CHAPTER - I

INTRODUCTION

1.1 General Background of the Study

The study of working capital management in manufacturing company is very important. The manufacturing company must determine the adequacy of investment in current assets; otherwise it will seriously erode their liquidity base. They must select the type of current assets suitable for investment to raise their operational efficiency. Working capital is required to ascertain turnover of CAs that greatly determine the profitability of the manufacturing company. Working capital is a must to find out the appropriate source of funds to finance on current assets. it is therefore a recognized fact that mistakes made in management of working capital can lead to adverse effect that reduce the liquidity and profitability of manufacturing company. a manufacturing company must have an adequate cash to pay for different liabilities and supply of raw materials to process the operational activities. It must have an ability to grant credit to its customers and shareholders.

With an adequate working capital, any enterprises can take advantage on many things. For it can have better terms of goods purchased, cash discount and bank loans on acceptable rate of interest. it can credit good feeling of security and confidence. These would sustain the performance thereby raise the morale, efficiency and also make the way for creation of sound goodwill in the market. During the period of depression, more amounts would be locked-up in the inventories and book debts. During such period, if the working capital position is ill or if the enterprise cannot provide the sufficient amount of working capital – it can face unfavorable conditions.

A business firm's need both long term and short term capital for operation of its business. The long term capital can be obtained by issuing securities and borrowing long term loan from banks or financial institutions. Similarly, it can raise short term funds through trade credit and borrowing short term loan from banks of financial institutions. On the other hand, those firms need various types of assets in order to carry out its operation.

Some assets are required to meet the needs of regular productions and these assets can be designed as fixed assets.

Working capital management is the crucial aspect of financial management. The success or failure of any business organization is heavily dependent upon the sort of efficiency in its working capital management. In this regard the company will benefited to run its business efficiently by arranging funds, to identify the liquidity position of an organization to take either short term or long term investment is suitable.

1.1.1 Profile of the Concerned Manufacturing Companies

1.1.1.1. Dabur Nepal (P) Ltd (DNPL)

Since its inception in 1992, Dabur Nepal has been an active member of socio-economic development of Nepal. This has not only established some benchmark facilities in production and scientific research, but also set in place social programs that help local communities. Through their initiatives, they continue to be a trusted friend of Nepal. Dabur Nepal (P) ltd (DNPL) is leading company operating on private sector of Nepal. It was established in 2046 B.S as private limited company according to the company act 2050. DNPL is established with the collaboration of Dabur India limited which was established about a century ago by a young Indian doctor with a vision to provide innovative and affordable health care products for India masses. Thus it was born an organization today known as Dabur India limited. DNPL produces a range of herbal health and personal care product, foods, ayurvedic medicines and pharmaceuticals.

DNPL was established as a joint venture of Dabur India ltd. The share of Nepalese investor in Dabur Nepal (P) ltd is 20% and remaining of Dabur India Ltd. DNPL follows the rule & regulations of government of Nepal; it provides service to the people of Nepal and people of other countries. All the production of DNPL is not consumed in Nepal, it also export its product to SAARC countries and other third countries like Brunei, Norway etc. DNLP produces various types of products which are relates to health and personal care. it started its production by producing Dabur Lal Danta Manjan on 15th Mangier 2049.

With its successful operation, Dabur Nepal has set some of the highest business standards. Here we have ultra-model production facilities manufacturing premium products like real fruit juice, Vatika hair care products, Dabur Hajmola and Dabur Honey; both for the domestic as well as international markets.

Their endeavor has shown some remarkable results, in just over a decade:

- Dabur established as a strong nationwide brand, selling in over 20000 retail outlets throughout Nepal.
- Dynamic brand and corporate image building exercises through sponsorship of major national sports and cultural events.
- Capital assets jumped 10.5 times in 10 years.
- Exports crossed rs250 crores, contributing over Rs20 crore to the Nepalese exchequer
- Net profit crosses Rs 10 crores
- Increase in turnover by over 19%
- Installation and launch of production line for real fruit juice's slime-line pack

To produce the above various products, DNLP established about 10 plants in the country, which are situated in Bara and Parsa district. DNLP produces honey-bee by operating bee keeping programs. it also produces the container bee farmers and other packaging materials, which are essential for packaging of the produced goods safely. It started green houses/ nurseries for the production and storage of raw materials, which are situated in Marpha,Manang, Gunchha, Khuwa, Kakani, Nagarkot, jumla, Birgunj, Chitwan, Lamjung and Dang. Moat of the raw material are imported from India and other third countries except product produces from green house/ nurseries.

The initial authorized capital of company was Rs 300 lakhs (thirty milion) and issued capital was Rs 40 lakhs (four milion). It is increased to Rs 1400 lakhs (140 million) divided into 1400,000 shares of Rs vourab100 each and Rs 800 lakhs (80 million) divided into 800,000 shares of Rs 100 each respectively.

1.2. Statement of the Problem

Proper financial management is great important for every business enterprises from the point of view of achieving success. In this respect working capital plays a significant role in every aspect and more so in trading enterprises whose structure and function depend upon it. Lack of knowledge about managing working capital causes harm to the organization and finally pushes it into liquidation. A manufacturing company must have an adequate supply of raw materials to process, labor, power, fuel etc and then these raw materials converted into work in progress, into finished goods and the product sales in the market. it also must have capacity of waiting for market and also have an ability to sale in credit in the Era of cutthroat competitions. Neither excess working capital nor less working capital is good for the company. So it has to be managed in such a way that it will be just adequate for maintaining solvency and continuing business. Adequate working capital brings security and confidence with numerous advantages such as better terms of good purchased, cash discount, bank loan on favorable rate of interest. There would be steady work and thereby rises the employees morale, efficiency and creation of sound good will in the company. With the adequacy of working capital of quick and steady return to the investors would be possible and also the general rise in the management morale. During the period of depression more amounts may and blocked in the inventories and account receivables. During such period, if the working capital position is bad or if the organization could not provide sufficient amount of working capital, it may cause the organization come to stake.

In most enterprises the management of working capital has been misunderstood as the 'management of money' and the managers are found over conscious about the boarding of money rather than its efficiency utilization. Regarding the management of working capital sources, most of the public enterprises has never thought seriously. They are usually found to depend on HMG even for overcoming the shortage of working capital inspite of trying to manage working capital needs from their own sources. Some of public enterprises have used depreciation fund and utilized surplus to overcome the poverty of working capital. Working capital management has been the most intricate and challenging areas of modern corporate finances is as much as the management always faces trade-off between the liquidity and profitability of the firm.

For smooth operation of manufacturing industry in short run as well as in long run, proper financial operation, serious liquidity problem, lower turn over of assets, negative role of return, in appropriate financial policy, higher production and operation expenses and poor collection and payable policy are causing lots of disturbance to the manufacturing industries. To avoid this, proper management of working capital management is required. For any institution to run the business in profitable manner it has to manage the working capital according to the need of the business.

This study has tried to solve the following research questions:

- Is there appropriate investment in current assets to their total assets of manufacturing companies?
- Is there proper investment in each type of working capital in Nepalese manufacturing industries?
- Is there sound liquidity position in manufacturing industries?
- Is the working capital policy appropriately followed by manufacturing with reference to risk return trade-off?
- Is the composition of working capital in manufacturing companies is appropriate?
- Is overall profitability of the firm satisfactory?

1.3. Objectives of the Study

The major objectives of this study are to examine the management of working capital. The specific objectives of this study area are follows:

1. To analyze the current assets and current liabilities policy at manufacturing companies.
2. To examine the relationship between liquidity and profitability of manufacturing companies.
3. To suggest and recommend for the improvement of working capital to manufacturing companies on the basis of findings.
4. To study the past and future trend of variables in relation to working capital.
5. To determine the empirical relationship between the variables in relation with working capital management.

1.4. Significance of the Study

The manufacturing sector of Nepal is expanding day by day, in the recent days the nation is facing with lots of hurdles in this situation n, the manufacturing sector is also running slowly. Therefore this study will be helpful to the companies to overview their working capital management and formulate future strategies to do much better in their horizon.
Not only to the sampled companies is benefited by this study but also beneficial to the other companies in the population.

Working capital is regarded as the blood for any enterprise because it is important for survival of the enterprises day -to -day operation. If the business can't maintain a satisfactory level of working capital it is likely to become insolvent and may even push into bankruptcy. So, the god of working capital management is to manage the firm's current assets and current liabilities in such a way so that a satisfactory level of working capital is maintained.

Further, the concerned scholars, academicians, investors, professionals may also be benefited. This study will also help to inform the decision makers about the importance of working capital management for their further success.

Therefore, this study is helpful to improve the various activities in relation to working capital. Some of them are as follows:

i. It helps to know different variables that affect working capital management.
ii. It helps to know the current assets and liabilities of the firm.
iii. It helps to set the proper amount of working capital.
iv. It helps to know the weak and strong position of the firm.
v. It helps to take timely action so that the management can improve and correct the current situation of the firm.

1.5. Limitations of the Study

This research is conducted under the following limitations:

- This study is based mainly on the secondary data for six years period.

- This study is focused on the comparatively analysis of two manufacturing companies of Nepal listed in NEPSE only.
- This consistency of result is strictly based on the information provided to us.
- Due to lack of time and financial resource, only two companies are selected as sample for the comparative study of working capital management.
- Only the analysis of working capital management does not show the accurate position of the company. There are many factors that affects affect the company, which are avoided here.

1.6. Organization of the Study

This study is about the working capital management of Bottlers Nepal (Terai) Ltd. and Dabur Nepal Pvt. Ltd. This study has been divided into the following five chapters:

Chapter – I: Introduction

First chapter deals with the background, evaluation of industrial development in Nepal, a brief overview o selected manufacturing companies listed in NEPSE, the focus of the study, statement of problems, objectives of the study, and limitations of the study and the organization of the study.

Chapter – II: Review of Literature

Second chapter deals with the conceptual framework like concept, types, policy, determinants, review of relevant research studies and related dissertations.

Chapter – III: Research Methodology

The third chapter contains research methodology employed in the study. It includes the introduction, research design, nature and sources of data, tools of analysis and definitions of key terms.

Chapter – IV: Data Presentation and Analysis

The fourth chapter contains presentation and analysis of data. In this chapter, data are collected through balance sheet and profit and loss account is presented in tables. Analysis and interpretations of data have been performed thereafter.

Chapter – V Summary, Conclusion and Recommendations

The fifth chapter contains summary and conclusions of the study. After that all necessary recommendations are presented.

At the last part of the study, bibliography has been included. All necessary appendices are also included after bibliography.

CHAPTER-II

REVIEW OF LITERATURE

2.1. Conceptual Framework

2.1.1. Concept

An organization needs not only the fixed assets but also the current assets. Working capital is nothing but the capital needed to run day-to-day operation of a business, such as wages, freight, raw materials, etc. if all the expenses, which are to be incurred on short term day-to-day basis, are put together, it is called working capital.

There are two concepts of working capital: gross concept and net concept, or gross working capital (GWC) and net working capital (NWC). Gross working capital or gross concept of working capital refers to total assets, that is, total of cash, account receivables, inventories, prepaid expenses and short term investments.

GWC and TCA are therefore synonymous. Current assets are those assets, which can normally be converted into cash within an operation cycle or an accounting year. Fixed assets have a life greater than a year. The net concept of working capital or net working capital is simply an excess of current assets over current liabilities (NWC= CA- CL). Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year, and include sundry creditors, bank overdraft, short term loan, proposed dividends, tax payable and outstanding expenses. The net working capital may be positive or negative. It is positive if current assets are greater than current liabilities and it is negative if current liabilities are greater than the current assets.

The need for net concept of WC is due to the fact that gross concept fails to consider CL. Working capital management is concerned with the problems that arise in attempting to manage the current assets. The current liabilities and the inter- relationship that exist between them.

The problem of working capital begins with the attempt to define what were current assets and current liabilities. The prevailing one year temporal standard applied for classifying assets or liabilities as current was not universally valid. What was current or not current depends on the nature of the core business activity. Thus, for a fruitful business, two or three months would be the correct current values. For an aeroplane making business, however, a period linger than one year should be the "current values" standard. Thus, current values vary with the nature of the business.

However, the current assets are used to indicate cash., inventories and other assets which are expected to be realized, sold or consumed during the operation cycle of a business generally a year.

Circulating Capital

The meaning of the term "working capital" shouldn't be allowed to limit either the gross or net concept of working capital only. It is true that very often working capital is interpreted as circulating capital as it keeps on circulating in the course of operation. The circulating capital is a highly descriptive and meaningful term. Working capital is constantly flowing and changing its formats the enterprise accomplishes its objective and performs its operation. It all can be seen from figure.

The enterprise starts its business with cash which will be converted into raw materials, semi- finished goods, finished goods, receivables and finally into cash again. This cycle keeps on repeating again and again. In a broader sense, both fixed and current assets circulate, but the current assets have a much greater velocity or turn over rate.

2.1.2. Importance of Working Capital Management

- **Time devoted to Working Capital Management**

The working capital management is important because the largest portion of a financial manager's time is consumed in day-to-day operation of the business. Most of the times, he is dealing with the accounts payables, accounts receivable, cash, inventories and so on.

- **Investment in Current Assets**

Another reason for the importance of a working capital management is due to the fact that the current assets represent more than one-half of the total; assets of a business firm. Investment in current assets is not only large but also it is volatile.

- **Importance for Small Firms**

The working capital management is particularly important for small firms. The small firm may minimize its investment in fixed assets by renting a leasing plant and equipment but there is no way of avoiding an investment in cash receivables, and inventories. A small firm has relatively limited access to the ling term capital markets. Hence, it must necessarily rely heavily on trade credit and short term bank loans, both of which affect net working by increasing current liabilities.

- **Relation between Sales Growth and Current Assets**

The importance of working capital management is also due to the fact that the relationship between sales growth ad current assets is closer and direct. If firm's average collection period is 40 days and it's credit sales are Rs.10, 000 a day, it will have an investment of Rs. 400,000 in account receivable. If sales rise to Rs. 20,000 a day, the investment in account receivable will rise to Rs. 800,000. Sales increase will produce similar immediate needs for additional inventories and, perhaps, for cash balance. All these needs arise quickly. Of course, continued sales increases will require additional long term assets, which must also be financed. However, fixed assets investments, do not generally have the same urgency as the current assets investments.

2.1.3. Factors Affecting Working Capital

There are several factors that affect working capital requirement in an organization. One cannot go by the rule of thumb. The specific factors may vary from one company to another. The major factors may be stated as under:

- **Volume of Sales**

The firm's expecting growth in sales will require additional permanent working capital. A firm realizing constant levels of sales will operate with fairly constant levels of cash, receivables, and inventories. If sales were declining, reduction in permanent working capital would be expected.

⟩ Seasonal and Cyclical Factors

The seasonality factor also plays an important role in determining the working capital required. There are also the cyclical factors, which affect working capital requirement. The cyclical factors are known as business cycles. The overall economy may undergo a series of business cycles. If the economy enters a recession, a firm's sales will temporarily decline. It will decrease the need for variable working capital. A boom period will have the opposite effect. A boom is the period of prosperity. In this period, almost everything would rise including outputs, sales, cash, receivables, and inventories. A recession is a period where everything will decline.

⟩ Changes in Technology

Technological developments can have sharp impacts on the need for working capital. If the firm purchases new equipment that processes the raw materials very fast, then investment in the form of semi-finished goods will decrease leading to a decrease in working capital management.

⟩ Firm Policies

The level of working capital also depends upon the firm policies. If the firm changes its credit policy from net 30 to 60, additional funds will be permanently tied up in receivables. Similarly, the changes in production policies would affect inventory requirements. The production policy may be to produce goods in different batches or produce all the requirements at once. If we receive an order to produce 1000 bicycles, we can produce in two ways: produce all the parts enough for 1000 bicycles or produce all the parts in different batches, say enough for 500bicycles. In the first case, we would be producing 1000 bicycles at once. But in the second case, we are producing bicycles in two lots or batches. We expect lesser working capital requirement in the second case.

- **Nature and Size of Business**

The level of working capital requirement also depends on nature and size of business. Generally, manufacturing corporations have more of the fixed assets than current assets as compared to trading corporations. The trading corporations have less of fixed assets and more of current assets. Other things remaining the same, size of the firm also determines the level of working capital. The greater the size of the firm, larger would be the investment in working capital and vice versa.

- **Cost and Time Involved in Manufacturing Process**

The cost and time involved in manufacturing process also determines the level of working capital. What is the cost and time involved in manufacturing process? The higher the cost and longer the time involved in manufacturing process, higher would be the level of working capital. For example, the cost involved in manufacturing process of aircraft carrier or missile is huge, similarly, it require a long time to manufacture it. The entire investment of working capital is in the form of semi –finished goods, the greater the time involved in manufacturing gods, higher will be the level of working capital requirement. One aircraft carrier costs more than Rs 70 crores and it takes more than two year of time to manufacture it. The companies, investment in the current assets would be large.

- **Turn Over of Circulating Capital**

The current assets are also known as circulating capital as they keep on circulating in the course of business transaction. Cash will be converted into raw materials, and after some time, raw materials would be converted into semi-finished goods, finished goods, receivables and into cash again. If it (from cash to inventories to receivables and finally to cash again) is fast, less working capital is needed.

- **Growth/Expansion Phase**

The level of working capital would also depend on whether the company is in a growth or expansion phase. If a company were at growth phase or expanding its activities, than more Working capital would be needed.

2.1.4. Types of Inventory Control System

- **ABC Analysis**

Usually, a firm has to maintain several types of inventories. It is not desirable to exercise the same degree of control on all the items. The firm or management should pay maximum attention to those items value is largest. The firm should classify inventories to identify which items should receive the most effort of the firm in controlling. This approach is called ABC approach. The high value items are classified a "A" items and would be under tightest control by management. The "C" items represent relatively least volume and would be under simple control. The lower level managers may be given authority to exercise control over these items. The "B" items fall in between these two categories and the responsibility to control these inventories may be given to middle level managers. The ABC analysis states that the tightest control should be exercised on a items, moderate control on B items and simple control on C items.

- **Mini Max System**

This is one of the oldest methods where we set minimum and maximum levels of inventory of each type. Maximum level includes EOQ and safety stocks and minimum level includes reorder point. Inventory level should be fall within these two limits. It can also be viewed in two systems, where bin 1 includes minimum level that includes reorder point and bin 2 includes excess of EOQ plus safety stock over reorder point. As soon the materials bin 1 is over, the record is made and until the materials arrive the company uses materials from bin 2.

- **Red Line Method**

The red line method is the technique for inventory control, as is the two bin method. Computerized inventory control systems are just what the name implies. In the red line method, a line is drawn around the inside of the bin at the level of the reorder point of the inventory clerk places as order when the red line shows. The two bin methods are similar-

when the first bin is exhausted, items are reordered. With the computerized inventory control system, the computer starts with an inventory count in memory. As withdrawals are made, they are recorded by the computer, and the inventory balance is revised. When a reorder point is reached, the computer automatically places an order, and when the order is received, the recorded balance is increased.

⁾ Just-In-Time System

Just-In-Time Systems refer to receiving inventories just as they are needed. Firms that employ such systems are attempting to minimize inventory carrying costs. Out-sourcing is the practice of purchasing components rather than making them in-house.

⁾ Order cycling System

Under this system, periodic reviews are made of each items of inventory and orders are placed to restore stock at prescribed level. The frequency of review depends on criticality of item. Critical items should fall under short review cycle. Lower cost are the Critical items which should fall under longer revise cycle. At each review date, the required quantity is ordered to bring the inventories to the predetermined supply level.

⁾ Budgetary Control System

Actual inventory consumption should be compared with budget consumption, i.e., expected usage. The variance if any should be predetermined supply level.

⁾ Reduce Lead Time

Inventory control system should be directed to wards minimizing lead time. We should ask vendors for quick delivery. In other words, the vendors should be pressurized for reducing the lead time. We may also find new vendors with whom the lead time can be minimized.

Inventory and Financial Manager

Although inventory management usually is not the direct responsibility of the financial manager, the investment of the funds in the inventory is an important aspect of financial

management. Consequently, the financial manager must be familiar with ways to control inventories effectively so that the capital may be allocated efficiency. The greater the opportunity cost of funds invested in inventory, the lower the optimal level of average inventory and the lower the optimal order quantity, all other things held constant. The EOQ model is useful to the financial manager in planning for inventory financing (Van Horne: 2002).

When demand or usage of the inventory is uncertain, the financial manager may try to reduce the average lead time. The lower the average lead time, the lower the safety ..?.. needed and the lower the total investment in inventory, all other things held constant. The greater the opportunity cost of funds invested in inventory, the greater the incentive to reduce the lead time. In case of purchases, the purchasing department may try to find ..?.. Vendors that promise quicker delivery or place pressure on existing vendors for fast delivery. In the case of finished goods, the production department may be able to schedule production runs for faster delivery by producing a smaller run.

The financial manager also is concerned with the risks involved in carrying inventory. The major risk is that the market values of specific inventories will be less than the value at which they were acquired. Inventories may become obsolete also. Likewise, there is also a risk of inventory becoming an obsolete because of the change in technology or consumer tastes. If inventories are stored for a longer period of time, there may be physical deterioration as well.

The opportunity cost of the funds is the link by which the financial manager ties inventory management to the overall objective of the firm. In this regard, inventory can be treated as an asset to which capital is committed like any capital budgeting projects. The essential difference between a capital asset and inventory is that the former involves a discrete investment, while the latter represents a continuum of possible investments. We know that the greater the efficiency with which the firm manages its inventory, the lower the required investment and the greater the shareholders' wealth, all other things the same.

Estimates of Inventory Demand by Nepalese Corporations

There is no controversy as to the fact that target inventory level is a function of expected sales as indicated by almost all the earlier studies on demand for inventories by firms. The controversy arises as to the presence of economics of scale in inventory holdings, the cost of capital an other effects on inventory demand, and adjustment speed of actual inventory level with target inventory level. Among others, Irvine(1981 may,1981 September) and Akhtar (1983) clearly indicated economics of scale in inventory holding while some of the inventory demand functions of Lieberman (1980) showed this economics of scale. Much of the controversies, however, exist with the cost of capital effect on inventory demand. Theoretically, the level of inventories of a firm would depnend on the costs associated with holding inventories but the earlier studies on demand for inventories did not present unanimous findings. Li (1963, 1969), Kuznets (1964), Liberman, Ivrin and Akhtar reported statically significant effect of capital costs (1971), joyce (1973), and Maccini and Rossana (1981) did not report the same. Controversy also exists with respect to coefficients of adjustment. Among others, Brrows, Maccini and Rossana and Irvin observed faster adjustment between actual inventories and target inventories while Lovell and grossman (1973) observed slow speed of adjustment. Thus, there were no unanimous findings with respect to the economics of scale in inventory holdings, the capital cost effect on inventory demand and the adjustment coefficient of actual inventories to desired inventories. It has therefore become difficult to support on view or another in the context of Nepal.

This study estimated polled regression equations and results showed the present economic scale with respect to the demand for the inventories. The result thus supports the finding of Irvine and Akhtar and contradicted the unitary or more than unitary elasticities observed in some of the equations of Liberman. The result of the ..?.. suggested strongly that the demand for inventoris by orporations is a function of ….?... as well as their holding cost. The interest rate coficient was statically significant and has therotcally correct sign. This finding was thus consistent with the finding of Liu,Kuznets, liberman, Irvine and Akhtar but contradicted with the result of Robinson, Lovell,..?.. Burrows and Maccini and Rossana.

The adjustment speed of actual to desire level of inventories has been observed to be buch slower. This finding contradicted the high speed of adjustment observed by Burrows, Irvine and Maccini and Rossana.

The estimated results showed that the conclusion of capacity utilization variable in the model seems to have not contributed much to the demand functions of inventories. Thus, its capacity utilization as a significant variable afeting the demand for inventories is double.

2.2 Review of Related Study

2.2.1 Review of Journal/ Articles

Prof. Dr. Manohar Krishna Shrestha (1983) in his study "Working Capital Management in Public Enterprises" states that manager often lacks basic knowledge of working capital and its overall impact on the operative efficiency and financial viability of public enterprises. The study has based on sample of public enterprise i.e. Dabar Nepal p.ltd. The study has pointed at certain policy flows such as deficient financial planning, negligence of working capital management, deviation between liquidity and turnover etc. he has suggested some measure for their effective operation and efficient result. The problem can be sorted out though identification of needed funds, development of management information system, determination of sound combination of short-term and long-term source to finance working capital requirement.

Hyun – Han and Soenen (1998) studied on "Efficiency of Working Capital Management and Corporate Profitability". Working capital management is only part, but for many firm a very important component of financial management. The net trade cycle (NTC) offers an easy and useful way to check the efficiency of managing the firm's working capital. It has been shown, using a large computed sample of 58,985 firms years covering the period 1975-1994, that a strong negative association exists between the firm's NTC and its profitability. Individuals firm's stock returns are also significantly negative relationship between debt and market value, the true benefit from constructing the NTC come from reducing is assets rather than by increases in payables. Reducing the firm's

net trade cycle to a reasonable minimum is one way to create shareholders value and should be a major concern for financial executives.

Shrestha (2004) conducted research on "Working Capital Management of Public Enterprises". To measure their working capital needs of PES. He has selected 10 public enterprises as sample. He has analyzed the liquidity position turn over of net working capital and return on net working capital. He found public enterprises haven't maintained the liquidity position. They haven't suitable financial planning. Management doesn't give attention in working capital management in compare to fixed capital. They are facing deficit problem due to neglect in planning working capital need. There is negative relationship turnover on net working capital and return on working capital. He has suggested to public enterprises to forecast needed funds by observing the operating activities to support the sales. They should make regular check to identify excess and deficits in CA investment managing short and long-term sources. They should develop positive attitude towards risk and return. Which can be accomplishing by maintaining working capital. Working capital is to be formed by short and long term sources which lead towards profitability.

2.2.2 Review of Thesis

Shrestha (1994), conducted study on "Working Capital Management in Public Sector Manufacturing Enterprises in Nepal". The main objective of his study is to find out the different problems faced by public sector manufacturing current assets. He has suggestes making inventory management policy. Inventory management directed toward cost minimization.

Pandey (2000), study on "Inventory Management of Gorkhapattra Corporation". His objective was to find good inventory system, to maintain suitable level of inventory. To fulfill the corporation's requirement the rule for maintaining proper stocks of inputs as discusses previously are necessary to know answer about how much to buy and when to buy. Moreover it is evident from previous discussion that the un necessary cost involved

in ordering and carrying can be reduced to a certain level by using the model formula, etc.

Yogi (2002) conducted his research on topic of "Working Capital Management of Nepal Lever Limited". Basis objective of his study was to analyze liquidity and it's impact on profitability of manufacturing organization. He has analyze the liquidity composition of working capital assets utilization and profitability position. He has found in his study inventory holds largest portion of total assets followed by miscellaneous current assets cash and bank balance and sundry debtors etc. liquidity position of a company is in increasing trend there is not proper utilization of current assets NLL has to take initiative in utilizing current assets properly.

Paudyal (2004), has conducted research on "Monitoring and Control of account receivable in Manufacturing Public Enterprises in Nepal". Main objective of his study was to find out managing pattern of receivables. He has studied the Nepalease EPS. He found that monitoring and control of receivables is weak due to lack of effective credit policy. Credit monitoring implies chasing the due of receivable. Tit covers the entire set of follow up action including personal visits, Telephone contact writing letters etc, control over receivables in general was not satisfactory. In the selected unit mostly traditional methods like personal visits reminder on telephone reminger through letter closing of accounts are used other methods are not use so he has recommended to use modern methods for collection i.e. different scheme for cash sales, cash discount and other facilities can attract the customers to pay account timely.

Pradhan (2004), researched on the topic of "A comparative Study of Working Capital Management Nepal Bangladesh Bank Limited & Everest Bank Limited". His objective was to analyze the working capital managing in policy and efficiency in service industry. There is great variation in average current ratio of which indicates liquidity and solvency position is fluctuating. EBL is better than NBBL in the study period. The trend of liquidity ratio or current ratio, quick ratio and cash and bank balance to deposit ratio of EBL and NBBL are increasing. Although higher liquidity means lower risk as well as

lower profit in general it doesn't necessarily means lower profit in case of Commercial Banks.

The liquidity ratio in terms of current ratio of both NBBL and EBL are below than normal standard so both banks should increase the current assets position. During the study period negative working capital has been presented that indicates poor financial management of Banks therefore he has suggested to eradicate these situations by managing working capital. Working capital policy should be formulated and implemented. These banks should keep optimum size of investment in current assets and current liabilities. Proportion of saving to total deposits is less than 50% in both Bank NBBL & EBL due to less costly sources of funds in saving deposits account so she has suggested increasing its saving deposit account.

2.3 Research Gap

Although there are various studies related to current assets with different topics i.e., working capital management ,receivable management, inventory management, regarding different organizations and available in different libraries, but review of literature indicate that there is few studies devoted to current assets management in Nepalese context. These few studies conducted earlier have now needed to carry out a study to assess the recent development in current asset management. None of previous study focused on all factors of current assets. Some studies on particular aspects of current asset (receivable and inventory) while some focused on financial policy. So there is gap between present research and previous research. The previous research did not disclose monitoring and control of current assets, investment of current assets and financial policies. This research has been conducted to disclose monitoring control and financial policy regarding currents assets. Moreover, previous researchers have not done this study as separately. Thus, to fill the gap, this study has been conducted.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

In order to assess the working capital management and find out the relationship between variables, different items of financial statement of the corporation are tabulated and various statics are calculated. The design and method of the study is briefly described in this chapter.

A systematic research study needs to follow a proper methodology to achieve the pre-mentioned objective. Research methodology is a sequential procedure and method to b adopted in a systematic study.

3.2 Research Design

This study is based on research questions. Here, both the descriptions as well as analytical analysis methods are used. This process accumulates the fact by identifying different variables, analyzing their behavior and characteristics by personal interview, discussion and questionnaire, is included in descriptive method. Beside this the study also attempts to analyze the relationship between different variables like liquidity, profitability, sales and current assets and is known as the analytical analysis.

3.3 Population and Sample

There are large numbers of listed manufacturing companies in Nepal. Among them, Dabar Nepal (P) ltd is taken as a sample for the study.

3.4 Nature and Sources of Data

The data taken in this study are secondary in nature. The secondary data has been collected though the annual report, journal, newspapers, internets and other published materials.

3.5 Data Collected and Processing Procedure

The annual reports are collected for the convenience of the study. Then, raw data are taken out and processed and presented. This study is based on secondary data, in which data are arranged, synthesized, tabulated and calculated.

3.6 Tools for Analysis

Different tools are used for the analysis of data. They are: Financial tools and Statistical tools.

3.6.1 Financial Tools

Financial ratio is calculated to ascertain the financial condition of the firm. It is the relationship between financial variable contained in the financial statements (i.e. balance sheet, profit and loss account and income statement). It helps related parties to spot out the financial strength and weakness of the firm. The related parties may be the trade creditors, long-term debts, suppliers, investors and the company management. It is the process of summarizing large quantity of financial data and making qualitative judgment about the firm's financial performance. Different financial ratios are calculated here in this study. All these are briefly described below:

3.6.1.1. Composition of Working Capital

It is studied by using following ratios:

- **Current Assets to Total Assets (CATA)**

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

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

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

- **Current Assets to Fixed Assets (CAFA)**

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

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

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

- **Cash and Bank Balance to Current Assets (CBCA)**

It is calculated as:

$$CBCA=\frac{\text{Cash \& Bank Balance}}{\text{Current Assets}} \times 100$$

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

- **Cash and Bank Balance to Total Assets(CBTA)**

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

$$CBTA=\frac{\text{Cash \& Bank Balance}}{\text{Total Assets}} \times 100$$

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

- **Inventories to Total Assets (ITA)**

This ratio can be calculated as:

$$ITA=\frac{\text{Inventory}}{\text{Total assets}} \times 100$$

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

- **Inventory to Current Assets (ICA)**

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

$$ICA=\frac{\text{Inventory}}{\text{Current assets}} \times 100$$

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

- **Receivables to Total Assets (RTA)**

This ratio can be calculated as :

$$RTA=\frac{\text{Receivables}}{\text{Total assets}} \times 100$$

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

- **Receivables to Current Assets (RCA)**

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

$$RCA=\frac{\text{Receivables}}{\text{Current Assets}} \times 100$$

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

3.6.1.2. Liquidity Position and Cash Conversion Cycle

It is the important part for the company. It shows the ability of the company to pay its current obligations. The liquidity positions of Bottlers Nepal (Terai) limited are computed by analyzing current ratio and quick ratio or acid-test ratio.

- **Current Ratio (CR)**

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

$$CR=\frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100$$

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

- **Quick Ratio or Acid Test Ratio (QR)**

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

$$QR=\frac{\text{Quick Assets}}{\text{Current Liabilities}} \times 100$$

As the quick assets do not include the amount invested in the inventory it is reliable to measure the company's liquidity. Generally, the quick ratio of 1:1 of the company is considered to be sound.

- **Cash Conversion Cycle**

Payment or invests cash inflows, or realizes a cash return from its investment in production. This cycle is quick and convenient way to analyze the ongoing liquidity of the firm over time. It can be shown in following equation.

Cash Conversion Cycle= Inventory Conversion Period + Receivables Collection Period- Payables Deferred Period.

The following terms are used in the model.

- **Inventory Conversion Period (ICP)**

The inventory conversion period is calculated by dividing inventory by the cost of goods sold per day. It is computed as:

$$ICP=\frac{\text{Inventory}}{\text{Cost of Goods Sold}/_{360}}$$

The inventory conversion period is the average length of time required to convert materials into finished good and then to sell these good; it is the amount of time the product remains in inventory in various stages of completion.

- **Receivables Collection Period (RCP)**

It is calculated by dividing account receivable by the average credit sales per day.

$$RCP=\frac{\text{Receivables}}{\text{Sales}/_{360}}$$

The receivables collection period is the average length of time required to convert the firm's receivables into cash that is to collect cash following a sales.

- **Payable Deferred Period (PDP**)

It is calculated by dividing account payable by the daily credit purchase. It is defined as :

$$PDP=\frac{\text{Accounts Payable}}{\text{Cost of Goods Sold}/_{360}}$$

The payable deferred period is the average length of the time between the purchase of raw materials and labor and the payment of cash for them.

3.6.1.3. Turnover Position

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

- **Net Working Capital Turnover (NWCT)**

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

$$NWCT=\frac{\text{Sales}}{\text{Net Working Capital}}$$

High ratio shows the utilization of Net Working Capital and less ratio vice-versa.

⁾ Cash Turnover (CT)

It is computed by dividing sales by cash balance and it measures the speed with which cash moves through an enterprise's operation.

$$CT=\frac{\text{Sales}}{\text{Cash balance}}$$

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

Receivables Turnover (RT)

This ratio is computed by dividing sales by the total amount of receivables.

$$RT=\frac{\text{Sales}}{\text{Receivables}}$$

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

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

$$ACP=\frac{\text{Days in a year}}{\text{Receivables Turnover}}$$

⁾ Current Assets Turnover (CAT)

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

$$CAT=\frac{\text{Sales}}{\text{Current Assets}}$$

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

- **Inventory Turnover (IT)**

It is computed by divided sales by inventory.

$$IT=\frac{\text{Cost of Goods Sold}}{\text{Inventory}}$$

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

3.6.1.4 Profitability Position

The objective of every company is to earn profit and the profitability ratios of the company are analyzed by the help of the following ratios:

- **Gross Profit Margin (GPM)**

It is computed by dividing gross profit by sales. Gross profit is obtained by deducting cost of goods sold from Net Sales.

$$GPM=\frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

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

- **Return on Current Assets (RCA):**

It is computed by dividing net profit after tax by current assets or working capital. It means the profit with respect to current assets.

$$RCA=\frac{\text{Net Profit After Tax}}{\text{Current Assets}} \times 100$$

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

- **Return on Total Assets (ROA)**

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

$$ROA=\frac{\text{Net Profit After Tax}}{\text{Net Worth}} \times 100$$

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

- **Operating Ratio (OR)**

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

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

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

- **Net Profit Margin (NPM)**

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

$$NPM=\frac{\text{Net Profit after Tax}}{\text{Sales}} \times 100$$

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

3.6.2. Statistical Analysis

Statistical tools are also use for the analysis of this study. Some of the statistical tools used are described below:

3.6.2.1. Simple Regression Analysis

In case of simple linear regression analysis a single variable is used to predict another variable on the assumption of linear regression (i.e., relationship of the type defined by y= a+bx) between the given variables. The variable to be predicted is called the dependent variables and the variable on which the prediction is based is called as independent variable. In the case of dependent variable NWC is used and in independent variable, CL, sales, CA and inventory are used.

Simple regression equation which is used in this research study are given below:

$NWC = a_1 + b_1$ sales----------(i)

$NWC = a_2 + b_2$ Inventory----------(ii)

$NWC = a_3 + b_3$ CA----------(iii)

$NWC = a_4 + b_4$ CL----------(iv)

Here,

a_1,a_2, a_3, and a_4 = parameters, constants, intercepts.

b_1, b_2, b_3 and b_4 = betas/ slope of the line.

The standard errors measure the variability around the mean but the standard error of beta coefficient measures the variability of the observed value around the regression line.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The basis objective of this study as stated in chapter 1, is to have true insight into working capital management of Dabur Nepal ltd. For the accomplishment of these objectives a definite course of research methodology has been followed which is described in chapter 3. This chapter is the main heart of these studies tools. Under the financial analysis, effort has been made to analyze the working capital management in terms of composition of current assets, turnover position, profitability position and liquidity position of Dabur Nepal Ltd. The financial data taken from ,2002/03 – 2006/07 are adopted to show the actual financial condition of Dabur Nepal ltd in respect of working capital management . For analyzing the working capital management of Dabur Nepal, financial as well as statically tools has been used.

4.2. Financial Analysis

Different financial tools are used for the financial analysis of Dabur Nepal ltd.

4.2.1. Composition of Current Assets

The business firm required the different types of assets to run their business. The assets can be fixed assets and current assets. Without current assets no business can run. So, the firm has to maintain the appropriate level of assets to run their business smoothly. The success and the failure of any business firm depend upon the proper management of current assets is necessary to achieve the principle objective of any business organization to earn maximum profit and ultimately maximize the shareholder's wealth.

A firm needs cash for various purposes such as purchase of raw materials, pay expenses while cash may also be held to meet future expenses. The stock of raw materials is kept in order to ensure smooth production and to protect the risk of non-available of raw

materials. The efficient management of current assents is an integrate part of overall financial management. So, here are presented data of current assets of Dabur Nepal ltd.

Table 4.1

Composition of Current Assets

(Rs. In Lakhs)

Fiscal year	Inventories	Sundry Debtors	Cash and Bank Balance	Miscellaneous	Loan and Advance	Total
2002-03	5368.78	2,471.57	42.34	-	20,319.93	28,202.62
2003-04	6403.04	2,217.45	106.86	60.39	14,161.99	22,949.73
2004-05	7939.92	1,564.92	74.84	45.31	12,540.8	22,165.79
2005-06	8557.15	2,302.81	19.05	30.22	12,688.61	23,597.84
2006-07	8829.26	1,883.38	104.79	15.13	16,548.74	27,381.3
Average	7419.63	2,088.026	69.576	37.762	15,252.014	24,859.456
S.D.	1482.493	362.46	38.576	19.477	3,258.014	2,740.028
C.V.(%)	19.98	17.36	55.445	51.578	21.365	11.022

Source: Annual Report of Dabur Nepal

Table 4.1 shows the composition of current assets from 2002 to 2007. Here current assets include inventories, sundry debtors, cash and bank balance, miscellaneous, loans and advance.

According to table no. 4.1, in year 2006-07 inventories is highest which is Rs. 8829.26. The average amount of inventory for 5 yrs study is Rs 7419.63. In year 2002-03 it holds the lowest amount of Rs 5368.78. The S.D. of inventories is Rs 1482.493 with C.V. 19.9806 for the study period.

Cash and bank balance are the most liquid assets. In average it holds the lowest proportion of the total current assets and average amount from table no.1 is Rs.69.576. In year 2003-04, the amount of cash and bank balance is Rs 106.86 which is highest proportion of 5 year. And the lowest amount is Rs 19.05 exits in the year 2005-06. The S.D. of the cash and bank balance is Rs 38.5762 with C.V. 55.4447 for the study period.

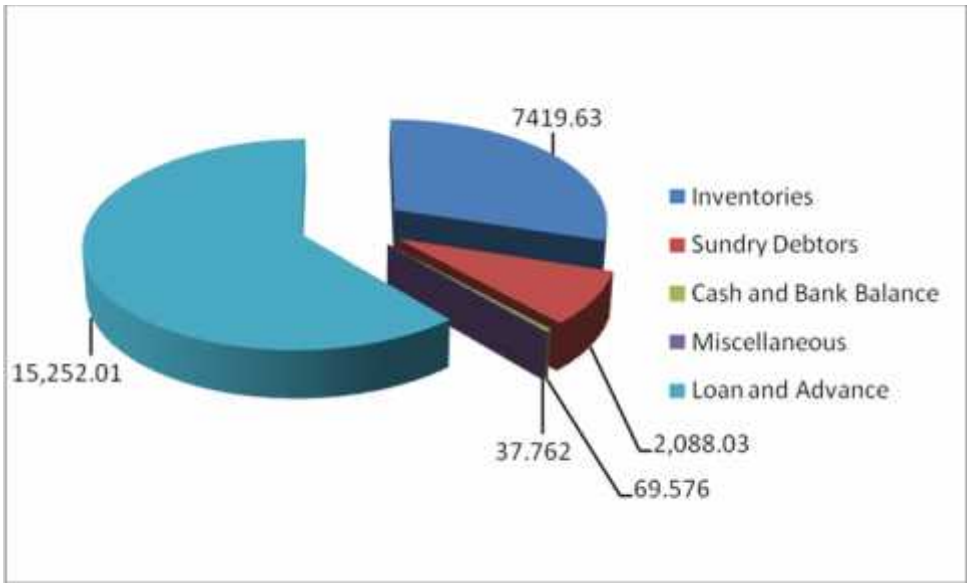
Miscellaneous current assets include other current assets except inventory, sundry debtors, cash and bank balances. It contains prepaid expenses, advances to employees, deposits, and investment in government. Miscellaneous current assets include other current assets except inventory, sundry debtors, cash and bank balances. It contains deposits, investment in government bonds and other current assets. In year 2003-04, it holds the highest proportion of Rs 60.39, and lowest amount is Rs 15.13 in year 2006-07. The S.D. of the miscellaneous current assets is Rs 23.869 with C.V. 79.0099 the study period.

Loans and advances are also included in total current assets of Dabur Nepal ltd. The loans given and advance payments of cash are included in this topic. In year 2002-03, it holds the highest proportion of Rs 20319.93. In the year 2004-05, it holds lowest amount of Rs 12540.8. The S.D. of the loans and advance is Rs 3258.65 with C.V. 21.365 for the study period.

By the above analysis, C.V. is highest in cash and bank balance and miscellaneous. Therefore, the ratio of cash and bank balance and miscellaneous over the current assets is high and there is high fluctuation and high risk while there is consistency in the policy of the company regarding inventory, sundry debtors and loans and advance since the C.V. is low.

Figure 4.1

Composition of Current Assets (Average)



4.2.2. Composition of Working Capital

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

The firm needs cash to purchase raw materials and pay expenses, as there may not be perfect matching between cash inflows and outflows. Cash may also be held to meet the future expenses. The stocks of raw materials are kept in order to ensure smooth production and to protect against the risk of non-availability of raw materials. Similarly stocks of finished goods have to carry to meet the demand of the customers and continuous basis and sudden demand for some customers.

Any business organization aims to maximize return on shareholder's investment. In order to accomplish these objectives, the business organization should earn sufficient return for it's operation. Earning a steady amount of profit requires successful sales. So, the firm has to invest enough funds in current assets for the success of the sales. As the sales do not convert into cash instantly, the extra amount of working capital is needed. Therefore, it can be stated that the efficient management of working capital is an integral part of the overall financial management and has greater impact on maximization of owner's capital

(wealth) in this context. Therefore, firstly the overall composition of working capital management is analyzed. The help of the following ratio can analyze this.

4.2.2.1 Percentage of Current Assets to Total Assets

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

Table 4.2

Ratio of Current Assets to Total Assets

(Rs. In Lakhs)

Fiscal year	Current Assets	Total Assets	Ratio (%)	% Change
2002-03	14,341.67	18,110.76	79.189	-
2003-04	14,608.52	13,640.38	107.097	-27.908
2004-05	14,342.91	13,909.59	103.115	3.982
2005-06	15,233.94	13,784.78	110.512	-7.397
2006-07	15,397.28	17,898.69	86.024	24.488
Average	14,784.864	15,468.84	97.187	-1.708
S.D.	499.891	2,318.11	13.779	21.889
C.V. (%)	3.381	14.98	14.178	-1280.85

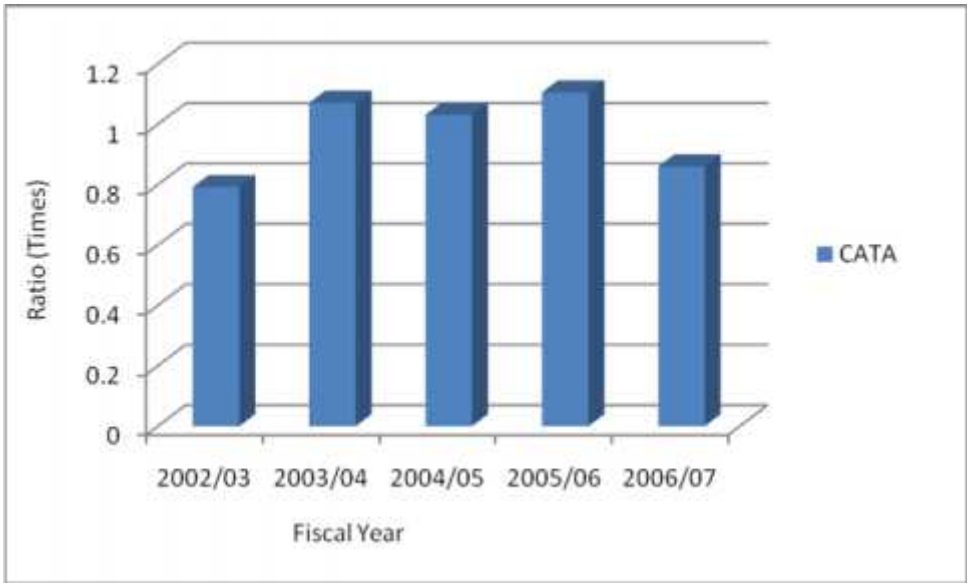
Source: Annual Report of Dabur Nepal Limited

This ratio represents the proportion of current assets investment to total assets investment of Dabur Nepal P. ltd for the past 5 years of study period. The overall proportion of current assets and total assets is increasing in some fiscal year and decreasing in some fiscal year. In fiscal year 2002-03 the volume of current assets is 14341.67 and is 79.189% of total assets. In the fiscal year 2003-04 the volume of current assets is Rs.14608.52, which is 107.098% of total assets and the percentage of current assets increase by 27.909%. In the fiscal year 2004-05 the volume of current assets is 14342.91, which is 103.115% of total assets, and the percentage of current assets is decrease by 3.98%. In the fiscal year 2005-06 the volume of current assets is 15,233.94, which is 110.513% of total assets and the percentage of current assets increase by7.40%. In the fiscal year 2006-07 the volume of current assets is 15,397.28 that is 86.025% of total assets and the percentage change in current assets is decrease by 24.49%.

By the above analysis, the average ratio of current assets on total assets is 97.188. The S.D. is 13.78%, which indicates that the company has maintained almost constant current assets on total assets and C.V. of 14.19%.

Figure 4.2

Ratio of Current Assets to Total Assets



4.2.2.2. Relationship between Current Assets and Fixed Assets

Every firm should invest in current assets as well as in fixed assets to support a particular level of business activities. So, the firm should determine the proper proportion of current assets with fixed assets and total assets. The level of current assets can be measured by the relationship between current to fixed assets, which can help to understand the current assets financing policy of the firm. Assuming a constant level of fixed assets higher current assets to fixed assets ratio indicates an aggressive current assets policy, conversely lower ratio indicates a conservative current assets policy. The two goals of financial management viz. profitability and liquidity are directly linked with the management of current assets with a decrease in the volume of current assets, the profitability increase but the liquidity declines and vice-versa

Table 4.3

Current Assets as Percentage of Fixed Assets

(Rs. In Lakhs)

Fiscal Year	Current Assets	Fixed Assets	Ratio (%)	% Change
2002-03	14,341.67	8,358.79	171.576	-
2003-04	14,608.52	7,758.36	188.29	-16.718
2004-05	14,342.91	9,099.66	157.620	30.673
2005-06	15,233.94	10,250.32	148.619	9.001
2006-07	15,397.28	9,799.53	157.122	-8.503
Average	14,784.864	9,053.33	164.646	3.613
S.D.	499.891	1,018.71	15.572	20.987
C.V. (%)	3.381	11.25	9.458	580.846

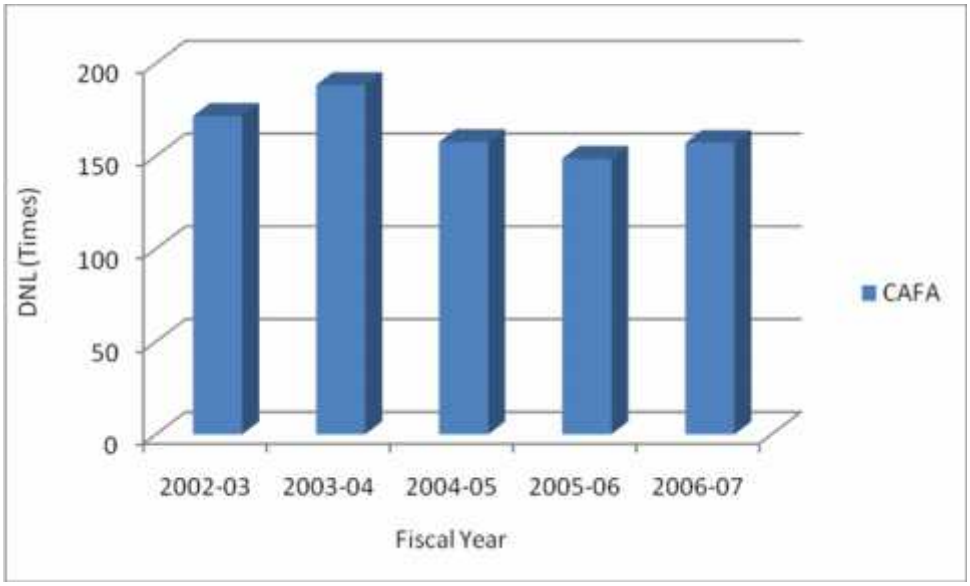
Source: Annual Report of Dabur Nepal

This table shows the ratio of current assets on fixed assets. The fixed assets are also in increasing trend but in lower rate than current assets. Investment in current assets is greater than fixed assets. Investment in current assets is greater than fixed assets during last five years of study period. Average fixed assets over five year period was Rs 9053.33 with 11.252 C.V. The average ratio of current assets over fixed assets is 164.65% with C.V. of 9.46% .In the year 2006-07, the ratio has increased by 24.49% while in 2003-04; it has been decreased by 27.91%. The overall ratio shows that the investment in current assets in comparison with it's fixed assets is favorable.

The above table shows the state of current assets and fixed assets in total investment. From the above table, it can be reasonably said that the corporations increasing it's investment in current assets. Every year the size of fixed assets is increasing the corporation has invested its considerable amount by increasing the investment in current assets.

Figure 4.3

Current Assets as Percentage of Fixed Assets



4.2.2.3. Percentage of Cash and Bank Balance to Current Assets

The basis objectives of cash management are to keep, the investment in cash as low as possible while operating the firm's activities efficiently and effectively and effectively. Cash is necessary to pay bills, to purchase new materials and to pay debts. The company must hold cash to meet these requirements. The table presented below shows the proportion of cash to current assets.

Table 4.4

Percentage of Cash and Bank Balance to Current Assets

(Rs. In Lakhs)

Fiscal year	Cash & Bank Balance	Current Assets	Ratio (%)	% Change
2002-03	42.34	14,341.67	0.295	-
2003-04	106.86	14,608.52	0.731	-0.436
2004-05	74.84	14,342.91	0.521	0.209
2005-06	19.05	15,233.94	0.125	0.396
2006-07	104.79	15,397.28	0.680	-0.555
Average	69.576	14,784.864	0.470	-0.096
S.D.	38.576	499.891	0.257	0.470
C.V. (%)	55.445	3.381	54.66	-488.047

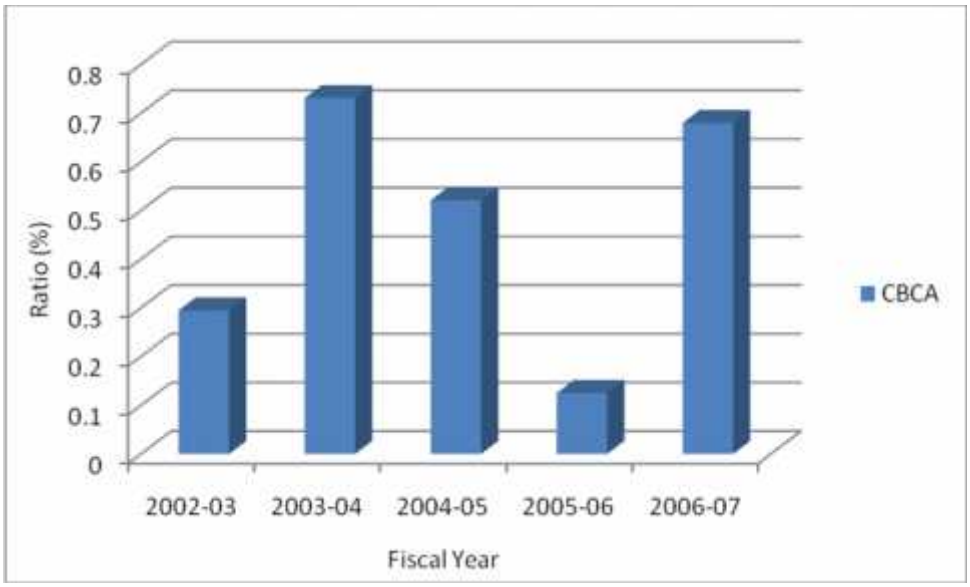
Source: Annual Report of Dabur Nepal

The above table shows that the proportion of cash and bank balance to current assets of Dabar Nepal (P) Limited are of increasing as well as decreasing trend. The proportion of cash and bank balance to current assets is highest in the fiscal year 2003-04. The cash hold by the company in this year is Rs 106.86 and it is 0.731% of its current assets. The proportion of cash and bank balance in fiscal year2002-03,2003-04,2004-05,2005-06 & 2006-07 is 0.295%, 0.731%,0.522%, 0.125% & 0.681% and the proportion of change is(0.436%),0.210%, 0.397%&(0.555%). The average ratio of all fiscal year has come to 0.471% with C.V. of 54.661%.

From the above analysis cash and bank balance holds lowest proportion among the other current assets. Therefore, it should hold appropriate amount of cash and bank balance or marketable security to grab the market.

Figure 4.4

Percentage of Cash and Bank Balance to Current Assets



4.2.2.4. Percentage of Cash and Bank Balance to Total Assets

Table 4.5

Cash and Bank Balance to Total Assets

(Rs. In Lakhs)

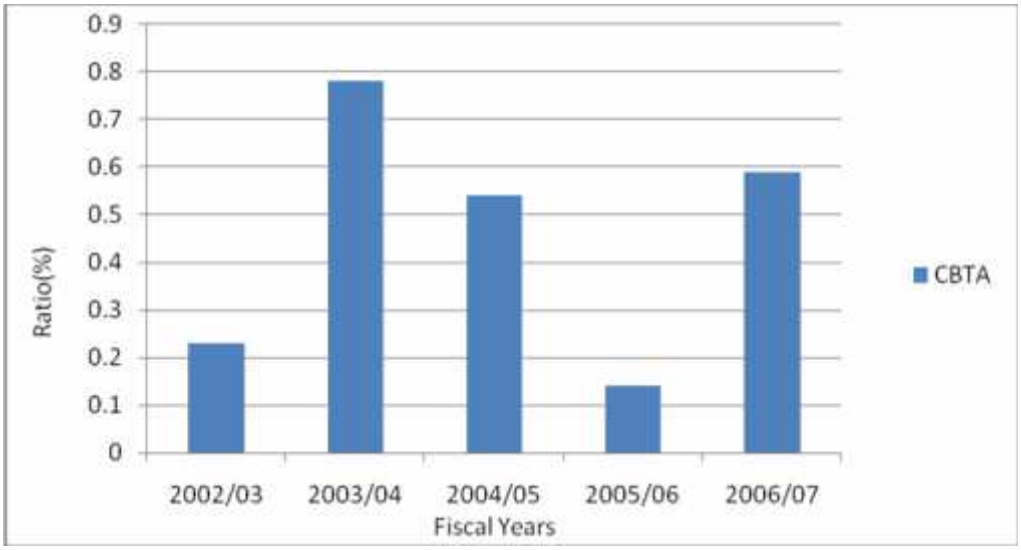
Fiscal year	Cash & Bank Balance	Total Assets	Ratio (%)	% Change
2002-03	42.34	18,110.76	0.233	-
2003-04	106.86	13,640.38	0.783	0.549
2004-05	74.84	13,909.59	0.538	0.245
2005-06	19.05	13,784.78	0.138	0.399
2006-07	104.79	17,898.69	0.585	-0.447
Average	69.576	15,468.84	0.455	-0.087
S.D.	38.576	2,318.11	0.265	0.480
C.V. (%)	55.445	14.98	58.159	-545.99

Source: Annual Report of Dabur Nepal

The table 4.5 standing above shows the percentage of cash and bank balance to total assets. The above table shows the investment in cash and bank balance out of its total assets during the period of five years. In the fiscal year 2002-03 the ratio is 0.234% and it is increased by 0.55% and reached up to 0.783% in fiscal year 2003-04. In fiscal year 2004-05, the ratio is decreased by 0.245% and reached up to 0.54%. Again the ratio has increased by 0.399% in fiscal year 2005-06 and reached up to 0.138%. In fiscal year 2006-07, there is increment in ratio by 0.447% During the overall period the average ratio is found to be 0.45557% with S.D. of 0.265% and C.V. of 58.159% .

Figure 4.5

Cash and Bank Balance to Total Assets



4.2.2.5 Percentage of Inventory to Current Assets and Total Assets

Table 4.6

Proportion of Inventory to Current Assets and Total Assets

(Rs. In Lakhs)

Fiscal year	Inventory	Current Assets	Ratio (%)	% Change	Total Assets	Ratio (%)	% Change
2002-03	5368.78	14,341.67	37.434	-	18,110.76	29.644	-
2003-04	6403.04	14,608.52	43.83	-6.396	13,640.38	46.941	-17.297
2004-05	7939.92	14,342.91	55.35	-11.526	13,909.59	57.082	-10.1405
2005-06	8557.15	15,233.94	56.17	-0.813	13,784.78	62.076	-4.994
2006-07	8829.26	15,397.28	57.34	-1.171	17,898.69	49.329	12.747
Average	7419.63	14,784.864	50.027	-4.977	15,468.84	49.014	-4.921
S.D.	1482.493	499.891	8.897	5.057	2,318.11	12.403	12.814
C.V. (%)	19.98	3.381	17.784	-101.613	14.98	25.304	-260.386

Source: Annual Report of Dabur Nepal

Inventories are the stock of the product, a company is manufacturing for the sales the components that mix up product and inventory is most important part of current assets. The storage of required inventory result irregular production and hamper of production

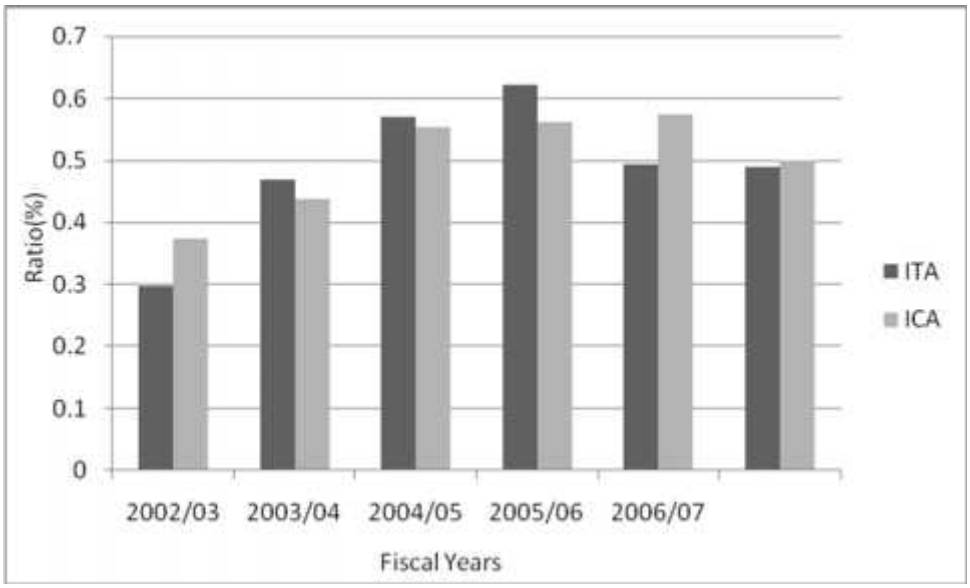
process and in the other hand excess inventory causes unnecessary holding of capital. It results in increased of cost. Therefore, the inventory must be optimum in position so that neither it arises the problem of excess inventory nor it arises the problem of shortage. The table presented above shows the proportion of inventory to current assets and total assets. In fiscal year 2002-03 it is 37.434% and 29.644% of current assets and total assets respectively. It is increase by 6.396% and 17.297% in the fiscal year 2003-04 over the current assets and total assets respectively.

In the year 2004-05 it is increased by 11.526% and 10.1405% and reached up to 55.357% and 57.0823% over the current assets and total assets. In the fiscal year 2005-06, it has been again decreased into 56.1716% and 62.0767% over the current assets and total assets. In the fiscal year 2006-07, it has been increased to 57.3429% and 49.0148% over current assets and total assets.

The average ratio over current assets is 50.027% with C.V. of 17.784% .The average ratio over total assets is 49.014% with C.V. of 25.304%. Here, the increase in ratio is an indication of liberal inventory policy followed by company. If the ratio increase or percentage increases, it means greater part is occupied by inventory.

Figure 4.6

Proportion of Inventory to Current Assets and Total Assets



4.2.2.6 Proportion of Receivables to Current Assets and Total Assets

Table 4.7

Proportion of Receivables to Current Assets and Total Assets

(Rs. In Lakhs)

Fiscal year	Receivables	Current Assets	Ratio (%)	% Change	Total Assets	Ratio (%)	% Change
2002-03	8,930.55	14,341.67	62.269	-	18,110.76	49.3107	-
2003-04	8,098.62	14,608.52	55.437	6.832	13,640.38	59.372	-10.061
2004-05	6,328.25	14,342.91	44.121	11.316	13,909.59	45.495	13.876
2005-06	6,657.74	15,233.94	43.703	0.417	13,784.78	48.297	-2.802
2006-07	6,463.22	15,397.28	41.97	1.726	17,898.69	36.110	12.187
Average	7,295.68	14,784.864	49.501	5.073	15,468.84	47.717	3.3001
S.D.	1,156.87	499.891	8.908	4.998	2,318.11	8.342	11.642
C.V. (%)	15.857	3.381	17.99	98.516	14.98	17.482	352.778

Source: Annual Report of Dabur Nepal

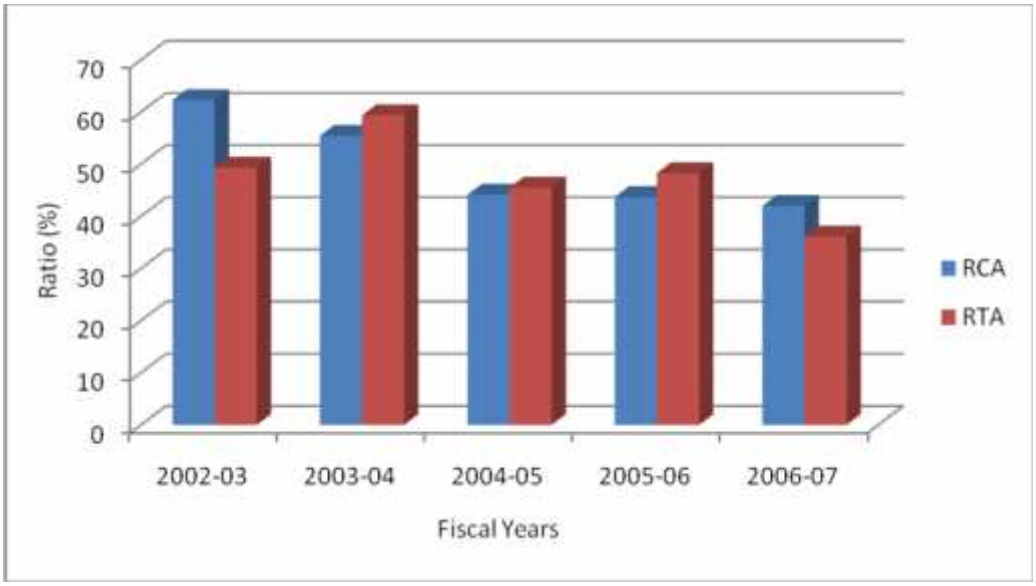
Receivable is one of the major components of current assets. To increase sales volume, the company should give it's product in credit to customers which increase receivables. Higher degree of receivables results unnecessary held up of working capital and lower degree of receivables may cause negative results in sales level.

The table above shows the proportion of receivables to current assets and total assets. The table 4.7 shows that the receivables are highest in the fiscal year 2002-03, which is 62.269% of current assets and 59.372% of total assets in the fiscal year 2003-04.

In fiscal year 2002-03, receivables is 8,930.55 is 62.269% of current assets and 49.3107% of total assets. In the fiscal year 2003-04, it is decreased by 6.8322% and reached to 55.437% of current assets while increase by 10.0616% and reached to 59.3723%. In the fiscal year2004-05, it is decrease by 11.3165% and reached up to 44.1211% of current assets and decreased by 13.876% and reached up to 45.495% of total assets. Then in the fiscal year 2005-06, it is decrease by 0.417% and reached up to 43.703% of current assets and increased by 2.8021% and reached up to 48.297% of total assets. Then in the fiscal year2006-07, it is deceased by 12.187% and reached up to 36.110016% of total assets.

Figure 4.7

Proportion of Receivables to Current Assets and Total Assets



4.2.2.7. Proportion Miscellaneous Current Assets to Current Assets and Total Assets

Table 4.8

Proportion Miscellaneous Current Assets to Current Assets and Total Assets

(Rs. In Lakhs)

Fiscal year	Miscellaneous	Current Assets	Ratio (%)	% Change	Total Assets	Ratio (%)	% Change
2002-03	-	14,341.67	0	-	18,110.76	0	-
2003-04	60.39	14,608.52	0.413	-0.413	13,640.38	0.442	0.442
2004-05	45.31	14,342.91	0.315	0.097	13,909.59	0.325	0.116
2005-06	30.22	15,233.94	0.198	0.117	13,784.78	0.219	0.1065
2006-07	15.13	15,397.28	0.098	0.100	17,898.69	0.084	0.1346
Average	37.762	14,784.864	0.205	-0.0245	15,468.84	0.214	0.0211
S.D.	19.477	499.891	0.165	0.259	2,318.11	0.178	0.281
C.V. (%)	51.578	3.381	80.52	1055.799	14.98	83.217	(1331.127)

Source: Annual Report of Dabur Nepal

The above table shows the proportion of miscellaneous to current assets and total assets. There are miscellaneous current assets only in five fiscal years. Among five fiscal year highest ratio is in 2003-04, i.e. 0.4133% and lowest is in 2006-07, i.e. 0.0982%. The average ratio is 0.2051% with S.D. of 0.0.165% and C.V. of 80.52% over the 5 years of study period.

4.2.2.8. Proportion of Loans and Advance to Current Assets and Total Assets

Table 4.9

Proportion of Loans and Advance to Current Assets and Total Assets

(Rs. In Lakhs)

Fiscal year	Loan & Advance	Current Assets	Ratio (%)	% Change	Total Assets	Ratio (%)	% Change
2002-03	20,319.93	14,341.67	141.684	-	18,110.76	112.198	-
2003-04	14,161.99	14,608.52	96.943	44.741	13,640.38	103.824	8.374
2004-05	12,540.8	14,342.91	87.435	9.507	13,909.59	90.159	13.664
2005-06	12,688.61	15,233.94	83.291	4.143	13,784.78	92.047	-1.888
2006-07	16,548.74	15,397.28	107.478	-24.186	17,898.69	92.457	-0.409
Average	15,252.014	14,784.864	103.366	8.551	15,468.84	98.137	4.935
S.D.	3,258.014	499.891	23.362	28.294	2,318.11	9.526	7.374
C.V. (%)	21.365	3.381	22.601	330.875	14.98	9.707	149.436

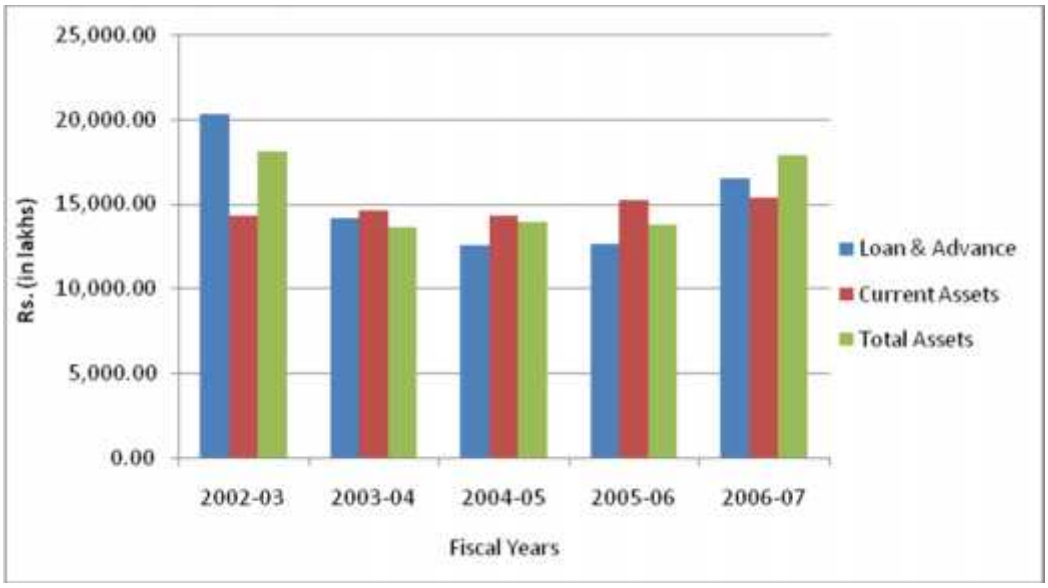
Source: Annual Report of Dabur Nepal

The table above shows the proportion of loan and advance to current assets and total assets .The table 4.9 shows that the loan and advance are highest in the fiscal year 2002-03, which is 141.684% of current assets and 112.198% of total assets. And the table of loan and advance are lowest in the fiscal year 2005-06, i.e. is 83.292% of current assets and 90.159% of total assets in year 2004-05.

The average percentage of ratio is 103.366% with S.D. 23.362% and C.V. of 22.6015%. And the average percentage ratio of total assets is 98.137% with S.D. 9.526% and C.V. is 9.707%.

Figure 4.8

Proportion of Loans and Advance to Current Assets and Total Assets



4.2.2.9. Proportion of Current Assets to Sales

A company has to invest some amount in current assets to support the given level of sales. When a firm holds relatively large amount of current assets to support a given level of sales than it is called fat and cat policy.

When a firm holds relatively minimum amount of current assets to support the given level of sales than it is called lean and thin policy and between these two policies is the moderate policy. Thus, the current assets are very important for the sales level of a company. The table presented below shows the ratios of current assets and sales.

Table 4.10

Proportion of Current Assets to Sales

(Rs. In Lakhs)

Fiscal year	Current Assets	Sales	Ratio	% change
2002-03	14,341.67	26,995.05	53.127	-
2003-04	14,608.52	30,177.02	48.409	4.717
2004-05	14,342.91	27,287.90	52.561	-4.152
2005-06	15,233.94	32,287.90	47.181	5.379
2006-07	15,397.28	36,608.41	42.059	5.122
Average	14,784.864	30,671.26	48.667	2.766
S.D.	499.891	3,970.805	4.499	4.620
C.V. (%)	3.381	12.946	9.245	166.99

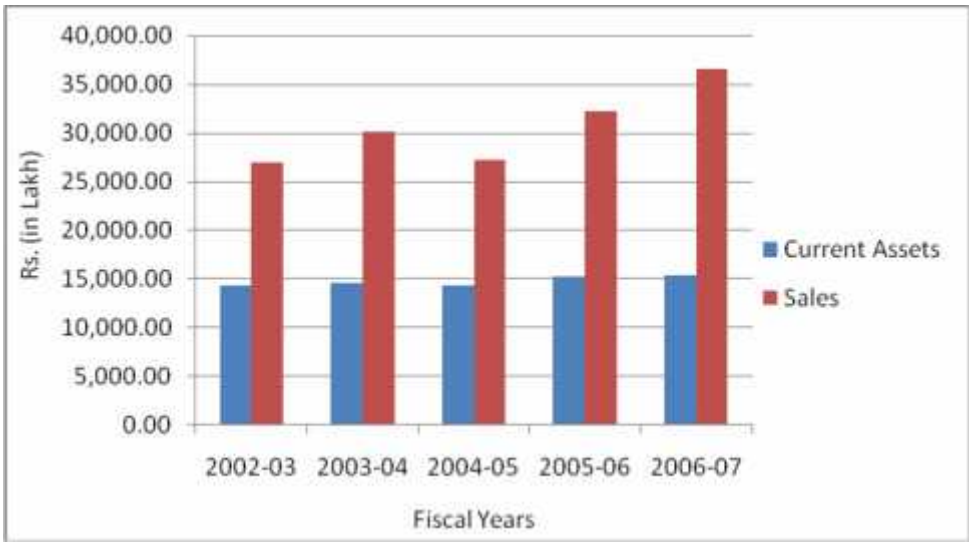
Source: Annual Report of Dabur Nepal

The table presented above shows the proportion of current assets to sales. In fiscal year 2002-03, it is 53.127%, it is decrease by 4.717% and reached up to 48.409%. In fiscal year 2004-05, it is increased by 4.152% and reached up to 52.5614%. And in fiscal year 2005-06 and 2006-07 the ratio again decrease by 5.38% and 5.122%, and reached up to 47.1815% and 42.66% respectively.

The average percentage of ratio is 48.667% with S.D. of 4.499% and C.V. is 9.245%.

Figure 4.9

Proportion of Current Assets to Sales



4.2.3. Liquidity Position & Cash Conversion Cycle

The liquidity ratio measures the ability to pay it's debt with in year. It involves the relationship between current assets and current liabilities. The liquidity ratio helps to measure the liquidity of a company. The liquidity ratio is very closely related with the size of net working capital. Therefore, the position of liquidity is measure by analyzing the size of net working capital, current ratio and quick ratio or acid test ratio.

4.2.3.1. Size of Net Working Capital

The differences between current assets and current liabilities are known as net working capital. Net working capital can be positive or negative. Positive net working capital indicates the firm's ability to pay it's current obligations and the negative working capital indicates it's inability to pay it's current obligation.

Table 4.11

Size of Net Working Capital

(Rs. In Lakhs)

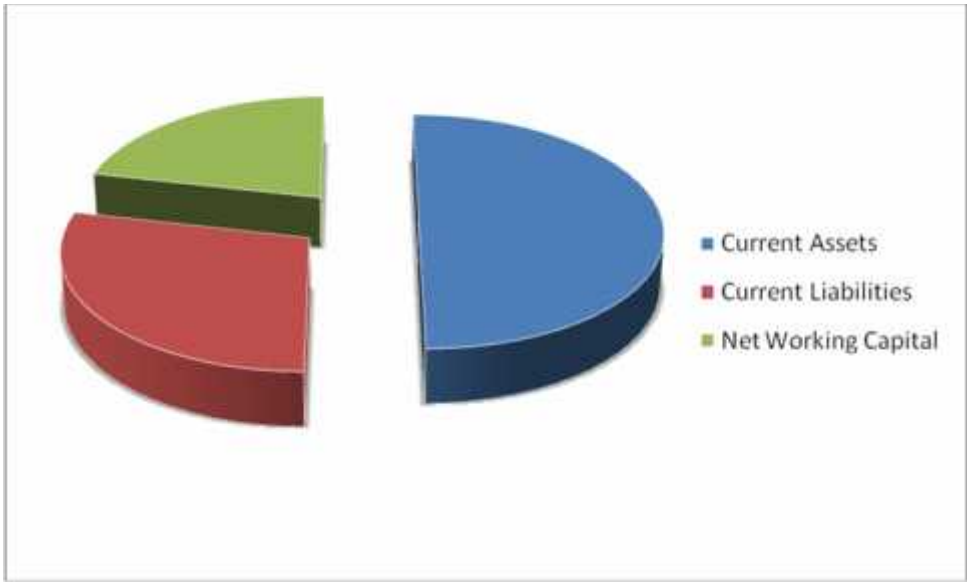
Fiscal year	Current Assets	Current Liabilities	Net Working Capital
2002-03	14,341.67	4,676.68	9,664.99
2003-04	14,608.52	8,806.19	5,802.33
2004-05	14,342.91	9,578.29	4,764.62
2005-06	15,233.94	11,749.68	3,484.26
2006-07	15,397.28	7,313.25	8,084.03
Average	14,784.864	8,424.82	6,360.05
S.D.	499.891	2,636.98	2,501.067
C.V. (%)	3.381	31.3	39.324

Source: Annual Report of Dabur Nepal

The table above shows the net working capital of Dabur Nepal Limited. The net working capital for Dabur Nepal Limited are 9664.99, 5802.33, 4764.62, 3484.26 and 8084.03. All these net working capital are in positive figure. So, it indicates that in this year the firm has no current obligations. This means the firm is able to pay its current liabilities.

Figure 4.10

Size of Net Working Capital



4.2.3.2. Current Ratio

This ratio measures the liquidity position of the company. This ratio can be calculated by dividing current assets by current liabilities. Current assets include sundry debtors, inventories, cash and bank balance, deposits etc. Current liabilities include sundry creditors, short- term loan, received in advance etc. The current ratio of Dabur Nepal Ltd for the period of study is calculated in the table below.

Table 4.12

Current Ratio

(Rs. In Lakhs)

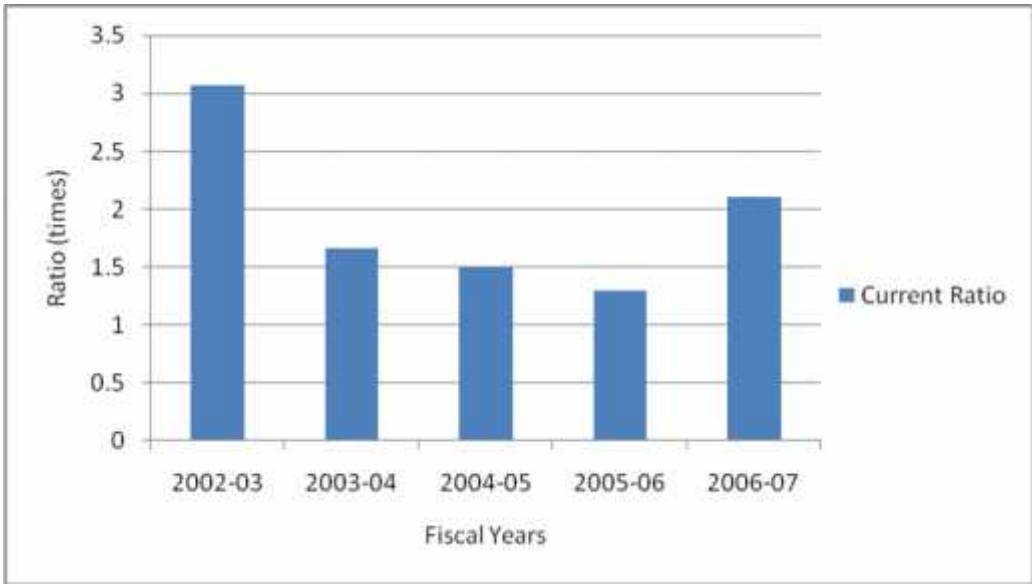
Fiscal year	Current Assets	Current Liabilities	Ratio in Times
2002-03	14,341.67	4,676.68	3.066
2003-04	14,608.52	8,806.19	1.658
2004-05	14,342.91	9,578.29	1.497
2005-06	15,233.94	11,749.68	1.296
2006-07	15,397.28	7,313.25	2.105
Average	14,784.864	8,424.82	1.924
S.D.	499.891	2,636.98	0.704
C.V. (%)	3.381	31.3	36.59

Source: Annual Report of Dabur Nepal

The current ratio is considered to be perfect when it comes to 2:1. During the study the company is able to meet it's obligation in fiscal year 2006-07, as its current ratio is perfect in 2006-07. In fiscal year 2002-03, the current ratio is above the ratio 2:1, which is good for the company. But in fiscal year 2003 to 2005, the current ratio is less than 2:1, which is not good for the company. In average the current ratio of the company is not satisfactory, thus the lower current ratio indicates lower liquidity and factory does not have ability to pay its obligations.

Figure 4.11

Current Ratio



4.2.3.3. Quick Assets or Quick Ratio

Quick ratio is the relationship between quick assets and current liabilities. Current ratio doesn't measure actual liquidity position of the company; current ratio measures the liquidity position in gross term. It includes the less liquidity assets and inventories. So, quick ratio is used to measure the liquidity position in net term. For the calculation of this ratio inventories is deducted form current assets and divide it by current liabilities. The quick ratio of Dabur Nepal Ltd is calculated in following table below.

Table 4.13

Quick Assets or Quick Ratio

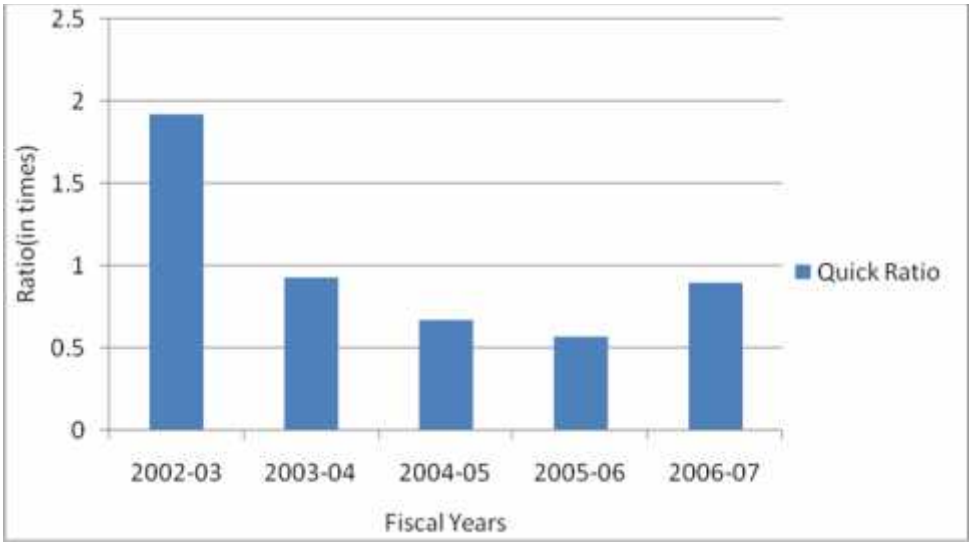
(Rs. In Lakhs)

Fiscal year	Quick Assets	Current Liabilities	Ratio in Times
2002-03	8,972.89	4,676.68	1.918
2003-04	8,205.48	8,806.19	0.931
2004-05	6,402.99	9,578.29	0.668
2005-06	6,676.79	11,749.68	0.568
2006-07	6,568.02	7,313.25	0.898
Average	7,365.23	8,424.82	0.997
S.D.	1,153.905	2,636.98	0.537
C.V. (%)	15.667	31.3	53.899

Source: Annual Report of Dabur Nepal

The table above shows the quick ratio of Dabur Nepal Limited. According to study quick ratio are 1.918, 0.931, 0.668, 0.5682 and 0.898 in the fiscal year 2002-03, 2003-04, 2004-05, 2005-06 and 2006-07 respectively. The quick ratio is considered as perfect when the ratio comes 1:1. The above study shows the quick ratio is less in the year 2005-06. In the fiscal year 2002-03, the quick ratio is above the ratio 1:1. A ratio less than 1:1 is not good for the company while the ratio above 1:1 is good for the company. The ratio above 1:1 shows that the company is able to meet its short-term obligation and has not lost its credibility.

Figure 4.12
Quick Assets or Quick Ratio



4.2.3.4. Inventory Conversion Period

The Inventory Conversion period measure the length of time required to convert raw materials into finished goods and then to sell these goods to the market. It is the amount of time, the product remain in inventory in various stages of production. The following table shows the inventory conversion period of Dabur Nepal Ltd in five year of study period.

Table 4.14

Inventory Conversion Period

(Rs. In Lakhs)

Fiscal year	Inventory	Cost of Goods Sold	Days in a year	Inventory Conversion Days
2002-03	5368.78	20,788.6	360	92.972
2003-04	6403.04	23,668.85	360	97.389
2004-05	7939.92	22,160.72	360	128.983
2005-06	8557.15	26,269.15	360	117.269
2006-07	8829.26	30,350.75	360	104.726
Average	7419.63	24,647.614	360	108.268
S.D.	1482.493	3,781.19	0	14.790
C.V. (%)	19.98	15.34	0	13.660

Source: Annual Report of Dabur Nepal

The above table shows the inventory conversion period in days. The highest conversion days are 128.98 days in the fiscal year 2004-05 while the lowest conversion days are 92.97 days in the fiscal year 2002-03.

In the fiscal year 2003-04 and 2004-05 the Conversion days are increased and reached to 97.389 days and 128.98 days. In the fiscal year 2005-06 and 2006-07 the conversion days are decreased and reached to 117.26 days and 104.726 days. The average conversion days is 108.26 days. By this analysis the inventory conversion times in average in a year is 3.325 (360/108.26).

4.2.3.5. Receivables Collection Period

Receivables collection period or average collection period is the average length of time required to convert the receivables into cash. It is also called the day's sales outstanding. Higher ratio indicates the cash conversion period is higher and it also affects the liquidity position of the company. The following table shows the receivables collection period of Dabur Nepal Ltd in the five year of study period.

Table 4.15

Receivables Collection Period

(Rs. In Lakhs)

Fiscal year	Receivables	Sales	Days in a year	Receivables Collection Period (in days)
2002-03	8,930.55	26,995.05	360	119.095
2003-04	8,098.62	30,177.02	360	96.613
2004-05	6,328.25	27,287.90	360	83.486
2005-06	6,657.74	32,287.90	360	74.231
2006-07	6,463.22	36,608.41	360	63.558
Average	7,295.68	30,671.26	360	87.397
S.D.	1,156.87	3,970.805	0	21.486
C.V. (%)	15.857	12.946	0	24.584

Source: Annual Report of Dabur Nepal

The above table shows the length of time of the receivables collection period in the study period. In the fiscal year 2002-03, receivables collection period is 119.095. In the fiscal year 2003-04, it is 96.613 and decreased by 22.48%.In the fiscal year 2004-05, 2005-06,it is 83.48 & 74.231 which is the lowest receivables collection period during the study period. By this analysis, Dabur Nepal Ltd has no fixed collection policy of receivables. The length of time to convert into cash is larger because the average receivables collection period is 87.39 days.

4.2.3.6. Payable Deferral Period

The payable deferral period shows the length of time between the purchase of raw material, labor and the payment of the cash for them. The following table shows the payable deferral period during the study period.

Table 4.16

Payable Deferral Period

(Rs. In Lakhs)

Fiscal year	Account Payable	Cost of Goods Sold	Days in a year	Payable Deferral Period (Days)
2002-03	3,377.73	20,788.6	360	58.492
2003-04	7,032.13	23,668.85	360	106.957
2004-05	7,686.35	22,160.72	360	124.864
2005-06	9,789.60	26,269.15	360	134.159
2006-07	6,285.66	30,350.75	360	74.556
Average	6,834.29	24,647.614	360	99.806
S.D.	2,331.73	3,781.19	0	32.417
C.V. (%)	34.12	15.34	0	32.480

Source: Annual Report of Dabur Nepal

The above table shows the deferral period in days. In fiscal year 2002-03,deferral period is 58.49 days, which is lowest payable deferral period of the year. In fiscal year 2003-04, it is 106.95 days and increased by 48.46 days. In fiscal year 2004-05,it is 124.86 days and again it is increased by 17.91 days. In the fiscal year 2005-06, payable deferral period is 134.15 days , which is highest payable deferral period of the year, and it is increased by

10.71 days while in fiscal year 2006-07, payable deferral period is 63.55 and it is decreased by 59.609 days.

This analysis explains that the company cannot make the fixed policy to make payment for the labour and material purchase because the payable deferral period is fluctuating over the study periods. The average deferral period is 99.806 days during five year of study period and the payment is 3.6069 times (360/99.806) in a year for purchases and labour.

4.2.3.7. Cash Conversion Cycle

The cash conversion cycle is the length of time between the payment for labour and materials and the collection of receivables. It is concerned with cash in business and collection of receivables or sales. The table shows the cash conversion cycle of Dabur Nepal Ltd during the five years of the study period.

Table 4.17

Cash Conversion Cycle

(Rs. In Lakhs)

Fiscal year	Inventory Conversion Period (a)	Receivable Collection Period (b)	Operating Cycle (c) = a+b	Less: Payable Deferral Period (d)	Cash Conversion Cycle (e)=c-d
2002-03	92.972	119.095	212.067	58.492	153.575
2003-04	97.389	96.613	194.002	106.957	87.044
2004-05	128.983	83.486	212.470	124.864	87.605
2005-06	117.269	74.231	191.501	134.159	57.341
2006-07	104.726	63.558	168.284	74.556	93.728
Average	108.268	87.397	195.665	99.806	95.859

Source: Annual Report of Dabur Nepal

The above table shows the cash conversion cycle of Dabur Nepal Ltd. According to above table cash conversion cycle of Dabur Nepal Ltd is fluctuating minimum 57.34 days in the year 2005-06 to maximum 153.57 days in a year 2002-03, range over the study

period .In the fiscal year 2003-04, it is 87.044 days while in the fiscal year 2004-05 & 2006-07 it is 87.60 days & 93.72 days.

By above analysis, it is said that cash conversion cycle of Dabur Nepal Ltd is fluctuating over the study period and it is said that the management has not consistent policy of inventory, receivables and payable. The cash conversion cycle in average is 95.85 days while the cash conversion cycle in a year is 3.75 times in average 3.755 (360/95.85).
The above table can be shown in following figure.

4.2.4. Turnover Position

Funds are invested in various assets in a business to make sales and earn profits. The efficiency with which assets are managed directly affects the volume of sales. Thus, an activity ratio measures the efficiency of effectiveness with which a firm manages it resources or assets. These ratios are called turnover ratio. Hence, turnover ratios are used to measures the efficiency of working capital.

4.2.4.1. Current Assets Turnover

Table 4.18

Current Assets Turnover

(Rs. In Lakhs)

Fiscal year	Sales	Current Assets	Current Assets Turnover Ratio (in times)
2002-03	26,995.05	14,341.67	1.882
2003-04	30,177.02	14,608.52	2.065
2004-05	27,287.90	14,342.91	1.902
2005-06	32,287.90	15,233.94	2.119
2006-07	36,608.41	15,397.28	2.377
Average	30,671.26	14,784.864	----------
S.D.	3,970.805	499.891	---------
C.V. (%)	12.946	3.381	--------

Source: Annual Report of Dabur Nepal

Current assets ratio calculates the relationship between current assets and sales. This turnover ratio indicates the management's efficiency in over all management of current assets. The ratio is calculated by dividing net sales by total current assets.

The table above shows the current assets turnover ratio of Dabur Nepal Ltd. Higher turnover of current assets is always desirable as it indicates the maximum utilization of current assets. Higher the current assets turnover ratio better will be the working capital position. In fiscal year 2006-07, the current assets turnover ratio is highest i.e. 2.377 times where as in the fiscal year 2002-03, it is lowest i.e. 1.88 times. Here, average

current turnover ratio is 2.069 times with 0.2062 S.D. and 9.674 C.V. This implies very low utilization of current assets.

In average the current turnover ratio is greater it means the company can able to increase the sales as the investment in current assets.

4.2.4.2 Inventory Turnover Position

Inventory is very important part of current assets, which should be maintained effectively and efficiently. Working capital, production and sales are closely related to each other. The production should be increase to meet the higher level of sales target. To produce more, more raw materials is required. The stock level of raw materials should be properly maintained to meet the raw material requirement for higher level of production. Hence, to fulfill the requirement the company has to increase it's working capital. The table below shows the inventory turnover position of Dabur Nepal Ltd during the study period.

Table 4.19

Inventory Turnover Position

(Rs. In Lakhs)

Fiscal year	Cost of Goods Sold	Inventory	Inventory Turnover ratio (in times)
2002-03	20,788.6	5368.78	3.872
2003-04	23,668.85	6403.04	3.696
2004-05	22,160.72	7939.92	2.791
2005-06	26,269.15	8557.15	3.069
2006-07	30,350.75	8829.26	3.437
Average	24,647.614	7419.63	3.373
S.D.	3,781.19	1482.493	0.443
C.V. (%)	15.34	19.98	13.161

Source: Annual Report of Dabur Nepal

The above table shows the numbers of times inventory is replaced during the year. The company is able to make 3.872 times turnover in the fiscal year 2002-03. In this year, the company kept the stock for92.92 (360/3.872) days. The inventory turnover in the fiscal year 2003-04 is 3.696 times and kept it as stock for 97.402 (360/3.696)days. Similarly,

the inventory is found to be 2.791, 3.069 and 3.437 times for the different fiscal year. The average inventory turnover is 3.373 with the S.D. of 0.443 and C.V. of 13.161. The inventory turnover ratio is higher so the company can maintain the fixed inventory policy.

4.2.4.3 Receivables Turnover Position

Receivables turnover ratio indicates the speed with which receivables are being converted into sales. The table below shows the sales to receivables ratio. This ratio helps to analyze the capacity of Dabur Nepal Ltd.

Table 4.20

Receivables Turnover Position and Average Collection Period

(Rs. In Lakhs)

Fiscal year	Sales	Sundry Debtors	Sundry Debtors Turnover (in times)
2002-03	26,995.05	14,341.67	10.922
2003-04	30,177.02	14,608.52	13.6088
2004-05	27,287.90	14,342.91	17.437
2005-06	32,287.90	15,233.94	14.021
2006-07	36,608.41	15,397.28	19.437
Average	30,671.26	14,784.864	15.085
S.D.	3,970.805	499.891	3.358
C.V. (%)	12.946	3.381	22.263

Source: Annual Report of Dabur Nepal

The table above shows the receivables turnover of Dabur Nepal Ltd during the 5 year of study period. Although the net sales have been increasing, the sundry debtors turnover is deceasing due to rapid growth of sundry debtors. It is highest in the fiscal year 2006-07; the sundry debtor's turnover ratio is 19.437 times while in the fiscal year 2002-03, it is very low i.e. 10.92 times. In the year 2003-04, 2004-05 and 2005-06, it is 13.608, 17.437 and 14.021 times. Here, average turnover ratio is 15.085 with S.D. of 3.358 and C.V. of 22.263 over the 5 years of study period.

Average collection period are also shown in the above table. The average collection period measures the quality of the debtors of the corporation. Its degree of liquidity plays a vital role in overall liquidity position of the firm. Thus, the measure if actual liquidity position of the firm remains incomplete without the analysis of liquidity of receivables. So, average collection period has been used to measure efficiency of receivables in terms of receivable turnover.

4.2.4.4. Cash Turnover Position

It is one of the main parts of current assets. The cash should be adequate to run the business and excess cash has no meaning, as it earns nothing. So, the company always sees the risk return trade off to maintain the just adequate cash balance. Thus, the table given below shows the cash turnover position of Dabur Nepal Ltd during the period of study.

Table 4.21

Cash Turnover Position

(Rs. In Lakhs)

Fiscal year	Sales	Cash and Bank Balance	Ratio (in times)
2002-03	26,995.05	42.34	637.577
2003-04	30,177.02	106.86	282.397
2004-05	27,287.90	74.84	364.616
2005-06	32,287.90	19.05	1,694.902
2006-07	36,608.41	104.79	349.350
Average	30,671.26	69.576	665.769
S.D.	3,970.805	38.576	591.121
C.V. (%)	12.946	55.445	88.787

Source: Annual Report of Dabur Nepal

The above table shows the turnover position of the cash and bank balance maintained by Dabur Nepal Ltd during the % year of study period. The company is able to maintain 637.577 times turnover in the fiscal year 2002-03. It is decease to 282.397 times in the fiscal year 2003-04. In the fiscal year 2004-05, it increases to 364.616 times. But in fiscal year 2005-06, it's turnover ratio increased hugely by 1694.903. After that increment in turnover again it decrease hugely to 349.3502 in the fiscal year 2006-07.Cash turnover

position is highest in the year 2005-06 i.e. 1694.9028 while it has been decreases up to 288.397 in fiscal year 2003-04, which is lowest among all the years. The average of ratio was 665.769 with S.D. 591.1214 and C.V. of 88.787.

The cash turnover over the period is highly fluctuating. So, the company has no fixed policy of cash management in relation to sales.

4.2.4.5. Net Working Capital Turnover

The sales to net working capital ratios are calculated and presented in the table given below. This ratio also helps to analyze the efficiency of working capital. This ratio indicates the velocity of the utilization of working capital. The net working capital is basically depends upon the nature and size of the factory. The net working capital is the excess of current assets over the current liabilities. Thus, the net working capital turnover position of Dabur Nepal Ltd is calculated below.

Table 4.22

Net Working Capital Turnover Position

(Rs. In Lakhs)

Fiscal year	Sales	Net working Capital	Net working Capital Turnover Ratio (in times)
2002-03	26,995.05	9,664.99	2.793
2003-04	30,177.02	5,802.33	5.201
2004-05	27,287.90	4,764.62	5.727
2005-06	32,287.90	3,484.26	9.266
2006-07	36,608.41	8,084.03	4.528
Average	30,671.26	6,360.05	5.503
S.D.	3,970.805	2,501.067	2.377
C.V. (%)	12.946	39.324	43.192

Source: Annual Report of Dabur Nepal

In the fiscal year 2002-03, it is 2.793 times, and then the ratio has been increase and reached to 5.20084 in the fiscal year 2003-04. Up to the fiscal year 2005-06, the sales are in increasing trend and it has been decreased after this year i.e. it reached to 4.5284 times in the fiscal year 2006-07. The net working capital is in decreasing trend up to 2005-06 and it has been increased after this year. It is decreasing very slowly. The average of the

Net working capital turnover is 5.5032 with the S.D. of 2.377 and C.V. of 43.193. By this analysis, there is high fluctuation in the ratio of the networking capital. This shows that the company cannot maintain the fixed level of networking capital to sales.

4.2.5. Profitability Position

Profitability ratios are calculated to measure the operating efficiency of the company in terms of profit. Profit is the ultimate goal of any business firms and a means to measure the efficiency of that firm. Here, a relationship is established between operating profit and working capital. For this purpose following profitability ratios are calculated.

a. Gross Profit Margin
b. Net Profit Margin
c. Operating Ratio
d. Return on Working Capital or Current Assets
e. Return on Total Asset

4.2.5.1. Gross Profit Margin

Gross profit is obtained by deducing cost of goods sold from net sales. This ratio measures a production efficiency of a company. Higher percentage indicates the better efficiency. The following table shows the gross profit margin of Dabur Nepal Ltd for the 5-year study period.

Table 4.23

Gross Profit Margin

(Rs. In Lakhs)

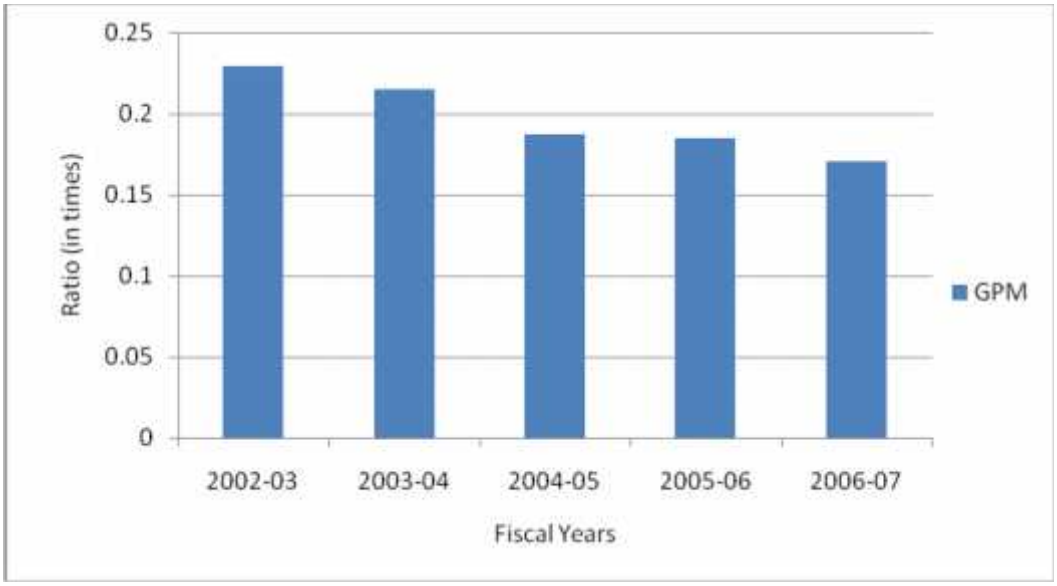
Fiscal year	Gross Profit	Sales	Gross Profit Margin Ratio (in times)
2002-03	6,206.46	26,995.05	0.229
2003-04	6,508.17	30,177.02	0.215
2004-05	5,127.18	27,287.90	0.187
2005-06	6,001.08	32,287.90	0.185
2006-07	6,257.65	36,608.41	0.171
Average	6,020.11	30,671.26	0.198
S.D.	530.811	3,970.805	0.024
C.V. (%)	8.82	12.946	12.140

Source: Annual Report of Dabur Nepal

The above shows that the gross profit margin ratio is in fluctuating trend during the period of study. All the ratio of gross profit margin is in positive figure. This positive figure shows that the company is in good condition and has no loss over the 5 year of the study period. Gross profit is lowest in the year 2004-05 which is 5,127.18 while gross profit is highest in the year 2003-04 which is 6,508.17. The gross profit margin is also in fluctuating trend but in the fiscal year 2004-05 and 2005-06, it is same i.e. 0.18. It is in lowest ratio over the 5 year of study period while in the fiscal year 2002-03, it is highest i.e. 0.2299. From this analysis, the average gross profit margin is satisfactory which is in positive. This indicates that there is no loss to the company over the study period i.e. company is in good condition.

Figure 4.13

Gross Profit Margin



4.2.5.2. Net Profit Margin

Net profit is obtained by deducing operating expenses and income tax from gross profit. This ratio is the relationship on net profit after tax to sales. This ratio shows the overall measurement of the company ability to earn net profit. The table given below shows the net profit margin of Dabur Nepal Ltd for the 5 year of the study.

Table 4.24
Net Profit Margin

(Rs. In Lakhs)

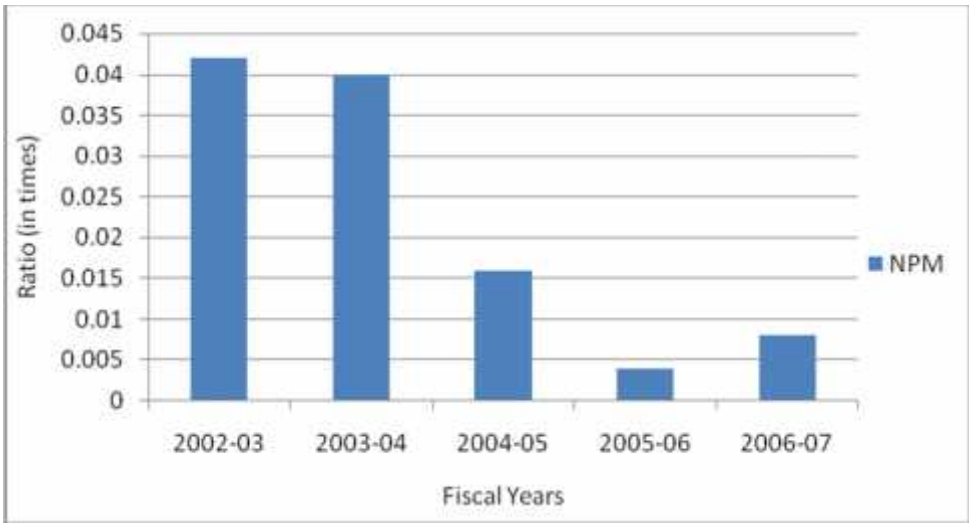
Fiscal year	Net Profit	Sales	Ratio
2002-03	1,133.79	26,995.05	0.042
2003-04	1,207.08	30,177.02	0.04
2004-05	436.61	27,287.90	0.016
2005-06	129.08	32,287.90	0.00399
2006-07	292.87	36,608.41	0.008
Average	639.88	30,671.26	0.022
S.D.	497.07	3,970.805	0.017
C.V. (%)	77.68	12.946	81.315

Source: Annual Report of Dabur Nepal

From the above table, it is observed that there are no losses in the 5 year of study period. In the fiscal year 2002-03 the net profit ratio is highest i.e. 0.042 while in the fiscal year 2005-06 the net profit ratio is low i.e. 0.00399. All the positive ratio of Dabur Nepal Ltd shows that there is no loss in the company. It indicates that the condition of the company is very good. In the fiscal year 2002-03, 2003-04, 2004-05, 2005-06 and 2006-07 the ratio are 0.042, 0.04, 0.016, 0.00399 and 0.008. The average of Net profit ratio is 0.0219 with S.D. of 0.0178 and C.V. of 81.3156.

Thus, the net profit margin of the company is good and positive in sign. The positive ratio shows that there is no loss in the company.

Figure 4.14
Net Profit Margin



4.2.5.3. Operating Ratio

To test on the expenditure of a firm in relation to sales is knows as operating ratio. Operating ratio shows how the net profit margin will change. A higher operating ratio is unfavorable to any organization because it indicates how much percentage of sales has been consumed by the cost of goods sold and operating expenses. Similarly, out of remaining part of profit, the sales are left to cover interest, income tax and dividend; further the firm needs to retain profit for expansion. The table given below shows the operating ratio of Dabur Nepal Ltd during the period of study.

Table 4.25

Operating Ratio

(Rs. In Lakhs)

Fiscal year	Operating Expenses + COGS	Sales	Ratio
2002-03	24,965.78	26,995.05	0.924
2003-04	27,729.30	30,177.02	0.918
2004-05	24,594.84	27,287.90	0.901
2005-06	28,577.84	32,287.90	0.885
2006-07	32,490.21	36,608.41	0.887
Average	27,671.59	30,671.26	0.903
S.D.	3,194.98	3,970.805	0.02
C.V. (%)	11.55	12.946	1.988

Source: Annual Report of Dabur Nepal

The table shows that the operating ratio of Dabur Nepal Ltd in the fiscal year 2002-03 is 0.924, which is highest ratio of the company during the period of study. In the fiscal year 2005-06, it is 0.885, which is lowest ratio for the period of the study. In the fiscal year 2003-04, 2004-05 & 2006-07 it is 0.918, 0.901 &0.887. Average of the operating ratio is 0.903 with S.D. of 0.02 and C.V. of 1.988.

This analysis shows that the company has meet small amount of operating income to meet interest, dividend etc.

4.2.5.4. Return on Current Assets

This ratio helps to analyze the earning power of the current assets of the company. This ratio is calculated by dividing net profit after tax by current assets. It measures the effective utilization of current assets. The table given below shows the relationship between the current assets and net profit after tax.

Table 4.26

Return on Current Assets

(Rs. In Lakhs)

Fiscal year	Net Profit After Tax	Current Assets	Ratio
2002-03	1,150.84	14,341.67	0.0802
2003-04	1,212.73	14,608.52	0.0830
2004-05	453.43	14,342.91	0.031
2005-06	121.28	15,233.94	0.0079
2006-07	303.75	15,397.28	0.0197
Average	648.41	14,784.864	0.0445
S.D.	501.39	499.891	0.034
C.V. (%)	77.33	3.381	78.436

Source: Annual Report of Dabur Nepal

The above table shows the return on current assets of Dabur Nepal Ltd. It shows the positive and fluctuating ratios. This positive ratio shows the good position of the company. In the fiscal year 2003-04, the ratio is highest i.e. 0.0830. In the fiscal year 2005-06, the ratio is lowest i.e. 0.00796. In the fiscal year, 2002-03, 2004-05 & 2006-07 the ratios are 0.0802, 0.0316 & 0.0197. The average return on current assets is 0.0445,

which shows the efficient management of current assets. The S.D. of the ratio is 0.0349 with the C.V. of 78.436.

4.2.5.5. Return on Total Assets

Return on total assets ratio shows the relationship between the total assets and net profit. It measures the percentage of return on the overall total assets employed for every activities of the company. It gives the profit earning efficiency of the company in relation to total assets. This is also called the profit to assets ratio. The return on total assets of Dabur Nepal Ltd is given below.

Table 4.27

Return on Total Assets

(Rs. In Lakhs)

Fiscal year	Net Profit After Tax	Total Assets	Ratio
2002-03	1,150.84	18,110.76	0.0635
2003-04	1,212.73	13,640.38	0.0889
2004-05	453.43	13,909.59	0.0325
2005-06	121.28	13,784.78	0.0087
2006-07	303.75	17,898.69	0.0169
Average	648.41	15,468.84	0.042
S.D.	501.39	2,318.11	0.0334
C.V. (%)	77.33	14.98	79.386

Source: Annual Report of Dabur Nepal

From the above table, we can observe the ratio of return on total assets of different year. In the fiscal year 2003-04, it is highest i.e. 0.0889, while in the fiscal year 2005-06, it is lowest i.e. 0.00879. In the fiscal year 2002-03, 2004-05 & 2006-07 the ratio are 0.0635, 0.0325 & 0.0169. The average of the return on total assets is 0.0421 with S.D. of 0.0334 and C.V. of 79.386.

4.3 Regression Analysis

Regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known value of the other variable. Assuming

that the two variables are closely related. The following are the analysis done of simple regression.

Independent Variable	Constant	Regression Coefficient	R^2	SEE	F
Sales	6792.708	-0.014106	0.0005	2887.25	0.0015
Inventory	13023.43	-0.8979	0.2829	2445.47	1.1839
Current Assets	19626.78	-0.897319	0.0322	2841.15	0.0997
Current Liabilities	14210.44	-0.9318	0.9652	538.59	83.255

Table 4.28

Simple Regression analysis of Net WorkingCapital on Sales, Inventory, Current Assets and Current Liabilities

Source: Appendix III

The table above shows the simple regression analysis of Dabur Nepal P Ltd. In the simple regression analysis , sales, inventory, current assets and current liabilities are used as independent variables. The regression coefficient of sales is -0.014106 that indicates higher a sales has higher Net working Capital. The value of R^2 is 0.0005, which shows that 0.0005 variation in Net Working Capital is explained by sales. The regression coefficient of inventory indicates the negative relationship with Net Working Capital. The Net Working Capital will increase according to the increment of inventory. the value of R^2 is 0.2829 which shows that 0.2829 proportion of variance of Net Working Capital is determined by inventory. The regression coefficient of current assets is -0.897319 which indicates the negative relationship with Net Working Capital. The value of R^2 is 0.0322 which shows that 0.0322 proportion of variance of Net Working Capital is determined by current assets. The regression coefficient of current liabilities os -0.9318,

that indicates higher current liabilities have higher Net Working Capital. The Value of R^2 is 0.9652 which shows that 0.9652 variation in Net Working Capital is explained by current liabilities.

As the beta coefficients of regression line of Net Working Capital on independent variable sales, inventory, current assets and current liabilites are negative, it can be considered the value of net working capital decreases with the increase in these independent variables.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

Working capital management is an unavoidable aspect of any management stream. Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationships that exist between them. The basic objective of this study is to examine the management of working capital of Dabur Nepal Ltd. The last important work is to list the findings, issues and challenges of the study and to give suggestion for the improvement. This chapter includes the summary of the study, conclusion and recommendation on the basic of the main findings, which are derived from the analysis of financial statement of Dabur Nepal Ltd.

The modern financial management and it's offshoot working capital management are abundantly used by the company to improved their efficiency. Working capital management, a very sensitive area of financial management was the main concern of this study and it was related to Dabur Nepal Ltd. The study mainly aimed at examining the working capital position of Dabur Nepal Ltd. The specific objectives were to analyze and assess the size, growth, liquidity, profitability and efficiency of working capital and thereby analyzing the overall management policy on working capital of Dabur Nepal Ltd. For the purpose of the study, necessary data in working capital and other related variables were collected from secondary sources. The balance sheet and income statement for the period of 2002-03 to 2006-07 were taken directly from the account department of Dabur Nepal Ltd. The available data were tabulated and analyzed by applying various important financial and statistical tools and techniques. After tabulating the available data in a systematic manner, various important financial and statistical tools and techniques were applied in order to accomplish the objective of study.

The size and structure of working capital was analyzed by comparing current assets and it's components withy different related variables. Activity and profitability ratios were

calculated to evaluate the efficiency of working capital. Liquidity position was assessed by calculating different liquidity ratios viz. current ratio, quick ratio and CCC. Different statistical tools like mean, standard deviation, coefficient of variation and regression coefficient were calculated for the meaningful interpretation of the data.

The composition of current assets analysis shows that the Dabur Nepal Ltd maintains the higher percentage of loans and advance and lower percentage of cash and bank balance. The debtors are highly fluctuated so there is no fixed credit policy of Dabur Nepal Ltd. the average cash conversion cycle over the period is 360days and the company has no fixed receivable collection policy over the period. The average current ratio is below the standard but the quick ratio is in good position. The profitability position of Dabur Nepal Ltd is satisfactory. As mentioned above this study has also the regression analysis in order to test the relationship shows that Sales, Inventory, Current Assets, Current Liabilities affects the Net Working Capital positively and results are statistically significant.

Thus, lastly the suggestion and recommendation to improve the performance by managing working capital are presented in another section.

The various aspect of working capital management is its importance on the overall management. It recognized the fact that mistakes made in management of working capital can lead to adverse effect that reduce the liquidity and profitability of manufacturing company. A manufacturing company must have an adequate cash to pay for different liabilities and supply of raw materials to process the operational activities. It must have an ability to grant credit to its customers and shareholders.

5.2. Conclusion

Working capital management is very important factor for any type of business organization because without the proper control upon it no business organization can run smoothly. The management of current assets and current liabilities is necessary for day – to- day operation of any organizations. Thus, it plays crucial role in the success and

failure of any business organization. So, the main objective of this study is to analyze the working capital management of Dabur Nepal Ltd. For this study, data and necessary information were collected from the records and annul reports provided by the company or this study is mainly based on the secondary sources of data. Here, different financial tools are used to find out the performance in terms of working capital management.

All the financial and statistical tools are used to analyze the collected data on the area which highlights on the topic of this project. From the analysis above we come to following conclusion:

5.2.1. Financial Tools

5.2.1.1. Composition of Current Assets

By the analysis, we came to know that C.V. is highest in cash and bank balance and miscellaneous. Therefore, the ratio of cash and bank balance and miscellaneous over the current assets is high and there is high fluctuation and high risk while there is consistency in the policy of the company regarding inventory, sundry debtors and loans and advance since the C.V. is low.

5.2.1.2. Percentage of Current Assets to Total Assets

By the analysis, we came to know that the average ratio of current assets on total assets is 97.188. The S.D. is 13.78%, which indicates that the company has maintained almost constant current assets on total assets and C.V. of 14.19%.

5.2.1.3. Relationship between Current Assets and Fixed Assets

By the analysis, we came to know that the state of current assets and fixed assets in total investment, it can be reasonably said that the corporations increasing it's investment in current assets. Every year the size of fixed assets is increasing the corporation has invested its considerable amount by increasing the investment in current assets.

5.2.1.4. Percentage of Cash and Bank Balance to Current Assets

By the analysis, we came to know that the average ratio of all fiscal year has come to 0.471% with C.V. of 54.661%. Cash and bank balance holds lowest proportion among

the other current assets. Therefore, it should hold appropriate amount of cash and bank balance or marketable security to grab the market.

5.2.1.5. Percentage of Cash and Bank Balance to Total Assets

By the analysis we came to know that, during the overall period the average ratio is found to be 0.45557% with S.D. of 0.265% and C.V. of 58.159%

5.2.1.6. Percentage of Inventory to Current Assets and Total Assets

By the analysis we came to know that, the average ratio over current assets is 50.027% with C.V. of 17.784% .The average ratio over total assets is 49.014% with C.V. of 25.304%. Here, the increase in ratio is an indication of liberal inventory policy followed by company. If the ratio increase or percentage increases, it means greater part is occupied by inventory.

5.2.1.7. Proportion of Receivables to Current Assets and Total Assets

By the analysis we came to know that, the average ratio over current assets is 49.501% with C.V. of 17.99 % .The average ratio over total assets is 47.717 % with C.V. of 17.482%.

5.2.1.8. Proportion Miscellaneous Current Assets to Current Assets and Total Assets

By the analysis we came to know that, the average ratio is 0.2051% with S.D. of 0.0.165% and C.V. of 80.52% over the 5 years of study period.

5.2.1.9. Proportion of Loans and Advance to Current Assets and Total Assets

By the analysis we came to know that, the average percentage of ratio is 103.366% with S.D. 23.362% and C.V. of 22.6015%. And the average percentage ratio of total assets is 98.137% with S.D. 9.526% and C.V. is 9.707%.

5.2.1.10. Proportion of Current Assets to Sales

By the analysis we came to know that, the average percentage of ratio is 48.667% with S.D. of 4.499% and C.V. is 9.245%.

5.2.1.11. Size of Net Working Capital

By the analysis we came to know that, the average net working capital is 6360.05% with S.D. of 2501.067% and C.V. is 39.324%.

All these net working capital are in positive figure. So, it indicates that in this year the firm has no current obligations. This means the firm is able to pay its current liabilities.

5.2.1.12. Current Ratio

By the analysis we came to know that, in average the current ratio of the company is not satisfactory. Lower current ratio indicates lower liquidity and factory does not have ability to pay its obligations.

5.2.1.13. Quick Assets or Quick Ratio

By the analysis we came to know that, it has satisfactory ratio overall. However, the lower ratio in some years shows the lower liquidity position.

5.2.1.14. Inventory Conversion Period

By the analysis we came to know that, the average conversion days is 108.26 days. By this analysis the inventory conversion times in average in a year is 3.325 (360/108.26).

5.2.1.15. Receivables Collection Period

By the analysis we came to know that, by this analysis, Dabur Nepal Ltd has no fixed collection policy of receivables. The length of time to convert into cash is larger because the average receivables collection period is 87.39 days.

5.2.1.16. Payable Deferral Period

By the analysis we came to know that, this analysis explains that the company cannot make the fixed policy to make payment for the labour and material purchase because the payable deferral period is fluctuating over the study periods. The average deferral period is 87.39 days during five year of study period and the payment is made 4.119 times (360/87.39) in a year for purchases and labour.

5.2.1.17 Cash Conversion Cycle

By the analysis we came to know that, cash conversion cycle of Dabur Nepal Ltd is fluctuating over the study period and it is said that the management has not consistent policy of inventory, receivables and payable. The cash conversion cycle in average is 95.85 days while the cash conversion cycle in a year is 3.75 times in average 3.755 (360/95.85).

5.2.1.18 Current Assets Turnover

By the analysis we came to know that, average current turnover ratio is 2.069 times with 0.2062 S.D. and 9.674 C.V. This implies very low utilization of current assets.

5.2.1.19. Inventory Turnover Position

By the analysis we came to know that, the average inventory turnover is 3.373 with the S.D. of 0.443 and C.V. of 13.161. The inventory turnover ratio is higher so the company can maintain the fixed inventory policy.

5.2.1.20. Receivables Turnover Position and Average Collection Period

By the analysis we came to know that, average turnover ratio is 15.085 with S.D. of 3.358 and C.V. of 22.263 over the 5 years of study period.

5.2.1.21. Cash Turnover Position

By the analysis we came to know that, the average of ratio was 665.769 with S.D. 591.1214 and C.V. of 88.787. The cash turnover over the period is highly fluctuating. So, the company has no fixed policy of cash management in relation to sales.

5.2.1.22 Net Working Capital Turnover

By the analysis we came to know that, the average of the Net working capital turnover is 5.5032 with the S.D. of 2.377 and C.V. of 43.193. By this analysis, there is high fluctuation in the ratio of the networking capital. This shows that the company cannot maintain the fixed level of networking capital to sales.

5.2.1.23 Gross Profit Margin

By the analysis we came to know that, the average gross profit margin is satisfactory which is in positive. This indicates that there is no loss to the company over the study period i.e. company is in good condition.

5.2.1.24 Net Profit Margin

By the analysis we came to know that, the average of Net profit ratio is 0.0219 with S.D. of 0.0178 and C.V. of 81.3156. The net profit margin of the company is good and positive in sign. The positive ratio shows that there is no loss in the company.

5.2.1.25 Operating Ratio

By the analysis we came to know that, average of the operating ratio is 0.903 with S.D. of 0.02 and C.V. of 1.988. This analysis shows that the company has meet small amount of operating income to meet interest, dividend etc.

5.2.1.26. Return on Current Assets

By the analysis we came to know that, the average return on current assets is 0.0445, which shows the efficient management of current assets. The S.D. of the ratio is 0.0349 with the C.V. of 78.436.

5.2.1.27. Return on Total Assets

By the analysis we came to know that, the average of the return on total assets is 0.0421 with S.D. of 0.0334 and C.V. of 79.386.

5.3 Recommendations

On the basis of the analysis of the data, some suggestions and recommendation has been presented below relating to Dabur Nepal Ltd. for the proper management of working capital.

- **Concentration on Collection of Account Receivables**

Credit terms and standards are liberal in Dabur Nepal Ltd. Due to which, the amount of outstanding bills are increasing every year. Hence it should make appropriate decision regarding credit terms, credit standard and credit policy. Like:

- Taking immediate action on the non-paying customers, like black –listing of the long-term defaulters forwarding legal action to them and likewise.
- Providing attractive packages to speed up the collection of bills.
- More authority and accountability should be attributed to the middle and lower level officers for the collection of outstanding debt and its related activities.
- A separate department should be established to monitor the collection of outstanding debt.

⁾ Proper Management of Inventory

According to the study of secondary data of Dabur Nepal Ltd. Inventory is high. So, it should adopt effective inventory management. Holding inventory in large quantity carries more carrying cost. Therefore, an effective inventory control technique should be introduced in order to control the inventories in accordance with their value and importance and also maintain a good and balanced inventory position.

⁾ Applying Proper Cash Management Technique

Cash and bank balance are more liquid form of current assets. In Dabur Nepal ltd. Cash and bank balance holds the smallest proportion amongst the other available current assets. Sometimes due to insufficient amount of cash and bank balance, the company loses many opportunities. Hence it should hold appropriate amount of cash and bank balance or sufficient level of marketable securities to grab the market opportunities.

⁾ Effective Human Resource Management

Dabur Nepal Ltd. Should gives proper attention to its manpower planning also. Over staffing should also be avoided and unnecessary pressure to the available staffs should also be removed. The selection of the manpower (top level) should be with advance knowledge about the concerned business, so that whenever any problem occurs he/she can easily handle it effectively.

- **Minimization of the Operating Costs**

The corporation needs to operate in a proper way so that it can have lesser operating cost which further helps in maximization of its profit, which is the ultimate goal of any organization.

- **Effective Maintenance of Current Liabilities**

Dabur Nepal should determine the appropriate sources of funds for its business. Its current liability composition is not directed by certain fixed rule. Thus, certain proportion of current liabilities should be set to avoid the risk of default.

- **Maintenance of Profitability Position**

Profit is the most vital factor of any organization for the expansion of its business or success. So the company should maintain proper profitability position. The profitability position of Dabur Nepal is satisfactory but to improve it more the company must manage its human resource and other profit related aspects of the company.

- **Maintenance of Liquidity Position**

The company is recommended to maintain a sound liquidity position in its future trade. The current ratio of the company is below the standard therefore for the improvement of current ratio it is important to implement a sound liquidity position.

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APPENDIX – III

Calculation of Regression Line of NWC on Sales of Dabur Nepal

Fiscal Year	Sales X	NWC Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2003/04	26,995.05	9,664.99	-3676.21	3305	13514491	10922655	-12149654.96
2004/05	30,177.02	5,802.33	-494.24	-558	244269.2	311047	275643.32
2005/06	27,287.90	4,764.62	-3383.36	-1595	11447098	2545384	5397894.13
2006/07	32,287.90	3,484.26	1616.64	-2876	2613538	8270145	-4649122.18
2007/08	36,608.41	8,084.03	5937.15	1724	35249798	2972121	10235558.50
Total	**153356.28**	**31800.23**			**63069193**	**25021352.05**	**-889681.19**

i) Calculation of Mean

For Sales $\bar{X} = \sum X/5 =$ 30671.26 For NWC $\bar{Y} = \sum Y/5 =$ 6360.05

ii) Calculation of Correlation Coefficient between NWC and Sales

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}} = \frac{-889681.19}{3972501.1} = -0.0224$$

iii) Calculatio of Coefficient of Determination between NWC and Sales

$R^2 = (-0.0224)^2 = 0.0005$

iv) Calculation of Standard Deviation (6)

For Sales

$$\sigma_x = \sqrt{\frac{\sum (x-\bar{x})^2}{N}} = \sqrt{\frac{63069193}{5}} = 3551.60$$

For NWC

$$\sigma_y = \sqrt{\frac{\sum (y-\bar{y})^2}{N}} = \sqrt{\frac{25021352}{5}} = 2237.02$$

v) Now the regression line of NWC, Y on Sales, X is given by;

$$Y - \bar{Y} = \frac{r \times \sigma_y (X - \bar{X})}{\sigma_x}$$

$$\text{or, } Y - 6360.05 = \frac{-0.02 \quad 2237.02 \quad (X-3)}{3551.60}$$

$$\text{or, } Y - 6360.05 = -0.01 X - 1647.66$$

$$\text{or, } Y = 6792.71 - 0.014106 X$$

Same process has been followed to calculate the regression equation of net working capital on other variables.