CHAPTER-I

INTRODUCTION

1.1 Background

Nepal is an under developed country. The development of the country highly depends upon its economic condition and there is a need for additional capital investment to earn higher rate of economic growth. But the majority of the total population is still engaged in agricultural sector. Agricultural development alone is not sufficient for the rapid development of the country. Domestic saving and foreign capital are two principal sources to capital available for investment. Among them, domestic saving is the most important and stable sources of capital.

It is obvious that economic development of different sectors like industries, trade so on. So, development of these sectors needs a regular supply of financial resources. In development countries there is always shortage of the capital for the development activities. It is not possible to handle and development all the sectors by the government alone. Hence, Private sector is also important to develop the country. But Private sector can't undertake large business because per capita income of the people is very low while their propensity to consume is very high. Due to low income their saving is very low and capital formation is very low. Hence capital is that thing which is regarded as the main vital factor for the economic development of a nation. In Nepal the capital market are not properly developed. Generally, the sources of capital for industrial development in Nepal are individual financers.

Establishing of industries help in collecting scattered resources and mobilization of the capital. Industrialization is an important factor for achieving the basic objective of a country's economic and social process and uses idle capital of the country by increasing volume of production and productivity. It helps country to become economically strong. It facilitates an effective mobilization of resources of capital and skill, which might otherwise remain unutilized. It also acts as a vehicle for fostering innovation and technological improvement. Industrial development thus has a multiple effect on the economy.

So Industrialization is a key to achieve economic growth and prosperity within the country. Hence industrialization is universally accepted as a strategy of economic development as well as fundamental goals of most developing countries.

In fact industrialization in Nepal had started very late. Industrialization in Nepal had started only after the establishment of council of industry in 1936. The first industry in Nepalese history is Biratnagar Jute Mill in 1919 B.S. and Nepal Bank in 1994 B.S.

A planned effort for industrialization in the country was made after launching economic planning in the country. Nepal launched her first economic panning in 1956. Thus, the planned effort for industrialization was stared since 1956.

In 1956 at that time when private sector was weak and unable, the government up to seven economic planning handled all sector of economy. There were 62 different industrial institution came into existence. It was realized that to speed up to the process of industrialization merely the established of the public enterprise is not enough. It is equally important that the role of private sector on the other hand most of the public enterprise showed their lackluster performance.

Realizing, after the eight five year plan government change its policy to create conducive environment to encourage the private sector and takes liberation policy after restoration of democracy in 1990. After that many private and Joint Venture Company came into existence.

The Nepalese economy at present is passing through the critical phase of low level equilibrium trap circumscribed by poverty and stagnation. The economy, moreover, is the manifestation of an acute disguised unemployment and subsistence farming with limited prospects for mechanization where foreign aid has continued to play a critical role over the years in sustaining the economy. It suffers from structural constraints that have not only marginalized the prospects for growth but also widened the gap between the rich and poor.

Introduction of the Companies

Bottlers Nepal (Balaju) Ltd.

Bottlers Nepal (Balaju) Limited was established as a private limited company under the company act 1964 in 1973. It was converted into public limited company in 1984. The main objective of the company is to produce and to market soft drinks under the brand mane of Coke, Fanta, and Sprite in the country. The company has established a subsidiary company, Bottlers Nepal (Terai) Limited in Chitwan District. The company is managed by Singapore based F and N Cocacola Pvt. Ltd. Company.

Authorized Capital Rs. 500,000,000 Paid-up Value Rs. 100

Incorporation year B.S. 2041 A.D.1984

Par Value / Share Rs.100 Listing Date B.S. 2043/1986 A.D.

Bottlers Nepal (Terai) Limited

Bottlers Nepal (Terai) Limited, a subsidiary company of Bottelers Nepal Ltd. Balaju, Kathmandu was established in 1986 under the company act 1964 with the object of producing and bottling soft drinks under the brand of Coke, Fanta and Sprite.

The company situated in Chitwan District is under the management of F and N Cocacola Pvt Ltd. Singapore since September 1993. The installed capacity of the plant is 350 bottling per minute (BPM).

Authorized Capital Rs. 121,000,000 Paid-up Value Rs. 100

Issued Capital Rs. 121,000,000 Paid up Capital Rs. 121,000,000

Incorporation year 2042B.S./1985 A.D.

Par Value / Share Rs 100

Listing Date 2049B.S/1992A.D

1.2 Focus of the Study

The focus of financial analysis is on key figures in the financial statements and the significant relationship that exist between them.

Analyzing financial statements is a process of evaluating the relationship between component parts of financial statement to obtain a better understanding of a firm's position and performance. Financial statement analysis helps by (i) comparing the firm's performance with that other firm in the same industry and (ii) evaluating trends in operations over time. These studies help management identify deficiencies and then take actions to improve performance.

The firm itself provides of capital, creditors and investors all undertake financial statement analysis. The type of analysis varies according to the specific interest of the party involved. Trade creditors (suppliers owned money for goods and services) are preliminary interest in liquidity of a form. Their claims are short term and the ability of the firm to quickly pay these claims is best judged by an analysis of the firm's liquidity, the claims of bondholders, on the other hand are long term. Accordingly, bondholders are more interested in the cash-flow ability of the firm to service debt over a long period of time. They may evaluate this ability by analyzing the capital structure of the firm, the major sources and uses of funds, the firm's profitability over time and projections of future profitability.

Investors in a company's common stock are principally concerned with present and expected future earnings as well as with the stability of these earning about a trend line. As a result, investor's usually focus on analyzing the profitability of the firm. They would also be connected with the firm's financial condition in so far as it affects the ability of the firm to pay dividends and avoid bankruptcy.

Financial statement reports both on a firm's position at a point of time (the balance sheet) and its operations over some past period (the income statement and statement of cash flow). The balance sheet presents a summary statement of the firm's financial position at given point in time. The statement of balances the firm's assets (what it owns) against its financing, which can be either debt (what it owns or equity, what provided by owners) the income statement provides a financial summary of the firm's operating results during a specified period.

1.3 Statement of the Problem

It was realized that to speed up to the process of industrialization merely the established of the public enterprise is not enough. It is equally important that the role of private sector on the other hand most of the public enterprise showed their lackluster performance. Realizing after the eight five year plan government change its policy to create conductive environment to encourage the private sector and takes liberation policy after restoration of democracy in 1990. After that many private and Joint Venture Company came into existence.

Business firms need to evaluate time to time their financial performance whether they are running healthy or ruin condition. Ratio analysis is one of the most common used techniques of financial performance analysis. It is a simple but meaningful technique of measuring operating performance and evaluating managerial performance of a firm. The ratio of analysis provides a basic to examine different accounting parameters, which reflect the norms of business operation.

Investors and market analyst often refer to financial ratios in order to keep track of their investment performance or some other reasons of their interest. The stockholders, managers, creditors, security analysts, competitors and other related business parties who have direct or indirect interest in the business regularly check financial result of the firm.

The operational and financial problems of a corporation can be ascertained by examining the behaviors of these ratios. Financial strength and weakness can be carried out with the help of financial ratios analysis. Management should be particularly interested and knowing financial strength of the firm to make their best-used and able to spot out the financial weakness of the firm to take suitable corrective actions.

In financial analysis, ratio analysis is considered to be more effective tool. It satisfies the interest of common stock holder, creditors, management of the firm.

All these factors proved that the ratio analysis is an important tool to find out the operational and financial problems of a company. This study attempts to evaluate the financial performance between Bottlers Nepal (Balaju) Ltd. and Bottlers Nepal (Terai) Ltd. specially it deals with following issues.

1. Is financial performance satisfactory in terms of liquidity, solvency utilization and profitability?
2. Do financial ratios indicate any strengths and weakness of two companies?
3. What kind of trend between two companies exists on sales and net profit?

1.4 Objectives of the study

The basic objective of the study is to analysis the different in financial analysis of Bottlers Nepal (Balaju) Ltd, and Bottlers Nepal (Terai) Ltd. for this purpose. The study has following objectives.

1. To make over all comparison of financial performance of Bottlers Nepal (Balaju) Ltd. and Bottlers Nepal (Terai) Ltd.
2. To analyze the liquidity, long term solvency, assets utilization and profitability position of Bottlers Nepal (Balaju) Ltd. and Bottlers Nepal (Terai) Ltd.
3. To identify the trend projection of Bottlers Nepal (Balaju) Ltd. and bottlers Nepal (Terai) Ltd regarding the sales and net profit.

1.5 Significance of the Study

This study has multidimensional significance in the particular area of concerned companies which have been under taken that justify for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution, stock exchange public knowledge or general public, management of company.

Hence, the performance of listed manufacturing company is poor only few of these companies are in profit and distributing dividend to their shareholders which adversely impact on the investors to invest on their shock. Because of this reason most investors invest on banking and service sector but hesitate to invest on manufacturing sector. Among the listed manufacturing companies in Nepal only some of companies are successful to generate profit.

In this connection, stockholders, policy maker and analysts need to know about the performance and financial position of successful manufacturing company. what are the practices have been adopted on financial management and are they adopting general practice?

1.6 Limitations of the Study

The study is basically directed for the partial fulfillment of the requirement for the master in business studies. This study attempts to analysis the3 financial performance of two companies. The study has been conducted with certain limitation. The following are the major limitation.

1. This study has been confined two listed manufacturing companies namely bottlers Nepal (Balaju) Ltd. and bottlers Nepal (Terai) Ltd.
2. The study covers only seven years data.
3. The study is based on secondary data i.e. annual report concerned companies.
4. Only statistical and financial tool are used whenever necessary.

1.7 Organization of the Study

The present study has been divided into five chapters as follows.

Chapter 1	Introduction
Chapter 2	Review of Literature
Chapter 3	Research
Chapter 4	Presentation and analysis of data
Chapter 5	Summary, Major findings and recommendation

The first chapter highlighted the introduction, statement of problems, objectives, significant of the problem, limitation of the study and organization of the study. The second chapter introduces the conceptual framework, reviews the issues related to the study. Chapter third, research methodology, this chapter includes the suitable research design and analysis procedures to carry out the objective of the study. The fourth chapter presents the analysis and interpretation of results of financial appraisal of two companies. The fifth chapter consists of summary and conclusion, finding, suggestion and recommendation. The bibliography and appendices are incorporated at end of the study.

CHAPTER-II

REVIEW OF LITERATURE

The purpose of reviewing the literature is to find out what research studies have been conducted in one chooser field of study and what remains to be done. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing. The literature survey also minimizes the risk of pursuing the dead ends in research. Literature review is basically a "Stock taking" of available literature in one's field of research. The literature survey thus provides the students with the knowledge of the status of their field of research. (*Wolff and Pant, 2000; 250*)

The previous studies can't be ignored because they provide the foundation to the present study. In other words there has to be continuity in research. The continuity in research is ensured by liking the present study with the past research studies. In the present chapter, relevant existing literature will be discussed. The section's aim is to provide concept of financial statement analysis, tools of financial analysis, brief introduction of concerned companies. In order to conduct this study various relevant sources of literature have been considered such as books, journals, annual report, unpublished dissertations.

2. Conceptual Framework

2.1 Concept of Financial Statement

Financial statement systematically contains summarized information of the firm's financial affairs. Top management needs financial statements to show actual financial situation of the firm to owners, creditors and the general public. A balance sheet and income statement assists in decision making. Balance sheet and Profit and Loss account are the traditional basic financial statements of business. Financial statement contains summarized information of firms financial affairs organized systematically. They are meant to represent the firm's financial situation to user.

These statements provide reliable financial information about economic resources and obligation of business enterprises.

The term financial statements used by itself without qualification usually refer three principal statements. The Balance sheet, the income statement and a statement of a change in equity, analyzing changes in the ownership accounts. Thus, we can say that financial statements communicate information to the different parties. It is a source of information relating to a firm.

2.1.1 Importance of Financial Statement

The information reflected in the financial statements is very useful to a number of parties. It is most important as well as essential to the following ways

- The owners, who provide funds for the operation of the business, they want to know where their funds are being properly utilized or not.
- Creditors (supplies the goods and services on credit, bankers and other lender who lend money as different ways) want to know the financial position of the concern before giving loans or granting credit. The financial statements help them of judge such position.
- Employees are interested on the financial position of the concern they serve particularly when payment or bonus depends upon the size of earning.
- Financial statement is also important for the different level of management of the firm.
- Financial is also important to investor consumer and general public.
- Central and local government is interested in the financial statement because they reflect the earnings for a particular period for the purposes of taxation. It is also important to the government for making proper policy and program. (*Pandey,1987;196-201*)

2.1.2 Limitation of Financial Statement

Although financial statement are much significant in providing required information of the operation and financial health of an enterprise they should not be considered the conclusive reports that provide ultimate picture of the status of the concern. These statements should further be processed and analyzed to draw, more lucid picture of the status of the concern which may be quite astoundingly different than conceived. These are the main limitations of the financial statements.

Actually the financial statements are mainly prepared to safeguard the interest of shareholders. So, these statements fail to meet the requirement of different parties that are interested in the financial conditions of the enterprises.

- Financial statement disclose only a monetary terms. The transactions are recorded in the books of accounts which can be measured in monetary terms.
- Financial statement ate interim and not final reports. " Financial statements are essentially interim reports and therefore, can't be final because the actual gain or loss of a business can be determined only after it has put down its shutters,
- Financial statement may not be realistic because these are prepared by following certain basic concept give an idea the business will continue and assets ate to recorded at cost but the book value which the assets is showing may not be actually realizable. Similarly, by the following that principle of conservation the financial statement will not reflect the true position of the business firm. So, financial statements have lack of precision and definiteness.
- Financial statements are influenced by the personal judgment of the accountant. Accountant may select any method of depreciation, valuation of stock, amortization of financial statement, treatment of referred revenue expenditure. Such judgment is based on integrity and competency of the accountant will definitely affect the preparation of financial statements.
- Financial statements are drawn after the actual happening of the events. They attempt to present a view of the past performance and have nothing to do with the accounting for the future. Modern management is looking forward but the statements do not directly help in making future estimates and taking decisions for future, the true picture of a concern can be found out only after its

liquidation but we can not wait for its liquidation. So the financial statements should be treated as an important source of information as customarily treated all over the world. These limitations of financial statements have given rise to the necessity of further analysis and interpretation of financial statements by using different tools and techniques of financial management.(*Pandey,1987;201-203*)

2.2 Financial Statement Analysis

Analysis of financial statement is performed to take managerial and financial decisions. Financial analysis means the process of extraction and studying information in financial statements for use in management decision making. For example, financial analysis typically involves the use of ratios, comparisons with prior periods and with budget and other such procedures.

Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain better understandings of the firm's position and performance. (*Metcalf and Tatard, 1976; 57*).

The first task of the financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statement. The second step involved in financial analysis is to arrange the information in way to highlight significant relationships. The final step is interpretation and drawing of inferences and conclusions. In brief financial analysis is the process of selection, relation and evaluation (*Meigs, 1978; 76*) so; financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of balance sheet and the profit and loss account. Financial analysis can be under taken by management of the firm or by parties outside the form viz. owners, creditors, inventors and others (*Foste, 1978; 96*).

Shareholders are concerned principally with the present and expected future earnings and the stability of these earnings. So they focus their analysis on the profitability of the firm. They would be concerned with its financial condition as it affects the ability of firm to pay dividend and to avoid bankruptcy. Short-term creditors are interested primarily in the liquidity of the firm their claims are short-term and the ability to pay the claims is its liquidity.

Management is concerned with overall position of the firm i.e. liquidity, profitability, solvency growth, goodwill and so on. It should analyze all type of financial indicators, which may assist in internal control as well as external bargaining.

Thus financial strength, weakness and position are reflected by financial analysis is a relevant literature for this research. In financial statement analysis such as balance sheet, profit and loss accounts are mainly analyzed through different tool and techniques.

2.2.1 Income Statement

Income statement refers a summary of a firm's revenues and expenses over a specified period ending with net income or loses for the period. Income statement is designed to report the point performance of business entity for specified period of time such year, quarter, as month business revenues and expenses results from the accomplishment of the form's operation. (*Clifton & Edward, 1974; 38*)

2.2.2 Statement of Retained Earning

The organization can earn profit from its operations. The earning not distributed to the owners i.e. equity shareholders in the form of dividend and retained in the firm in the form of reserve or profit and loss A/C is known as retained earning. Such retained earnings belong to the equity shareholders. So it should be remembered that these funds represents the investment of existing shareholders. It is an internal source of finance for investment proposal and become the additional capital of the company.

2.2.3 Cash flow statement

Cash flow statement is intended to show all the cash inflows and outflows of a firm during a year. It provides relevant information about the cash receipts and cash payment. Information about firm's cash flow is useful in assessing its liquidity, financial flexibility, profitability and risk. Cash flow information is widely used by investors, analyst, creditors, manager and others. It is an important tool which provides information to its users about the ability of the enterprise to generate cash and its utilization. The main objectives of the cash flow statement are

- To help the financial manager to explain the situation of cash flow.
- To make easy to prepare cash budget for the specific period for future reference.
- To help know the causes of changes in the cash position on two dates.
- To help for evaluation about the financial position of an organization.
- To help to know the cash position so that it can make plans and policies regarding decision making activities for short term and long term financing.

2.2.4 Balance Sheet

Balance sheet refers a summary of a firm's financial position of firm's assets, liabilities and equity at a particular date. Balance sheet presents the position of company's assets, liabilities and stockholders equality at particular date, the liabilities indicate the amount owned by the firm to its creditors. It is the document that reports the financial position of company at a specific point of time.

It is a financial statement, which contains different assets of capital expenditure incurred on it at a particular date and the various sources of fund acquired by the concern to finance these assets and are shown in the form of liabilities and capital. So it is a mirror of the financial position of a firm at the particular date.

2.2.5 Importance of Financial Statement Analysis

Financial statement analysis assists the management to take benefit of the strategic management technique by providing the management with the information regarding the strength and weakness of the enterprises so as to exploit the opportunities lying in environment and managers the threats posed by the environment.

Whatever may be the forms financial plan but a good plan must be related to the strengths must be understand before they are to be used to proper advantage and the weakness must be identified to take suitable corrective actions. (*Weston and Brighan, 1972; 28*)

2.2.6 Tools of Financial Statement Analysis

Financial statement morally does not give perfect information about a business firm, so various types of tools are used to analyze financial statement. Tools of financial statement analysis are needed to show the relationship and change the various types of tools are used to analyze financial statement.

Tools of financial statement analysis are needed to show the relationship and change the various figures representing the results of operating various factors in a firm. Among the more widely used of these tools are comparative financial statement, common size financial statement, ratio analysis and trend analysis.

2.2.6.1 Comparative Financial Statement

Comparative financial statement are statement of the financial position of a business so designed as to provide time prospective to the consideration of various elements of final position embodies in such statement. (*Meigs, 1978; 82*). Theoretically, any such statement can be long the family of comparative financial statement. However, it is the balance sheet and income statement (i.e. profit and loss account), which along are prepared in a comparative form because they are most important statement of financial position.

I. Comparative Balance Sheet

Comparative balance sheet helps to find out the increase or decrease in various assets and liabilities between one period to another. Comparative balance sheet is a tool of financial statement analysis in which the items of balance sheet of last two year are compared and the changes between dates are indicated in absolute amount as well as in percentage increased or decreased (*Chaudhary, 1978; 115*). It shows not only the balance of the account different dates but also the extent of their increase or decrease between those data. Thus, it may be defined as the study of the defined of the same items, group of items and computed in two or more balance sheet of the same business enterprises on different dates and the study of defined of proportion computed form those figure on the different dates.

II. Comparative Income Statement

Comparative income statement shows the operating result for a number of accounting periods so that changes in absolute data from one period to another may state in term of money and percentage. It contents the same column as the comparative of increase or decrease (*Myer, 1974; 140*).

Comparative income statement is a tool of financial statement analysis in which the items of income statement of at least two years are compared and changes between dates ate indicated in absolute rupee and in percentage increase or decrease.

2.2.6.2 Ratio Analysis

The relationship between two accounting figures expressed mathematically, is known as a financial ratio (or simply as a ratio). Ratio helps to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance (*Pandey;, 1999; 109*).

Ratio analysis is widely used tools of financial analysis. it is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm as will as it s historical performance and current financial condition can be determined (*Khan & Jain, 1994;117*). Ratio analysis involves method of calculating and interpreting financial ratios to access the firm's formations the basic inputs to ratio analysis are the firm's income statement and balance sheet.

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as the indication quotient of two mathematically expressions and as the relationship between to or more things. In financial analysis, a ratio is used as benchmark for evaluating the financial position and performance of a firm.

2.2.6.2.1 Types of Ratio

From the financial statement i.e. balance sheet and income statement, several ratios can be calculated. For the requirements of the various users of ratios, it may classify than into four important categories.

i) Liquidity Ratio

Liquidity ratio means ratios that measure the firm's ability to meet the short-term obligation and reflects the short term financial strength. In other words, liquidity ratio attempts to reflect the picture of the capacity of an enterprise to meet its short-term obligation out of its short-term resources "liquidity" refers to nearness to cash. The nearer an investment is to cash, the lower is its rate of return. The large size of current assets is associate with liquidity and low profitability and vice versa: inadequate liquidity may lead a corporation to delay payments, sell assets or obtain temporary financing on unfavorable term. (*Pradhan, 1986; 57*)

So, there is a need for proper balancing between investment in current assets and long-term investment/or profitability. The important ratios that measure the liquidity position and most widely accepted are current and quick ratios.

ii) The leverage/Capital Structure Ratio

The leverage or capital structure ratios may be defined as financial ratios which throw light on the long term solvency or a form reflected in its ability to assure the long term creditors with regard to periodic payment o interest during the period of the loan and repayment of principal on maturity or in predetermined installments at due dates. (*Khan & Jain, 1994; 120*) In other words the leverage ratios show how much of a found are financial by debt and equity and examine the prospects for future financing. For example, the highly geared enterprise faces difficulty in obtaining additional debt financing while the low gearness indicates the failure to use cheaper borrowed capital and to raise are subject to higher risks and this would inurn, increase chances of getting higher returns. Conversely, the corporations with low leverage ratios are subject to lower risks and would in return decrease their returns. Thus the question of leverage is a question of achieving a proper balance between expected risks and return. (*Pradhan, 1986, 73*)

iii) Activity ratio

Activity ratios measure how effectively the firm is managing its assets. Sometimes, these ratios are also called efficiency ratios or assets utilization ratios. The efficiency with which the assets are used would be reflected in the speed and rapidly with which assets are converted into sales. Greater the rate of turnover or conversion, the more efficient utilization/management.

Activity ratios, thus involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well. A number of ratios are available for measuring the activity of the most important i.e. inventory turnover, debtor's turnover average collection, total assets turnover.

iv) Profitability Ratio

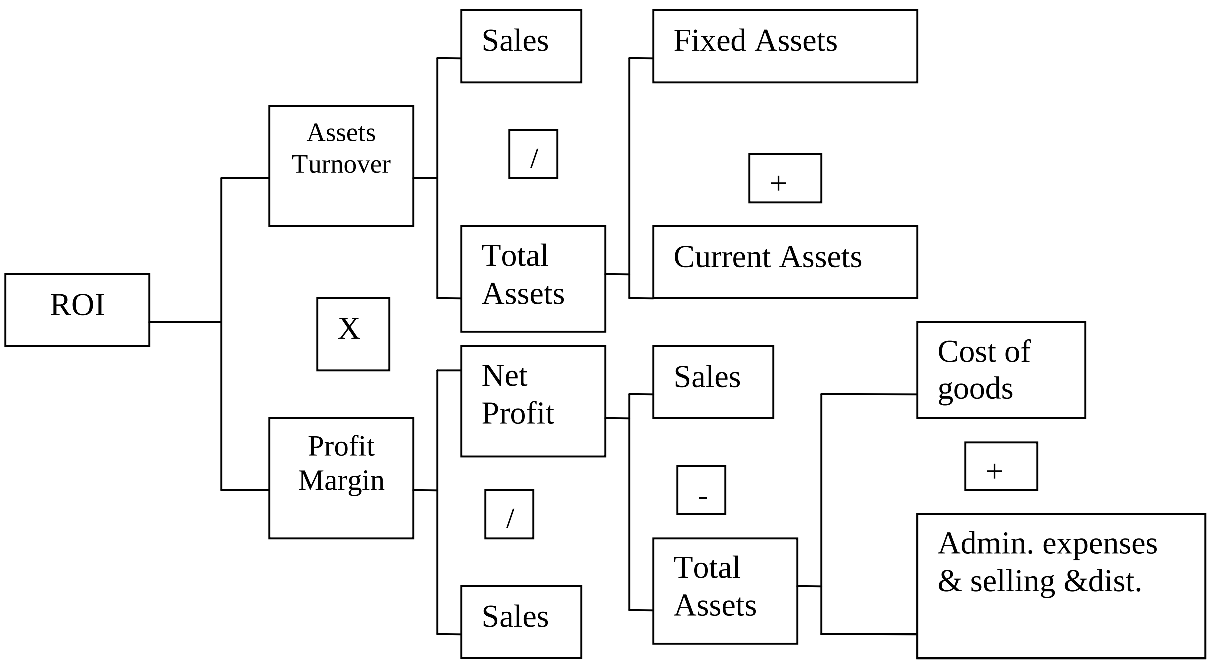
Profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. Profitability also indicates public acceptance of the product and show the money for repaying the debt incurred to finance the project and resources for the internal financing of expansion: in order words, the profitability ratios are designed to provide answer to questions such as (i) is the profit earned by the firm adequate? (ii) What rate of return does it represent? (iii) What is the earning per share? (iv) What is the rate of return to equity holder? (*Pradhan, 1984: 64*). So the profitability ratios provide useful clue to the effectiveness of a firm's operations.

v) Du Pont Analysis

Du Pont analysis reflects the relationships between return on investment (assets), assets turnover, the profit margin and leverage. In Du Pont chart show profit margin on sales, total cost, net income, total assets turnover, fixed cost, current assets etc.

Chart-1

Du-Pont Chart



Source: Pandey, 1999; 149

2.2.6.3 Common size statement

It is an analysis of financial statement in which total items are taken to base of 100. The percentage change in structure of items is compared.

2.3 Review of Previous Studies

The conclusion of preview study on the different aspect of public manufacturing enterprises and different joint venture banks are relevant to my study. The study of previous research work, thesis and review on journals in this regard.

2.3.1 Review of Independent Articles

J.K Pathak and O. Rajbhandari (1974) has made first research work on *Economic and Management Study of Public Enterprise in Nepal* **.**The study covered a period of eight years between 1964/65 and 1971/72. The study was based on financial reports of the enterprises questionnaire and meeting with chief executive.

It has concluded that " Public corporations as source of augmenting internal resources required for speeding the rate of economic growth has not been achieved. Secondly, the assets management in general and current assets management in particular is the weakest point in Nepalese Public Enterprises. It has not received due and serious attention as yet.

i) Financial performance of the enterprises is poor and indicate mismanagement of available various types of resource.

ii) Financial reporting is very poor, this making all the more difficult for their management.

iii) Because of the lack of operational objectives application of long-range planning use of modern management tools, capital budgeting and effort toward cost control has not been made so far.

v) The performance of public enterprise not only depends on its operation but also on the personality or nature or managers. But the nature of the managers of public enterprises in Nepal is mostly poor and further more these managers' deputations of government have not been trained in this area.

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

i) Turnover of public enterprises is sometimes seriously hampered by not allowing public enterprises suffered from turnover due to lower price.

ii) The fixed assets turnover is not much satisfactory as expected be achieved. In aggregate, the fixed assets turnover varies from 18% in the year 1971/72 to 50% in the year 1978/79.

iii) Account receivable turnover of public enterprises is very high, collection period in aggregate records is taken at a period of nine months for all public enterprise.

iv) There seems to be much fluctuation in inventory in turnover as it deviates from the lower of 1.09 to highest of 18.

v) Most of the corporation have experienced lower turnover of working capital.

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

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

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

(2) The major conclusions of this study are as follows.

Liquidity Ratios

i) Generally Manufacturing Corporation had higher liquidity ratios as compared to the non-manufacturing corporation.

ii) Over the period of time liquidity ratio has declined in both Manufacturing and Non-manufacturing Corporation.

iii) Liquidity ratios of the non-sick periods were higher than the ratios of the sick periods of corporations.

Turnover Ratios

i) Generally the manufacturing corporations had a higher turnover in cash and receivables then the non-manufacturing corporation.

ii) On an average the turn over current assets, cash, receivable, inventories, fixed assets and total assets increased in manufacturing corporations over the period of time.

iii) The non-sick corporation has an average higher turnover asset, current assets, net working capital, cash, receivables and inventories then the sick corporations.

Profitability Ratios

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

Leverage Ratios

i) The ratio of debt to total assets and total debt to net worth of Non Manufacturing Corporation were higher than the ratios of manufacturing corporations.

ii) The debt ratio appeared to have been increasing in the manufacturing as well in the non-manufacturing corporations. Expect for the ratio of total debt to net worth in the non-manufacturing corporation.

iii) The average ratio of total debt to total assets of Sick Corporation was higher than the non-manufacturing corporation.

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

i) Sales have more than doubled during the study period expect during the accident period.

ii) Operating profit is always negative and profitability position are found to have been extremely dismal and widely fluctuating over the study period and had been incurring substation losses in most of years because of excessive coast of production.

iii) Liquidity position of the corporation is found fluctuating adopting no particular trend. It is satisfactory from the liquidity point of view but relatively much investment in the less productivity working capital.

iv) DDC is highly leveraged firm. The total assets of DDC have been financed more by debts capital 60% and the ownership capital 40% in an average.

v) The corporation doesn't utilize its' resources effectively i.e. the assets have not been efficiently managed and utilized to generate adequate sales and profits. However the inventory turnover ratio of DDC seems moderate.

vi) Foreign aid and long term loan have been the most significant constituents of the total capital fund and increased over the study period, whole the corporation fund is more or less constant through out the study period.

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

The results suggest that there is a high degree of consensus among the respondents with respect to relative important of financial ratios for the predication of financial distress. Particularly, the results support statistical models that used short-term liquidity as important predictors of sickness.

The research entitled *"The Predictive Power of the Ratios of Nepalese Manufacturing PEs"* was undertaken by **Kalpana Paudel (2005)**, submitted on February 1991. It analyzed six years financial statement from 2039/40 to 2044/45 B.S. Paudyal took four profit making, four loss incurring and two other types (total ten) mfg. public enterprises for the study. The study was based on secondary data with the view to analyze the liquidity turnover, leverage and profitability ratios of manufacturing PEs and to judge their predictive power, to identity the appropriate ratio, to predict the financial health and performance of manufacturing PEs.

Following are the major findings of the study.

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

ii) Turnover ratio of profit making manufacturing PEs was found higher than loss incurring ones. This was confirmed by the result of hypothesis testing suggesting that these ratios die possess predictive power.

iii) Likewise, the debt to net worth ratio, long term debt to total capitalization ratio and total debt to total asses' ratio of the profit making public enterprises were lower than those of the loss incurring ones. However the hypothesis testing confined their predictive power except the debt to net worth ratio.

iv) At the end, the researcher has ranked the following six ratios in order of their strength of predictive power. Total debt to total assets (the lower the better) operating ratio (the lower the better) inventory turnover ratio (higher the better) total assets turnover ratio (the higher the better) and quick ratio (the lower the better).

So the study suggested every manufacturing public enterprise to calculate periodically the above mentioned six ratios of their own and check the figure of these ratios and if they were not justifiable, then try to improve the ratios by improving the financial performance in that regard.

2.3.2 Review of Previous Studies

Deependra Bahadur Singh (1991) conducted a study with the objective of the *Short-Term Financing Pattern of Nepalese Manufacturing Public Enterprises* including profit making and loss incurring ones, ten year period with sample of 13 manufacturing PEs. It was revealed in the study that except Hetauda Cement Factory (HCL), other manufacturing PEs had used long-term funds more on total financing. However, the proportion of short-term financing, though less, is increasing year by year. The major sources of short term financing were account payable and the smaller enterprises were found to have used account payable mare extensively than the larger ones.

Keshar Jung Baral (1994) conducted a study on *"Financial Analysis of Large Scale Manufacturing Industries of Western Region"* The basic objective of this study is to analysis the financial statement of those manufacturing industrial units established in western regions with the help of different financial tools. Financial analysis of Bhirkuti Paper Mills Ltd, Lumbini Sugar Mills Ltd., G.B. Textile Mills (Pvt) Ltd. and Butwal Power Company (Pvt) Ltd. has been done for past five year, (1st Shrawan 2042 through 31st Ashad

2047 have been taken an analyzed). He has pointed same findings, which are given below.

i) The major source of funds of Lumbini Sugar Mills Ltd (LSML) is share capital. LSML has no long term debt financing. It has financed its fixed assets with wquity capital and it has partly financed its current assets with current liabilities and partly with equity capital. The liquidity position the LSML is satisfactory and there is no consistency in the liquidity of LSML over the study period.

ii) G.B. Textile Mills (Pvt) Ltd. (G.B.TM) has defective sales management and its liquidity position is deteriorating because of the excess inventory and hiking of the sundry creditors and loans. Its profitability has been impaired by a number of factors. Among them high operating expenses, heavy debt and high financial cost are the major factors.

iii) It has been suffering form the loss four years and even it has not able to service its debts.

iv) The absolute amount of profit of Bhirkuti Paper Mills Ltd. (BPM) is increasing year by year in study period. It has increased its profit by reducing the operating expenses and increasing sales volume. The paid up capital has the first place in the liability side of balance sheer of BPM in total and fixed assets have the first role in assets of BPM and cash and inventory have the major places in the current assets section of the balance sheet.

v) Fixed assets have taken the place of above 60% of the total assets of LSM and in current assets cash and bank balance have the dominant place. It is up to 86.48% of the total current assets. Thus LSM doesn't have proper cash budgeting. The percentage of equity of above 97% of total liabilities in all years of the study period. It has not used debt financing. It has maintained high liquidity position during the study period.

vi) The major items of assets of BPC are investment and the important items of liabilities are paid up capital and advance received.

vii) The principal items of liabilities of GBTM are sundry creditors and loans. The amount of this item amounts to 80% of the total liabilities. Inventory has been maintained upto 93% of the total current assets. Thus the financial position of GBTM is deteriorating year by year because of the absence of the proper financial planning.

viii) The major sources of funds of BPC is share capital and the major uses of the funds is in investment.

ix) The almost amount of the funds available of GBTM has been used for purchase of fixed assets and operating loss. It doesn't have proper evaluation of capital investment.

A comparative study on *Financial Performance of Hetauda Textile Ltd. and Shree Textile (Pvt) Ltd.* by **Major Lal Pradhan (2004)** in 2041 with the view to make an overall comparison of the financial performance of Hetauda Textile and Shree Textile with help of composite score. The study period covers 5 years from 2036 to 2040. This study concludes:

i) Liquidity position: The liquidity position of Hetauda Textile was better than that of the Shree Textile because the Hetauda Textile had excessive current assets to meet current obligations.

ii) Assets Utilization: The assets utilization of the Shree Textile was better than the Hetauda textile because adequate investment of total assets and adequate sales.

iii) Solvency Ratio: The solvency ration of the Hetauda Textile was better that the Shree Textile because the Hetauda Textile didn't use more debts. But unfortunately the Hetauda Textile was not able to pay small amount of interest or long term loan because of negative profitability except the year 2038.

iv) Profitability: The Shree textile showed a better fiancial performance in comparison to the Hetauda Textile.

2.3.3 Review of Thesis

The thesis entitle *"A Financial Study of Manufacturing PEs in Nepal"* with reference to Janakpur Cigarette Factory Limited (JFCL) was undertaken by **Ujwal Raj Gautam (1998)** submitted to Central Department of Management in September 1998. Study period was seven year 1988/98-1995/96. This study was based on secondary data.

Objectives:

- to examine profitability records

- to assess the strengths and weakness of various aspect of financial and operational structure to evaluate the financial health of JFCL.

Major findings and recommendations:

i) There is no proper planning and control mechanism to production and operation.

ii)The Profitability positions, through not being negative and found to have been fluctuating over the years. This may predict that JFCL could incur losses in the years to come because of excessive cost of production, administrative and selling expenses.

iii)The liquidity position of JCFL found lower and the analysis of capital structure was found relatively low geared and company has not been able to take advantage of trading on equity policy that can maximize profitability to the lower.

iv)The corporation does not seem to have efficiently utilized its resources as indicated by efficiency ratio.

A study conducted by **Keshav R. Joshi (1998)** on *Financial Performance of Commercial Bank.* He focused on financial performance by applying various analytical tools of financial analysis. It covered five years period from the fiscal year 1981/82 to 1986/87.

Objectives:

- to study the activities of commercial bank and to analyze comparative financial performance and position of commercial bank operating in Nepal.

The major findings and Recommendations of this study are given below:

i) The commercial have operating in Nepal maintained a sound liquidity position, as current assets excesses the current liabilities bank met their short-term obligation.

ii)The debt equity ratio was very high. So, it could be said that there existed double about solvency.

iii)The commercial bank Nepal had followed conservative credit policy. They preferred security on loan and advances. The commercial bank had utilized about 2/3 percentages in earning purpose form their total assets. So it very low.

iv)Profitability is the main indicator of financial performance. The profit on total assets of commercial bank was very low. It was due to its use of mare financing by the outsides.

A study performed by **Resham Raj Pathak (2000)** entitled *A Comparative Study on Financial Performance between Nepal Grindlays Bank Limited (NGBL) and Himalayan Bank Ltd. (HBL)*

Objectives

to examine comparative financial position of the two joint venture banks. It covered six year study period. The study is based on secondary data.

Major Findings and Recommendations:

Liquidity Position

Short term solvency position of both banks was found below than normal standard thought the study period. In the fiscal year 1998/99, short-term solvency position seems better in NGBL than HBL. So, NGBL was seen relatively better than HBL although both banks liquidity position is mot satisfactory.

Utilization of Assets

Both the banks have been efficient in utilizing most part of their total assets in profit generating purpose but comparing both banks, NGBL has better performance than HBL for utilizing assets.

Profitability Position

Both banks have been able to generate profits from deposits but the rate of profitability is not satisfied.

Capital Structure Position

Both banks had been able to earn profit on shareholders equity but not satisfactory level. NGBL is more succeed to generate more return on its shareholders funds than HBL.

A Study conducted by **Binod Subedi (2000)** on *Financial Performance Analysis of Magnesric Industry of Nepal*

Objectives:

- to examine the financial position of Nepal Oriend Magnestic Pvt. Ltd.(NOMPL). It covered the study period of 6 year.

Major Findings and Recommendations:

i) The liquidity position of NOMPL is low.

ii) The turnover ratio is very low. It is also in decreasing trend.

iii) The long term financial strength of NOMPL is not sound form creditors point of. It has been depending on borrowed capital.

iv) The net profit ratio of NOMPL is always negative trend. The firm can't be considered to cope with adverse economic condition and negative profit increase interest due.

A study conducted by **Rajendra Sapkota (2004)** about *"Measuring the Effectiveness of Short term Financing. A case Study of 15 Nepalese Manufacturing Companies"* from this study he found that the Government lacks the definite industrial policy and there is no special sales forecasted plan. He also found that there is no special sales forecasted plan. He also found that there is lack of skilled manpower in the manufacturing companies and found that Nepalese Manufacturing Companies followed the mix finance pattern. Under this study, he recommends that the Nepalese manufacturing company should adopt financing policy and should improve the liquidity position so that company can improve the liquidity position. The company could pay its obligation in time and increase its obligation and time and increase its credit worthiness and other various favorable impacts on company management. He has further recommends that the Nepalese Manufacturing Company should ensure effective utilization of bank loan and should speedy the cash collection period to increase the profit of the company.

Mr Raghu Shrestha (2006) has studied about *An Evaluation working Capital Management of Bottlers Nepal Limited (BNL).* He focused his study on appropriateness of investment in current assets to its total assets, liquidity position, and management of working capital needs and utilization of current assets in BNL from the study. He found that the proportion of current assets to total assets was increasing year after year and the proportion of inventories did receivables and cash follow the highest respectively. He also found that the liquidity position of BNL was very high resulting low profitability and concluded that efficiency of working capital management in BNL was poor. For those problems he suggested that paying proper attention to increasing further investment. He also suggested that adopting suitable credit policy and providing discount to accelerate its debt collection period. He recommended setting minimum target rate of return to minimize the gap of achievement.

One of the study of **Mr Sitaram Giri (2008)** on the topics *Profitability in Manufacturing Public Enterprises of Nepal*. She found that the financial performance of manufacturing PEs in Nepal is quite dismal. The Enterprises have not been able to achieve their basic objective of augmenting internal resources required for speeding up the rate of economic raises the question of their basic survival. These enterprises the possible causes of poor profitability, which should help in devising suitable remedial action. Otherwise the relationship between PEs and economic development in the contest of the objectives of creating PEs will turn out to be of no help. The government may also handover these enterprises to the private sector under its privatization policy. In fact, a couple of them have already been disposed off to the private sector.

CHAPTER-III
RESEARCH METHODOLOGY

Introduction

This study attempts to have an insight into a comparative study of Bottler Nepal Balaju and Terai Ltd. It will try to measure the position of two companies in order to disclose its financial condition. A sound and systematic methodology is required to carry out any study, if it is to be worthwhile. This chapter is designed to throw light on the methodology used to undertake this study which aims at analyzing the overall comparative study of Bottlers Nepal Balaju and Terai Ltd. Hence, research methodology is ways to solve systematically about the research problem in order to conduct this study the following process are adopted.

3.1 Research Design

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

3.2 The Population and Sample

In security board, manufacturing and process company was listed in fiscal year 2006/07. Upto the end of this fiscal year out of listed manufacturing and processing companies 21 companies had submitted their financial statement considered a whole (i.e population) and two companies Bottlers Nepal (Balaju) Ltd. (here after BNBL) and Bottlers Nepal (Terai) Ltd.(here after BNTL) have been extracted as a part of whole (i.e sample). Among manufacturing and processing companies, which submitted their financial report to security board in 2006/07, are as follows:

1. Bottlers Nepal (Balaju) Ltd.
2. Bottlers Nepal (Tarai) Ltd.
3. Morang Sugar Mills Ltd.
4. Nepal Lube Oil Ltd.
5. Biratnagar Jute Mills Ltd.
6. Nepal Banaspati Ghee Udyog Ltd.
7. Sri Raghupati Jute Mills Ltd.
8. Butwal Dhago Karkhana Ltd.
9. Gorakhkali Rubber Udhyog Ltd.
10. Jyoti Spinning Mills Ltd.
11. Arun Vanaspati Udyog Ltd.
12. Harisiddhi Brick & Tiles Factory Ltd.
13. Unilever Ltd.
14. Khadhya Udyog Ltd.
15. Birat Shoe Ltd.
16. Himgiri Textile Industries Ltd.
17. Shree Bhirkuti Pulp and Paper Nepal Ltd.
18. Fleur Himalayan Ltd.
19. Sri Ram Sugar Mills Ltd.
20. Nepal Bitumen and Barrel Udhyog Ltd.
21. Himalayan Distellery Ltd.

The Sample

The Bottlers Nepal (Balaju) Ltd and Bottlers Nepal (Terai) Ltd. were selected as sample of this study. The convenience sampling method was used to select these companies. The reliability of data depends on their financial statement. The sample used in this study is purposive in nature. The reason for the selection of two companies is that both companies are same nature. It means that they produce same range of product.

3.3 Types and Sources of Data

The study is mainly based on the secondary data relating to the financial performance. Financial statements of concerned companies are used as the main sources of information. This research is descriptive as well as analytical necessary financial and statistical tools will be applied. However ratio analysis is used as the heart of this research.

3.4 Data Gathering Instrument

The data required for the study is collected mostly form the financial statement published by Bottlers Nepal (Balaju) Ltd and Bottlers Nepal (Terai) Ltd. The study does not use questionnaires because most of the required for the study is available in the financial statement.

3.5 Method of Data Analysis

For the purpose of analysis of available data the following methods are employed.

i. On the basic of available financial statement different table is prepared when required.

ii. For ratio analysis the component of current assets, current liabilities, fixed assets, long term loan, intangible assets and total investment etc are sorted out and used.

iii. For this study some important ratios have been computed so the following financial ratios are used for the study area as follows.

Liquidity Ratio

- Current Ratio
- Quick Raito

Long-term Solvency Ratio

- Total Debt to Net worth
- Net worth to total assets
- Fixed assets to net worth

Utilization Ratio

- Inventory Turnover
- Debtors Turnover
- Total Assets Turnover
- Fixed Assets Turnover
- Current Assets Turnover

Profitability Ratio

- Gross Profit margin
- Net Profit Margin
- Return of equity
- Return of Total Assets
- Earning Per Share
- Dividend Per Share
- Dividend Per Share

iv. The following statistical tools are selected for the comparative financial study of BNBL and BNTL.

- **Arithmetic Mean**

It is a given set of observation is their sum dividend by the number of observation. In general X1, X2, X3…………Xn are the given n observation, and then their arithmetic mean, usually denoted by X is given by:

$$\bar{X} = \frac{x_1 + x_2 + \ldots\ldots\ldots x_n}{n}$$

- **The Coefficient of Variation**

For comparing the variability of two distributions we compute the co-efficient of variation. A distribution with smaller CV is said to be more homogeneous or uniform or less variable than the other and the series with greater CV is said to be more heterogeneous or more variables than other *(Gupta; 1995: 25)*. The co-efficient of variation is a relative measure that is useful in comparing the amount of variation is relative measure that is useful in comparing the amount of variation in data group with different means *(Richard and David; 1997:77).*

Mathematically,

$$CV = \frac{SD}{\bar{X}} X100$$

Where,

$$SD = \frac{\sum x^2}{n} - \frac{\sum x}{n}$$

- **Co-efficient of Correlation**

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

Mathematically,

$$r = \frac{N\sum xy - (\sum x)(\sum y)}{\sqrt{N\sum x^2 - (\sum x)^2 \, [N\sum y^2 - (\sum y)^2\,]}}$$

r = the co-efficient of correlation

$\sum xy$ = the total of product of items is the two series

$\sum x$ = the total of x series

$\sum y$ = the total of y series

$\sum x^2$ = the total of the square of items in x series

$\sum y^2$ = the total of the square of items in y series

N = the number of items period

- **Probable Error**

The probable error of the coefficient of correlations helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E. (r) and old measure of testing the reliability of an observed value of correlation coefficient. In so far as it depends upon thee conditions of random sampling. It is worked out as

$$PEr = .0.6745 \frac{1 - r^2}{\sqrt{n}}$$

- **Trend Analysis**

Trend analysis enables to compare two or more companies over different period of time and draw important conclusion about them. With the help of trend analysis, analyst knows the direction of moment. Trend analysis is very important because it may point to basic changes of the objectives in long-term.

v. Common size statement

It is an analysis of financial statement in which total items are taken to base of 100. The percentage change in structure of items is compared.

vi. Index statement Analysis

It is an analysis of financial statement in which figure in the base year are converted into one hundred and percentage change in structure of items are analyzed.

CHAPTER –IV

PRESENTATION AND ANALYSIS OF DATA

The presentation and analysis of data section is the main text the study to find out answer of research question and get objectives of the study. For the purpose of presentation of data, the published most recent financial statements of the listed companies of the study are analyzed. The collected and tabulated data have been analyzed using different financial and statistical tools. This chapter includes presentation, analysis and integration of collected data with organizing sequentially as per the objectives of the study.

4.1 Analysis of Cash and Bank Balance

Holding of optimum cash balance is the rational cash management practice of a business form. Total cash balance refers to the cash in hand, cash at bank and cash in transit. The following table presents the level of cash, in sampled manufacturing companies, and the average, during the study period.

Table No. 4.1

Level of Cash and Bank Balance of Selected Manufacturing Companies

Year	Cash Balance (BNL)	Cash Balance (BNTL)
2002/03	46015	62335
2003/04	22,165	317404
2004/05	25,190	319532
2005/06	14856	443311
2006/07	21474	242672

Source: Appendix II

The average cash balance held by BNL is 25940 and BNTL is 277051. The cash balance of two companies varied widely in all year of study period. Here BNTL hold more cash balance than that of BNL. Cash holding of BNL is highest in the fiscal year 2002/03 i.e.

46015 and lowest in the fiscal year 2005/06 i.e. 14856. BNL cash balance has been observed in a wide variation in different period of study poses high fluctuation on cash holding pattern.

Cash holding pattern of BNTL ranges highest of 443331 in the fiscal year 2005/06 and lowest 62335 in the fiscal year 2002/03. Cash balance of BNTL also has been observed in a wide variation and poses high fluctuation on cash holding pattern.

4.1.1 Analysis of changes in Cash Balance

Table 4.2

Analysis of Change in Cash Balance

Year	BNL		BNTL	
2002/03	46015	-	62335	-
2003/04	22165	-0.5183	317404	4.091907
2004/05	25190	0.1365	319532	0.006704
2005/06	14856	-0.4102	443311	0.387376
2006/07	21474	0.4455	242672	-0.45259

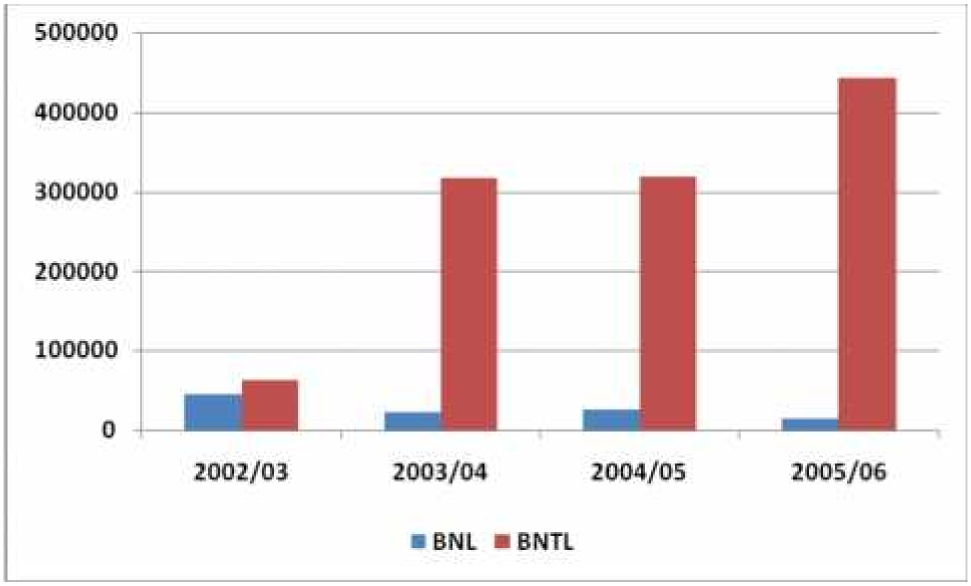
Source: Appendix II

Above table shows the fluctuating trend in study period for both BNTL and BNL. While for Maximum increase in holding cash for BNTL is 409.19% and for BNL is 44.55% and a decrease in holding for BNTL is -45.26% and for BNL is -51.83%.

4.1.2 Graphical Presentation of Cash Balance

Figure 4.1

Cash and Bank balance of BNTL and BNL



The strong position of cash balance of BNTL has been observed in year 2005/06 and weak position has been observed in year 2002/03. Similarly, BNL has the strongest position of cash balance has been observed in year 2002/03 and weak position in year 2006/07. Moreover the manufacturing companies have not planned cash inflow and outflow forecasts. It is very importance for the companies to keep careful watch over the careful watch over the cash management.

4.2 Cash and Sales

4.2.1 Analysis of cash turnover ratio

The cash balance of the company should be optimum to meet its current obligation in course of daily business transaction. The cash turnover ratio explains how quickly cash is received from the sales; in other words it measures the speed with which cash move through an enterprise's (company's) operation. Higher ratio represents sound liquidity and vice-versa. However, too high ratio indicates excess cash balance being held idle.

Table 4.3

Cash Turnover Ratio of selected Manufacturing Companies

Year	Cash turnover ratio (BNL)	Cash turnover ratio (BNTL)
2002/03	10.02912	19.82918
2003/04	2099883	3.921586
2004/05	16.84458	4.772295
2005/06	27.014	3.342033
2006/07	16.48948	6.056261

Erratic fluctuations have been observed in cash turnover ratio of manufacturing companies. Fluctuation of cash turnover ratio is the indication of no definite policy on holding cash balance in relation to sales volume, is applied by selected manufacturing companies of Nepal. Average cash turnover ratio of BNL and BNTL are 18.27 and 7.58 respectively.

Cash turnover ratio of BNL varies highest 21 in the fiscal year 2003/04 to lowest 10.03 in the fiscal year 2002/03. Similarly cash turnover ratio of BNTL varies highest 19.83 in the fiscal year 2002/03 to lowest 3.35 in the fiscal year 2005/06.

From the above we can conclude that cash turnover ratio varied widely across the companies in all the year of study period. As a fact the higher turnover ratio of cash indicates the sound liquidity position of the company and vice versa, but too much ratio indicates the excess cash balance being held idle. The fluctuating of this ratio interprets that the cash management practices of the companies has not done by any definite policy and any planned approach.

4.2.2 Analysis of the relation between Cash (y) and Sales (x)

	Coefficient of Correlation (r)	Relationship	Coefficient of Determination(r^2)	P.E	Remarks
BNTL	0.581823	Positive	0.338518	0.199533	Insignificant
BNL	0.53154	Positive	0.282535	0.21642	Insignificant

To analyze the relationship between cash (y) and sales (x), Karl Pearson's correlation coefficient has been observed to be 0.5315 of BNL and 0.5818 of BNTL. Which, it indicates the positive relationship between cash and sales of BNTL and BNL. To make confirm, whether it is real or not selected companies, it is compared with probable error and r<6PE of BNL indicates that the correlation coefficient is not practically certain i.e. the value of r is not significant, it is said that it is not sure that of increment of one may not increase in other. Similarly, correlation coefficient of BNTL (r) less than 6PE indicates that the correlation coefficient between cash and sales is not practically certain. That is the value of r is not significant.

4.3 Analysis of cash to total assets ratio

Investment in money assets differs not only from the industry to another but it also varies from one company to another within the same company thus making cash management task is more difficult.

Table 4.4
Cash to Total Assets Ratio

Year	Cash to Total Assets Ratio (BNL)	Cash to Total Assets Ratio (BNTL)
2002/03	0.06689	0.109104
2003/04	0.033191	0.404604
2004/05	0.046216	0.340029
2005/06	0.024	0.403393
2006/07	0.051278	0.250915

Above table shows the cash to total assets ratio of selected manufacturing over the study period.

The average investment in cash by BNL and BNTL has been observed to be 0.044 and 0.3016 respectively. According to above table same individual company's cash to total assets ratio has been observed in widely fluctuation trend in different study period. The ratio was highest for BNL i.e. 0.067 in the fiscal year 2006/07 and lowest 0.024 in the fiscal year 2005/06. Similarly ratio of BNTL was highest of 0.4046 in the fiscal year 2003/04 and lowest of 10.911% in the fiscal year 2002/03.

The strong variation in cash to total assets ratio explains that the company has not been adopted specific policy for investment of cash in total assets.

4.3.1 Analysis of the relation between Cash (x) and Total Assets (y)

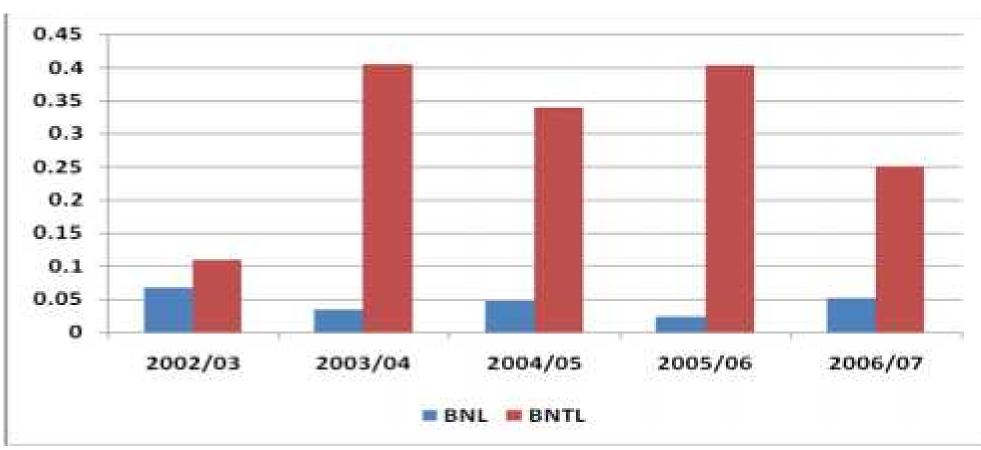
	Coefficient of Correlation (r)	Relationship	Coefficient of Determination(r^2)	P.E	Remarks
BNTL	0.869812	Positive	0.756573	0.073429	Insignificant
BNL	0.415124	Positive	0.172328	0.249664	Insignificant

Source: Appendix IV

To analyze the relationship between cash (y) and sales (x), Karl Pearson's correlation coefficient has been observed to be 0.4151 of BNL and 0.8698 of BNTL. Generally, it indicates the positive relationship between cash and sales of BNTL and BNL. To make confirm, whether it is real or not selected companies, it is compared with probable error and r<6PE of BNL indicates that the correlation coefficient is not practically certain i.e. the value of r is not significant, it is said that it is not sure that of increment of one may not increase in other. Similarly, correlation coefficient of BNTL r>6PE, indicates that the correlation coefficient between cash and sales is not practically certain. That is the value of r is significant.

4.3.2 Graphical presentation of cash to total assets ratio

Figure 4.2



4.4 Cash and bank balance and current assets

4.4.1 Analysis of cash and bank balance to current assets ratio

Cash is the liquid current asset and as such more the amount of cash balance in a company , more liquid the company , liquid the company in meeting the current obligation . However bearing excess cash signifies cash balance being held idle without any motive.

Table 4.5

Cash to Current Assets Ratio of Selected Manufacturing Companies

Year	Cash to Current Assets Ratio (BNL)	Cash to Current Assets Ratio (BNTL)
2002/03	0.081952	0.156175
2003/04	0.042735	0.538079
2004/05	0.057812	0.441194
2005/06	0.049738	0.497312
2006/07	0.095375	0.318632

Above table shows the cash to current assets of selected manufacturing companies over the study period. The average cash to current assets ratio has been observed in selected manufacturing companies in study period are 0.0655 percent and 0.3903 of BNL and BNTL respectively.

The ratio varied widely over the study period. Ratio of BNL varies highest of 0.0954 percent in the fiscal year 2006/07 and lowest 0.042 in the fiscal year 2003/04. Similarly ratio of BNTL varies highest of 0.538 in the fiscal year 2003/04 to lowest 0.1562 in the fiscal year 2002/03.

The erratic fluctuation suggest that the companies haven't been following the definite policy regarding how much cash balance to hold at the end of fiscal year. However, BNTL seems to more competent than of BNL on making payment of shorts term obligation, being the ratios greater.

4.4.2 Relationship between Cash and Current Assets

	Coefficient of Correlation (r)	Relationship	Coefficient of determination(r^2)	P.E	Remarks
BNTL	0.867518	Positive	0.752587	0.074631	Insignificant
BNL	0.689102	Positive	0.474862	0.158406	Insignificant

The correlation coefficient between cash and current assets 'CA' has been obtained to be 0.6891 and 0.868 of BNL and BNTL respectively. It shows the positive relation between cash and current assets in BNTL and negative relationship in BNL.

There is not significant relationship of cash and current assets of BNL, in other word there is no evidence that cash and CA are correlated. i.e. r < 6PE, explain that it is not sure that increase in cash result to increase in current assets and vice- versa. But in case of BNTL there is significant relationship between cash and current assets, that is cash and current are correlated. Here r>6PE, explain that it is sure that increase in cash result to increase in current assets and vice- versa.

4.5 Cash and Current Liabilities

Among the technique of measuring corporate liquidity the ratio of cash to current liabilities indicates the amount of cash (in percentage) available to pay the current obligation of t he firm. In general a low percentage of cash to current liabilities may be regarded and it may lead to corporate insolvency.

4.5.1 Analysis of Cash to Current Liabilities Ratio

This ratio indicates the amount of cash available to pay the current obligation of the firm.

Table 4.6

Cash to Current Liabilities Ratio

Year	Cash to Current Liabilities Ratio (BNL)	Cash to Current Liabilities Ratio (BNTL)
2002/03	0.150532	0.279266
2003/04	0.081396	0.744292
2004/05	0.10461	0.587693
2005/06	0.062859	0.502607
2006/07	0.137664	0.326949

Above table shows the cash to current liabilities ratio of selected manufacturing companies over the study period. The average cash to current liabilities ratio of selected manufacturing companies have been observed 0.1074 and 0.4882 of BNL and BNTL respectively. The ratio of cash to current liabilities varied widely over the study period that ratio of BNL varies highest of 0.1304 in the fiscal year 2006/07 to lowest 0.062 in the fiscal year 2005/06. Similarly ratio of BNTL varies with highest of 0.7443 to lowest 0.2793 in the fiscal year 2002/03. Standard deviation and coefficient of variance shows ratio of BNL is less fluctuating in comparison to BNTL. The ratio was seen in highly fluctuating trend during the study period. It can be said that manufacturing companies has faced the problem of inefficient cash management practice.

4.5.2 Relationship between Cash and Current Liabilities

	Coefficient of Correlation (r)	Relationship	Coefficient of determination(r^2)	P.E	Remarks
BNTL	0.782721	Positive	0.612652	0.116842	Insignificant
BNL	0.611174	Positive	0.373534	0.188971	Insignificant

Source: Appendix VI

The correlation coefficient between cash and CL of BNL and BNTL are 0.6112 and 0.7827 respectively. Here, positive relationship between cash (X) and CL (Y) of both companies. But it is not significant result for BNL because the result was seen to be r<6PE. BNTL it is significant i.e. r>6PE, increase of one cause increase for other. It is the evidence the adequate (consistent) proportion of cash with CL has not been maintained by the BNTL.

4.6 Cash and Quick Assets

4.6.1 Analysis of Cash and Quick Assets

Table 4.7

Cash to Quick assets ratio

Year	Cash to Quick Assets Ratio (BNL)	Cash to Quick Assets Ratio (BNTL)
2002/03	0.119908	0.244749
2003/04	0.057682	0.684388
2004/05	0.114717	0.591694
2005/06	0.082804	0.670007
2006/07	0.183957	0.499903

Above table shows cash to quick assets ratio of selected manufacturing companies over the study period. The average cash to quick assets ratio of selected manufacturing companies BNL and BNTL are 0.1118 and 0.5381 respectively. The ratio of cash to quick assets varied widely over the study period that ratio of BNL varies highest of 0.1839 percent in the fiscal year 2006/07 to lowest 0.0577 in the fiscal year 2003/04. Similarly ratio of BNTL varies with highest of 0.6843 to lowest 0.2448 in the fiscal year 2002/03. Standard deviation and coefficient of variance shows ratio of BNTL is less fluctuating in comparison to BNL.

4.6.2 Relationship between Cash and Quick Assets

	Coefficient of Correlation (r)	Relationship	Coefficient of determination(r^2)	P.E	Remarks
BNTL	0.968768	Positive	0.938512	0.018548	Insignificant
BNL	0.620372	Positive	0.384862	0.185554	Insignificant

Source: Appendix VII

The correlation coefficient between cash (X) and QA (Y) of BNL and BNTL are 0.6204 and 0.9688 respectively. There is positive relationship between cash and quick assets of both companies. But it is not significant result for BNL because the result was seen to be r<6PE. So, it is explained increase of one cause may not be increase for other. But, in case of r>6PE. It is the proof that it has significant relationship between cash and quick asset; it shows positive relationship between cash and QA.

4.7 Relationship between cash and net profit

	Coefficient of Correlation (r)	**Relationship**	**Coefficient of determination(r^2)**	**P.E**	**Remarks**
BNTL	0.553313	Positive	0.306155	0.209295	Insignificant
BNL	0.505357	Positive	0.255386	0.22461	Insignificant

Source: Appendix VIII

The correlation coefficient between cash (X) and net profit (Y) of BNL and BNTL are 0.5053 and 0.5533 respectively. There is positive relationship between cash and quick assets of both companies.

But it is not significant result for both companies because the result were seen to be r<6PE. So, it is explained increase in cash may not be increase net profit of both companies and vice- versa.

4.8 Analysis of Liquidity Position

Liquidity of a firm indicates the position to meet its current / short term obligation when it becomes due for payment. Thus, in cash management, the study of liquidity posits and therefore such firms get their short term requirements readily. however , too much liquidity or in other words , holding more than enough cash balance to meet its current payment is also an indication of mismanagement of cash because such cash balances remained after meeting payments would remain idle.

So an optimum liquidity is the necessity of the firm. The liquidity ratios measure the ability of the companies to meet their short term obligations and reflect the short term financial strength of a firm.

4.9. CA and CL

4.9.1. Analysis of Current Ratio

One of the reliable methods to examine liquidity position of the companies is by means of current ratio. It is calculated by dividing current assets with current liabilities.

The standard current ratio is to be measured by 2:1 however , the depending upon the nature of the companies, the development of capital market and availability of long term funds to finance current assets, the satisfactory ratio varies.

Table 4.8

Current Ratio of BNL and BNTL

Year	Current Ratio (BNL)	Current Ratio (BNTL)
2002/03	1.836834	1.788164
2003/04	1.904671	1.38324
2004/05	1.809464	1.332051
2005/06	1.263794	1.010647
2006/07	1.443374	1.026102

Above table shows the current ratio of selected manufacturing companies over the study period. The average current ratio during the study period has been studied 1.65 and 1.30 times respectively of BNL and BNTL.

There is no wide varies on the current ratio. However both companies are unable to meet the standard ratio of 2:1 current ratio. But, BNL perform best than that of BNTL in terms of current ratio.

4.9.2 Relationship between CA & CL

	Coefficient of Correlation (r)	Relationship	Coefficient of determination(r^2)	P.E	Remarks
BNTL	0.974614	Positive	0.949872	0.015121	Insignificant
BNL	0.92334	Positive	0.852556	0.044476	Insignificant

Source: Appendix IX

The correlation coefficient between CA (X) and CL (Y) of BNL and BNTL are 0.9233 and 0.9746 respectively. There is high degree positive relationship between current assets and current liabilities for both companies. And there is significant result for both companies because the result were seen to be r>6PE. There is significant relationship between current assets and current liabilities of both companies.

4.9.3 QA and CL

4.9.3.1 Analysis of Quick ratio

The quick ratio is more reliable measure of liquidity than current ratio. The preferable ratio is 1:1.

Table 4.9

Quick ratio of BNL and BNTL

Year	Quick Ratio (BNL)	Quick Ratio (BNTL)
2002/03	1.255392	1.141029
2003/04	1.411112	1.087529
2004/05	0.911894	0.993237
2005/06	0.759122	0.750152
2006/07	0.748352	0.654025

Above table shows the quick ratio of selected companies over the study period. The average quick ratio of the companies during the study period has been observed 1.017 and 0.9251 times. Here both companies were showing strong liquidity position i.e. BNL has higher the standard ratio of 1:1 and BNTL is slightly below the standard ratio.

4.9.4 Relationship between QA and CL

	Coefficient of Correlation (r)	**Relationship**	**Coefficient of determination(r^2)**	**P.E**	**Remarks**
BNTL	0.89023	Positive	0.792509	0.062589	Insignificant
BNL	0.90207	Positive	0.81373	0.056188	Insignificant

Source: Appendix X

The correlation coefficient between quick assets and current liabilities of BNL and BNTL are 0.9021and 0.8902 respectively. Here, positive relationship between cash (X) and CL (Y) of both companies. But it is significant result for both companies because the result was seen to be r>6PE. So, it is explained increase of one cause increase for other. It is the evidence the adequate (consistent) proportion of quick assets with current liabilities has been maintained.

4.10 Analysis of Account Receivable

The company sells goods in credit and cash basis when the company extends credited. Debtor/ account receivable are to be converted into ash over a short period and therefore are included in current assets. The liquidity position of the company depends upon the quality of debtors to great extents the investment of account receivable means the decrease the cash position of the company and vice versa.

Table 4.10

Account receivable analysis of selected manufacturing companies

Change in receivable				
Year	**BNL**		**BNTL**	
2002/03	126575		32163	
2003/04	141228	11.57654	64775	10.396
2004/05	98725	-30.0953	97063	49.84639
2005/06	57246	-42.0147	157721	62.49343
2006/07	16413	-71.329	138319	-12.3015
	Average	-32.9656	Average	50.35859

Above table shows the account receivable of selected companies over the study period. Average receivable of BNL is 88037 and it ranges highest of 141228 in the fiscal year 2003/04 and lowest in the fiscal year 2005/06 i.e. 16413 . The overall trend of account receivable of BNL doesn't show any clear direction. Average yearly change percentage is -32.97 % highest percentage change is in the fiscal year 2006/07with -71.32% decrease and lowest in the fiscal year 2003/04 with 11.57% increase.

Average receivable of BNTL is 98008 and it ranges highest of 157721 in the fiscal year 2005/06 and lowest in the fiscal year 2002/03 i.e. 32163. The overall trend of account receivable of BNL shows increasing trend. Average yearly change percentage is 50.36 % highest percentage change is in the fiscal year 2005/06 with 62.49% and lowest in the fiscal year 2006/07 with -12.30%.

Higher receivable explains the inadequate capacity for credit collection. It means the position of cash collection has been decreased. Similarly, the lower the position of AR shows the positive situation for credit collection. So that the policy of the company about to receivable have not been seen in the consistent level.

The increasing trend of AR interprets the companies were not able to collect account receivable so there would be the possibility of increasing bad debt. In other word the quality of the debtor's might be weekend, however the company's the company's receivable might be increased due to increment of net sales. The analysis suggests the company to develop proper credit policy for timely collection of receivable.

4.10.1 Analysis of Receivable Collection Period

Receivable collection period is the length of time m required to convert the firm's receivable in to cash, that is to collect cash following a sales. Receivable collection period is determined by the help of receivable turnover ratio. It is the indication of efficiency of trade credit. Higher the turnover ratio shorter the collection period.

The better is the trade credit management and the better is the liquidity of the debtors, on short collection period and high turnover ratio imply prompt payment by debtors. In general, therefore, short collection period is preferable.

Table 4.11

Analysis of Receivable Collection Period

Year	Average Receivable Collection Period (BNL)	Average Receivable Collection Period (BNTL)
2002/03	126575	32163
2003/04	141228	64775
2004/05	98725	97063
2005/06	57246	157721
2006/07	16413	138319

Above table shows the receivable collection period of selected companies over the study period. Average RCP in BNL has been observed to be 72 days. In the fiscal year 2002/03 RCP is 99 days, 109 days in 2003/04, 84 days in 2004/05, 52 days in 2005/06, and 16 days in 2006/07. Average RCP in BNTL has been observed to be 25 days. In the fiscal year 2002/03 RCP is 10 days, Similarly 18 days, 22 days, 38 days and 33 days respectively from fiscal year 2002/03 to 2006/07.

Above table shows that there was a wide variation on RCP for individual companies over the study period. The delay in collection of receivable would mean that, a part of interest cost involved in maintaining a higher level of debtors, and the liquidity position of the firm would be adversely affected. Similarly too short of RCP is not necessary good. While it is true that it avoids the risk of receivable being bad debts as well as burden of high interest on outstanding debtors, it many have an adverse effect on volume of sales of the firm .

4.11 Analysis of Inventory

A company requires an optimum level of inventory for efficient management. The incremental trend must be analyzed of r efficiently of cash management. The incremental trend of inventory would be the direct impact for lowering the cash in for company and increases. So that level of inventory and its trend must be analyzed for efficiency of cash management.

Table 4.12

Analysis of inventory of BNL and BNTL

Change in Inventory				
Year	**BNL**		**BNTL**	
2002/03	177,737		144,447	
2003/04	134,401	-24.3821	126,107	-12.6967
2004/05	124,581	-7.30649	184216	46.07912
2005/06	119,274	-4.25988	229765	24.72587
2006/07	108415	-9.10425	256168	11.49131
	Average	-11.2632	Average	17.3999

Above table shows the inventory level and its yearly of selected companies over the study period. The average inventory of BNL is 132882 and BNTL 188141. The standard deviation are 26772.17 and 55075 and its covariance coefficient are 0.2015 and 0.2927 indicates that the company unable to adopt specific policy toward inventory management. In other word, there was no uniformity of inventory in each period of study.

Average yearly inventory level change percentage of BNL is -11.26%, BNTL has yearly percentage change at inventory level is 17.39%.

4.11.1 Analysis of inventory conversion period

Inventory conversion period is the length of time required to convert raw material into finished goods and then to sell these goods. The period indicates the efficiency of the firm in selling its product. ICP is calculated by dividing number of year with inventory turnover ratio. Where inventory is turning into receivable and cash through sales.

Table 4.13

Analysis of inventory conversion period

Year	Inventory Conversion Period (BNL)	Inventory Conversion Period (BNTL)
2002/03	269.8505	55.45381
2003/04	202.7929	53.84445
2004/05	199.6944	68.43168
2005/06	223.6865	88.19984
2006/07	207.9173	98.08227

The above table shows the ICP of selected companies over the study period. There ICP was widely varied in the inventory conversion period of selected companies.

Average ICP of BNL is 221 days and BNTL is 73 days. ICP of BNL ranges highest in fiscal year 2002/03 i.e. 270 days and lowest in fiscal year 2004/05 200 days. ICP of BNTL ranges highest in fiscal year 2006/07 i.e. 98 days and lowest in the fiscal year 2003/04 i.e. 54 days. The trend of ICP was fluctuating over the study period.

The research identified that BNL suffering from mismanagement of inventory system in other word there would be occurrence of over investment in inventory in period of study. There would be occurrence of either management inventory system or over investment inventories in fact selected companies are running without adopting a policy of effective inventory management system.

4.12 Analysis of Payable

PDP is the length of time for payment of labor and purchases in each period of year lengthening the PDP, cash conversion cycle (CCC) is shortened: PDP is the indicator the speed of making payment of account payable. A high PDP is favorable for the company but too much long period hampers the credit worthiness of the company.

Table 4.14

Analysis of Payable Deferred Period

Change in Inventory				
Year	**BNL**		**BNTL**	
2002/03	162,296		96,594	
2003/04	117,387	-27.671	247,008	155.7177
2004/05	157,452	34.1307	335,716	35.91301
2005/06	150,817	-4.21398	370,237	10.2828
2006/07	109,043	-27.6985	353,309	-4.57221
	Average	-6.3632	Average	49.33534

Above table shows the account payable and its yearly variation of selected companies over the study period. The average payable of BNL is 139339 and BNTL 280537. The standard deviation are 24426.26 and 113298.05 and its covariance coefficient are 0.1752 and 0.4038 indicates that the company unable to adopt specific policy toward payable management. In other word, there was no uniformity of payable in each period of study. Average yearly payable level change percentage of BNL is -6.36%, BNTL has yearly percentage change at inventory level is 49.33%.

4.12.1 Analysis of Payable Deferred Period

Table 4.15

Analysis of payable deferred period

Year	**Payable Deferral Period (BNL)**	**Payable Deferral Period (BNTL)**
2002/03	246.407	37.08284
2003/04	177.1211	105.4661
2004/05	152.3842	124.7102
2005/06	282.8423	142.1228
2006/07	209.1217	135.2759

The above table shows the PDP of selected companies over the study period. There PDP was widely varied in the inventory conversion period of selected companies. Average PDP of BNL is 234 days and BNTL is 109 days. PDP of BNL ranges highest in fiscal year 2005/06 i.e. 210 days and lowest in fiscal year 2003/04 178 days. PDP of BNTL ranges highest in fiscal year 2006/07 i.e. 136 days and lowest in the fiscal year 2001/03 i.e. 38 days. The trend of PDP was fluctuating over the study period.

4.13 Cash Conversion Cycle

The cc is the length of time between when the company makes payment and when it receive cash the CCC net its three periods i.e. ICP, RCP and PDP, thus equal the length of time between the firm's actual expenditures for productive resources and its own cash receipts from the sale of products.

Once the purchase of raw material is made the inventory conversion period determines the average number of days, it tales to produce and sell the product. The average collection period determines the average numbers of days it take to produce and sells the product. The average collection period determent the average number of days which makes the receivables is collected.

Payable of cash is made for labor and suppliers. Hence, CCC is determined by differentiating the operating cycle and payable deferral period. Operating cycle is calculated by totaling the ICP and RCP. The CCC should be shortened as much as possible without hurting the operation.

This would improve profit because shorter the CCC, the smaller the need for external financing and thus the lower the cost of such financing. So that it plays the effective role on cash management system.

The cash conversion cycle is calculated by reducing payable deferral period with the sum of inventory conversion period and receivable collection period.

Table 4.16

Analysis of Cash Conversion Cycle

Year	Cash conversion Cycle (BNL)	Cash Conversion Cycle (BNTL)
2002/03	122.1823	39.2232
2003/04	134.9065	-21.4026
2004/05	31.07104	-21.879
2005/06	-7.80382	-4.11402
2006/07	15.48234	8.172467

The above table shows that Cash Conversion Cycle of the selected manufacturing companies during the study period. Average Cash Conversion Cycle of BNL is 59 days and BNTL is -11 days. Here Cash Conversion Cycle of BNTL is negative, which indicates sum receivable collection period and inventory conversion period is less than payable deferral period. BNTL delays for the payment to the creditors which may harm the goodwill of the company. BNL has satisfactory liquidity position.

4.14 Profitability Analysis

4.14.1 Analysis of Net profit

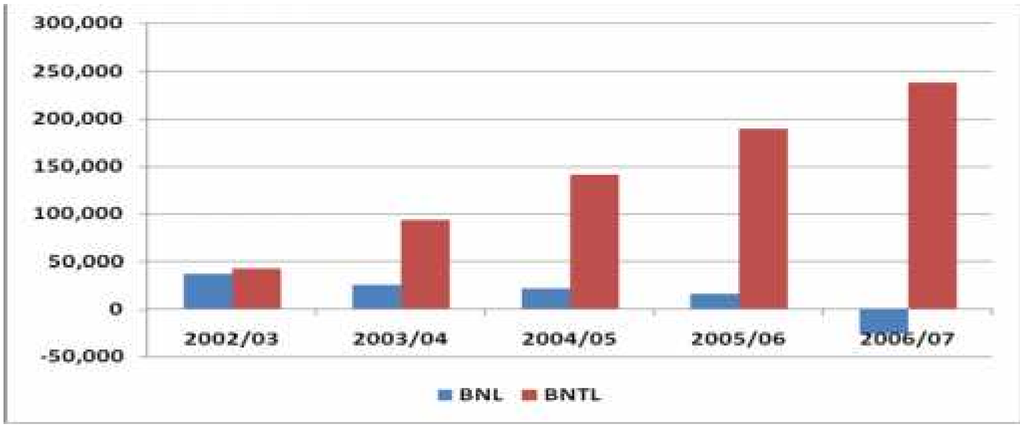
Table 4.17

Net Profit of BNL and BNTL

Year	Net Profit (BNL)	Net Profit (BNTL)
2002/03	37,141	42606
2003/04	25,359	93167
2004/05	21,565	140783
2005/06	15,625	189199
2006/07	-26,015	238157

Figure 4.3

Net Profit of BNL and BNTL



The above table and figure shows the net profit margin of BNL and BNTL over the study period. Both manufacturing companies were running with profitable condition. Average profit of BNL and BNTL are 14735 and 140782. Net profit of BNTL is in increasing trend, while net profit of BNL is fluctuating over the study period. Net profit of BNL ranges highest of 26015 in the fiscal year 2006/07 and lowest in the fiscal year 15625 in the fiscal year 2005/06.

4.14.2 Analysis Net Profit Margin

Net profit margin is also known as net margin. It measures the relationship between net profit and sales of a firm.

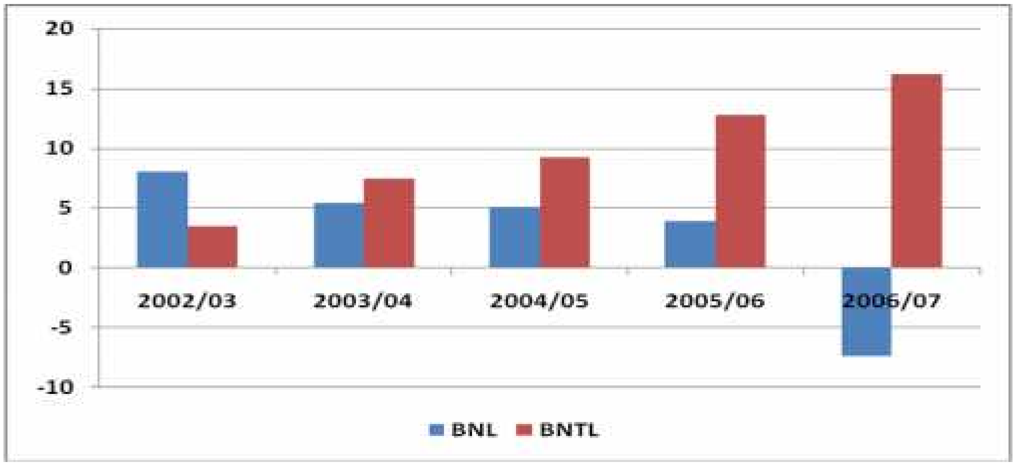
Table 4.18

Net Profit margin of BNL and BNTL

Year	Net Profit Margin (BNL)	Net Profit Margin (BNTL)
2002/03	8.05	3.446942
2003/04	5.45	7.484934
2004/05	5.08	9.232271
2005/06	3.89	12.77026
2006/07	-7.35	16.20463

Figure 4.4

Net Profit Margin of BNL and BNTL



Above table and figure shows the net profit margin of BNL and BNTL over the study period. Average of net profit margin of BNL and BNTL are 36% and 10% respectively. BNTL is more competent than BNL in terms of net profit margin. Net profit margin of both companies widely varies during the study period. Net profit margin of BNL varies highest of 8.05% in the fiscal year 2002/03 to lowest of -7.35% in the fiscal year 2006/07. Similarly, Net profit margin of BNTL varies highest of 16.20% in the fiscal year 2006/07 and lowest of 3.45% in the fiscal year 2002/03. Net profit margin of BNTL shows the increasing trend, which indicates the increasing performance of the company.

4.15 Liquidity and Profitability

Now bearing in mind conflicting nature of profitability and liquidity, correlation between the two has been analyzed subsequently. In a firm profitability and liquidity contradicts, and the firm should seek for trade off between the two. Conflicting nature of two could be justified by following example – if a firm holds large current assets so as to become more liquid, the consequence is that the profitability is adversely affected. Since the firm could have invested a large portion of a current assets, in warning profit. Conversely, if a firm doesn't keep enough current assets, and invest its large portion in earning pros the consequence is that the firm fails to meet to its current obligation i.e. Become illiquid and invite the risk of bankruptcy. The conflicting natures of these two is that when liquidity is being maintained, profitability trend to fall down, and vice versa

4.15.1 Relationship between Liquidity and Profitability

	Coefficient of Correlation (r)	Relationship	Coefficient of determination(r^2)	P.E	Remarks
BNTL	-0.95151	Negative	0.90537	0.028545	Insignificant
BNL	0.546975	Positive	0.299182	0.211399	Insignificant

The correlation between current ratio and net profit margin of BNL and BNTL are 0.55 and -0.951 respectively. BNL correlation coefficient shows the positive relationship between CR x and NPM y r < 6PE indicates that there is no evidence of correlation between CR and NPM.

4.16 Cash flow statement

One of the important tool with the finance manager for ascertaining the changes in balance of cash in hand and bank, since one date to next date after a gap, usually the accounting year is the "cash flow statement." Cash flow statement analyses the reasons for change in balance of cash in hand and at bank between two accounting period. It shows the inflow and outflow of cash i.e. sources and application of cash during particular period. Basically, CFS is based on cash concept of profit and is prepared to explain the cash movements between two profits of time.

Cash flow analysis is done through statement of cash flow. A cash flow statement is a statement of company's ability to generate cash from various activities such as operating, investing and financing and their need of cash. It is a statement which shows the inflow and outflows of cash and cash equivalents during the year. A cash flow statement is defined as "a statement of company's abilities to generate cash from various activities and their need of cash."

4.17 Major findings of the study

a. Selected manufacturing companies don't have any definite policy regarding how much cash balance to hold in each period. Cash and bank balance to hold each period. Cash and balance held during different period of study were observed to be highly fluctuated and thus the fact indicates the firm to be lacking definite policy regarding how much of cash balance to hold each period. The average cash balance held by BNL is 25940 and BNTL is 277051.

b. Cash turnover ratio: as a fact the higher cash turnover ratio of cash indicates the sound liquidity position of company and vice versa. Average cash turnover ratio of BNL and BNTL are 18.27 and 7.58 respectively. However, the cash turnover ratio was found to be highly fluctuated. Correlation coefficient has been observed to 0.5315 of BNL and 0.5818 of BNTL. It indicates the positive relationship between cash and sales of BNTL and negative relationship of BNL. The company has not planned to hold cash specific proportion of sales volume in any year of study.

c. BNL has failed to maintain adequate proportion of cash on its current assets. While BNTL has maintained high cash to current assts. Relationship between cash to current assets of BNL is low positive and BNTL have high degree positive relationship. Level of significant of BNL in terms of cash to current assets is not significant where as BNTL has significant.

d. Both companies have not been precisely meeting their current liabilities payment. The proportion and cash to current liabilities, of BNL and BNTL are 0.1074 and 0.4882. Cash and bank balance held compared to current liabilities indicates that for some year that for some year it was high where as for some other year was very low. This shows mis management of cash. However BNTL (0.4882) has shown sound liquidity position.

e. BNL is unable to maintain adequate proportion of cash as its quick assets i.e. 0.1118 of BNL in an average. Correlation coefficient between cash on quick assets of BNL and

BNTL are 0.6204 and 0.9688. Here, both companies have positive relationship. But significant relationship on BNTL while insignificant relationship on BNL.

f. BNTL seems to be able to maintain the adequate proportion of cash in total assets i.e. Average 3096 percentage. But BNL seem to be unable to maintain the adequate proportion of cash in total assets.

g. Average collection period and payable different period of BNL found to be 72 days and 234 days. Here payable deferral period is high. So, BNL have to pay its debt on time. ACP and PDP of BNTL are 25 days and 109 days. So, the both companies are neither in better position nor in the worst position.

h. Liquidity position of BNL is satisfactory i.e. CR is 1.65 and QR is 1.02 which is able to meet the standard 2:1 and 1:1. While liquidity profit or BNTL is not satisfactory i.e. CR is 1.30:1 and QR is 0.90:1.

i. BNL has not been able to trade off liquidity and profitability. The CR and NPM are found with insignificant correlation. While, BNTL has significant correlation. While BNTL has significant correlation between CR and NPM.

j. Companies are not been able to collect cash in considerable time span. The average cash conversion cycle of BNL is days. While cash conversion cycle of BNTL is (-11) days. BNTL cash conversion cycle earlier due to high payable deferral period.

CHAPTER –V

SUMMARY AND CONCLUSION RECOMMENDATIONS

5.1 Summary

The study focuses on the financial performance of selected manufacturing companies. As stated earlier, cash management refers to the management of cash, receivable and inventory. Likewise, as stated in the introduction section , the objective of the study are: to identify the liquidity position of the companies , to study the relationship of cash with other influencing variable of cash management , to make analysis of cash conversion cycle of the companies and to provide necessary recommendation for improvement of cash management on the basis of analysis. To make research fulfill, review of related studies has been concerned in second chapter. To make major findings and to reach closer to summary of major findings, recommendation and conclusion explanation the tools and techniques have been concerned in chapter third then implemented in chapter four. Hence an effort has been made in this chapter to present major finding on overall cash management practices in listed manufacturing companies recommendation and make conclusion.

5.2 Conclusion

In conclusion, it can be stated that cash management system in selected manufacturing companies found to be satisfactory. Cash management was found traditional way where as no any plan and policy has been made for efficiency of cash management the companies have low liquidity position. The cash conversion cycle has been found very longer period the over investment in inventory has been found. The companies have not been able to trade of liquidity and profitability so that the profit was found to be low position.

Cash management being the major elements in financial function, It is said that main function of financial manager is to apply better technique to Improve cash management in companies. There are other numerous aspects of finance involved in the overall financial performance of a firm counts for other managerial aspects such as human resources management, organizational structure marketing management etc. However, all down falling trend of the financial position is an indication of the fat that selected manufacturing companies should immediately seek for drastic change in its managerial structure so far cash management is concerned the recommendations suggested above could to a greater extent; uplift the selected manufacturing companies' cash management situation.

5.3 Recommendations

Financial efficiency is one of the key elements to achieve the goal of any business enterprise. The major findings of the study shows that the selected manufacturing companies are not followed any specific and appropriate financial principles financial techniques. Following recommendations are given for better financial performance and good cash management of the company on the basis of the findings of the study.

Cash Planning and cash budget is needed on a formal basis so as to project cash surplus or cash deficit for a period not exceeding one year and broken up into shorter period. Maintaining optimum cash balance every year. The study has identified that selected manufacturing companies have not been maintaining optimum cash balance. The balances held are at time too high and too low in other time, without any definite purpose as too why the firm has held excess or deficit balance of cash. Holding of optimum cash as per its sales, profit and other influencing variable are recommended.

Try to reduce cash conversion cycle, cash conversation cycle of the companies has been found to be higher. However, RCP and PDP have been found to be considerable period. Inventory conversion period was too long. High level of inventory has affected to make CCC longer. It is recommendation that companies should improve their inventory management system. “The main objectives of managing cash are to trade off liquidity and profitability in order to increase profit. By maintaining considerable liquidity position of the company should try to increase net profit." Company should prepare cash budget cash planning and cash budgeting on a formal basis so as to project cash surplus and cash deficit for a period not exceeding one year and broken up in to shorter intervals, cash budget should be prepared with considering the influencing variables on cash management.

Surplus cash should be invested in profitable opportunities. Company should manage their cash in such a way as to keep cash balance at a minimum level for daily operating purpose and invest surplus cash in profitable opportunities. The idle cash increases opportunity cost and profit will be decrease.

Cash planning manager or experts should be appointed. The lack of knowledge of modern financial management tools and technique among existing employees in the manufacturing sector is one of the causes of poor financial performance of the manufacturing companies. Company should try to maintain considerable liquidity position. So that company may be able to meet current obligation.

Revised the strict provisions regarding cash: company should adopt practical procedure and practices for handling cash management and managing working capital work. To deal financial and cash matter, responsibilities, authority and accountability should be delegated, making process more practical and flexible. It encourages for prompt decision by responsible person. It helps to implement the budget timely.

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