Chapter-I

Introduction

1.1 Background of Study:

Capital Management has been defined as a financial relationship created by a number of institutions and arrangement that follow suppliers and demanders of long term fund is to make transactions (Gitman, 2000). The main objective of capital management is to create opportunity for maximum number of people to get benefit from the return obtained by directing the economy towards the productive sector by mobilizing the long-term capital (the Ninth plan, 1998:167).

Nepal is an agro-based poor country. Agriculture is still the major source of income of over 80 percent people. Nepalese agriculture has suffered from the lack of modernization, deterioration in fertility due to soil erosion and rapid deforestation.[1] Nepal is the second richest country in the world in water resource but it has to depend upon monsoon for irrigation. It is estimated that only about 25 percent of the cultivated land has irrigation facility. Despite the emphasis being given to the development to agriculture since fifth plan, there is no radical change seen in this sector, which is still traditional. Credit facility is inadequate, investment is low and land tenure system is defective. There is specialization and commercialization in agriculture.[2]

Industrialization is a process of economic development in which growing part of the national resources is mobilized to develop

[1] Shyam Joshi, "Economic Policy Analysis" Kathmandu: Taleju Prakashan. 2001. p. 184
[2] bid. p. 181 - 195

technically up to date diversified domestic economic structure characterized by dynamic manufacturing consumer goods. Capable of assuring a high rate of growth for economy as a whole and achieving economic and social progress.[3]

For development of national economy of Nepal a regulated and systematized capital market for primary issue and secondary trading of securities had become essential. For promoting such markets in Nepal, the major attempts has made during pre-democracy period and formulation and enforcement of Company Act 1936 and establishment of joint stock companies under this act. Similarly, major efforts has done during post democracy and Panchayat period can be taken as establishment of Nepal Rastra Bank as central bank and some corporations as well as SEC and formulation and enforcement of Securities Exchange Act. Only after the restoration of democracy 1990 in Nepal some important efforts have been made for development of capital market. The government has made the first comprehensive plan and policy for capital market while drafting the Eighth plan (1992-1997). Consequently the first amendment to the securities Exchange Act 1983 was affected in 2049 B.S. and subsequently Securities Exchange Regulation 1993 has also come into effect. The second amendment on the Securities Exchange Act 1983 has also been done in 1996. By these types of gradual efforts and attempts of the government Securities Board of Nepal (SEBON) under securities Exchange Act (First Amendment) 1992 and subsequent Securities Exchange Regulation 1993 (2050), is established. Another great effort of the government can be taken to the conversion of Securities Exchange Center into the Nepal Stock

[3] "UN Committee for Industrial Development Report on the Third Session, 'New York. 1963. p. - 20

Exchange Ltd. (NEPSE). The Securities Board was established in 1993 as a securities market regulator after conversion of the SEC, a government enterprise, previously working as a sole regulator. Accordingly it has started to involved in market by issuing necessary and directives. The Nepal Stock Exchange Ltd, restructured form of the SEC has started its trading operation since 1997. It has provided membership to different market intermediaries and has listed various public companies. In this way a secondary market is enhanced and operated. In this time the government has encouraged the economic liberalization policies and pursued privatization policies. These efforts of the government has contributed for the development of the capital market with greater prosperity. After these efforts have been made the stock prices and market liquidity for the corporate securities have been increased in early boom period of the capital market. The securities market attracts the investors and they are motivated to invest their savings in the securities. It has become very positive impact on the capital mobilization in the national economy. However this situation could not remain constant for long and the index and the volume of the transactions nosed dived after 2051 B.S. the scenario has not turned optimistic so far. There has been gradually decrease in the price of the stock and liquidity of the secondary market. The equilibrium of demand and supply of the funds from the general public (investors) tends to decrease. In other words the trend begin to downward instead of upward and been remaining.

Economic growth of any nation is highly influenced and characterized by development and expansion of capital market. The growth of the economy of the developed countries of the world has been due to in large part of the strength and efficiency of its capital market. The

East Asian Economic boom and crisis are largely effect capital market fluctuations. The capital market has more significant role in developing economics like Nepal. In Nepal, the capital deficient economy, requires a huge amount of investment in productive activities for her rapid economic development. The stock market play a big role by encouraging and channeling the saving to the entrepreneurs for investment in profitable projects in the Nepalese economy (Bhatta, 1997).

In the context of Nepal the concept of market is neither very old nor very complex. It is still in the beginning or introductory stages, though different efforts have been made for development of the capital market since 1936 to till now. During the regime of Rana dynasty in Nepal the expansion of capital market had been restricted due to participation in ownership was limited within their family members. Any how, they used the national funds on behalf of people. Nation and themselves according to the superiority of their individual thoughts. However the government has made the first and vital effort of incorporating the security marketing center (SMC) in 1976 as foundation of an organized Capital Market. The SMC was established under the company act 1936. Its main objective was to mobilize the capital through market mechanism for corporate development in the industrial, agricultural and other sectors of the nation. Later it has been governed by the Securities Exchange Act 1983, which was effective from April 13, 1984 and converted into Securities Exchange Center (SEC).

National development depends upon economic development of a country. Similarly, economic development depends upon industrial

development of the country. In other word, Industrial development is foundation of national development. It creates employment opportunities and helps to earn foreign currency. It utilizes idle can find that industrialization has proved itself to be the most powerful instrument in speeding up the economic development of any nation.
The role of manufacturing industry in the national economy is not satisfactory. The reason for emphasizing industrialization in Nepal is that industrial development would absorb rural, unemployed persons to these fields of production where higher productivity is possible with reducing total agricultural burden.

Realizing the importance of industrialization in the country. HMG/N has given due emphasis on the industrial sector, the economics survey (1990/91) states that:

The emphasis on industrialization for the creation of enough job opportunities for the people and for raising their economic levels though a considerable increase in GDP appears quite relevant, at a time, when the growth of population of the country is pushing the rural economy down to the subsistence level.[4]

Development plans of Nepal have been emphasizing the development of industries both in public and private sector. In every plan the world industrialization has been mentioned too frequently. It is stated that the private sector hasn't been able to come forward in industrial investment despite the several facilities provided by the government. The policy of the government to encourage industrialization in the private sector includes financial facilities through financial institution. Tax concession and so on. It is stated in various plan document that

[4] Ministry of financial 'Economic Survey' Kathmandu1990/91

private investors are to be encouraged to invest in industries and they are not invested in establishing any industry. Government itself will initiate those industries therefore, both private and public sector has been contributing to our nation. In order to encourage industrialization in private sector. An appropriate type of clear policy and practicable programs best in reality would be required. The development planners have felt that lack of long–term industrial development strategy in Nepal has take critical problem in designing and industrial program which in most cases has been a more testing of the project in the country's development plans.[5]

To, develop overall economy of a country; the government should establish different industries such as tourism, manufacture, banking, financial, agriculture. Transportation and insurance etc. Industry establishment is a very tough job. It needs basis infrastructure, huge amount of investment, and development of technology. Besides these, efficient manpower, good management, effective market are some other most essential factors.

1.2 Brief History of Unilever Nepal Ltd.

Nepal Lever Limited is one of the biggest manufacturing industry in Nepal. It was established in 1994 as joint-venture Company between Hindustan Level Limited, India and Nepali Promoters under the Company Act, 2021. The Factory's is situated at Basamadi V.D.C.–5 Makwanpur district, which is about six kilometer far from Hetauda Municipality, and its corporate office is at Heritage Plaza, Kamaladi, Kathmandu post of inform all concerned about the change in the name of the company from Nepal Lever Limited, to Unilever Nepal

[5] R.S. Pradhan " Industrialization in Nepal" Kathmandu NBU Publisher & Distributors

Limited as per the approved decision taken by eleventh annual general meeting held on 13th Dec 2004 (2061/8/28) under the special resolution. The change in name has been approved by the Company Registrar Office/HMG with effect from 9th Feb 2005 (2061/10/27) binding Unilever Nepal Limited to bear assume all the tax and other payable liabilities towards all the movable and immovable assets existing in the company's former name. It has 30,00,000 equity shares of Rs. 100 each as on authorized capital and out of these shares Hindustan Lever Limited. Mumbai has 7,36,500 shares, Sibkrim Land 7 Industrial Co. Pvt. Ltd. (Nepalese Collaborator) has 46,035 shares and public shareholders have 1,38,105 shares.

1.2.1 Aim of the Company

The main objective of the company is to meet the everyday needs of people everywhere- to anticipate the aspirations of their consumers & customers and to respond creatively and competitively with branded product and services, which raise the quality of life.

The company's deep roots in local cultures and markets around the world are unparalleled inheritance and the foundation for their future growth. They will bring their wealth or knowledge and Menational expertise to be serve of local consumers – a truly multi-local, multination. Their long-term success requires a total commitment to exceptional standards of performance and productivity, to working together effectively and to a willingness to embrace new ideas and learn continuously.

They believe that to succeed requires the highest standards of corporate behavior towards their employers, consumers and the societies and world in which they live. This is Lever's road to sustainable, profitable growth for their business and long –term value creation for their shareholders and employees.

The main product of the company are soap, detergents, Cosmetics, Cream Toothpaste and Toilet soap, Fair & lovely, Close up, Sunsilk, Liril, Pepsodent, Whell, Rin, Red level Tea, Lifebouy, Vim, Taj Mahal Tea Bags, and Clinic Plus are some of its products.

1.3 Focus of the Study :

Capital management plays significant role in the economic development of a nation. Legal provisions and institutional arrangements to regulate the capital management are basic requirements of capital market development. Thus, the government of Nepal is forming no. of policies and measures to gear up national economy. The economic liberalization policy & privatization policy has shown a bit green signals in development of capital market. Government forms and amends its policy every year on annual budget and during the practices of different plans. Capital market is being significance mechanism for capital mobilization and economic development of the country. Thus the study focuses on the regulation and the development of capital management in Nepal which may help to its concerned agencies and authorities.

Proper Financial management is of great important for every business enterprises from the point of view of achieving success. In this respect working capital plays a significant role in every aspect and more so in trading enterprises whose structure and function depends upon it. Lack of the knowledge about managing working capital causes harm to the organization and finally pushes it into liquidation. A manufacturing company must have an adequate supply of raw materials to process, labor, power and fuel etc. Then these raw materials convert into work-in process into finishes goods and the product sales in market. It also must have capability of waiting for the market and also have ability to sale in credit in this era of cutthroat competitions. Neither excess working capital nor less working capital is favorable for the company. So it has to e managed in such a way that which will be the just adequate for maintaining solvency and continuing the business. Adequate working capital brings security and confidence with numerous advantages such as better terms of goods purchased, cash discount, bank loan on favorable rate of interest. There would be steady work and there by raises the employees morale. Efficient and creation of sound, good of the company.

Manufacturing company should not have excess working capital; it is a sign of poor management. It impairs firm's profitability though it reduces risk by providing more liquidity. The idle investment in it earns nothing. On the other hand, Inadequate amount of working capital can threaten the solvency of the organization if it fails to meet its correct obligations. It should be realized that the working capital deals with the matrix of current assets and current liabilities. Every manufacturing firm needs various types of assets to run the production process without any interruption. Some assets and short-term obligation of a firm. So, that management has to manage properly working capital.

Unilever Nepal Limited is one of the manufacturers of soaps, detergents, cosmetics, and other chemical products. At present it has to face the cutthroat competition because of the establishment of a huge number of cosmetic companies and introduction of liberal and market economy of the country. Every organization wants to compete its competitors. It has to make sound all. In other to compete the rivals in the market, working capital management is the most vital part of any firm. So that firm should have the sound working capital management.

1.4 Statement of Problem:

Working capital is a crucial, which is compared as lifeblood of the human beings for the organization. In most enterprises the management of working capital has been misunderstood as the management of money rather than its efficient utilization.

Most of the Nepalese industries are still facing the problem of working capital management due to the unprofessional manpower. Management still focuses their attention on the procurement aspect of working capital but not on the efficient utilization of funds defined in terms of working capital. Every investors want to earn owners. Profit is not only one indicator of proper management of working capital. The working capital of an enterprise is that portion of its total capital. Which is put to variable operative purpose. and has the characteristics of greater divisionism and rapidity of turnover, which influence the types, and terms of financing. Hence management of working capital is in itself a decision-marking area with in the framework of overall Financial management.

Working capital management has been the most intricate and challenging area of modern corporate Finance is as much as the management always faces a trade-off between the liquidity and profitability of the firm. Though most of the enterprise in Nepal have well recognized the importance of proper working capital management, they are still facing the problem manner it has to manage the working capital is not good of working capital management. So basically this study has tried to find out the issues of working capital management of Unilever Nepal Limited. This study attempts to find out answers to the following questions.

(i) What is the relationship between each types component of current assets and total current assets?

(ii) How the company is Financing its current assets?

(iii) Is there proper investment in each type of working capital?

(iv) Is the company maintaining an appropriate liquidity position?

(v) Is the Unilever Nepal Ltd being able to utilize its current assets properly?

(vi) Is the Unilever Nepal Ltd is following appropriate working capital policy?

(vii) What is the profitability position of Unilever Nepal Ltd?

(viii) What is the cash conversion cycle of the Unilever Nepal Ltd?

1.5 Objective of the study

Working capital plays vital role in the success. The main objective of this study is to example the working capital management of Unilever Nepal Limited Company. The specific objectives of this study are as follows :

i) To analyze of Financing policy of Unilever Nepal Limited.

ii) To example the current assets investment policy of Unilever Nepal Limited.

iii) To analyze the current assets and current liabilities of the company.

iv) To analyze the current assets and current liabilities of the company.

v) To examine the liquidly and profitability position of Unilever Nepal Limited.

vi) To analyze cash conversion cycle of Unilever Nepal Limited.

1.6 Significance of the Study :

Nepalese business environment is in the threshold of change. In this situation firms have to adopt suitable strategies for their existence. They should balance and coordinate the different functional areas of business concern. The success or failure of any organization depends on its strategy, which is affected by working capital management. Any organization cannot change the situation of its favor without efficient working capital management. Working capital management is the root of problem to prepare the proper strategy on its favor. However, the financial manager can adopt the sound strategies of all functional areas by using adequate working capital management. Thus, this study can be helpful for the management of Unilever Nepal Limited to make the sound strategy in future. It can also be helpful to improve its working capital management in future. This study might be valuable for the researchers, scholars and students who want to investigate into the working capital management of Unilever Nepal Limited.

1.7 Limitation of the Study

Limited exist everywhere and this study is also not an exception of it. Following are some limitations of the Study:

i) The analysis is based upon secondary data, provided by Unilever Nepal Limited.

ii) The analysis is based on data extracted from balance sheet, profit and loss account maintained by Unilever Nepal Limited.

(iii) The study covers the time period of nine years from 2055/056 to 2063-064.

1.8 Chapter Plan

This thesis has been divided into five major chapters which are follows:

- The first chapter is introduction, which deals with background of the study, brief history of Unilever Nepal Ltd, aim of Unilever Nepal Ltd. Focus of the Study
- The Second chapter deals with the review of the literature relating to working capital management. The available literatures are divided into there sections. The First section deals with the review of concepts and policies of working capital, second the review of journals or articles and third deals with the review of dissertation.
- The third chapter deals with the research methodology to be adopted for the study consisting introduction, research design, source of data, data processing, tools and techniques of analysis and definition of the key terms.
- The four chapter deals with presentation and analysis of data fulfill the objective of the study by presenting the data analyzing them with the help various statistical tools followed by methodology.
- The fifth covers conclusion, summary and recommendation.

Chapter-II

LITERATURE REVIEW

Concerning the capital management regulation and development in Nepal, a few literatures are existed so an attempt is being made to review some of them. In this context few books, articles and periodicals research studies and acts concerning to capital market have also been reviewed in this chapter.

2.1 Introduction

"Capital management means any body of individuals, whether incorporate or not, constituted for the purpose of regulating or controlling the business of buying, selling or dealing in securities. (Bhalla, 1997:21)

Working capital is a controlling never center of every business organization because no business can run smoothly without the proper control upon it. Thus, it plays the crucial role in the success and failure of the organization. As the management of current assets and current liabilities of the business organization is necessary of day-to – day operations, it plays the key role in the long run also. In the concern of the management of working capital there have been made number of studies from different management experts and students in various enterprises.

Every manufacturing firm needs various types of assets in order to carry out its functions without any interruption. They are fixed and current assets. Some Fixed assets have physical existence and are required ot produce goods and services over long period. This type of fixed asset is called tangible fixed assets. It includes land. building, plant, machinery, furniture and so on. But some other fixed assets do not generate goods and service directly. However, it reflects the right of the firm. It is called intangible fixed assets. It represents patent, copyright, trademarks and goodwill. Both fixed assets are written off over a period of time. Current assets are those resources of the firm, which are either held in the form of cash or expect to be converted into cash with in an operating cycle of the business. It includes, cash, marketable securities, account receivable, stock of raw materials, work-in-process. and finished goods. Among these, some assets are required to meet the need of regular production and some for day-to-day expenses and short-term obligations. Current liabilities are those claims of outsiders, which are expecting to be matured with iun an accounting year. It includes; creditors, bill payable and outstanding expenses.

The main purpose of this chapter is to review the available literature on working capital management in the context of Nepalese enterprise including the available information of Unilever Limited.

2.2 Review of Concepts and policies :

In this section an attempt has been made to review some books on financial management, which deal with the management of working capital.

According to I. M Pandey : "There are specially tow concepts of working capital : Gross concept and net concept. The gross working capital simply called as working capital refers to the firm's investment of current assets. Currents assets are those assets which can be converted in to with in an accounting year and included cash, short term securities, debtors, bill receivables, stock, inventory and prepaid expenses. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outside which can expected to mature for payment with in an accounting year and includes Creditors, Bills payable, Bank Over draft and outstanding expenses or accrued income. Net working capital can be negative or positive. A positive net working capital will rise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets."[6]

As per the theoretical concepts of the working capital from James C Van Home. "Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivable, inventory and the administration of current liabilities. It means the working capital management is concerned with the problem that arises in attempting to manage the current assets. The current liabilities and the inter-relationship that exist between them"[7]

Dr. R.S. Kulshrestha in his book " Financial management "defines an organized capital market as a market as a market, which brings together the buyer & supplier of capital and thus mobilizes the domestic and corporate savings for being invested productive channel. For coordinating the demand and supply of capital funds and organized and well developed capital market is highly essential and which is the prerequisite for industrial growth of the country. The demand for capital growth gradually with the stage of growth of economy, which creates profitable investment opportunities. These in

[6] M pandey. Financial managemtn
[7] James C. V. Horns. "Finacial Management pollicy" New Delhi Pentice Half of in the India Pvt. Ltd.

turn provide favorable condition in this respect in many ways; as setting up a network of development banking and financial corporations both the national as well as state levels, making available foreign currency loans from international financial institutional , nationalizing major commercial banks (so as to enable them to take up medium financial assistance on the basis of refinance facilities provided by specified financial institutions, making suitable enactment for the regulation & smooth financing of stock exchanges in the country. Government can also supply capital to industry in a variety of ways; such as direct subscription to issue of shares and debentures or by giving long term loans (either interest free or at lowers rate of interest) to industrial enterprises. In India, the government has played such an active role and constant efforts have made under planned economic development to strengthen the supply side of funds in the capital market (Kulshrestha, 1994).

In the view of NK Agrawal: "Working Capital management is the effective life blood of any business. Hence the management of working capital plays a vital role for existing of any public enterprises successfully while study it. It is the centers on the routine day-to-day administration of current assets and current liabilities. Therefore working capital management in public enterprises is very important mainly for four reasons. Firstly, public enterprise must need to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidity base. Secondly, They must select the type of current assets, suitable for investment so as to raise their operational efficiency. Thirdly they are required to ascertain the turnover of current assets, which determine profitability of the concerns. Lastly, they must find out the appropriate source of funds of finance current assets."[8]

Weston and Brigham have given some theoretical insights into working capital management after their various research studies on it. The bond conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management of working capital in any enterprise and naturally to this study as well. They explain in the beginning, the important of working capital, the use of short term versus long-term debt, relationship between current assets to fixed assets. The components of working capital they have deal with current assets, which are, cash the major source and form of short-term financing. Such as credit, loan commercial banks and commercial paper.

According to NK Agrawal, "Proper management of working capital must ensure, adequate amount of working capital as per need of business firms. It should be in good health and efficiently circulated. To have adequate healthy and efficient circulation of working Capital it is necessary, that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed "[9]

In the view SC Kcuchal : there are two concept of thoughts working capital. One School of though out says that working capital is meant for the current asset only, Another School thought argued that working capital is the excess of current assets over current assets over liabilities.

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[8] N.K. Agrawal. "Management of working Capital" New Delhi sterling publisher Pvt. Ltd.
[9] NK Agrawal . "Management of Working Capital" New Delhi Sterling Publisher Pvt. Ltd.

The first School of though under the sponsorship of mead, baker, malts and field. Relates with gross working capital and the second school of thought under the leadership of Lincoln, Doris, Stevens and Sailors, relates with net working capital. The gross working capital refers to the firm's investment in current assets which includes to the management of cash, inventories and account receivables of the firm while. net working capital refers to difference between current assets and current liabilities.

From the management point of view, gross working capital deals with the problem of managing individual current assets in the day-to-day operation. But having along run view of working capital, which is constant is short run analysis and decision making but variable and management in long run operation. The net concepts of working capital helps the management to look for permanent source for its financing since working capital under this approach does not increase with increase in short term borrowing.[10]

According to NP. Agrawal: "Working capital broadly at the portion of the assets of the business used in, or related to, current operational and represented at any one time of the operating cycle by such items as account receivables, inventories of raw materials, stores, work-in-Progress and finished goods, bills receivable and cash. Assets of this type are relatively temporary nature, since the invested names are normally capable of being recovered or of being changes in form with in a short period of time and the time element of ultimate recovery depends on the manufacturing cycle as well as sales and collection cycle"[11]

10 Kuchal. "Financial Management" Allahabad Chaitany Pubsishing House. 1973. Page 20
11 Smith. 'Management of Working Capital" New York, West Pubsishing Company

According to KV Smith: "Working capital management is usually described as involving the administration of these assets namely cash, marketable securities receivables and inventories and the administration of current liabilities. It means the working capital management is concerned with the problems that arise in attempting to manage the current assets. Current liabilities and the inter-relationship that exist between them."[12]

Working capital management is the process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. Specially, working capital management requires Financial Management to decide what quantities of cash, other liquid assets account receivables and inventory the firm will hold at nay point in time. In additional, Financial managers must decide now there current assets are to be financed.

2.2.1 Types of working capital:

Working capital can be classified into two parts: permanent (Fixed working capital) and fluctuating working capital: those two types of working capital are necessary for continuous production and sales.

i) **Permanent Working Capital :**

Permanent Working Capital refers to that of current assets. Which is required on a continuous basis over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital. Therefore a manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted production and

[12] KV Smith. "Management of Working Capital' New York. West Publishing Company

sales functions. This portion of working capital is directly related to the firms' expansion of operation capacity.[13] This minimum working capital a firm has to provide out of long-term sources, such as.

- Issue of Shares
- Issue of debenture
- Retention in various forms (i.e. pouching back of profits, general reserves etc.)

ii) Variable Working capital represents that portion of working capital, which is required over permanent working capital. Therefore this portion of working capital depends upon the nature of firm's production, relation between labour and management. The firms.

Which are seasonal in character in their business, need a large amount of working capital for holding inventory during the peak period. But, as soon as the peak period is over, their working capital becomes idle. Therefore, firms having seasonality in their business find it convenient to meet their working capital requirements by resorting to short-term sources, such as:

- Bank loan
- Public deposits
- Trade Credit and other payable
- Provision for taxation
- Depreciation provisions etc.

[13] Ravi Shrewasthav

Fig. No. 1

Types of Working Capital

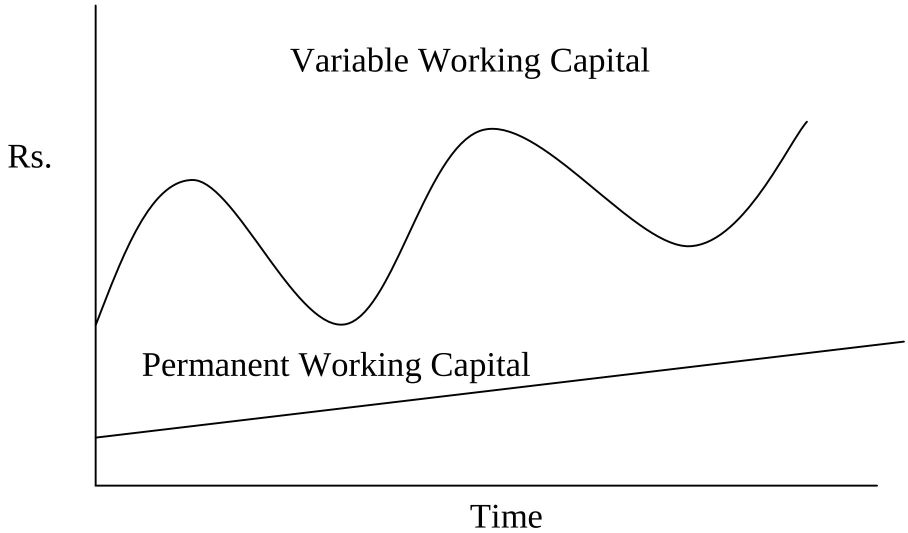

Fig. No. 1 shows clearly about this portion of working capital. If a firm has sound management of this portion of working capital, it can easily win the other competitors in the cutthroat of the market.

Adopted From: l. M. Panday, "Financial Management" Page 808.

2.2.2 Working Capital policy

Working capital policy refers to the Firm's basic regarding (i) target levels for the each category of current of current assets and (ii) how current assets will be financed.[14] So, first of all, in working capital management, firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions of Finance manager is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds for working capital.

[14] Fred Westong Scott Besley and Eugence F Brigham. " Essentials of Management Finance ". Dreyden

2.2.2.1 Current assets investment policy:

Current Assets Investment policy refer to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policies - Fat Cat, Lean and Mean & Moderate [15]

a) **Fat Cat Policy:**

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

b) **Lean and mean policy :**

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

c) **Moderate Policy:**

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

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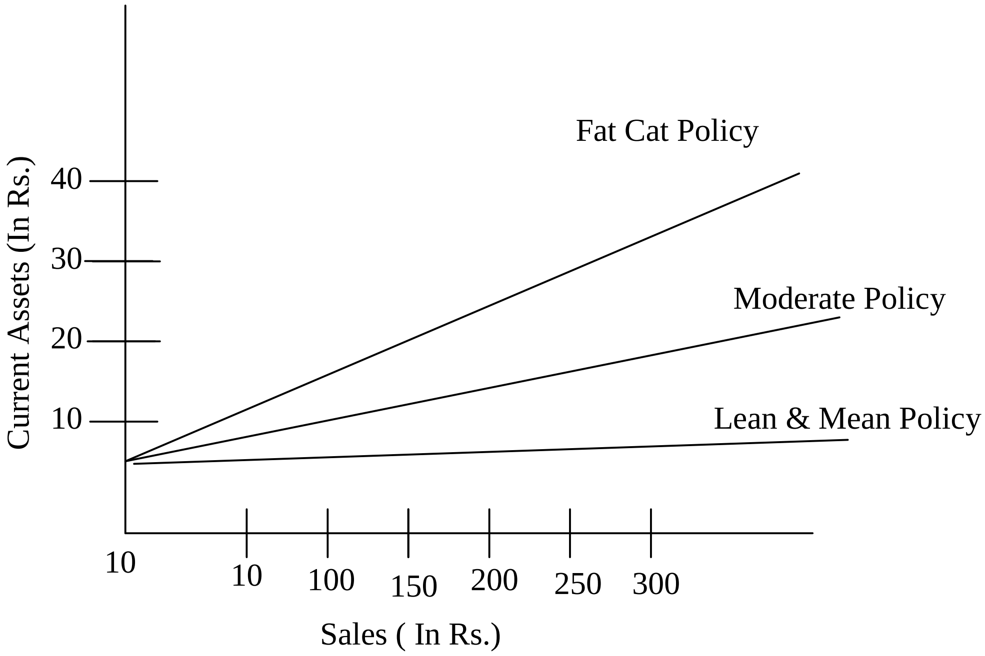
[15] Fred Weston Scott Besley and Eugence F. Brigham, "Essential of Managerial Finance" Dreyden Press 2006

Fig. -2

Alternative Current Assets Investment Policy



Adopted from Weston, Besely and Birgham, " Essentials of Management Finance" P. 345.

2.2.2.2 Current Assets Financing Policy:

It is manner in which the permanent and temporary current assets are finance. Current assets are finance with funds raised from different source. But cost and risk affect the Financial of any assets. Thus, current assets Financing policy should clearly outline the source of financing. There are three types of policies.[16]

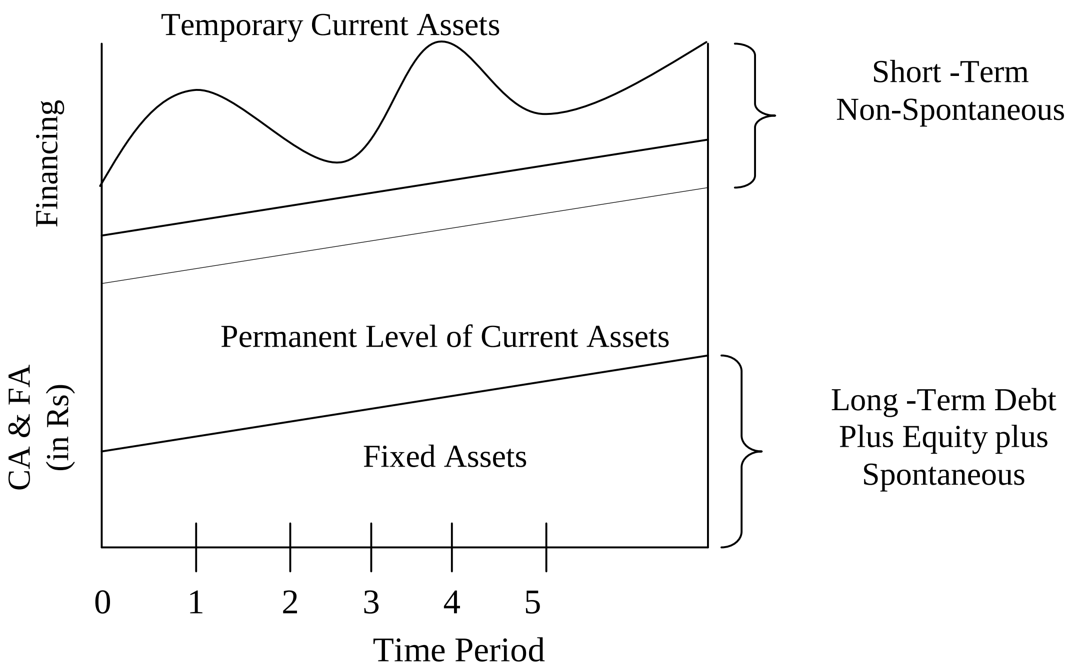
i) **Aggressive policy:**

In an aggressive policy, the firm Finance a part of its permanent current assets with short-term Financing and rest with financing. In other words, the firm finance not only temporary current assets but also a part of the permanent current assets with short-term financing. Fig. No. 3

[16] Weston. Besey an Birgham. "Essential of Managerial Finance" page 344

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

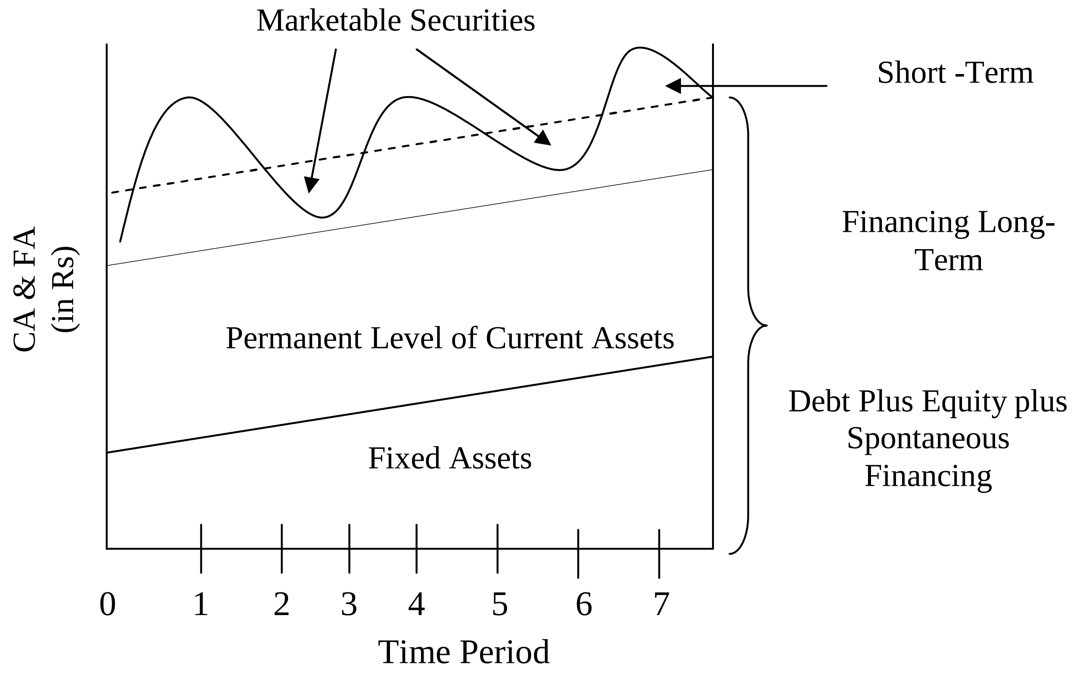
Fig. No.3
Aggressive Financial Policy



ii) Conservative policy :

In conservation policy, the firm uses to finance not only fixed and permanent current assets. but also part of the temporary current assets. This policy leads to high level of current assets with long conversion cycle, low level of current liabilities and higher interest cost. The risk and return are lower than of aggressive policy and liquidity position is higher than of aggressive one. The risk adverse management follows this policy.

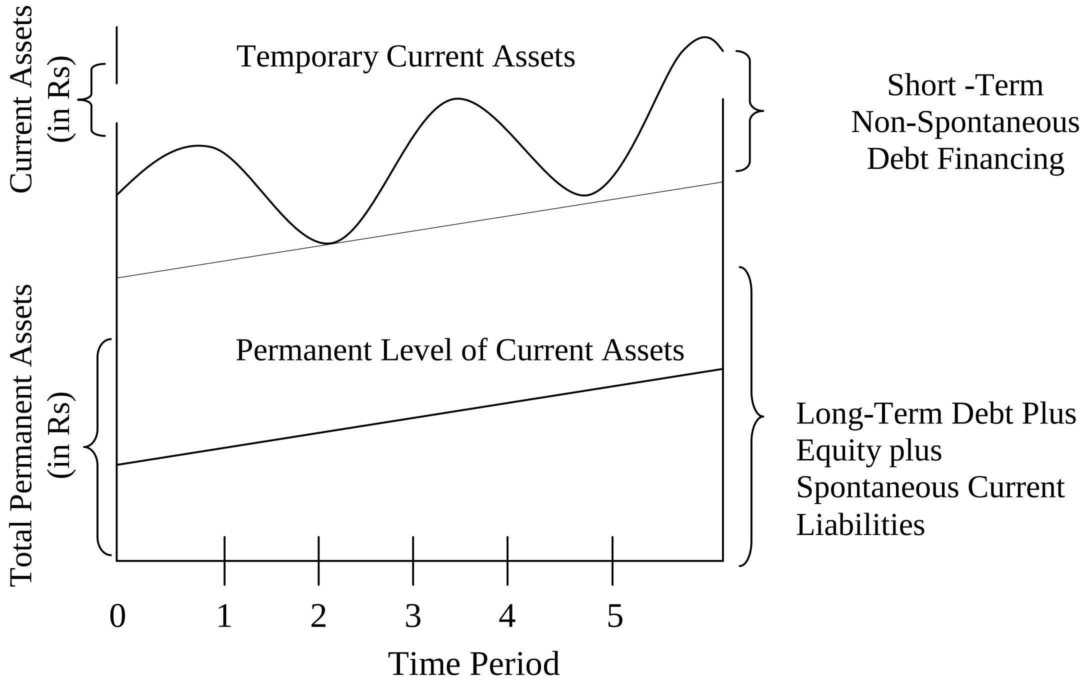
Fig. No. 4
Conservative Policy



iii) Moderate Policy :

In this policy the firm finance the permanent current assets with long term financing and temporary with short Financing. It lies in between the aggressive and conservative policies. It lead to neither high nor low level of capital is financed by short term financing and long term by long term financing. Thus, no working capital is financial by long-term funds. Hence, net working capital is zero under this policy.

Fig. No. 5
Moderate Policy



2.2.3 Need of Working Capital:

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

i) **The Transaction Motive:**

According to transaction motive a firm holds cash and inventories to facilities smooth production and sales operation in regular. Thus the firms need the working capital to meet the transaction motive.

ii) **The Precautionary Motive:**

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

iii) **The Speculative Motive:**

Speculative motive refers to the desire of a firm to take advantage of following opportunities:

- Opportunities of profit making investment.
- An opportunity of purchase raw materials at a reduced price on payment of immediate cash.
- To speculate on interest rate.
- To make purchase at favorable price etc.

2.2.4 Financing of Working Capital:

Every manufacturing concern or industry requires additional assets whether they are in stable growing conditions. The most important function of financial manager is to determine the level of working capital and to decide how it is to be financed. Financing of any assets is concerned with two major factors: cost and risk. Therefore, the financial manager must determine and appropriate financing mix. or decide how current liabilities should be used to finance current assets. However, a number of financing mixes are available to the financial manager. He can resort generally three kinds of financing.

i) Long-term Financing

ii) Short-term Financing

iii) Spontaneous Financing

i) **Long-term Financing**

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

ii) **Short-term Financing**

Firm must arrange short-term credit in advance. The sources of short term financing of working capital are trade credit and bank borrowing.

Trade Bank : It refers to the credit that a customer gets from suppliers of goods in the normal course of business. The buying firms have not to pay cash immediately for the purchase is called trade credit. It is mostly and informal arrangement and is granted on an open account basis. Another form of trade credit is a bill payable. It depends upon the term of trade credit.[17]

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

[17] James C.V. an Home. "Financial Management and policy" New Delhi : Prentice Half of India Pvt. Ltd. 1994. Page 4

iii) **Spontaneous Financing:**

Spontaneous Financing arises from the normal operation of the firms. The two major sources of such financing are trade credit (i e. creditor and bills payable) and accruals. Whether trade credit is free cost or not, actually depends upon the terms of trade credit"[18]

Financial Management of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of current assets financing is either short-term or long-term sources. Thus the financial manager concentrates his power in short-term versus financing. Hence, the financing of working capital depends upon the working capital policy, which is perfectly dominated by management attitude towards the risk and return.

2.2.5 Cash Conversation Cycle:

Cash conversation cycle, which nets out the three periods inventory conversion period, receivable conversion period, payable deferral period equals the length of time between inventory convert into cash, the firm's actual and expenditures to pay for productive resources (materials and labor) and the cash receipts form the sale of products (that is, the length of time between paying for labor and materials and collecting on receivable). The cash conversion cycle thus equals the average length of time a rupee is tied up in current assets.

We can now use these definitions to analyze the cash conversion cycle. Cash conversion cycle can be expressed by this equation:

[18] Surendra Pradhan, "Basics of Financial Management" Kathmandu : Educational Enterprises PVT. LTD.

Inventory Conversion + Period	Receivable Conversion - Period	Payables Conversion = Period	Cash Conversion Period

2.2.6 Determinants of Working Capital

The important of efficient working capital management is a aspect of over all financial management. Thus, a firm plans its operations with adequate working capital requirement or it should have neither too excess nor too inadequate working capital. But there are no sets of rules or formula to determine the working capital requirements of the firm. it's because of a large number of factors that influence the working capital requirement of the firm. A number of factors affect different firm in different ways. Internal policies and environment change also affect the working capital. Generally, the following factors affect the working capital requirements of the firms:

- **Nature and size of business:**

  The Working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is bigger, then it requires more working capital. While small firm needs less working capital. Trading and financial firms require larger amount of working capital relatively to public utilities.

- **Production Policy**

  Working capital requirement is also determined by its production policy. If a firm produces seasonal goods, then it production and sales volume fluctuates with different seasons. This type of fluctuating production policy affects the working capital policy of the firm.

- **Credit Policy**

  Credit policy also affects the working capital of a firm. Working capital requirement depends on term of sales. Different term may be followed to different customers according to their credit worthiness. If the firm follows the liberal credit policy, then it requires more working capital. Conversely, if a firm follows the stringent credit policy, it requires less working capital.

- **Availability of credit :**

  Availability of credit facility is another factor that affects the working capital requirement. If the creditors benefit open- minded credit terms then the firm will need less working capital. In other words, the firm can get credit facility easily on favorable conditions. Thus, it requires less working capital to run the firm otherwise more working capital is required to operate the firm smoothly.

- **Growth and expansion :**

  Growth and expansion also affect the working capital requirement of a firm. However, it is difficult to exactly determine the relationship between the growth and expansion of the firm and working capital needs. But the other things being the same growing firm needs more working capital than those static ones.

- **Price level change:**

  Price level change also the working capital requirement of a firm. Generally, a firm requires maintaining the higher amount of working capital of the price level rises. Because the level of current assets needs more funds due to the increasing price. In conclusion, the implications on changing price level on working capital position will differ from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

- **Operating efficient :**

  Operating efficient is also important factor. which influences the working capital requirement of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus, Financial manager can contribute to strong working capital position through operating efficiency. If a firm has strong operating efficient then it needs lesser amount of working capital and vice – versa.

- **Profit margin :** The level of profit differs from firm to firm. It depends upon the nature and quality of product, marketing management and monopoly power in the market. If the firm deals with the high quality product and has a sound marketing management and enjoyed the monopoly power in the market then it earns quite high profit is sources of working capital, because it contributes towards the working capital as a pool by generating more internal funds.

- **Level of taxes :**

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

2.3 Review of Empirical Study:

Related Dissertation :

A number of studies have been done by students f MBS, relating to working capital management in Nepal. This section is focused to review some of those dissertations.

Dhurba Nath Yogi, has study on "Working capital management of Nepal Level Limited". He has analyzed the financial statement of the company for five years (2051/52 to 2055/56). This thesis is conducted through basically secondary data. He has used ratio analysis, co-efficient correlation, and hypothesis for analysis. He has found that all components of current assets are highly fluctuating during the study period and the components of current liabilities are not related to each other. It means that Nepal Lever Limited has not taken seriously about the sources of financing. He has also found that some of fixed assets is also financed by long-term financing rather than by short-term funds. The analyzed shows that the liquidity position of the company is fluctuating year by year. The proportion of current assets is affected by the sales. In other words, the sales is affected the management of current assets. The components of current assets and current liabilities are fluctuating nature. He has also find that the insignificant relationship between liquidity and profitability. Company has still followed conservative working capital management policy, which reduces the risk of the company.[19]

Prem Kumar Shrestha, has study on "Working capital management of Bhrikuti Paper Mills Limited". He used ratio analysis as a tools analysis the working capital management of mills. From the analysis

[19] Dhurba Nath Yogi, " A study on working Capital management of Nepal level Limited ".

he found that the cash and bank balance holds the largest portion followed by inventory ands receivables respectively. He also found that the current assets level with respect to total assets has increasing trend. The credit and collection policy of BPML was not sound during the study period. So, the receivable were increasing year after year. The decreasing and fluctuating trend of various turnover indicated that current assets are not properly utilized in BPML. He also concluded that thought BPML was earning profit, its profitability position was not encouraging one because of its return of its return of total assets was not high enough.[20]

A next study has been conducted by Niraj KC relating to working capital management. He has analysis the financial statement of Nepal Bank Limited and Nabil Bank Limited for five year (1995 – 2000). This thesis is conducted through basically secondary data. He has used ratio analysis, coefficient correlation for analysis. He has found that the companies hold the largest portion of current assets generating the negative income by the lack of investment opportunities on loan and advance. Current assets not constant for every year it is in the fluctuating nature. Theoretically the higher liquidity means the lower risk as well as lower profit between in commercial banks higher liquidity is not always the cause of lower profitability.[21]

Another study has been conducted by Pum Devi Maharjan on project report of Nepal Liver Limited. She has used data of fiscal year 2053/054-2057/058. She has used ratio analysis, correlation,

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[20] Prem Kumar Shrestha,"A Study on working capital management in Bhrikuti Mills Limited" Unpublished master Degree thesis T. U. Kathmandu 1999.

[21] Niraj KC "Comparative study of working capital management of Nepal Bank Limited & Nabil Bank Limited "Unpublished Master Degree Thesis T. U. Kathmandu2002

regression analysis as per tools. She has found that inventory holds the highest proportion among the other current assets the during the study period. The liquidity position of the firm is very much important, She has also found that the higher liquidity position leads high risk and high profit. He also found that the company has tight credit policy. The company has maximum operating cost. It has positive net working capital and company adopt Aggressive working capital policy.[22]

Ram Babu Ghimire has carried out "Working Capital management of sleeted manufacturing companies listed in Nepal Stock Exchange Limited"

He has use data from 1997-2001. He has selected Nepal Limited (NL) , Bottler Nepal, (Balaju) (BNK), bottle Nepal (Teral) (BNT), Arun Vanaspati Udghyog (AVU) , Joyti Spinning Mills (JSM), Raghupati Jute mills(RJM), Nepal Lube oil (NL) . He has used ratio analysis, working capital approached.

Cash conversion cycle, du-pont analysis, correlation coefficient, and simple regression analysis as per tools. The findings of this study were as follows.

1. Most of the selected manufacturing companies have followed a moderate working capital policy.
2. NLO, BNK, BNT, RJM and NL have followed a moderate where as other two companies such as JSM & AVU have followed the aggressive working capital policy.

[22] Pun Devi Maharjan, "A study of working capital management of Nepal Lever Limited. "Unpublished Master Degree Thesis. T. U. Kathmandu, 2003

3. Risk and return trade off is not matched in Nepalese manufacturing companies.
4. Out of seven companies only two companies have higher conversion period than average. NLO has highest & JSM has lowest conversion period.
5. He has found that Nepalese Manufacturing company has inefficiency, Missing working capital policy, less encouraging attitude towards the working capital, high level cost, excessive borrowing, weak liquidity position, managerial ineffectiveness, high conversion cycle.
6. He has also found that Nepalese manufacturing company in present context are facing certain policy issues, like deficient financial planning. neglect of working capital management, deviation between liquidity and turnover etc.[23]

A next study made by Kul Raj Poudel "A study on working capital management of Lumbini. Sugar Factory Limited". He has analyzed the financial statement of the factory for five years (2055/56 – 2059/60) . He has also used ratio analysis and hypothesis as tools for the purpose of analysis. He has found that the current assets has increasing trend. In the company inventory is the major components of current assets and has fluctuating trend, Having such large volume of Inventories in the factory causes unnecessary working capital blockage is due to the miss management of inventory. He has also found effective credit collection policy but not properly utilized the current assets in the factory. Liquidity position of the factory during the study period shows fluctuating trend, net working capital in the factory is always positive. Profitability position of Lumbini Sugar

[23] Ram Babu Ghimire, "Working capital management of selected manufacturing companies listed in Nepal Stock Exchange Limited ."Unpublished Master Degree Thesis. T. U. Kathmandu. 2003

Factory Limited has been analyzed form various angles. The net profit margin of the factory is decreasing trend[24]

Yam Prasad Sharma has carried out "A study on working Capital management of selected manufacturing Companies", Which are listed in Nepal Stock Exchange. He has analysis period from 1981 – 1996. He focused to analyzed the empirical testing of the variable affecting in Nepalese Manufacturing companies based on these variable affecting in Nepalese Manufacturing companies based on these variables such as, current assets, current liabilities, sales, net profit, total assets. He used financial and statistical tools such as ratio analysis, cash conversion cycle, co-efficient of correlation, problem error and simple regression model. He found that many companies followed conservation policy. He recommended that they followed the quarterly working capital plan, used effective working capital policy; some may improve their liquidity position and must minimize the operation cost.[25]

A next study is conducted by Mr. Bhagwan Arayal has study on "An analysis on working capital management with special reference of Hetauda Textile and Balaju Textile Limited" The objective of the study were to analyze the liquidity, solvency, utilization and profitability position and overall comparisons of working capital management of both textile comparisons. He has used ratio analysis and t- test for the analysis. The finding of this study were as follows:

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[24] Kul Raj Paudel. "A study on working capital management of Lumbini Sugar Factory Limited" unpublished Master Degree thesis.T. U. Palpa, 2001.
[25] Yam Prasad Sharma. "A study on working capital management of selected manufacturing companies Unpublished Master Degree Thesis. T. U. Kathmandu. 1999.

1. The liquidity position of Hetauda Textile Ltd was better than that or Balaju textile Ltd, but both companies have not followed a proper working capital policy.
2. Total assets turnover of both companied was not satisfactory and there was not significant difference of total assets turnover.
3. Cash balance maintain by Balaju Textile Ltd was better than that of Balaju Textile.
4. Solvency position of Hetauda Textile was better then that of Balaju Textiel.
5. Profitability position of Hetauda Textile was better than that of Balaju Textile, however both companies have not good profitability position during the study period.[26]

Current assets inventory holds the largest portion. He has also found total financing amount is financial from long term sources of fund i.e. general reserve and less amount is financed from short term sources of fund i. e. bank loan.[27]

ii) Review of Journals/Articles

In this section the review of Journal/articles published articles by different management expert to working capital management.

In this regards, Monohar K. Shrestha has considered ten selected PEs and studies the working and profitability position of those enterprises. In this analysis he found that four PEs has maintained adequate liquidity position. Two has excessive and the remaining four had failed to maintain desirable liquidity position. On the turnover One

[26] Bhagawan Aryal, "An Analysis on Working Capital Management with special reference to Hetauda Textile and Balaju Textile Ltd" Unpublished Master s Degree Thesis. T. U. Kathmandu 1995

[27] Dependra Raj Sharma. "A study on working capital management of Nepal Battery Company Limited". Unpublished Master Degree Thesis, T. U.Kathmanud 1999.

had high turnover and remaining three had not ten PEs six public Enterprises were operating at losses while only four were getting some percentage of profits. With reference to those findings he had brought certain policy issues such as lack of suitable financial planning negligence of working capital management, deviation between liquidity and turnover of assets and inability to show positive relationship between turnover and return on net working capital. To end he had made some suggestive measures to overcome from the above policy issues, identification of needs funds, regular checks of accounts, development of management information system, positive attitude towards risk and profit and determination of right combination of short-term and long term sources of funds of finance working capital needs.[28]

An another observation of twelve selected PEs have been conducted by Mohahar K. Shrestha. In this article he has described the conceptual setting sources of working capital and types of working capital. From the analysis he found that the liquidity position of the selected PEs differ widely in view of the differences is their nature of business. There were also above normal acid test ratio. While analyzing the turnover of those selected PEs showed wide deviation. Based on the sales value out of seven PEs had normal inventory turnover, the other three had not been satisfactorily maintained and in some of them inventory had exceeded sales. The collection period relating to the selected PEs exhibited market difference ranging from 32 days to 755 days, the profitability position was analyzed through return on net working capital was positive for eight PEs negative two

[28] Monohar K. Shrestha. "Working capital management in public Enterprises : A study on Financial Results and Constraints" Vol. Page No. 14 July 82 – June 32.

PES and rest two had not any return. Since they were in establishment phase.

During the analysis the observed some problem like the lack of far sighted liquidity adjustment strategy in most of the PEs no guiding criteria to as certain the satisfactory maintenance of acid-test ration and working capital needs. Large blocking of capital in inventories and low capacity utilization. All these were due to efficient management of working capital in those PEs.[29]

In the second he has listed the organization problems in the PEs. In most of the PEs there is lack of regular internal and external audit system as well as evaluation of financial results. Similarly very few PEs have been able to present their capital requirement, functioning of finance department is not satisfactory and some PEs are even facing the under utilization of capacity.

To make an efficient use of funds for minimizing risk of loss to attain profit objective, he has made some suggestion. The PEs should avoid the system of crisis decision which prevailed frequently in their operation, avoid fictitious holding of assets, the finance staff should be acquainted with the modern scientific tools used for the presentation analysis of data and lastly, he has suggested optimizing its level of investment at a point of time, the management of and enterprise desires neither over nor undr investment in working capital because both of these situation will erode the efficiency of the concern.[30]

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[29] Manohar K. Shrestha, "Working capital management in selected PES" . A pyc. Management
[30] K. Acharya. "Problems and impediment in the management of working capital in Nepalese eterprises" ISDOC Vct 10 No.3 Jan – Mar 1985.

An article relating to working capital is by R.S. Pradhan. He studied on 'The Demand for working Capital by Nepalese Corporations". For the analysis nine manufacturing public corporations were selected with the 12 years data from 1973-1984. For the analysis the regression equation has been adopted. From the study he concluded that the earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exits with respect to the presence of economics of scale, rate of capital cost and capacity utilization rates and the speed with which actual cash and inventories are adjusted rates to describe cash and inventories respectively. The pooled regression result show the presence of economic of scale with respect to the demand for working capital and its various components. The estimated results shows that the inclusion of capacity utilization variable in the model seems to have contributed to the demand function of cash and net working capital only. The effects of capacity utilization on the demand for inventories, receivables and gross working capital are doubtful.[31]

The basic goal of working capital management is to manage the firms current assets and current liabilities in such in away that a satisfactory level of working capital is maintained. Neither over nor under investment in working capital is desire by the management of on enterprise because both of these situations on will erode the efficiency of the concern.[32]

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[31] Dr. R. S. Pradhan. The demand for working capital by Nepalese Corporation" The Nepalese management review vlo3. Page 1.1998.
[32] The bulletin ."ISDDC, ISC Published Nepal 1998. page 9

Chapter -III

RESEARCH METHODOLOGY

3.1 Introduction:

A systematic research study needs to follow a proper methodology to achieve pre-determined objectives. Research methodology is a sequential procedure and methods to be adopted in a systematic study. Thus, this chapter deals with research design, nature of data, data procedures, tools and techniques used for financial analysis and definition of important terms used to avoid ambiguity.

3.2 Research Design :

Research design is highlighted for ascertaining the basic objectives of the study. Research design includes definite procedures and techniques, which guide to sufficient way for analyzing and evaluating the study. Using both quantitative and qualitative analysis methods carry out this study. Mostly, the secondary data has been used for analysis. This study is based on descriptive and analytical method. Attempts have been to describe and explore the composition of working capital, turnover position, liquidity position. liquidity position and profitability position of Unilever Nepal Ltd for the period of nine years ranging from 2055/2056 to 2063/2064. The company started its production in the year 2051/052. However, F/Y 2051/052 being the first year of operation has not been included in the study period because the data for that year are outliner.

3.2.1 Nature and source of data :

The analysis and presentation are mainly based upon the secondary data are annual reports and audited financial statements of the company submitted to Nepal stock exchange limited. Data are collected from company and web sides. The supplementary data and performance obtains from unpublished official records of company. Booklets journal ate .

3.2.2 Collection of data:

Financial data required to achieve the set objectives of this study have been directly extracted from the balance sheet and income statement of the company. In order collect the supportive data a detail review of the related document has been carried on and qualitative information has been collected through interview the officials of Unilever Nepal Limited.

3.2.3 Data Processing Procedure:

As this study is mainly based on secondary data. Thus, after collection of financial statement and necessary financial data have been extracted and tabulated as per the need of this study. In order to process the data, financial statement and other available information were reviewed. These data were grouped in different tables and charts according to their nature.

3.3 Tools and Techniques of Analysis:

Percentage analysis has been done to examine the share of various components of current assets in the total current assets. Further, the growth of each type of current assets and current liabilities has been calculated and compared with the growth in sales. The compound growth rate has been calculated as.

$$\mathbf{X_{2063/064} = X_{2055/056} (1 + g)^{n-1} \times 100}$$

Ratio analysis is main tool used for financial analysis in the study. Various ratios are employed to examine the following aspects of Unilever Nepal Limited.

a) Composition of working Capital

b) Liquidity position

c) Turnover position

d) Profitability Position

e) Cash conversion Cycles

The ratios to analyze the above aspects are described below.

3.3.1 Composition of Working Capital:

The composition of working capital has been studies by analyzing following ratios:

a) **Composition of Current assets :**

To operate the business, different kinds of assets are needed. For day to day business operations different types of current assets are required. The current assets are composed by inventories, receivable, cash & bank balance, pre-paid & advance.

i) **Proportion of inventory to total current assets:**

This ratio implies the percentage of total current assets in the form of inventories. It is calculated as :

$$\text{INV/TCA} = \frac{Inventory}{Total\ Current\ Assets} | 100$$

The increase in the ratio is indicating company adopts moderate inventory policy. If the ratio is increase it means greater part is occupied by inventory. If the ratio is the firm will have greater volume of working capital.

ii) **Proportion of receivables to total current assets :**

This ratio shows the share of receivable on total current assets. It is calculated as :

$$\text{R/TCA} = \frac{\text{Re}\,ceivable}{Total\ Current\ Assets} | 100$$

The low percentage indicates the large working capital it is indicate to unable to collect receivable.

iii) **Proportion of cash and bank balance to total current assets :**

This ratio shows the ratio of cash and bank balance in total current assets. It is calculated as :

$$\text{CB/TCA} = \frac{Cash\ and\ Bank\ Balance}{Total\ Current\ Assets} | 100$$

High ratio indicated the poor management of working capital.

iv) **Proportion of pre-paid and advance to total current assets:**

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

$$\text{P \& A/ TCA} = \frac{\text{Pr}\,e\ \text{Z}\ paid\ \&\ advane}{Total\ Current\ \ assets} | 100$$

V) **Proportion of total current assets to fixed assets :**

This ratio shows the relationship capital maintain the given level of sales. This ratio is calculated as follows :

$$\text{CA/FA} = \frac{Total\ Current\ Assets}{Fixed\ Assets} | 100$$

If the ratio is large unused working capital maintain by Company.

vi) **Proportion of total current assets to sales :**

The company invests in total current assets to support the given level of sales. This ratio is calculated as follows:

$$\text{CA/Sales} = \frac{Total\ Current\ Assets}{Net\ Sales} | 100$$

b) **Composition of current liabilities :**

All obligations maturing with in a year are current liabilities. Thus it is composed by trade and other payable, short-term loans and provision.

i) **Proportion of short-term loan total current liabilities :**

Short-term loan is interest loan. The ratio of short-term loan to total current liabilities is calculated as :

$$\text{STL/TCL} = \frac{Short - term\ loan}{Total\ Current\ Liabilities} \times 100$$

ii) **Proportion of trade & payable to total current liabilities :**

Trade & other payable is non-interest bearing loan. The ratio of trade & other payable is indicate what percentages of a company's total current liabilities are financing by trade & other payable. It is calculated as :

$$\text{T\&P/TCL} = \frac{Trade \,\&\, Other\ payable}{Total\ Current\ Liabilities} \times 100$$

iii) **Proportion of provision to total current liabilities :**

Provision is also non-interest bearing. The ratio is calculated as follows:

$$\text{Pro/TCL} = \frac{Provisions}{Total\ Current\ Lilibilites} \times 100$$

Current liabilities to long-term liabilities :

3.3.2 Liquidity position :

The liquidity position of Unilever Nepal Limited is computed by analyzing current ratio and quick ratio.

a) The current is the of total current assets to total current liabilities It is calculated by diving current assets by current liabilities.

$$\textit{Current Ratio}\ \mathrm{X}\frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

General, current ratio of 2: 1 (current assets twice current liabilities) is considered to be satisfactory.

Acid –test ratio = $\dfrac{\textit{Quick assets}}{\textit{Current Liabilities}}\ \mathrm{X}\dfrac{\textit{Current Assets}\ \mathrm{Z}\,\textit{Inventory}}{\textit{Current Liabilities}}$

Generally, the company with quick ratio of 1:1 is considered to be in sound position.

Net Working Capital:

Net working capital refers the different between current assets and current liabilities. It is calculated as :

NWC = Total Current Assets – Total Current Liabilities

3.3.3 Turnover Position:

The activity ratio indicates the relationship between uses of assets in generating the sales. It traces out that firm manages the assets. It is related with measuring the efficiency in assets management as well as the effectiveness of the investment of resources in the business enterprises. With the help of this ratio, we can easily know whether the funds have been used effectively or not. The relationship between sales and various assets of the firm can be defined with the help of activity ratio.

a) **Inventory Turnover ratio :**

Inventory turnover ratio shows how rapidly the inventory is turning into receivable through sales. It means the ratio shows the efficiency of the business concern in as inventory management. It is computed by diving the cost or goods sold by the average inventory, thus.

$$\textit{Inventory Turnover Ratio}\ \mathrm{X}\frac{\textit{Cost of goods sold}}{\textit{Average Inventory}}\quad \textit{OR}\quad \frac{\textit{Sales}}{\textit{Clo}\sin g\ \textit{Inventory}}$$

The cost of goods sold minus gross profit. The average inventory refers to the simple average of the opening and closing inventory. The ratio indicates how fast inventory is sold. A high ratio is good from the viewpoint of liquidity and vice versa. A low ratio would signify that inventory does not sell fast and stays on the shelf or in the warehouse for a long time.

b) **Inventory conversion period:**

Inventory also takes the time to convert into cash. Inventory conversion period is the average time required to convert materials into finished goods and then to sell those goods. ICP is calculated by dividing days in years by Inventory turnover ratio. Thus,

$$Inventory\ Conversion\ Period\ \mathrm{X} \frac{Days\ in\ year}{Inventory\ Turnover\ Ratio}$$

c) **Receivable turnover ratio :**

The liquidity position of the firms depends upon the quality of debtors to a great extent. The receivable turnover indicates the collection efficiency of the firm. It is determined by dividing the net credit sales by average receivable outstanding during the year. Thus,

$$\mathrm{Re}\,ceivable\,Turnover\ ratio\ \mathrm{X} \frac{Net\ Credit\ Sales}{Average\ receivable} \quad \mathrm{X} \quad \frac{Sales}{\mathrm{Re}\,ceivable}$$

Net credit sales consist or gross credit sales minus return if any, from customers. An average receivable is the simple average of receivable at the beginning and at the end of the year. The analysis of the receivables turnover ratio supplements the information regarding the liquidity of one item of current assets of the firm. The rato measure how rapidly debts are collected. A high ratio is indicative of shorter time-lag between credit sales and cash collection. A low ratio shows that debts are not being collected rapidly

d) **Receivable Conversion period:**

Receivable conversion period is the average length of time required to convert the firm's receivable into cash, that is, to collect cash following a sales. It bring out the nature of the firms credit policy and the quality of the receivable clearly. This ratio is calculated as follows:

$$\text{Receivable Conversion Period } X \frac{\text{Days in a year}}{\text{Receivable Turnover Ratio}}$$

Alternatively,

$$\text{Receivable Conversion Period } X \frac{\text{Receivable} \mid \text{Days in a year}}{\text{Sales}} \mid 365$$

e) **Financing of Current Assets from Free Source (Non- Interest Bearing Sources) :**

Free sources or non-interest bearing source of the company are provisions and trade & other payable, which are major component of current liabilities. The proportion of free sources to current assets is calculated as :

$$\text{Free Sources } X \frac{\text{Free Sources}}{\text{Current assets}} \mid 100$$

3.3.4 Profitability Position

The positions of the profitability of the company are analyses with the help of following rations :

a) **Gross profit margin :**

Gross profit margin is also known as gross margin. It is calculated by dividing gross profit by sales. thus,

$$GMP\ X \frac{\text{Gross Profit}}{\text{Sales}} \mid 100$$

Since,

Gross Profit = Sales – Cost of goods sold

The gross profit margin can also be calculated as follows :

$$Gross\ Profit\ Margin = \frac{Sales - Cost\ of\ goods\ sold}{Sales} \times 100$$

A high gross margin relative to the corporations average implies that the firm is able to produce at relatively lower cost. A high gross profit margin ratio is a sign of good management.

b) **Net Profit Margin :**

Net Profit Margin shows the percentage of net profit out of total sales. The net profit margin ratio is compute by dividing net profit tax by sales :

$$Net\ Profit\ Margin = \frac{Net\ Profit\ After\ Tax}{Sales} \times 100$$

It also indicates management's efficiency in manufacturing, administering, and selling function of the firm.

3.3.5 Cash Conversion Cycle:

Cash conversion cycle, which nets out the three periods inventory conversion period, receivable period, payable deferral period equals the length of time between inventory convert into cash, the firm's actual and expenditures to pay for productive resources (Material and labor) and the cash receipts from the sale of products (that is, the length of time between paying for labor and materials and collecting on receivables). The cash conversion cycle thus equals the average length of time a rupee is tied up in current assets.

Cash conversion cycle is calculated by :

Cash Conversion Period = 1CP + RCP – PDP

Where,

ICP = Inventory Conversion Period

RCP = Receivable Conversion Period

PDP = Payable Deferral Period

Payables Deferral Period :

Payable deferral period is the average length of time between the purchase of materials and labour and the payment of cash for them. It is calculated by :

$$Payables\ Deferral\ Period\ \ \mathrm{X}\ \frac{Trade\ \&\ Other\ Payable}{Purchase\ per\ day}$$ Or

$$Payables\ Deferral\ Period\ \ \mathrm{X}\ \frac{Trade\ \&\ Other\ Payable}{Cost\ of\ goods} \mid 365$$

3.4 Definition of Key Terms :

In the analysis process of this study different terms have been used. The key terms used in this study have been defined below to avoid any confusion and misunderstanding.

i) The term working capital refers to the gross working capital for this study. It means that the working capital covers total volume of current assets minus current liabilities of Unilever Nepal Limited.

ii) **Current Assets :**

The current assets of a firm, represent those assets which can be in the ordinary course of business, converted into cash with in a short period of time., normally not exceeding one year and include cash and bank balance, bills paid in advance, accrued or, outstanding income, short term loan and advance. Stock raw material, finished goods and work-in-process.

iii) **Current Liabilities**

Current Liabilities defined as liabilities which are short-term maturing obligations to be met, as originally contemplated, with in a year, consist of trade creditors, bills payable, account payable, bank overdraft, short-term loan, provision for taxation, outstanding expenses, and unclaimed dividend.

iv) **Inventories :**

It means the aggregate of those items, which are held for sale in the ordinary course of business (finished goods), or are in the process of production for such sales (work-in-process) or are to be current consumed in the production of goods and service (raw materials) to be available for sales.

v) **Receivable :**

It is includes the sales debtors and other debtors.

vi) **Prepaid Expenses and advance :**

It includes the advance amount to the member of board of director and staffs. Prepaid expenses to the suppliers and letter of credit (L/C)

vii) **Fixed Assets :**

Fixed assets include such assets like land and building, plant and machinery, furniture and fixture, vehicles and other miscellaneous assets. Which are supposed to be existed more than and accounting year.

Chapter -IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The objective of this chapter is to present and analyze data with the help of various tools. In this chapter, efforts have been made to analyze the working capital management in terms of composition of current assets and current liabilities, turnover position. Profitability position and liquidity position, investment in current assets and financing policies of Unilever Nepal Limited. The Composition of current assets is analyzed by making relationship of each component of current assets. The liquidity position is analyzed with the help of current ratio and quick ratio, net working capital. The efficiency of current assets and current liabilities management is analyzed with the help of turnover ratios, financing of current assets from free sources and cash conversion cycle. The turnover position is analyzed with the help of inventory turnover ratio and inventory conversion period, receivable turnover ratio and receivable conversion period. Profitability position is analyzed with the help of gross profit margin and net profit margin.

4.2 Working Capital Policy:

Working capital policy refers to the firm's basic polices regarding the target level for each category of current assets and liabilities. Working capital management refers to the administration of all current assets and current liabilities in a proper way. Every firm wants to maximize wealth of its shareholders. In order to achieve the target goals. It has to perform many investment policy, maintain proper relation of currents assets with fixed assets and total assets, and finance the current assets with short-term as well as long term sources. Thus, the better performance of current assets is the integral part of working capital management.

4.2.1 Current assets holding policy:

Every firm needs current assets as well as fixed assets to operate its activities effectively. Current assets policy refers to the policy regarding the total amount of current assets required to support the given level of sales. Firm may follow the different investment policy according to their attitude towards the risk and the nature of the business. The current assets policy of the Unilever Nepal Limited has been analyses here in the terms of the composition of different types of current assets in total current compound growth rate and relationship between current assets with fixed Assets.

4.2.1.1 Composition of current assets:

The current assets are the main parts which parts are required to run day-to-day business activities and the total of which is known as working capital as per the gross concept, its, position has become need full to study. The composition of the current assets mostly depends upon the nature of the business and the attitude of management towards the risk. Any firm has to maintain the appropriate level of current assets to run the business smoothly. As stated in conceptual framework, the major components of current assets are inventories and sundry debtors. The firm who has risk adverse management maintains the high liquidity of the fimrm by holding the large proportion of liquid assets in total working capital. So, here composition of current assets has been analyzed in order to fix the current assets policy in terms of the holding of more liquid assets.

The business organization that aims to maximize return on shareholders investment should earn sufficient return from its operations which depends upon the volume of sales. The firm needs cash to purchase raw materials and pay expenses, as there may also be held to meet the future expenses. The stocks of raw material are kept in order to ensure smooth production and to protect against the risk of non-availability of raw materials. Similarly stock of finishing goods has to be carried to meet the demand of the customers and continuous basis and sudden demand for some customer. So, the firm has to invest enough funds in current assets in order to increase the sales. If the sales cannot be converted into cash immediately, the extra amount of working capital is needed. So, it is very essential to analyze the assets management as well as the success or, failure of the organization. So it is very essential to analyze the assets management of Unilever Nepal Limited.

Table No. 1

Composition of Current Assets and Compound Growth Rate

(Rs In milion)

Fiscal Year	Inventories	Trade & Other Receivable	Cash & Banks Balance	Pre-paid & Advance	Total Current Assets
2055/56	71.57	3.84	0.50	26.84	102.75
2056/057	106.025	12.19	1.55	58.23	178.22
2057/58	118.91	13.04	14.55	89.47	235.97
2058/59	172.20	33.84	20.46	126.22	252.72
2059/60	132.47	49.31	99.11	171.00	451.89
2060/61	293.93	32.18	6.27	225.20	567.58
2061/62	144.45	32.16	62.33	160.19	399.13
2062/63	126.11	64.77	317.40	130.44	638.72
2063/64	184.22	97.06	391.53	131.2	804.01
Compound Growth Rate	12.54%	49.74%	129.99%	21.94%	29.33%

Source : Various Balance sheets of UNIL Ltd.

Table 1 shows the composition of current assets of Unilever Nepal Limited. Its Current assets consists inventories, trade & other receivable, cash & bank balance, pre-paid & advance. The above table presents the investment pattern of Uniliver Nepal Limited in current assets and their fluctuations during the study period. According to the table investment inventories holds the major share taking than overall other current assets items. The inventory increased at a compound growth rate of 12:54 percent against 20.12 percent increase in sales over the study period. Inventories are increasing from first year to 2058/059. It shows that more than 50 percent of total current assets are covered by inventories in F/Y

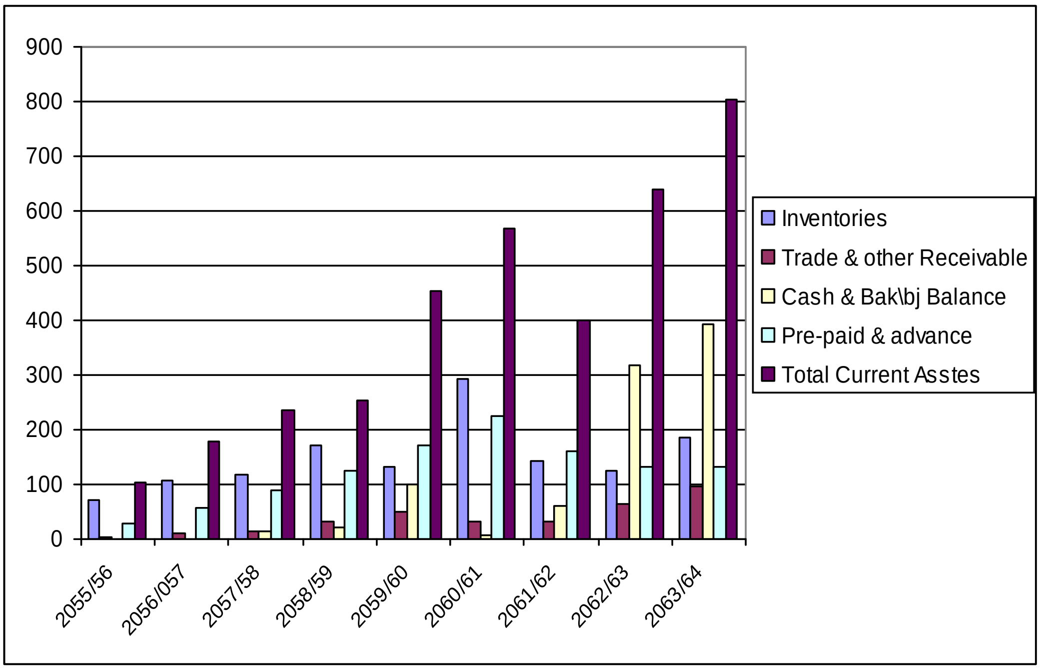
2055/056, 2056/057, 2057/058 and 2060/061, which is a large amount. Current assets are also increasing same as inventories.

Trade & other receivable ranges from Rs.3.84 to Rs.97.06 millions. During the study period the figure is very fluctuating. The trade & other payable increase at a compound growth rate of 49.74 percent, which is more than sales growth rate during the study period.

In first year the cash & bank balance is very low i. e. Rs.0.50 million, but in last year the amount of cash is Rs.391.53 millions, which is very high during the study period. Cash & bank balance increased at a compound growth rate of 129.99 percent. It could be because of low amount of cash & bank balance in the first year.

Fig. No. 6

Composition of Current Assets and Compound Growth Rate



Pre-paid & advance is range from Rs.26.84 to Rs.235.20 millions. From 2055/056 to 2063/064 it is in increasing trend. Last three years the amount is decreasing. Its compound growth rate is 21.94 percent.

Amount of total current assets varies from Rs.102.75 to Rs.804.01 millions. Total current assets are increasing for first six years. In F/Y 2063/064 it is decrease but in last year it is increases. It is increased at a compound growth rate of 29.33 percent, which is highest than sales growth rate.

4.2.1.2 Proportion of each of current assets to total current assets:

To operate the business, different kinds of assets are needed. For day-to-day business operations different types of current assets are required. The proportion of each type of current assets held by UNILN Ltd has been analyzed in the following section:

Table No. 2

Proportion of each type of current assets to total current assets

Fiscal	Inventories		Trade & Other Receivable		Cash & Bank Balance		Pre-paid & advance	
Year I	Ratio % II	% Charge III	Ratio % IV	% Charge	Ratio % VI	% Charge VII	Ratio % VIII	% Charge IX
2055/56	69.65	-	3.74	-	0.48	-	26.12	-
2056/057	59.62	(14.40)	6.48	82.89	0.87	81.25	32.67	25.06
2057/58	50.39	(15.48)	5.53	919.15)	6.17	609.20	37.92	16.07
2058/59	48.82	(3.12)	9.59	73.42	5.80	(60.00)	35.78	(5.64)
2059/60	29.31	(39.96)	10.91	13.76	21.93	278.10	37.84	5.76
2060/61	51.79	-6.70	5.67	(48.03)	1.10	(94.98)	41.44	9.51
2061/62	36.19	(30.12)	8.06	42.15	15.62	1320.00	40.13	(3.16)
2062/63	19.74	(45.45)	10.14	25.81	49.69	218.12	20.42	49.12
2063/64	22.91	16.06	12.07	19.03	48.70	(1.99)	16.32	(20.08)

(Source : Various Balance Sheet of UNILN Ltd)

Inventories are the important part of the current assets. Company's inventories including raw materials, work-in-progress and finished goods and those remaining at the third party manufacturing locations are valued as per weighted average method. The inventory most be in optimum position so that neither it arise the problems of excess inventory nor it is inadequate to run the business. In above table (Table No. 2 Col. No. II and III show the proportion of inventory on current assets and percentage change over period. The Table show that the share of inventory in total current assets significantly in later years except 2060/061.

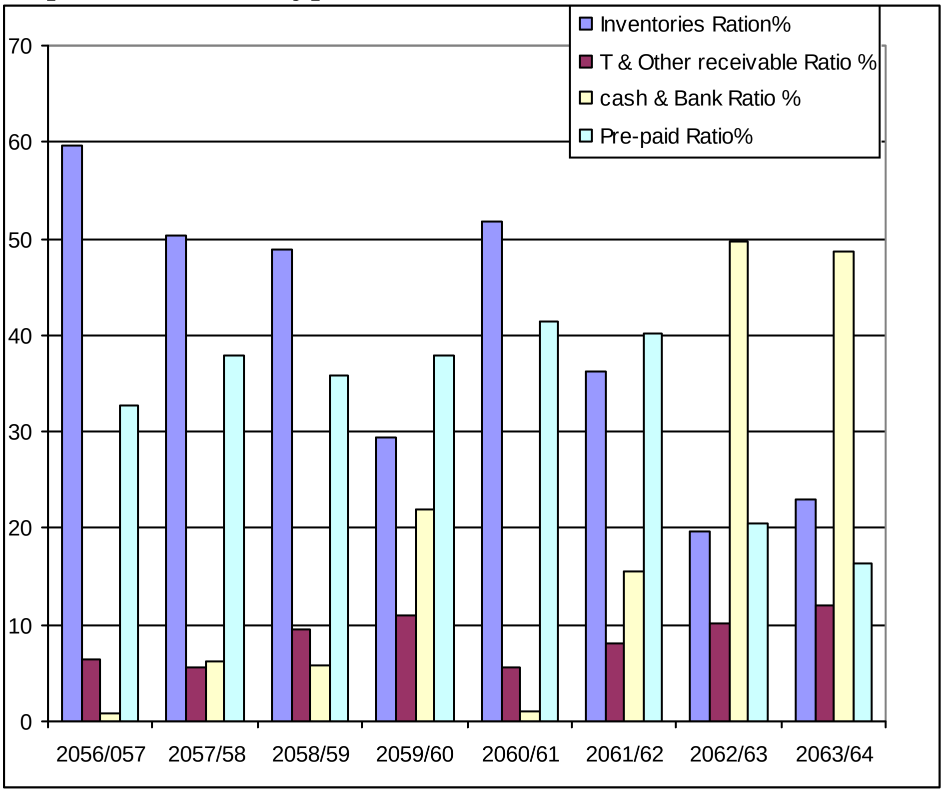
Trade credit is a marketing tool, which protects company’s sales from the competitors and attracts potential customers to buy the produce. It create debtors or trade variable the company has to arrange some working capital for this purpose.

The nature and period of term of credit should be determined in advance in order to avoid the company from reserve of working capita. The arrangement of these all known as receivable management. Higher degree of receivable results unnecessary held up of working capital and lower degree of receivable may cause negative result in sales level. The proportion of trade & the receivable to total current assets and percentage change are show in table (Table No.2) col IV and V. The trade & other payable to current assets is increasing during the study period except in F/Y 2060/061. The reason for the decline in this year is due to excess investment in inventory.

The proportion of cash and bank balance to total current assets shows the investment in cash out of total current assets. The high ratio indicates more cash available for meeting short-term obligations. If lowers risk as well as profit. The proportion of cash and bank balance to total current assets varies from 0.48 percent to 49.69 percent. Ratio is highest in F/Y 2062/063, which is 49.69 percent. The ratio is very low 0.48 percent in F/Y 2055/056 during the study period. During the study period the ratio is less than one percent in first two years but it is nearly to 50 percent in last two years. It indicates that the ratio has fluctuated widely during the study period.

Fig. No. 7

Proportion of each type of current assets to total current assets



Miscellaneous current assets are other major components of current assets of Unilever Nepal Limited. It includes the amount of pre-paid expenses. Advance to employees, deposits, investment in government bonds and other current assets. In table (Table No. 2) Col VIII and IX shows the proportions of period. In F/Y 2055/056 and 2056/057 the proportion of pre-paid, advance to current assets is 26.12 percent and 32.67 percent respectively, which is increase by 0.25 percent. In F/Y

2057/058 and 2058/059 ratios are 37.32 percent and 35.78 percent, which is increase by 0.16 percent. In F/Y 2060/061 the table shows highest ratio i. e. 16.32 percent.

4.2.1.3 Proportion of total current assets to fixed assets

For the purpose of success of any manufacturing concerns. Firm should invest in current assets as well as fixed assets to support a practicum of output therefore, the firm should determine the proportion of current assets with fixed and total assets. The level of current assets can be measured by relationship between current assets (CA) to fixed assets (FA) which can help to find the current assets investment policy. Assuming a constant level of fixed assets, a higher CA to FA ratio indicates and aggressive current assets policy, conversely lower ratio indicated the conservation current assets policy. If the firm increase the proportion of current assets there is the high probability of return as well as risk vice versa if decrease than it may below risk and return.

Table No. 3

Proportions of Total Assets to Fixed Assets

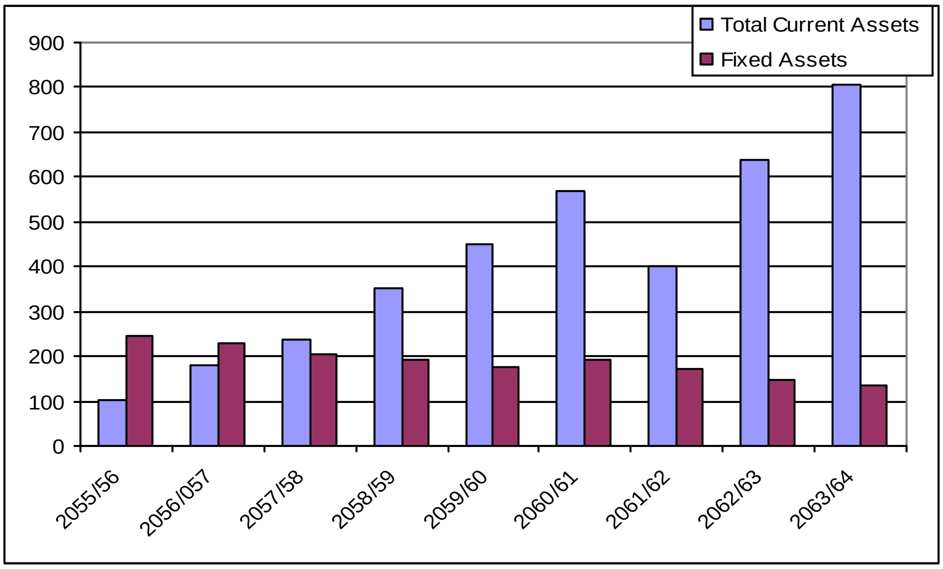
Fiscal Year	Total Current Assets	Fixed Assets	CA\FA
2055/56	102.75	243.76	0.42
2056/057	178.22	228.32	0.78
2057/58	235.97	205.84	1.15
2058/59	352.72	192.10	1.84
2059/60	451.89	177.87	2.54
2060/61	567.58	192.84	2.94
2061/62	399.13	172.20	2.32
2062/63	638.72	146.16	4.37
2063/64	804.01	135.71	5.92

(Source : Various Balance Sheets of UNILN Ltd)

The ratio of total current assets to fixed assets to Unilever Nepal Limited is presented in table 3. The investment in fixed assets is greater than current assets in millions. In F/Y 2055/2056 and 2056/057. Current assets is highest in F\Y 2063/064 i. e. Rs.804.01 millions. In F\Y 2055/056 fixed assets is lowest i. e. Rs.135.71 millions during the ratio of total current assets to fixed asses varies from 0.42 to 5.92 during the study period. In the table the ratio of current assets to fixed assets increases year by year. It means the company has applied conservative current assets policy. In the last seven year period current assets is greater than fixed assets. This ratio indicates that the company follows the more conservative current assets investment policy. However, company has no clear vision about the investment in current assets to fixed assets portion. We can see the fluctuating during the study period by following figure.

Fig. No. 8

Proportions of Total Assets to Fixed Assets



4.2.1.4 Proportion of total current assets to sales

Sales are only that activity which generate fund from outside. So, it is the most integral parts of manufacturing industry like Unilever Nepal Limited. The survival and growth of every manufacturing concern depends on the proportion of sales of the product what they produce. The company's sales policy depends upon the available resources and demand. It is also greatly affected by the financial policy and their strategic planning. Therefore, the co-ordination between those elements of company is the most important. Thus, the company invests in current assets to support the given level of sales, which depends upon the current assets investment policy and the attitude of management. When a firm holds relatively large amount of current assets to support a given level of sales is called fat cat policy. When a firm holds relatively minimum amount of current assets to support a given level of sales is called lean and thin policy and between these two policies is called as Moderate Policy. For the purpose of analysis of investment policy of current assets, relative measure- current assets to sales have been used.

Table No. 4

Proportion of Total Current Assets to Sales

(Rs in million)

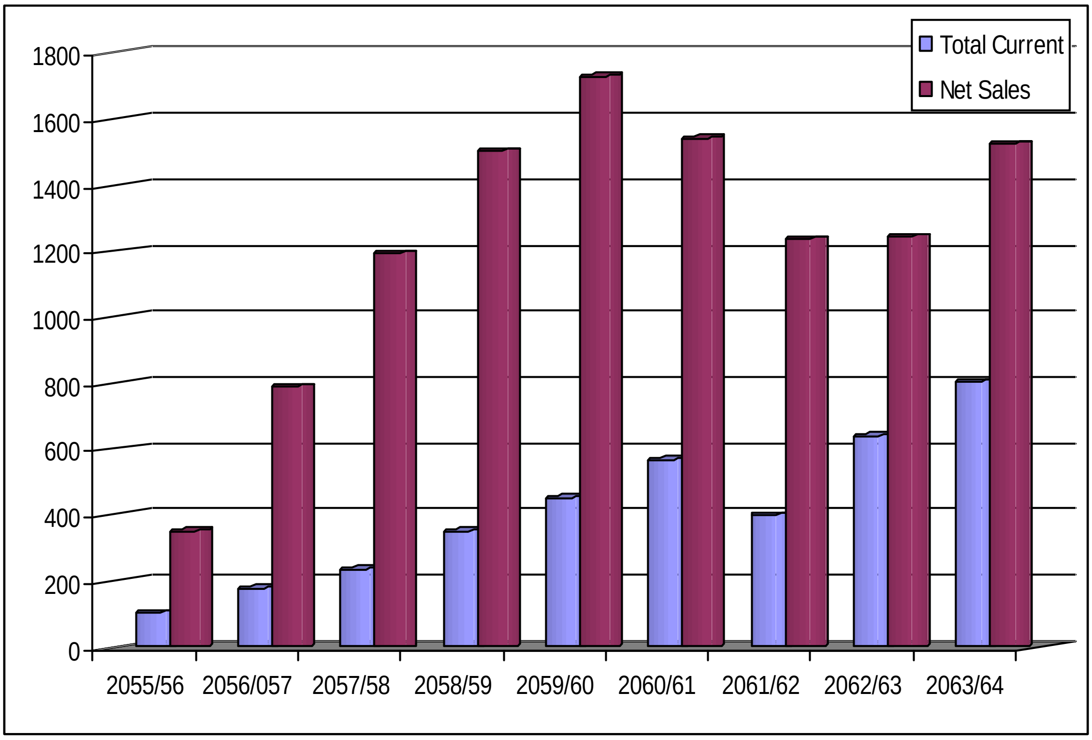
Fiscal Year	Total Current	Net Sales	% of CA OF Net
2055/56	102.75	351.77	29.21
2056/057	178.22	789.70	22.57
2057/58	235.97	1193.58	19.77
2058/59	352.72	1503.69	23.46
2059/60	451.89	1728.63	26.14
2060/61	567.58	1540.99	36.83
2061/62	399.13	1236.05	32.29
2062/63	638.72	1244.73	51.31
2063/64	804.01	1524.90	52.73
Compound Growth Rate	29.33%	20.12%	

(Source : Various Balance Sheet of UNILN Ltd)

Table 4 shows the proportion of total current assets to sales to Unilever Nepal Limited. It can be se that the total current assets are very fluctuating during the study period. Total current asset increases form F\Y 2055/056 to 2060/061. In F\Y 2061/062 it decrease, but last two year sit is in increasing in first five years. From F\Y 2060/061 the amount of net sales decrease, but in remaining years it is increase. The ratio of total current assets to net sales varies from 19.77 percent to 52.73 percent. The ratio is decrease in first three years than after in F\Y 2058/059 to 2063/064 the percentage of current assets to net sales is increasing every year excluding F\Y 2061/062. In F\Y 2063/064 the ratio is highest during the study period i.e. 52.73 percent. Total current assets increase in sales over the study period. These facts suggest that company policy is moving towards the conservation policy. In order to make, sales maximization the company is investing a large amount current assets.

Fig. No. 9

Proportion of Total Current Assets to Sales



4.2.2 Current Assets Financing Policy:

It is the manner in which the firm has to select optimum sources of short term financing. Selection of source for financing proportion of different shot-term sources of the funds. So, in this study current liabilities, its composition and relationship of current liabilities and long term liabilities have been analyzed.

4.2.2.1 Composition of Current Liabilities:

All obligations maturing with in an accounting period are included in current liabilities. Thus, it's including creditors, bills payable, accrued expenses, bank overdraft, income tax liability. Provision for taxation, unclaimed divided, provided, Provision for bonus, etc. Firm should maintain the optimum level of liquidity in order to enable the organization to meet the current obligations. Firm has to raised funds from short-term as well as long-term sources to meet its short-term obligations. Short term sources of funds firm raised by different components of current liabilities. Therefore the firm should be used proper level of current liabilities components according to the requirement. But, the level of current proportion of different components of current liabilities depends upon the finance policy of the firm. Thus, the composition of current liabilities must be analyzed for proper management of working capital.

Table No. 5

Composition of Current Liabilities and Compound Growth Rate

(Rs in Million)

Interest Bearing Non-Interest Bearing				
Fiscal Year	Short Term loan	Trade & Other Payable	Provisions	Total Current Liabilities
2055/56	71.31	39.08	15.99	126.38
2056/057	78.25	80.31	48.57	207.13
2057/58	4.31	99.63	86.94	190.88
2058/59	6.51	142.86	118.35	267.72
2059/60	-	156.18	148.63	304.81
2060/61	145.08	129.36	143.63	418.08
2061/62	-	96.59	126.62	223.21
2062/63	-	247.01	179.44	426.45
2063/64	-	355.72	207.99	543.71
Compound Growth Rate		31.79%	37.81%	20%

(Source : Various Balance Sheet of UNILNLtd)

Table No. 5 shows the composition of current liabilities. This table shows that shot-term loan, trade & other payable, provisions are major components of current liabilities. In the first year the amount of all components of current liabilities are very small. Short-term loan range from Rs.4.31 to Rs.145.08 millions. Total current liabilities is financing by short-term loan from F\Y 2055/056 to 2058/059 & 2060/061. In F\Y 2059/060 and last years current liabilities are not financing by short-term loan. Short-term loan is very fluctuating during the study period.

The amount of trade & other payable is increasing year by year form F\Y 2055/056 to 2059/060. In F\Y 2060/061 and 2061/062 amounts are decrease but in last year it is increase. In F\Y 2055/056 the amount of trade & other payable is very lowest i.e. Rs.39.08 millions. In F\Y 2063/064 it's figure is very highest i. e. Rs.355.72 millions. It increased 31.79 percent during the study period. Which was highest than compound growth rate increase in sales.

The amount of provisions increase from F\Y 2055/056 to 2059/060 than after it decreases in two years. In the last two years it is increased and in F\Y 2063/064 amount is highest i. e. Rs.207.99 millions. Total current liabilities also increase and decrease as well as provisions. Its compound growth rate increase is 37.81 percent.

Total current liabilities are range from Rs.126.38 to RS.543.71 millions. The amount of total current liabilities is very fluctuation during the study period. First two yeas it is in increasing trade. In F\Y 2057/058 the current liabilities is decrease. After that the total current assets is increase up to F\Y 2060/061. In last two years it is in increasing trade. Its increase compound growth rate is 20 percent. Which is less then the growth rate of sales.

4.2.2.2 Proportion of each type of current liabilities to total current liabilities :

Composition of current liabilities is calculation by following ratios, which are present by table No. 6

Table No. 6

Proportion of each type of current liabilities to total current liabilities :

Fiscal	Short Term loan		Trade & Other Payable		Provisions	
Year (I)	Ratio% (II)	Change% (III)	Ratio% (IV)	Change% (V)	Ratio% (VI)	Change% (VII)
2055/56	56.43	-	30.92	-	12.65	-
2056/057	37.78	(33.05)	38.77	25.39	23.45	85.38
2057/58	2.26	(94.02)	52.20	34.64	45.55	94.29
2058/59	2.43	7.52	53.36	2.22	44.21	(2.94)
2059/60	-	-	51.24	(3.97)	48.76	10.29
2060/61	34.70	-	30.94	(39.62)	34.35	29.55
2061/62	-	-	43.27	39.85	56.73	65.15
2062/63	-	-	57.92	33.86	42.08	(25.82)
2063/64	-	-	65.42	12.95	38.25	(9.10)

(Source: Various Sheet of UNLN Ltd)

Firm has to raise funds from short-term as well as long-term sources to meet its short-term obligations. Short –term sources of funds firm raise by different components of current liabilities. Short –term loan is interest bearing loan. The ratio indicates financing the percentage of short –term loan to total current liabilities and percentage change, which are presents in table (Table No. 6) Col II AND III. The ratio of short –term loan to total current liabilities is fluctuating during the year. In F\Y 2055/056 a total liabilities, is financing by short-term loan is 56.43 percent, which is highest percentage during the study period In F\Y 2057/058 the ratio is very lowest i.e. 2.26 percent. In F\Y 2059/060 and last two years company has not financing total current liabilities by short-term loan. From the analysis we can found that the company has not proper plan to use of shot-term loans.

Trade & other payable is non-interest bearing loan. The ratio of trade & other payable is indicates what percentages of a company's total current liabilities are financed by trade & other payable. The proportion of trade & other payable to total current liabilities and percentage change is present table (Table No. 6) Col No. IV & V. Trade & other payable converse more than 50 percent of total current liabilities in F\Y 2057/058, 2058/059, 2059/060, 2062/063 and 2063/064. The proportion of trade & other payable is range from 30.92 percent to 65.42 percent. In 2055/056 the ratio is very lowest during the study period but in F\Y 2063/064 ratio is highest i. e. 65.42 percent.

Provision is also non- interest bearing. Provisions include the amount of provision for taxation, Provision for dividend, provision for bones etc. The proportion of provisions to total current liabilities and percentage change is presents table (Table No. 6) Col No. VI and VII. It shows the very fluctuating trade during the study period. The proportion of provision to total current liabilities is varies from 12.65 percent to 56.65 percent to 56.73 percent. It is increasing in first three years. In F\Y 2058/059 ratio is decrease by 2.94 percentage. In F\Y 2061/062 the ratio is highest i.e. 56.73 percentage, which is increase by 65.15 percentage. Last tow years it is decrease by 25.82 percent and 9.10 percent respectively.

4.2.2.3 Proportion of total current liabilities to long-term liabilities:

Firm needs various types of assets for its growth and survival in long run. It need the fund to purchase these assets and made payment of various expenses. Therefore, firm uses the shot-term sources to meet short-term equipments and long term source for long –term for long-term requirement of funds. It raises funds from different sources depending on the nature and financing policy of the firm, but the firm should maintain appropriate mix of current liabilities (CL) and long-term liabilities (LTL). In order to know the financing policy of current assets, proportion of current liabilities and long-term liabilities is

Table No. 7

Proportion of Total Current Liabilities to Long-term Liabilities

Fiscal Year	Total Current Liabilities	Long-term Liabilities	CL\LTL
2055/56	126.38	157.50	0.80
2056/057	207.13	112.50	1.84
2057/58	190.88	67.50	2.83
2058/59	267.88	-	-
2059/60	304.81	-	-
2060/61	418.08	-	-
2061/62	223.21	-	-
2062/63	426.45	-	-
2063/64	543.71	-	-

(Source : Various Balance Sheet of UNI Ltd)

Table No. 7 shows the ratio of total current liabilities to long-term liabilities. The amount of total current liabilities is increasing and decreasing every. In F\Y 2063/064 current liabilities is highest i.e. Rs.543.71 millions during the study period. Long-term liabilities are uses by company for fist three years after that they have not use any long-term liabilities. In F\Y 2055/056 the amount is highest i.e. Rs.157.50 millions. In F\Y 2056/057 and 2057/058 current liabilities is greater than long-term liabilities. The ratio of current liabilities to long-term liabilities is increasing trend during the study period. In

F\Y 2055/056 and 2056/057 current liabilities to long-term liabilities ratio is 0.80 and 1.84 respectively. In F\Y 2057/058 the ratio is highest i.e. 2.83 percent. Than after company has not used any long-term obligations. It means that the entire amount is financed from the short-term financing and the company has not borrowed any amount from long-term in last six years.

4.2.2.4 Analysis of growth in components of current assets and current liabilities

To analysis the component of growth rate of growth rate of each type of current assets and current liabilities is given below.

Table No. 8

Growth rate in components of current assets and current liabilities

(in%)

Particular	Sales	Current Assets				Current Liabilities	
		Inventory	Trade & Other receivable	Cash & bank balance	Pre-paid & advance	Trade & Other Payable	Provision
Compound Growth rate	20.12	12.54	49.54	129.99	21.94	31.79	37.81

Above table shows the growth rates of components of current assets and current liabilities. Sales increased at 20.12 percent during the study period. Inventory increased at 12.54 percent, which is lower than sales growth. Inventory did not increase as the sales did. Trade & other receivable increased at 49.54 percent over the study period, this percent is higher than sales growth rate. It means company has adopted liberal credit policy for their customer. Cash & bank balance increased at 129.99 percent during the study period. The very high growth rate may be due to small amount of cash in the first year. Pre-paid & advance increased at 21.94 against 20.12 percent increase in sales over the study period. Trade & other payable increased at 31.79 percent and provision at 37.81 percent during the study period.

4.2.3 Liquidity Position :

Liquidity position of the firm depends on its working capital policy. If the firm follows aggressive policy, it has to high liquidity position. So, for the analysis of Working capital policy of UNILNLtd the liquidity position is calculated. Liquidity position indicates the ability to ay its short-term obligation. It can be analyzed with the help of current ratio. Quick ratio and ratio of quick assets to sundry creditors (Trade & Other Payable).

4.2.3.1 Current ratio :

Current ratio measure the short-term solvency of the firm in gross term. This ratio is the crude measurement of liquidity position of a firm. In this study also, this ratio has been used to measure the liquidity position of UNILN Ltd. The current ratio explains that how much current assets is there as against each rupee of current liabilities. This ratio can be computed by dividing current assets to current liabilities. Following table can show it.

Table No. 9

Current Ratio of Unilever Nepal Ltd.

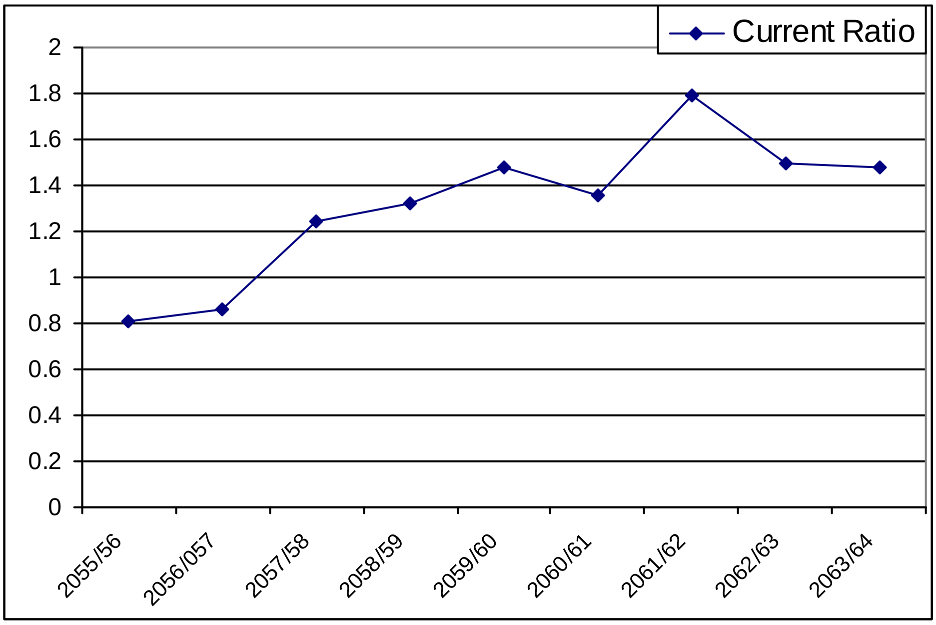
Fiscal Year	Current Assets (Rs in Million)	Current Liabilities (Rs in Million)	Current Ratio (In Times)
2055/56	102.75	126.38	0.81
2056/057	178.22	207.13	0.86
2057/58	235.97	190.88	1.24
2058/59	352.97	267.72	1.32
2059/60	451.89	304.81	1.48
2060/61	567.58	418.08	1.36
2061/62	399.13	223.21	1.79
2062/63	638.72	426.45	1.50
2063/64	804.01	543.71	1.48

Source: Various Balance Sheet of UNILN Ltd.

Table No. 9 the current ratio. The current ratio for UNILN Ltd is ranged from 0.81 to 1.79 times in the study period. As a conventional rule, a current ratio is less except in F\Y 2055/056 to 2056/057. In First two years current ratio is less than 1, but in other remaining years the current ratio is greater than 1. This ratio is in increasing trend from 2055/056 to 2059/060. In F\Y 2060/061 the ratio decrease. In F\Y 2061/062 it has highest ratio than is 1.79, which is very near to 2. In last Two years ratio is decreases. Analysis of ratio shows that liquidity position of UNILN Ltd is week in first year. Further, the table shows that the company has sufficient liquidity position to meet its short-term financial obligation. But the company has not met the standard ratio 2:1 so, it can be concluded that the company has not perfect liquidity position.

Fig. No. 10

Current Ratio of Unilever Nepal Ltd.



4.2.3.2. Quick Ratio :

Current ratio measure the short-term solvency in gross term. It includes less liquid assets "inventories" too. Thus, it does not measure the actual liquidity position of the firm. So, quick ratio has been used to measure the liquidity position of the UNILN Ltd. A quick ratio is also known as acid test ratio. It measure the firms ability how quickly it can convert its current assets into cash in order to meet it current liabilities. It is calculated by dividing the total of quick assets by total current liabilities. Through current ratio is high if more amounts are hold by inventory then the company may suffer of paying current obligations. The quick ratio of UNILN Ltd is presented in below table

Table No. 10

Quick Ratio of Unilever Nepal Ltd

Fiscal Year	Quick Assets Liabilities (Rs in Million)	Current Liabilities (Rs in Million)	Quick Ratio (in Time)
2055/56	31.18	126.38	0.25
2056/057	71.97	207.13	0.35
2057/58	117.06	190.88	0.61
2058/59	180.52	267.72	0.67
2059/60	319.42	304.81	1.05
2060/61	273.65	418.08	0.65
2061/62	254.68	223.21	1.14
2062/63	512.61	426.45	1.20
2063/64	619.79	543.71	1.14

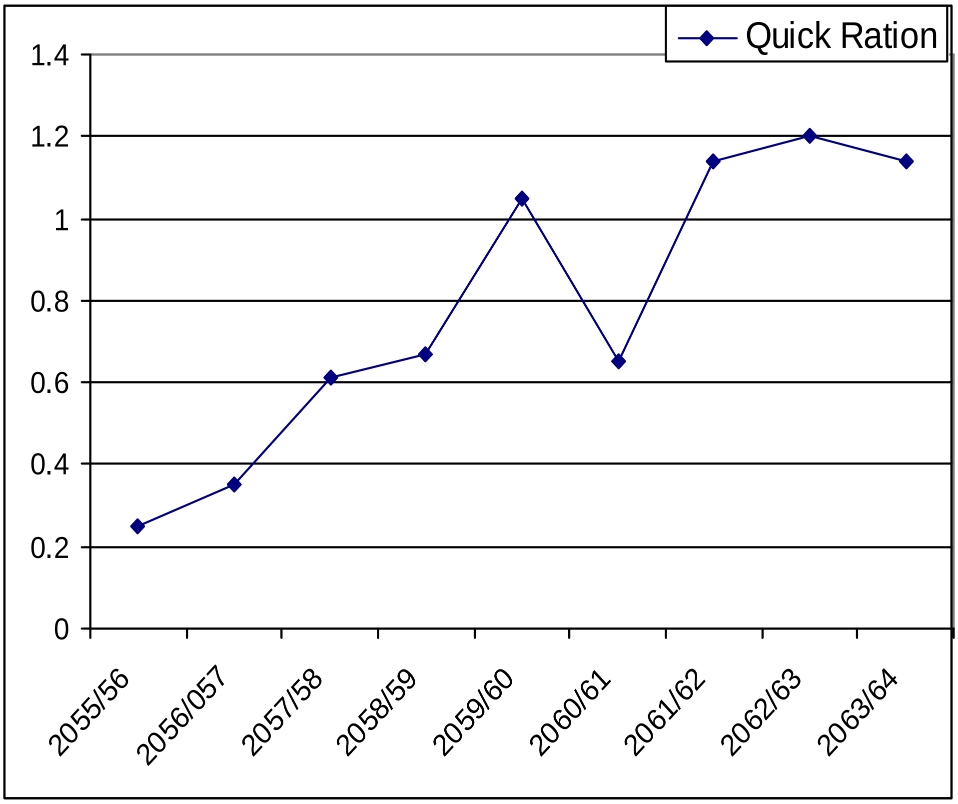
(Source : Various Balance Sheet UNIL N Ltd)

Table 10 shows that liquidity position. UNILN Ltd in net term. Quick ratio is very fluctuating during the study period. The quick ratio of the company in the study period ranges from 0.25 to 1.14 times. Generally, Quick ratio of 1 to 1 is considered reasonable and optimum level any business organization is fluctuating during the study period. In First four years and F\Y 2060/061 Quick ratio is less than 1. In F\Y 2059/060 ratio is more than 1, which is 1.05. In F\Y 2062/063 ratio is highest during the study period. i.e. 1.20. In F\Y 2061/062 and

2063/064 ratio is same i.e. 1.14, which is positive sign for the company to improve credibility.

Fig. No. 11

Quick Ratio of Unilever Nepal Ltd



4.2.3.3 Net Working Capital :

Net Working capital refers the difference between current assets and current liabilities. Net Working capital is calculated by subtracting the current liabilities from current assets. Net Working capital can be positive or negative. Positive net working capital indicates the firm has ability to pay its current obligations and the negative working capital indicates the its inability to pay its current obligations.

Table No. 11

Net Working Capital of Unilever Nepal Ltd

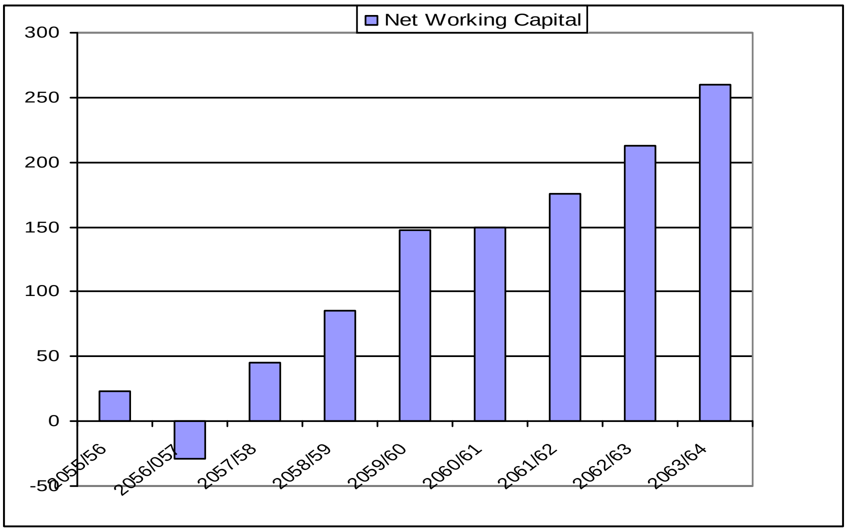
(Rs in Million)

Fiscal Year	Current Assets	Current Liabilities	Net Working Capital
2055/56	102.75	126.38	23.63
2056/057	178.22	207.13	-28.91
2057/58	235.97	190.88	45.09
2058/59	352.72	267.72	85
2059/60	451.89	304.81	147.08
2060/61	567.58	418.08	149.5
2061/62	399.13	223.21	175.92
2062/63	638.72	426.45	212.27
2063/64	804.01	543.71	260.3

(Source : Various Balance Sheet of UNILN Ltd)

Table 11 shows the net working capital of the company. Current assets are increasing for first six years. In F\Y 2061/062 the amount of current assets is decrease but in last two years it is increase. Current liabilities are also increase and decrease same as current assets. In the First Two years net working capital is in negative. Remaining years net working capital is positive and it shows increasing trend every year. Net working capital is varies from Rs.23.63 to Rs.260.3 millions. From F\Y 2057/058 it is in increasing year by year. Net working capital is highest in F\Y 2063/064 i.e. Rs.260.30 millions. This table can be presents by chart.

Fig. No. 12
Net Working Capital of Unilever Nepal Ltd



4.2.4 Efficiency of current assets and current liabilities management:

Efficiency of current assets management of Unillever Nepal Limited has been analyzed by calculating inventory turnover ratio and receivable turnover ratio. Similarly, efficiency of current liabilities using has been analyzed by examining the extent of use of free source (non – interest bearing liabilities) to finance current assets.

4.2.4.1 Turnover Position :

Only investing in Working capital is not sufficient to get good result and retune. Activity or turnover ratios are also known as utilization ratio. How efficiency the assets are employed by the firm is measure by this ratio. This ratio measures the degree of effectiveness in use of resources or finds by an enterprise. This ratio is based on the relationship between the sales and investment in different assets. This reflects the speed and rapidity with which assets are converted into sales there by resulting in the efficiencies of the enterprises. This section examines the turnover position of Unilever Nepal Limited.

4.2.4.1.1 Inventory turnover ratio and inventory conversion period :

In general, production and sales are correlated. Firm should increase its production to meet the higher level of target sales. More row materials will be required to run out the more production volume. Thus, the stock of raw material is increase. Inventories constitute the most significant part of current assets. Thus, actual liquidity position of the firm con not be measured without measuring the liquidity of inventories. So, inventory turnover ratio has been used to measure the liquidity of inventory. Higher turnover shows the higher degree of liquidity of inventories and vice-versa. The ration between sales and stock is known as inventory turnover ratio. Inventory conversion period is the average time required to convent materials into finished goods and then to sell those goods. The proportion of inventory to sales and inventory conversion period has been tabulated below.

Table No. 12

Inventory Turnover Ratio & Inventory Conversion Period

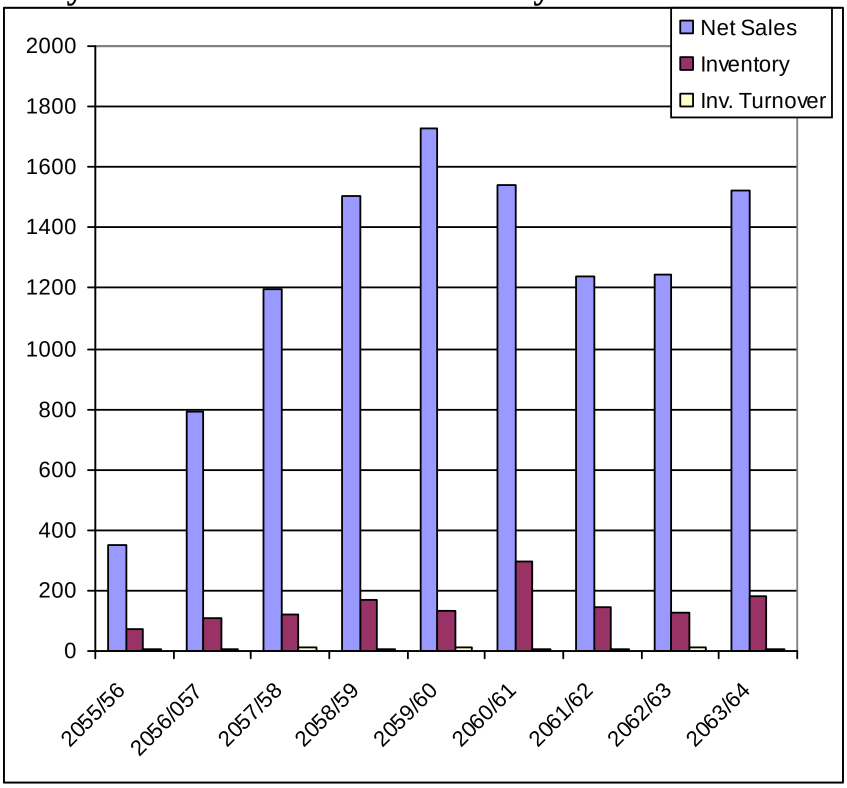
Fiscal Year	Net Sales (Rs in Millions)	Inventory (Rs in Million)	Inventory Turnover Ratio (In time)	Inventory Conversion Period (ICP) 365/ITR
2055/56	351.77	71.57	4.92	74 day
2056/057	789.70	106.25	7.43	49 day
2057/58	1193.58	118.91	10.04	36 day
2058/59	1503.69	172.20	8.73	42 day
2059/60	1728.63	132.47	13.05	28 day
2060/61	1540.05	293.93	5.24	70 day
2061/62	1236.05	144.45	8.56	43 day
2062/63	1244.73	126.11	9.87	37 day
2063/64	1524.90	184.22	8.28	44 day

(Source : Various Balance sheet of UNILN Ltd)

Table 12 shows the inventory turnover ratio and inventory conversion period of UNILN Ltd. The inventory turnover ratio is fluctuating during the study period. It varies from 4.92 to 13.05 times. Higher portion of inventory is less liquidity and fewer portions indicate high liquidity position lf the Company. Therefore UNILN Ltd holds the higher portion of raw material in inventory. Inventory conversion period is lies between 28 days to 74 days. ICP declining in earlier part of the study and increase in later part of the study period. This is because of long lead time (delivery period) of inventory. Management should attempt to the level of inventory or increases sales.

Fig. No. 13

Inventory Turnover Ratio & Inventory Conversion Period



4.2.4.1.2 Receivable turnover ratio and receivable conversation period

Receivable or trade or other receivable is one of the components of working capital. In order to increase the business activity the company has to increase the sales volume. The sales volume can be increased by giving product in credit to the customers, in this way receivable is decrease. So, its degree of liquidity plays a vital role in the liquidity position of the firm. Thus, the measure of actual liquidity position of the firm remains uncompleted without the analysis of the liquidity of receivables. So, receivable turnover ratio and receivable conversion period have been used to measure the liquidity position of receivable. It indicates the number if time receivable is turned out during the year. Higher turnover shows the higher degree of liquidity of receivable vice versa. Data on the break down of the sales into cash and credit are not available. This company use to sell all products except the wastage of the soaps and detergents on credit. So, all sales are assumed as credit sales for the purpose of the calculation of receivable turnover and receivable conversion have been judged against this period of credit sales.

Table No. 13

Receivable turnover Ratio & Receivable Collection Period

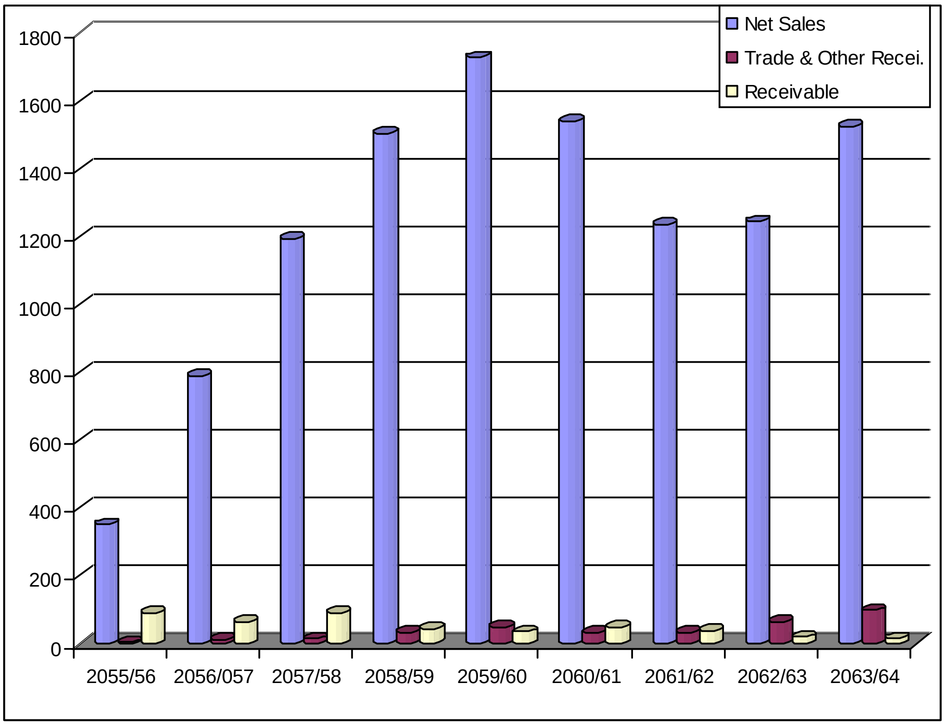
Fiscal Year	Net Sales (Rs in Millions)	Trade & Other Receivable (Rs in Million)	Receivable Turnover Ratio (In time)	Receivable Collection Period 365/RTR
2055/56	351.77	2.84	91.61	4 days
2056/057	789.70	12.19	64.48	5 days
2057/58	1193.58	13.04	91.53	4 days
2058/59	1503.69	33.34	44.43	8 days
2059/60	1728.63	49.31	35.06	10 days
2060/61	1540.99	32.18	47.89	8 days
2061/62	1236.05	32.16	38.43	9 days
2062/63	1244.73	64.77	19.22	29 days
2063/64	1524.90	97.06	15.71	23 days

(Source : Various Balance sheet of UNILN Ltd)

Table No. 13 shows the receivable turnover ratio and receivable conversion period of UNILN Ltd. Receivable turnover ratio is very fluctuating during the study period. In varies from 15.17 times to 91.61 times and the average collection period varies from 4 to 23 days. In F\Y 2055/056 receivable turnover ratio is highest with the receivable conversion period of 4 days. Receivable turnover ratio is lowest in F\Y 2063/064, which is 15.71 with the receivable conversion period of 23 days, which is very high collection period during the study period. Standard receivable turnover ratio of UNILN Ltd is 12 times, which is higher than the actual receivable turnover ratio during study period. Receivable conversion period or average collection periods are same in F\Y 2055/056 and 2057/058, which is lowest conversion period during the study period.

Fig. No. 14

Receivable turnover Ratio & Receivable Collection Period



4.2.4.2 Financing of Current Assets from free sources (Non- interest bearing sources)

Current assets can be financed from various sources. Such as long-term liabilities, short-term liabilities, interest–bearing loan and non-interest bearing liabilities etc. The following table presents how far UNILN Ltd has been successful to use free source in financing its current assets.

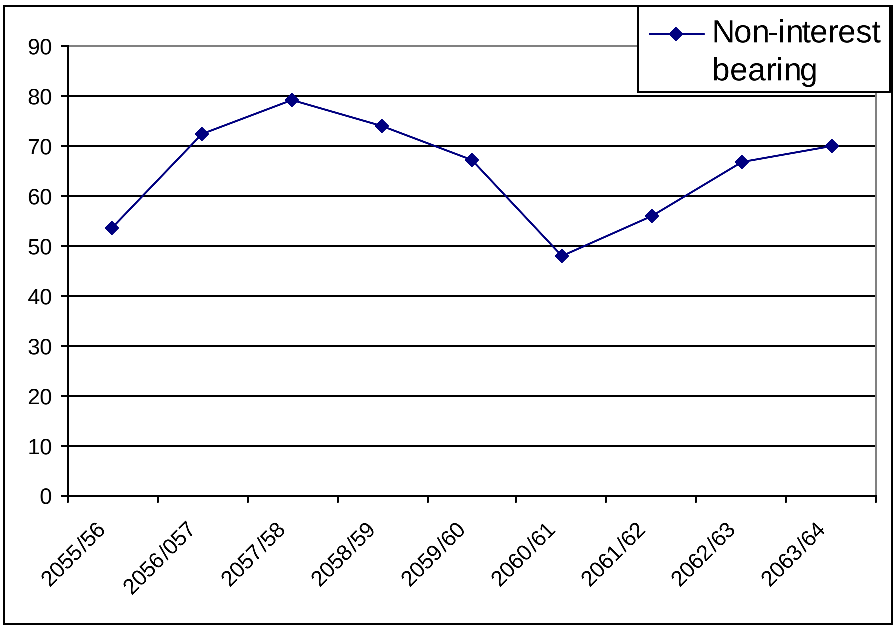
Table No. 14
Proportion of Non-Interest Bearing Current Liabilities (Free Sources) to Total Current Assets

Fiscal Year	Non-Interest Bearing Liabilities	Current Assets	% of Non-interest bearing liabilities to CA
2055/56	55.07	102.75	53.60
2056/057	128.88	178.22	72.32
2057/58	186.57	235.97	79.07
2058/59	261.21	352.72	74.06
2059/60	304.81	451.89	67.06
2060/61	272.99	567.58	48.10
2061/62	223.21	399.13	55.92
2062/63	426.45	638.72	66.77
2063/64	563.71	804.01	70.11

(Source: Various Balance Sheet of UNILN Ltd)

Table 14 shows the proportion of free sources to current assets. Non-interest bearing liabilities range from Rs.55.07 to RS.563.71 millions. The amount of free sources is increasing from F\Y 2055/056 to 2059/060. Than after two year it is in decreasing trend. Again in last year the amount of free sources is very high i.e. Rs.563.71 millions. Total current assets are also increasing from F\Y 2055/056 to 2060/061. In F\Y 2061/062 it has decreased, but last two years it has increased. In F\Y 2063/064 the amount of free sources and current assets both are highest during the study period. The study period the ratio of non-interest bearing liabilities to current assets is fluctuating during the study periods. During the study period expect F\Y 2060/061 the ratio exceeds than 50 percent. It means a high proportion is bearing finance by free sources.

Fig. No. 15
Proportion of Non-Interest Bearing Current Liabilities



4.2.5 Profitability Position:

A company should earn profit to survive and grow over a period of time. A profit is a basic long-term objective of a commercial enterprise. Generally, Profit is the difference between total revenue and total expenses over a period of time. Profitability is a measure of efficiency and she search for it provides an incentive to achieve efficiency. But product is necessary for its further expansion. Therefore, it is major tools for the analysis. Profitability ratios are those ratios, which indicate degree of success in achieving desired profits level. The profitability position is analyzed with the help of following ratios.

4.2.5.1 Gross Profit Margin:

Gross profit margin is also known as gross margin, which reflects the efficiency; with which management produce each unit of product. This ratio can be calculated by dividing gross profit by sales. This ratio is generally expressed in terms of percentage. It measures production efficiency. Therefore, gross profit margin ratio is very significant on evaluating the profitability of a business. It indicates the average speed between the cost of good sold and sales revenue. Higher percentage indicates the better efficiency. The table presented below shows the relationship between gross profits earned by the company during the study period.

Table No. 15
Gross Profit Margin

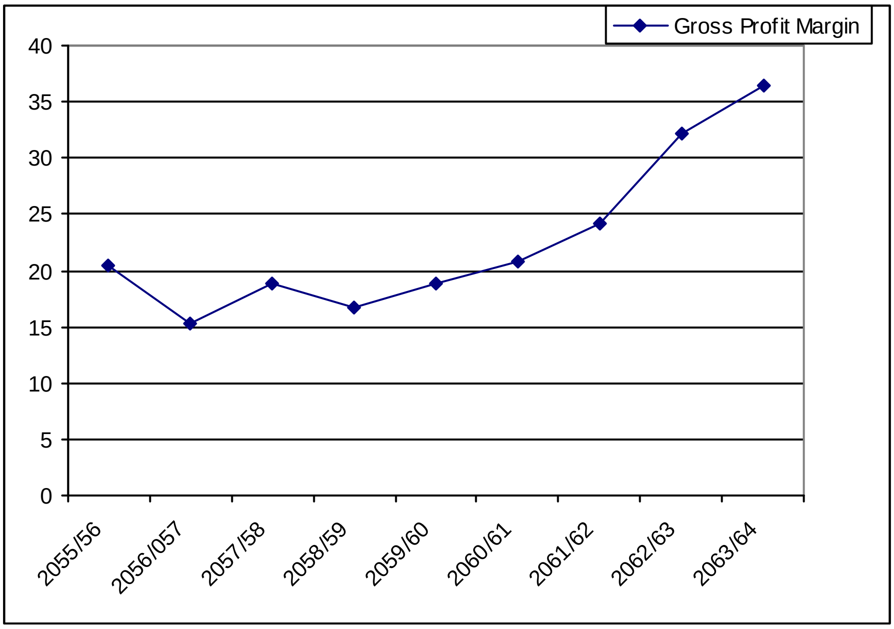
Fiscal Year	Gross Profit (Rs in Million)	Net Sales (Rs in million)	Gross Profit Margin (in %)
2055/56	72.22	351.77	20.53
2056/057	120.11	789.70	15.21
2057/58	224.22	1193.58	18.79
2058/59	250.08	1503.69	16.63
2059/60	326.75	1728.63	18.90
2060/61	320.16	1540.99	20.78
2061/62	298.32	1236.05	24.13
2062/63	401.59	1244.73	32.26
2063/64	555.79	1524.90	36.45

(Source : Various Balance Sheets of UNILN Ltd)

Table 15 shows the Gross profit margin, which is fluctuating trend during the study period. Gross profit is varies from 72.22 to 555.79 millions. A gross profit is increases in first four years than after it is decrease for three years. But in last two years it is increase. The amount of gross profit is highest in F\Y 2063/064, which is 555.79

millions. Gross profit margin is varies 15.21 to 36.54 percent. Gross profit margin is fluctuating during the study period. In the F\Y 2056/057 the ratio is 15:21 percent, which is very lowest ratio. In last five years gross profit margin is in increasing trend in every year. In the F\Y 2063/064 the company has able to maintain the largest gross profit margin ratio 36.45 percent during the study period.

Fig No. 16
Gross Profit Margin



4.2.5.2 Net Profit Margin:

Earning the profit is the main objective of every business firm. So, the analysis of net profit margin can be meaningful. The Net Profit margin is also known as net margin. Net profit margin is the relationship between net profit and net sales. It indicates management efficiency in controlling the manufacturing an administrative cost of the products. It also indicates the firm's capacity to with stand adverse economic condition. The net Profit margin reflects how much amount of net profit has been earned in the sales of one rupee. A high result is favorable and other wise vice-versa. High result insures adequate return to the owner. The table presented below shows the net profit margin.

Table No. 16
Net Profit Margin

Fiscal Year	Net Profit (Rs in Million)	Net Sales (Rs in million)	Net Profit Margin (in %)
2055/56	27.31	315.77	7.76
2056/057	23.85	789.70	3.02
2057/58	99.71	1193.58	8.35
2058/59	126.23	1503.69	8.39
2059/60	120.57	1728.63	6.79
2060/61	68.04	154.99	4.42
2061/62	42.60	1236.05	3.45
2062/63	93.17	1244.73	7.49
2063/64	140.78	1524.90	9.23

(Source : Various Balance Sheets of UNILN Ltd)

Table No. 16 shows the percentage of net profit to the net sales. The amount of net profit is very much fluctuating during the study period. In F\Y 2056/057 amount is very lowest i.e. 23.85 million. In F\Y 2063/064 net profit is highest i.e. 140.78. In the table we can see that net profit margin is very fluctuating during the study period. It is varies from 3.02 to 9.23 percent. In F\Y 2063/064 the ratio is high is i.e. 9.23 percent. In F\Y 2056/057 the margin is very low during the study period i.e. 3.02 present.

4.3 Cash Conversion Cycle:

Cash conversion cycle, which nets out the three periods inventory conversions period. Receivable conversion period and payable deferral period equals the length of time between inventory convert into cash, the firm's actual and expenditures to pay for productive resources materials and labor) and the cash receipts form the sale of product that is, the length of time between paying for labour and materials and collection on receivables). The cash conversion cycle thus equals the average length of time a rupee is tied up in current assets.

Cash conversion cycle is calculated by :

Cash Conversion period = ICP + RCP – PDP

Where,

ICP = Inventory Conversion Period

RCP = Receivable Conversion Period

PDD = Payable Deferral Period

(a) **Payable Deferral Period :**

Payable deferral period is the average length of time between purchase of material and the payment of cash for them. The payable deferral period for UNILLtd is present below:

Table No. 17
Payable Deferral Period

Fiscal Year	Trade & Other Payable (Rs in million)	Cost of goods Sold (Rs in million)	Payable Deferral period $= \frac{Payable}{CGS \setminus 365}$
2055/56	39.08	279.55	51 days
2056/057	80.31	669.59	44 days
2057/58	99.63	969.36	38 days
2058/59	142.86	1253.61	42 days
2059/60	156.18	1401.88	41 days
2060/61	129.36	1220.83	39 days
2061/62	96.59	937.73	38 days
2062/63	247.01	843.14	207days
2063/64	355.72	969.11	234 days

(Source : Various Balance Sheets of UNILN Ltd)

Table No. 17 shows the payable deferral period. Payable deferral period is fluctuating during the study period. It various from 38 days to 23 days. In the first year it was 51 days, then it decreases for two years. In F\Y 2058/059 it increases by 4 days then after for three years it decreases. In last two years it again increases and reaches as high as 134 days. In F\Y 2057/058 and 2061/062 payable deferral period is lowest (38 days) during the period.

Cash conversion cycle is calculated as follows :

Table No. 18

Cash Conversion Period

Fiscal Year	ICP	RCP	PDP	CCP
2055/56	74 days	4 days	51 days	27 days
2056/057	49 days	6 days	44 days	11 days
2057/58	36 days	4 days	38 days	2 days
2058/59	42 days	8 days	42 days	8 days
2059/60	28 days	10 days	41 days	(3 days)
2060/61	70 days	8 days	39 days	39 days
2061/62	43 days	9 days	38 days	92 days
2062/63	37 days	19 days	107 days	(51days)
2063/64	44 days	23 days	134 days	(67)

(Source : Various Balance Sheets of UNILNLtd)

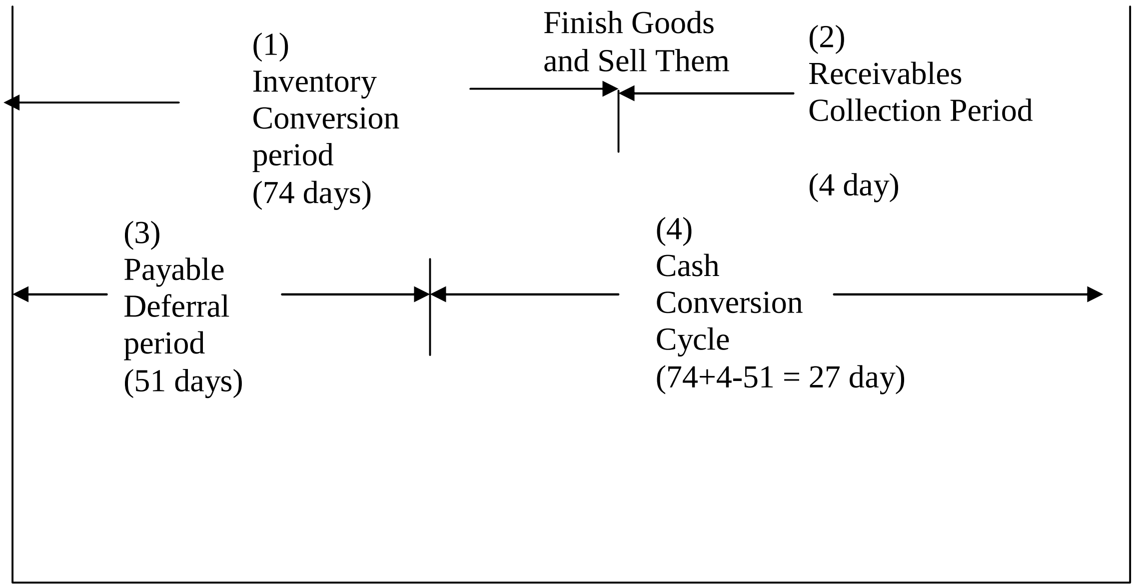
Table No. 18 shows the cash conversion period. Cash conversion period is fluctuating during the study period. It varies from –67 day to 92 days. In First year CCP is 27 days than after it is decrease to 3 days on F\Y 2058/059. In F\Y 2059/060 it is negative. 2060/061 and 2061/062 CCP is 39 days and 92 days respectively. But in last year two years cash conversion period are decreases. Most important PDP is highly significantly about (40 days) to more than 100 days in later years. The net effect of these (ICP, CRP, PDP) is reflected in CCP.

For the year 2059/060, 2062/063 and 2063/064 CCP is negative. The above analysis shows that the company instead of using its own money has used the supplier's money to finance it working capital management.

We can also explain cash conversion cycle by following diagram for first year. (F\Y 2055/056) .

In first inventory takes real time an average 74 days to convert raw materials to finished goods and then to sell them, and another 4 days to collect on receivable. However, 51 days normally elapse between receipts of raw materials payment for them. In this case, the cash conversion cycle would be 27 days.

Cash Conversion Cycle Model :



Chapter -V

Summary of Findings Conclusion and Recommendation

This Chapter summarizes the which study and present major finding of its study. It also present aims to draw the conclusions of the study and forward a few recommendations for efficient working capital management of Unilever Nepal Limited.

5.1 Summary :

The success or failure of business or manufacturing industries mainly depends upon the effective overall management of the organization. Beside this financial management plays the vital role in the success of the organization. One of the most important aspects of the financial management of success of business is proper working capital management.

The basic, objective of this study is to examine the management of Working Capital of UNILN Ltd. To fulfill this objective and other specific objectives are also set and presented in chapter one. This chapter also attempts a little bit to introduce the working capital management of UNILN Ltd. Some questions have been raised regarding the working capital management of UNILN Ltd with respect to the liquidity and financing policy and profitability position in the statement of the problem. It also coves focus significance limitations of the problem. It also covers focus significance and limitations of the study. Finally, it presents organization of study.

The Second Chapter deals with revenue of int. Which include the conceptual framework . and different view of different view it, books and articles. The conceptual The framework sheds light on concepts and types of working capital. It attempts to explore the literature on the investment and financial policies of working capital. Some important forces, which determine the working capital requirement of the firm. are described in the conceptual framework. Review of literature section has attempted to review does so far on the same topic of different organization.

Research methodology followed in this study is given in the third chapter. It has includes the research design. It presents the nature and sources of data, collection of data, data processing procedure and tools techniques of analysis. Financial ratio like liquidity ratios. Turnover ratios, and profitability ratios, cash conversion cycle is use as major tools.

Presentation and analysis of this is given in the fourth chapter. It attempts to analysis the working capital policy of UNILN Ltd for nine years (from 2055/056 to 2063/064) has been done. For the purpose of the analysis of the composition of current assets and current liabilities and compound growth rate, proportion of current assets to fixed assets, proportion of current assets to sales, proportion of current assets to total assets, networking capital, proportion of non-interest bearing current liabilities to current assets have been analyzed the liquidity ratios, turnover ratios, and profitability ratios and cash conversion cycles.

5.2 The Major Finding of the study are as follows :

The major components of current assets in UNILN Ltd are inventory, cash & bank balance, trade & other receivable and pre-paid & advance. Inventory holds the major portion of current assets. The proportion of inventory to current assets is more than 50 percent in first three years and F\Y 2060/061. It varies from 19.74 percent to 69.65 percent and highest in F\Y 2055/056. Analyzed shows that the company has used the moderate inventory policy. Proportion of trade & other receivable to current assets varies from 3.74 percentages to 12.07 percent. The ratio is increasing for first three years and very much fluctuating during the study periods. In last four years it is increasing. Proportion of cash & bank balance varies from 0.48 percent to 49.69 percent. Ratio is widely fluctuating. Ratio is the highest 49.69 percent in F\Y 2062/063. Ratio is lowest 0.48 percent in F\Y 2055/056. Proportion of prepaid, advance to current assets is varies from 16.32 to 41.44 percent. During the study period the ratio is increasing for first four years. From F\Y 2058/059 it is decreasing and increasing very years.

Proportion of current assets to fixed assets varies from 0.42 to 5.92. During the study period ratio is increasing for first six years. In F\y 2055/056 and 2056/057 fixed assets is greater than current assets it means the company has applied conversion current assets policy.

Proportion of total current assets to sales varies from 19.77 to 52.73 percent. A net sale is increasing first five years and its decreases in last four years during the study period. Proportion of total current assets to sales is very fluctuating during the study period. From 2057/058 to 2063/064 the percentage of total current assets to net sales is increasing every year excluding F\Y 2061/062. These facts suggest that Company policy is moving towards the conservative policy. In order to make, sales maximization the company is investing a large amount current assets.

Short-term loan, trade & other payable, provisions are major components of current liabilities. Trade & other payable liabilities is financing by short-term loan for first four years. In F\Y 2059/060 and last three years company has not used the short term loan. The ratio of short-term loan to current liabilities is very fluctuating during the study period. It varies from 2.26 to 56.43 percent. The ratio of provisions to current liabilities is very fluctuating during the study period . It varies from 22.45 to 56.73 percent.

Current liabilities to long-term liabilities very from 0.80 to 2.83 times. It is increasing every year.

Over the study period inventory is increase by 12.54 percent, trade & other payable is increase by 49.54 percent cash & bank balance is increase by 129.99 percent and pre-paid & advances by 21.94 percent against the growth the of 20.12 percent in sales. Trade & other payable and provision cash conversion period varies from –67 days to 92 days. Inventory conversion period periods is decline except F\Y 2060/061, it is good for company. Receivable conversion period is increases during the study period but it is not so high. Payable deferral period is increases year by year. Which is very high that means company has uses the supplier's fund.

5.3 Conclusion

All components of current assets of UNILN Ltd are highly fluctuating during the study period. Proportion of current assets to fixed assets is also highly fluctuating, but it is greater than 1 time in last seven years during the study period. It means company follows the conservative current assets policy. Proportion of current assets to sales of UNILN Ltd is very fluctuating during the study periods. The ratio is more than 50 percentages in last two years. Analysis shows that the company has follow lean & mean policy but in last years company has adopted fat cat policy of current investment policy.

The composition of different components of current liabilities varies during the study period. Different components of current liabilities are not related to each other during the study period. It means that UNILN Ltd has not taken seriously about the sources of financing. Proportion of Current liabilities to long-term liabilities is increasing for first four years than after company follows the aggressive financing policy.

Current ratio of UNILN Ltd is less than 1 time in first two years and it fluctuating during the study period. Quick ratio is also fluctuating during the study period. It is less than one in first four years, than after it is more than time. It means that liquidity position of UNILN Ltd is not sound. UNILN Ltd have negative net working capital in first two years than after it is increasing year by year during the study period.

For the further analysis of liquidity position. Inventory turnover ratio has been calculated. It is highly fluctuating during the study period. Higher portion of inventory is less liquidity and fewer portions indicate high liquidity position of the company. UNILN Ltd holds the higher portion of raw material in inventory. Inventory conversion period is also fluctuating during the study period. It takes long time. Receivable turnover ratio is also fluctuating during the study period. It is higher than standard turnover ratio in last two years. Receivable convection period is fluctuating during the study period. It is increasing every year excluding F\Y 2060/061. All these facts imply that it has no set any fixed rules about the liquidity management and its overall liquidity position is unfavorable. Non-Interest sources are provisions and trade & other payable. Proportion of non-interest bearing current liabilities to current assets is highly fluctuating during the study period. F\Y 2060/061. It means current assets are financing by free sources (Non-interest bearing current liabilities\source). UNILNLtd has adopted Spontaneous financing working capital.

Gross profit margin and net profit and net profit margin are increasing year by year. It means profitability position of UNILN Ltd is satisfactory. Cash Conversion period decrease in last two years it means company has uses the supplier's money to finance its working capital management.

5.4 Recommendations :

From finding and conclusion of study the following recommendations have been provided. Inventory holds the highest proportion among other current assets. So, UNILN Ltd should give great attention to the sale and production. Company should adjust the inventory carries high operating cost. There should be good–Storekeeping system, better materials handing system and timely inspection. Moreover systematic inventory control should be applied to know the inventory position in the company from time to time.

Cash and bank balance is particularly later years too high, which is unproductive therefore the company should use cash in production assets.

UNILN Ltd should set the standard for the ratio of current assets and fixed assets. It has not any clear vision shout the management of current assets to fixes assets. Thus, company should have the proper plan to improve its profitability in future. The company makes sales maximization by investing a large amount of current assets according to the sales volume.

The company has rolled heavy on short-term source to finance its working capital require it should use long-term sources to minimize the risk.

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Balance Sheet
Unilever Nepal Limited

(in million)

Particular	2055/056	2056/057	2057/058	2058/059	2059/060	2060/061	2
TOtal Liabilites:	**346.82**	**406.54**	**441.81**	**544.82**	**629.76**	**760.42**	
Share Holder's Funds	62.94	86.91	183.43	277.10	324.95	342.35	
Share Capital	92.07	92.07	92.07	92.07	92.07	92.07	
Reserve & Retained Earning	29.13	-5.16	91.36	185.03	232.88	250.28	
Current Liabilities	126.38	207.13	190.88	267.72	304.81	418.07	
Short term loan	71.31	78.25	4.31	6.51	-	145.08	
Trade & other payable	39.08	80.31	99.63	142.86	156.18	129.36	
Provisions	15.99	48.57	86.94	118.35	148.63	143.63	
Deferred Liabilities	157.50	112.50	67.50	-	-	-	
Long term liabilities	157.50	112.50	67.50	-	-	-	
Total Assets	346.82	422.29	441.81	544.82	629.76	760.42	
Fixed Assets	244.07	228.17	205.84	102.10	177.87	192.84	
Deposit Bank	243.70	263.66	272.23	280.34	270.40	317.06	
Less Depreciation	-	15.10	66.30	88.24	102.13	124.22	
Assets under control	0.11	-	-	-	-	-	
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Total Current Assets	102.75	178.22	235.97	352.72	451.88	507.58	
Cash & Bank Balance	0.50	1.55	14.55	42.48	99.11	6.27	
Trade & Other Receivable	3.84	12.10	13.04	33.84	49.31	32.18	
Inventories	71.57	106.25	118.91	172.20	132.47	293.93	
Pre-paid advance	26.84	58.23	89.47	126.22	17.10	235.20	
Investment	-	-	-	-	-	-	
Government bonds	-	-	-	-	-	-	
Net Working Capital	-23.63	-28.91	45.09	85	147.08	149.51	

Profit and Loss Account
Unilever Nepal Limited

(in million)

Particular	2055/056	2056/057	2057/058	2058/059	2059/060	2060/061	2
Sales	**351.77**	**789.70**	**1193.58**	**1503.69**	**1728.63**	**1540.99**	
Less Cost of goods sold	-279.55	-669.59	-969.36	-1253.61	-1401.88	-1220.83	
Gross Profit	72.22	120.11	224.22	250.08	326.75	320.16	
Less Administrative Overheads	-46.30	-97.44	-126.45	-126.83	-185.59	-229.24	
Net Operating Profit	25.92	22.67	97.77	123.25	141.16	90.92	
Add. Income from other sources	1.39	1.18	1.94	2.98	3.61	.2.62	

Earning before Tax	27.31	23.85	99.71	126.23	144.77	93.54
Less Provision of taxation	-	-	-	-	-24.2	-25.50
Net Profit	27.31	23.85	99.71	126.23	120.57	68.04

Sources : Various Balance sheet of Unilever Nepal Limited