study will be focused on working capital management of MBL only. The findings of the study may not be applicable for other banks and firms and companies as well.
- This study is mostly based on secondary data which may or may not provide exact vision of the field.
- This study only covers the period of last five years (059/60 to 063/64).

## 1.9 Organization of the Study

This thesis has been divided into five chapters. They are:

**Chapter I:** Introduction – This chapter covers general background, evolution of banking sector in Nepal, focused of study. Profile of Mchhapuchchhre Bank. Statement of problem, objectives of study significance of study. Limitation of the study and organization of the study.

**Chapter II:** Review of Literature: The second chapter conceptual framework and post research literature on working capital management of various books and research works.

**Chapter III:** Research Methodology: this chapter deals with the research methodology to be adopted for the study consisting research design, source of data, data processing procedure, tools and techniques of analysis and period covered.

**Chapter IV:** Data Presentation and Analysis, this chapter contains presentation and analysis of data. In this chapter, data are collected through balance sheet and profit and loss account and one presented in tables. Analysis and interpretation of data have been performed there after.

**Chapter V:** The fifth or last chapter covers summary, conclusion and recommendation.

# CHAPTER TWO
# REVIEW OF LITERATURE

The main purpose of this chapter is to review the available literature on working capital management in the context of Nepalese enterprises including the available information of commercial banks. After selecting the topics of the research, researcher study different magazines, journals and Newspapers book to collect the information about their subject matter. This process of studying different materials, which are concerned with the selected topic of the research, concerned with the selected topics of the research, is known as review of literature P.V. young argues Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research.

## 2.1 Conceptual Framework

The management of the funds of business can be described as financial management. Financial Management is mainly concerned with two aspects. Firstly, Fixed assets and fixed liabilities; in other words, long-term investment and source of funds. Secondly, current assets and current liabilities which are concerned with current uses and sources of funds. Both of these types of funds play a vital role in order to carry out its operation. Some assets are required to meet the needs of regular production and some other are required specially to meet day to day expenses and short-term obligations. The asset such as cash marketable securities account receivables and inventories which are known as current assets, are required to be maintained at a certain level depending upon the volume of production and sales.

The cash and marketable securities are respectively considered as purely liquid and near liquid assets whereas the account receivable and inventories are not. However, they can be liquidated as and when necessary within a period of less than one year. The capital invested on these assets is known as working capital. In short, working capital is the source of financing current assets and it includes short as well as long-term financing. Working capital is a controlling nerve of business. It is an important and integral part of financial management as short-term survival is a pre-requisite to long-term success. As pointed out by Ralph Kennedy and steward MCMULLAR the inadequacy or mismanagement of working capital is the heading cause of business failure. Unless the payment is made at the maturing of the particular debt, the firm is at worst and the creditors may force the firm to terminate is its business. (Flank and Donald, 1964:13).

Firms need cash to say for all their day-to-day activities. They have to pay wages, pay for row materials, paybills and so on the money available to them to do this is known as the firm's working capital. The main source of working capital are the current assets as these are the short term assess that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has at its disposal.

Working capital is therefore:

Working capital (WC) = Current assets (CA) -Current liabilities(CL)

= Stock + debtors + cash - liabilities (CL)

Thus working capital is the same as net current assets and is an important part of the top half of the firm's balance sheet. It is vital to a business to have sufficient working capital to meet all its requirements.

Many business have gone under, not because they were unprofitable, but because they suffered from shortages of working capital (www.bized.ac. UK).

Working capital refers to the cash a business requires for day to day operations or more specifically, for financing the conversion of raw materials into finished goods, which the company sells for payment. Among the most important items of working capital are levels of inventory, accounts receivable and accounts payable. Analysis look at these items for signs of a company's efficiency and financial strength. The better a company manages its working capital, the less the company needs to borrow. Even companies with cash surpluses need to manage working capital to ensure that those surpluses are invested in way that will generate suitable returns for, investors (www.studyfinance.com).

Therefore, the role of working capital management is more significant for every business organization irrespective of their nature. There have been done a number of studies on working capital management from different experts in various enterprises.

## 2.2 Concept of Working Capital

The term working capital management is closely related with short-term finance and it is concerned with collection and allocation of the resource working capital management is related to the problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationships that exist between them. Thus the management of working capital is no longer viewed as an accounting task but as a strategic method for increasing the financial performance of leading organizations. While early initiatives for reducing days sales outstanding (DSO) have largely focused on post invoice collections and dispute management, today the ability to direct working capital management throughout the entire quote to cash cycle has proven to deliver on exponential effect on DSO and the overall customer experience (www. bambooweb.com).

There are two schools of thoughts or concepts regarding the meaning of working capital. According to one school of thought, working capital is mean for the current assets only. It is concerned nothing with the liabilities side. According to other school of thought working capital is the excess of current assess over current liabilities. The former concept which can be termed as gross concept; is important to newly established companies where liabilities have not been acquired immediately, but the latter one which can be termed as net concept, is important for both newly established and operating concerns where some amount of current liabilities has been maintained for payment of different creditors. Income taxes bills payable, secured and unsecured loan etc 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 diminishing in value and without disrupting the operations of the firm such as cash marketable securities accounts receivables and inventory etc current liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business such as accounts payable, back over draft and outstanding expresses etc. Mainly there are two concepts of working capital gross concept and net concept.

## Gross Concept

According to gross concept, we refers to the capital invested in current assets of a firm. It focuses only the optimum investment on current assets and financing of current assets. It includes cash short-term securities and inventory and account receivables. The level of current assets may be fluctuating with the changing business activities. Thus, this concept can help earning more profit through maximum utilization of current assts. This concept is called quantitative concept (Pradhan, 1986: 119).

Working capital in gross concept means the total sum of current assts only. The view was supported by distinguished authorities like mean, Baker, Milled, Pandey, Pradhan, field and Adam Smith. Adam Smith called 'Circulating capital for current assets. The use of this term emphasizes on the short-term cash cycle of the firm. The short-term cash cycle refers to the recurring transactions from cash to inventory, inventory to receivable and receivable to cash again.

**Net Concept**

According net concept, working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long term funds. It focuses on the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds. It is not very useful to compare the performance of different firms as a measure of liquidity. But it is quite useful for internal control. This concept helps to compare the liquidity of the same firm over a time (Khan and Jain: 1999: 604).

The term net working capital refers to the different between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to nature for payment within an accounting year, and includes; creditors bills payable, bank overdrafts and outstanding expenses or accrued income. Net working capital arises when current assets exceed current liabilities. A negative we occurs when currant liabilities are in excess of current assets (Pandey; 1995: 730).

According to the well known Indian professor I.M. Pandey, there are specially two concept of working capital Gross Concept and Net concept. The gross working capital simply called as working capital refers to the firm's investment in current assets. Current assets are those assets, which can be converted into cash within an according year and includes cash, short-term securities, debtors, bills receivables, stock and prepared experiences.

According to James C. Van Horne, there are two Major concepts of working capital-net working capital and gross working capital. When accountants use the term working capital they are generally referring to net working capital, which is the dollar difference between current assets and current liabilities. This is one measure of the extent to which the firm is protected from liquidity problems. From a management viewpoint, however, it makes little sense to talk about trying to actively manage a net difference between current assets and current liabilities, particularly when that difference is continuously changing.

Financial analysis, on the other hand, mean current assets when they speak of working capital. Therefore, their focus is on gross working capital. Since it does make since for the financial manager to be involved with providing the correct amount of current assets for the firm at all times, we will adopt the concept of gross working capital. As the discussion of working capital management unfolds, our concern will be to considered the administration of the firm's current assets-namely cash and marketable securities, receivable and inventory and the financing needed to support current assets (Van Horne, 1996: 204).

Thus, there are two concepts of WC gross concept and net concepts. However, the concept of WC is related not only with gross and net concepts of WC, but also wing organization borrowings. The management of any organization has to pay attention towards the total amount of both current assets as well as borrowings. And along with this the management has to check where profit earning capacity of the organization is favorable of not because it is higher than the cost of borrowings. In a corporation or any type of firms, the financial manager should pay attention to the aspects of profitability. He should also aim to ensure the liquidity of the firm. Any established business is a constant debtors. It borrows from financial institutions. It purchases Merchandise on credit. And it has tax obligations to the government of or the concerned authorities. Thus in every step of the business or corporation activities, there is an obligation of creditors. So, to satisfy their creditors, the firm must have that much of liquid cash for making payment of all these obligation in time. Hence, both concepts of net and gross working capital are necessary for the business finance. Both current assets and current liabilities are two main parts of management of working capital. In wc management we manage the financial resources needed by a firm and use it in a most profitable field without keeping any idle fund as far as possible.

## 2.3 Classification of Working Capital

Before turning our attention to the way working capital should be finance. We need to take a slight decor and classify working capital. working capital can be classified into two types.

i. permanent or fixed working capital

ii. variable or temporary or fluctuating working capital.

A firm's permanent working capital is the amount of current assets required to meet longterm minimum needs. You might call this 'bare bones' working Capital. Temporary working capital. On the other hand, is the investment is current assets that varies with seasonal requirements. Figure is below is illustrates the Firm's  Changing needs for working capital over time while highlighting both the temporary and permanent nature of those needs.

**Figure 2.1**

**Permanent and temporary working capital**

Time period

Source: Van Horne, 1996: 205.

Permanent working capital is similar to the firm's fixed assets in two important respects. First, the amount investment in both of these asset groups is long term. Therefore, suppliers of capital to firm need to realize that the funding needs for permanent current assets is long term despite the seeming contradiction that the assets being financed are called current. Second for a growing firm, the level of permanent working capital needed will increase over time in the some way that a firm's fixed assets will need to increase over time. However, permanent working is different fixed assets in one very important respect it is constantly changing. Permanent working capital does not consist of particular current assets, whose individual items are constantly turning over viewed still another way. Permanent working capital is similar to the level of water that you find in a boy at low tide.

Like permanent working capital, temporary working capital also consists of current assets in a constantly changing form. However, since the need for this Seasonal, we may want to consider financing this level of current assets from a source which can itself be seasonal or temporary in nature (Van Horne, 1996: 205).

Thus the permanent working capital refers to that level of current assets which is required on a continuous basis over the entire year and the temporary working capital represents that portion of working capital which is required over permanent working capital.

## 2.4 Need of Working Capital

Efficient Management of working capital is an integral part of overall financial management and has a bearing on the objective of the maximization of the owner's wealth. Sufficient profit is needed to achieve this objective profit position of the firm depends upon the amount of sale. In other words a good sales program is needed to gain sufficient profit. But the amount of sales shown in the book can not reflect the real income. Some time log between sales and cash realization is needed. As the operation cycle in this period can not be stopped, some amount of liquid assets is called working capital. Indeed the concept of working capital (gross and net) are exclusive, rather they are equally significant from the management point of view. However the firms differs in these requirement of working capital.

The management of working capital has been regarded as one of the conditioning factor in the decision making issue. It is no doubt, very difficult to point out as to how much working capital is needed by a particulars company, but it is very essential to analyze and find out the solution to make an efficient use of funds for minimizing the risk of loss at attain profit objectives.

Thus goes the importance of working capital in operating life of a company. A successful business keeps its working capital moving rapidly; hence it is also a lead circulating capital or a moving capital. The transmutation of a Company's working Capital into income and profits and back into working capital is one of the most dynamic and vital aspects of business operation. And only this movement of current assets keeps the business alive. A fully equipped factors without the stock to sell is of no use. These circumstances emphasize the important of working capital in a business firm (Ghimere; 2002: 73).

The need for working capital or current assets cannot be overemphasized. The objective of financial decision making is to maximize the shareholders wealth. To achieve this, it is necessary to generate sufficient profits. The extent to which profit can be earned will naturally depend upon the magnitude of the sales among other things. A successful sales program is, in other words necessary for earning by any business enterprise. However, sale does not convert into cash instantly; there is invariably a time log between the sale of goods and receipt of cash. There is, therefore, sufficient working capital is necessary to sustain sales activity. Technically, this is referred to as the operating or cash cycle. The operating cycle can be said to be at the heart of the need for working capital. "Operating cycle is the time duration required to convert sales. After the conversion of resources into inventories, into cash" (Pandey, 1996: 731).

Most of the firms aim at maximizing the wealth of shareholders. The firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sale among the other things. for constant operation of business. Every firm needs to hold the working capital components like cash, receivable, inventories etc. Therefore every firm needs working capital to meet the following motivates.

**1. The transactional motive**

According to transactional motive, a firm holds cash and inventories to facilitate production and sales operation in regular. Thus the firm needs the working capital to meet the transaction motive.

**2. The precautionary motive**

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

**3. The Speculative Motive**

Speculative motive refers to the desire of a firm to take advantages of following opportunities.

a. Opportunities of profit making investment
b. An opportunity of purchasing raw materials at a reduced price on payment of immediate cash.
c. To speculate on interest rate and

d. To make purchase at favorable price etc. Thus the firms need the working capital to meet the speculative motive.

## 2.5 Washing Capital Cycle

Cash flows in a cycle into, around and out of a business. It is the business's life blood and every manager's primary task is to help keep it flowing and to use the cash flow to generate profits. It a business is operating profitably, then it should, in theory generate cash surpluses. If it doesn't generate. Surpluses, the business will eventually run out of cash and expire. The cheapest and best source of cash exist as working capital right within business. Good management of working capital will generate cash will help improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits.

There are two elements in the business cycle that absorb cash inventory (stocks and work-in-progress) and receivable (debtors owing you money). The main sources of cash are payable (Your Creditors) and equity and loans.

**Figure 2.1**

**Working Capital Cycle**

Each component of working capital (namely inventory receivables and payables has two dimensions i.e. Time and Money. When it comes to managing working capital. Time is Money. If you can get money to over faster around the cycle (e.g. collect monies due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relatives to sales), the business will generate more cash or it will need to borrow less money to fund working capital. As a consequence you could reduce the cost of bank interest or you'll have additional free money available to support additional sales growth or investment. Similarly, if you can negotiate improved terms will suppliers e.g. get longer credit or an increased credit limit. You effectively create free finance to help fund future sales.

| If you................ | Then................ |
|---|---|
| collect receivable (debtors) faster<br>collect receivables (debtors) slower<br>get better credit (in terms of duration or amount) from suppliers<br>shift inventory (stocks) faster<br>Move inventory (sales) slower | You release cash from the cycle<br>Your receivables soak up cash<br>You increase your cash resources<br>You free up cash<br>You consume more cash. |

It can be tempting to pay cash. It available, for fixed assets e.g. computers, plant, vehicles etc. If you do pay cash, remember that this is now longer available for working capital. Therefore, if cash is tight, consider other ways of financing capital investment loans equity, leasing etc. similarly, if you pay dividends or increase drawing. There are cash outflow and like water flowing downs a plug hole, they remove liquidity from the business (Source: www. plan ware. org).

## 2.6 Working Capital Policy

A firm's net working capital position is not only important as an index of liquidity but it is also used as a measure of the firm's risk. Risk, is this regard means chances of the firm being unable to meet its obligations on due date (Pandey, 1995: 738)

Working capital management involves deciding upon the amount and composition of current assets and how to finance these assets. These decisions involve trade off between risk and profitability. The greater the relative proportion of liquid assess. The lesser the risk of running out of cash all other things being equal. Profitability unfortunately, also will be less. The longer the composite maturity schedule of securities used to finance the firm the lesser the risk of cash insolvency all other things being equal.

Again the profit of the firms are likely to be less. Resolution of the trade off between risk and preferences with respect to these decisions depends upon the risk profuseness of management working capital policy refers to the firm's basic policies regarding target level of each category of current assets and how current assets will be financed. (Western and Brigham, 1996: 333).

So, first of all, the firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds for working capital.

### 2.6.1 Current Assets Investment Policy

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

**i. Fat Cat Policy**

This is known as relaxed current assets investment policy. In this policy, the firm holds relatively large amount of cash, marketable securities, inventory and receivable to support a given level of sales. This policy creates longer inventory and cash conversion cycles. It also creates the longer receivable collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with lower risk.

**ii. Lean and Mean Policy**

In lean and mean policy a firm holds the minimum amount of cash, marketable securities, inventory and receivables to support a given level of sales. This policy tends to reduce the inventory and receivable conversion cycle. Under this policy firm follows a light credit policy and bears the risk of losing sales.

**iii. Moderate Policy**

In this policy, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and return are moderate in this policy.

**Figure 2.3**

**Alternative Current Assets Investment Policy**

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

### 2.6.2 Current Assets Financing Policy

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

#### i. Aggressive policy

In this policy, the firm finances a port of its permanent current assets with short-term financing and rest with long-term financing. In other words, the firm finances not only temporary current assts but also a part of permanent currents with short-term financing. In this policy, the liquidity position will be low and the risk will be high. A low liquidity position may expose the firm to opportunity costs. It a firm relies heavily on short-term borrowings, during the period of high money, credit may be rational and the firm may be unable to obtain all the financial its needs.

**Figure 2.4**

**Aggressive Financing**

Above figure shows that short-term financing finances 50% of the permanent current assets. In general, interest rate increase with time i.e. shorter the time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal situation the firm borrows on a short-term financing rather then long-term financing. On the other side, it the firm finances it permanent current assets by short-term financing, then it runs the risk of renewing the borrowing again and again. This continued financing exposes the firm to certain risk. It is because, in Future the retest expenses will fluctuate widely and also, it may be difficult for the firm to raise the funds during the stringent credit periods. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

### ii. Conservative policy

In this policy, the use of short-term fund is restricted to the emergency situation when there is necessity to invest current assets. Otherwise, the long-term fund should be used as far as possible in financing of investment in current assets. However, the cost of financing of investment in current assets. However, the cost of financing in this policy will be more, the liquidity will be relatively greater and risk will be minimized.

A firm may adopt a conservative policy in financing its current and fixed assets. The financing policy of the firm is said to be conservative 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 It stores liquidity by investing surplus funds into marketable securities. The conservative financing relies heavily on long term financing and, therefore, is less risky. The conservative financing policy is shown in figure below (Pandey, 1995:684).

**Figure 2.5**

**Conservative Financing policy**

In above figure, the conservative financing policy is shown. Note that when the firm has no temporary current assets (at the level of slope); the long-term funds released can invested in marketable securities to build up the liquidity position of the firm.

### iii. Matching policy

In this policy, the firm finances the permanent current assets with long-term financing and temporary with short-term financing. It lies in between the aggressive and conservative policies. It deals to neither high nor low level of current assets and current liabilities. Figure in below shows the temporary working capital financed by short-term financing and long-term financing. Thus, no working capital in Zero under this policy.

**Figure 2.6**

**Matching policy**

Thus, when the firm follows matching policy also known as hedging policy, long-term financing will be used to finance fixed assets and permanent current assets and short-term financing to finance temporary or variable current assets. Figure 2.6 is used to illustrate the matching policy over time. The firm's fixed assets and permanent CA are financed with long-term funds and as the level of these assets increases, the long-term financing level also increases. The temporary of variable

CA are Financed with short-term funds and as their level increases, the level of short-term financing also increases.

## 2.7 Financing of Working Capital

The firm's working capital assets policy is never set in a Vacuum; it is always established in conjunction with the firm's working capital financing policy. Every financing company requires additional assets whether they are in stable or growing conditions. The most important function of financial manager is to determine the level we and to decide how it is to be financed. financing of any asset is concerned with two major factors cost and risk. Therefore, the financial manager must determine an appropriate financing mix, or decide how CL should be used to finance CA. However, a number of financing mixes are available to the financial manager. He can resort generally three kinds of financing.

### i. Long-term Financing

Long-term Financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earning and long-term debt of financial institution are major sources of long term financing.

### ii. Short-term Financing

A firm must arrange its short-term credit in advance. The sources-term financing of working capital are made credit and bank borrowing.

Trade credit refers do the credit that a customer gets from suppliers of goods in the normal course of business. The buying firms have not to pay cash immediately for the purchase is called trade credit. It is mostly an informal arrangement and is granted on an open account basis.

Another form of trade credit is bills payable. It depends upon the term of trade credit. (Van Horne; 1996: 248).

Bank credit is the primary institutional sources for working capital financing. For the purpose of bank credit amount of working capital required has to be estimated by the borrowers and banks are approached with the necessary supporting data. After availability of this data bank determines the maximum credit based on the margin requirement of the security. The types of loan provided by commercial banks are loan arrangement overdraft arrangement, commercial papers etc.

**iii. Spontaneous Financing**

Spontaneous financing arises from the normal operation of the firms. The two major sources of such financing are trade credit and accruals. Whether trade credit is free of cost or not actually depends upon the terms of trade credit financial manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of CA financing is either short-term on long term sources. Thus, the financial manager concentrate his power in short-term versus long-term financing. Hence, the financing of working capital depends upon the working capital policy which is perfectly dominated by management attitude towards the risk-return.

There are three basic approaches for determining an appropriate working capital financing mix:

a. Hedging Approach
b. Consecrating Approach
c. Aggressive Approach

a. Hedging Approach

The firm can adopt a financial plan which involves the match in of the expected life of assets with the expected life of the sources of funds raised to finance assets. (Pandey, 1995: 683)

In this approach the long-term assets are financed by short term funds. It is called hedging approach because it matches the risk-regarding activities. M.Y. khan and P.K. Jain express that the term hedging is often used in the sense of a risk reducing investment strategy involving transitions of a simultaneous, but opposite nature, so that the effect of one is likely to counter balance the effect of the other with the hedging approach short-term of seasonal variations in CA would be financed with short-term debt; the permanent components of CA would be finished with long-term debt of equity. In this approach assets are classified into three categories.

- Funds requirement for seasonally needed CA.
- Funds requirement for regularly needed CA.
- Funds requirement for fixed or long-term assets.

According heading approach, we should finance variable or short term we from CL or shot-term funds and long term funds should be used to finance the fixed portion of CA.

**b. Conservative Approach**

The financing policy of the firm is said to be conservative when it depends more on long term funds for financing needs. Under a conservative plan the firm faineances its permanent assets and also a part of temporary current assess, with long term financing. In the periods when the firm has no need for temporary current assets the idle long-term funds can be invested in the tradable securities to conserve liquidity.

The approach relies heavily on long term financing as a result firm has less possibility of financing the problems of shortage of funds. In conservative approach, permanent capital is used to finance all permanent assets requirements or used to finance all permanent assets requirements or also to meet some or all of the seasonal demands (Western and Brigham, 1996: 27).

### c. Aggressive Approach

A firm can follow aggressive policy in financing its assets. Under an aggressive approach the firm finances a part of its permanent current assets with its short-term financing. "The relatively more use of short term financing make the firm more risky" (Pandey, 1995: 685).

The grater the portion of the permanent asset need financed with short-term debt, the more aggressive the financing is said to be" (Van Horne, 1996: 209).

## 2.8 Determinants of working

The total requirement of working capital is determined by a wide variety of factors. The influence of these factors is different in different business organization. Perhaps none of them can neglect the management of adequate wc. Therefore, an analysis of the relevant factors should be made in order to determine the total investment in WC. The description of the factors which generally influence the WC requirement of the firm is given below.

### i. Nature and size of Business

The working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is bigger, then it requires more working capital. Trading and financing firms have a very low investment in fixed assets. Contrary to this, public utilities have a very limited need of working capital and have to invest abundantly in fixed assets. Their working requirements are normal.

### ii. Manufacturing cycle

The manufacturing cycle starts with the purchase and use of raw material and completes with the production of finished goods. Longer the manufacturing cycle, larger will be the firm's working capital requirements.

An extended manufacturing time span means a larger tie-up of funds in stocks. Thus, it there are alternative ways of manufacturing cycle should be chosen. Once a manufacturing process has been selected, it should be ensure that manufacturing cycle is completed within the specified period. This needs proper planning and coordination at all levels of activity. Non-manufacturing firms, service and financial enterprises do not have manufacturing cycle (Pandey, 1995: 674).

### iii. Production policy

We just noted that a strategy of constant production may be maintained in order to resolve the working capital problems arising due to seasonal changes in the demand for the firm's product. A steady production policy will cause investors to accumulate during the off-season periods and the firm will cause inventories to accumulate during the off season periods and the firm will be exposed to greater inventory costs risks. Thus, it costs and risks of maintaining a constant production schedules in accordance with changing demand. Those firms, whose productive capacities can be utilized for manufacturing varied products, can be utilized for manufacturing varied products, can have the advantage of diversified activities and solve their working capital problems. (Pandey: 1995: 675).

### iv. Credit policy

Credit policy also affects the working capital of a firm. working capital requirement depends on terms of sales. Different term may be followed by different customers according to their credit worthy if the firm follows the liberal credit policy, then it.

### v. Operating Efficiency

The operating efficiency of a firm relates to the optimum utilization of resources at minimum costs. The firm can not effectively contribute to its working capital when the operating efficiency is low. Working capital turnover is improved with a better operation and financial efficiency of a firm. Efficiency of operation accelerates the pace of cash cycle and improves the working capital turnover. It releases the pressure on working capital by improving profitability and improving the internal generation of fund.

### vi. Profit Margin

The net profit is a source of working capital to the extent that has been earned in cash. The capacity to generate profit differs from company to company. In the words of I.M pandey some firms enjoy a dominate position, due to quality product or good marketing management or monopoly power in the market and even a high profit margin. "Higher profit margin contribute to more working capital. The level of working capital is determined not only by the profit margin, but also by the way of appropriation for taxations, dividend, reserves and depreciations. Only after providing for these items. Internal funds can be set a side for working capital as the provisions for these items are higher the amount of working capital will be lesser.

### x. Level of Taxes

The level of taxes also influences working capital requirement of a firm. The amount of taxes to be paid in advances is determined by the previaling tax regulations. But the firm's profit is not constant, or can't be predetermined. Tax liability in a sense of short - term liquidity is payable in cash. Therefore, the provision for tax amount is one of the important aspect of working capital planning. If tax liability increases, it needs to increase the working capital and vice-versa.

Besides the above factors there are many other factors also which may have a greater role in determining the size and composition of working capital. For example. Firm's attitude to take risk firms policies toward the financial management, in the inflationary period, co-ordination among production, distribution, developed transport and communication system etc. could also play an important role in determinants affects both temporary and permanent working capital.

## 2.9 Review of Related Thesis

Mr. Rajendra Giri, in his study has attempted to evaluate "Working Capital Management of Balaju Textile Indsutry limited. The major findings of his study are not so significant improvement in working capital during study period. Increased working capital was financed by sales of fixed assets or sources of share capital; CA was financed by long-term financing and high level of sluggish inventory's amount to unnecessary tied - up of funds, impairment of profit and increased costs.

he has suggested for efficient working capital management of BTIL. It is better to fix a minimum target rate of return make regulars check to identify both excess and deficient current assets from the appropriate combination of long-term and short - term sources to preserve liquidity and maintain stability, take necessary actions for disposing a huge inventory with tied up working capital, involved huge carrying cost risk of losses, sick position and work inefficiency of corporation should improve.

He has set only three research questions to analyze working capital management of BTIL, which is insufficient. He has used ratio analysis as a research tools. But he has not done analysis to evaluate the relationship of current assets components with total current assets. Similarly, he has set null hypothesis but has not tested in through appropriate tools to find out whether null hypothesis is accepted or reflected (Giri, 1986).

Prem Kumar Shrestha, in his study on "Working capital Management in Bhrikuti Paper Mills Ltd". considered the financial statement of this organization for the five fiscal years from 2044/45 to 2048/49 B.S. He has drawn some conclusions from the study. The major components of the current assets are cash and bank balances inventories and receivables. Among them cash and bank balance hold the largest portion and has fluctuating trend. Due to the lack of definite credit and collection policy the receivables are increasing year after year. Various turnovers are decreasing which indicate that current assets are not property utilized in the mill. The liquidity position of the mill is earning profits, its profitiability is not encourage one because its return on total assets is not high enough (Shrestha, 1994).

Anir Raj Bhandari, in his thesis entitled 'Working Capital Management (A Case Study of Nepal Bank Limited)', has done research work for ten years period 2034 to 2043 B.S. She has drawn some major findings from her study were as follows. The bank has heavy liquid assets that reflect the improper utilization of bank fund due to heavy growth in deposit and other borrowed capital the volume of share capital became insufficient. Rate of return on Shareholder investment is considered insuficient, the bank could not utilize its funds and not paid attention to the portfolio management in investment (Raj Bhandari, 2047).

The thesis entitled 'An Appraisal of Financial Position of Nepal Bank Limited' by Narendra Bahadur Amatya analyzed, interpret the financial position of the bank from 1980/81 to 1989/90. Main findings of the study are as follow:

* Regarding the liquidity management, the bank is in a better position. But the bank has been following a uniform policy to finance current assess and current liabilities.
* The bank is successful in deposit collection but it has always adopted conservative and traditional credit policy.
* The trade and commerce advances are playing major role in the credit composition of the bank. Although the reserve of the bank is increasing gradually, the reserve plays a normal role in credit expansion control.

The major control of the investment of the bank is in HMG's securities. And the volume of transaction is high in all respects but the bank does not show higher ratio of profit or it shows a decreasing trend of profit.

Keshav Raj Joshi in his thesis entitled 'A Study on the Financial performance of the banks concludes that the liquidity position of the commercial banks are sound. Their debt is equity ratio of local commercial banks higher than JVBs. conservative credit policy is followed by commercial banks for assets utilization for the purpose of earning is two third of the total assets. The main source of income for these banks is interest from loans and advances and overall profitability position of NABIL is better than others (Keshav Raj Joshi, 1989).

The thesis entitled 'comparative study of working capital management of NBL and NABIL ltd' by Niraj K.C. aims to examination to management of working capital in MBL and NABIL. The specific objectives taken in his study are :

i. To study the current assets and current liabilities and their impact and relationship to each other of NBL and NABIL.
ii. To analyze the comparative study of working capital management of NBL and NABIL.
iii. Recommendation and Suggestion for the improvement of working capital management NBL and A NABIL in future.

Study has mentioned the following findings.

i. The average cash and bank balance and loan and advance are higher on NABIL than NBL . Management of loan and advances is more problematic in NBL than NABIL.
ii. Interest income of NBL is better than NABIL.
iii. Liquidity management policy of these two banks is significantly different.
iv. NABIL has the better utilization of deposits in income generating activity than NBL. It also shows that NABIL has better investment efficiency in loan and advances.

v. Due to more conservative working capital policy risk of insolvency in lesser but cost of fund is higher on NBL than NABIL.

vi. Profitability position of NABIL is far better although NBL earned higher interest than NABIL (K.C., 2000).

Lalita (Simkhada) Pandey in his thesis entitled 'Working Capital Management' A Case Study of Rastriya Banijya Bank. The objectives of her study were.

i. To study the current assets and liabilities and their impact on liquidity and profitability.

ii. To analyze the liquidity, assets utilization, long term solvency and profitability position of Rastriya Baniya Bank.

iii. On the basis of the analysis to provide recommendation and suggestions for the improvement of working capital management of Rastriya Banija Bank in the Future (Pandey, 2005:7-8).

Study has mentioned the following findings:

i. The major components of the CA in Rastriya Banijya Bank are bank balance hills purchased and discounted, loan and advance and prepaid expenses, outstanding income like interest receivable and sundry debtor etc and the major components of CL in this Bank are saving deposit bill payable.

ii. The liquid is insufficient to pay its current payable as it's ratio in below standard.

iii. The profitability positing of the bank is very poor.

iv. Loan and advance to fixed deposit ratio is in increasing trend (Pandey, 2005:74-75).

## 2.10 Review of Ditterent Studies

Dr. Manohar Krishna Shrestha, in his study 'Working capital management in public enterprises' states that manager often lacks the basic knowledge of working capital and its overall impact on the operative efficiency and financial viability of public enterprises. The study has been based on sample of ten enterprises i.e. Birguni Sugar Factory, Tanakpur Cigerette Factory, Roghupati Jute Mills, Diary Development Corporation, National Trading ltd., Royal Drugs Ltd. national Construction Company of Nepal, Horisiddhi Brick and Tile Factory, Nepal Cheeuri Ghee industry ltd. and Chandesowri 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 measures for their effective operation and efficient result. The problem can be sorted out through identification of needed funds, development of paper management information system, determination of sound combination of short - term and long-term sources to finance working capital requirements.

The study is based on ratio analysis. He has selected different types and nature of PEs. That is why with lower turnover has higher liquidity position. The author should have selected similar nature of PEs or analysis should have made separately. He has taken only one year data of the study. But to find the real situation of PEs it should be more than five years (Shrestha; ISDOC Vol. 8: 1982).

Pradhan and Koirala has jointly conducted a study on 'Working Capital Management in Nepalese Corporations'. They had focused on evaluation of working capital of selected manufacturing and non-manufacturing corporations of Nepal. They had sampled five manufacturing and six non-manufacturing public companies. This study was concentrated in the size of investment in current assets, significance of current assets management. The major finding of the study were as follows:

* Investment on total assets had declined over a period of time in both manufacturing corporations.
* Inventory management was of great significance in manufacturing corporations and the management of cash receivable was of great significance in non-manufacturing corporations.
* Management of working capital was more difficult than that of fixed capital and the major motive for holding cash in Nepalese corporation was to provide a reserve for routine net outflow of cash to keep on the production process (Pradhan and Koirala;1982)

R.S. Pradhan has prepared another article relating to working capital management. He has studied on 'The demand of working capital by Nepalese enterprises'. For the analysis, he has selected nine manufacturing companies with the twelve year data. Regression equation has been adopted for the analysis. From the study he has concluded that the earlier studies concerning about the demand for cash and inventories by business firm didn't report unanimous findings. A lost of controversies exits with respect to the presence of economies of scale, roles of capital cost, capacity utilization rates, and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The pooled regression result shows the presence of economics of scale with respect to the demand for working capital and its various components. The regression results suggest strongly that the demand for working capital and its components is function of both scales and their capital cost.

The estimated results show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function of cash and net working capital only. The effects of capacity utilization on the demand for inventories, receivable and gross working capital in doubtful (Pradhan; Vol 8, No. 1 : 1988).

When we're making a request for a working capital related loan, be sure our business plan reflects our specific goals. 'Bankers are more receptive if we show that we know exactly how we want to use the working capital and where it will bring our company down the road, says valier's whether it's R&D to commercialized new products, implementing quality standards or simply buying inventory, small business owners need to demonstrate that an injection of working capital will help them grown. Another piece of advice he offers entrepreneurs is to avoid using working capital to pay for fixed assets, such as equipment. Ultimately, he says companies, are better to use long - term borrowing to pay those long-term assets (www. bdc. calen/my-project/growth/working-capitalhtm).

# CHAPTER THREE
# RESEARCH METHODOLOGY

Since a systematic procedure is necessary for making any study the following research procedure has been followed. In this study a descriptive and analytical work is done. The justification for the choice of these methods is many and various. The descriptive method is preferred because it includes reliable data and information covering a long time and avoids numerous complex variables operating into formulation and adoption of credit and investment policies. The study is mainly based on secondary data gathered from respective annual reports of concerned banks specially from profit and loss account, balance sheet and other publication made by the banks.

In this study following research procedure has been followed.

## 3.1 Research Design

Research design means a define procedure and technique which guides the study and propounds way for doing research. Its impact on overall financial position of this bank. In this study a descriptive and analytical work is done. The justifications for the choice of this method is preferred because it includes reliable data and information covering a long time and avoid numerous complex variable operating into formulation and adoption of credit and investment policies "Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. " (Kothari, 1984; 43).

## 3.2 Sources of Data

This study is mainly based on secondary data. The main sources of data are the financial statement and reports of MBL , different circular regarding rules and regulations of MBL, NRB's directives to the commercial banks, reports of the corporations coordination council, other published and unpublished materials, magazines and newspapers. Some ideas and information have been collected from the discussion with managers of MBL.

## 3.3 Population and Sample

Currently there are 25 commercial bans in Nepal. Due to time and resource factors, it is not possible to study all of regarding the study topic. Therefore sampling will be done selecting from population. Machhapuchhre Bank Limited is selected as a sample for the study and analysis.

## 3.4 Data Gathering Procedures

As this study is mostly based on secondary data. Therefore, data were directly collected from the information department of the concern bank, research department of the Nepal Rastra Bank and from different web sites.

## 3.5 Data Processing Procedure

Methods of analysis are applied as simple as possible. The obtained data are presented in various tables diagrams and charts with supporting interpretation. Those details calculations that can not shows in the body part of the report are presented in appendixes at the end.

### 3.6 Tools and Techniques of Analysis

On the basis of Historical data financial and statistical tools are used to analytical of different variables.

#### 3.6.1 Financial Tools

In this research study various financial tools are emplyd for the analysis. There are various ratios but in this study some selected ratios among them are used.

**1 Composition of Working Capital**

- Cash and bank balance percentage
- Loan and advances percentage
- Government securities percentage
- Miscellaneous current assets percentage
- Total deposit percentage
- Bills payable percentage
- Other current liabilities percentage

**2. Liquidity Ratio**

Liquidity ratio is employed to measure the company's ability to meet short term obligation. These ratios provide insight into the present cash solvency in the event of adverse financial condition. This ratio is used to measure the company's short term obligations with short term resources available at a given point of time.

**i Current Ratio**

This ratio measures the short tern solvency, i.e. its ability to meet short term obligation. As a measure of creditors verses current assets it indicates each rupee available by dividing current assets by current liabilities.

Current Ratio= Current Assets/ current liabilities

**ii Quick Ratio**

Quick ratio established a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid assets. Others assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. This quick ratio can be found out by dividing the total of quick assets by total current liabilities.

Quick Ratio= Quick assets/ current liabilities

**iii Cash and Bank Balance to Current Margin and Other Deposit Ratio [Total deposit]**

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balance by saving margin and current deposits [including fixed deposits].

The ratio is calculate as = Cash and Bank balance/Total Deposit

**C. Activity ratio/ Turnover Ratio**

Activity ratios are intended to measure the effectiveness to employment of the resources in a business concern. Through these ratios, it is known whether the funds employed have been used effectively in the business activities or not. The following are the ratios employed to analyze the activeness of the concerned Bank.

### i. Loan and Advances to total deposit ratio

This ratio accesses to what extend the banks are able to utilize the depositors funds to earn profit by providing loans and advances. It is computed dividing the total amounts of loan and advances by total deposited funds. The formula used to compute this ratio is as:

= Loans and advances/total deposits

High ratio is the symptom of higher proper utilization of funds and low ratio is the signal of balance remained unutilized.

## E Profitability Ratio

Profitability ratios indicted the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Though profitability ratios the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used is as follows.

### i. Interest earned to total assets ratio

It is the ratio which formed to found the percentage of the interest earned to total assets. This is derived by dividing the amount of interest earned by the total assets of the firms

Interest earned to total assets ratio= interest earned/total assets

### ii. Net profit to total assets ratio

This ratio if very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets. It is computed dividing the net profit after tax by total assets. The formula used for computing this ratio is as:

Net profit to Total assets ratio= Net profit after tax/ Total assets

### iii. Net profit to total deposit ratio

This ratio is used for measuring the internal rate of return from deposits. It is computed dividing the net profit by total deposits.

The following formula is used as
Net profit tot total deposit ratio
= Net Profit/ Total Deposit

Higher ratio indicates the return from investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing.

### 3.6.2 Statistical Tools

In this research study some statistical tools are used for analysis. The tools are as follows:

### i. Trend Analysis

The tools that are used to show grandly increase or decrease of variables over a period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly.

### ii. Correlation Analysis

Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the variable methods of findings out coefficient of correlation, Karl persons method is applied in the study. The result of coefficient of correlation is always between +1 and -1 when r is +1, it means there is perfect relationship between two variables and vice versa when r is 0. It means there is no relationship between two variables.

### iii. Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two (or more) variables and to make estimate of one variable. On the basis of the other variable. Regression line in the line which gives the best estimate of one variable for any given value of the other variable. The regression line of y on x estimates the most probable values of y for given value of x.

The regression equation of y and x expressed as

$y=a+bx$

(Where a and b are parameters of the line)

# CHAPTER FOUR
# PRESENTATION AND ANALYSIS OF DATA

The major objective of this study is to evaluate the working capital position of Machhapuchchhre bank limited. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of Machhapuchhre bank Limited from the long range view point. In this chapter relevant data and information of working capital as well as financial performance of MBL are presented and analyzed. Accordingly data of the years 2060/61 to 064/065 have been presented and analyzed. It covers to analyze the ratio as well as trend (the method of least squire) of composition of current assets liquidity turnover, leverage and profitability of this bank. It also uses correlation analysis is and trend analysis. With the help of these analysis we know the working capital management of MBL .

## 4.1 Working Capital

Net working capital means different between current assets and current liabilities but gross working capital means the correlation of current assets. Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative depending on how much debt the company is carrying. In general companies that have a lost of working capital will be more successful since they can expand and improve their operations without reliable working capital or current capital Nobody can conduct/run their business properly. We can measure working capital by using formula. That formula

Working Capital=Current Assets-Current Liabilities

### 4.1.1 Components of Current Assets

We have to need different types of current assets for day to day business operation. At MBL , cash at bank balance loan and advances and government securities are main components of current assets miscellaneous current assets are also a component of current assets. Prepaid expenses outstanding income like interest receivable and other current assets are include in miscellaneous current assets. The percentage composition of current assets to total current assets i.e. cash and bank balance loan and advances, investment on government securities and miscellaneous current assets are as follows.

**Table 4.1**

**Components of Current Assets of MBL**

Rs. In Million

| Fiscal Year | 2060/061 | 2061/062 | 2062/063 | 2063/064 | 2064/065 |
|---|---|---|---|---|---|
| Components | | | | | |
| Cash and Bank balance | 201.7 | 410.7 | 731.1 | 813.9 | 1284.1 |
| Loan and Advances, | 1464.2 | 2493.1 | 5061.4 | 6068.4 | 7129.9 |
| Government securities | 79.3 | 71.3 | 127.3 | 904.5 | 951.3 |
| Miscellaneous current assets | 220 | 150 | 15 | 718.6 | 694 |
| Total C.A | 1965.2 | 3125.2 | 5934.8 | 8505.4 | 10059.3 |

Above table 4-1 we can found that the component of current assets of MBL consists cash and bank balance loan and advances government securities and miscellaneous current assets. In fiscal year 2060/61, total current assets of bank was amounted to Rs1965.2 million which included Rs 201.7 million of cash and bank balance Rs 1464.2 million of loan of advance and bills purchase Rs 79.3 million of government securities and 220 million of miscellaneous current assets. The CA of the bank increased in fiscal year 061/62 and reached amounted to RS 3125.2 million . Similarly, in fiscal year 2062/63 it also increased amounted to Rs 8505.4 million. Finally the CA of the bank increased in fiscal year 2064/065 and reached amounted to Rs 10059.3 million which included Rs 1284.1 million Rs 7129.9 million Rs 951.3 million and 694 million. Cash and Bank balance loan and advances and bills purchase government securities and miscellaneous current assets respectively.

**Table No 4.2**

**Percentage Composition of Current Assets of MBL**

| Fiscal Year | Cash and Bank | Loan and Advance | Government Securities | Miscellaneous current assets |
|---|---|---|---|---|
| 2060/61 | 10.26 | 74.5 | 4.04 | 11.2 |
| 2061/62 | 13.14 | 79.77 | 2.28 | 4.81 |
| 2062/63 | 12.32 | 85.28 | 2.15 | 0.25 |
| 2063/64 | 9.57 | 71.35 | 10.63 | 8.45 |
| 2064/65 | 12.76 | 70.88 | 9.46 | 6.9 |
| Average | 11.61 | 76.36 | 5.17 | 6.32 |

Cash and bank balance percentage of MBL are always fluctuating all over the study period. It is highest in the second year, i.e. 13.14 percent and lowest in $4^{th}$ year of the study period i.e. 9.57 percent. The average cash and bank percentage of MBL is 11.61. Loan and advance and bills purchase percentage are always fluctuating in the study period. It is highest in the year 2062/63 i.e. 85.28 percent and lowest in the Year 2064/65 i.e. 70.88%.

The range of loan and advance and bills purchase percentage is 85.28 to 70.88. The average loan and advance percentage is 76.36 percent. Similarly, government securities and miscellaneous current assets percentages are also fluctuating in the study period. Government securities percentage is highest in the year 2063/64 and lowest in the 2062/63. The average government securities is 5.71 percent Miscellaneous current assets percentage is highest in year 2060/61 and lowest in year 2062/63. The average Miscellaneous current assets percentage is 6.32 percent.

**Figure 4.1**

**Bar diagram of Percentage Composition of MBL Current Assets**

### 4.1.2 Components of Current Liabilities

Current liabilities is a short term obligation which is payable with in a year. The composition of current liabilities or the main components of current liabilities at MBL are deposit. Bills payable and other current liabilities are included in current liabilities. The following table shows the amount of deposit, bills payable and miscellaneous current liabilities of MBL .

**Table 4.3**

**Components of Current Liabilities of MBL**

| Fiscal Year | Deposit | Bills Payable | Miscl | Total |
|---|---|---|---|---|
| 2060/61 | 1778.8 | 4.0 | 115.5 | 1898.3 |
| 2061/62 | 2754.6 | 5.2 | 134.6 | 2894.4 |
| 2062/63 | 5586.8 | 9.3 | 211.6 | 5807.7 |
| 2063/64 | 7893.3 | 11.3 | 234.1 | 8138.7 |
| 2064/65 | 9475.5 | 21.4 | 310.5 | 9807.4 |

In the above table we can found that the component of current liabilities which consists deposit account bills payable and miscellaneous CL. As stated in above table total CL of MBL was Rs 1898.3 million up to fiscal yer 2060/61. The CL increased in fiscal year 2061/62 and reached amounted to Rs 2894.4 million. Likewise, in fiscal year 2062/63. The current liabilities of MBL was also increased amounted to Rs 5807.7 million. In fiscal year 2063/64 the CL of MBL was increased amounted to Rs 8138.7 million. At the end of fiscal year 2064/065. The current liabilities of MBL is Rs 9807.4 million. Which consists of Rs 9475.5 million Rs 21.4 million and Rs 310.5 million of deposit account bills payable and miscellaneous current liabilities respectively.

The percentage composition of current liabilities to total current liabilities i.e. deposit bills payable and other current liabilities as follows.

**Table 4.4**

**Percentage Composition of Current Liabilities of MBL**

| Fiscal Year | Deposit | Bills Payable | Other current liabilities |
|---|---|---|---|
| 2060/61 | 93.7 | 0.11 | 6.19 |
| 2061/62 | 95.17 | 0.18 | 4.65 |
| 2062/63 | 96.20 | 0.16 | 3.64 |
| 2063/64 | 96.98 | 0.14 | 2.88 |
| 2064/65 | 96.62 | 0.22 | 3.16 |
| Average | 95.74 | 0.16 | 4.1 |

The percentage of total deposit are increasing till in the year 2063/64 but At end of study period deposit percentage is slightly decreasing. It is highest in year 2063/64 i.e. 96.98 and lowest in 2060/61 i.e. 93.70 percent. The average deposit percentage is 95.74. Bills payable and other current liabilities percentages are decreasing for first 4 year and at end of study period or in fiscal year 2064/65 both are increasing Bills payable percentage is highest in year 2064/065 i.e. 0.22 percent and lowest in 2063/064 i.e. 0.14 percent and the average bills payable percentage is 0.16 other current liabilities percentage is highest in 2060/61 i.e. 6.19 and lowest in year 2063/064 i.e. 2.88 percent. The average other current liabilities percentage is 4.1. We can shows above percentage by Bar diagram.

**Figure 4.2**

**Percentage Composition of Current Liabilities of MBL**

### 4.1.3 Working Capital of MBL

The working capital has to be regarded as one of the conditioning factors in the long range analysis and decision making. To achieve the goal of overall business the determinants of working capital management should be as accurate as possible. It means money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in bank and determining which one is more beneficial to the bank and which is not. The following table shows the amount of working capital of MBL of the study period.

**Table 4-5**
**Working Capital of MBL**

(Rs in million)

| Fiscal Year | Total CA | Total CL | WC=CA-CL |
|---|---|---|---|
| 2060/61 | 1965.2 | 1898.3 | 66.9 |
| 2061/62 | 3125.2 | 2894.4 | 230.8 |
| 2062/63 | 5934.8 | 5807.7 | 127.1 |
| 2063/64 | 8505.4 | 8138.7 | 366.7 |
| 2064/65 | 10059.3 | 9807.4 | 251.9 |

In above table 4-4 no doubt shows that the increment or decrement of working capital in different study period by different level. The MBL was able to increase working capital form Rs 66.9 million to Rs 251.9 million from the fiscal year 2060/61 to 2064/65. In fiscal year 2061/62, the bank increased its working capital from Rs 66.9 to 230.8 million which is drastically increased than previous year. In fiscal year 2062/63 the bank decreased its working capital from 230.8 to 127.1 million which is drastically decreased than previous year. In fiscal year 2063/64 the working capital of bank also in increasing position and reached to Rs 366.7 million. But at the end of study period. Working capital of bank was decreased and amounted to RS 251.9 million

**Figure 4.3**

**Working Capital of MBL**

As stated in above figure 4-4 the current assets of the MBL increasing gradually up to fiscal year 2064/65. Similarly, in above figure the current liabilities of MBL increasing gradually up to fiscal year 2064/65. As shown in the above table the working capital of MBL is fluctuating in the study period. Working capital of MBL has been increasing upto fiscal year 061/62 but in Fiscal year 062/63. Working capital of MBL is decreased. Again in fiscal year 063/64 it is increased but at the end of study period. It is decreased. The working capital depicts the liquidity position of any organization i.e. higher the working capital higher the liquidity and vice versa. Therefore, above figure stated that the liquidity of MBL has been fluctuating but increasing gradually over different fiscal year.

## 4.2 Ratio and Trend Analysis

Ratio analysis is the powerful financial tools to measure the financial performance of banks. As mentioned in research methodology liquidity turnover capital structure and profitability ratio are calculated. To find the over all performance as well as general movement of important ratios trend analysis the method of least square is used. Experienced and skilled analysis would obtain a better understanding of the financial conditions and interpretation of various ratios than from analysis of the financial data alone.

**Table 4-6**

**Trend Analysis of Current Assets (CA) and Current Liabilities (CL) and Net Working**

In Million

| Fiscal Year | Total(%)of CA | Total(%)of CL | WC=CA-CL |
|---|---|---|---|
| 2060/61 | 19.65 | 18.98 | 66.9 |
| 2061/62 | 31.25 | 28.94 | 230.8 |
| 2062/63 | 59.34 | 58.07 | 127.1 |
| 2063/64 | 85.05 | 81.39 | 366.7 |
| 2064/65 | 100.59 | 98.07 | 251.9 |
| Average | 59.18 | 57.1 | 208.68 |

**a. For Current assets**

From the calculation of current assts percentage trend as per appendix, the value of the constants 'a' and 'b' are as follows.

**Figure 4.4**

**Actual and Trend Line of Current Assets**

The figure depicts that trend line and actual line of current asset are increasing or has upward slope. The above analysis helps to conclude that the current assets of MBL is increasing trend so there is no fluctuating between actual line and trend line of current assets.

**b. For current assets**

From the calculation of current liabilities percentage trend as per appendix the value constant 'a' and 'b' are as follows:

$$a = \frac{285.46}{5} = 57.1$$

$$b = 21.06$$

**Figure 4.5**

**Trend Line of Current Liabilities**

The figure depicts that trend line and actual line of current assets are increasing or has upwards slope.

The above analysis helps to conclude that the current liabilities of MBL is increasing trend and there no much gap between actual line and trend line.

**c. For net working capital**

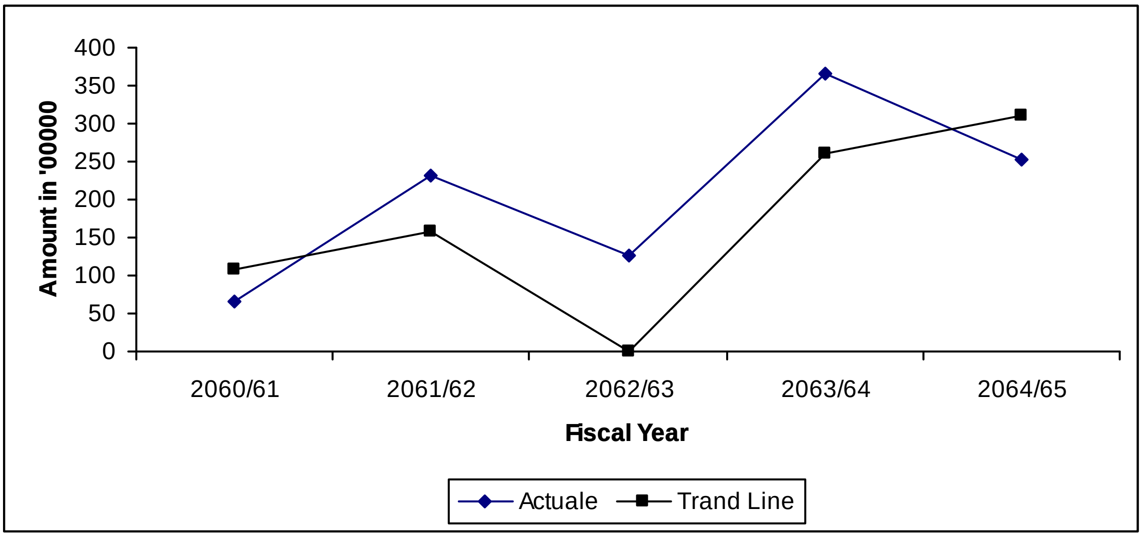
From the calculation of networking capital percentage trend as per appendix the value of constants 'a' and 'b' are as follows.

a= 208.68

b= 5059

**Figure 4.6**

**Actual and Trend Line of W/C**




The figure depicts that the actual line and trend line of working capital of MBL are fluctuating. The trend rate or the rate of change on net working capital 'b' of MBL is positive.

### 4.2.1 Liquidity Ratio

Liquidity ratio measure the firms ability to meet its maturing obligations. Liquidity of my business organization is directly related with working capital or current assets and current liabilities of that organization. In other ways one of the main objective of working capital management is keeping good liquidity position. Bank is a different organization which is engaged in mobilization of funds. So without good liquidity bank is not able to operate its function. To measure the banks solvency position or ability to meet its short term obligation various liquidity ratios are calculated and to know the trend of liquidity trend analysis of major liquidity ratios have been considered.

#### 4.2.1.1 Current Ratio

'Current ratio measures the liquidity position of the industry. It indicated the availability of current assets in rupees for everyone current liability. This ratio is also called working capital ratio. It also indicated the current short term solvency position of bank. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety i.e. 'cushion' of protection for creditors and higher the current ratio greater the margin of safety larger the amount of current assets in relation to current liabilities the more the banks ability to meet its current obligation. It is calculated as follows.

Current Ratio= Current assets/ Current liabilities

The following table shows the current compare of working capital management of MBL

**Table 4.7**

**Current Ratio of MBL**

Rs in million

| Fiscal Year | Total CA | Total CL | Current Ratio |
|---|---|---|---|
| 2060/61 | 1965.2 | 1898.3 | 1.03 |
| 2061/62 | 3125.2 | 2894.4 | 1.07 |
| 2062/63 | 5934.8 | 5807.7 | 1.02 |
| 2063/64 | 8505.4 | 8138.7 | 1.04 |
| 2064/65 | 10059.3 | 9807.4 | 1.02 |
| Average | | | 1.03 |

The above table 4-6 depicts that the current ratio of MBL is fluctuating over different yers. The highest current ratio is 1.07in the fiscal year 2061/62 and the lowest current ratio is 1.02 in the fiscal year and 2064/65.The average current ratio of MBL is 1.03

**Figure 4.7**

**Current Ratio of MBL**

The above figure depicts that the actual line of current ratio of MBL is increasing first two years gradually and decreased in fiscal year 2062/63 and fiscal year 2064/65 and increased in fiscal year 2063/64 which implies the current ratio of MBL is fluctuating. The above analysis helps to concluded that the liquidity position of MBL is good. From the study cash and bank balance and government securities are included in quick assets. The following table shows the quick ratio of MBL .

### 4.2.1.2 Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without loss of value. Cash is the most liquid assets other assets which are considered to be relatively liquid and included in quick assets, are book debts and included in quick assets are book debts and marketable securities. Quick assets included all current assets except inventories stock and prepaid expenses (advances). Inventories are excluded because it is not easily and readily convertible into cash prepaid expenses should also be excluded because they can not be converted into cash easily. The ratio or quick ratio= quick assets / Current Liabilities

**Table No 4.8**

**Quick Ratio (Times)**

| Fiscal Year | Quick assets | Current liabilities | Ratio |
|---|---|---|---|
| 2060/61 | 281 | 1898.3 | 148 |
| 2061/62 | 482.1 | 2894.4 | 167 |
| 2062/63 | 858.4 | 5807.7 | 148 |
| 2063/64 | 1718.4 | 8138.7 | 211 |
| 2064/65 | 2235.4 | 9807.4 | 228 |
| Average | | | $\frac{902}{5} = 0.18$ |

The above table no 4-8 depicts that the quick ratio of MBL are always fluctuating over the study period. The ratio is higher in 2064/65, i.e. 0.228 and lower in 2060/61 and 2062/63. The average ratio is 0.18. The yearly quick ratio 2063/64 and 2064/65 are higher than average ratio. Others yearly ratios are lower than average ratio.

As per appendix 7 the value of constant 'a' and 'b' are as follows

a=0.18

b=0.020

**Figure 4.8**

**Quick Ratio**

The rate of change in quick ratio 'b' of MBL is positive. The figure no 7 depicts that the trend line of MBL is upward slope. The above analysis shows the liquidity position of MBL is satisfactory.

#### 4.2.1.3 Current Assets to Fixed Assets

This ratio is calculated by dividing current assets by fixed assets. The ratio can be expressed as:

=Current assets (CA)/ Fixed assets (FA)

**Table No 4.9**

**Current Assets of Fixed Assets**

| Fiscal Year | CA | FA | Ratio |
|---|---|---|---|
| 2060/61 | 1965 | 59.2 | 33.19 |
| 2061/62 | 3125 | 62.4 | 50.08 |
| 2062/63 | 5934 | 86.2 | 68.84 |
| 2063/64 | 8505 | 104.9 | 81.07 |
| 2064/65 | 10059.3 | 259.5 | 38.76 |
| Average | | | 54.38 |

The above table shows the banks current assets to fixed assets ratio. The above table no 4-8 depicts that the ratio of MBL is fluctuating. This table shows that there is are extremely difference between fixed assets and current assets the highest of MBL is 81.07 2063/64 and average ratio is 64.68 and minimum ratio is 33.19 in 2060/61.

#### 4.2.1.4 Cash and Bank Balance to Deposit Ratio

The ratio shows the ability of banks immediate funds to cover their (Current margin, call and saving fixed) deposits. It can be calculated by dividing cash and bank balance deposits. The ratio can expressed as:

The following table shows the cash and bank balance to deposits ratio of MBL .

**Table No 4-10**

**Cash and Bank Balance to Deposit Ratio**

| Fiscal Year | Case bank | Deposit | Ratio |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 2060/61 | 201.7 | 1778.8 | 0.113 |
| 2061/62 | 410.7 | 2754.6 | 0.149 |
| 2062/63 | 731.1 | 5586.8 | 0.130 |
| 2063/64 | 813.9 | 7893.3 | 0.103 |
| 2064/65 | 1284.1 | 9475.5 | 0.136 |
| Average | | | 0.126 |

In above table of MBL ratio has been slightly increasing first two years of the study periods and decreasing in fiscal year 2062/63 and fiscal yer 2063/64 and increasing drastically in fiscal year 2064/65. Cash and bank balance of the bank is fluctuating over the study period. Similarly, there is no consistency in total deposit of the bank. The deposit of the bank is drastically increasing. The bank has average ratio 0.126.

**Figure 4.9**

**Cash and Bank Balance to Deposit Ratio**

The above figure also depicts that the cash and bank balance to total deposit ratio has been slightly increasing up to fiscal year 2061/62 and decreasing in fiscal year 2062/63 and 2063/64 and drastically increasing in fiscal year 2064/65.

The above analysis helps to find out the ability of banks immediate funds to cover its current margin, call and saving deposit of the bank or the liquidity position of the bank, but the large amount of idle cash and bank balance badly affect the profitability of the bank. The position of MBL seems as satisfactory level over the study period.

### 4.2.2 Activity or Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. These ratio's are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover, help in measuring the banks ability to utilise their available resources.

#### 4.2.2.1 Loan and Advances to Total Deposit Ratio

This ratio assesses to what extent the banks are able to utilize the depositor's funds to earn profit by providing loans and advances. It is computed dividing the total amounts of loans and advances by total deposited funds. The formula used to compute this ratio is as:

Loan and Advance to total deposit Ratio= $\frac{Loan\,and\,advances}{Total\,Deposit}$

The following table and figure shows the effectiveness in utilization of total deposits of MBL .

**Table 4.11**

**Loan and Advances to Total Deposit Ratio of MBL (Rs in Millions)**

| Fiscal year | Loan and Advances | Total deposit | Ratio |
|---|---|---|---|
| 2060/61 | 1464.2 | 1778.8 | .82 |
| 2061/62 | 2493.1 | 2754.6 | .90 |
| 2062/63 | 5061.4 | 5586.8 | .91 |
| 2063/64 | 6068.4 | 7893.3 | .76 |
| 2064/65 | 7129.9 | 9475.5 | .75 |
| Average | | | 0.828 |

(Sources: Appendix 1)

The above table shows the position and ratio of loan and advances and total deposit of MBL from fiscal year total deposit ratio 2060/61 to fiscal year 2064/65. The loan and advances and total deposit ratio of the bank has been gradually increasing up to F/Y 2062/63 but it has drastically decreased in F/Y 2063/64 and 2064/65. It means the ratio is fluctuating. The highest ratio is 0.91 in F/Y 2062/63 and lowest is 0.75 in F/Y 2063/64. From the above analysis loan and advances to total deposit ratio clearly shows the low capacity of the bank to mobilise its deposit. The bank has the responsibility of collecting a huge amount of deposit for the purpose of lending a great amount of it to needy people. Its collect money not for keeping it idle but for using it in a creative work. If it cannot utilize its deposit more profitability, it is better to reduce the volume of deposits. So, the volume of deposits has some limit which is affected by loans. But there is no limit to the volume of loans. However the rate of interest as well as the volume of deposits highly affects the volume of loans. Once the deposit is more than sufficient there is no need to pay higher rate of interest on it. On the contrary, if the volume of deposit is insufficient for meeting the need of borrowers the interest rate should be increased.

#### 4.2.3.2 Interest Earned to Total Assets Ratio

It is the ratio which formed to find out the percentage of the investment earned to total assets. This is derived by diving the amount of interest earned by the total assets of the firm. Interest earned to total assets ratio= Interest earned/Total Assets

**Table 4.12**

**Interest Earned to Total Assets Ratio (%)**

| Fiscal Year | Loan and Advances | Total deposit | Ratio |
|---|---|---|---|
| 2060/61 | 139.04 | 2400 | 5.79 |
| 2061/62 | 215.2 | 3448.6 | 6.24 |
| 2062/63 | 381.9 | 6445.4 | 5.92 |
| 2063/64 | 563.4 | 9069.8 | 6.21 |
| 2064/65 | 694.5 | 10807.7 | 6.42 |
| Average | | | 6.11 |

The above table 4- depicts that interest are increasing during the study period. But the interest earned to total assets ratio of MBL is always fluctuating. It is highest in the year 2064/65 i.e. 6.42percent and lowest in 2060/61 i.e. 5.79percent. The average ratio of MBL is 6.11percent. So the above analysis helps to conclude that the interest earned to total assets ratio is satisfactory. This implies that MBL is efficiently using its total assets to earn interest income.

As per appendix 2 the value of constant '0' and 'b' are as follows:

a= 6.11

b= 0.123

**Figure 4.10**

**Actual and Trend Line of Interest Earned to Total Assets Ratio**

The figure depicts that the actual and trend line of MBL has upward slope or direction. The trend line is always increasing this implies that MBL is efficiency using its total assets/funds/ to earn interest income.

### 4.2.3 Profitability Ratios

Profit is an important factors that determines the firms expansion and diversification. A required level of profit is necessary for the firms growth and survives in the competitive environment. Various ratios can be developed upon the profit under different circumstances. These different ratios are called profitability ratios, which are required to support the purpose of the study.

#### 4.2.3.1 Net Profit to Total Assets Ratio

This ratio is useful in measuring the profitability of all financial resource invested in the firms assets. The return on assets or profit to assets ratio is calculated by dividing the amount of net profit by the amount of total assets employed. The ratio can be expressed as: Net profit to total assets ratio= Net profit/Total assets

**Table 4.13**

**Net Profit to Total Assets Ratio (%)**

| Fiscal year | Loan and Advances | Total deposit | Ratio |
|---|---|---|---|
| 2060/61 | 15.3 | 2400 | 0.63 |
| 2061/62 | 46.7 | 3448.6 | 1.35 |
| 2062/63 | 84.9 | 6445.4 | 1.32 |
| 2063/64 | 134 | 9069.8 | 1.47 |
| 2064/65 | 74.1 | 10807.7 | 0.68 |
| Average | | | 5.45/5=1.09 |

The above table no 4- deposits that the overall profitability ratio i.e. net profit to total assets ratio of MBL is fluctuating for the year. The ratio is highest in year 2063/64 i.e. 1.47 and lowest is in 2060/61 i.e. 0.63. The average ratio is 1.09.

As per appendix 8, the value of constants 'a' and 'b' are a follows.

a= 1.09

b= 0.22

**Figure 14.1**

**Actual and Trend Line of Net Profit to Total Assets Ratio**

The figure no depicts that the trend line of MBL is upward slop. The overall profitability of MBL is good. It is efficiently using its working fund of assets to earn higher rate of profit.

### 4.2.3.4 Net Profit to Total Deposit Ratio

Deposits are mobilized for investment, loan and advances to the public in generating revenue. The ratio measures the percentages of profit earned from the utilization of the total deposits. It is calculated as follows.

**Table 4.14**

**Net profit to total deposit ratio= Net profit/Total deposit**

| Fiscal year | Net Profit | Total deposit | Ratio |
|---|---|---|---|
| 2060/61 | 15.3 | 1778.8 | .86 |
| 2061/62 | 46.7 | 2754.6 | 1.69 |
| 2062/63 | 84.9 | 5586.8 | 1.52 |
| 2063/64 | 134 | 7893.3 | 1.69 |
| 2064/65 | 74.1 | 9475.5 | 78 |
| Average | | | 6.54/5= 1.308 |

The above table 4-14 depicts that the ratio of net profit and total deposit in MBL are fluctuating. The highest ratio is 1.69 percent in 2061/62 and 2063/64 and lowest is .78percent in 2064/65. The average ratio is 1.30 percent. Mobilization of outsiders fund is important to earn profit for commercial bank. The net profit to total deposit ratio of MBL is positive. The performance on mobilization of total deposit is good.

## 4.3 Correlation and Regression Analysis

Correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of findings out co-efficient of correlation, Kart person's method is applied in the study. The result of coefficient of correlation is always between +1 and -1 when r is +1, it means there is perfect relationship between two variables and vice versa when r is its means there is no relationship between two variables.

### 4.3.1 Coefficient of Correlation between Investment of Government Security and Total Deposit

Coefficient of Correlation between Investment on Government Security and Total Deposit is to measure the degree of relationship between two variables. Although bank utilizes its deposits on loan and advances but some part of idle deposit are invested on government security. The purpose of computing correlation coefficient is to justify whether the excess deposits are significantly used in government securities or not or whether there is any relationship between these two variables. The following table shows the coefficient of correlation between deposits and government securities i.e. r. PEr, 6PEr of MBL . over the study period.

**Table 4.15**

**Coefficient of Correlation between Investment on Government Securities and Total Deposits**

| Name of Bank | Correlation (r) | PEr | 6Per |
|---|---|---|---|
| MBL | +.91 | 0.051 | 0.306 |

(Source: Appendix-9)

From the above table 4-15 we can find that the coefficient of correlation between government security and total deposit of MBL value 'r' is +0.91. It shows that the positive relationship between these two variables government security and total deposit of the bank. By considering the probable error, since the value of 'r' is more 6 times of PEr then we can say that the value of 'r' is highly significant and vice versa. So there is significant relationship between government security and total deposits of the bank.

Hence, form the above analysis, it can be conclude that there is significant relationship between government security and total deposit of the bank over the study period.

### 4.3.2 Coefficient of Correlation between Loan and Advance and Total Deposit

The coefficient of correlation between loan and advances and total deposits is to measure the degree of relationship between major components of current assets loan and advances and major sources of fund on bank i.e. total deposits. In correlation analysis deposit is independent variable (Y) and loan and advances is dependent variable (X). The purpose of computing coefficient of correlation is to justify whether the deposits are significant used in loan and advances or not and whether there is any relationship between these two variables. To find out the correlation, various calculation are done.

The following table shows the coefficient of correlation (r) between loan and advances and total deposits i.e. r, PEr, 6PEr of MBL .

**Table 4.16**

**Coefficient of Correlation between Loan and Advance and Total Deposit**

| Name of Bank | Correlation (r) | PEr | 6Per |
|---|---|---|---|
| MBL | +0.99 | 0.006 | 0.036 |

Source: Appendix 10

From the table 4-16 depicts that the coefficients of correlation between loan and advances and total deposit value 'r' of MBL is +0.99. It shows highly positive relationship between two variables loan and advances and total deposits of MBL . By considering the probable error, since the value of 'r' i.e. +0.99 is more than six times of probable error i.e.

0.036, we can say that the value of 'r' is highly significant i.e. there is significant relationship between total deposit and loan and advances. What this means essentially is that changing the scale of either the X or the Y variables will not change the size of the correlation coefficient as long as the transformation conforms to the requirements of a linear transformation.

Thus form analysis, we can conclude that the bank have utilized its total deposits on loan and advances effectively.

### 4.3.3 Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Cash and bank balance is most liquid component of current assets. This is required to meet the unexpected short-term obligation i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities.

To find out the correlation, various calculations are done. In correlation analysis, cash and bank balance is dependent variable (x) an current liabilities are independent variable (y). The following table shows the coefficient of correlation between cash and bank balance and current liabilities i.e. 'r', PEr, 6PEr of MBL .

**Table 4.17**

**Coefficient of Correlation Between Cash and Bank Balance and Current Liabilities**

| Name of Bank | Correlation (r) | PEr | 6Per |
|---|---|---|---|
| MBL | +0.96 | 0.024 | 0.144 |

Source: Appendix 11

As stated in above table 4-17, we can find that coefficient of correlation between cash and bank balance and current liabilities of MBL is 0.96 which shows the positive relation between two variables cash and bank balance an current liabilities. By considering the probable error, since the vale of 'r' i.e. +0.96 is greater than six times of PEr i.e. 0.144 we can say that the value of 'r' is significant.

From the above analysis, it can be concluded that there is significant relationship between cash and bank balance and current liabilities.

### 4.3.4 Coefficient of Correlation Between Loan and Advances and Net Profit

The basic function of commercial bank is to collect deposit and invest these funds on loan and advance to generate higher profit. Larger amount of loan and advances generate higher profit. The coefficient of correlation between loan and advances and net profit is to measure the degree of relationship between loan and advances and net profit. In correlation analysis, loan and advances is independent variable (y) and net profit is dependent variable(x). The purpose of computing the correlation of the coefficient is to justify whether the loan and advances are significantly generate profit of not and whether there is any relationship between these two variables. The following table shows the calculated amount of 'r', PEr and 6PEr the MBL over the study period.

**Table 4.18**

**Coefficient of Correlation Between Loan and Advance and Net Profit**

| Name of Bank | Correlation (r) | PEr | 6Per |
|---|---|---|---|
| MBL | +0.76 | 0.128 | 0.77 |

Source: Appendix 12

As stated in above table 4-18/, the coefficient of between loan and advances and net profit of MBL over the study period is +0.76. It shows positive relationship between two variable loan and advance and net profit. Similarly considering the value of probable error and six times of probable error which value are 0.128 and 0.77 respectively. The value of coefficient of correlation i.e. 0.76 is less than the six times of PEr i.e. 0.77; we can say that the value of 'r' is not significant.

From the above analysis, it can be concluded that there is no significant relationship between loan advance and net profit.

### 4.3.5 Coefficient of Correlation between Net Working Capital and Net Profit

The coefficient of correlation between working capital and net profit is to measure the degree of relationship between two variable. In correlation analysis, working capital is independent variables (y) and net profit is dependent variables (x). The purpose of computing the correlation of the coefficient is to justify whether and advances are significantly generate profit or not and whether there is any relationship between these two variables. The following table no 4-19 shows the r, PEr and 6PEr of MBL over the studying period.

**Table 4.19**

**Coefficient of Correlation between Net Working Capital and Net Profit**

| Name of Bank | Correlation (r) | PEr | 6Per |
|---|---|---|---|
| MBL | 0.79 | .113 | 0.68 |

Source: Appendix 13

From the above table, we can find that coefficient of correlation between working capital and net profit of MBL 'r' is +0.79 which shows highly positive relationship between these two variables. By considerring the probable error, since the value of 'r' i.e. 0.79 is higher than 6PEr i.e. 0.68 so the value of 'r' is significant.

From the above analysis, it can be concluded that there is significant relationship between Net working capital and Net profit.

### 4.3.6 Regression of Net Working Capital and Net Profit

Regression is the statistical tool which is used to determine the statistical relationship between two (or more) variables and to make estimate of one variable on the basis of the other variable. Regression line in the line which gives the best estimate of one variable for any given value of the other variables. The regression line of y on x estimates the most probable value of y for given value of x.

The regression equation of y on x expressed as $y= a+ bx$

(Where a and b are parameters of the line)

4-20

Calculation of regression equation between net profit(y) on net w/c (x). To find out exact relationship between different variable simple regression analysis has been done and results of the analysis have been listed in above table.

| Name of Bank | Regn eq of net profit (y) on net w/c (x) | Value of (a) can stand | Regression coefficient (b) |
|---|---|---|---|
| MBL | y= -2.038 + 0.35x | a= -2.038 | b= 0.35 |

(Appendix 13)

Table no 4.20 shows the regression equation net profit and net working capital in MBL . According to the table, regression equation of net profit (y) on net working capital (x) y= -2.038 + 0.35x in MBL . The regression coefficient is positive i.e. 0.35 which indicates the positive relationship exists between net profit net working capital i.e. one million increase in net working capital leads to average 0.35 million increase in net profit. And value of constant (a) indicates that it net working capital is 0 then value of net profit is (2.038) million. In this case profit can be increase and net working capital also increase.

## 4.4 Major Findings of the Study

The major findings of this study during the period of five years in MBL from the analysis are summarized below.

1. The major components of current assets in MBL are cash and bank, loan and advance and government securities. In the study period the proportion of cash and bank balance, loan and advance and government securities to total current assets on an average are 11.61%, 76.361% and 5.71% on MBL respectively. So it is found that the average loan and advance of MBL is highest role in current assets.

2. The major components of current liabilities in MBL are total deposit, bills payable, other current liabilities. In the study period the proportion of total deposit, bills payable and other current liabilities to total current on an average are 95.74%, 0.16% and 4.1% on MBL respectively.
3. The liquidity position of bank is analyzed with the current ratio, quick ratio and cash and bank balance to deposit ratio. The current ratio of MBL is ranging in between 1.02 to 1.07 MBL is able to maintain it's current ratio of 1.03 in an average respectively on the study period. The current ratio trend value of MBL is negative. The average quick ratio of MBL is 0.18. The average ratio of current assets to fixed asset of MBL is 54.38. The average cash and bank balance to deposit ratio is 0.126. At last, it is found that the liquidity position is satisfactory.
4. The average value of loan and advances to total deposit ratio is 0.828. The trend of this ratio of MBL is fluctuating. It also shows that MBL has good investment efficiency on loan and advances.
5. Profitability is the measure of efficiency. The profitability position of MBL is analyzed from various angles. The average value of interest earned to total assets ratio is 6.11%. The trend value of interest earned to total assets ratio in MBL bank increasing. Net profit to total assets ratio of MBL has positive average value. The average Net profit to total deposit ratio is 1.308% which shows that MBL has good performance on mobilization of total deposits.
6. Loan and advances and total deposit of MBL is significantly correlated with coefficient value r, 0.99. it is shows that MBL utilized its total deposit on loan and advances effectively.
7. Coefficient between investment on government security and total deposits of MBL is significant. It shows that there is highly

positive relationship between investment on government security and total deposits on MBL bank.

8. Coefficient of correlation between loan and advances to net profit on MBL is 0.76. It shows that there is no significant relationship between loan and advances and net profit on MBL .
9. Coefficient of correlation between cash and bank balance and current liabilities is 0.96 on MBL . Although coefficient valued on MBL is positive it is highly significant. It shows that holding of cash and bank balance of MBL is related with current liabilities and it has a policy to hold adequate cash and bank balance and adjust it for its current requirement.
10. Coefficient of correlation between net working capital and net profit on MBL is 0.79. It shows that there is close relationship between net working capital and net profit on MBL .
11. The result of regression analysis has showed that there is positive relationship in MBL between net profit and net working capital.

# CHAPTER FIVE
# SUMMARY CONCLUSION AND RECOMMENDATION

This is the last chapter of the study. The analysis and explanation in the previous chapter have been summarized and from the overall study a conclusion has been made. This chapter also consists of recommendation or suggestive measure of improvement in working capital management of MBL bank. The last part of this chapter includes future avenues, which would help other researcher to make further study in the topic.

## 5.1 Summary

Financial institution are currently viewed as catalyst in the process of economic growth of a country commercial banks are the heart of the financial system. So it is needed to study of working capital management of any commercial bank. The study is concentrated on the various aspects of working capital management of MBL .

The working capital has to be regarded as one of the conditioning factors in the long range analysis and decision making. To achieve the goal of overall business, the determinants of working capital management should be as accurate as possible. It means money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in corporation and determining which one is more beneficial to the corporation and which is not.

Firms need cash to pay for all their day to day activities. They have to pay wages, pay for raw material, pay bills and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets as these are the short term assets that the firm can use to generate cash. However, the that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has at its disposal.

According to gross concept, WC refers to the capital invested in current assets of a firm. It focuses only the optimum investment on current assets and financing of current assets and financing of current assets. It includes cash, short-term securities and inventory and account receivables. Similarly, according to net concept working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long term funds. It focuses on the liquidity position of the firm and suggest extending which working capital need to be financed by permanent sources of funds.

The main objective of the study was to study the working capital management of Machhapuchhchre Bank as well as liquidity and profitability. To fulfill this objective and other objectives described in chapter one, an appropriate research Methodology has developed which include ratio analysis as a financial tools, correlation coefficient probable error, trend analysis and regression analysis as statistical tools.

The study has focused on profitability and liquidity position of the bank, for this different ratios are calculated. Under these the ratios and their trend position are studied in the chapter four. In order to test the relationship between the various components of working capital, Karl person's correlation coefficient 'r' is calculated and analyzed.

The necessary data are derived from the balance sheet and profit and loss account of MBL for the period of five year. Now in this chapter an attempt has been made to present summary of finding. Conclusions and some suggestions and recommendations.

## 5.2 Conclusion

In conclusion, it can be said that working capital is most important part of banks and it should not be neglected. Banks are not getting prosperous position due to their administrative negligence in day to day operation, unnecessary blockage of inventory and lack of specific working capital policy. While pinpointing the Sample banks, we can found that, investment in current assets is high with respect to its total assets and net fixed assets and it has been stated after analysis turnover ratios that current assets is not properly utilized in MBL .

Liquidity position of MBL shows satisfactory and favorable position by being successful in maintaining the standard. Similarly, after analyzing the various profitability ratios. It can be conclude that the position of MBL during study period is satisfactory. It also concludes the financial performance of MBL is so satisfactory. The MBL bank still followed conservative working capital which reduces risk but in profitability in long run. So, MBL could improve their policy by aggressive working capital policy which could maximize its profitability but sometimes bank unsuccessful to take high risk and it attempt has been made to take risk cause to getting negative return.

The correlation coefficient of variable selected for the statistical analysis shows that the bank has significant relationship with each other except between loan advances to net profit. As we know that positive correlation means both of the variable are moving towards that the theoretical relationship among the variable is supported by data.

Nepalese commercial banks in present context are facing certain policy issue like deficient financial planning neglect of working capital management deviation between liquidity turnover etc. These policy issues can be overcome if listed banks undertake measures like identification of needed funds, regular checks, development of management information system positive attitude towards risk and profit determination right combination of short term and long term sources of funds to finance working capital needs, appropriate combination of investment in current assets minimizing operating cost, specific working capital policy, improve liquid position and by improving financial performance etc.

## 5.3 Recommendations

Based on the findings of the study following recommendations are forwarded for the improvement of working capital management of MBL .

a. Out of total current assets, proportion of loan and advances is more than 70% on MBL . The bank should give priority to invest their fund on loan and advances to get higher return, proportion of other current assets occur lowest proportion so the bank should determine certain proportion of components of current assets in order to improve the current assets management in future.

b. Total deposits turnover position of the bank is less than one. Due to the poor turnover position the chances of bad debts and non-earning idle fund are high on MBL . So, MBL should give proper attention on collection of over-dated loan and advances and utilization of idle fund as loan and advances.

c. Although interest earned to total assets ratio is higher on MBL but net profit to total assets ratio is not so high; it is due to the higher cost on MBL . So MBL should reduce its cost through reduce high cost deposit and operate in a proper way so that it can have least operating cost, which further maximize shareholder return.

d. By turnover ratios MBL investment policy is seem quite satisfactory. So, MBL should utilize its deposit in income generating activity by better investment efficiency on loan and advances.

e. For the efficient utilization of current assets the management should identify its strength and weak points. To develop the managerial ability there should be training, participation in management conferences, foreign, enterprises tour etc. for the managerial level of employees in the competitive trend of banks. Machhapuchhchre Bank limited should have a strong sense of responsibility and keen interest to exercise its knowledge in policy formulation.

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## Appendix 1

## Tabulation of Assets and liabilities of MBL (Rs in Million)

| S.N. | Particulars | 2060/61 | 2061/62 | 2062/63 | 2063/64 | 2064/65 |
|---|---|---|---|---|---|---|
| A. | Current Assets | | | | | |
| | Cash and Bank balance | 201.7 | 410.7 | 731.1 | 813.9 | 1284.1 |
| | Govt. Securities | 79.3 | 71.3 | 127.3 | 904.5 | 951.3 |
| | Loan and Advance and Bill Purchase | 1464.2 | 2493.1 | 5061.4 | 6068.4 | 7129.3 |
| | Mis. Current Assets | 220 | 150 | 15 | 718.6 | 694 |
| | Total Current Assets | 1965.2 | 3125.2 | 5934.8 | 8505.4 | 10059.3 |
| B. | Fixed assets | 59.2 | 62.4 | 86.2 | 104.9 | 259.5 |
| C. | Non banking | - | - | 4.3 | 12.5 | 3.4 |
| D. | Other investment | 319.2 | 203.1 | 341.4 | 286.3 | 327.2 |
| E. | Other assets | 56.4 | 57.9 | 78.7 | 160.7 | 158.3 |
| | Total assets (A+B+C+D+E) | 2400 | 3448.6 | 6445.4 | 9069.8 | 10807.7 |
| A. | Current liabilities | | | | | |
| | Total deposit | 1778.8 | 2754.6 | 5586.8 | 7893.3 | 9475.5 |
| | Bills payable | 4.0 | 5.2 | 9.3 | 11.3 | 21.4 |
| | Other cu. Liabilities | 115.5 | +34.6 | 211.6 | 234.1 | 310.5 |
| | Total current liabilities | 1898.3 | 2894.4 | 5807.7 | 8138.7 | 9807.4 |
| B. | Reserve and funds | (42.5) | 4.2 | 87.7 | 216.1 | 178.6 |
| C. | Share capital | 544.2 | 550 | 550 | 715 | 821.7 |
| | Total capital and liabilities (A+B+C) | 2400 | 3448.6 | 6445.4 | 9069.8 | 10807.7 |

# Appendix 2
# Profit and loss A/C of MBL
# From 2060/61 to 2064/65 (Rs in million)

| S.N. | Particulars | 2060/61 | 2061/62 | 2062/63 | 2063/64 | 2064/65 |
|---|---|---|---|---|---|---|
| 1. | Interest income | 139.04 | 215.2 | 381.9 | 563.4 | 964.5 |
| 2. | Interest expenses | 76.2 | 113.6 | 187.03 | 288.7 | 397.7 |
| Net interest income | | 62.8 | 101.6 | 194.9 | 274.7 | 296.8 |
| 3. | Commission and discount | 5.7 | 14.9 | 21.4 | 33.3 | 34.3 |
| 4. | Other operating incomes | .5 | 1.0 | 13.2 | 13.7 | 49.04 |
| 5. | Exchange fluctuation income | 5.95 | 12.7 | 11.4 | 35.2 | 29.03 |
| 6. | Staff expenses | 17.4 | 19.9 | 29.6 | 43.4 | 54.4 |
| 7. | Other operating incomes | 34.1 | 42.4 | 60 | 85.9 | 104.2 |
| 8. | Exchange fluctuation loss | - | - | - | - | 1.9 |
| Operating profit before purpose<br>Offer possible losses | | 23.5 | 67.9 | 151.3 | 227.76 | 248.7 |
| 9. | Provision for possible losses<br>operating profit | 6.5<br>17 | 16.0<br>51.9 | 22.9<br>128.4 | 34.7<br>192.9 | 157.6<br>91.1 |
| 10. | Non operating incomes/loss | - | - | .29 | - | .5 |
| 11. | Loan loss provision written back | - | - | .35 | 20.1 | 48.2 |
| Profit from regular operation | | 17 | 51.9 | 129.03 | 213 | 139.7 |
| 12. | Profit/loss from extra-ordinary A/C | - | - | .3 | 1.5 | 14.3 |
| Net profit after considering all A/C | | - | - | 128.7 | 211.5 | 125.4 |
| 13. | Provision for staff bonus | 1.7 | 5.2 | 12.9 | 19.2 | 11.4 |
| 14. | Provision for income tax<br>Current tax<br>Previous year | -<br>-<br>- | -<br>-<br>- | 30.9<br>30.9<br>- | 58.3<br>57.9<br>.4 | 39.9<br>39.9<br>- |
| Net profit/loss | | 15.3 | 46.7 | 84.9 | 134 | 74.1 |

## Appendix 3

## Cash of Trend Value of Current Assets

| x | $x^2$ | y | xy | yc= a+bx |
|---|---|---|---|---|
| -2 | 4 | 19.65 | -39.3 | 16.06 |
| -1 | 1 | 31.25 | -31.25 | 37.62 |
| 0 | 0 | 59.34 | 0 | 59.18 |
| 1 | 1 | 85.05 | 85.05 | 80.74 |
| 2 | 4 | 100.59 | 201.18 | 102.3 |

A= Y/N = 295.88/5

= 59.18

b = XY/ $x^2$ = 215.68/10

= 21.56

## Appendix 4

## Calculation of Trend Value of Current Liabilities

| x | $x^2$ | y | xy | yc= a+bx |
|---|---|---|---|---|
| -2 | 4 | 18.98 | -37.96 | 14.98 |
| -1 | 1 | 28.94 | -28.94 | 36.04 |
| 0 | 0 | 58.08 | 0 | 57.1 |
| 1 | 1 | 81.39 | 81.39 | 78.16 |
| 2 | 4 | 98.07 | 196.14 | 99.22 |

A= 285.46/5 b= xy/ $x^2$

= 57.1 = 210.63/10

= 21.06

## Appendix 5

### Calculation of Trend Value of Net Working Capital (Rs in Million)

| x | $x^2$ | y | xy | yc= a+bx |
|---|---|---|---|---|
| -2 | 4 | 66.9 | -133.8 | 107.5 |
| -1 | 1 | 230.8 | -230.8 | 158.09 |
| 0 | 0 | 127.1 | 0 | 0 |
| 1 | 1 | 366.7 | 366.7 | 259.27 |
| 2 | 4 | 251.9 | 503.8 | 309.86 |

A= Y/N = 1043.4/5

= 208.68

b= xy/ $x^2$

=505.9/10

= 50.59

## Appendix 6

### Calculation of Trend Value of Current Ratio (Rs in Million)

| x | $x^2$ | y | xy | yc= a+bx |
|---|---|---|---|---|
| -2 | 4 | 1.03 | -2.06 | 1.040 |
| -1 | 1 | 1.07 | -1.07 | 1.035 |
| 0 | 0 | 1.02 | 0 | 1.030 |
| 1 | 1 | 1.04 | 1.04 | 1.025 |
| 2 | 4 | 1.02 | 2.04 | 1.02 |

a= $\frac{\phi Y}{N} X \frac{5.18}{5} X 1.03$

b= $\frac{\phi xy}{\phi x^2} X \frac{Z 0.05}{10} X Z 0.005$

## Appendix 7

## Calculation of Trend Value of Quick Ratio

| x | $x^2$ | y | xy | yc= a+bx |
|---|---|---|---|---|
| -2 | 4 | .148 | -.296 | .14 |
| -1 | 1 | .167 | -.167 | .16 |
| 0 | 0 | .148 | 0 | .18 |
| 1 | 1 | .211 | .211 | .20 |
| 2 | 4 | .228 | .456 | .22 |
| | $x^2$= 10 | y= .902 | xy= .204 | |

## Appendix 8

## Calculation of Trend Value of Net Profit to Total Assets Ratio

| x | $x^2$ | y | xy | yc= a+bx |
|---|---|---|---|---|
| -2 | 4 | .63 | -1.26 | 1.05 |
| -1 | 1 | 1.35 | -1.35 | 1.07 |
| 0 | 0 | 1.32 | 0 | 1.09 |
| 1 | 1 | 1.47 | 1.47 | 1.11 |
| 2 | 4 | .68 | 1.36 | 1.13 |
| | $x^2$= 10 | y= 5.45 | xy= 0.22 | |

a= $\frac{\phi Y}{N} X \frac{5.45}{5} X 1.09$

b= $\frac{\phi xy}{\phi x^2} X \frac{0.22}{10} X 0.022$

## Appendix 9

## Calculation of Correlation Coefficient between Government Securities (Gs) to Total Deposits (TD) of MBL

| G.S. (x) | TD (y) | $x(x-\bar{x})$ | $x^2$ | $y(y-\bar{y})$ | $y^2$ | xy |
|---|---|---|---|---|---|---|
| 79.3 | 1778.8 | -347.5 | 120756.3 | -3719 | 13830961 | 1292352.5 |
| 71.3 | 2754.6 | -355.5 | 126380.3 | -<br>2743.2 | 7525146.2 | 975207.6 |
| 127.3 | 5586.8 | -299.5 | 89700.3 | .89 | 7921 | -26655.5 |
| 904.5 | 7893.3 | 477.7 | 228192.3 | 2395.5 | 5738420.3 | 1144330.35 |
| 951.3 | 9475.5 | 524.5 | 275100.3 | 3977.7 | 15822097 | 2086303.65 |
| x=<br>2133.7 | y=<br>27489 | | $x^2$=840129.5 | | $y^2$=42924545.5 | |

$$\bar{x}\,X\frac{\phi x}{N}X\frac{2133.7}{5}X426.8$$

$$\bar{y}\,X\frac{\phi y}{N}X\frac{27489}{5}X5497.8$$

$$r= \frac{\phi xy}{\sqrt{\phi x^2\ \phi y^2}}X\frac{5498194.1}{\sqrt{840129.5 \mid 42924545.5}}X0.91$$

$$PEr\,X\frac{[0.6745]1\,Z\,r^2}{\sqrt{N}}X0.6745 \mid 1\,ZX\frac{.114665}{\sqrt{5}}0.051$$

$$= 6 \mid 0.051 \quad = 0.306$$

# Appendix 10

## Calculation of Correlation Coefficient between loan and advances (A) to Total Deposits (TD) of MBL

| LA (x) | TD (y) | X(x- $\bar{x}$) | $X^2$ | Y(y- $\bar{y}$) | $Y^2$ | XY |
|---|---|---|---|---|---|---|
| 1464.2 | 1778.8 | -2979.2 | 8875632.6 | -3719 | 1380961 | 11079644.8 |
| 2493.2 | 2754.6 | -1950.3 | 3803670.09 | -2743.2 | 7525146.2 | 5350062.9 |
| 5061.4 | 5586.6 | 618 | 381924 | 89 | 7921 | 55002 |
| 6068.4 | 7893.3 | 1625 | 2640625 | 2395.5 | 5738420.3 | 3892687.5 |
| 7129.9 | 9475.5 | 2686.5 | 7217282.25 | 3977.7 | 15822097 | 10686091.05 |
| x= 22227 | y= 27489 | | $x^2$=22919233.9 | | $y^2$=42924545.5 | xy= 31063488.15 |

$$\bar{x} \, X \frac{\phi x}{N} X \frac{22217}{5} X 4443.4$$

$$\bar{y} \, X \frac{\phi y}{N} X \frac{27489}{5} X 5497.8$$

$$r = \frac{\phi xy}{\sqrt{\phi x^2 \ \phi y^2}} X \frac{31063488.25}{\sqrt{122919133.9 \mid 42924545.5}} X 0.99$$

$$PEr \, X \frac{[0.6745]1 Z r^2}{\sqrt{N}} X \frac{0.6745 \mid 1 Z 0.9}{\sqrt{5}} X \frac{.0.01349}{\sqrt{5}} 6$$

$$= 6 \mid 0.006 \quad = 0.036$$

## Appendix 11

## Calculation of Correlation Coefficient between Cash and Bank Balance (CB) to Current Liabilities

| CB (x) | CL(y) | x(x- $\bar{x}$ ) | $x^2$ | Y(y- $\bar{y}$ ) | $y^2$ | xy |
|---|---|---|---|---|---|---|
| 201.7 | 1898.3 | -486.6 | 236779.56 | -3811 | 14523721 | 1854432.6 |
| 410.7 | 2894.4 | -277.6 | 77061.76 | -2814.9 | 7923662.01 | 781416.24 |
| 731.1 | 5807.7 | 42.8 | 1831.84 | 98.4 | 9682.56 | 4211.52 |
| 813.9 | 8138.7 | 125.6 | 15775.36 | 24294 | 5901954.36 | 305132.64 |
| 1284.1 | 9807.4 | 595.8 | 354977.64 | 4098.1 | 16794423.6 | 2441647.98 |
| x= 3441.5 | y= 28546.5 | | $x^2$=686426.16 | | $y^2$=45153473.5 | xy= 5386840.9 |

$$\bar{x} X \frac{\phi x}{N} X \frac{3441.5}{5} X688.3$$

$$\bar{y} X \frac{\phi y}{N} X \frac{28546.5}{5} X5709.3$$

$$r= \frac{\phi xy}{\sqrt{\phi x^2 \ \phi y^2}} X \frac{5386840.98}{\sqrt{686426.16 \mid 45153473.5}} X0.96$$

$$PEr \, X \frac{[0.6745]1 \, Z r^2}{\sqrt{N}} X \frac{0.6745 \mid 1 \, Z.92}{\sqrt{5}} X \frac{0.05396}{\sqrt{5}} X0.024$$

$$= 6 \mid 0.024 \quad = 0.144$$

## Appendix 12

## Calculation of Correlation Coefficient between Loan and Advances (A) to Net Profit of MBL

| LA(x) | NP(y) | x(x-$\bar{x}$) | $x^2$ | Y(y-$\bar{y}$) | $y^2$ | xy |
|---|---|---|---|---|---|---|
| 1462.2 | 15.3 | -2979.2 | 8875632.6 | -55.7 | 3102.49 | 165941.44 |
| 2493.1 | 46.7 | -1950.3 | 3803670.09 | -24.3 | 590.49 | 47392.29 |
| 5061.4 | 84.9 | 618 | 381924 | 13.9 | 193.21 | 8590.2 |
| 6068.4 | 134 | 1625 | 2640625 | 63 | 3969 | 102375 |
| 7129.9 | 74.1 | 2686.5 | 7217282.25 | 3.1 | 9.61 | 229.71 |
| x= 22217 | y= 355 | | $x^2$=22919133.94 | | $y^2$=7864.8 | xy= 324528.64 |

$$\bar{x} X \frac{\phi x}{N} X \frac{22217}{5} X 4443.4$$

$$\bar{y} X \frac{\phi y}{N} X \frac{355}{5} X 71$$

$$r= \frac{\phi xy}{\sqrt{\phi x^2 \ \phi y^2}} X \frac{324528.64}{\sqrt{22919133 | 7864.8}} X 0.76$$

$$PEr X \frac{[0.6745]1 Z r^2}{\sqrt{N}} X \frac{(0.6745) | 1 Z 0.76^2}{\sqrt{5}} X \frac{0.6745 | 0.4224}{\sqrt{5}} X 0.128 | 6 X 0.77$$

## Appendix 13

**a. Calculation of Correlation Coefficient Net Working Capital (n.w/c) to Net Profit (NP) of MBL**

| n.w/c(x) | NP(y) | $x(x-\bar{x})$ | $x^2$ | $y(y-\bar{y})$ | $y^2$ | xy |
|---|---|---|---|---|---|---|
| 66.9 | 15.3 | -141.78 | 20101.56 | -55.7 | 3102.49 | 7897.14 |
| 230.8 | 46.7 | 22.12 | 489.29 | -24.3 | 590.49 | -537.51 |
| 127.1 | 84.9 | -81.58 | 6655.29 | 13.9 | 193.21 | -1133.9 |
| 366.7 | 134 | 158.02 | 24970.32 | 63 | 3969 | 9955.26 |
| 251.9 | 74.1 | 43.22 | 1867.97 | 3.1 | 9.61 | 229.71 |
| x= 1043.4 | y= 355 | | $x^2$=54084.43 | | $y^2$=7864.8 | xy= 16410.7 |

$$\bar{x} = \frac{\Sigma x}{N} = \frac{1043.4}{5} = 208.68$$

$$\bar{y} = \frac{\Sigma y}{N} = \frac{1043.4}{5} = 71$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2 \; \Sigma y^2}} = \frac{16410.7}{\sqrt{54084.43 \times 7864.8}} = 0.79$$

$$PEr = \frac{[0.6745]1 - r^2}{\sqrt{N}} = \frac{(0.6745) \times 1 - 0.79^2}{\sqrt{5}} = .1133$$

$$= 6 \times .1133 = 0.68$$

**b. Regression between Net Working Capital and Net Profit**

Net working capital= x

Net profit = y

$$y - \bar{y} = \frac{r\sqrt{\Sigma(y-\bar{y})}}{\sqrt{\Sigma(x-\bar{x})^2}}(x-\bar{x})$$

$$y - \bar{y} = bxy\,(x - \bar{x})$$

$$bxy = \frac{N\Sigma xy - (\Sigma x) - (\Sigma y)}{N(\Sigma x^2) - (\Sigma y^2)}$$

$$= \frac{5 \times 16410.7 - 1043.4 \times 355}{5 \times 54084.43 - (1043.4)^2}$$

$$= \frac{82053.5 - 370407}{270422.15 - 1088683.56}$$

$$= \frac{-288353.5}{818261.41} = 0.35$$

y-71 = 0.35(x-208.68)

y = -2.038 + 0.35x

## Appendix 14

## Calculation of Trend Value of Interest Earned to Total Assets Ratio

| x | $x^2$ | y | xy | yc= a+bx |
|---|---|---|---|---|
| -2 | 4 | 5.79 | -11.58 | 5.86 |
| -1 | 1 | 6.24 | -6.24 | 5.99 |
| 0 | 0 | 5.92 | 0 | 6.11 |
| 1 | 1 | 6.21 | 6.21 | 6.23 |
| 2 | 4 | 6.42 | 12.84 | 6.35 |
| | $x^2$=10 | y=30.58 | xy= 1.23 | |

$$a \mathrm{X} \frac{\phi y}{N} \mathrm{X} 6.11$$

$$b \mathrm{X} \frac{\phi xy}{\phi x^2} \mathrm{X} \frac{1.23}{10} \mathrm{X} 0.123$$

## Appendix 15
## Table-1 List of Commercial Bank in Nepal

| S.N | Commercial Banks |
|---|---|
| 1. | Nepal Bank Limited |
| 2. | Rastriya Banijya Bank |
| 3. | Nepal Arab Bank Limited |
| 4. | Nepal Investment Bank Limited |
| 5. | Standard Chartered Bank Nepal Limited |
| 6. | Himalayan Bank Limited |
| 7. | Nepal SBI Bank Limited |
| 8. | Nepal Bangladesh Bank Limited |
| 9. | Everest Bank Limited |
| 10. | Bank of Kathmandu Limited |
| 11 | Nepal Credit and Commerce Bank Limited |
| 12. | Lumbini Bank Limited |
| 13. | Nepal Industrial and Commercial Bank Ltd |
| 14. | Machhapuchhchre Bank Limited |
| 15. | Kumari Bank Limited |
| 16. | Laxmi Bank Limited |
| 17. | Siddharth Bank Limited |
| 18. | Agricultlural Development Bank Limited |
| 19. | Global Bank Limited |
| 20. | Citizens Bank International Limited |
| 21 | Prime Commercial Bank Limited |
| 22. | Sunrise Bank Limited |
| 23. | Bank of Asia Nepal Limited |
| 24. | Development Credit Bank Limited |
| 25. | NMB Bank Limited |

(Sources Nepal Rastra Bank Publications)

(www. nrb. org. np)