

A STUDY ON CASH MANAGEMENT SYSTEM OF HIMALAYAN BANK LIMITED

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**A STUDY ON CASH MANAGEMENT SYSTEM OF HIMALAYAN BANK LIMITED**", submitted to Central Department Of Management, Kirtipur, Kthmandu, Nepal. Trivhuvan University is my original work. It is done in the form of partial fulfillment of the requirements for the Degree of Master of Business Studies (M.B.S) under the supervision and guidance of Mr. Jaya Ram Devkota and Bin Bahadur Raut, Makawanpur Multiple Campus, Hetauda, Makawanpur.

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And found to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Degree of Master of Business Studies (M.B.S.)

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TABLE OF CONTENTS

	Page no.
RECOMMENDATION	
VIVA-VOCE SHEET	
DECLARATION	
ACKNOWLEDGEMENT	
TABLE OF CONTENTS	
LIST OF TABLES	
LIST OF FIGURES	
ABBREVIATIONS	

CHAPTER ONE

INTRODUCTION	1-15
1.1 Background of the Study	1
1.2 History of Banking System in Nepal	2
1.3 Joint Ventures Banks in Nepal	3
1.4 History of Joint Venture Banks in Nepal	4
1.5 Role of Joint venture Banks in Nepal	7
1.6 Profile of Himalayan Bank Limited	10
1.7 Statement of the problem	12
1.8 Objectives of the Study	13
1.9 Significance of the study	13
1.10 Limitations of the study	13
1.11 Organization of the Study	14

CHAPTER TWO

REVIEW OF LITERATURE	15-38
2.1 Introduction	16
2.2 Review of Text Books	16
2.2.1 Definition of Cash and Cash Management	16

2.2.2 Area of Cash Management	20
2.2.3 Cash Management Techniques/Processes	23
2.2.4 Cash Management Model	27
2.3 Review of Journals and News Papers	29
2.4 Review of Unpublished Dissertations	32
2.5 Research Gaps	37

CHAPTER THREE

RESEARCH METHODOLOGY	39-47
3.1 Introduction	39
3.2 Research Design	39
3.3 Nature and Sources of Data	40
3.4 Research Variables	40
3.5 Data Processing	41
3.6 Tools for Analysis	41
3.6.1 Financial Tools	41
3.6.2 Statistical Tools	43

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS	48-79
4.1 Presentation of Data from Secondary Sources	48
4.1.1 Analysis of Liquidity Position	48
4.1.2 Analysis of Cash Position	56
4.1.3 Income and Expenditure Analysis	68
4.2 Presentation of Data from Primary Sources	72
4.2.1 Cash balance to meet contingency withdrawals	72
4.2.2 The collection target on zero balance accounts	73

4.2.3 Timely collection of loan repayments from borrowers	75
4.3 Major Findings	77
4.3.1 Major Findings from Secondary Sources	77
4.1.2 Major Findings from Primary Sources	79

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS	80-87
5.1 Summary	80
5.2 Conclusions	84
5.3 Recommendations	86

BIBLIOGRAPHY

LIST OF TABLES

	Page No.
Table No. 4.1 Analysis of current ratio	49
Table No. 4.2 Analysis of Cash & Bank Balance to Current Asset	50
Table No. 4.3 Analysis of Cash & Bank Balance to Current Liabilities	52
Table No. 4.4 Analysis of Cash & Bank Balance to Deposit Accounts	53
Table No. 4.5 Analysis of Cash & Bank Balance to Loan, Advances, and Bills Purchase	55
Table No. 4.6 Increase and Decrease in Cash	56
Table No. 4.7 Analysis of Cash Flow Statement	58
Table No. 4.8 Trend Analysis of Cash & Bank Balance	59
Table No. 4.9 Trend Analysis of CFOA	61
Table No. 4.10 Trend Analysis of CFIA	63
Table No. 4.11 Trend Analysis of CFFA	64
Table No. 4.12 Income and Expenditure Analysis	70
Table No. 4.13 The responses provided by respondents are tabulated	72

LIST OF FIGURES

	Page No.
Figure No. 4.1 Analysis of Current Ratio	49
Figure No. 4.2 Analysis of Cash & Bank Balance to Current Asset	50
Figure No. 4.3 Analysis of Cash & Bank Balance to Current Liabilities	52
Figure No. 4.4 Cash & Bank Balance to Deposit Accounts	54
Figure No. 4.5 Cash & Bank Balance to Loan, Advances, and Bills Purchase	54
Figure No. 4.6 Increase and Decrease in Cash & Bank Balance	57
Figure No. 4.7 Trend Analysis of Cash & Bank Balance	60
Figure No. 4.8 Trend Analysis of CFOA	62
Figure No. 4.9 Trend Analysis of CFIA	64
Figure No. 4.10 Trend Analysis of CFFA	65
Figure No. 4.11 Correlation between CFOA & CFIA	66
Figure No. 4.12 Correlation between CFIA & CFFA	67
Figure No. 4.13 Correlation between CFOA & CFFA	68
Figure No. 4.14 Income and Expenditure Analysis	71

ABBREVIATIONS

GDP	Gross domestic Product
HMG	His Majesty Government
NIDC	Nepal Industrial And Development Corporation
HBL	Himalayan Bank Limited
ATM	Automatic Tailoring Machine
CEO	Chief Executive Officer
BOD	Board Of Director
SME	Small & Medium Scale Enterprise
FY	Finanancial Year
DTC	Depository Transfer Cheque
EDTC	Electronic Depository Transfer Cheque
EDI	Electronic data interchange
EFT	Electronic funds transfers
STCL	Salt Trading Corporation limited
RDL	Royal Drugs Ltd
CV	Coefficient of variation
CR	Current Ratio

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked country with agro-based economy. The country is divided into three parts i.e. mountainous 15 %, Hilly 68%, & Terai 17% with its geographical nature. Nepal is one of the least developed countries in the world. Nearly 90 percent of the people are still in rural areas and most of them are deprived minimum physical facilities, which is necessary for human beings. The annual per capita income of Nepalese people is only \$253 of United States (According to Asian Development Bank Report 2004). Nepalese economy is depending on traditional agriculture Sectors. This sectors has contributed only 40% of total GDP and is a main suppliers of raw - materials to the Cottage industries. Development of agriculture sectors helps not only to solve the problem of unemployment but also helps in the economic development of country.

Agriculture is still the backbone of Nepalese economy. Economy development is not possible without agriculture development. National planning commission has given more emphasis to this sector but the real picture of this sector is very pity because of lacking facilities and amenities, which has not been providing to the farmers people. Such as like irrigation, electricity, and transportation services. Being the richest in water resources in the Asia continent, people of Nepal is compelled to pay high rate per unit for consuming electricity as compared to the world. It provides employment opportunity to more than 80% of labor forces. However, it contributes only 40% of GDP.

The Government of Nepal formulated a policy to develop possible agro-based industries for at least to substitute import of industrials and consumable goods. The basic goal of Government policy was self-sufficiency where as other way to generate revenue by operating industrial unit and creation of employment opportunities through this sector.

Financial sector is the lifeblood of the commercials and industrials activities. So, Commercial banks and other financial institutions can play a vital role in giving a direction for development economy by financing the requirements of trade and industries in country. They collect scattered amount of people and transfer to the required sectors of trade and industries. Hence, the banking sector helps to develop the nation to the world.

In the overall development of the banking system in Nepal, the 'Tejarath Adda' may be regarded as the father of modern banking institution and for quite a long time. It delivered Good services to Government employees as well as to public. However, the concept of Modern financial institution in Nepal was introduced when late former Prime Minister Shree Juddha Samsar (Ja.Ba.Ra) established first commercial bank, Nepal Bank Limited in 1994 B.S. Before the establishment of Nepal Bank Limited, people fulfilled their credit needs from unorganized market of private moneylenders. Presently, there are nineteen commercial bank, operating their financial activities in the different parts of country. They have been providing Modern banking services like ATM Card, Debit Card, Credit Card and Master Card to their regular customers.

1.2 History of Banking System in Nepal

The history of organized banking system in Nepal was very short. Late former Prime Minister Shree Juddha Samsar Jung Bahadur Rana established to remove the inconveniences caused to the people. When the concept of planning was formulated, there are needed for established a central Bank.

According to the viewpoint of planning, it is necessary that the banking activities specially the loans should be regulated as per priority, thus, Nepal Rastra Bank as the Central Bank of Nepal was established in 2013 B.S. for the developing the financial sectors under "Nepal Rastra Bank Act, 2012.

In the developing country like Nepal, the central Bank is supposed to help in developing banking system for mobilization of financial resources and using them into the priority areas as fixed in the development plans.

Nepal bank limited was established as the first commercial bank in year 1994. In the year 2022, another commercial Bank, "Rastriya Banijya Bank was established under the Rastrya Banijya Bank Act, 2021."It was specially established in the response to need for forming a Government owned Commercial Bank after the convenience and economic interest of general public.

In 1980's to meet the need of healthy competition in financial sectors, Nepal allowed to entry of foreign Banks as joint Venture with up to 51% of equity participation. Recently, Nepal has allowed to entry to foreign Banks as a Joint Venture Bank to establish branches of their Bank by 2010A.D.

1.3 Joint Ventures Banks in Nepal

Joint Venture is a general model for foreign direct investment. Joint Venture is a mode of trading through the partnership among nations and also a form negotiation between the various groups of industrials, traders and Mercantiles to achieve mutual exchange of goods and services for sharing and comparative advantage in their contribution. Joint Venture is joining the forces between two or more enterprise for carrying out a specific operation. (*Gupta G.D. " The Banking system: international trade center, Geneva; 1984;p.15.*)

For the economic boost of the nation, sound competition is needed in the banking sectors. With understanding the fact, HMG of Nepal adopted the strategy to establish banking companies in Joint Venture with the foreign Bank, importing the high foreign banking techniques in The Kingdom. In Nepal, The history of development of Financial Institution as compared to the other developed and developing countries has been new experiments. Prior to the introduction of Modern banking in Nepal in 1937, industries,

Business, and Commerce were in Pity condition .In order to initiate industrialization HMG 's of Nepal has given due emphasis for the development of industrial sectors. The Government continues to maintain its efforts to follow liberal and market oriented economic policies encouragement to private participation in infrastructure activities such as power, telecommunication and gradual privatization of public sector companies. (*Twelfth annual report of Nepal Arab Bank Ltd, "NABIL Bank Ltd.*) There are various factors, which has influenced for the industrialization in Developing Countries or Least-Developed Countries. Lacking of Adequate capital is one of important factor that hinders the process of industrialization. Hence, to formulate industrialization, huge financial investment is required.

The positive aspect of joint venture banks (*Malla, R. 2005.p.21*)

- ❖ Increase in highly skilled personnel with modern banking technology;
- ❖ Efficient modern banking services;
- ❖ Commercialization of demotic technology;
- ❖ Advances management skills;
- ❖ An international Network for bank branches;
- ❖ Import up-dated Technology;
- ❖ Transfer of Managerial skill.

1.4 History of Joint Venture Banks in Nepal

Before the establishment of Joint Venture bank, there were few banks operating in Nepal. After the establishment of Nepal Bank Limited in 1937, Nepal has initiated Nepal Rasta Bank (Central Bank of Nepal) in 1956, Nepal Industrial Development Center (NIDC) in 1957, Employees Provident Fund in 1963, Rastiya Vanijya Bank (Commercial Bank) in 1964, Agriculture Development Bank in 1968, and Small Industries Development Corporation (SIDC) in 1971A.D.

In quest of financial institution as Joint Venture Bank Limited, NABIL Bank Limited was the first Joint venture bank in Nepal. The bank was established in 1984 and operated on

12th July, 1984 sharing 50% from Dubai Bank Limited was registered in United Arab Emirates, sharing by 20% from financial institution of Nepal and sharing by 30% from public. It has 100 million Authorized capital, 50 Million rupees issued capital and paid up capital has 30 Million rupees.

Similarly, the second bank established in joint investment was the Nepal Indosuez Bank Limited. It was established in 2042 B.S. (1985 A.D). Now its name is Nepal Investment Bank limited. It has played a great role in the development of banking system. It has also opened its own branch office. It has 100 Million authorized capitals and paid -up capital has 30 million rupees.

Thirdly, Joint venture bank established in 2043 B.S (1986 A.D) named Standard Chartered Bank Nepal Limited. This bank was established with its new name Nepal Grid lays Bank .The joint venture Bank ANZ Grid lays with Nepal Bank Limited and public by sharing 50%, 33.34% and 16.66% shares respectively. It has also played a great role in the development of banking system in Nepal. It has brought a dawn to the public and has earned prosperity.

Fourthly, the next joint venture bank is Himalayan Bank Limited (HBL) established to maintain the economic welfare of the general people to facilitate loan for agriculture, industries and commerce to provide the banking services to the country and people. It has been financed by founder's shareholders (A class) sharing 51%, 20% by Habib Bank of Pakistan, and 14% by Employee Provident fund and 15% by public. The Bank has 120 Million rupees authorized capital and 60 Million rupees issued capital. It is the first Joint Venture Bank having domestic ownership more than 50 % capital.

Fifth Joint venture Bank established in 1993, Name SBI Bank Limited (NSIBIBL), which is the first Nepal- India Joint Venture in the financial sectors. Three industrial promoters, Namely, State Bank of India, Employee provident fund and Agricultural Development Bank, Spencer of the bank. The objectives of SBI Bank Limited are to play an important role in facilitating growing Indo-Nepal trade, to provide a whole range of banking service

of international standard and to effectively participate in the process of economic development of Nepal.

Nepal Bangladesh Bank Limited, a sixth Joint venture Bank in Nepal, started its operation on 6 June 1994. The bank established with the joint collaboration of international Finance Investment & Commerce Bank Limited (IFIC) of Bangladesh has 240 rupees Million authorized and Rs.60 Million paid-up Capital.

Everest Bank Limited, a Joint Venture Bank established from private sector and commenced its operation since ocober18, 1994 with paid- up capital Rs.60 million of the Banks, 50% shares held by promoters, 20% shares by Punjab Bank of India and the rest 30% shared by general public.

Bank of Kathmandu Limited began its operation since March 12, 1995.the bank established with the joint collaboration of SIAM Commerce Bank PCL, Thailand, has paid-up capital Rs.90million of this paid-up capital of 45%share is held by Nepalese promoters, 30%by collaborating Banks and rest 25% by the general public. Nepal Bank of Ceylon, a Ninth Joint venture Bank commenced its operation since Ocober14, 1996.The Bank established with the joint collaboration of Bank of Ceylon (Shree Lanka) has Rs.500 million paid-up capital, 45% Share and rest 55% by general public. Shreelankan Investors have sold their shares to the NB group of Nepal and its name has been Nepal Credit & Commerce bank Limited. This Bank is operating its activities in high speed with opening its branch in the different parts of Nepal. In addition this, more Commercial Banks has been opened and operating successively in Nepal. They are as follows:

- | | |
|--|---------------------------|
| 11. Nepal Industrial & commercial bank Limited | |
| 12. Lumbini Bank Limited | 23. Bank Of Asia Limited |
| 13. Kumari Bank Limited | 24. Kist Bank Limited |
| 14. Machhapuchhre Bank Limited | 25. Nepal Bangladesh Bank |
| 15. Laxmi Bank Limited | 26. NMB Bank Limited |
| 16. Shiddhrtha Bank Limited | 27. Sunrise Bank Limited |

17. Nepal Bank Limited

28. Prime Commercial Bank

18. Rastriya Banijya Bank Limited

19. Global Bank Limited

20. Citizen Bank Limited

21. NIC Bank

22. Nepal Industrial and commercial Bank

Joint Venture Banks has performed its operation successively in the banking sectors. The banking sector flourishing in Nepal has multiplied competition with the addition of new banks and finance companies.

1.5 Role of Joint venture Banks in Nepal

Introduction of JV Banks in Nepal has changed the scenario of banking sector in Nepal. The JV banks have invited a new era of banking in this one of the least developed country by introduction of high and efficient method in the banking sectors. The banking facilities are access to only few finger counted people in the country, on which the base of the development of can be set. Other areas of expertise are forward cover the foreign exchange transaction by importers and exporters, merchant banking inter banking market for money & securities, arranging foreign currency loan etc.

Joint Venture Banks are important for the economic development to mixed economy follower like Nepal. Nepalese economy situation and investment necessity experiences short of such institutions, which can serve such problem. The role of Joint Venture banks can be presented as follows.

a) Creation of competitive environment:

Clients are beneficial either by higher rate of interest in their deposition or by lower rate of interest on credit. It is possible only under competitive environment. After the arrival of JV Banks, old banks are also been competitive. Fair competition among bank not only

beneficial for bank themselves and economy too. Fair personnel management efficient Financial performance, quality service and research oriented development is possible only in the competitive environment.

b) Introducing New method and technology in banking services

Modern managerial principles and practices in banking sectors have been introducing by joint venture banks in Nepal. New banking techniques as hypothecation and syndication are also introduces under NRB guidance. International banks in deposition follow various techniques, lending, exchange and they have been introducing by these banks in Nepal.

After the establishments of these banks, other new and old banks began to computerize the banking system. Some new banks have adopted new and new techniques such as Tele-Banking, Credit card, Debit card system, twenty-four hour service, ATM card services etc. Fellows are seeking to follow-up some developing techniques in international banking sectors.

c) Providing more resources for investment:

The JV Banks has played a significant in canalling the additional resources for investment for the development of the country. Though, it is argued by many that resources raised to locally in the prevailing market those resources would have been mobilized by nay other domestic institution, it is assumed that the JV banks have mobilized net additional resources if they tap so far untapped resources in the local market.

d) Information to foreign investors:

The role of joint venture bank is significant for the collection of funds for Mega projects. The various types of publications to be acquainting with Nepalese rules, regulation &

practices of concerned sectors. Before the establishment of JV banks, some large projects should be established through Two-Four local banks but Mega-Project could not be established. Because of political instability, offer the restoration of Multiparty democracy also the foreign investors have still been hesitating to invest in Nepal. In such such a situation, the publication of JV banks has been playing a vital role to introduce the Nepalese financial rules, regulation, policies and practices to the foreign investors.

e) Contribution to National Economy:

Joint Venture banks, comparatively are adopting new banking system. They are already established in financial, garments, agriculture and housing needs and playing a significant role to contribute in national economy from own sectors.

Thus, through such banks managerial and banking techniques and new ideas and philosophy, foreign investment and capital, healthy, competitive atmospheres and diversify market concept transfer to other companies.

But here is remarkable point that JV banks should be directed by economic need and not by political interest. Financial and legal rules & regulation and practice should be clear & convenient to foreign investors. Therefore, it is clear that, why Joint venture banks role is important to the nations of rapidly increasing period of 22nd Century. Hence, I've taken Sample of Four Joint Venture Banks i.e. (NABIL Bank, Standard Chartered Bank Nepal Ltd, Himalayan Bank Ltd & Nepal SBI Bank Limited).

1.6 Profile of Himalayan Bank Limited

Himalayan Bank Limited is a joint venture bank with Habib bank of Pakistan, was established in 1992 A.D. under the company act, 1964. This is the first joint venture bank managed by Nepalese chief executive. The operation of bank had started from February 1993. The main objectives of bank are to provide modern banking facilities like banking to businessman, industrialist, and other professionals and to provide loans for commercial, agriculture and industrial sectors.

The share allotment of Himalayan Bank of 2064/56 is,

❖ Foreign Investors	20%
❖ Nepal Government	14%
❖ Nepalese General Public	15%
❖ Private Institutions	51%
<hr/>	
Total	100%

Share capital Of Himalayan Bank Limited of 2005/06 is,

Authorized capital (10,000,000 @Rs.100 Par)	1,000,000,000
Issued- Capital (6435000@ Rs. 100 Par)	643500000.00
Paid-up capital (6435000@ Rs. 100 par)	643500000.00

Services Provided by Himalayan Bank Limited

Himalayan Bank Limited offers various types of services to its valuable customers, which promotes bank competitiveness, creditworthiness and attraction. It has been providing various types of services to its regular customers and industries.

They are as follows:

- ❖ Accepting deposits,
- ❖ Granting Loan on overdraft, demand loan, time loan, home loan, NPL loan < 5%,
- ❖ Remittances services,
- ❖ Premium saving accounting,
- ❖ Bills discounting,
- ❖ Issues honors of travelers cheque,
- ❖ Funds transfer service,
- ❖ Issuances of bank drafts & cheques
- ❖ ATM cards, Visa card, Credit card, and master card services,

- ❖ Internal Banking services,
- ❖ Point of sales terminals, and Small Business services and Millionaire Deposits scheme etc.

This bank is the first JV bank managed by Nepalese chief executive. It has fifteen branches that have been successfully served to Nepalese people as well as the nation. The CEO of this Bank is Mr. Ashok Samser Jang Bahadur Rana, and Chairman BOD is Mr. Musud All, who has been contributing their great attitudes to this bank successiveness.

This Bank has been taking new strategies to expand its business services. Joining with IFC it has targeted to provide serve small & Medium Scale Enterprise (SME) Loan. Three more branches in Kathmandu valley and one in Nepalgunj has been its next planning. It has been serving 24-hour, and applying tale banking. It has upgrading its T-24 version and expanding ATM Network.

1.7 Statement of the problem

Cash management mirrors the efficiency of financial manager. Efficient cash management is success to maintain sound financial position and to complete with market competitor. The growing entries of banking and financial institution in the country there is throat cut competition in the market. The competition among banking and financial institution forces to discuss certain intuitional and economic realities of the company or the country. Historically the banking business was originated from the business circle in the country resulting the major market share of financial industry is concentrated with a handful of the financial situation.

Until now there is no such study which illustrates cash management system policy and procedures adopted by HBL. Now they are preparing various reports for regulating authority. At the same time they are also disclosing the public accountability to the general public and how they are preparing internal accounting system. So that the validity

and reliability of the accounting or financial information tested. So, there is need to find following issues.

- a. How do they disclose financial information?
- b. Do they follow regularity guideline on cash management system?
- c. What is the relationship between cash and bank balance in HBL?
- d. Do they hold enough cash balance to meet contingency withdrawals??
- e. Are there any possibilities for further improvement in cash management system?

1.8 Objectives of the Study

Cash management plays vital role of success or failure of any enterprise. The main objective of this study is to examine the cash management system of HBL. More specifically, following are the objectives of this study.

1. To know the cash position of HBL.
2. To know whether the HBL has maintain optimum level of cash or not.
3. To find out the tendency of cash collection and disbursement.
4. To find out current weakness in cash management system of bank.

1.9 Significance of the study

Cash management is a very significant tools and technique which can be used in project planning of any organization. It is the foremost need in cash planning which can not be ignored since it involves consideration of alternation course of action so as to synchronize cash flows with the liquidity position of the firm. Profit planning is an important part of overall planning process of an organization and cash management is a major function of the profit planning. As stated in ninth plan the financial situation of the government corporation as mater of fact is in a very poor condition. A part from other

measure required improving their performance, HBL may be expected to have been prospect with effective cash management. The focus of the study being on critical examination of cash management technique of HBL.

1.10 Limitations of the study

Every research has its own limitations. The main focus of this study is to point out the financial position and its analysis of HBL. This study has following limitation;

1. This study has been limited to HBL only.
2. This study covers the period of five years, beginning from FY 2060/061 to FY 2064/065.
3. The study is mainly focused on cash management system.
4. Cash budget and cash flow analysis tools have been used to analyze quantitatively.

1.11 Organization of the Study

This study has been organized in to five chapters.

Introduction:

The first chapter is the introduction, which deals with the introduction of the study. This section includes a brief history of development of HBL in the beginning and then introduction chapter state that the objectives, limitations and field of the study research methodology and duration of the study.

Review of the literature:

The second chapter deals with the review of literature relating to cash management which includes the reviews of relating previous writing and studies to find the existing gap. So,

past studies in the cash management function as well as the public enterprises has been reviewed to find out what new can be contributed. Review of text books, dissertations and government publication and news paper have been included.

Research Methodology:

The third chapter deals with the research methodology consisting research design, the population and sample, nature and source of data, and financial and statistical tools for the analysis of data.

Presentations and analysis of data:

The fourth chapter is organized as a presentation and analysis of the research question on the basis of facts and figures gathered by different method. This is the core of the thesis. It consists of systematic presentation and analysis of financial statements employing financial and statistical tools.

Finding and conclusion and recommendation:

This chapter or the lastly fifth chapter deals with the summary of the major findings and constraints and includes concrete suggestions and recommendation also will be presented by including bibliography and appendix. Reference or the bibliography consists of list of published or unpublished books, articles, dissertation etc. which have been the sources of information and used as references. Appendix consists of relevant materials, when are,

however, not much with mentioning in the main body of the report, included are; P&L A/c and balance sheet.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Introduction:

Review of literature is actually a process of consulting published books, journals and unpublished (dissertation, field work) literatures related and relevant to one's selected topics. The main purpose of literature review is to find out what works have been done in the area of the research problem and what remains undone in the field of research being undertaken. While conducting the research study, previous studies should also not be ignored to avoid duplication of studies.

In this chapter, the review of various books, research studies have been made to make clear about the concept of cash management as well as to recall the theories and previous studies made by various researchers.

2.2 Review of Text Books:

The basic concept of cash management has been searched in to this section of literature review. Text books that have been prescribed under academic studies are the primary sources on the basic concept of cash management.

2.2.1 Definition of Cash and Cash Management:

Cash is lifeblood of the business, which is the most important component of the working capital. It is the most liquid assets, have vital important to daily operations of the firm. Cash is the common denominator to which all current assets can be reduced because the

other major liquid, that is receivable and inventory get eventually converted into cash (Khan and Jain, 1999). This underlines the significance of cash management cash provides liquidity, but it doesn't pay interest; it is just one of the raw materials that you need to do business. It is expensive keeping your capital tied up in large inventories of raw materials when it could be earning interest (Brealey & Myers, 1999:884).

The term cash with reference to cash management is used in two senses. In a narrow sense it is used broadly to cover cash (currency) and generally accepted equivalents of cash such as cheques, drafts and demand deposits in bank. The broader view of cash also includes near cash assets, such as marketable securities and time deposits in the banks. The main characteristic of these is that they can be readily sold and converted into cash. They also provide a short-term investment outlet for excess cash and are also useful for meeting planned outflow of funds. We employ the term cash management in the broader sense. Irrespective of the form in which it is held a distinguished feature of cash, as an assets is that it has no earning power(Khan & Jain, 1986, p. 663-664).

So simply starting, management of near cash assets, i.e. marketable securities, time deposits in bank, is called cash management. Broadly speaking, receivables and inventory is also termed as management of cash because receivables and inventory are also supposed to readily converting into cash.

According to modern approach financial management can be broken down into major decisions as function of finance, which is: (a) Investment decision, (b) Financing decision and (c) Dividend policy decision. Cash management function comes under investment decision. Investment decision refers to two major decisions.

(1) Selection of long term assets, which will yield a return over a return over a period of time in future, i.e. more than a year, and

(2) Selection of short term assets or current assets which can generally be converted into cash with a year.

The latter decision function is also termed as working capital management, which is concerned with the management of current assets. The two basic components of working capital management are:

- (i) An overview of working capital management as a whole.
- (ii) Efficient management of the individual current assets like cash receivables and inventory.

Cash management deals with the second component of working capital management, the management of cash or near cash assets such as marketable securities and time deposits in banks, receivables and inventory.

Motives for Holding Cash:

Cash is the common denominator to which all other current assets can be converted into readily or in near future, and thus it is the most liquid current asset. Cash when held as an asset has no earning capacity. Nevertheless business firms have to hold cash for three different motives, they are:

- (a) Transaction motive, (b) Precautionary motive, and (c) Speculative motive

Keynes has identified. However M.Y. Khan and P.K. Jain have also taken into consideration.

- (d) Compensation motive, yet another motive.

(a) Transaction motive refers to the need for cash to meet payments related to ordinary course of business transactions payments of purchases, labour wages and dividends. In day to day business transactions a firm necessarily requires cash to meet payments of its purchases wages operating expenses. Financial charges like interests, taxes dividends etc. like wise in the course of daily business transactions. Cash are generated from sale of goods or services, returns on outside investments etc. This receiving of cash is called cash inflows and the payments of cash are termed as cash outflow. In practice, cash inflow and

outflow seldom coincides, and thus of cash inflow and outflow seldom coincides, and thus of cash outflow. Such requirement of cash to meet scheduled payments in course of daily business transaction is known as transaction.

(b) Precautionary motive for holding cash is the need for cash to maintain a cushion to meet unexpected contingencies, such as the situation of natural calamities like earthquake, floods, strikes, etc. Sharp increase in raw material cost dramatic slowdown in collection of accounts receivables, unexpected cancellation of order for goods owing to dissatisfaction of customers etc.

(c) Speculative motive refers to the holding of cash by the firms to take advantage of opportunities when the firm would face unexpected situations and which are typically out of course of business. Precautionary motive is defensive in nature; to put it differently, the purpose for holding cash under precautionary motives lies in fulfilling cash requirements should any unexpected opportunities such as to purchase raw materials at a reduced price on instant payment, buying securities when interest rates are speculated to decline, etc.

(d) Compensation motive refers to the holding of cash balance to compensate banks for providing certain services and loans to the firm such as clearance of cheque, supply of credit information, transfer of funds, etc. For the services provided by the bank as stated above, the clients are required to maintain a minimum balance of cash at bank, which can not be utilized by the clients. Since the proportion of this cash balance cannot be utilized in firm for the transaction purposes the bank they can use the money to earn some return. Such balances held by banks for the services they provide to their clients are called compensating balance likewise under some sort of loan agreements between a bank and its customers. Compensating balance is required as a condition precedent to the grant of loan, when the supply of credit is restricted and interest rates are rising.

Out of the four motives for holding cash, the most important ones are transaction motive and the compensation motive. This is because precautionary balances can be met by short term borrowings and business firms normally do not speculate and thus doesn't require speculative balances.

Business with regular gross income in the form of cash payments for goods or services need relatively small cash working balances. If the bus company with its sign 'pay as you enter' cannot meet demand for cash, the trouble is not with the working capital but with the whole business. To the extent that either regulating of income or cash term is taking the supply of cash funds should be increased; forecasting is the calculation of all reasonable probabilities about the business future.

2.2.2 Area of Cash Management:

Area of cash management includes basically cash planning and forecasting strategic of cash management techniques, optimum cash balance and investing the excess cash on marketable securities.

(i) Cash Planning and Forecasting (Cash Budget)

Cash planning is a technique to plan and control the use of cash. It protects the financial condition of the firm by developing a projected cash statement (Pandey, 1999). Cash budget is a summary statement of the firm's expected cash inflows and out flows over a projected time period. It gives information on the timing and magnitude of expected cash flow and cash balance over the projected period. This information helps the financial manager to determine the future cash needs firm, plan for the financing of these needs and exercise control over the cash and liquidity of the firm. (Van Horne, 1996)

Cash budget serves two purposes. The first is the budget alerts the financial manager to future cash needs, second the cash flow forecasts provide a standard or budget, against which subsequent performance can be judged (Brealey and Myers, 1999). Thus, cash budget is arrived as through a projection of future cash receipt and cash disbursements of the firm over various intervals of time there the cash budget refers the short term cash forecasts. So, one of the significant role of the short term forecast is to pinpoint when the money will be needed and when it can be repaid. Another use of cash forecasts is to help in managing the investment of surplus cash in marketable securities. There are two most commonly used methods of short term cash forecasting and control.

(a) Receipt and Disbursement method:

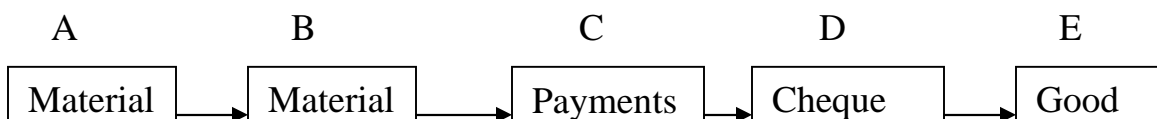
In this method involves forecasting for each terms of receipts and payments. The prime aim of receipt and disbursements forecasts is to summarize these flows during a predetermined period (Pandey, 1999).

(b) Adjusted Net Income Method:

It is sometimes called the source and uses approach. Mainly, it has three sections: source of cash, uses of cash and the adjusted cash balance. This procedure will help in adjusting estimated earning on an accrual basis to a cash basis. It also help in anticipating the working capital movements.

(ii) Basic Strategy of Cash Management/Cash Cycle

The broad cash management strategies are essentially related to the cash turnover process that is the cycle refers to the process by which cash is used to purchase materials from which are produced goods, which are then sold to customers who later pay the bills. The



cash cycle involves several steps among the way as funds flow from the firm's accounts as shown in below.

Fig: 4 several

Steps of cash cycle (Solmon and Pringle 1978).

A firm has no control over the time involved between stages A and B. The lag between D and E is determined by the production process and inventory policy. The time between stages E and F is determined by credit terms and the payments policy of customers.

(iii) Minimum Operating Cash:

The higher the cash turnover, the less is the cash a firm requires. A firm should, therefore try to maximize the turnover. But it must maintain a minimum amount of operating cash balance so that it does not run out of cash. The minimum level of operating cash is determiner by dividing the total operating annual outlays by the cash turnover rate. Cash management strategies are intended to minimize the operating cash balance requirement. (Khan & Jain 1999)

2.2.3 Cash Management Techniques/Processes

The efficiency of cash management techniques means speedy cash collection and delaying payment on account payable.

(i) Managing Cash Collection:

In managing cash efficiently, the cash inflow process can be accelerated through systematic planning and refined techniques. Some techniques of speedy cash collection practiced by various business firms are given below.

(a) Concentration Banking:

In this techniques of decentralized collection of account receivable, large branches as collection centers for receiving payment from customers. In stead of all the payments being collected at the head office the firm, the cheques for a certain geographical area are collected at a specified local collection center. Concentration banking, as a system of decentralized billing and multiple collection points, is a useful technique to expedite the collection of account receivable. It reduces the time needed in the collection process by mailing time.

(b) Lock Box System.

Concentration banking system of collection of account receivable, processing for purpose of internal accounting is involved, that is some time elapses before a cheque is deposited by the local collection centre in account. The lock box system cares this kind of problem, a part from effecting economy in mailing and clearance times. Under this system firms

hire a post office lock-box at important collection centers. The customer is required to remit payments to the post office lock box. The main advantage of a lock box system is that cheques are deposited at banks sooner and become collected branches sooner than if they were processed by the company prior to deposit. In other words, the lag between the time cheques are received by the company and the time they actually are deposited at the bank is eliminated; but it is more costly. (Van Horn 1996).

(c) Transferring Funds:

A transfer mechanism is a system for moving funds between accounts at different banks. The three main transfer mechanisms are:

Wire Transfer: It is the faster way to move cash between banks, eliminating transit float. Wire transfer are typically initiated on a standing order basis company head quarters will make a written authorization to a local depository bank to transfer funds to the firm's concentration bank when the amount exceeds some target level.

Depository Transfer Cheque (DTC): DTCs use a cheque restricted for deposit at a particular bank. DTCs provide a means for moving funds from local depository bank into concentration banks. DTCs may also be initiated by central company management in response to deposit reports from local office and lock box banks, or on a prearranged schedule.

Electronic Depository Transfer Cheque (EDTC): EDTC is a paperless electronic image transfer via the automated clearing house (ACH) network developed. The EDTC avoids the use of the mails and has a uniform one -business- day clearing time. EDTC is generally initially initiated by central company management.

(ii) Managing Disbursements:

Effective controls of disbursements can also result in more availability of cash. The objective in disbursements is to slow them down as much as possible. The combination of fast collection and slow disbursements will result in maximum availability of funds.

(a) Using float:

One way of maximizing cash availability is 'playing the float' for disbursement, float is the difference between the total money amount of cheques drawn on a bank account and the balance shown on the bank's book. It is possible of course for a company to have a negative balance on its books. A positive bank balance, because cheques outstanding have been drawn. If the size of float can be estimated accurately, bank balances can be reduced and the funds invested to earn a positive return. For using float a company should pay from a distant bank or scientific cheque cashing analysis.

(b) Centralized Disbursement:

In this system all the payments should be made by the head office from a centralized disbursement account. Such an arrangement would enable a firm to delay payments and conserve cash for several reasons. First, it involves an increase in transit time. Second, since the firm has a centralized bank account a relatively smaller total cash balance will be needed. Third, schedules can be tightly controlled and disbursement made exactly on the right day.

(c) Avoidance of Early Payments:

According to the terms of credit, a firm is required to make a payment within a stipulated period. It entitles a firm to cash discounts. If payments are delayed beyond the due date, the credit standing may be adversely affected, so that the firms would find it difficult to secure trade credit later. But if the firm pays its accounts payable before the due date it has no special advantage (Khan and Jain 1999).

(d) Accruals:

Accruals are defined as current but not yet paid for such as remuneration to employees, payment of taxes, payment of rent, who render service in advance and receive payments later. The longer the period after which payment is made the greater is the amount of free financing consequently and the smaller is the amount of cash balance required.

(iii) Electronic Fund Transfer:

Now a day, computer is widely used for transfusing the funds that regulating changes have been emitted greater competition among financial Institutions. Another aspect of changing environment is the increased satisfaction in computer application to cash management and in electronic fund transfer. With such system a customer's cheque is scanned electronically and verified by computer.

The increased use of electronic system is moving the economy towards electronic data interchange (EDI). EDI's efforts in float management: it will be possible to forecast the timing of cash flows with greater accuracy. Traditional practices in areas such as credit terms based on paper/ mail/ manual procuring are likely to be subject to change (Weston and Copland, 1992). Most money movement today is in the form of electronic funds

transfers (EFTS) a practically all financial records are stored in computer memories and not on paper.

2.2.4 Cash Management Model:

In cash management model, it is assumed that the firm on average is growing and is a net user of cash. Marketable securities represent a buffer stocks between episodes of external financing, which is drawn as required periodically. Ordering cost is represented by the clerical and transactions cost of making transfers between the investment portfolio and the cash account. The holding cost is the interest foregone on cash balance held. Assuming that expenditure occurs evenly over time and that cash replenishments come in jump sums at periodic intervals, the optimal size of the cash transfer is formulated as follows:

$$C = \sqrt{\frac{2bT}{i}}$$

Where,

c= the optimal for the period of time involved.

b= the cost of the transaction in the purchase or sale of marketable securities

i= the applicable interest rate on marketable securities.

Cash cycle:

They refer to the process by which cash is used to purchase material from which are produced goods, which are then sold to customers who later pay bills. Thus opportunities to improve cash cycle help in best management of cash. The cash cycle involves several steps along the way as found flow from the firm accounts as shown as below.

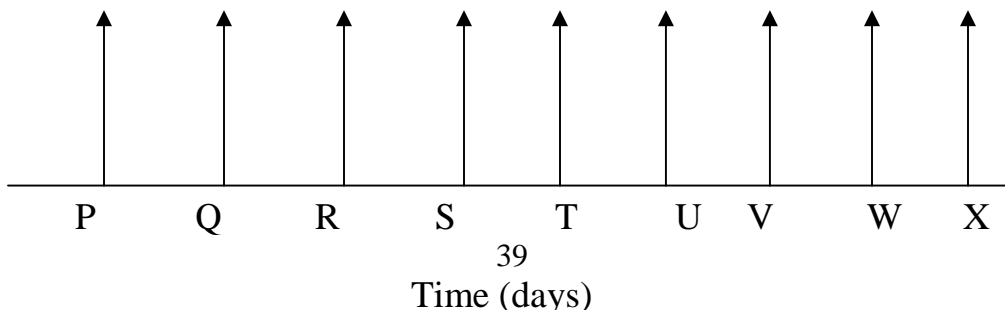


Figure: 7 Cash Cycle

(Source: Ezra Soloman and John J. Pringle: An introduction to financial Management)

P= Material order	Q= Material received
R= Payment	S= Cheque clearance
T= Good sold	U= Customer's mails payment
V= Payment received	X= Funds collected.

The financial needs of corporation is affected by the total time lag from point P to 'X' showing from the above cash cycle figure we are concerned with the time period involved in stages QRS and UVWX. It may be mentioned that a firm has no control over time involved between stage Q and R and similarly S and T and So on is determined by production company needs a certain period (i.e. weeks/months) to collect fund from beginning to ends of material ordered to have ultimate cash. Different shop has their different during period to go for further steps. In this way after going through all steps, the funds will be collected. In short, cash cycle plays a vital role in the business operation activities and such cycle can be repeated in time to time as circulating blood of human body. This is applicable only for direct selling of customer goods but in a manufacturing concern, the time lag may be still greater.

2.3 Review of Journals and News Papers:

Advance and research based journals of finance are hardly found in Nepal. Very limited numbers of journals of finance cannot cover its full dimensions. Though, in this section articles from various national and international journals are reviewed and the attempt is

concentrated to build the sound conceptual framework of subject matter, which may helps for the study.

W.J Baumol, at his article "the transaction demand for cash: An inventory theoretic Approach" on quarterly journal of economic (Vol, LXV, Nov, 1952) identifies cash maintenance as analogues to inventory maintenance and demonstrates that the model of economic order quantities that is applicable to inventory management is perfectly applicable in cash management tool. He has presented model in view of minimizing the opportunity cost of holding cash and maximizing the return on the available funds, the cash balance should be maintained at a minimum level and the funds not required from immediate use be invested in the marketable securities.

Similarly, M.H. Miller and Orr. D, in their article " a Model of the Demand for money in firms" on quarterly journal of economic, (Vol, LXV, Aug, 1996) have developed a model known as Miller-Orr model, that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice-versa.

Ram M. Saksena at his article, "Towards more efficient cash management" on quarterly journal of management quality (Vol.No. 5, 1974) identified that the term cash management has a meaning according to the purpose for which it is used and persons with varying branches of knowledge implies various meaning of cash. Economics considered cash, as the means to satisfy human want, the lawyer the view that cash is the legal tender money issued by a determinate authority. However, our concern of the meaning of cash is an asset constituting the most liquid item among all the assets. But to obtain cash involves cost because corporation has to rise through issue to share or by borrowing with interest. In through generation money market procurement is liability and wasted opportunity unless it is not put to its optimal use.

Birman and McAdams (1962) in their article "Management Decision for Cash and Marketable Securities" on graduate school of business have applied the Economic Order

Quantity model like Baumol, Bailey (1962) considered cash balance held by the firm to be a productive asset similar to any other asset. He stated that ".....cash balance held by business firms is obviously a productive resource similar to any other. Presumably, this is because..... they reduce the other resources required for a given level of production, by facilitating payments". Meltzer (1963) adjudged wealth as an explanatory variable of cash balance determination and sales as the measure of wealth. He hypothesized that the amount of money held by firms is the function of the market rate of interest and wealth. He concluded that "the results suggest strongly that the cross-section demand for money by firms is a function of sales, to a first approximation linear in the logarithms and unit elastic." Frazer (1964) examined the percentage of cash to liquid assets as a function of total assets of firms, and presented evidence on the question of economics of scales. He concluded that cash varies less than proportionately with the assets of firms.

According to Whalen (1965) in his article "A cross Section Study of Business Demand for Cash" on journal of finance, (September, 1965) has found the speculative demand for money may be considered as a function of wealth. Assets and sales are the explanatory variables to determine the cash balance of the firm. Since Whalen attempted to incorporate assets as well as transactions into the demand function, the analysis presented by him in order to determine the cash holding of the firm differed from Meltzer's model. He hypothesized that the cash holding of the firm is not only for transaction purpose but also as an investment. Miller-Orr (1966) assumed that a firm's cash flows could be analyzed by a stochastic process. He followed Baumol's model, without question and deduced that the firm's pattern of payment and receipts is fixed and that the cost of non-payment is infinite. He added that the firm or the individual is presumed to hold that amount of money which minimizes the interest cost. He further advised holding money rather than bonds, since there is transaction cost associated with the conversion of bonds into money. This reduces the cost of transaction and maximizes profits by an equivalent amount.

Sprenkle (1967) in their article "Large Economics Units, Banks and the Transactions Demand for Money" on quarterly journal of economic, (Vol, LXXX, Aug, 1966: 436-

442) have assumed that money had all the attributes of ordinary inventoried goods. Vogel and Maddala (1967) assumed that the demand for cash, government securities and liquid assets is a function of wealth determination. According to them the firm is assumed to allocate its financial holdings among assets so as to equalizer the marginal rates of return, adjusted for risk involved. This result differ from Meltzer only in that Meltzer estimated on the demand equation for the industry for each year, whereas, Vogel and Maddal employed the dummy variables and estimated pooled regression with yearly data. They had also included assets as explanatory variables in the demand for money equation and determined the economics of scale. Nadiri (1969) suggested that the estimates of elasticity of demand for money with respect to scale or production are unequivocally equal to unity.

Taking cognizance of the fact that the optimization the operating decision subject to various financial constraints is possible, Charnes, Cooper and Miller (1959) had applied Liner Programming Model for the first time to finance their article " Application of Linear Programming to Financial Budgeting and cost of Funds". Moreover, their model determines the opportunity cost of long term funds. The major quantitative conclusions that are obtained from the above liner – programming model is considered as major input for capital investment analysis. Therefore, their model is too general to be applied to the short – run cash management problem.

Ijiri, Y Levy, F.K and R.C Lyon (1963) in their article " A linear programming Model for Budgeting Model for Budgeting and financial planning" on journal of accounting research (vol, 1 no 2 autum 1963) have had extended the first linear programming model established by charnels, cooper and Miller, with the marketable securities transaction, but in a very general form and is limited to single period.

2.4 Review of Unpublished Dissertations:

We can find numerous studies conducted for the partial fulfillment of master's degree. Some of them, which are relevant to this study, are reviewed.

One of these was presented by Mr. Bijaya Pradhan in 1997, entitled “A study of cash management of salt trading corporation limited”. The thesis was based on the secondary data of the company for the past six years and it analyzed the major aspects of cash management such as analysis of liquidity position, cash management system and account receivable through various financial ratio analysis. The major findings of this study have been presented as follows:

- a) Management has taken liberal credit policy to sales of goods. Hence the cash and bank balance of the study period is minimum of account receivable.
- b) Salt Trading Corporation limited (STCL) could not make the best use of available cash balance prudently.
- c) The cash collection efficiency in this corporation is very low.
- d) Management of cash collection efficiency in this corporation is very low.
- e) Optimum cash balance not maintained. The cash & bank balance with respect to current assets has been in fluctuating trend. Similar is the cash with respect to the total assets.

In the like manner, a somehow related thesis to cash management was present by Mr. Krishna Narayan Shrestha in the year 2000, entitled 'A study on inventory management in Royal Drugs company limited'. The analysis were carried on the basis of inventory management formulate such as economic order quantity and Re-order level. Mr. K.N. Shrestha computed inventory values theoretically and compared it with actual quantity of inventory in the firm in relation with other factors such as time, working days, and so, on. The deviations from theory suggested the condition of actual inventory management practice of the firm. In spite of the approach to analysis being different from the general tools of analysis only a portion of cash management i.e. only the inventory management aspect has been analyzed the analysis being based only on three types of raw materials purchased.

Thus it was identified that there are still a lot to explore in cash management function of the financial literature. It was clear from review of literature that a dissertation on cash management is one of the uncommon undertakings and this bears originality of its kind. However, before commencing this undertaking, there were several alternatives to begin an undertaking of the thesis.

Alternatives such as case study, comparative analysis, study of more than two enterprises, etc were some of these like wise, the other variations of alternatives are the types by legal status of enterprises existing in the country; for instance private enterprise, public enterprise, partnership enterprise, government enterprise, or the other combination could be the type of goods or services these enterprise are producing for instance pharmaceutical industry cigarette factory, financial institutions, paper and paper products industry, and so on. These complications got simplified after the following literature review.

Another study Sabin Prakesh Suinju - 2005 on cash management in Public manufacturing enterprises of Nepal, A case study of Royal Drugs Ltd.

The main objectives of this study are:

- a) To examine and critically analyses the cash mgmt practices in RDL
- b) To examine the liquidity position of Royal Drugs Ltd.
- c) To examine the cash flow statement of Royal Drugs Ltd.
- d) To analyze the cash budgeting practice of Royal Drugs Ltd.
- e) To recommend viable suggestions to cope up with cash management short coming in Royal Drugs Ltd etc.

The major findings of this study are:

Overall cash management:

- a) RDL doesn't have any definite policy reading how much of cash balance to hold each fiscal year.
- b) RDL has not been forecasting cash balance taking in to consideration on the sales volume.
- c) RDL fails to maintain on adequate proportion of cash in its current assets.
- d) Cross analysis related that RDL fails to collect receivables from its sundry debtors timely.
- e) RDL has not been precisely meeting its current liabilities indicate that for some FYS such cash and bank balance held is excessively high whereas for some other FYS such cash and bank balance is extremely low.

Liquidity position:

Overall the liquidity position of the firm has been found moderately dissatisfactory.

Cash flow statement:

Overall clearly cash inflow and out flow in R.D.L is not in properly managed. Surplus cash has not been properly employed to earn returns by investing in short term investment opportunities.

Cash Budgeting practice:

Overall cash budgeting practice of ROL is poor.

The thesis submitted by Mr. Gopal Jung Raymajhi. on the topic “Cash Management System of Lumbini Bank Limited” (2008) points out that Cash management in the banking sector of Nepal is primarily based on the traditional practices, which lack in a scientific approach. A more serious aspect of cash management has been the absence of

any formalized system of cash planning and cash budgeting in menu of the banking sector, although the executives of some banks do practice forecasting of cash requirements on a formal basis.

The main objectives are:

- a) To study the recording practice of this Bank
- b) To study the reporting practice of this Bank
- c) To find out the current weakness in cash management system of this Bank.
- d) To discover the possibilities furthers improvement in order to strengthen the cash management policy practice of Lumbini Bank Limited.
- e) To find out the tendency of income and expenditure.
- f) To analyze the financial study of Lumbini Bank Limited.

The major findings are:

- a) Cash management in the banking sector of Nepal is primarily based on the traditional practices, which lack in a scientific approach. A more serious aspect of cash management has been the absence of any formalized system of cash planning and cash budgeting in menu of the banking sector, although the executives of some banks do practice forecasting of cash requirements on a formal basis.
- b) Modern practices with respect to debt collection, monitoring the payment behavior of customers and relevant banking arrangements in connection with collection of receivable have been virtually ignored in many banking sectors.
- c) The study revealed the majority of the banking sector did not face any serious liquidity problem. However, this was not because of the effectiveness of cash planning and budgeting. The problem of liquidity actually did not arise due to the coincidence of delay in receivables collection being matched by delayed payment to creditors.
- d) By and large most banking sector had periodic accumulation of surplus cash and corresponding cash shortage from time to time. However, none of the bank considered the implications of holding idle cash balance and few took into account the potential benefit of investing surplus in marketable securities. Those, which did, failed to consider the cost of administering such investments.

- e) There has been wide variations overtime in the state of financial health of the banking sector in terms of the composition of current assets and current liabilities as revealed by the relevant financial ratios.
- f) Regression analysis revealed that there was little effect of the opportunity cost of holding cash on the cash balances held by the banking sector. Neither interest rate nor the rate of inflation had any effect on the cash balance. Further there was very little evidence of the effect of economy of scale on cash balance holding in most cases.

2.5 Research Gaps:

Research on cash management is an essential component of studies in the field of financial management. The works in cash management areas have been unlined by and large to the techniques of cash management with out any systematic assessment of their implications. So far few empirical studies have been made consistent with the increasing attention towards cash management.

There are also very limited studies conducted on accounts cash management in the context of Nepal. These few studies conducted earlier have now become old and not given the real picture of recent practices. Many studies and developed theories after completing those early studies in Nepal.

Thus there is need to carry out a study to asses' recent development in cash management and it should be find out whether their findings are matching Nepalese practices. In conclusion, the main short coming of previous dissertations that laid foundation to this research is:

- a) Lack of proper cash budget and cash flow statement analysis in most of the dissertations.
- b) Lack of use of testing of hypothesis to analyze primary data.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with a purpose of finding answers to the problem. So research is an on going and ever growing activity. It is done not only to solve a problem existing in the work setting, but also to add or continue to the general body of knowledge in a particular area of interest. Research Methodology is the way to solve systematically about the research problem (Wolf and Pant, 2005, p.4).

A suitable and simple research methodology is followed in order to achieve the stated objectives of the study and as well as to make it easier in visualizing the total study clearly. This chapter includes research design, sources and types of data, data gathering instruments, and procedures and tools for analysis.

3.2 Research Design

Research design is the plan, structure and strategy of the investigation conceived so as to obtain answers to research questions. Basically, the research design has two purposes. The first is to answer the research question and second is to control variance. A research design is the plan of attack: what approach to the problem will be taken? what methods will be used?, and what strategies will be most effective (Wolf and Pant, 2005, p.92)?

Descriptive and analytical approaches were used to evaluate the cash management of HBL. Descriptive approach is utilized for conceptualization, problem identification, conclusion and suggestion of the study whereas analytical approach will be followed for the presentation and analysis of data. The data have been analyzed on the basis of standard financial formulas used in the books of financial management.

3.3 Nature and Sources of Data

The main sources of data for the purpose of this study are the published financial statements of HBL. The study is thus mainly based on the secondary data. It constitutes mostly the annual reports, which comprises balance sheets, cash flow statements, and profit and loss account statements.

Though the study basically covers the secondary data, however, in some cases primary data were also obtained through conversation with the managers and employees. All other available published and unpublished materials concerning the study as well as some journal abstracts have also been used. In addition to that, a number of relevant websites were visited to ensure the availability of information across borders regarding the operation of bank and financial institutions.

3.4 Research Variables

The research variables are mainly related with the financial statements - profit and loss account, balance sheet, cash flow statement and time period are the main research variables of the study. These variables are measured in terms of various components of ratios.

3.5 Data Processing

The data has been processed through editing, coding and classification of the collected data. According to the nature of data, they have been inserted in meaningful tables. Presented data have been analyzed and interpreted using various financial and statistical tools.

3.6 Tools for Analysis

3.6.1 Financial Tools

Financial tools are those, which are used for the analysis and interpretation of financial data. They attempt to explore the financial state of a business and convey the strengths and weaknesses of its financial policies and strategies. Ratio analysis is used as the basic tool for this study in order to summarize the quantities of financial data and to make quantitative judgments about the companies' financial performance. The importance of ratio analysis lies in the fact that it presents facts on a comparative basis and enables the drawing of inferences regarding the performance of a company (Khan and Jain, 1999, p.4.33).

a) Current Ratio (CR)

Current Ratio measures the liquidity position of the company. The standard current ratio should be 2:1 and it is also defined by the nature of the company. The current ratio is a measure of liquidity calculated by dividing the company's current assets by current assets.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current assets include cash and those assets that can be converted into cash within a year. This study accumulates performing loan and advances, money at short call, investments, debtors and receivable, cash and bank, other assets, and non-banking assets to produce the current assets. Similarly, current, saving and call deposits, bills payables, provisions, and other liabilities have been pulled together to produce current liabilities.

b) Cash & Bank Balance to Current Assets

This ratio shows the portion of current assets held as cash and bank balance. This study calculates cash & bank balance to current assets in terms of percentage. It may also be calculated as a ratio.

$$\text{Cash \& Bank Balance to Current Assets} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

c) Cash & Bank Balance to Current Liabilities

Among the techniques for measuring corporate liquidity, the ratio of cash & bank balance to current liabilities may also be used as an index of cash management. This ratio indicates the amount of cash (in percentage) available to pay current obligations of the Bank. In general, a low percentage of cash to current liabilities may be regarded as a favorable indicator because sufficient use of cash helps to increase profit. However, a very low ratio is also not desirable as it may lead to corporate insolvency.

$$\text{Cash \& Bank Balance to Current Liabilities} = \frac{\text{Cash \& Bank Balance}}{\text{Current Liabilities}}$$

d) Cash & Bank Balance to Deposit Accounts

This ratio indicates the amount of cash (in percentage) kept from deposits. This study calculates cash & bank balance to deposit accounts in terms of percentage. It may also be calculated as a ratio.

$$\text{Cash \& Bank Balance to Deposit Accounts} = \frac{\text{Cash \& Bank Balance}}{\text{Deposit Accounts}}$$

e) Cash & Bank Balance to Loan, Advances, and Bills Purchase

This ratio indicates the amount of cash (in percentage) kept after loan, advances and bills purchase. This study calculates cash & bank balance to loan, advances, and bills purchase in terms of percentage. It may also be calculated as a ratio.

$$\text{Cash \& Bank Balance to Loan and Advances} = \frac{\text{Cash \& Bank Balance}}{\text{Loan and Advances}}$$

3.6.2 Statistical Tools

a) Arithmetic Mean (\bar{X})

An Average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. Out of various measures of the central tendency, arithmetic mean is one of the useful tools applicable here. Arithmetic mean of a given set of observation is their sum divided by the number of observations. In general, if $X_1, X_2, X_3, \dots, X_n$ are the given observations and N being number of observations, then arithmetic mean usually denoted by \bar{X} is given by:

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N} = \frac{\sum X}{N}$$

b) Coefficient of Variation (CV)

Coefficient of Variation is the percentage variance in the mean, standard deviation being considered as the total variation in the mean. It is one of the relative measures of dispersion that is useful in comparing the amount of variation in data group with different mean. Coefficient of variation, denoted by CV is given by:

$$CV = \frac{\dagger \times 100}{\bar{X}} \%$$

$$\text{Where, } \dagger = \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2}$$

Comparing the variability of two distributions we compute the coefficient of variation for each distribution. A distribution with smaller CV is said to be more homogenous of uniform or less variable than other.

c) Least Square Linear Trend

Trend Analysis is a very useful and commonly applied tool to forecast the future event in quantitative term, on the basis of the tendencies in the dependent variable in the past period. The straight line trend implies that irrespective of the seasonal and cyclical as well as irregular fluctuation, the trend value increase by absolute amount per unit of time. The linear trend values from a series in arithmetic progression.

Mathematically $Y = a + bX$

Where, Y = value of the dependent value

a = Y -intercept

b = slope of the trend line

X = value of the independent value

Normal equations fitting above equation are:

$$\sum Y = Na + b \sum X$$

$$\sum XY = a \sum X + b \sum X^2$$

$$\text{Since, } \sum X = 0, a = \frac{\sum Y}{N} \text{ and } b = \frac{\sum XY}{\sum X^2}$$

d) Co-efficient of Correlation (r)

It is a statistical tool for measuring the intensity of the magnitude of linear relationship between two series. Karl Pearson's Correlation between two variables/series X and Y is usually denoted by r and can be obtained by:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where, N = Number of observation

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of squared observation in series X

$\sum Y^2$ = Sum of squared observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Value of r lies between -1 and $+1$, $r=1$ implies that there is a perfect correlation between the variables. The variables are said to be perfectly negatively correlated if $r=-1$ and, perfectly positively correlated if $r=+1$. If $r=0$, the variables are not correlated at all except other than in form of logarithm, quadratic or exponential.

e) Probable Error of Correlation Coefficient (PE)

Probable Error of Correlation Coefficient is an old measure of testing the reliability of an observed value of correlation coefficient. It is calculated to find the extent to which correlation coefficient depends upon the condition of random sample. Probable error of correlation coefficient denoted by PE(r) is obtained by:

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

Where, $\frac{1-r^2}{\sqrt{N}}$ = Standard Error

Reason for taking 0.6745 is that in a normal distribution, 50% of observations lie in the range $p = \pm 0.6745$

PE is used to test if an observed value of sample correlation coefficient is significant of any correlation in the population. If $r > 6 PE$, correlation is significant otherwise not.

f) Chi-Square Test

The Chi-square (χ^2) test is designed to work with nominal data. It provides the researcher with a mathematical way of examining a classification table to see whether the arrangement of values within that table is unusual in some way. In performing this test, the mathematical process will be looking for a significant difference between the observed and expected frequencies. The chi-square test involves a comparison of two or more responding groups (Wolf and Pant, 2005, p.287).

Since Chi-square test does not make any assumption about population parameters, it is called distribution free test. This test is good for normal or ordinal scale of measurement. Chi-square test is also used for analysis of quantitative variables, such as opinions of people, religious affiliation, smoking habits and so on. Chi-square test is a test that describes the magnitude of difference between observed and expected (theoretical)

frequencies under certain assumptions. In other words, it describes the magnitude of the discrepancy between theory and observation (Sthapit, A.B., et. al., 2004, p.333).

It is defined as:

$$\text{Chi-square, } \chi^2 = \sum \frac{(O - E)^2}{E}$$

Where, O = Observed Frequency

E = Expected Frequency

$$\text{Expected Frequencies} = \frac{RT \times CT}{N}$$

Where, N= Number of observations

RT= Row Total

CT= Column Total

Note: 5% level of significance have been used for all tests.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

In this chapter, the data have been analyzed and interpreted using financial and statistical tools following the research methodology dealt in the third chapter. This chapter is divided into three sub heads as presentation of data from secondary sources, presentation of the data from primary sources and major findings of the study.

4.1 Presentation of Data from Secondary Sources

This section includes the data related with the study from secondary sources. Secondary sources mean the data of HBL derived from their annual reports; web pages and other already published sources. The presentation and analysis of these numerical data include ratio analysis, correlation analysis, and trend analysis.

4.1.1 Analysis of Liquidity Position

The maximization of owner's wealth depends on proper utilization of cash and current assets. The availability of cash and current assets is essential to cover current obligations and therefore greatly affects the performance and operation of business.

Analysis of Current Ratio

Current Ratio measures the liquidity position of the company. The standard current ratio should be 2:1 and it is also defined by the nature of the company.

Table No. 4.1

Analysis of Current Ratio

(In Rs. '000')

Fiscal Year	Current Assets	Current Liabilities	Ratio
2060/61	18404089.69	12625154.8	1.46
2061/62	21358131.36	13342847.15	1.60
2062/63	25098544.8	18054047.91	1.39
2063/64	24818343.03	17643656.16	1.41
2064/65	27648071.18	19103425.69	1.45
Total	117327180.06	80769131.72	
Average	23465436.01	16153826.34	1.46

During the five year study period, current ratio has consistently remained below 1.5, except that of F/Y 2061/62. Lower than the standard, CR of HBL may be stated as unsatisfactory liquidity management. However, it should be noted that being a banking institution, HBL should not be judged into traditional CR standards (2:1), originally developed for manufacturing and services companies.

Figure No. 4.1

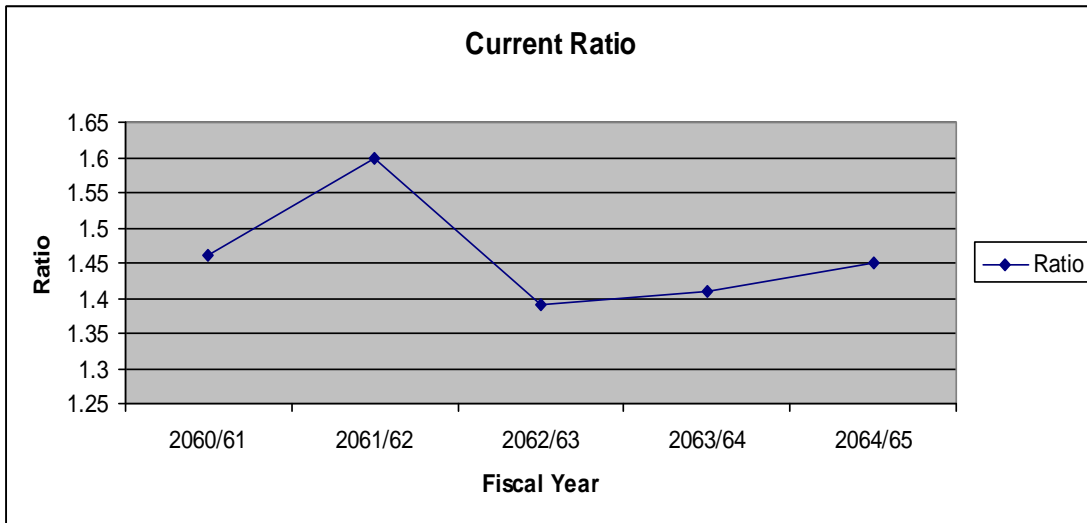


Figure No. 4.1 shows that the sharp CR rise of F/Y 2061/62 was followed by a dominating bulky drop the following year. Since then, however, the CRs have increased slowly but surely.

Analysis of Cash & Bank Balance to Current Assets

This ratio shows the portion of current assets held as cash and bank balance. This study calculates Cash & Bank Balance to Current Assets in terms of percentage.

Table No. 4.2
Analysis of Cash & Bank Balance to Current Asset

(In Rs. '000')

Fiscal Year	Cash & Bank Balance	Current Assets	Percentage (%)
2060/61	1435174.80	18404089.69	7.80
2061/62	1264671.80	21358131.36	5.92
2062/63	1979209.00	25098544.8	7.89
2063/64	2001184.22	24818343.03	8.06
2064/65	2014470.95	27648071.18	7.29
Total	8694710.77	117327180.06	
Average	1738942.15	23465436.01	7.39

Table No. 4.2 indicates that the cash and bank balance has claimed a very low portion of current assets - on an average 7.39%. In F/Y 2063/64, HBL maintained highest level of cash and bank balance to current assets, while the lowest was in F/Y 2061/62.

Figure No. 4.2

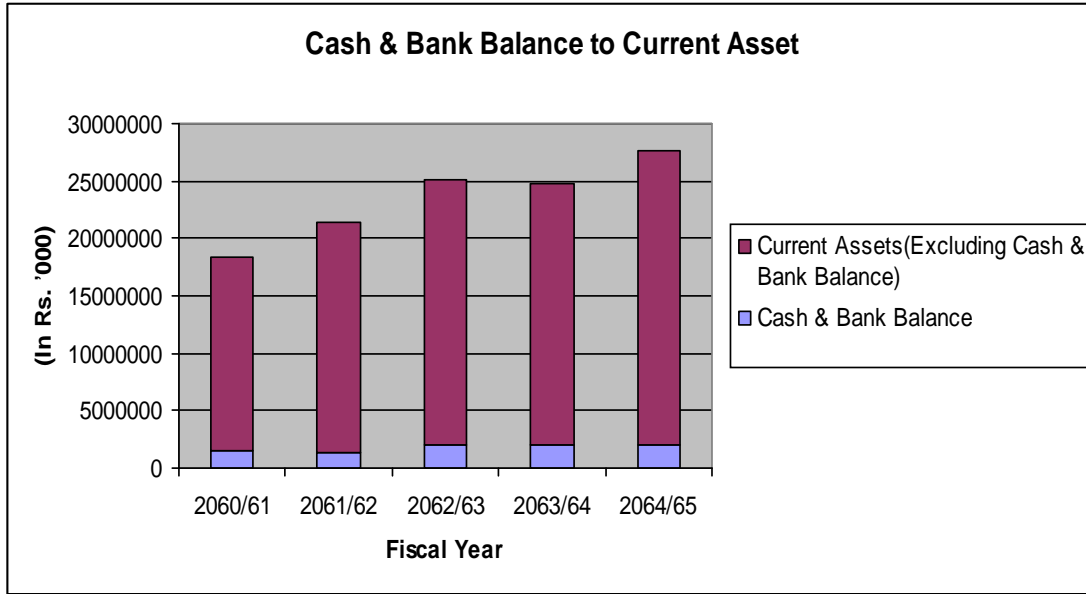


Figure No. 4.2 shows that cash and bank balance has increased with the increase in current assets. However, it should be noted that the portion of cash and bank balance in current assets has remained low.

Analysis of Cash & Bank Balance to Current Liabilities

This ratio indicates the amount of cash (in percentage) available to pay current obligation of the Bank.

Table No. 4.3

Analysis of Cash & Bank Balance to Current Liabilities

(In Rs. '000')

Fiscal Year	Cash & Bank Balance	Current Liabilities	Percentage (%)
2060/61	1435174.80	12625154.80	11.37
2061/62	1264671.80	13342847.15	9.48
2062/63	1979209.00	18054047.91	10.96
2063/64	2001184.22	17643656.16	11.34
2064/65	2014470.95	19103425.69	10.55
Total	8694710.77	80769131.72	
Average	1738942.15	16153826.34	10.74

Table No. 4.3 indicates that the cash and bank balance has promised to satisfy a very low portion of current liabilities - on an average 10.74%. In F/Y 2060/61, HBL maintained highest level of cash and bank balance to current liabilities, while the lowest was in F/Y 2061/62.

Figure No. 4.3

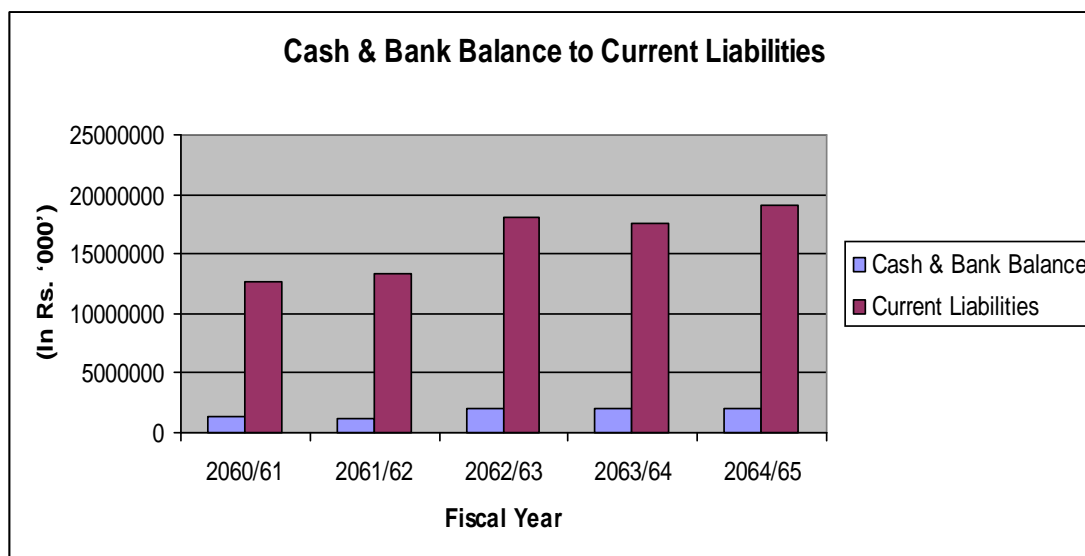


Figure No. 4.3 shows that cash and bank balance has increased with the increase in current liabilities. However, it should be noted that the percentage collateral on current liabilities by cash and bank balance has remained low.

Analysis of Cash & Bank Balance to Deposit Accounts

This ratio indicates the amount of cash (in percentage) kept from deposits.

Table No. 4.4

(In Rs. '000')

Fiscal Year	Cash & Bank Balance	Deposit Accounts	Percentage (%)
2060/61	1435174.80	12625154.80	8.14
2061/62	1264671.80	13342847.15	6.79
2062/63	1979209.00	18054047.91	9.42
2063/64	2001184.22	17643656.16	9.09
2064/65	2014470.95	19103425.69	8.12
Total	8694710.77	80769131.72	
Average	1738942.15	16153826.34	8.31

Table No. 4.4 indicates that the cash and bank balance kept from deposit accounts ranges from 6.79% to 9.42%. In F/Y 2061/62, HBL held decreased level of cash and bank balance despite the increases in deposit accounts, and in F/Y 2063/64, HBL held increased level of cash and bank balance despite the decreases in deposit accounts.

Figure No. 4.4

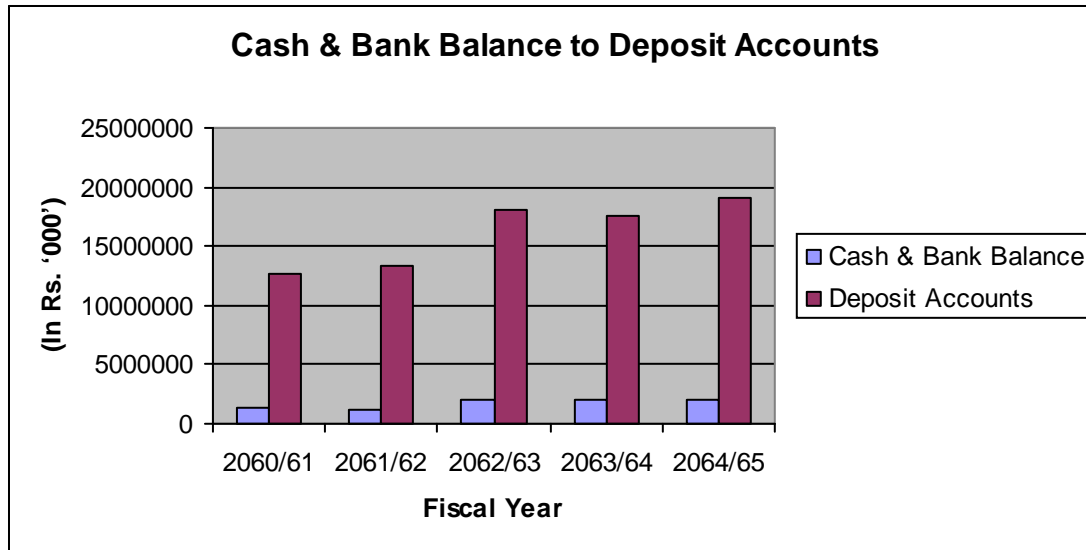


Figure No. 4.4 shows fluctuating trend of cash and bank balance and deposit accounts. In F/Y 2061/62, HBL held decreased level of cash and bank balance despite the increases in deposit accounts, and in F/Y 2063/64, HBL held increased level of cash and bank balance despite the decreases in deposit accounts.

Analysis of Cash & Bank Balance to Loan, Advances, and Bills Purchase

This ratio indicates the amount of cash (in percentage) kept after loan, advances and bills purchase.

Table No. 4.5

(In Rs. '000')

Fiscal Year	Cash & Bank Balance	Loan, Advances, and Bills Purchase	Percentage (%)
2060/61	1435174.80	8537666.08	16.81
2061/62	1264671.80	8913723.56	14.19
2062/63	1979209.00	10001848.19	19.79
2063/64	2001184.22	11951869.35	16.74
2064/65	2014470.95	12424520.65	16.21
Total	8694710.77	51829627.84	
Average	1738942.15	10365925.57	16.75

Table No. 4.5 indicates that HBL has maintained cash and bank balance on average 16.75% of what it lends into loan, advances and bills purchase. In F/Y 2061/62, HBL maintained lowest level of cash and bank balance to loan, advances and bills purchase, followed by the highest in F/Y 2062/63.

Figure No. 4.5

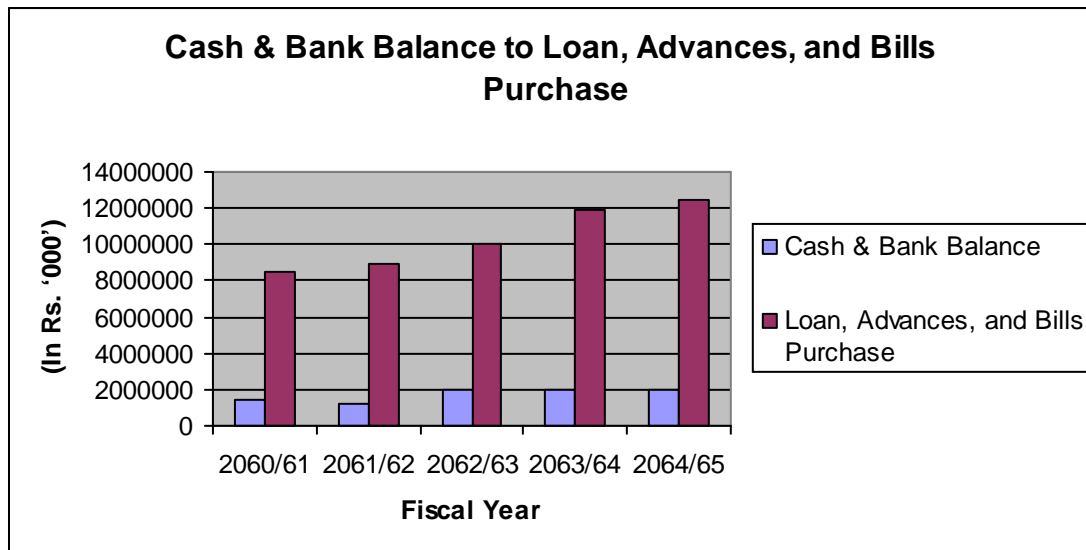


Figure No. 4.5 shows that cash and bank balance has remained consistent despite the increase in loan, advances and bills purchase for the latest three years. However, it should be noted that the consistency seen is on rupees amount and not in percentage.

4.1.2 Analysis of Cash Position

Increase and Decrease in Cash & Bank Balance

Table No. 4.6
Increase and Decrease in Cash

(In Rs. '000')

Fiscal year	Cash & Bank Balance	Increase(Decrease)	
		In Rs.	In %
2060/061	1435174.80	-	-
2061/062	1264671.80	-170503.00	-11.88
2062/063	1979209.00	714537.20	56.50
2063/064	2001184.22	21975.22	1.11
2064/065	2014470.95	13286.74	0.66

Table No. 4.6 shows that the cash holdings of HBL have increased from 1435 million to 2014 million during 5 year study period. But looking at the percentage part of analysis it is found that actually cash holdings of HBL have remained significantly volatile. The cash holdings leaped by 56.50% in F/Y 2062/063, right after having experienced an 11.88% drop in previous year. This implies that no any definite policy of cash management has been adopted by HBL.

Figure No. 4.6

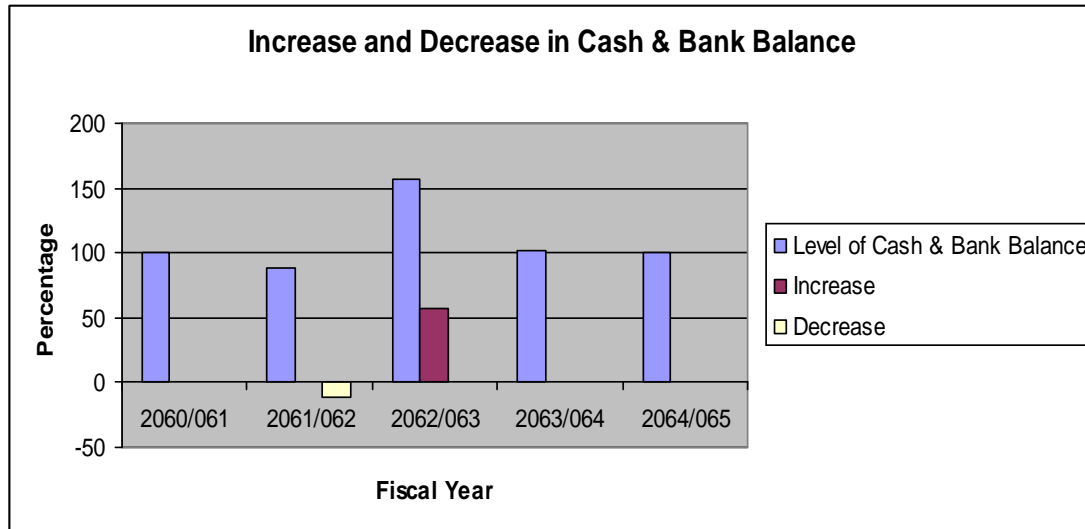


Figure No. 4.6 shows fluctuating trend of cash and bank balance. It is difficult to notice any shifts in the bars representing cash and bank balance except in F/Y 2061/062 and F/Y 2062/063.

Analysis of Cash Flow Statement

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the movements of cash rather than the inflow and outflow of working capital.

It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit sales are recognized as the source of cash. Similarly, cash expenses, cash purchases and cash payments to suppliers for credit purchase are regarded as the use of cash. Incomes and expenses outstanding and prepaid expenses are not considered under this analysis.

Table No. 4.7

Analysis of Cash Flow Statement

(In Rs. '000')

Particulars	2060/61	2061/62	2062/63	2063/64	2064/65
A. Cash flow from Banking Transaction	650449.84	589742.32	636561.36	725692.00	796894.67
B. Cash Flow From Investments	-3673573.98	-1524219.52	-3134273.26	-1921645.41	-3450675.64
C. Cash Flow From Financial Sources	3019155.99	1247295.31	2432124.50	1072999.42	2666075.57
Net Cash Flow (A+B+C)	-3968.15	312818.11	-65587.41	-122953.99	12294.61
Beginning Cash Balance	153926.761	149958.611	462776.725	397189.317	274235.328
Ending Cash Balances	149958.61	462776.73	397189.32	274235.33	286529.93

Table no. 4.7 shows that HBL has net positive cash flows in F/Y 2061/62 and F/Y 2064/65. While the net positive cash flows may be attributed to increased CFFA, fluctuant CFIA may also be blamed for the volatility of net cash flows. In contrast, Cash flow from Banking Transaction or CFOA seems to be steady and progressive.

Trend Analysis of Cash Balance

Table No. 4.8

Trend Analysis of Cash & Bank Balance

(In Rs. '000')

Fiscal Year	Cash & Bank Balance	Trend Values
2060/61	1435174.80	1359921.21
2061/62	1264671.80	1549431.68

2062/63	1979209.00	1738942.15
2063/64	2001184.22	1928452.63
2064/65	2014470.95	2117963.10
2065/66		2307473.57
2066/67		2496984.04
2067/68		2686494.51

The Y-intercept (a) and slope of the trend line (b) of cash & bank balance remained to be Rs. 1738942.15 and Rs. 189510.47 respectively. During the study period, cash & bank balance exposed an increasing trend. The trend equation of cash & bank balance is given by:

$$Y_c = 1738942.15 + 189510.47 X$$

According to the above trend equation, the forecasted values of cash & bank balance for coming three years would be Rs. 2307473.57, Rs. 2496984.04 and Rs. 2686494.51 thousand respectively.

Figure No. 4.7

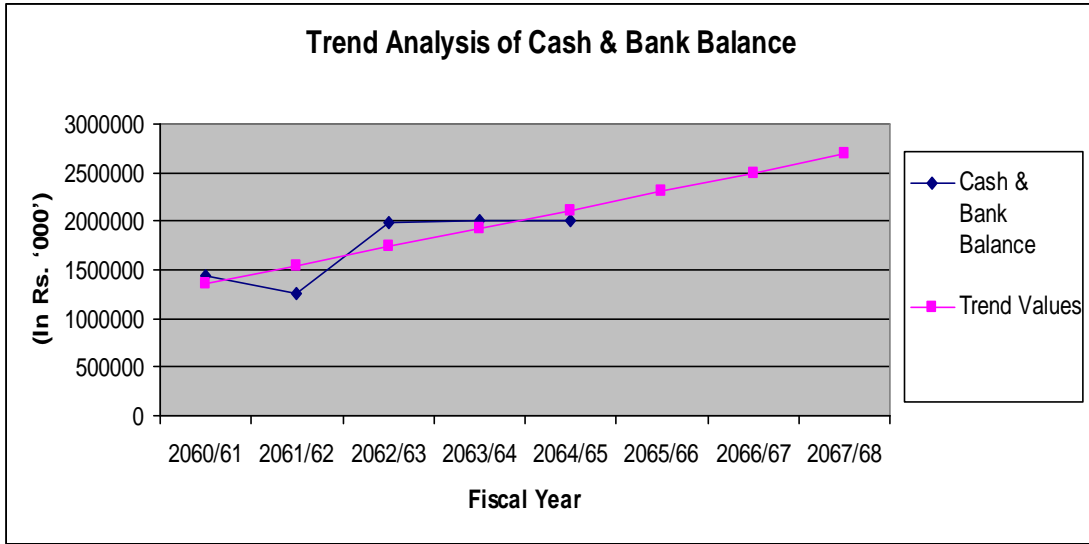


Figure No. 4.7 shows that cash & bank balance of HBL has rapidly increased in F/Y 2062/63 after experiencing a bulky drop previous year. Cash & bank balance has remained consistent the following three years. The overall result of fluctuations is an upward moving trend line. The overall figure, in general, means that the bank does not have a fixed cash management strategy.

Trend Analysis of CFOA

Table No. 4.9

Trend Analysis of CFOA

(In Rs. '000')

Fiscal Year	CFOA	Trend Values
2060/61	650449.84	594100.17
2061/62	589742.32	636984.10
2062/63	636561.36	679868.04
2063/64	725692.00	722751.97
2064/65	796894.67	765635.91
2065/66		808519.84
2066/67		851403.77
2067/68		894287.71

The Y-intercept (a) and slope of the trend line (b) of CFOA remained to be Rs. 679868.04 and Rs. 42883.93 respectively. During the study period, CFOA exposed an increasing trend. The trend equation of CFOA is given by:

$$Y_c = 679868.04 + 42883.93 X$$

According to the above trend equation, the forecasted values of CFOA for coming three years would be Rs. 808519.84, Rs. 851403.77 and Rs. 894287.71 thousand respectively.

Figure No. 4.8

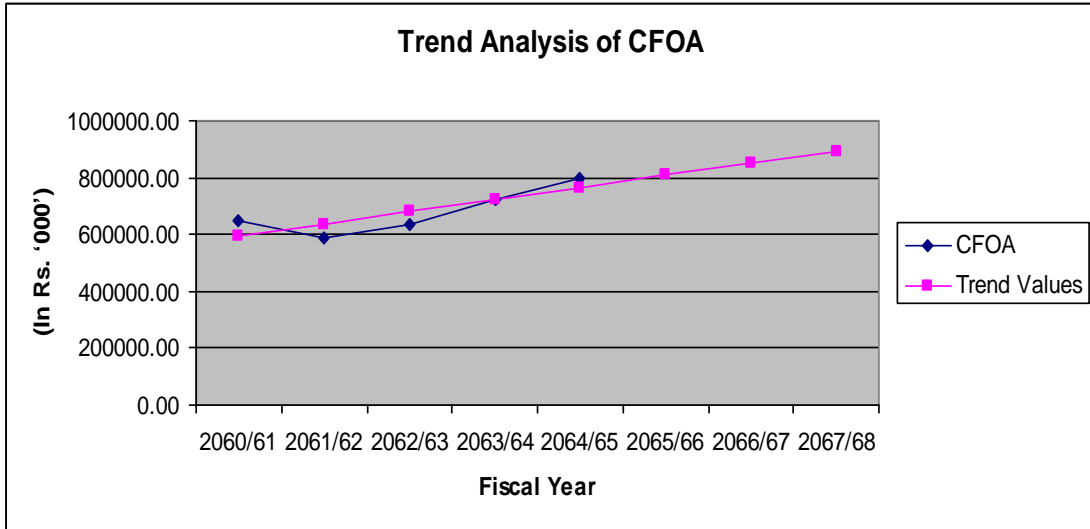


Figure No. 4.8 shows the trend analysis of cash flow from operating activities. In F/Y 2061/62 the CFOA has decreased, but then it has closely pursued the upward moving trend line. CFOA has steadily increased over the period of study. Cash fluctuations is not high means bank is successively utilizing its cash. It means that the regular sources of cash receipts and cash payments of the bank are stable.

Trend Analysis of CFIA

Table No. 4.10

Trend Analysis of CFIA

(In Rs. '000')

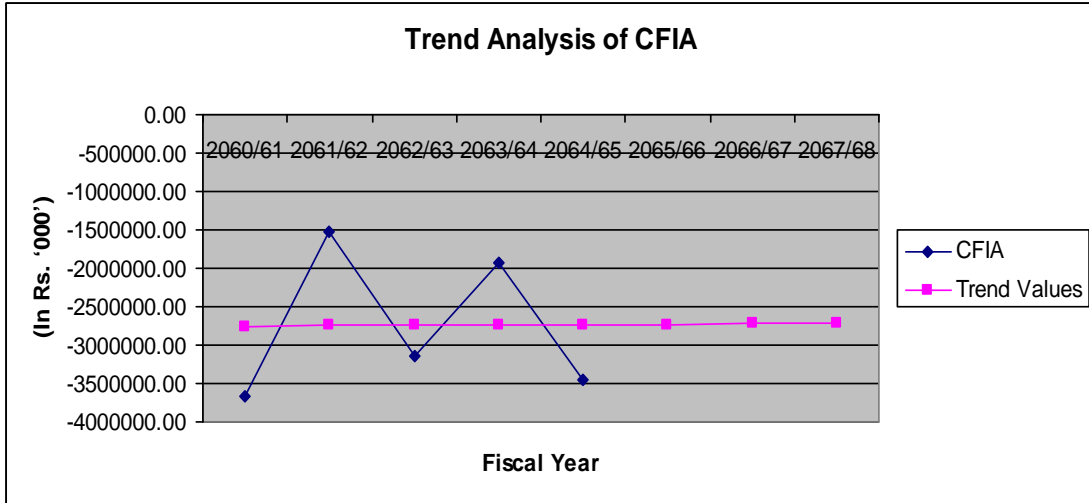
Fiscal Year	CFIA	Trend Values
2060/61	3673573	2750551
2061/62	1524219	2745714
2062/63	3134273	2740877
2063/64	1921645	2736040
2064/65	3450675	2731203
2065/66		-2726366.33
2066/67		-2721529.25
2067/68		-2716692.17

The Y-intercept (a) and slope of the trend line (b) of CFIA remained to be Rs. -2740877.56 and Rs. 4837.08 respectively. During the study period, CFIA exposed an increasing trend. The trend equation of CFIA is given by:

$$Y_c = -2740877.56 + 4837.08 X$$

According to the above trend equation, the forecasted values of CFIA for coming three years would be Rs. -2726366.33, Rs. -2721529.25 and Rs. -2716692.17 thousand respectively.

Figure No. 4.9



The pattern of cash receipts and cash payments from investing activities of HBL is highly volatile and unpredictable, which is shown in Figure No. 4.7. The sharp increase in CFIA in FY 2062/63 and 2064/65 has just covered the bulky drop in CFIA in FY 2061/62 and FY 2063/64. It has resulted into a constant trend line of CFIA.

Trend Analysis of CFFA

Table No. 4.11
Trend Analysis of CFFA

(In Rs. '000')

Fiscal Year	CFFA	Trend Values
2060/61	3019156	2263621
2061/62	1247295	2175576
2062/63	2432124	2087530
2063/64	1072999	1999484
2064/65	2666075	1911438
2065/66		1823393.14
2066/67		1735347.47
2067/68		1647301.79

The Y-intercept (a) and slope of the trend line (b) of CFFA remained to be Rs. 2087530.16 and Rs. -88045.67 respectively. During the study period, CFFA exposed an increasing trend. The trend equation of CFFA is given by:

$$Y_c = 2087530.16 + -88045.67 X$$

According to the above trend equation, the forecasted values of CFOA for coming three years would be Rs. 1823393.14, Rs. 1735347.47 and Rs. 1647301.79 respectively.

Figure No. 4.10

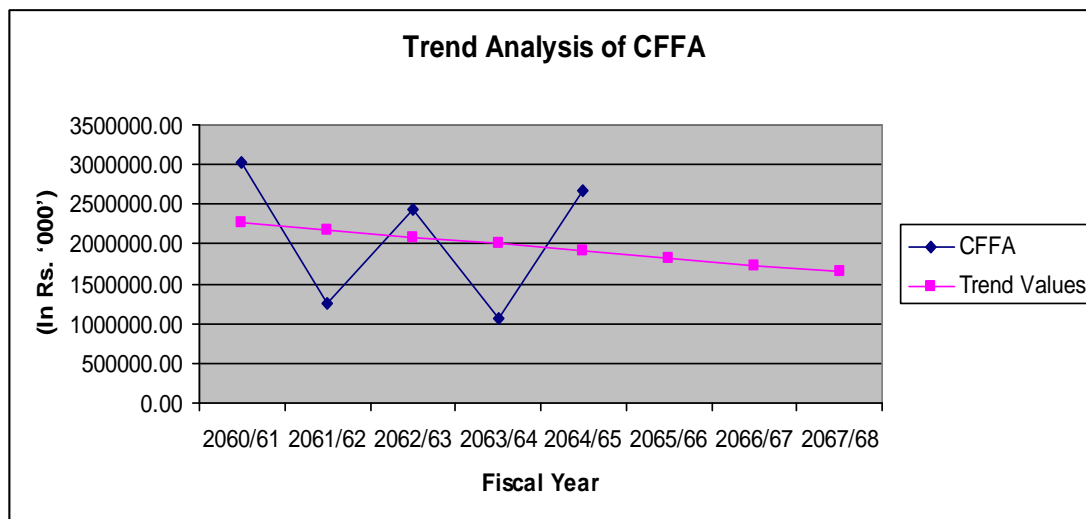
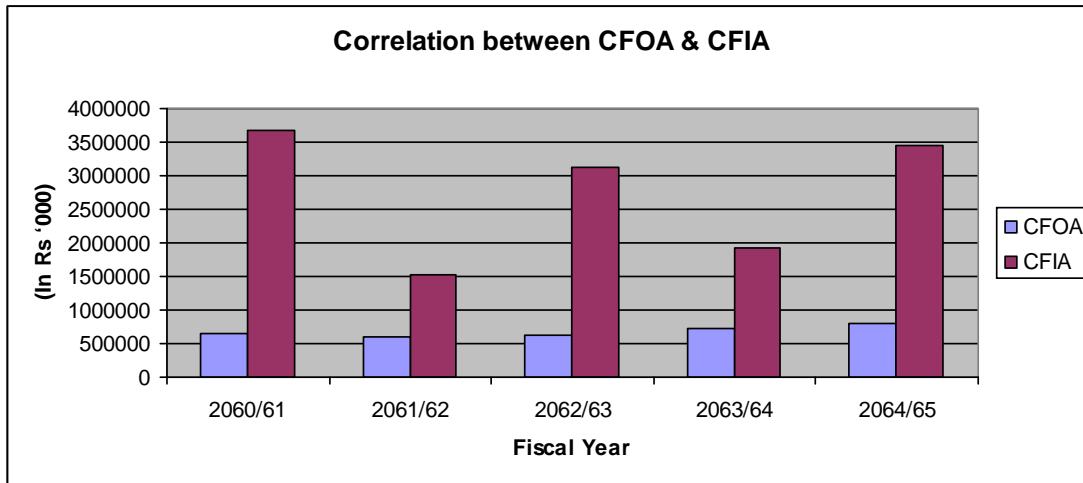


Figure No. 4.10 shows the trend analysis of cash from financing activities. The sharp increase in CFFA in FY 2062/63 and 2064/65 has mostly covered the bulky drop in CFFA in FY 2061/62 and FY 2063/64. It shows that CFFA is highly volatile and it has resulted into a decreasing trend line of CFFA. It means that the financial sources of cash receipts and cash payments of the bank are unpredictable.

Correlation between CFOA & CFIA

The Coefficient of Correlation between CFOA & CFIA for the different sampled years has been calculated in Appendix B.

Figure No. 4.11

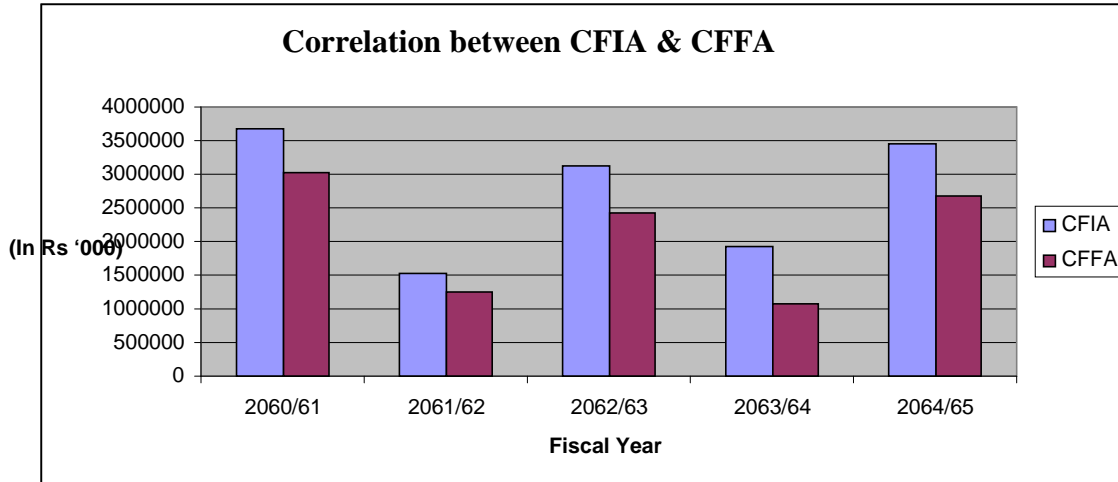


The coefficient of correlation between CFOA (X) & CFIA (Y) came to be 0.3534. This suggests that the two variables have positive relation to each other, but investment outflows weakly relate to operating inflows. However, coefficient of correlation appeared less than six times of PE, i.e. $0.3534 < 6 \times 0.264$, which implies that the relation between CFOA and CFIA is not at significant level.

Correlation between CFIA & CFFA

The Coefficient of Correlation between CFIA & CFFA for the different sampled years has been calculated in Appendix B.

Figure No. 4.12

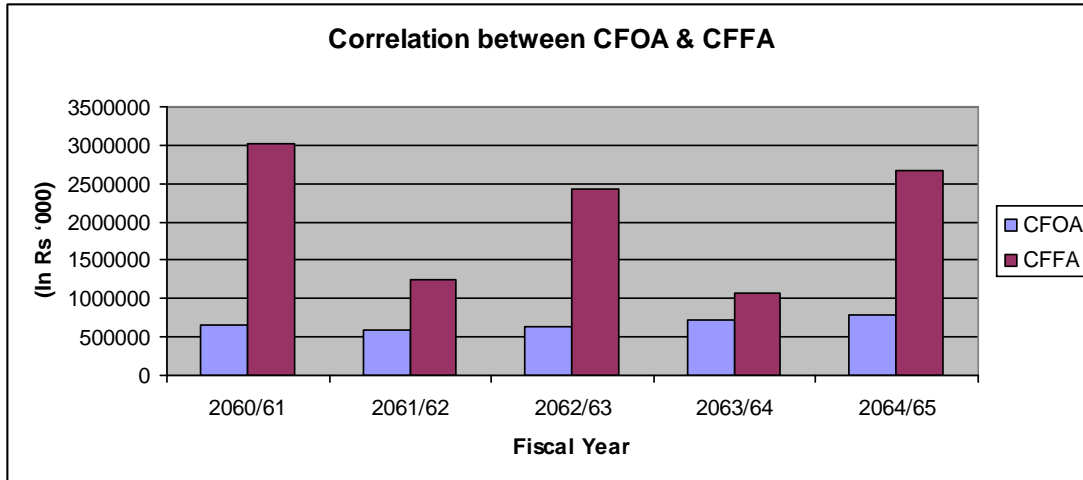


The coefficient of correlation between CFIA (X) & CFFA (Y) came to be 0.9746. This suggests that the two variables have high degree of positive relation to each other, and investment outflows strongly relate to financing inflows. Also, coefficient of correlation appeared more than six times of PE, i.e. $0.9746 > 6 \times 0.015$, which implies that the relation between CFIA and CFFA is at significant level.

Correlation between CFOA & CFFA

The Coefficient of Correlation between CFOA & CFFA for the different sampled years has been calculated in Appendix B.

Figure No. 4.13



The coefficient of correlation between CFOA (X) & CFFA (Y) came to be 0.1913. This suggests that the two variables have low degree of positive relation to each other. However, coefficient of correlation appeared less than six times of PE, i.e. $0.1913 < 6 \times 0.291$, which implies that the relation between CFOA and CFFA is not at significant level.

4.1.3 Income and Expenditure Analysis

Income and expenses analysis shows the trend of income and expenditure.

Income Analysis

The sources of income for commercial banks usually include interest income, commission and discount, foreign exchange income, and other income.

a) Interest Income

Commercial banks generate income through their investment i.e. loans and advances, government securities, debenture, etc. HBL earns interest on loan, advances and overdrafts, and from investments on non-government securities, foreign securities, bonds and debentures. In addition to that, it also earns interests on inter-bank landings.

b) Commission and discount

Commission and discount is also one of the major sources of income for the banks. HBL forwards various facilities to their customers, namely, bills purchase and discount, letters of credit, guarantees, collection, remittance, and credit cards etc. and receives commission and discount on the account of facilities provided.

c) Foreign exchange income

Commercial banks also gain from the purchase and sell of foreign currency.

d) Other income

Other income include income form sale of investment and assets, subsidies from NRB, etc.

Expenditure Analysis

The expenditure items of commercial banks, in general, include payments to daily office operation, salary and other facilities, and payments to depositors and investors as interest and dividends.

a) Interest Expenses

HBL pays interests on deposit liabilities (fixed deposits, saving deposits, and call deposits) and on borrowings (debentures and bonds, NRB loan, and inter-bank loans).

b) Staff Expenses

Banks pay salaries and other different forms of allowance to their staff in terms of services. The employees of HBL are entitled to salary, allowance, uniform, insurance, pension, gratuity, training expenses and provident fund contributions.

c) Office Operation Expenses

The items of office overhead expenses of HBL consist of office rent, electricity and water, repair and maintenance, insurance, fax and telephone charges, furniture and repair, traveling allowances, printing and stationary, periodicals and books, advertisements, legal expenses, donations, entertainment, audit fees, expenses related to general meetings, commission and discounts, and other administrative expenses and promotion expenses.

d) Provision

HBL provides provisions for loan loss, staff bonus, and income tax

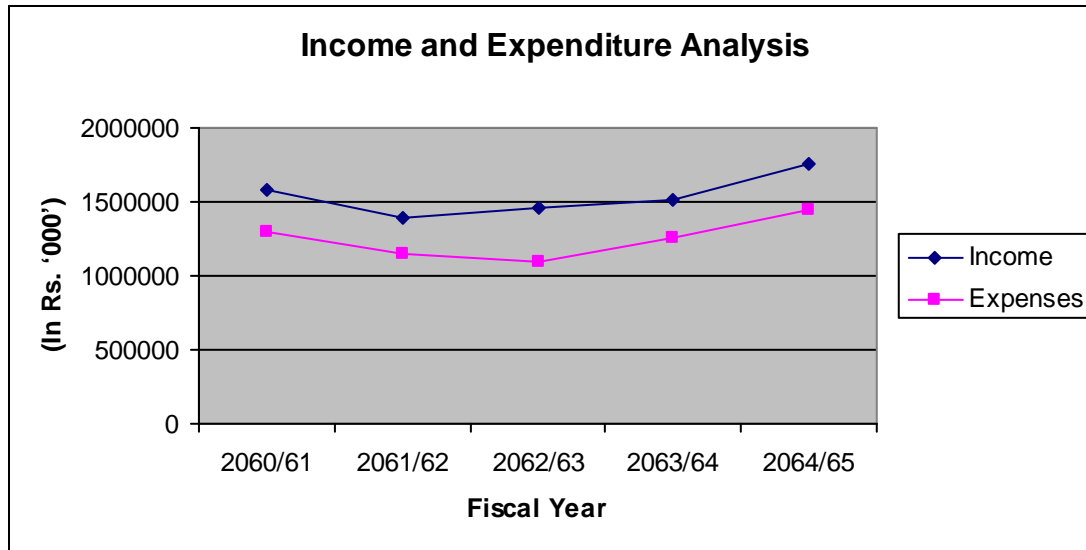
Table No. 4.12
Income and Expenditure Analysis

(In Rs. '000')

Fiscal Year	2060/61	2061/62	2062/63	2063/64	2064/65	\bar{X}	CV
Income	1575226.79	1389792.05	1454306.83	1519618.64	1760680.23	126697.92	8.23
Expenditure	1298186.62	1154768.54	1094282.49	1256565.14	1452405.06	123808.02	9.89

Above table reveals a steady trend of income and expenditure. Except that of F/Y 2060/61, income has progressed steadily. Expenditure has dropped for half of the study-period and escalated for the rest half. There is very little difference in the means of income and expenditure. Expenditure, however, has somewhat more volatility as compared to income shown by their respective CV - 8.23% and 9.89% respectively.

Figure No. 4.14



In Figure No. 4.11, both lines of income and expenditure have fallen and rose in similar fashion, but the fluctuation in expenditure is somewhat steeper as compared to income. It means that the financial sources of cash receipts and cash payments of the bank are trendy but predictable. Hence, contingency cash management plans may not be required.

4.2 Presentation of Data from Primary Sources

This section includes the information related with the study from primary sources. Primary data were obtained through conversation and interview made with the executives and employees of HBL. The presentation and analysis of these primary data are given below.

4.2.1 Cash balance to meet contingency withdrawals

To know the respondents' view if HBL usually holds enough cash balance to meet contingency withdrawals, a question was asked, "Do you think that the bank usually holds enough cash balance to meet contingency withdrawals?"

The responses provided by respondents are tabulated below:

Table No. 4.13

Group	Yes	No	Total
Executives	8	2	10
Non-executives	17	3	20
Total	25	5	30

Above question was asked and analyzed through chi-square method. In chi-square test two hypotheses should be taken and, accordingly these two hypotheses were set.

- Null hypothesis (H_0): HBL usually holds enough cash balance to meet contingency withdrawals.
- Alternative hypothesis (H_1): HBL does not usually hold enough cash balance to meet contingency withdrawals

Test Statistics: Under H_0 , the test statistic is: $t^2 = \sum \frac{(O-E)^2}{E}$

Row Column	O	E	O-E	(O-E) ²	(O-E) ² /E
1,1	8	8.333	-0.333	0.111	0.013
1,2	2	1.667	0.333	0.111	0.067
2,1	17	16.667	0.333	0.111	0.007

2,2	3	3.333	-0.003	0.111	0.033
Total					0.120

Here, calculated $t^2 = 0.120$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1$

$r = 5\%$

Tabulated value of $t^2_{0.05}(1) = 3.841$

Conclusion: Since calculated value of t^2 is less than tabulated value of t^2 , H_0 is accepted which means that HBL usually holds enough cash balance to meet contingency withdrawals. From above test we can conclude that personnel think that HBL usually holds enough cash balance to meet contingency withdrawals.

4.2.2 The collection target on zero balance accounts

To know the respondents' view if the bank meets the collection target on zero balance accounts, a question was asked, "Does the bank meet the collection target on zero balance accounts?"

The responses provided by respondents are tabulated below:

Table No. 4.14

Group	Yes	No	Total
Executives	6	4	10
Non-executives	12	8	20
Total	18	12	30

Above question was asked and analyzed through chi-square method. In chi-square test two hypotheses should be taken and, accordingly these two hypotheses were set.

- Null hypothesis (H_0): HBL meets the collection target on zero balance accounts
- Alternative hypothesis (H_1): HBL does not meet the collection target on zero balance accounts

Test Statistics: Under H_0 , the test statistic is: $\chi^2 = \sum \frac{(O - E)^2}{E}$

Row Column	O	E	O-E	(O-E) ²	(O-E) ² /E
1,1	6	6	0	0	0
1,2	4	4	0	0	0
2,1	12	12	0	0	0
2,2	8	8	0	0	0
Total					0

Here, calculated $\chi^2 = 0$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1$

$\alpha = 5\%$

Tabulated value of $\chi^2_{0.05}(1) = 3.841$

Conclusion: Since calculated value of χ^2 is less than tabulated value of χ^2 , H_0 is accepted which means HBL meets the collection target on zero balance accounts. From above test we can conclude that HBL meets the collection target on zero balance accounts.

4.2.3 Timely collection of loan repayments from borrowers

To know the respondents' view if the bank most often timely collect loan repayments from borrowers a question was asked, "Does the bank most often timely collect loan repayments from borrowers?"

The responses provided by respondents are tabulated below:

Table No. 4.15

Group	Yes	No	Total
Executives	6	4	10
Non-executives	10	10	20
Total	16	14	30

Above question was asked and analyzed through chi-square method. In chi-square test two hypotheses should be taken and, accordingly these two hypotheses were set.

- Null hypothesis (H_0): HBL most often timely collect loan repayments from borrowers
- Alternative hypothesis (H_1): HBL does not often timely collect loan repayments from borrowers

Test Statistics: Under H_0 , the test statistic is: $t^2 = \sum \frac{(O - E)^2}{E}$

Row Column	O	E	O-E	(O-E) ²	(O-E) ² /E
1,1	6	5.333	0.667	0.445	0.083
1,2	4	4.667	-0.667	0.445	0.095
2,1	10	10.667	-0.667	0.445	0.042
2,2	10	9.333	0.667	0.445	0.048
Total					0.268

Here, calculated $t^2 = 0.120$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1$

$r = 5\%$

Tabulated value of $t^2_{0.05}(1) = 3.841$

Conclusion: Since calculated value of t^2 is less than tabulated value of t^2 , H_0 is accepted which means HBL most often timely collect loan repayments from borrowers. From above test we can conclude HBL most often timely collect loan repayments from borrowers.

4.3 Major Findings

4.3.1 Major Findings from Secondary Sources

The current ratios of HBL remained respectively 1.46, 1.60, 1.39, 1.41, and 1.45 throughout the five year study period. The mean of current ratios came to be 1.46.

The percentage of Cash & Bank Balance to Current Assets of HBL remained 7.80, 5.92, 7.89, 8.06, and 7.29 respectively throughout the five year study period. The mean of percentage of Cash & Bank Balance to Current Assets came to be 7.39.

The Cash & Bank Balance to Current Liabilities of HBL remained 11.37%, 9.48%, 10.96%, 11.34%, and 10.55% respectively throughout the five year study period. The mean of Cash & Bank Balance to Current Liabilities came to be 10.74%.

The Cash & Bank Balance to Deposit Accounts of HBL remained 8.14%, 6.79%, 9.42%, 9.09%, and 8.12% respectively throughout the five year study period. The mean of Cash & Bank Balance to Deposit Accounts came to be 8.31%.

The Cash & Bank Balance to Loan, Advances, and Bills Purchase of HBL remained 16.18%, 14.19%, 19.79%, 16.74%, and 16.21% respectively throughout the five year study period. The mean of Cash & Bank Balance to Loan, Advances, and Bills Purchase came to be 16.75%.

The cash holdings of HBL dropped by 11.88% in F/Y 2061/062. Thereafter, it increased by 56.5%, 1.11%, and 0.66% the following years. The rupees drop was Rs. 170503, and the rupees rise were Rs. 714537, Rs. 21975, and Rs.13286 respectively for the five year study period.

The net cash flows of HBL remained -3968.15, 312818.11, -65587.41, -122953.99, and 12294.61 respectively throughout the five year study period.

According to the trend equation, the forecasted values of Cash & Bank Balance of HBL for coming three years would be Rs. 2307473.57, Rs. 2496984.04 and Rs. 2686494.51 thousand respectively.

According to the trend equation, the forecasted values of CFOA of HBL for coming three years would be Rs. 808519.84, Rs. 851403.77 and Rs. 894287.71 thousand respectively.

According to the trend equation, the forecasted values of CFIA of HBL for coming three years would be Rs. -2726366.33, Rs. -2721529.25 and Rs. -2716692.17 thousand respectively.

According to the trend equation, the forecasted values of CFFA of HBL for coming three years would be Rs. 1823393.14, Rs. 1735347.47 and Rs. 1647301.79 respectively.

The coefficient of correlation between CFOA (X) & CFIA (Y) came to be 0.3534. This value of correlation indicates the positive relation between CFOA and CFIA. Considering the probable error, since the value of r is less than $6PE$, the correlation is not at significant level.

The coefficient of correlation between CFIA (X) & CFFA (Y) came to be 0.9746. This value of correlation indicates the positive relation between CFIA and CFFA. Considering the probable error, since the value of r is greater than $6PE$, the correlation is at significant level.

The coefficient of correlation between CFOA (X) & CFFA (Y) came to be 0.1913. This value of correlation indicates the positive relation between CFOA and CFFA. Considering the probable error, since the value of r is less than $6PE$, the correlation is not at significant level.

The mean of income and expenditure remained Rs. 126697.92 and Rs. 123808.02 respectively. Expenditure, however, has somewhat more volatility as compared to income shown by their respective CV - 8.23% and 9.89% respectively.

4.1.2 Major Findings from Primary Sources

Out of 30, 25 respondents agreed that HBL usually holds enough cash balance to meet contingency withdrawals. And since calculated value of t^2 is less than tabulated value of t^2 , H_0 is accepted which means that HBL usually holds enough cash balance to meet contingency withdrawals.

Out of 30, 18 respondents agreed that HBL meets the collection target on zero balance accounts. And since calculated value of t^2 is less than tabulated value of t^2 , H_0 is accepted which means HBL meets the collection target on zero balance accounts.

Out of 30, 16 respondents agreed that HBL most often timely collect loan repayments from borrowers. And since calculated value of t^2 is less than tabulated value of t^2 , H_0 is accepted which means that HBL most often timely collect loan repayments from borrowers.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter shows the final report of the study. This chapter is divided into three sections. First section deals with the summary of the study in which the results of calculations that is found in previous chapter is presented in short manner. The second section is related with the conclusion of the study in which overall decisions made under the study are presented. The third section of this chapter is remedies or recommendations of the study.

5.1 Summary

Financial sector is the lifeblood of the commercials and industrials activities. So, Commercial banks and other financial institutions can play a vital role in giving a direction for development economy by financing the requirements of trade and industries in country. They collect scattered amount of people and transfer to the required sectors of trade and industries. Hence, the banking sector helps to develop the nation to the world.

In the developing country like Nepal, the central Bank is supposed to help in developing banking system for mobilization of financial resources and using them into the priority areas as fixed in the development plans. In the year 2022, another commercial Bank, "Rastriya Banijya Bank was established under the Rastrya Banijya Bank Act, 2021."It was specially established in the response to need for forming a Government owned Commercial Bank after the convenience and economic interest of general public

Himalayan Bank Limited (HBL) was established in 1992 A.D. to maintain the economic welfare of the general people to facilitate loan for agriculture, industries and commerce to provide the banking services to the country and people. It has been financed by founder's shareholders (A class) sharing 51%, 20%by Habib Bank of Pakistan, and 14% by Employee Provident fund and 15% by public. The Bank has 120 Million rupees

authorized capital and 60 Million rupees issued capital. It is the first Joint Venture Bank having domestic ownership more than 50 % capital.

Role of banking sector has been gradually improving. Due to the globalization, the banking environment has being competitive. Apart from other measures required to improve their performance, banking sector may be expected to have better surrounded by cutthroat competition, widening the market and changes in the technology. However, the listed commercial banks have been doing its best to yield good services within the limited sources available and minimizing the cost in comparison to other.

The main objectives of this study were to present the existing cash management policies and to refer suggestions on the basis of analysis to improve the cash management for future. In conclusion, it can be said that cash management is an important parts of the financial decision making variable. Many factors or determinants such as nature of business, capacity level, quality of customers, economic condition etc. has to be considered in cash management. Apart from that level of funds flow, method of creating cash management, establishment of credit terms, motives for holding cash, etc. are to be considered.

As this study is related to the cash management of HBL, a number of financial and statistical tools have been used to meet the prescribed objectives. Ratio analysis being the primary financial tool includes Current ratio, cash & bank balance to current assets, cash & bank balance to current liabilities, cash & bank balance to deposit accounts and cash & bank balance to loan and advances, etc. To further analyze the financial data, a number of statistical tools have been used such as arithmetic mean, standard deviation, coefficient of variation, coefficient of correlation, probable error of correlation coefficient and least square trend line.

The current ratios of HBL remained respectively 1.46, 1.60, 1.39, 1.41, and 1.45 throughout the five year study period. The mean of current ratios came to be 1.46.

The percentage of Cash & Bank Balance to Current Assets of HBL remained 7.80, 5.92, 7.89, 8.06, and 7.29 respectively throughout the five year study period. The mean of percentage of Cash & Bank Balance to Current Assets came to be 7.39.

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The cash holdings of HBL dropped by 11.88% in F/Y 2061/062. Thereafter, it increased by 56.5%, 1.11%, and 0.66% the following years. The rupees drop was Rs. 170503, and the rupees rise were Rs. 714537, Rs. 21975, and Rs.13286 respectively for the five year study period.

The net cash flows of HBL remained -3968.15, 312818.11, -65587.41, -122953.99, and 12294.61 respectively throughout the five year study period.

According to the trend equation, the forecasted values of Cash & Bank Balance of HBL for coming three years would be Rs. 2307473.57, Rs. 2496984.04 and Rs. 2686494.51 thousand respectively.

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The coefficient of correlation between CFIA (X) & CFFA (Y) came to be 0.9746. This value of correlation indicates the positive relation between CFIA and CFFA. Considering the probable error, since the value of r is greater than $6PE$, the correlation is at significant level.

The coefficient of correlation between CFOA (X) & CFFA (Y) came to be 0.1913. This value of correlation indicates the positive relation between CFOA and CFFA. Considering the probable error, since the value of r is less than $6PE$, the correlation is not at significant level.

The mean of income and expenditure remained Rs. 126697.92 and Rs. 123808.02 respectively. Expenditure, however, has somewhat more volatility as compared to income shown by their respective CV - 8.23% and 9.89% respectively.

Out of 30, 25 respondents agreed that HBL usually holds enough cash balance to meet contingency withdrawals. And since calculated value of t^2 is less than tabulated value of t^2 , H_0 is accepted which means that HBL usually holds enough cash balance to meet contingency withdrawals.

Out of 30, 18 respondents agreed that HBL meets the collection target on zero balance accounts. And since calculated value of t^2 is less than tabulated value of t^2 , H_0 is accepted which means HBL meets the collection target on zero balance accounts.

Out of 30, 16 respondents agreed that HBL most often timely collect loan repayments from borrowers. And since calculated value of t^2 is less than tabulated value of t^2 , H_0 is accepted which means that HBL most often timely collect loan repayments from borrowers.

5.2 Conclusions

As per the analysis and interpretation of data the following conclusions have been derived:

- The current ratio has consistently remained below 1.5 which shows the incapability of HBL to meet its current liabilities. However, being a banking institution, this may be considered appropriate for HBL.
- The cash and bank balance has claimed a very low portion of current assets - on an average 7.39%. Similarly, cash and bank balance has promised to satisfy a very low portion of current liabilities - on an average 10.74%. It indicates poor liquidity position; difficulty may be experienced in the payment of current liabilities and day to day operations of the business may suffer. However, higher cash and bank balance in such ratios will essentially mean idle funds.
- HBL seems to have a consistent policy of keeping cash and bank balance from deposit accounts around 8%. Similarly, amount of cash (in percentage) kept after loan, advances and bills purchase revolves around 16%. But as the rupee amount of deposits and loan, advances and bills purchase is quite unstable; it is difficult to tell whether such cash management policy will work during contingency periods.

- The cash holdings of HBL have remained significantly volatile. The cash holdings leaped by 56.50% in F/Y 2062/063. This raises a question on policy of cash management adopted by HBL.
- The overall result of fluctuations in cash & bank balance is an upward moving trend line. CFOA has slowly but surely increased over the period of study. Despite sharp movements CFIA has produced a constant trend line. And CFFA is highly volatile which has resulted into a decreasing trend line. All these findings suggest in one direction – while CFOA has helped uplift cash & bank balance, CFFA has tried to pull down cash & bank balance.
- The coefficient of correlation between CFOA (X) & CFIA (Y) show positive but insignificant relation - investment outflows weakly relate to operating inflows. The coefficient of correlation between CFIA (X) & CFFA (Y) show positive and significant relation - investment outflows strongly relate to financing inflows. The coefficient of correlation between CFOA (X) & CFFA (Y) show positive but insignificant relation - the two variables have low degree of positive relation to each other.
- Both lines of income and expenditure have fallen and rose in similar fashion, despite the fluctuation in expenditure is somewhat steeper as compared to income. It means that the financial sources of cash receipts and cash payments of the bank are trendy but predictable. Hence contingency cash management plans, as per income and expenditure balance, may not be required.
- From the primary data analysis it can be concluded that personnel think that HBL usually holds enough cash balance to meet contingency withdrawals, HBL meets the collection target on zero balance accounts, and HBL most often timely collect loan repayments from borrowers.

5.3 Recommendations

Based on the conclusions, some recommendations are presented below:

- The liquidity position of HBL is somewhat feeble, and it must hold more liquid assets or otherwise cut off current liabilities to maintain a proper liquidity position.
- HBL may require additional cash for contingency periods; it should retain higher percentage cash on deposits or lend out less on loan, advances and bills purchase.
- HBL should carefully plan in investment and financial activities as these activities have a very unstable flow of cash and investment outflows strongly relate to financing inflows.
- HBL should implement new techniques of management such as participative management, management by objective and total quality management.
- HBL should maintain research budgets to study new investment projects across the country. There should be proper cost control system.
- HBL should introduce SWOT analysis to improve their capability of dealing with external forces and managing internal issues of strengths and weaknesses.
- The human resource department should emphasize on management development and training programs.
- The bank should be accessible to all level of customers in enjoying depositing, borrowing and other services and should not neglect to small parties. The company should operate new branches in non representation urban areas for more deposit collection and more utilization of the same as well as to increase their transaction and to provide financial services and facilities to more customers. It is also recommended to provide incentive for attracting more depositors.

- Large part of deposit is covered by fixed deposit. So proper initiative should be taken to increase in saving deposits, which bears less interest cost.
- Today customer is more time conscious and they seek easier and quicker services. Therefore, operating system and services should be modernized so that depositors may get quicker and easier services.

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