CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Economic development depends upon the development of the industrial and financial sectors. Industrialization is one of the most important tools to support economic development. Mostly the developing countries are backward in industrial sector. This situation is prevailing mainly because of the predominated agro-based economy. Nepal has an agro-based economy. Industrial development is crucial for the economic development of a nation. Financial rules and regulations play the most vital role for the development of industrial sector. Financial rules and regulations are related with financing for raising funds, which is concerned with long term fund and short term fund.

An organization does not only need long term finance but also the short term finance. Short term financing is defined as debt originally scheduled for repayment within one year. The short term financial management is widely used in the place of working capital. It covers all decisions of an organization involving cash flows in the short run with emphasis on the management, its investment in current assets and their financing.

Most of the organizations have used different types of funds such as long-term, medium-term funds. These funds are collected from different sources. Each source of capital has its own benefits as well as defects. The aggressive financing policy called for the greatest used of short-term debt. Short-term financing cash provides both the highest and the lowest cost funds in the firm's capital structure. Some funds of short term financing are more costly than medium or long-term funds and some are at no cost at all to the firm (Hampton, 1986:503).

A firm has to achieve low cost financing by using the short-term financing. The interest free sources provide low cost financing for the firm by reducing its borrowing need for interest bearing sources. By using the short-term financing, it has to add funds in some cases. A firm may not be able to issue equity and debentures.

Flexibility is one of the most important mints of using the short-term sources. In the seasonal or cyclical period, a firm does not want to use long term debt because when raising the long-term debt floatation costs are generally high. If a firm thinks its needs for funds may diminish in the near future, it should choose Short-term debt for the flexibility. It provides and lastly short term credit agreements are generally much less provisions than the long-term loan agreements which constrain the firm's future action.

Short-term financing is more risky than long-term financing because if a firm borrows on a long-term widely to use basic its interest cost will be relatively stable overtime but it will fluctuate widely to uses short-term credit, at times going quite high (Brigham and Gapenski, 1988:653). Another reason of risk of short-term financing is that if a firm borrows high amount on short-term basis it may find itself unable to repay this debt and it may be in such a weak financial position that the lender will not extend the loan. This may force the firm into bankruptcy.

The financial performance of public enterprises in Nepal has been very poor. Most of the public enterprises have not been able to earn desirable values of profit. They are unable to use various sources of financing at required time. Most of the Nepalese firms use various types of fund to fulfill their needs but they are unable to use short-term fund at appropriate time. In this situation there is necessary to analyze the financial resources of the manufacturing enterprises.

This study attempts to research among these topics: what is the trend applied, which financing is more used and which financing is much cost effective for the Nepalese manufacturing companies.

The history of industrialization is not long in Nepal. The first industry in Nepalese history was Biratnagar Jute Mill in 1993 (B.S) and Nepal Bank Ltd. 1994 (B.S). Taking the account of industrialization process in Nepal it is quoted that there was a good deal more of pre-industrial manufacturing activity during the first decade of the last century than during the greater part of Rana period (Shah, 1972:229).

In the period of Rana regime other manufacturing enterprises such as Raghupati Jute Mill came into operation. After the thrown of Rana Regime efforts were made to accelerate the

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pace of economic development. As a consequence, many industries were established before the first five year plan.

Government initiated the growth of industries in Nepal since the very inception of the first five years plan. Government has made rules and regulations and bring act to support the establishment of public enterprises. Thus at the end of 8th five year plan, 59 public enterprise came into operation. In this period most of the big industries were operated by public sector but private sector operated only small size of industries mainly they produced Shoe, Textile, Refine food, Iron, Handicraft, Carpet and other consumer goods etc. Mostly cottage industries were flowered.

In spite of the poor economic performance of public enterprises, government has given priority for the establishment of them. The role of private sector also is quite inevitable but was failed to understand it. Only after the eighth five year plan government has changed its policy by establishing public enterprises to create favorable condition for encouraging the private sector to operate company and takes liberalization policy. Liberalization of the economy has given emphasis on market economy by rising in productivity, better utilization of resources, competitiveness in economy cost reduction and the number of other favorable impacts.

After being the member of WTO, on 24 March, 2004, Nepal also committed for open market system. Only then Nepal got opportunity to expand market all over the world. But it also brought various drawbacks in industrial sectors because foreign organization and goods also easily entered under the WTO regulations. So, Nepalese manufacturing companies had to face more competition to increase their standard and for their stability.

The financial performance of the most Nepalese manufacturing companies was very low. This situation was not improved after the privatization of public enterprises because of the poor financing policy. By choosing suitable financing mix, these companies can improve financial performance. Availability of short-term resources is an urgent need for the upliftment of the financial performance of company as well as the national economy. This short-term financing management has been continuously going on through government efforts although the private sectors come into a limelight after deliberate policy of liberalization.

Among the number of reasons leading of inefficient of manufacturing companies, ineffectiveness in utilization of short term-financing is considered to be one of the key reasons. This study highlights regarding how manufacturing companies are managing short-term financing and then analyzing how far they are successful in taping short-term financing according to needs.

1.2 Statement of the Problem

In all organizations, short-term funds are used. If there is not proper working capital management, those types of organizations will be unsuccessful. In most organization management of short-term financing has been misunderstood as the management of available resources rather than its effective utilization. Regarding the management of short-term financing sources (trade credit, account receivables, inventory financial); most of the organizations have never thought seriously. The financial manager still focuses on Bank loan, commercial paper, issue of bond and share but not on the effective utilization of funds defined in term of trade credit, account receivable financing and inventory financing. First goal of every organization is profit maximization and to achieve the goal. Organizations have to use proper use of working capital. But in fact, most of the Nepalese organizations are unable to achieve their goal because of the poor utilization of various sources of short-term financing.

So this study has tried to figure out the following research problems facing by the Nepalese manufacturing companies.

a. What kinds of short-term financing sources are used by different manufacturing companies?

b. What is the trend of using short-term financing?

c. What financing policies are adopted by Nepalese manufacturing companies?

d. Are the manufacturing companies more dependent on short-term financing than other?

1.3 Objectives of the Study

Main objective of this study is to highlight about the use of short-term financing in the manufacturing companies in Nepal. Following objectives are specially taken for this study.

a. To identify the various forms of short-term financing used by the Nepalese manufacturing companies.

b. To analyze the trend of using short-term financing by Nepalese manufacturing companies.

c. To analyze the financing policy adopted by manufacturing companies.

d. To test the corporate bankruptcy degree of the companies.

e. To analyze how manufacturing companies are dependent on short-term financing.

f. To provide workable suggestion and recommendation as feed back to the manufacturing companies based on the findings of the study.

1.4 Importance of Study

Finance is one of the most important disciplines in the economic development. In traditional concept, finance is only related with long-term sources of financing. But nowadays finance is not only concerned with long-term financing but also in their short-term financing. Short-term financing is that type of financing which matures within one year or less. Short-term financing is used to support a large portion of the firms' current assets like as cash, marketable securities, inventory etc.

This study is related with pattern of short-term financing of manufacturing companies in Nepal. Every organization needs of funds of matured within less than one year to declare different types of task. Most organizations use various sources of short term financing such as trade credit, account receivable and inventory financing etc. to manage short-term financing. So this study is important for analyzing the role of short-term financing development of organization. This study is also helpful to analyze the different sources of financing and their importance in organization. In the other hand it is also helpful to find

out what types of short-term financing sources are used by different manufacturing companies and their impacts in alternative choice of various short-term financing. At last, it also helps to access about the trends of short-term financing.

1.5 Limitation of the Study

The study is confined to the following limitations:

a. This study is totally based on secondary data.

b. This study is only confined to the manufacturing companies listed in NEPSE.

c. Certain period data have been taken for the analysis, result is based on the data.

d. The study is limited only in the short-term financing of selected manufacturing companies.

1.6 Organization of the Study

Chapter One: Introduction

The first chapter deals with introduction. This include background of the study, statement of the problems, focus of the study, objectives, significance and limitations of the study.

Chapter Two: Review of literature

It deals with the review of available literature. It includes review, books, Journal, Previous thesis etc.

Chapter (III) Research Methodology

It explains the research method used in study, includes research design, sources of data, methods of data analysis etc.

Chapter (IV) Data Presentation and analysis

The fourth chapter, which is most important chapter of the study, includes data presentation and analysis.

The fifth chapter summarizes the main conclusion that follows from the study and provides the suggestion for the further improvement and conclusion of the study.

Bibliography and Appendix will be attached at the end of study.

CHAPTER TWO

REVIEW OF LITURATURE

2.1 Conceptual Framework

Short-term financial planning is important as it involves the liquidity of the firm, its ability to pay its bills. In a broader sense this means being able to meet its financial obligations to all of its stakeholders including suppliers, employers, sources of funds, its customer as well as its expanded social obligation. The key objectives of short-term financial planning are managing the cash flows of the firm effectively. (Weston and Copland 1976:543)

Short-term financial management is the term now widely used in the place of working capital management. The concept of short-term financial management covers all decision of an organization involving cash flows in the short run with emphasis on management of investment in current assets.

Short-term financing is defined as debt originally scheduled for repayment within one year. A variety of short-term credits are available to the firm and the financial manager must know advantages and disadvantages of each (Weston & Copland 1976:545).

Short-term financing is the principle by which assets are funded. There are number, types, ranging from spontaneous credit in the form of amount payable and accruals to negotiable, interest bearing debt. The proportion of short-term vs. long-term financing is function of a company's funds requirements seasonal vs. more permanent as well as of

the aggressiveness of management in matching its financing with its funds requirements. (JC Van Hones, 1994,-441)

The firm can use short-term sources to achieve a number of goals. Including flexibility, low cost financing and secured additional funds. A short-term loan can be obtained much faster than long-term. Lender will insist on a more through financial examination before extending long-term credit. Therefore if funds are needed in hurry, the firm should look to the short-term market (Hampton, 1986:432).

Some short-term sources provide funds at no cost at all to the firm. Payables and accruals fall into this category. Generally interest rates are lower on short-term than long-term debt. The longer maturity schedule of a firm's debt, the more costly the financing is likely to be. For one thing the expected cost of long-term financing usually is more than that of short-term financing. In periods of high interest rates, the rate on short-term corporate borrowing may extent that on long-term borrowing. But over a reasonable period of time, the firm typically pays more for long-term borrowing (Vanhorn, 1994:468).

There are numerous sources of short-term funds, which are categorized into two parts. One is unsecured short-term financing sources and another is secured short-term financing sources. A firm obtains credit from the lender without having to pledge any specific assets as collateral in the case of unsecured short-term debt. But in the secured short-term debt the borrowing firm pledges certain specific assets.

Trade credit financing, Banks loans, Accruals financing and Commercial paper are sources of unsecured short-term financing. As well as Bank loan, Receivable financing and Inventory financing are the sources of secured short-term financing.

2.1. 1 Unsecured Short-term Financing

Unsecured short-term financing means borrowed funds without having pledge of any specific assets. In such borrowing, lender depends primarily on cash generating ability of the firm to repay the debt. They are as follows.

2.1.1.1 Trade Credit (Account payable)

Trade credit is a form of short-term financing common to almost all business. In fact it is the largest sources of short-term funds for business firms collectively. In an advanced

economy, most buyers are not required to pay for goods on delivery but are allowed a short deferment period before payment is due.

During this period, the seller of the goods extends credit to the buyer. As the firm increased its productions account payable increase, as decrease. Thus account payable credit more liberal in the extension of credit than are financial institution, small companies in a particular relay on trade credit.

There are three types of trade credit.

a. Open-Account

Open-account is the most common type. The seller ships goods to the buyers and send an invoice that specifies the goods or service, the price, the total amount due and the term of the sell open account credit derive its name from the fact that the buyers do not former debt instrument evidencing the amount owned the seller.

b. Promissory Note:

The buyers sign a note that evidences a debt to the seller. The note itself calls for the payment of the obligation at some specific future data.

c. Trade Acceptance:

Under this arrangement the seller draws a draft to the buyer ordering the buyers to pay the draft at some data in the future. The firm (payer) can sign the draft, formally acknowledging the debt or the payer's Bank can accept the responsibility for its payment in the event of the firms and default. Once accepted by the bank, drafts become a banker's acceptance which the supplier can sell the owner of the banker's acceptance present the drafts for collections at the guarantee bank on the specified data.

Advantages of Trade Credit are as follows:

Trade credit, customary part of the doing business in most industries is convenient and informal. A firm that does not qualify for credit from a financial institution may receive trade credit because previous experience has familiarized the seller with the credit

worthiness of the customers. The seller knows the merchandising practices of the industry and its' usually in goods position to judge the capacity of customers.

2.1.1.2 Accrual Financing:

The firm can also generate short-term fund by postponing payment on its current liabilities. Accruals account represents a spontaneous source for financing. The most command accrual accounts are for wages and taxes.

Accrued expenses represent liabilities that a firm has to pay for the service, which it has already received. Thus they represent a spontaneous, interest free source of financing. Accrued wages and salaries represent obligation payable by the firm to its employees. The firm incurs a liability the movement employees have rendered services. They are however paid afterwards, usually at some fixed interval like one month. The liability builds up between payables. The longer the payment intervals, the greater the amount of funds provided by the employees. Legal and practical aspects constrain the flexibility of a firm in lengthening the payment interval.

Accrual taxes and interest constitute another source of financing. Corporate taxes are paid after the firm has earned profit. These taxes are paid quarterly during the year in which profit is earned. This is differed payment of the firm's obligation and thus is a source of finance. Like taxes, interest is paid periodically during a year while the firm continuously uses the borrowed funds. Thus accrued interest on borrowed fund requiring semiannually interest payment can be used as sources of financing for a period as long as six month. The government provides strict rules and procedures for the payment of withholding and social taxes, so that the accrual of taxes cannot be readily manipulated. It is however, possible to change the frequency of payable to increase or decrease the amount of financing through wage accrual.

2.1.1.3 Deferred Income

Deferred income represents fund received by the firm for goods and service, which it has agreed to supply in future. These receipts increase the firm's liquidity in the form of cash; therefore they constitute an important source of financing.

Advance payment made by customer constitutes the main item of deferred income.

These payments are common in case of expensive product like boilers, turnkey project large contracts of where the product is in short supply and the seller has strong bargaining power as compare to the buyer. These payments are not recorded as revenue until goods and services have been delivered to the customers. They are, therefore shown as liabilities in the firm's balance sheet (I.M. Pandey, 1992:855).

2.1.1.4 Unsecured interest Bearing Sources of Short- term Fund

A stable and profitable firm can borrow funds from short-term source at competitive rates of interest.

A) Bank Loan

Mostly a firm borrows loan from commercial bank which is known as the unsecured self-liquidating short-term loan. Self-liquidating means that the bank provides funds for a seasonal of cyclic business purpose and the money will be used to finance an activity that will generate cash to pay off the loan. An example of a self-liquidating loan is money borrowed to finance inventory just before the pear seasonal sales period. The inventories that are being financed by the bank loan will be concerted first to receivable, then into cash, which will be used to pay off the loan (John J.Hampton, 1990: 430).

Short-term bank loans are generally tied into the prime rate, which is defined as a reported level of interest charged on business loans. The prime rate fluctuates with supply and demand for short-term funds. The rate on any individual bank loan is a combination of a prime rate which a borrower has to operate financial risk greater that the bank's strongest customers. The premium generally runs from 0 to 2%. Firm possessing higher levels generally do not qualify for unsecured short-term financing (Ibid, 430).

There are different types of short-term bank loans

1. Single Payment Note:

A Commercial bank will lend a strong business customer a lump sum repayable with interest in a single payment and at a specified maturity usually 30 to 90 days. A note is a legal instrument that is signed evidencing the debt.

2. Line of Credit

A line of credit is an agreement between a bank and its customer specifying the maximum amount of unsecured credit. The bank will permit the firm to owe at any time. Usually, credit lines are established for all year renewal. Frequently lines of credit are set for renewals after the bank receives the audited review, the progress of the borrower. If the borrower year-end statement date is Dec- 30, a bank may set its line to expire some time in March. At that time, the bank and the company meet to discuss. The credit needs of the firm for the company year in light of its past year's performance. The amount of the line is based on the bank's assessment of the credit worthiness and credit needs of the borrower .Depending on changes in this condition, a line for credit may be adjusted at the renewal date or before if conditions necessitate a change.

3. Revolving Credit Management:

A revolving credit agreement is a legal commitment by a bank to extend credit up to a maximum amount. While the commitment is in force, the bank must extend credit whenever, the borrower wishes to borrow, provided total borrowing do not exceed the maximum amount specified. If the revolving credit is for 5 million and 3 million already owned the borrower can borrow an additional 2 million at any time. For the privilege of having this formal commitment the borrower is required to pay a commitment fee on the 3 million unused portions. If the fee is ½% the cost of this privilege will be 1500 for the year .Revolving credit arrangement of more a year must be regarded as intermediate rather than short-term credit.

4. Transaction Loan:

Borrowing under the line of credit, a revolving credit arrangement is not appropriate when the firm needs short-term fund for only one purpose. A contractor may borrow from a bank in order to complete a job. When the contractor receives a payment for the job, the loan is paid. For this type of loan, a bank evaluates requested by the borrowers a separate transaction. In this evaluation the ability of the borrowing is paramount.

B. Commercial paper:

Commercial paper represents an unsecured, short-term negotiable promissory note sold in the money market. Because these notes are unsecured and are a money market instrument, only the more creditworthy companies are able to use commercial paper as a source of short-term financing.

Commercial paper is important money market instruments in advanced countries like USA to raise short-term funds. The commercial paper market in the USA is a blue-chip market where financially sound and highest rated companies are able to issue commercial paper. The buyer of commercial paper includes banks, insurance companies, unit trust and firms with surplus funds to invest for a short-term with minimum of risk.

The interest paid by issuer of commercial paper is determined by the size of the discount and the length of time to maturity. Commercial paper is sold at a discount from its part of face value and actual interest earned is determined face value x 360 / Maturity period.

Commercial paper is directly placed within investors by the issuer or sold by commercial paper dealers. For performing the marketing function, the commercial paper dealer is paid a fee.

2.1.2 Secured Short-Term Financing.

Many firms can not obtain loan on an unsecured basis either because they are new and unproven or because bankers do not highly regard the firms' ability to service debt. In order to make a loan, lenders require securities that will reduce their risk. A secured loan occurs when the borrower pledges specific assets, called collateral to back a loan. The collateral may be securities, receivable or physical assets. The lender is given a claim to the collateral through the signing of an agreement that may be filled in a public office, normally a country. By filling the securities agreements the borrower is legally establishing the lenders' first claim on the assets in the event of default.

Types of Secured Short-term Financing

1. Account Receivables financing

Account receivable is one of the most commonly used forms of collateral for secured short-term borrowing. From the lenders standpoint, account receivables represent a desirable form of collateral since they are relatively liquid and there value is relatively

easy to recover if the borrower becomes insolvent. (Moyer, Mcguiban and Kretlow, 1986:477). Once the pledging the account receivables as collateral the bank must be satisfied with the authenticity and credit worthiness of the accounts receivables. The lender investigates the account to determine which are acceptable as collateral. To use its account receivables as collateral, the firm first discusses the loan with the bank, which then writes a letter dealing the bank terms, if the firm is satisfied with the term of loan, it notifies the bank. Then the firm and the bank usually file a public notice announcing that the account receivable are pledged as collateral so that others will not lend the firm money on the same collateral (Bolten and Conn, 1983:477).

Most factoring of receivables is done on a non resource basis, in other words, the factor assumes the risk of default. If the factor refuses to purchase a given receivables the firm can still ship the order to the customer and assume the default risk itself, but this receivable does not provide any collateral for additional credit. In the factoring agreement the firm receives payment from the factor after the normal collection or due date of the factors accounts. If the firms want to receive the funds prior to this date, it can usually obtain an advance from the factor.

The factors also charge a factoring commission or service fee. Three kinds of calculations must be considered to measure the cost of factoring.

Factoring commissions are payments to the factoring to cover the administrative cost of verifying credit ratings and collecting receivables. The factor charges 2 to 5 percent above the prime rate as the annual interest rate on advance.

2. Inventory Loans

Short-term funds can also be raised by pledging inventory as collateral, if the firm is a relatively poor risk, the lending institution may insist upon security. Inventories are another commonly used form of collateral for secured short-term loans. Like receivables, most type of inventories is fairly liquid. Thus lenders consider them to be a desirable form of collateral. When judging whether a firm's inventory would be suitable collateral for a loan, the primary consideration of the lender are the type, physical characteristics, identifiably, liquidity and marketability of the inventory.

Firms hold three types of inventories raw materials, work in progress and finished goods. Normally only raw materials and finished goods are considered acceptable as security for a loan. The physical characteristic that lenders are most concerned with is the items perishable.

A) Floating Liens

A floating collateral lien is a pledge of inventory without regard to specific items. This may include both present and future inventory. The firm pledges a certain quantity of inventory or inventory value, reserving the right to substitute specific items of similar type of agreement in often employed when the average value of inventory items is small and the inventory terms over frequently. Specific items are not identified. Thus a floating lien does not offer the lender much protection against losses from bankruptcy (Ibid: 30).

This type of arrangement has the advantage of not restriction the firm from selling a specific item of collateral, allowing the firm to maintain control over the inventory.

B) Chattel Mortgage

With a chattel mortgage, inventories are identified especially by serial number or by some other means. While the borrower holds title to the goods, the lender has a lien on inventory. This inventory cannot be sold unless the lender consents because of the rigorous identification requirement, chattel mortgage are ill suited for inventory with rapid turnover or inventory that is not easily identified because of size or other reasons. Chattel mortgages are well suited for certain capital assets, such as machine tools.

C) Trust Receipt Loans:

The receipt, which is an instrument, acknowledges that the goods are held in trust for the lender. When trust receipts are used, the borrowing firm, upon receiving funds from the lender, signs and delivers trust receipts for the goods. The goods can be stored in a public warehouse or held on he premises of the borrower. The trust receipt acknowledges that the goods are held in trust for the lender and that any proceeds from the sole of trust goods must be transmitted to the lender at the end of each day. Automobile dealer financing is one of the best example of trust receipt financing

D) Warehouse Receipts Loans:

A warehouse receipt loan is a form of short-term financing that is secured by a pledge of inventory controlled by the lender. The lender selects the company that is acceptable as collateral for the loan. A warehousing company takes physical possession of the inventory in one of two ways:

i) Terminal Warehouse Receipts:

A Borrower secures a terminal warehouse receipt loan by storing inventory with a public or terminal warehousing company. This arrangement generally occurs when the goods are easily and inexpensively transportable. When the inventory is delivered to the warehouse, the warehouse company issues a warehouse receipt listing the specific items received by senior of lot number. The warehouse receipt is forwarded to the lender, who then advances funds to the firm (Mayer, Mc Guiban and Kerlow, 1986:546).

The terminal warehouse receipt is typically non-negotiable, although where negotiable warehouse receipts through there are negotiable warehouse receipts through which the inventory can be transferred by endorsement to another firm.

Financing for this type of inventory pledge is typically more costly then it is other forms of inventory pledge because of the lender's greater risk that the pledged inventory will be fraudulently removed. The firm bears the cost of the warehouse installation, warehousing charges, the guards, insurances and other associated expanses in addition to the interest the lender charges on the advances (Bolton and Conn, 1986:483).

II) Field Warehouse Receipts:

In a terminal warehouse receipt loan, the goods are located in a public warehouse. Another arrangement, know as field warehousing, permits loans to be made against inventory that is located on the borrower's premises for the inventory pledged as collateral. The field warehousing issues a warehouse receipt as described to terminal warehouse receipt loans and lender extends a loan based upon the collateral value of the inventory. The field warehouse receipt lending is particularly appropriate when a borrower must make frequent use of inventory. This arrangement is a useful means of financing when it is not desirable, either because of the inconvenience, to place the

inventory in a public warehouse. With these conceptual framework in mind, review of literature has been conducted which is presented in the following sections.

2.2. Review of Articles/Journals:

Article Journal and bulletins are great significance for thesis writing. So, various published articles, journals relating to short-term financing and working capital management have been reviewed. The study is only related to short-term financing but short-term financing is a part of the working capital. Thus working capital is also considered.

James's Study:

James (1961) in his study entitled "Working Capital Management of Industrial Enterprises" states that industrial enterprise needs sufficient amount of capital to run its activities smoothly. In absences of sufficient capital, industrial enterprises are compelled to hold up many of their profit propensities. In view of different industrial enterprises capital, they have different status regarding introduction, employment, wages and even the profit. Large industrial enterprise with few capital and small enterprises with huge capital both are the single boat on ocean.

Shrestha's Study:

Shrestha (1982) in article "*ISDDC Bulletin"* Considered ten selected PEs and studied the working capital management in those PEs. He has focused on the liquidity, turnover and profitability position of those enterprises. In this analysis, he found that fours PEs has excessive and the remaining four had failed to maintain desirable liquidity position. Shrestha has brought certain policy issues such as lack of suitable financing, planning, negligence of working capital management, deviations between liquidity and turnover of assets and inability to show positive relationship between turnover and return on net working capital.

Acharya's Study(1988):

Another article is by Dr. Acharya, which is based on the finding and conclusion of his ph. D thesis. He has focused working capital management of Nepal Tea Development Corporation for eight year from 1975/76 to 1982/83 AD . In his study, he found that the net working capital of NIDC was negative due to increase in current liabilities inventory held the largest portion and it was accumulating in the corporation. The size of receivables of NIDC had also increasing trend where as cash balance held by the corporation were insufficient to meet the routine work of the corporation. At the same time the liquidity position was very poor since current assets were less than the current liabilities. The turnover inventory receivables and current assets were less than the current liabilities. The turnover inventory receivables and current assets were below average. The break-even point is repeated that the NIDC had been selling mostly below the even point. Dr. Aacharya gave some suggestions regarding this were proper planning of production and sales, new credit policy action against the delinquent dealers, obtaining loans from any individual financial institutions. (Dr. R. Aacharya, the management of working capital in PEs of Nepal, Nepalese Development studies, 1988:21)

Shrestha's Study:

Shrestha (BS 2048) has written about account receivable management in his article 'Account Receivables Management". In this article he concludes that credit management as an integrate part of short-term working capital management involved in a project is synonymous with the systematic operation of account receivables. In his journals, he focused on how to manage account receivables and how is it helpful to increase the sales and profit volume. He describes about the short-term financing under the pattern of establishment of credit terms gathering credit information sources and credit granting decisions, which are helpful to manage the account receivables.

Pradhan & Koirala's Study:

Pradhan & Koirala (1991) have jointly conducted a study on "Working Capital Management in Nepalese Corporation". They have focused on an evaluation of the working capital position of selected manufacturing and non manufacturing Corporation of Nepal. They have sampled five manufacturing and six non manufacturing public enterprises. This study is concerned in the size of investment, trend of investment and

need to control the investment in current assets. Major findings of this study are as follows:

I) Investment in total assets had declined over a period of time in both Mfg. and non Mfg. Corporation.

II) Management of working capital was more difficult than that of fixed capital. They found the high level of inventory in manufacturing ones.

III) Inventory management was great significant in manufacturing corporations and the management of cash and receivable was a great significant in non Manufacturing Corporation.

IV) The major motives for holding cash in Nepalese corporation was to provide a reserve for routine not outflows of cash to keep on the production process and sales.

Koirala's Study:

Koirala (1991) has written an article for "Account Receivable Management of Birgunj Sugar Factory Limited ". His study has focused on "Birganj Sugar Factory Limited" on account receivables which represent for the extension or open account credit by one firm to another. Individual sound management of working capital is a vital aspect of an enterprise. The term fund is required for financing the operations in the duration or an operating cycle in business.

2.3 Review of Thesis

Master degree thesis has been reviewed related to the study.

Pradhan's Study:

Pradhan's (1986) study on the "Management of Working Capital in nine selected Manufacturing Public Enterprises of Nepal" addressed the problem such as what type of policy has been adopted by the selected enterprise, whether they are capable to pay their current debtors or not, structure of working capital, whether there is improvement in the working capital utilization and whether the working capital and it's various components varies proportionally or less than in proportion of changes to their volume of sales are

also the issues of this study. The major objective of this study was to examine the behaviors and management of working capital in manufacturing public enterprises of Nepal. But at the same time some specific objectives were also aimed to achieve in this study. Those were: a) to conduct risk return analysis of working capital position, b) to assess the financial position of enterprises, c) to determine the structure and utilization of working capital and d) to estimate transactions demand function of working capital and its various components. The study employed ratio analysis, the discriminate analysis and econometric models as the tools for analysis the available data to reach the goal of the study. The study was based on analysis of ten years data of concerned enterprises. The study concluded that most of the selected enterprises were following moderate approach. Almost the selected enterprises maintain a positive net working capital. Most of the selected enterprises had current ratio of greater than 2 except Brick and Tile Factory. The Nepalese Manufacturing public enterprises had, on an average, half of their total assets in the form of current assets and the share of inventories was highest in the current assets. The regression result shows that the level of working capital and its components that enterprises desire to hold depends not only on sales but on holding costs also.

Singh's Study:

Singh (1986), conducted a study on "Short Term Financing Pattern of Nepalese Manufacturing Public Enterprise." The study was conducted for the period of ten years of eight manufacturing enterprise. The study has shown that the short term financing is increasing year by year during the study period. The increase in the highest for Bhakatpur Brick Factory and increase is lowest for Birgunj Sugar Factory. These MPEs have followed the increasing trend of trade credit but Bank loan has very less used and accrual and commercial paper has not in practice.

Shrestha's Study :

Shrestha (1994), in his thesis entitled "Working Capital Management of Bhirkuti Paper Mills Ltd." considered the financial statement of this organization for the five fiscal year from 2044/45 B.S. He has drawn some conclusion from study the major components of current assets are cash and Bank balance, inventories and receivables. Among them cash and bank balance holds 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 properly utilized in the mill. The liquidity position of mill is not bad. It is due to decrease trend of current liabilities.

Pathak's Study:

Pathak (1994) has carried out a study on "Working Capital Management of Nepal Lube Oil Ltd." He analyzed the working capital management of the Nepal Lube Oil for five years (2043/044-2047/048). He has focused on the working capital management with respect to cash, receivable and inventory management and relationship between sales and different variables of working capital. He has used ratio analysis. Karl Person's Co-efficient of correlation (r) and t-test. Major findings of the study were high portion of current assets: unfavorable liquidity position of current assets but the share of finished goods stock is very low. Receivable has the second place in current assets and it is continuously growing. Finally it has concluded that this company had adopted the moderate financing policy.

Sharma's Study:

Sharma (1999), has carried out a study on "Working Capital Management of selected Manufacturing Companies." He had selected sixteen companies which are listed in Nepal Stock Exchange. He had taken 15 years (1981-1996) for analysis. He focused to analyze the empirical testing of the variable affecting in Nepalese manufacturing companies based on these variables such as current assets, current liabilities, sales, net profit, cash conversion cycle, coefficient of correlation, probable error, and simple regression methods. He found that many companies followed conservative policy some may improve their liquidity position and most minimize the operating cost.

Yogi's Study:

Yogi (2000) has carried out a study on "Working Capital Management on Nepal Lever Ltd". The main objective of this study is to examine the working capital of Nepal Lever Ltd. He has used five years (2051/52 to 2055/56) data for his study. He has used ratio analysis and correlation coefficient as major tools. He has found that the overall current ratio of the company was satisfactory and utilization current assets. He also found that all the components of current liabilities were fluctuating during the study period. He

recommended that the volume of sales should be invested and the proportion of current assets should be maintained according to its sales volume.

Karki's Study :

Karki (2001), study on "Short-term Financing Management of selected Nepalese Manufacturing Companies" was conducted for five years from 1995/96 to 1999/2000 of manufacturing companies. His studies focus on the major sources of short term financing of manufacturing companies. In his study he found, mostly manufacturing companies have used mainly two sources account payable and provision. Bank loan has very less used and commercial paper has not in practice. He advised that the cash collection period of most of the Nepalese manufacturing companies are too long so these firms should speed the collection period. At last he concludes that most of the Nepalese manufacturing companies are unable to proper utilize the short term funds.

Shrestha's Study:

Shrestha (2002), study on "Short Term Financing Management of selected Nepalese Enterprise" was conducted for five years from 1996/ 097 to 2000/01 of manufacturing and non manufacturing companies. Her study focused on the major source of short-term financing of Nepalese enterprise and its utilizing trend in Nepalese manufacturing and non manufacturing companies. In her study, she found that, the average employment of short-term financing in Nepal. In her study, she found that, short-term bank loan was the major source of short-term financing in Nepalese manufacturing enterprises as compare to non-manufacturing enterprises during the study period. On the basis of her study she recommended terms are 1) Determine the appropriate financing policy. 2) Determine the short-term funds requirement. 3) Manage the less costly sources of fund 4) Improve the liquidity position 5) Improve cash collection period.

Aryal's Study:

Aryal (2002) conducted a study on "Working Capital Management in Nepal Telecommunication Corporation" to appraise working capital management of Nepal Telecommunication Corporation with respect to cash, receivables and inventory management. The study analyzed the relationship between sales and different variable of working capital. The study was based on financial statements from 1995/96 to

1999/2000. Tools used in the study were financial ratios, trend analysis, arithmetic means, simple correlation, probable error, coefficient of determination, simple regression analysis and t- statistics. The study included that Nepal Telecommunication Corporation was following conservative current assets policy and more than 50% of current assets were financed by long-term sources, cash constituted the largest portion of current assets. Significant positive correlations between current assets and total assets, current assets and net sales supports the proposition that the working capital is dependent upon the volume of sales and the size of total assets, growth trend of current assets is faster than total assets and net sales. Current ratio range was 1.90:1 to 2.45:1 with average ratio 2.29:1 whereas average quick ratio was 2.18:1 during the study period. More than one third of total current assets were held by cash.

Dhakal's Studies

Dhakal (2005) has carried out a study on management of working capital in Nepal Telecom (NTC). The objective of the study was to analyze the importance of Proper management of working capital and to show the relation between different components of current assets and current liabilities. He has used financial ratio as major tools in his study. He found high collection period of outstanding debt. He concluded that NTC has tried to maintain high standard of working capital theoretically. Further he found improper financing of current assets and high earning capacity. In this study, he as drawn the conclusion that the working capital management of NTC in general satisfactory.

Pun's Study:

Pun (2007) conducted a study on "Working Capital Management a case of Nepalese Listed Manufacturing Company" by using data of sample 1999 to 2003. Her study focused to identify the working capital financing and, investing approach adopted assess the impact of working capital policy on risk return relation, to fulfill the research objectives of the study. She used financial ratios portfolio analysis, correlation, coefficient of determination simple and multiple regressions. On the basis of her study she recommended the   terms are a) Effective mgmt of Cash b) Effective mgmt of

receivable c) Effective inventory management d) Improve the liquidity position e) Speed up the Cash collection.

Sharma's Studies

Sharma (2008) conducted a study on working capital management of selected manufacturing companies listed in NEPSA. She concluded that the selected manufacturing companies do not seem to have seriously examined their working capital policy due to lake of target of current assets holding in the long run and the absence sources of financing, most of the manufacturing companies financial situation is deteriorating. She also concluded that current assets turnover is widely varied within and among companies. The lower turnover ratio and high variation in it shows that Nepalese manufacturing companies have not fully utilized the current assets. She also concluded that manufacturing companies have not made suitable financing planning for determining their working capital and lower liquidity position in manufacturing companies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

According to Oxford Dictionary, research has been defined as the systematic investigation and study of materials, sources etc. in order to establish fact and reach conclusion. Research refers to various sequential steps to be adopted by a researcher in studying a problem with certain objective in the process of activities to the solution of the problem. Through planned and systematic dealing with the collection analysis and interpretation of fact and figure, it consist of research design, population and sample study, sources of data, data processing procedure and technique of analysis of data. This chapter describes the methodology employed in this study.

3.2. Research Design

A research design is a plan for the collection and analysis of data. It includes definite procedures and techniques, which guide to sufficient way for analyzing and evaluating the study. In order to achieve the predetermined objective of the study secondary data has

been used. This study tries to make comparison and establish relationship between two or more variables. So the research design of this study is based on descriptive and analytical study.

3.3 Nature and Sources of Data

This study is based mainly on the secondary sources of data the data are taken from the Nepal stock exchange Ltd., published financial statement of listed company and other information taken from the individual company. Data are also collected from website www.nepalstock.com. After collection of data they are refined in the form of tables and then necessary items, out of many have been picked up for analysis and interpretation.

3.4. Population and Sample

To get the information about the short term financing management, more representative and comprehensive sample are selected for wide coverage of population. There are twenty one manufacturing companies listed in Nepal Stock Exchange Ltd. Out of them five manufacturing companies (twenty three percent) have been chosen for this study. The sample manufacturing companies selected in random sampling method . The sample of manufacturing companies are as follows:

1) Raghupati Jute Mills Ltd.

2) Bottlers Nepal Ltd.

3) Uniliver Nepal Ltd.

4) Nepal Lube Oil Ltd.

5) Birat Shoes Company Ltd.

3.5 Data Tabulation and Processing

The data are collected through Nepal stock exchange Ltd. SEBON and individual companies and refine in the form of tables and then necessary items out of many have been picked up for analysis and interpretation. Necessary statement, ratios, percentages, indices have been set up in necessary places.

3.6. Analysis tools of Data

This study has used important tools for measuring the effectiveness of short-term financing of Nepalese manufacturing company (Listed in Nepal Stock Exchange Ltd.) This research has used the ratio analysis with financing approach, cash conversion cycle and predicting power ratio of success/ failure of company.

Financial Methods

Various financial methods used to analyze the effectiveness of short-term financing of manufacturing company. Ratio analysis, cash conversion cycle, financial approach and predicting power of Failure Company have been used as financial method.

3.6.1 Ratio Analysis

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

In accountancy, it is defined as the relationship between two accounting figures express mathematically. The significance of financial ratio, analysis may be viewed in different way. For example: a trade creditor is interested in the liquidity of the firm because his claim is short-term and the ability of firm to pay the claim is best judged through analysis of its liquidity. Similarly, a shareholder might concentrate his analysis on the profitability of the firm because he is concerned principally with the earnings of the firm and its stability about a trend. Management also employs financial analysis for purposed internal control.

The following ratios are analyzed under the ratio analysis.

I)   Liquidity Ratio:

Liquidity Ratio measures the firm's ability to meet its maturing short-term obligation. In other words liquidity ratio measures the ability of a firm to meet its short-term obligations

and reflects the short-term financial strength of a firm. Liquidity ratio can be divided into two parts, they are:

A)   Current Ratio:

Current ratio is calculated by dividing current assets by current liabilities.

$$CurrentRatio = \frac{Currentassests}{Currentliabilities}$$

Current assets include cash, and those assets which can be converted into cash within a year, such as debtors, receivable, cash and Bank balance, prepaid expenses inventory etc.

Current liabilities mean all obligations maturing within a year. The current liabilities include secondary creditor, provision for taxation, Bank loan, miscellaneous current liabilities and provision.

B)   Quick Ratio:

Quick ratio is calculated by dividing quick assets by current liabilities.

$$QuickRatio = \frac{QuickAssests}{CurrentLiabilites}$$

Quick assets include all the current assets except inventory or stock. Inventory can not be converted into cash immediately.

Thus liquid ratio is a measure of the firm's short-term solvency.

II)   Debtor to short-term Financing:

Debtor to short-term Financing ratio is calculated by dividing debtors by short-term financing.

$$Debtors\ to\ STF\ Ratio = \frac{Debtors}{Short-termFinancing}$$

Debtors are quick assets. Account receivable or debtor is the amount due from debtors (customers) to whom goods or services have been sold on credit, these amount are

generally realizable into cash within the accounting period. The ratio debtors to short term financing shows the relation between the debtors and short term financing and it indicates how much portion of short-term financing is recovered by debtors. It also indicates or measures the liquidity position of firm.

III)   Cash to Short-term Financing

Among all the financing tools cash to short-term financing is an important tool. Cash to short-term financing ratio is calculated by dividing cash by short-term financing.

$$\text{Cash to STF Ratio} = \frac{Cash}{Short-term\ financing}$$

Cash itself is liquid assets, Current assets except cash, converted into cash within a year of less. Thus cash to short-term financing could receipt immediately.

I)   Inventory to Short-term Financing

Among the entire financing tools inventory to short-term financing is one of the major tools. This ratio is calculated by dividing the inventory by short-term financing.

$$Inventory\ to\ STF = \frac{Inventory}{Short-term\ Financing}$$

Inventory constitutes the most significant part of current assets. Large size of inventory maintains by firm, a considerable amount of funds is required to be committed to them. It is therefore, absolutely imperative to manage inventory. Inventory includes raw material, work is process, and finished goods in case of manufacturing firm.

V)   Account Payable to Short-term Financing

Among all the financial tools account payable to short-term financial is one of the major tools for the analysis of the short-term debt. This ratio is calculated by dividing the account payable by short-term debt.

$$Account\ Payble\ to\ STF = \frac{Account\ Payable}{Short\ term\ Financing}$$

Account payable is spontaneous source of Short-term financing. It arises from normal business operations. There is not explicit cost attached to the account payable. This ratio shows how much portion of account payable usage in short-term financing by the Nepalese manufacturing companies. Account payable has vital role in the financial of short-term financing of short-term debt of manufacturing companies.

VI)   Bank Loan to Short-term Financing

Bank loan to short-term financing is one of the major financial tools for the analysis of short-term financing. This ratio is calculated by dividing the bank loan by short-term financing.

$$\text{Bank Loan to STF} = \frac{BankLoan}{Short-termFinancing}$$

Bank loan is also a major component of short-term financing. This ratio shows how the manufacturing companies have utilized the bank loan and how much portion of bank loan usage in short-term financing.

VII)   Short-term Debt of Total Financing.

It is also one of the major financial tools for the analysis the short-term debt. In the manufacturing companies short-term debt covers 40 to 45 percentage of total financing. The ratio is calculated by dividing the short-term by total financing.

$$\text{STF to total Financing} = \frac{Short-termFinancing}{Total\ Financing}$$

VIII)   Sales to short-term financing

Sales to short-term financing is also important financial tools of the analysis of short term financing. This ratio shows the turn over of sales to short-term. This ratio is calculated by dividing sales by short-term financing. Otherwise it can be paid.

$$Sales\ to\ STF = \frac{Sales}{Short\ term\ Financing}$$

IX)   Net Profit to Short-term Financing

Net profit to short-term financing is one of the major financial tools for the measurement of profitability of the firm. This ratio is calculated by dividing net profit by short-term financing.

$$\text{Net profit to STF} = \frac{Net\,\Pr ofit}{Short - term\,Financing}$$

3.6.2 Cash Conversion Cycle

Cash conversion cycle is one of the major financial tools. This cycle shows how much of time the cash generally collected by the firm does. Cash conversion cycle is calculated by following formula.

Cash conversion cycle = [Inventory conversion period + receivable conversion period] – payable conversion period.

I) Inventory Conversion Period

This period indicates the efficiency of the firm is selling its product. Inventory turnover is calculated by dividing the cost of goods sold by average inventory and inventory conversion period is calculated by dividing the number of days in a year (Day 360) by inventory turnover.

$$\text{Inventory turnover} = \frac{Cast\,of\,goods\,sold}{Average\,Inventory}$$

Otherwise, it can be calculated by dividing the average inventory by cast of goods sold and multiply by number of days in year (say360).

thus the formula,

$$Inventory\,conversion Pariod = \frac{Average\,inventory}{Cast\,of\,goods\,sold} x360$$

II) Receivable Conversion Period

Receivable conversion period indicates the number of day's debtor turnovers cash year. It analyzes in determining the collectivity of debtors and thud, the efficiency of collection effects and analysis in ascertaining the firms' comparative strength and advantage relative to its credit policy. Receivable turnover can be calculated by dividing total sales the year-ended balance of debtor and receivable conversion period is calculated y dividing the number of says in year (Say 360) by receivable turn over.

$$Receivable\ turnover = \frac{Sales}{Debtors}$$

$$Receivable\ conversion\ period = \frac{360}{Re\,ceivable\ turnover}$$

It can be calculated by dividing the ended-balance of debtor by total sales and multiply by the number of days in year (Day 360).

III) Payable Conversion Period

Payable conversion period is indicated by dividing the sum of account payable and out standing expansion period is calculated by dividing the sum of account payable and out standing expenses by the sum of cost of goods sold and general expanses and multiply by the number of day in year (Day 360).

$$Payable\ Conversion\ Period = \frac{Account\ Payable + out\,s\tan ding\ \exp anses}{Cost\ of\ goods\ sold + General\ \exp anses}\,x360$$

Or

$$Payable\ Conversion\ period = \frac{360}{\dfrac{Cost\ of\ goods\ of\ general\ \exp anses\ sold}{Account\ payable - Out\,s\tan ding\ \exp enses}}$$

3.6.3. Predicating Power of Ratio of Success/ Failure

Edward Altman was the first person to apply discriminate analysis in finance for study bankruptcy. Zeta Model is one of the important financial tools for the analysis of success/ failure companies. This study has derived the following discriminate function.

$$Z = 1.2x^1 + 1.4x^2 + 3.3x^3 + 0.6x^4 + 1.00x^5$$

Where,

Z= Discriminate function score of a firm

x_1 = Net working capital to total assets.

x_2 = Current assets to current liabilities.

x_3 = Net profit to total assets

x_4 = Net profit to sales

x_5 = Sales to total assets.

Financial ratios show the transparency figure of the firm, by the help or combination of different type of ratio into a single measure of the profitability of the sickness or failure.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter focuses on the analysis of short-term financing of manufacturing companies (listed in NEPSE). In order to analyze and interpret various variables which are most important to reflect to the short-term financing of this companies and necessary data are presented in this part.

4.1.1 Analysis of short-term Financing.

The term of short term financing is defined in either chapter. In this chapter it is focused on analysis and interprets the short term financing, for the 5 selected manufacturing companies by taking 5 years data since 2001 to 2005. The table no 1 shows the short term financing during the study period.

In term of absolute amount the highest amount of short term financing during the study period was Rs882.02 million of ULN ltd in 2004. the lowest amount of short term financing in absolute amount was Rs38.05 million for RJM Ltd in 2001. [see annex no 1 & 2].

The short term financing analysis as follows.

Company Average of Short term Financing

Table 4.1

S No.	Name of Company	Short-term Financing
1	RJM Ltd.	53.45
2	BN Ltd.	272.21
3	NLO Ltd.	77.29
4	ULN Ltd.	498.69
5	BSC Ltd.	100.32

Company Average: 200.41   See annex No. 1

Company average of short-term financing

Rs in (million)

600	
400	
200	
0	

RJM Ltd.   BN Ltd.   NLO Ltd.   ULN Ltd.   BSC Ltd.

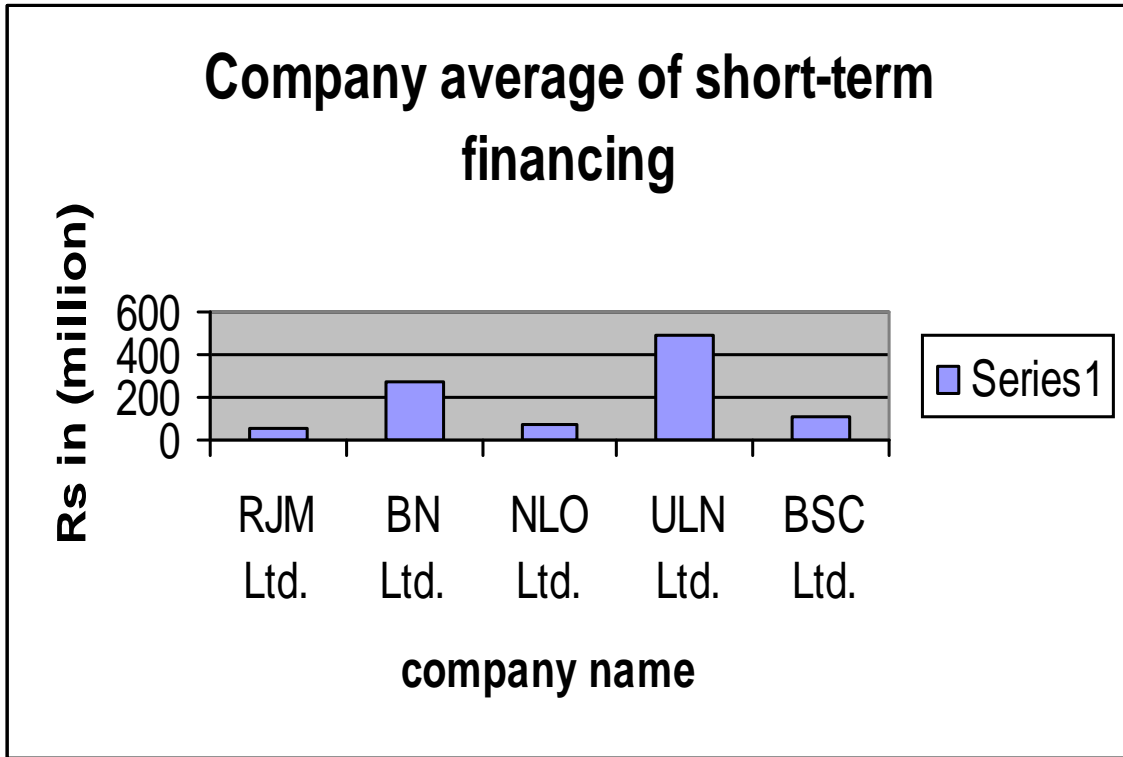■ Series1

company name

Figure1

The above table shows the average short term financing of selected manufacturing companies for the study period since 2001/02 to 2005/06. The average short term of the manufacturing companies is Rs2004.41 million. The highest average of short term debt of the manufacturing companies is Rs498.69 of ULN Ltd and the lowest amount is Rs53.45 million of RJM Ltd.

Trend of short-term Financing of Five Manufacturing Companies.

Table 4.2

S No.	Name of Company	2001/02	2002/03	2003/04	2004/05	2005/06	Average
1	RJM Ltd.	1.00	1.53	1.17	1.55	1.77	1.40
2	BN Ltd.	1.00	1.19	1.18	0.61	0.80	0.96
3	NLO Ltd.	1.00	1.68	2.42	1.73	2.00	1.77
4	ULN Ltd.	1.00	0.53	1.02	1.31	2.11	1.19
5	**BSC Ltd.**	**1.00**	**1.35**	**1.72**	**2.36**	**2.87**	**1.36**
Average		**1.00**	**1.256**	**1.502**	**1.51**	**1.91**	**1.14**

Above table shows that trend of short-term financing. Yearly average trend of short term financing was in increasing trend. Trend of short-term financing of BSC Ltd. Was in increasing trend whenever other manufacturing companies' trends were in fluctuating.

Yearly Average of Short-term Financing.

Table 4.3

Rupees in Millions

S No.	Years	Short-term Financing
1	2001/02	167.76
2	2002/03	153.63
3	2003/4	200.46
4	2004/05	196.03
5	2005/06	284.15

Yeafly Average of Short-term Financing
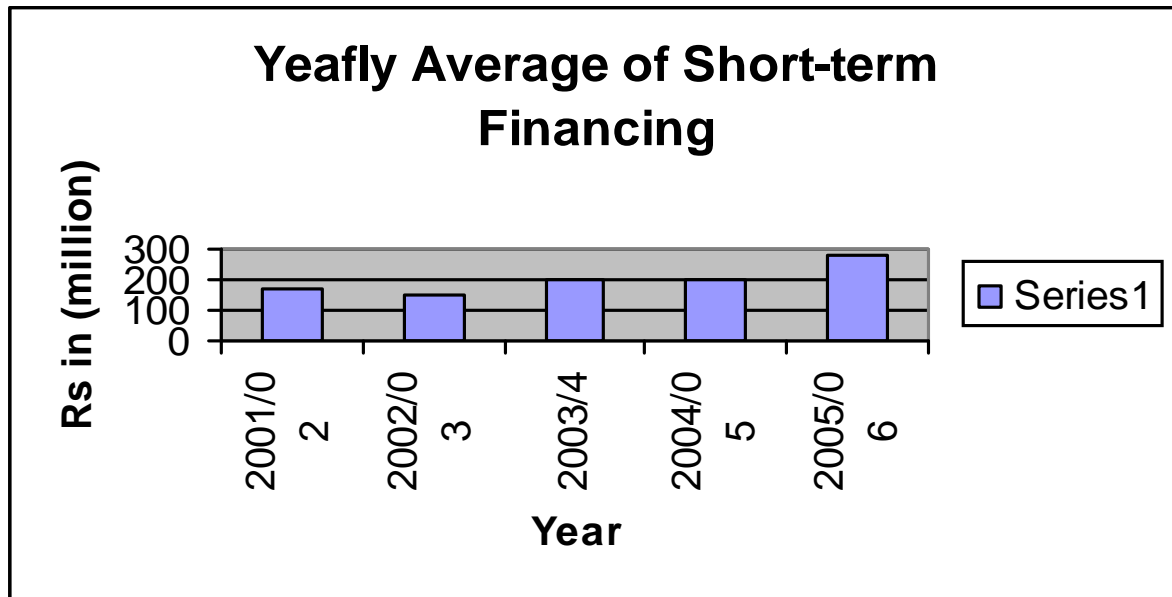
Figure 2

The above table shows the yearly average of short-term financing for the study period since 2001/02 was Rs200.41 million. The yearly average of short-term financing fluctuating trend during the study period. The lowest average yearly short-term financing was Rs248.15 million.

After analyzing and assessing the size of short-term financing, an effort is made to determine the major sources of short-term financing. The various sources of short-term financing have been grouped in to four categories (a) Account Payable (b) Short-term Bank Loan (c) Provision for Taxation (d) Miscellaneous Current Liabilities and Provision. The proportion of those various categories to short-term financing (current liabilities) is presented and analysis in next section.

4.1.2 Analysis of Account Payable to Short-term Financing.

Short-term financing is analysis and interpret with the ration of account payable to short-term financing. This ratio shows the position of the account payable as a percentage of short-term financing. The term of account payable was defined in the chapter two. Here I am going to analysis and interpreter the ratio of account payable to short-term financing.

Account payable is common to almost all business. Accent payable is spontaneous sources of financing in the since it arise from ordinary business transaction there is no need to arrange financing formula.

The average account payable for the study period of the sample manufacturing company is Rs75.46 million. The highest average amount is Rs224.49 of ULM Ltd. And lowest average amount is Rs13.03 million of BSC Ltd. The trend of using the account payable of the company is increasing.

- **Cross Section Analysis**

Company Average of Account Payable to short-term Financing

Table 4.4

S No.	Name of Company	Ratio
1	RJM Ltd.	0.64
2	BN Ltd.	0.19
3	NLO Ltd.	0.45
4	ULN Ltd.	0.44
5	BSC Ltd.	0.11

The above table shows the company average of account payable to short-term financing of the selected manufacturing company for the study period since 2001/02 to 2005/06. The company average is 0.37 times or 37%. It is the overall average of the company. It means the manufacturing company usages the 37% account payable on total short-term financing. RLM Ltd. is mostly depends up on the account payable that is 64%. The lowest usage of account payable is 11% by the BSC Ltd. The ratio of account payable to short-term financing is widely varied among the selected manufacturing company. Higher the ratio indicate the higher the use of account payable in financing and the lower ratio indicate that lower usages of account payable in short-term financing.

Yearly Average of Account Payable to Short-term financing

Table 4.5

S No.	Year	Ratio
1	2001/02	0.32
2	2002/03	0.35
3	2003/04	0.35
4	2004/05	0.39
5	2005/06	0.41

The above shows the ration of yearly average of accent payable to short-term financing. The average ration for the study period since 2001/02 to 2005/06 is 0.37 times. The yearly average ratio during the study period is increasing trend. The higher ratio is 0.41 times in 2005/06 and the lowest ratio is 0.32 times in 2001/02.

4.1.3 Analysis of Working Capital

Working capital is the different between current assets and current liabilities. It also show the liquidity position of the firm that the grater the margin by whish a firms current assets convert it obligation the better able it will be to pay its bills as they come down. However, each current assets and current liabilities has a different degree of liquidity. Although, the firms current assets, the mort likely it is that some current assets will be converted in to cash in to cash in order to pay a debt that is due. Here I am going to analyzed and interpreter the working capital by talking relevant data of five years period since 2001/02 to 2005/06 of five manufacturing companies. I have used cross section analysis for analysis and interpret.

Company Average of Working Capital

(Rs in million)

Table 4.6

S No.	Name of Company	Ratio
1	RJM Ltd.	130.40
2	BN Ltd.	214.61
3	NLO Ltd.	26.23
4	ULN Ltd.	124.54
5	BSC Ltd.	51.78
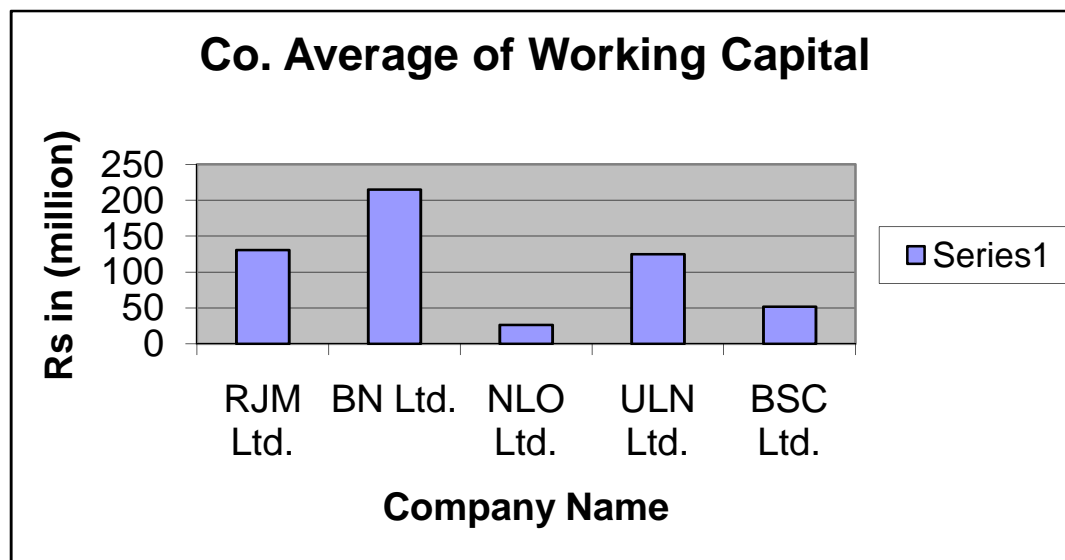
Figure 3

The above table shows the company average of working capital. The company average of working capital of selected company for the study periods 2001/02 to 2005/06 is 88.8

million. The company average of working capital was positive, wherever, BBC Ltd. had negative working capital, it show that four manufacturing companies have greater current assets than current liabilities. There is widely fluctuating of working capital among the companies. Companies as NLO Ltd. have lower working capital than the average working capital and BSC Ltd have negative working capital company as RJM Ltd, and ULN Ltd have greater working capital than the average working capital.

Working capital also measures the liquidity position of the firm. The higher the working capital is preferable than lower working capital is Rs88.8 million. The highest working capital is Rs241.61 million of BN Ltd and lowest capital is Rs51.78 Million of BSC Ltd.

Yearly Average of Working Capital

Table 4.7

S No.	Name of Company	Ratio
1	RJM Ltd.	64.34
2	BN Ltd.	59.00
3	NLO Ltd.	71.98
4	ULN Ltd.	84.98
5	BSC Ltd.	59.66

Company Average: Rs67.892 million   See Annex No. 3

Figure 4

40

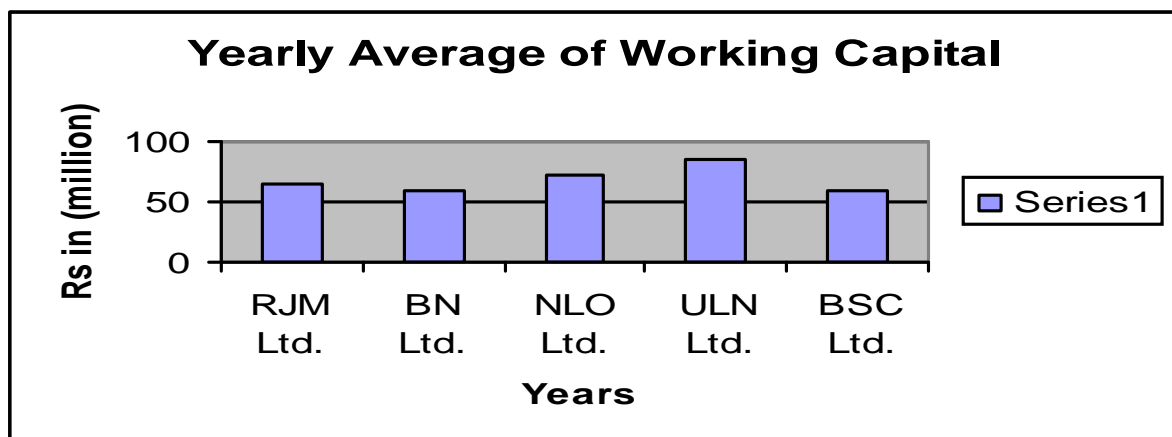The above table shows the yearly average of working capital is Rs67.892 million during the study period 2001/02 to 2005/06. The highest yearly average working capital is RS84.48 millions in 2004/05 and the lowest yearly average working capital is Rs59.00 million in 2002/03. In year 2001, 2002/03, & 2005/06 has lower working capital than the average working capital.

Thus based on above analysis, it is conclude that the yearly average current assets is greater that the current liabilities which are positive for companies. It is shows that in every year those companies are able to settle their current liabilities problem, except BSC Ltd, which have negative working capital.

4.1.4 Analysis of Current Ratio and Quick Ratio

The current ratio shows the ability of payment of short term debt from current assets. It measures the liquidity position of the companies. The current ratio is the ratio of total current liabilities to current assets. The current assets of the factory represent those assets which can be converted in to cash with in a short span of time normally not exceeding on year. The current liabilities defined as liabilities which are short term maturity obligation to meet as originally with in a years.

Current ratio shows the liquidity position of the factory. Increasing ratios indicate decreasing the risk, because increasing ratio indicate the good liquidity position of the company. Decreasing ratio indicate the increasing the risk and poor liquidity position. Creditors prefer higher current ratio. The conservative managers prefer higher current ratio, whose does not want to bear risk but the manger who is risk taker performs the lower current ratio. I would like to analysis this by cross section analysis which is explained below.

Company Average of CA/CL

Table 4.8

S No.	Name of Company	Average
1	RJM Ltd.	1.506
2	BN Ltd.	1.89
3	NLO Ltd.	1.43

41

4	ULN Ltd.	1.33
5	BSC Ltd.	0.52

Companies Average Ratio: 1.33   See annex No. 5
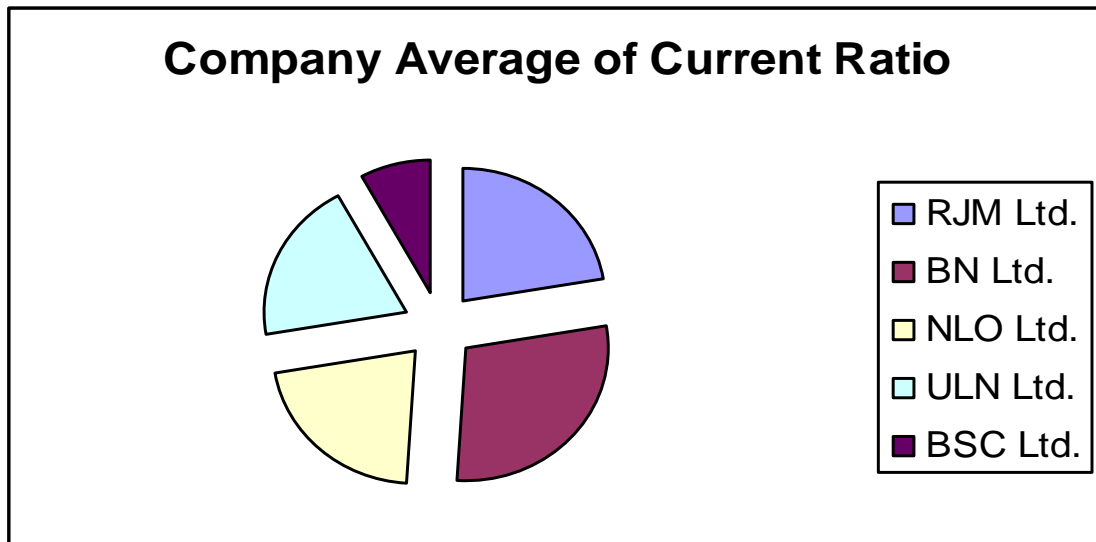
Figure 5

The above table show that the current ratio of selected manufacturing companies, which is verify fluctuating. The companies' average of current ratio is 1.33. The company BSC Ltd shows that company current ratio is less then the average current ratio, which also shows that company current assets was less then current liabilities. Four companies current ratio is higher then average company's current ration, which shows that current assets were grater then current liabilities. But, in fact no one company has adequate current ratio because all of company's current ratio have less then two. These ratios test the liquidity position of the company. The lender tests the ratio before providing loan because they are able or unable to return the loan and interest in time. The standard ratio is 2:1, but it is not favorable in all the condition. It depends on nature of the form.

Yearly Average of CA/CL

Table 4.9

S No.	Name of Company	Average
1	RJM Ltd.	1.46
2	BN Ltd.	1.24
3	NLO Ltd.	1.26
4	ULN Ltd.	1.39
5	BSC Ltd.	1.32

Companies Average Ratio: 1.33 Times   See Annex No. 4

The above table shows the yearly average of current ration. The yearly average ratio is 0.71 times. The yearly average ratio is fluctuating trend. It also shows the decreasing trend of current ratio. The highest ratio 1.46 in 2001/02 and the Lowe rest ratio is 1.24 in 2002/03. The ratio below is in year 2002/03, 2003/04, 2005/06. The standard ratio is 2:1 or more may be sweat able to the manufacturing concern. But this principle may not be followed by must of the manufacturing concern.

The cause then the decreasing of current ratio are due to increase is in bank loan, miscellaneous current liabilities and provisional. Wherever, the increase in debtor, inventory, and cash will be helpful to increase the current ratio. In other words, due to increase in current assets, the current ratio also increases.

Base on the above analysis it is conclude that the current liabilities meting capacity of these companies are quite doubtful because all of the form are unable to meet the standard ratio. Therefore it indicates that the management is very cautions on matching

the current assets with current liabilities. So I will give the details suggestion in the recommendation chapter regarding how to improve the liquidity of the companies.

Quick Ratio

Quick ratio measure the relationship between quick assets and current liabilities. If is measurement of factory's ability to convent is current assets quickly in to cash in order to meet its current obligation generally a quick ratio or 1:1 is considered to represent a satisfactory current financial condition.

This study is going to analysis and interpret the quick ratio or Nepalese manufacturing company by taking 5 years data since 2002 to 2006. For the analysis I used cross section analysis.

Company Average of Quick Ratio

Table 4.10

S No.	Name of Company	Average
1	RJM Ltd.	0.42
2	BN Ltd.	0.48
3	NLO Ltd.	0.86
4	ULN Ltd.	0.58
5	BSC Ltd.	0.19

Company Average Ratio 0.498 times   See Annex No 5

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Company Average of Quick Ratio

- RJM Ltd.
- BN Ltd.
- NLO Ltd.
- ULN Ltd.
- BSC Ltd.
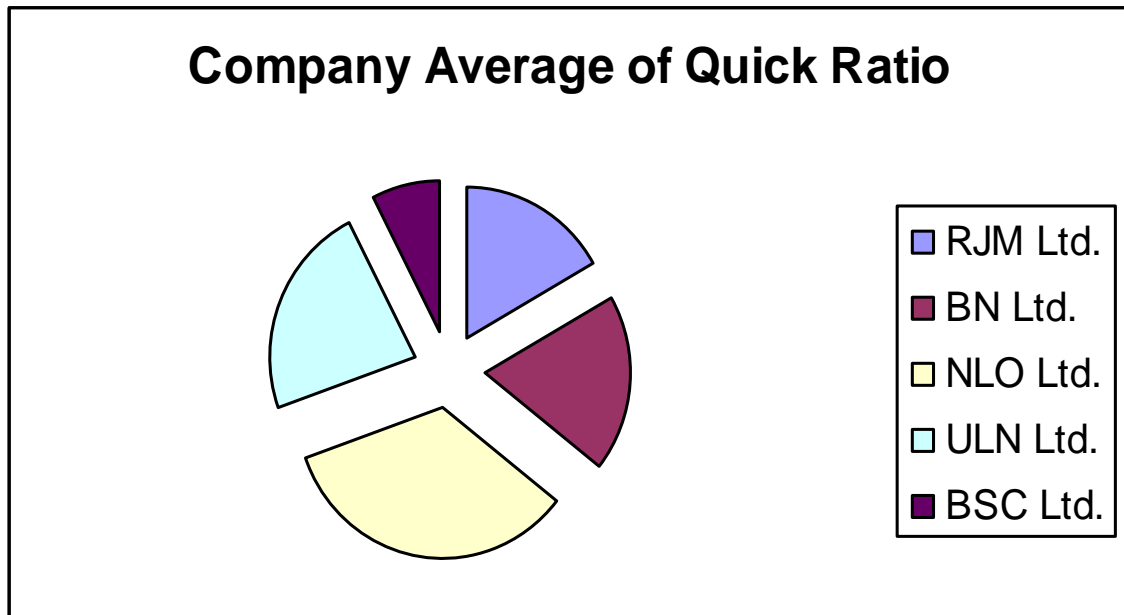
Figure 6

The above shows the company average of quick ratio. The average ratio is 0.498 times. The standard ratio is quite applicable to the manufacturing concern but most of the Nepalese manufacturing companies are not follow this principle. Above table shows that no one companies meet the standard ratio.

Quick ratio measure the factory ability to convert its current assets to quickly in to cash in order to meet its current assets to quickly in to cash in order to meet its current liabilities. Above data shows that all of the companies liquidity position are less than 1 times, if shows that poor liquidity position or Nepalese manufacturing companies.

Yearly Average or Quick Ratio

Table 4.11

S No.	Years	Average
1	2001/02	0.47
2	2002/03	0.48
3	2003/04	0.474
4	2004/05	0.52

5	2005/06	0.55

Company Average Ratio 0.498 Times   See annex No. 5

The above table shows the yearly average of quick ratio. The yearly average quick ratio is 0.498 times, which is lower than standard ratio 1:1. The quick ratio is increasing trend during the study period. The highest ratio 0.55 times in 2005 and the lowest ratio is 0.47 in 2001.

The causes behind the decreased in quick ratio are due to increase in sundry creditors and bank loan. In other reason decrease in quick ratio is excessive investment in inventory and prepaid expresses. Higher investment in inventory mess that lowers the quick assets, lower the quick assets lower the quick ratio. Most of the manufacturing company depend on the sort term financing even fixed assets and current are finance through the current liabilities the quick ratio would decrease and vice versa.

Based on the above analysis it is concluding that the current liabilities meting capacity of Nepalese manufacturing companies are quite poor. Because all of the sample companies and year, quick ratio are unable to meet the standard ration. The financial performance for the selected company is very poor. Thus management must match the quick assets with current liabilities. So, I will given detail suggestion in the recommendation chapter regarding how to improve the liquidity position of the company.

4.1.5 Analysis of Cash to Short-Term Financing

Cash to short term financing ratio indicate the relationship between cash and short term financing. It is also indicates the proportion of cash on the short term financing. This ratio shows flow the manufacturing firms able to graph the opportunities in that span of time. This ratio helps to analyze and intercept the measurement the effectiveness or short term financing of Nepalese manufacturing company.

To analysis and interpret the ratio first the absolute amount of cash is to analysis which will be helpful to the analysis and interpret the ratio. The average cash is Rs51.92 million of the selected company for the study period. The cash is increasing during the study period (see annex No 6) of manufacturing companies. The highest average cash is 244.17 million of ULN Ltd. and the lowest cash balance is 0.47 million of BSC Ltd. But most of

the companies are unable to maintain the adequate cash balance because sometimes its decline more then necessary. Especially bottlers Nepal Ltd used cash very funereally.

Company Average of Cash to Short-term Financing

Table 4.12

S No.	Name of Company	Average
1	RJM Ltd.	0.041
2	BN Ltd.	0.045
3	NLO Ltd.	0.024
4	ULN Ltd.	0.45
5	BSC Ltd.	0.10

Company Average: 0.11 Times   See annex No. 6

The above table shows the ratio of company average of cash to short term financing is 0.11 times this ratio indicate that only 11% of short term financing is covered by cash. In another words 1% of short term financing could repay by cash. Above table also shows that the highest ratio 0.45 time of Unilever Nepal and lowest ratio is 0.024 times of NLO Ltd. In indicates that higher the cash balance higher ratio, lower the cash balance lower the ratio of cash of short term financing.

Yearly Average of Cash to Short-term Financing

Table 4.13

S No.	Year	Ratio
1	RJM Ltd.	0.021
2	BN Ltd.	0.091
3	NLO Ltd.	0.174
4	ULN Ltd.	0.16

5	BSC Ltd.	0.1133

Company Average Ratio: 0.11   See annex No. 6

The above table shows the early average of cash of short term financing is 0.1 times. The highest rate is 0.1074 times in 2003 lowest ratio is 0.021 in 2001 yearly average of cash of short term financing is in increase trend up on 2004, the increase in the ratio due to increase in cash balance.

On the basic or above analysis, the causes behind the increase in the ratio of cash to short term-financing are toe to increasing in cash balance. Higher the cash balance, higher the ratio and it is preferable to creditors. Creditors of investors see the liquidity position of the company. If the liquidity position is favorable. They grant the loan. If it is not favorable. They do not grant the loan, every from most need cash for smooth running for the form but excessive holding cash may delay to pay the short term debt, which could force. The firm bankruptcy. Thus the management must better utilization of funds in their capital structure it is better to initial cash in quick assets such as marketable security which be concerted into cash immediately.

The overall analysis of cash to short term financing shows, most of the companies maintain lower lever of cash balance as compare to short term financing. But it is very important for company to maintain (in) appropriate cash balance so as not to of suffer from loss of funds during the period of seasonal needs. Thus excess, cash should be invited in marketable securities, which easily should be converted in to cash in off seasons.

4.1.6 Analysis of Debtors to Short-term Financing Ratio

Debtors or account receivable to short term financing is one of the most important tools that help to measure the short term financing. Account receivable also a sources of short-term financing, which can use for collateral to collect short-term fund.

It is already described that the ratio of debtor to short term financing in the research and methodology chapter. Here I am going to analyze and intercept the ratio of debtors to short term financing of Nepalese manufacturing company by taking 5 year's data since 2001 to 2005.

To analyze and intercept the ratio first the absolute amount of debtor is to analyze which help the analysis and intercept the ratio. The average debtor is Rs57.64 million of selected manufacturing companies for the study period. The debtor is increasing during the study period of manufacturing companies. The highest average amount of debtor is Rs113.80 million of average amounts of debtor & other companies have higher than amount of debtor.

Company Average of Debtor to Short-term Financing

Table 4.14

S No.	Name of Company	Ratio
1	RJM Ltd.	0.39
2	BN Ltd.	0.46
3	NLO Ltd.	0.83
4	ULN Ltd.	0.145
5	BSC Ltd.	0.19

Company Average Ratio: 0.403   See annex No. 8

The above table shows the ratio of company average of debtor to short term financing of sample manufacturing companies during the study period is 0.403 times. The ratio of debtor to short term financing amount the selected companies. UNL Ltd has low fluctuated in debtors amount during the study period the highest average ratio is 0.83 times of NLO Ltd and lowest average ratio is 0.19 times of BSC Ltd. The higher ratio shows that the lower credit sales. It also measures the credit power of manufacturing companies. RYM Ltd, ULN & BSC Ltd has the ratio lower than the average ratio.

Account receivables/debtors are also one of the most important sources of short term financing. But it is not practice in Nepal. Nepalese manufacturing companies also not applied it for sources of short term financing.

Yearly Average of Debtors to Short-term Financing

Table 4.15

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S No.	Year	Ratio
1	2001	0.42
2	2002	0.40
3	2003	0.32
4	2004	0.41
5	2005	0.43

Company Average: 0.403   See annex No. 8

The above table shows that the ratio of yearly average debtor to short term financing is 0.403 times. The calculated ratio is fluctuating during the study period since 2001/02 to 2005/06. The highest ratio is 0.45 in 2001/02 and lowest ratio is 0.32 in 2003/04.

The overall analysis of debtor to short term financing shows, all of the manufacturing companies have the highest debtor ratio behind, and cause of higher credit sales. It is not good for manufacturing companies where ever account receivable is not apply for sources of short term financing until in Nepal. So management has to decrease their credit sales to get better financial performance.

4.1.7 Analysis of Inventory to Short-term Financing

Among all the financial tools inventory to short term financing is one of the major tools that measure how the manufacturing companies have been able to manage inventory effectively in order to avoid unnecessary investment in inventory. An undertaking neglecting the management of inventory will be jeopardizing its long run probability and may fail ultimately the reduction in excessive inventory carries a favorable inspect on company profitability.

This ratio also helps to analyze and intercept the perfectiveness of the short term financing of manufacturing company. It is main sources of short term financing to provide short term debt for companies: inventory should be used as collateral. Inventory are less liquid assets, its could not be converted in to cash quickly whenever short term debt had to demand for payment. Here I am going to analysis to absolute amount of

50

inventory which helps to analyze and intercept the short term financing. The average amount of inventory during the study period of sample manufacturing company is Rs95.13 million. The highest average amount of inventory is Rs27.75 million of BSC Ltd. The inventory is widely fluctuating amount the sample manufacturing company. The ratio is analysis and interprets by the cross section analysis.

Company Average of Inventory to Short-term Financing

Table 4.16

S No.	Name of Company	Ratio
1	RJM Ltd.	0.97
2	BN Ltd.	0.77
3	NLO Ltd.	0.41
4	ULN Ltd.	0.45
5	BSC Ltd.	0.29

Company Average Ratio: 0.578 Times   See annex No.7

The above table shows the company average of inventory to short term financing of the selected manufacturing company. The ratio of company overall average is 0.578 times, which indicate that inventory covered the 57% of short term financing. Inventory and vice versa. The ratio is widely varied among the sample manufacturing companies. The higher ratio is 0.97 times of RJM Ltd. and the lowest ratio is 0.29 times of BSC Ltd., ULN Ltd., NLO Ltd. and BSC Ltd. have the ratio lower then the average ratio and other two companies have more then it.

Yearly Average of Inventory to short-term Financing

Table 4.17

S No.	Name of Company	Ratio
1	RJM Ltd.	0.64

2	BN Ltd.	0.52
3	NLO Ltd.	0.55
4	ULN Ltd.	0.59
5	BSC Ltd.	0.57

Company Average Ratio: 0.578 Times   See annex No. 7

The above table shows the yearly average pf inventory to short term financing. The ratio is fluctuating during the study period since 2001/02 to 2005/06. The yearly average of inventory to short term financing of selected manufacturing company for the study period is 0.578 times. The highest ratio is 0.64 times in 2001/02 and the lowest ratio is 0.52 times in 2002/03.

On the basic of above analysis, it is conclude that manufacturing companies hold maximum level of inventory, which is not adequate for manufacturing companies. Thus, the management should be avoid excessive and inadequate level of inventory and maintain adequate inventory for the smooth production and sales operation.

4.1.8 Analysis of Short-term Financing to Total Financing

Short-term financing play an important role in manufacturing concern this ratio helps to analysis and interprets the short term financing of manufacturing companies. This ratio shows the how much percentage of short term financing appear in total financing and it also shows that the whether the manufacturing companies are more dependent on short term financing or not. Increase in the ratio of short financing to total financing also indicates increase in the risk. Higher the current liabilities is higher the ratio of short term debt to total financing. As increase in short term debt risk also increases.

Company Average of Short-Term Financing to Total Financing

Table 4.18

S No.	Name of Company	Ratio
1	RJM Ltd.	0.19
2	BN Ltd.	0.57

3	NLO Ltd.	0.73
4	ULN Ltd.	0.82
5	BSC Ltd.	0.60

Company Average: 0.582 Times   See annex No. 11

The above table shows the ratio of company average of short term financing to total financing. The company average ratio for the study period is 0.582 times. The highest average ratio is 0.82 times of ULN Ltd. and lowest average ratio is 0.19 times of RJM Ltd. NLO Ltd, ULN Ltd and BSD Ltd and BN Ltd have lower than average ratio. From above table, we should conclude that most of the Nepalese manufacturing companies are depends up on short term financing.

Yearly Average of Short-term financing to Total Financing

Table 4.19

S No.	Year	Ratio
1	2001/02	0.49
2	2002/03	0.57
3	2003/04	0.61

4	2004/05	0.61
5	2005/06	0.65

Company Average: 0.582 Times   See annex No. 11

The above table shows the ratio of yearly average of short term financing to total financing. The company average ratio for the study period is 0.582 times it means short term financing covered the 58.2 of total financing. The average ratio is in increasing trend during the study period. The highest ratio is 0.65 times in 2005/06 and lowest ratio is 0.49 times in 2001/02.

The cause behind the increase in the short term financing to total financing is due to increase in current liabilities. BN Ltd, NLO Ltd, and ULN Ltd have used maximum short term debt.

Based on the above analysis, we should conclude that the short term financing of BN Ltd, NLO Ltd, ULN Ltd and BSC Ltd have the highest short term financing than total financing. It is risky for the company. The financial performance of these companies is very weak duet to the higher of short term financing. This ratio shows that those companies have adopting aggressive policy.

4.1.9 Analysis of Sales to Short-term Financing

The ratio of sales to short term financing also help to analysis and interpret the effectiveness of short term financing of manufacturing company. Sales to short term financing indicates the number of times short term debt turnover each year. Generally the higher sales to short term financing turnover indicate the good short term financing. Activity ratios are employed to evaluate the efficiency with which the firm manage and utilize its assets. But I have calculate the ratio of sales to short term financing which would help to analysis and interpret to make it possible for manufacturing companies to manage short term financing effectively and efficiently. To analysis the ratio first short sight to absoluter amount of sales. The average amount of sales manufacturing for the study period is Rs497.02 million. The highest average amount of sales is Rs1405.66 million of ULN Ltd and lower amount of sales is Rs28.16 million of BSC Ltd. the yearly average is in increasing trend. the higher amount of sales is Rs548.01 million of 2006/06

and the lowest average amount of sales is Rs467.99 million in 2001/02. BJM Ltd, NLO Ltd, and BSC Ltd have lower sales amount then average amount of sales.

Company Average of Sales to Short-term Financing

Table 4.20

S No.	Name of Company	Ratio
1	RJM Ltd.	7.73
2	BN Ltd.	2.23
3	NLO Ltd.	1.42
4	ULN Ltd.	3.33
5	BSC Ltd.	0.28

Company Average Ratio: 2.93 Times   See annex No. 9

The above table shows the ratio of company average of sales to short-term financing. The overall average ratio is 2.93 times. The highest ratio is 7.37 times of RJM Ltd and the lowest ratio is 0.28 times of BSC Ltd. Only one RJM Ltd has the ratio greater than the overall average ratio. Higher the ratio higher the sales and lower the short term financing. The ratio decrease due to decrease in sales and increase in short term financing.

Yearly Average of Sales to Short-term Financing

Table 4.21

S No.	Year	Ratio
1	2001/02	2.97
2	2002/03	3.30

55

3	2003/04	2.88
4	2004/05	2.85
5	2005/06	2.63

Company Average Ratio: 2.93 Times   See annex No. 9

The above table shows the ratio of yearly average of sales to short term financing. The yearly average ratio for the study period since 2001/02 to 2005/06 is 2.93 times. The highest ratio for the study period is 3.30 times 2002/03 and the lowest ratio is 2.63 times in 2005. The ratio is fluctuating during the study period, because of variation in sales and short term financing.

Based on above analysis, it is conclude that most of the companies sales to short term financing is decreasing because of low sales except RJM Ltd and BN Ltd. RJM Ltd and BN Ltd have increase in sales amount and there ratio also in increasing trend, it show that they have forecasting system of sales. And other companies are unable to forecast there sales. May be they don't have practice also, because they are unable to proportionally increase or decrease their short term financing comparing to increase of decrease in sales. Thus the management of Nepalese manufacturing companies has to prepare sales forecast. On the basic of sales forecast, they have to prepare work plan. To achieve the forecasted sales they must determine the seasonal current assets. Only the seasonal current assets must be finance through the short term financing and fixed finance through the long term financing. Thus the sales to short term financing increase through decrease in short term financing and increase in sales.

4.1.10 Analysis of Net Profit to Short-term Financing

Now, profit to short term financing is one of the major tools of measurement of short term financing. Profit is difference between revenue and expenditure over a period of time. Profit is the ultimate output of the company. And it will have no future if it fails to make sufficient profit. Therefore the financial manages should continuously evaluate the efficiency of its company in term of profit.

A firm with a highest profit to short term financing ratio would be in an advantageous position to survival in the face falling sales price, rising cost of production of declining demand for the product. Here I am going to analysis the absolute amount of net profit, which help to analysis and interpret the short term financing. The company average net profit during the study period is Rs17.07 million in 2001/02 and Rs43015 million in 2005/06. the highest average amount of profit is Rs106.76 millions of ULN Ltd and the lowest amount is Rs19.36 million of BSC Ltd.

The ratio is analysis by the cross section analysis.

Company Average of Net Profit to Short-term Financing

Table 4.22

S No.	Name of Company	Average
1	RJM Ltd.	0.084
2	BN Ltd.	0.14
3	NLO Ltd.	0.022
4	ULN Ltd.	0.17
5	BSC Ltd.	-0.22

Company Average Ratio: 0.44 Times   See annex No. 10

The above table shows the company average of net profit to short term financing of selected Nepalese manufacturing companies for the study period. The average ratio of net profit to short term financing is 0.04 times. BSC Ltd is suffering from loss. The highest ratio is 0.17 times ULN Ltd and the lowest 0.22 times of BSC Ltd. RJM Ltd., NLO Ltd and BSC Ltd. have the ratio lower than average company ratio. BN and ULN Ltd are multinational companies and they had able to earn profit and must of Nepalese own manufacturing companies are suffering from loss. It shows that financial performance of Nepalese manufacturing companies is not good.

Yearly Average of Net Profit to Short-term Financing

Table 4.23

S No.	Year	Ratio
1	2001/02	0.013
2	2002/03	0.040
3	2003/04	0.051
4	2004/05	0.085
5	2005/06	0.075

Overall average for net profit to short term financing is 0.04 times. See annex No. 10

The above table shows that yearly average of net profit to short term financing of the manufacturing companies for the study period since 2001/02 to 2005/06. The average ratio of net profit to short term financing is 0.004 times. The yearly average ratio of net profit to short term financing if increasing trend. the highest ratio is 0.075 times in 2005/06 and the lowest average ratio is 0.013 times in 2001.

Form above analysis, it shows that most of the companies have lower ratio of net profit to short term financing. It can be removed by effective utilization of the short term financing by curtailment of operating expenses. Gross profit may decline due to fall in sales price of increase in the cost of production.

4.2 ANALYSIS OF OTHER VARIABLES

4.2.1 Analysis of Cash Conversion Cycle

To analysis the cash conversion cycle first of all, I have been analysis the inventory conversion period, analysis of receivable conversion period, analysis of payable conversion period after than analyzed the cash conversion period.

I) Inventory Conversion Period

Inventory conversion period is one of the most important financial tools. The inventory turnover shows, how rapidly the inventory is turning n to receivable through sales. The formula to calculate the inventory conversion period has been stated in research and

methodology chapter. Here I am going to analysis and intercept the inventory conversion period.

Inventory Conversion Period

Table 4.24

S No.	Name of Company	2001/02	2002/03	2003/04	2004/05	2005/06	Average
1	RJM Ltd.	23	23	31	30	19	25
2	BN Ltd.	90	89	108	111	123	104
3	NLO Ltd.	174	89	120	202	131	143
4	ULN Ltd.	39	50	33	35	51	42
5	BSC Ltd.	414	430	404	347	446	408
Average		148	136	139	145	154	144

See annex No. 16 to 20

The above table shows the inventory conversion period of selected Nepalese manufacturing companies for the study period since 2001/02 to 2005/06. The conversion period among the manufacturing companies in the study period is widely varied. The highest inventory conversion period is 446 day of ULN Ltd. in 2005/06 and the lowest period is 19 day of RJM Ltd 2005/06. Further studies have been done by cross section analysis.

Company Average of Inventory Conversion Period

Table 4.25

S No.	Name of Company	Conversion Period (Days)
1	RJM Ltd.	25
2	BN Ltd.	104
3	NLO Ltd.	143
4	ULN Ltd.	42
5	BSC Ltd.	108

Company Average: 144 Days   See annex No. 16 to 20

The above table shows the company average of receivable conversion period of the selected Nepalese manufacturing companies. The company average of the study period is 144 days. The highest inventory conversion period is 408 days of BSC Ltd and the lowest conversion period is 25 days of RJM Ltd. The receivable conversion period is widely varied among the selected manufacturing companies. Only one company such as BSC Ltd has the conversion period higher than the average inventory level than warranted by production and sales activities or a slow moving and lower conversion period is indicative of good inventory management.

Yearly Average of Inventory Conversion Period

Table 4.26

S No.	Year	Conversion Period (Days)
1	2001/02	148
2	2002/03	136
3	2003/04	139
4	2004/05	145
5	2005/06	154

Company Average: 144 Days   See annex No. 16 to 20

The above table shows the yearly average of inventory conversion period since 2001/02 to 2005/06. The overall yearly average conversion period is 144 days for the study period. The yearly average of inventory conversion period for the study period lies on the average, means that there is not widely varied in the inventory conversion period. In 2001/02, 2004/05 and 2005/06 the conversion period is slightly higher than the average conversion period. But in 2002/03 and 2003/04, the conversion period is slightly lower than the overall average of inventory conversion period.

To summaries the above analysis of the inventory conversion period the company average of inventory conversion period is widely varied and the yearly average of inventory conversion period is not too much varied.

The inventory turnover period shows how rapidly the inventory in turning in to receivable through sales. Generally a high inventory turnover period implies excessive inventory levels than warranted by production and sales activities or a slow moving, and lower conversion period is indicative of good inventory management. A high level of sluggish inventory conversion period may be result of a very low level of inventory which results in frequent stock out; the firm may be living from hand to mouth. Thus too high low inventory conversion period is not good for organization. The detail suggestion will be recommendation in summary chapter.

II) Analysis of Receivable Conversation Period

Receivable conversion period is also of the important financial tools for the measurement of cash cycle. Receivable conversation period indicate the number of days debtor turnover in each year. Generally lower the collection period the more efficient in the management credit. The formula to calculate the receivable conversion period has been stated in research and methodology chapter. Here I am goring to analysis and interpret the receivable conversion period.

Receivable conversion period

Table 4.27

S No.	Name of Company	2001/02	2002/03	2003/04	2004/05	2005/06	Average
1	RJM Ltd.	23	20	12	17	25	19
2	BN Ltd.	70	77	52	71	93	73
3	NLO Ltd.	243	180	227	232	185	213
4	ULN Ltd.	8	9	19	23	38	19
5	BSC Ltd.	352	259	222	157	137	225
Average		139	109	105	100	96	109

See annex No. 16 to 20

The above table shows the receivable conversion period of selected Nepalese manufacturing companies for the study period since 2001/02 to 2005/06. The collection period among the companies have been widely varied. The overall average receivable conversion period during the study period of those companies is 109 days. The higher conversion period is 352 days of BSC Ltd in 2001/02 and the lowest conversion period is 8 days of ULN Ltd in 2001/02. RJM Ltd, BN Ltd and NLO Ltd are unable to decrease there receivable conversion period, it is in widely fluctuating during the study period. ULN Ltd have increasing trend of there receivable collection period and BSC Ltd have decreasing trend of there receivable collection period, which should better for company. Further analysis has been done by the cross section analysis, which is presented below.

Company Average of Receivable Conversion Period

Table 4.28

S No.	Name of Company	Conversion Period (Days)
1	RJM Ltd.	19
2	BN Ltd.	73
3	NLO Ltd.	213
4	ULN Ltd.	19
5	BSC Ltd.	225

The above table shows the company average of receivable conversion period of selected manufacturing companies. The overall average collection period is 109 days which is seem to higher due to the highest collection period of NLO Ltd and BSC Ltd. the conversion period is widely varied amount the manufacturing companies. The highest collection period is 225 days of BSC Ltd and the lowest collection period is 19 days of RJM Ltd and ULN Ltd.

Yearly Average of Receivable Conversion Period

Table 4.29

S No.	Name of Company	Conversion Period (Days)
1	RJM Ltd.	148
2	BN Ltd.	136
3	NLO Ltd.	139
4	ULN Ltd.	145
5	BSC Ltd.	154

Yearly Average: 109 Days   See annex No. 16 to 20

The above table shows the yearly average of receivable conversion period of selected manufacturing companies during the study period since 2001/02 to 2005/06. The collection period is in increasing trend during the study period. The overall average for the study period is 109 days. The highest period is 139 days in 2001/02 and the lowest period is 96 days in 2005/06. The average conversion period is increasing trend over the study period.

To summaries the above analysis, it is conclude the receivable collection period is widely varied among the selected Nepalese manufacturing companies during the study period. BSC Ltd and NLO Ltd have too much higher the collection period during the study period. ULM Ltd has the lower average collection period, but it is in increasing trend during the study period. BSC Ltd has able to decrease there collection period even it is too much.

The average collection period measure the quality of debtor means it indicates the speed of their collection. The shorter the average collection period, better the quality of debtor as short collection period implies prompt payment by debtor. It also indicates that the company has better collection policy of debtor. An excessively long collection period implies a very liberal and inefficient credit and collection performance. This certainly delays the collection of cash and impacts the firm's liquidity. The chances of bad debt losses are also increase. On the other hand too low a collection period is not necessary favorable; it may indicate a very restrictive credit and collection policy. Nepalese manufacturing companies have too much longer collection period, indicate insufficient credit and collection performance, it is ultimately delays the collection of cash and effect the firms liquidity thus these manufacturing companies should have to reduce the collection period. The further suggestion will be recommendation in summary chapter.

III) Analysis of Payable Conversion Period

Payable conversion period is also and important financial tool. It indicates the speed of credit payable. A higher payable conversion period is favorable for the company but too much higher period hampers the credit worthiness of the company. A lower conversion period shows the firm repayment capacity it increase the credit worthiness of the company. The formula to calculate the payable conversion period has been stated in research and methodology chapter, here I am going to analysis and interpret the payable conversion period.

Payable Conversion Period

Table 4.30

S No.	Name of Company	2001/02	2002/03	2003/04	2004/05	2005/06	Average
1	RJM Ltd.	37	37	39	31	28	34
2	BN Ltd.	51	51	25	36	63	47
3	NLO Ltd.	108	113	204	215	33	151
4	ULN Ltd.	85	76	104	102	124	98
5	BSC Ltd.	121	131	78	279	297	181
Average		97	82	90	133	109	102

See annex No. 16 to 20   See annex No. 16 to 20

The above table shows the payable conversion period of Nepalese selected manufacturing companies for the study period since 2001/02 to 2005/06. The payable conversion period is widely varied during the study period. The overall average of the payable conversion period is 102 days. The highest period is 297 days of BSC Ltd in 2005/06. And the lowest period is 31 days RJM Ltd in 2004/05. RJM Ltd has not varied the payable conversion period. BN Ltd and NLO Ltd have widely varied of payable conversion period during the study period and ULN Ltd and BSC Ltd have widely varied and increasing trend of payable conversion period during the study period. The further analysis is done by cross section analysis, which is presented below.

Company Average of Payable Conversion Period

Table 4.31

S No.	Name of Company	Conversion Period (Days)
1	RJM Ltd.	34
2	BN Ltd.	47
3	NLO Ltd.	151
4	ULN Ltd.	98
5	BSC Ltd.	181

Company Average: 102 Days   See annex No. 16 to 20

The above table shows the company average of payable conversion period of selected manufacturing companies for the study period. The conversion period id widely varied among the companies. The average period of these companies is 102 days. The highest period is 181 day of BSC Ltd and the lowest period is 34 days of RJM Ltd. NLO Ltd and BSC Ltd have the payable conversion period higher than overall average period and other companies have lower than over average payable conversion period. Higher payable conversion period indicate it takes long time to pay its obligation/creditors and lower payable conversion period indicate, it takes lower time to pay its creditors.

Yearly Average of Payable Conversion Period

Table 4.32

S No.	Year	Conversion Period (Days)
1	2001/02	97
2	2002/03	82
3	200304	90
4	2004/05	133
5	2005/06	109
Average		102

See annex No. 16 to 20

The above table shows the yearly average of payable conversion period of the study period since 2001/02 to 2005/06. The average payable conversion period is widely varied and in increasing trend. The overall average period is 102 days. The highest payable period is 82 days in 2002/03.

To summaries the above analysis of payable conversion period, the payable conversion period among the selected manufacturing companies have been widely varied and higher conversion period. The management of the company must attention to repay the obligation in that time period, which does not hamper the credit worthiness of the company. That helps the company for the borrowing and to get loan.

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The payable conversion period increase due to the delay in repayment of the obligation of firm. The detail suggestion will be recommendation in summary chapter.

IV) Analysis of Cash conversion cycle

Cash conversion cycle is an important financial tool. Cash conversion cycle shows how many times it takes to convert the receivable in to cash and how much time it takes to repay its obligation.

Cash conversion Cycle

Table 4.33

S No.	Name of Company	2001/02	2002/03	2003/04	2004/05	2005/06	Average
1	RJM Ltd.	10	6	4	16	16	10
2	BN Ltd.	107	115	135	146	153	131
3	NLO Ltd.	230	155	143	218	282	206
4	ULN Ltd.	-38	-16	-52	-45	-35	-37
5	BSC Ltd.	293	57	548	226	287	382
Average		120	163	156	112	141	138

See annex No. 16 to 20

The above table shows the cash conversion period of selected Nepalese manufacturing companies for the study period since 2001/02 to 2005/06. The cash conversion period among the manufacturing companies in the study period is widely varied. Even though, the cash conversion period of individual company widely varied in the study period. The overall cash conversion period of the selected manufacturing companies for the study period is 138 days. The highest cash conversion period is 557 days of BSC Ltd in 2002/03 and lowest conversion period is in negative -52 days of ULN Ltd in 2003/04. the cash conversion period of BN Ltd is in increasing trend and BSC Ltd is in decreasing trend. Further analysis will be done by cross section analysis.

Company Average of Cash Conversion Period

Table 4.34

S No.	Name of Company	Conversion Period (Days)
1	RJM Ltd.	10
2	BN Ltd.	131
3	NLO Ltd.	206
4	ULN Ltd.	-37
5	BSC Ltd.	382

Company Average: 138 Days   See annex No. 16 to 20

The above table shows the average cash conversion period of selected manufacturing companies. The average cash conversion period is widely varied among the manufacturing companies. The overall average of cash conversion period is 138 days. The highest conversion period is 382 days of BSC Ltd and the lowest conversion period is -37 days of ULN Ltd.

Yearly Average of Cash Conversion Period

Table 4.35

S No.	Year	Conversion Period (Days)
1	2001/02	120
2	2002/03	163
3	200304	156
4	2004/05	112
5	2005/06	141
Average		138

See annex No. 16 to 20

The above table shows the yearly average of conversion period of manufacturing companies for the study period since fiscal year 2001/02 to 2005/06. The overall average of cash conversion period is 138 days. The highest average cash conversion period is 163 days in 2002/03 and the lowest cash conversion period is 112 days in 2004/05. In fiscal year 2001/02 and 2004/05, the cash conversion period is lower than average but in the other year the cash conversion period is higher than the overall average.

The cash conversion period of individual is too much of long period due to long period of collection of receivable and inventory converted in to cash. These companies have taken long period to pay of the obligation, thus the cash conversion period see to lower. One manufacturing company has negative cash conversion due to maximum delay in paying debt and quick collection of receivable. Longer cash conversion period and negative cash conversion period both is worse to the company in long life. Long cash conversion period means, even the strong liquidity position of the firm, firms could not pay its debt in time and firm must to search loan to pay the obligation and for the daily operation of the firms. Negative cash conversion period is seems to be good for short period but is worse the credit worthiness of the firms. In the long prospect, firms could not get the credit due to the practice of the company delay in passing obligation. So, this king of condition must be remark by the company for the successfully running. To lower the cash conversion, receivable have to collect as mush quickly inventory should bopped in the time period of credit. The credit worthiness of the company is to be improved by paying obligation is time period. The further suggestion will be recommendation is summary chapter.

4.2.2 Analysis of Corporate Bankruptcy of Corporate Risk (Altman's Discriminate Analysis)

The application of discriminate model to predict good/poor risk firm is widely use in financial analysis in recent years. Edward Altmant was the first person, who developed the discriminate function in this present form. Thus use of this model in financial research is increasing day by day.

The need for the use of discriminate analysis is felt in this study due to the fact that if, the selected Nepalese manufacturing companies have sound financial position or not and weather the selected manufacturing companies are good risk of poor risk firms. Knowing the financial position of the firm is not important for the companies only rather it is very

important to outsiders such as lenders, financial intermediates, and suppliers also. With the help of this model a financial manager of any enterprise may recognize the firms strength and weakness and able to take corrective action before the condition goes out of control. This model is commonly using as financial tools for business loan evaluation purpose. A discrepant model is useful here because it takes in to account the effect of combine ratio of working capital to total assets, current ratio, net profit, and sales position to analyze the credit worthiness of the firms.

Higher the combined ratio indicate the strong financial position of the company and there is a less change of bankrupt in near future and lower the combined ratio indicates the week financial position of the firms and there is a chance of bankrupt in near future. The analysis of success/failure of Nepalese manufacturing companies has been done below.

Z-value of Selected Nepalese Manufacturing Companies

Table 4.36

S. No	Co. Name	WC/TA	CA/CL	NP/TA	NP/Sale	Sales/Ta	Z-Score
1	RJM Ltd.	0.097	1.506	0.02	0.01	1.52	3.81
2	BN Ltd.	0.31	1.89	0.05	0.06	0.83	4.04
3	NLO Ltd.	0.52	1.43	0.06	0.02	2.48	6.50
4	ULN Ltd.	0.34	1.33	0.35	0.07	4.44	7.91
5	BSC Ltd.	-0.64	0.50	-0.25	-0.52	0.35	-0.82
Average							4.29

See Annex No (5, 12, 13, 14, 15)

As, we maintain in methodology chapter Z score is given by

$Z=1.2x_1+1.4x_2+3.3x_3+0.4x_4+1.0x_5$

The calculated average combination of Z score is 4.29, which is higher than the 2.99. According to Altman's Discriminate Model, the enterprise having Z score above the 2.99 clearly falls in to the "non bankrupt" or good risk firms. In above analysis four companies out of five such as, RJM Ltd. BN Ltd. NLO Ltd. and ULN Ltd have Z score higher than 2.99 whish is shows these companies have strong financing position. But Z score of BSC Ltd is in negative i.e. -0.82, shows that it is probable to go to bankrupt. ULN Ltd have the highest Z score among the selected manufacturing companies, it shows that financial position of ULN Ltd is better than other.

Those companies which have lower than the standard Z score are financial weak companies and headed toward the bankruptcy. Thus those companies must have to improve their financial position otherwise they could be bankrupt near future. Maybe causes of weakness in financial performance ought to be less performance in utilizing of short-term fund. Those firms used most costly sources of short-term funds and they were unable to make appropriate short-term financing mix. So, they have to use appropriate short-term financing policy. The above table shows four companies are in strong financial position, which Z score in higher than standard Z score 2.99 and there is a less chance of bankrupt in near future but BSC Ltd have negative Z score which is not good for company. So management has to consider improving the financial position of the company.

4.3 Major Findings:

☞ The short term financing or selected Nepalese manufacturing companies have increasing trend, but BN Ltd has decreasing trend during the study period and NLO Ltd has fluctuating trend of short term debt. The usage of short term debt among the manufacturing companies has widely varied. The average of short term debt among the manufacturing companies for the study period is Rs200.41million. The highest average amount of short term debt is Rs498.69 of ULN Ltd and the lowest is Rs53.49 million of RJM Ltd. Yearly average of short term debt is increasing trend.

Most of the manufacturing companies have commonly used the short term financing sources as (i) sundry creditors (ii) provision of taxation (iii) bank loan. The maximum sources short term financing selected by companies are sundry creditors and provision as compare to other sources of short term financing.

☞ Nepalese manufacturing companies have commonly used the account payable in short term financing and it is on satisfactory level. The overall average of account payable to short term financing is 0.37 times or 37%. The maximum usage by RJM Ltd is 64% and minimum usages by BSC Ltd 11%. The yearly average of account payable to short term financing is in increasing trend.

☞ Working capital of Nepalese manufacturing companies has satisfactory level except BSC Ltd. Working capital of BSC Ltd is in negative. The overall company average of working capital is Rs88.8 million and RJM Ltd, BN Ltd and ULN Ltd have greater average working capital than overall average of working capital. There is widely fluctuating of working capital among the companies.

☞ The liquidity position of Nepalese manufacturing companies is not good, except BN Ltd. The overall companies' average of current ratio is 1.33 times which is lower as compare to the standard ratio2:1. Among the companies BN Ltd has the greatest current ratio i.e. 1.89 times but is unable to meet the standard ratio. The yearly average ratio is in fluctuating trend.

☞ The quick ratio is also unable to meet the standard ratio 1:1. The overall companies' average quick ratio is 0.498 times. Quick ratio of NLO Ltd is better than other companies' which is 0.86 times. The yearly average of quick ratio is in increasing trend.

☞ The average cash to short-term financing ratio is widely varied from the company to another company. Company's overall average of cash to short-term financing is 0.1 times of 11%.ULN Ltd is holding maximum cash whereas NLO Ltd is holding minimum cash. The yearly average of cash to short-term financing is in increasing trend. The overall analysis of cash to short-term financing shows, most of the companies maintain lower lever of cash balance as compare to short-term financing.

☞ The debtors to short-term financing ratio are higher due to the poor collection policy and higher credit sales. The overall average of debtors to short-term financing ratio is 0.403 times. The highest ratio is 0.83 times of NLO Ltd and lowest ratio is 0.19 times of BSC Ltd. The overall analysis of debtors to short-term financing show all the selected manufacturing companies have the highest debtor ratio behind the cause of higher credit sales.

☞ The investment made in inventories by Nepalese manufacturing companies is widely varied from one company to another company. The average ratio has ranged in between 0.29 times to 0.97 times. The overall companies' average ratio ranged is in between 0.29 times to 0.97 times. The overall companies' average ratio of inventory to short-term financing is 0.578 times. Manufacturing companies held maximum level of inventory which is not adequate for manufacturing companies.

☞ The average ratio of short term financing to total financing is largest for BSC Ltd, NLO Ltd, and ULN Ltd. The overall average ratio of short-term financing to total financing is 0.582 times of 58.2%. The highest use of short-term financing is 0.82 times by ULN Ltd and the lowest used by RJM Ltd which is 0.19 times. The higher the ratio indicates that the manufacturing companies are heavily dependent upon the short-term debt, which is risky for companies.

☞ Net profit to short-term financing of Nepalese manufacturing companies is too low. The overall average ratio of net profit to short-term financing is 0.04 times. BSC Ltd is suffering from losses. The highest ratio of net profit to short-term financing is 0.17 times of ULN Ltd and the lowest ratio is -0.22 times of BSC Ltd. The yearly average of net profit to short-term financing is in increasing trend. The highest ratio is 0.075 times in 2005/06 and the lowest average ratio is -0.13 times in 2001/02.

☞ The average inventory conversion period is widely varied from one company to an other company. The overall average inventory conversion period is 144 days. The yearly average of inventory conversion period is in increasing trend which is not good for companies.

☞ The receivable conversion period among the companies is widely varied. The overall average conversion period during the study period of selected companies is 109 days. The higher conversion period is 352 days of BSC Ltd in 2001/02 and lowest conversion period is 8 days of ULN Ltd in 2001/02. The collection period is in increasing trend during the study period.

☞ The average payable conversion period is widely varied among the selected companies. The overall average of payable conversion period is 102 days. The highest payable period is 297 days of BSC Ltd in 2005/06 and the lowest payable period is 31 days of RJM Ltd in 2004/05. RJM Ltd has not varied the payable conversion period.

Higher payable conversion period indicates it takes long time to pay its obligation and lower payable conversion period indicates it takes lower time to pay its obligation.

☞ The cash conversion period among the manufacturing companies in the study period is widely varied. The overall cash conversion period of the selected companies for the study period is 138 days. The highest cash conversion period of selected manufacturing companies for the study period is 557 days of BSC Ltd in 2002/03 and the lowest conversion period is in negative -52 days of ULN Ltd in 2003/04. The cash conversion period of BN Ltd is in increasing trend and BSC Ltd is in decreasing trend. BSC Ltd has negative cash conversion period due to maximum delay in paying debt.

☞ As per Altman's Discriminating analysis, Z-score above the 2.99 clearly falls in to the "not bankrupt" or good risk firms. RJM Ltd, NLO Ltd, BN Ltd and ULN Ltd have Z-score above the 2.99 (standard score). These enterprises have very sound financial position and fall into good risk firms. The Z-score of BSC Ltd is in negative i.e. -0.82, shows that it is probable to go to bankrupt in near future. ULN Ltd has the highest Z-score among the selected manufacturing companies.It shows that financial position of ULN Ltd is greater than other companies.

CHAPTER FIVE
SUMMARY, CONCLUSION & RECOMMENDATION
5.1 SUMMARY

Business firm normally employs variety of financing to make investment in its current and fixed assets. Such financing may include short term, intermediate, and long term financing. Each of these financing alternatives has its own importance as well as defect. However, Business Corporation can use the combination of these financing as per need of organization. Thus business organization can structure there short term financing (current liabilities) in a manner that depends on the nature of business. Short term financing plays a vital role in the manufacturing companies. Manufacturing enterprises have to use huge amount in their current assets by the best utilization of short term financing. Manufacturing companies can achieve the overall objectives with minimum cost. Short term financing provides minimum cost of financing as well as spontaneous financing. Higher the return higher the risk, on the other hand it can be said lower the cost higher the risk. Thus short term financing is risky than other sources of financing. The conservative approach of management uses minimum short term debt and maximum use of long term debt and equity capital but they can not omit the short term debt to their financing mix because spontaneous financing arise due to normal business operation. The advantage of short term financing is lower cost of financing as well as free of financing. The other most important advantage is flexibility.

Short term financing is that type of financing by which Nepalese enterprises can get the objective of low cost of financing. There are various sources of short term financing such as trade credit, short term bank loan, accrual, inventory financing and receivable financing etc. Considering the risk and return of various sources of short term financing, manufacturing companies should carefully choose any combination of these sources, which can provide funds at minimum cost. But short term financing is not favorable at all time. Higher the short term debt, lower the working capital, lower the liquidity higher the

risk. More frequent, however, the situation is where either one alternative is not superior in every aspect or where various constraints are placed on the alternative. So the financial decision maker must choose any financial alternative from among the alternatives and select a "financial package" as a solution. For the purpose of this study on the measuring the effectiveness of the short term financing of Nepalese manufacturing companies (listed in NEPSE). The necessary data and other variables were collected for the study period 2001/02 to 2005/06. The financial statement mainly the balance sheet and profit and loss account published in the financial statement of listed companies by SEBON and annual report of the individual company have proved the data to complete this study. This study covers five major manufacturing companies. They are RJM Ltd, NLO Ltd, ULN Ltd, BN Ltd, and BSC Ltd. This study focuses on the major sources of short term financing of manufacturing companies, mix of the company cash conversion period, and analysis the success/failure of manufacturing companies. Based on the main finding of the study with identified issue and gaps, some valuable suggestions are provided for the best utilization of the short term financing by manufacturing companies.

5.2 Conclusion:

In conclusion it can be pointed out strongly that the management of the short-term financing is one of the most important part of the financial management. As the short-tem financing has direct impact on profitability and risk of the companies. The conclusion are found as follows :

1. Nepalese manufacturing companies should never ignore to its importance otherwise it can seriously erode the financial viability.

2. Most of Nepalese manufacturing companies have not followed the appropriate financing policy even must of sample companies are able to generate profit.

3. In the above study we can show that, various sources of short-tem financing have been used but they are unable to take decision about the less costly sources of short-tem financing because they used different sources of short-term financing at huge amount in different years.

4. Some of the enterprises have short-term financing excessively high as compared to long term financing. They should have improved their financing decision with the right combination of short-term and long term sources of financing to finance current assets and fixed assets.

5. They have no practice of investing temporary current assets with short-term funds and permanent current assets and fixed assets with long term funds.

6. Liquidity positions of Nepalese manufacturing companies are also not good. The management of cash is also not in good position. Some of the companies hold more cash than their needs which affects in their profitability.

7. Nepalese manufacturing companies in the present context are facing certain policy issue like deficient financing planning, negligence in the short-tem financing management and its effective utilization etc.

5.3 Recommendations:

Based on the major finding and conclusion presented above some recommendations have been presented below:

1. Determine the Appropriate Financing Policy

Every business enterprise needs to adopt the certain financing policy as per the nature of business and they should run their business as per financing policy. Success of any business depends upon the firms finding policy. Aggressive financing policy means high risk and high return when conservative policy means lower return. Nepalese enterprises should adopt the financing policy that may be moderate financing policy which operates in between aggressive and conservative financing policy. For this they have to prepare work plan and determine the seasonal funds requirement, again seasonal funds can be divided into temporary seasonal needs i.e. temporary current assets should finance through short-term financing and permanent current and fixed assets should finance through long term financing.

2. Improve the Liquidity Position of Companies

Most of the Nepalese manufacturing companies have been suffering from poor liquidity position. They have to improve their liquidity position. In order to improve the liquidity position of these companies, there should be proper management between current assets and current liabilities. If current assets and current liabilities are utilized in proper way the working capital will be higher than the turnover of the current assets. When the turnover of the current assets is high, company will be able to meet the obligation maturity period. For the sake of increasing its current assets turnover the company should identify the most important current assets are cash, debtor, and inventory. These

companies therefore should estimate the requirements of cash immediately. If the cash appears more than requirements companies should invest cash ideal fund in the marketable securities that can be converted into cash whenever needed.

3. Determine the Seasonal and Permanent Funds Requirement

Most of the Nepalese manufacturing companies are neglecting to prepare short term financing plan. Therefore, Nepalese companies are mostly facing the problem of shortage of working capital. So they have to make proper plans and policy regarding short term funds management. As per the nature of business, financial manager of the concerned enterprise should first determine firms' seasonal and permanent financing need. Again, when and how much short term funds will be required to meet the seasonal or cyclical need, should be specified. Then financial manager should plan and forecast the short term fund requirement and should make a plan for managing the funds from the reliable sources and manage the funds very tactfully keeping in the view of minimizing the cost and maximizing the profit.

4. Companies Should Speed the Cash Collection Period

Most of the selected Nepalese manufacturing companies have maximum cash conversion period. Receivable and inventory conversion period of companies are also high. Due to the extreme high payable period, cash conversion period is shown lower, thus it should be speedy. Delay in the payment of the obligation hamper to the credit worthiness of the firm, so the payable time should be speedy. So the companies have to increase their receivable conversion and inventory conversion period and also the speedy of the payable conversion period, which will favorable impact on firms' potentiality. By the best utilization of inventory and receivable, the operating conversion period will be improved and pay off their obligation in time period, thus the payable conversion period will be improved hence the overall cash collection period is improved.

5. Maximum Utilization of the Less Costly and Spontaneous Source of Short Term Financing.

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Account payable and accruals are spontaneous sources of unsecured short term financing. These arise from normal business operation. There is not explicit cost attached to these current liabilities. So company should maximize these sources of short term financing.

To increase account payable, firm should have better relationship with the suppliers. The firm should negotiate with the suppliers for the credit term and condition which are affected by the credit worthiness of the firm. Strong and big suppliers provide higher account payable depending on credit worthiness of the firm. By increasing in credit worthiness of the company, they can increase spontaneous sources or less costly sources of short term financing.

6. Formulate the Working Plan to Maximum Utilization of Fund

Most of Nepalese manufacturing companies have not followed the financing policy. Some times short term financing is greater than long term debt. Even fixed assets also finance through the short term debt. Even though permanent current assets are financed through the long term debt, every company must formulate the working plan to finance their assets.

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