CHAPTER ONE

Introduction

1.1 General Background of the study:

Simply speaking, public enterprise is a form of government controlled business organization. It is one of the most important means of socioeconomic development of the country. The rational behind the establishment of public enterprises are basically to accelerate the rate of economic growth, to build infrastructures of development, to make provision for public utility, to generate employment opportunity, to supply essential commodities and to reduce the trade imbalance of the country.

The democratic government of any country is responsible for the economic, social and political development of the country. For the economic development of the country, the government establishes the number of business organizations. The Government holds majority of shares or full ownership of company which are known as public enterprises or corporations. Due to the full ownership of Government, It is naturally controlled and managed by the Government.

Upto the beginning of the 19^{th} century, the main role of the government was to maintain the law and order and to give justice to the people. At that time, economic sectors were not controlled by the Government, consequently the laboures were exploited by a few rich persons. In order to save the general people from exploitation and for the prompt development of backward areas, the public enterprises came into existence. The public enterprises of Nepal have been established in the field of finance, commerce, industry, construction and service. These public enterprises have been classified into A, B, C and D grades. The first public enterprise of Nepal is Nepal Bank Limited which was established on 30^{th} of Kartik 1994 B.S. After that Nepal Rastra Bank, NIDC, RNAC, Agriculture Development Bank, Nepal Food Corporation etc. were established as public enterprises.

Cement industry is one of the most important manufacturing industries of our country Nepal. Cement is a fundamental construction material for strong and durable construction work. It is known as economic construction materials in modern age. The demand has been increasing day by day. For the construction of building, bridge, factory etc., the following types of cement is produced.

1. Ordinary Portland Cement (OPC)
2. Blast Furnaces Lag Cement (BFLC)
3. Portland Pojolona Cement (PPC)
4. Rapid Hardening Cement (RHC)
5. Sulonate Resistant Cement (SRC)

There are also many other cements which are used for special purposes. The required in Nepal is supplied from internal and external sector. Himal Cement Company is the main internal source of Nepalese cements enterprises which has annual capacity to 108400Mt. It is the first cement factory in Private sector.

Hetauda Cement Industry limited is the second but the largest industry in public sector. It was launched by Late His Majesty King Birendra Bir Bikram Shah Dev on 13th Aswin 2033B.S. in corporation under the Company Act 2021 B.S. in the fifth 5 year plan (1975/1980). It is the industrial establishment of the country located at Lamsure in Bhaise and 299 Bighas of land where 150 Bighas for limestane in Bhaise and 149 Bighas for the industry in Hetauda, Makawanpur district, Narayani zone.

The project to 1389 million rupees (Fixed cost) was launched with the financing of four agencies including the Government of Nepal's loan assistance of the Asian Development Bank. Later credit from National and international commercial banks was also financed as follows: -

	Loan	**Rs (in'000)**	**%**
1.	Asian Development Bank	10,44,823	66%
2.	Nepal Bank Limited	3,30,000	21%
3.	Government of Nepal	2,06,395	13%
		15,81,218	**100%**

In order to maintain the accepted quality level of HCIL, It uses to test the material as well as equipment before use. It regularly tests the quality of product in different four phases of process, then only they are distributed in the market. So due to its constant quality, it has achieved the goodwill in market. As a result Government of Nepal has provided it the mark of standard. It has appointed renewed foreign expert Geological serve of India, the technical adviser of Switzerland and controller was bridge and Ray co. India and Pacific Construction Co. South Korea. The management consultant was UBF, Cosmo Co. Japan.

HCIL is running totally under the management and guidance of German standard DIN 1164 P335F. Due to its popularity, Portland "Tejsawi" also succeeds to capture the market which production has been started only from Fiscal year 2053/054. It has an installed fully capacity for rated capacity of production 800mt of cement or 1600 jute bag cement a day i.e. 260000 mt. annually.

It is dependent on the domestic resources. The major raw material required for Production of cement acquired from the Bhaise Limestone quarry. Similarly, preliminary works on exploring Okhare Dhunga were a proven resources of high-grade limestone which provide a source of raw material. Another major raw material, clay is also available in the

adjoining Lamsure hillock. Other raw materials like iron ore, Gypsum and coal are imported from the neighbouring country India and Bhutan.

The industry produces two types of the following cements.

(i.) Ordinary Portland Cement “Shakti”

(ii) Portland slay Cement “Tejaswi”

The production of this industry is easily sold in market. There is high demand due to good quality. It has segmented its market only in local means within the country. From its total production, 50% of cement is consumed in Kathmandu and rest is distributed in other cities like Janakpur, Pokhara, Butwal, Bhairahawa, Birgunj and other places. Mostly it has followed wholesale channel of distribution but in some specific client. It is distributed directly to the customer. Now it can fullfill 24.5% of total demand of the country. In the public sector HCIL contributes the high revenue to the government in comparision of other public enterprises.

The industry has generated direct employment for about 1100 persons. Among them 925 employees are being employed now where 629 personnel are in technical field and 296 personnel are in administration. It provides employment through National Trading Limited, Sajha Bhandar, Tara Gaun Bikash Samitee, National Finance Company, Salt Trading Corporation etc. Moreover, it has been providing the regular businesses to 100 trucks and 600 dealers related to cement.

To prevent dust emission, facilities such as bag filter, cyclones gravel bad filter, Electro static precipitator are used in cement industry. The bag filter and cyclones have normally 85% and E.S.P. has 99.9% pollution control efficiency. It has installed dust filter in every station to control dust concentration in the exhaust so that the collected dust is recalculated money apart from protecting vegetation and living beings in the surrounding areas. There are altogether 14 bag filter 11 gravel filter, 4 cyclones and last but not least sophisticated equipment like E.S.P. In this way, it protects from the health hazard. A factory provides cement process to factory employee and residence of the area.

There are sufficient mechanical lab, quality assurance department and other facilities in the industries. HCIL has its staff quarter and it also has a health section for the provision of medical facilities staffed by qualified doctor and experienced assistant. It provides dust allowance, medical allowances, incentive bonus, house rent and life insurance facilities to the administrator for motivation towards their duties. The industries demand the environmental freshness. So it has its annual program of free plantation around the factory and has a direct supervision of HCIL management. It is directly concerned with social work i.e. So many drinking water, pitched road around the factory as well as quarry site is constructed in the financial assistance of HCIL and also contributing amount help for the establishment of schools and college. It also organizes blood donation program and other several entertaining programs in its annual function.

1.2) Focus of the study

In Nepal, public Enterprises were established in public service, industry, trade, finance, public utilities and social sectors to create the infrastructure for the basic service. Public Enterprises are established to provide quality products at nominal rate. So the financial position of such type of organization is not so good. Moreover, the administration is also not so responsible towards financing management so they are suffering from financial crisis nowadays. In this context this study intends to know the financial analysis of the industrial public enterprises with a special reference to Hetauda Cement Industry Ltd. and the reasons behind such frightening situation of financial crisis and fluctuation.

For successful operation, industrial public enterprises do co-ordinate with various types of activities like marketing, finance, production, distribution and so on. To achieve organizational goal all these activities are very important but finance is most important than others. The success and failure of any organization is measured generally in terms of financial condition because every activity begins with finance. Finance is often said as "Lifeblood" of business organization. Thus, there should be proper management of finance in any organization for the achievement of organizational goal. Therefore, the proposed study looks into the financial analysis, focusing on short-term as well as long term financial analysis of the industry.

1.3 Statement of the problem

Nepal is a least developed and land-locked country located between the two big countries i.e. the people republic of China and India. Basically, it is an agriculture based country inspite of its vast and rich natural resources. Nepal to be poor and hence falls under the third world at least developed countries. It is because the vast resources remain untapped due to the lack of capital, skilled labor, technology, practices and process of mobilization of such resources and awareness.

Public Enterprises are the tools of removing poverty of any country. Country can go ahead using that type of tools. Industrialization is the backbone of the economic development of the country. It helps to build infrastructures for the social and economic development opportunities.

At present, the study has highlighted in the detail the problems in relation of public enterprises in Nepal with special reference to Hetauda Cement Industry Ltd. The factory is successful to fulfill its objectives only to some extent. Success of any business is measured by generation of surplus. But the financial performances of manufacturing enterprises in Nepal are quite dismal and have not been able to contribute towards the generation of surplus. Most of the Nepalese enterprises are suffering from losses due to mismanagement and various causes.

"How can the factory utilize of assets management?"

"How can they improve the profitability of the factory?"

To know the answer, this study will help and highlight the causes as well as will recommend some remedies.

1.4 Objectives of the study

The performance of Nepalese public enterprises in term of profitability is in a very poor condition. It is also going downward day by day. Nepalese public enterprises seem completely failure in term of mobilizing the internal resources needed for economic development of the country, so the research has been undertaken basically with the objectives of analyzing the financial performance of Hetauda Cement Industry Ltd. To find out the overall financial conditions and reason for such condition is the major objectives of the research. The following are major objectives of the study.

- To examine the profitability of the concern.
- To examine the strengths and weaknesses of various aspects of financial position.
- To examine the capital structure of the concern.
- To examine the solvency position of the concern.
- To examine the position of the sources and applications of funds.
- To explore the various reasons of weakness of the concern and also effective suggestion and recommendations do improve the condition of the concern.

1.5 Need and significance of the study

Cement industry in Nepal is the pioneer of all other industries. It plays a significant role for the economic development of the nation. It provides a bulk employment opportunities as well as increases gross domestic product by utilizing own resources. This industry has made the country self sufficient in respect of cement and occupies a significant role in maintaining balance trade. In order to enjoy the full advantage of the industry, its efficient operation is absolutely essential. Thus, its long-term survival is much more important for economic development of the country. As the financial performance of every organization depends upon its financial position, the periodical appraisal of financial position is absolutely essential. Such an appraisal of financial position also affects the performance of financial management.

The proposed study would make a close enquiry into short term as well as long term financial position of the industry. In particular, it would assess the liquidity position. It would help to debtors turnover, payable rotate in a year, and working capital utilization efficiency, capital structure, fixed assets financing, efficiency of the use of fixed assets etc. In addition to this the remedial measures would also be suggested on the basis of the findings of the study. Thus, the study would be useful not only for the short-term and long-term creditors but also for the management of the industry.

1.6 Limitation of the study

Every study has its own significance and limitations as well. This study is also not free from limitations. The limitations of the study can be pointed as follows:-

1. The study is only for partial fulfillment of MBS program of T.U.
2. It has been chosen only one firm in industrial sector (HCIL) among many public enterprises.
3. The analysis has been concerned in some financial aspects and managerial aspects. It doesn't cover the all aspects of HCIL.
4. Basically, the secondary data has been analyzed to interpret the result emerging from the decision consequently the result depends on reliability of secondary data.
5. The study has covered the data of 6 years only. (from F.Y. 2057/058 to F.Y. 2062/063)
6. The limited resources and time for the researcher hinderances much more extensive analysis of the subject.

1.7 Research Methodology

Research is a systematic method of finding right solution for the problem where as research methodology refers to the various steps undertaken by researcher to find optimum solution. The objective of the research is to analyze the financial strength and weakness of HCIL. In order to achieve the objectives of the study, the following research methodology has been followed. It includes research design, data collection procedure, period covered, nature and sources of data used, tools for analysis of data and research variables.

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. The plan is the overall scheme of program of research. The structure of the research is more specific. It is the outline, the scheme, paradigm of the operation of variables. When we draw diagrams that outline the variables and their relation, we build structural schemes for accomplishing operational research purposes. Strategy as used here is also more specific than plan. In other words, strategy implies how the research objective will reach of and how problems encountered in research will be tackled." (Kerlinger, 1998, p.300).

1.8 Organization of the study

This study is organized and decorated in five chapters. Each chapter and unit is on a prescribed format of thesis writing to the partial fulfillment of MBS program. Each unit gives the clear picture or roadmap of the study.

Chapter: First

The present chapter incorporates general background, of the study, focus of the study, statement of the problem, objectives of the study, need and significance of the study, limitation of the study, research methodology and organization of the study.

Chapter: Second

The second chapter is review of literature which includes concept of financial statement, financial statement analysis. The chapter is also review resume of earlier researcher in the relevant area like manufacturing public enterprises and their financial analysis. A brief introduction of HCIL has also been enclosed in the chapter.

Chapter: Third

The third chapter is research methodology. It carries out research design sources and types of data, data gathering instrument, data gathering procedure and tools for analysis.

Chapter: Four

The fourth chapter is data presentation and analysis. The chapter incorporates measure of profitability, examine the solvency position, examine the efficiency, examine the capital structure, trend analysis and reason responsible of present condition of HCIL.

Chapter: Five

The fifth chapter is summary, conclusion and recommendation. The chapter has summarized the whole spectrum of the study. It has also offered recommendation for the improvement in future. Bibliography, appendices and a vitae sheet of the researcher encloses at the end of the research report.

CHAPTER TWO

REVIEW OF LITERATURE

Scientific research must be based on past knowledge. The previous studies cannot be ignored because they provided the foundation of present study. Every research requires as clear cut idea about the problem of study and its solution, Which emerges from the literature review, Present is the chain of past and future, so past can guide present as well as future. The present chapter has been divided into four different sections. The first section incorporates review of some related research in the related area and the second section incorporates a brief historical development of Nepalese public enterprises; the third section incorporates introduction to Nepalese Cement Industries and the final section encloses an introduction to HCIL.

2.1 CONCEPT OF FINANCIAL ANALYSIS

2.1.1 CONCEPT OF FINANCIAL STATEMENTS ANALYSIS

2.1.1.1 Concept of Financial Statements

It was easier to record and check the business transactions for each businessman in the beginning of civilization because the number of business transactions had taken a very small place. The need for a summary of the accounts of a business enterprise was appreciated from the beginning of modern accounting. However, the statements of assets and liabilities are known to have exited as early as the 14th century. For example, the partners Francesco Di Marco Da Prata and Demenico Di Cambio drew up a details statement of assets and liabilities on Aug. 30, 1989, quite in the modern manner. However Lucas De Pacioli, the author of the first published accounting treatise is accredited with the father of modern accounting as he gave specific instructions for the preparation of a summary, or "inventory" as he called it.

In the 16th century, the summary of the account was made an integral part of the ledger in the form of balancing account. "The balances of the assets" or liabilities accounts we closed into this balancing account in a manner similar to the contemporary practice of closing the income and expenses account into summary account. This procedure became standard book-keeping practice, and was in use until quite recently. During 19th century, business enterprises multiplied due to industrial revolution, and corporation began to have many investors. With the help of financial statement, every businessman cold show actual business condition to different parties like: partners, creditors, customers etc., who are directly and indirectly related to the business.

Financial statement contains summarized information of firm's financial affairs systematically. They are mean to represent the firm's financial situation to users. Thus

financial statements refer the firm's financial affairs. These statements provide reliable financial information about economic resources and obligation of business enterprises.

The financial statements refer to the two summarized financial reports, which are prepared at the end of the fiscal year of an enterprise. They are the balance sheet and the income statements (Profit and Loss accounts). The term financial statements used by itself without qualification usually refuse three principle statements like: balance sheet, the income statement and statement of change in equity and analyzing changes in the ownership account.

In this connection, Hampron viewed, "Financial statement is a financial report prepared for a given period of time. It is an organized collection of data, organized according to logical and consistent accounting procedure". The financial statements provide a summary of the accounts of a business enterprises the balance sheet reflecting the assets, liabilities and capital as of certain date and income statement showing the result of operations during a certain period. Thus it is evident that financial statements consist profit and loss account and balance sheet.

2.1.1.2Components of Financial Statements

2.1.1.2.1 Profit and Loss Account/Income statements

The profit and loss account or income statement is a summary of revenue, expenses and net income/loss of an enterprise for a particular period of time. The income statement summaries the operations of business during specific period of time and shows the result of such operations in the form of net income or net loss.

Thus the income statement is an important asset of the concern as it reflects the efficiency with which the concern is utilizing its resources to generate surplus. In this statement, revenue of a certain period are compared with the expenses, the difference being either net profit or net loss for the period. However the income statement may not be the true representative of the operational efficiency of the concern as at times, it may consist of non operational incomes and non operational expenditures. The income statement or profit and loss account occupies a significant place in portraying the result of business operations.

2.1.1.2.2 Balance Sheet

Balance sheet is one of the most significant financial statements. It presents the position of company's assets, liabilities and shareholders equity at a particular date. It is a mirror of the financial position of a firm at a particular date. In this connection, Pandey opines The balance sheet contains information about the resources and obligations of a business entity and about its owners interests in a business at a

particular point of time. In accounting language, the balance sheet communicates information about the assets, liabilities and owner's equity for a business firm as on a specific date. It provides a snapshot of the financial position of the firm's accounting period.

Alternatively, balance sheet indicates the resultant outcome of the firm's investment, financing and dividend decisions, and so an important statement that keeps different interested parties well-informed about the financial health of the concern.

Importance of Financial Statements2.1.1.3

- The information reflected in the financial statements is very useful to a number of parties. It is most important as well as essential to the following different parties in the following ways.
- The owners, who provide funds for the operation of the business, want to know where their funds are being properly utilized or not.
- Creditors who supplies the goods and services on credit, want to know the financial position of the concern before granting credit. The financial statements help them to judge such position.
- Employees are interested to know the financial position of the concern because they serve the concern. Particularly, when payment or bonus depends upon the size of earning.
- Financial statement is also important for the different level of management of the firm.
- Financial statement is also important to investor, consumer and general public.
- Central and local governments are interested in the financial statements because they reflect the earnings for a particular period for the purposes of taxation. It is also important to the government for making proper policy and program.

2.1.1.4 Limitation of Financial Statements

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

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

- Financial statements disclose only a monetary fact that is those transactions are recorded in the books of accounts which can be measured in monetary terms. The transaction which cannot be measured in monetary terms such as conflict between production manager and marketing manager may be very important for the firm but not recorded in the financial statement.

- Financial statements are interim and not final reports.

- Financial statements may not be realistic because these are prepared by following certain basic concepts and conventions. They have lack of precision and definiteness.

- Financial statements are influenced by the personal judgment of the accountant. Such judgment is based on integrity and competency of the accountant which will definitely affect the preparation of financial statements.

- Financial statements are drawn after the actual happening of the events. They attempt to present a view of the past performance and have nothing to do with the accounting for the future.

So source of information is customarily treated all over the world. These limitations of financial statements have given rise to the necessity of further analysis and interpretation of financial statements by using different tools and techniques of financial management.

2.1.2 FINANCIAL STATEMENTS ANALYSIS

2.1.2.1 Concept of Financial Statements Analysis

Analysis of financial statements is an attempt to determine the liquidity, solvency, efficiency and profitability position of an organization and also to highlight the sources and uses of fund, on the basis of the data supplied by financial statements. Analysis of financial statements gratifies the different needs of the concerned parties like owners, lenders and the management itself about their vested interests by providing them with adequate information to let them know whether their interests are at stake or not. A series of financial statements analysis over different years helps one to forecast the future trend regarding the firm's ability to meet the short term and long term liabilities, the profitability projection and so on.

The first task of financial analysis is to select the information relevant to the decision making under consideration from the total information contained in the financial statements. The second step involved in financial analysis is to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusions in brief. Financial analysis is the process of selection, relation and evaluation.

"Financial statements analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items of balance sheet and profit and loss account".[16]

"Financial statement analysis is a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm's position and performance".[17]

Since the financial statements merely indicate the position of financial accounting in the relation of accounting conventions, by an inspection of them, an opinion regarding the financial condition of the enterprise usually cannot be obtained. That is why the analysis and interpretation of financial statement of an enterprise is made utilizing the accounting data as a starting point for the discovery of economic facts about the enterprise.

'The analysis of financial statements consists of a study of relationship of trend to determine whether or not the financial position results operations and financial progress of the company are satisfactory or unsatisfactory.

'Analysis and interpretation of financial statement are attempted to decide the significant meaning of financial data So that a forecast may be made of the prospects for future earnings, ability to pay interest, debt maturities both, current as well as long term and profitability of a sound dividend policy'.

In this way, the main objective of financial analysis and interpretation is to highlight the strengths and weakness of the business undertaking by regrouping and analyzing the figures contained in financial statement and by making comparison of various components by examining their contents.

2.1.2.2 Importance of Financial Statement Analysis

The fact that the important of financial statement analysis is axiomatic and uncontroversial but it is important to note the extent and field of its important. In the interest of good health, medical authorities advice every individual to have a period examination of his body and similarly, in the interest of sound financial policy every company should also analysis its account periodically.

In the early days of accounting, only creditors and investment analysis were interested in financial statement analysis to ensure the financial soundness of their clients. But,

nowadays different parties are interested in financial statement analysis for different purposes. Management of a concern is interested in the result of the financial statement analysis because the resultant outcome serves as the basic inputs for the present and future decision making purposes, The financial statement analysis and interpretation results in the presentation of information that will aid in decision making by business managers as well as in other groups interested in the financial status and operating results of a business.

Analysis of financial statement is required as it not only enlightens management with the consequences of its past investment and financial decision but also provides to judge the current financial condition assists management to envisage future plans also.

Thus, financial statement analysis assists the management to take benefit of the strategic management techniques by providing the management with the information regarding the strengths and weaknesses of the enterprise so as to exploit the opportunities lying in the environment and manage the threats posed by the environment. “Whatever may be the forms of financial plans but a good plan must be related to the firm’s existing strengths and weaknesses”. The strengths must be understood before they are to be used to proper advantage and the weaknesses must be identified to take suitable corrective actions.

To make rational decision in keeping with the objectives of the firm, the financial manager must have certain analytical tools. The company itself and out side supplier of capital, creditors and investors all undertake financial analysis. The firms’ purpose is not only internal control but also better understanding of what capital suppliers seek in financial condition and performance from it.

The financial manager must assess the company’s immediate position in order to make plan just as a doctor examines his condition before prescribing a course of action. If the financial manager launches a financially weak company on program of expansion and heavy proportional activity then it is equivalent as the doctor instructs the heart patient to do two hours of road work each morning.

2.1.2.3 Classification of Financial Statement Analysis

a firm which is the Financial statement analysis reflects the financial position of process of determining the operational and financial characteristics of a firm. Different types of financial statement analysis can be used on the basis of objectives. They have been classified as follows.

2.1.2.3.1 Internal Analysis

Internal analysis is made by the members of the organization who have the books of accounts. Analyses of financial statement are other financial data for managerial purpose the internal type of analysis.

2.1.2.3.2 External Analysis

External analysis is made by the persons not concerned with the organization. They do not have assessed to the firm. This type of analysis is made by investors, creditor's agencies, governmental agencies and research scholars.

2.1.2.3.3 Short –term Analysis

The type of analysis is made in order to determine the short –term solvency, stability, and earning capacity of a firm. The purpose of the analysis is to know whether in the short – run a business firms will have adequate funds readily available to meet its short requirement and sufficient borrowing capacity to meet the contingencies in the near future.

2.1.2.3.4 Long –term Analysis

This analysis is made in order to study the long term financial stability, solvency and liquidity as well as profitability earning capacity of a firm. The purpose of making the analysis is to know whether in the long run the firm will be able to earn a minimum amount as return which is essential for the firm's expansion, diversification and growth. The analysis helps the long term financial planning.

2.1.2.3.5 Vertical Analysis

This analysis is made to review and analyze the financial statement of one particular year only. Ratio analysis for the fiscal year relating to a particular accounting. Year is an example of the analysis. It is also known as 'static Analysis'.

2.1.2.3.6 Horizontal Analysis

This analysis is made to review and analyze financial statement's based on financial data taken from several years. Comparative financial statement is an example of the analysis. It is also known as Dynamic Analysis which is very useful for long term trend analysis and planning.

Tools of financial Statements Analysis 2.1.3

As the banker's requirement for credit appraisal caused gradual improvement in financial statement and due to these credit appraisers and investment analysts, development and improvement in the tools and techniques for appraising financial performance and condition took place. The analytical method and techniques are used to ascertain and measure he relationships among the financial statement items of set of statement and the changes that have taken place in these items are reflected by successive financial statement. The objectives of analytical method are to simply reduce the data under review to more understandable terms.

With the help of various financial tools we can identify the actual situation of a business concern. A brief explanation of these tools has been given below.

Common Size Financial Statements 2.1.3.1

Common size financial statement analysis is often called vertical analysis in accounting terms. Financial statement can be analyzed by converting them into common size statement and by expressing absolute amount in to percentage. The statement indicates the relationship of various items with some common item which is expressed as percentage of the common item. In other words percentage statements are called common size statement because each statement is reduced to the total of 100 percent. Each individual item represents a portion of the total percentage.

These statements are most valuable to analysts in studying the current financial condition of a firm and especially in making comparison between firms in the same industries. It is useful for comparing the importance of certain components in the operation o the firm. It highlights the relative changes in each group of expenses, assets and liabilities. Common size financial statement analysis can be made either of balance sheets or income statements.

Common size Balance Sheet 2.1.3.1.1

A common denominator deriver for the analytical purpose is the common size statement. Common size statement is presented simply by reducing the statement item to the whole percentages. For this purpose total assets and total liabilities are considered representing 100 percent. The amount of each asset item and each item is divided by the future of total assets and total liabilities respectively to obtain the percentage relationship to the total. This type of function is repeated year by year. Therefore, it is said that common size balance sheet is a device that has been suggested for the use in analyzing the balance sheet.

A statement in this form is known as common size or 100 percent, since the total of the assets and also that of liabilities and capital is 100 percent and because this would be true of all statement so constructed they are of common size. By reading common size balance sheet in different years, the information about the trends of the individual items cannot be obtained. It only shows their relationship to the total. Therefore, we can say that this type of analysis is useful for the study of the proportions in a single statement. It is not useful for the study of the trends.

The percentage is calculated using this formula

$$\text{Percentage} = \frac{\text{Particular asset or liability and capital}}{\text{Total assets or total liabilities and capital}}$$

Common Size Income Statement 2.1.3.1.2

Common size income statement is a device that has been applied to analyze the income statement primarily and vertically. In this technique, sales figure is assumed 100 percent and all other items are expressed as percentage of sales. These percentage figures clearly bring out the relative significance of each group of items in the aggregate position of the firm. A popular tool for evaluating profitability in relation to sales is the common size income statement. Common size income statement is an income statement in which each item is expressed as a percentage of sales. In other words, in the common size income statement, the various parts are compared with the whole as is ease of common size balance sheet that is, the total income from sales is divided into its forms of disposition.

Percentages can be calculated as follows:

$$\text{Percentage} = \frac{\text{Particular expenses/Profit/ Sales}}{\text{Sales}} \times 100\%$$

2.1.3.2 Comparative Financial Statement

In accounting term, comparative financial statements analysis is called horizontal analysis or dynamic analysis. Comparative financial statements give the current and past year financial information. Comparative financial statement analysis suggests probabilities, strengths and weaknesses. The analysis involves the computation of rupees amount changes and percentage changes from the previous to the current year, for the analysis in any set of data the base year is always the first year to be studied.

These statements are prepared in a way, so as to provide time perspective to the consideration of various elements of financial position embodied in such statements. This is done to make the financial data more meaningful. Comparative financial statements can be made either of balance sheet or of income statement which are introduced below.

2.1.3.2.1 Comparative Balance Sheet

Balance sheet is that type of statement which shows the actual condition of a business.
With the help of a balance sheet, we can see the assets, liabilities and net worth of a business concern as a specified period of time. The objective of the comparative balance sheet is to help to find out the increase or decrease in the various assets and-liabilities. That means comparative balance sheet is a tool of financial statement analysis in which the items of balance sheet of at least two years are compared and the changes between the periods are indicated in absolute amount as well as percentage increase or decrease. In this way the comparative balance sheet shows not only the balances of accounts on different dates but also the extent of their increase or decrease between these dates. The comparative balance sheet as the study of the trend of same items, groups of items, and computed in two or more balance sheets of the same business enterprise on different and the study of the trend of the proportion computed from these figures at the different dates, the great advantage of

comparative analysis is that it portrays the trend of a particular nature of business enterprise and of the enterprise as a whole.

Comparative balance sheet emphasizes on changes due to the operations in the business between dates, i.e. the conversion of assets, liabilities and capital form into other and the various inter-actions among assets, liabilities and capital. However one important limitation of comparative balance sheet analysis is that calculations become cumbersome when more and more years are taken for comparative analysis.

2.1.3.2.2 Comparative Income Statement

The income statement summarizes the operations of a business during a specific period of time and shows the result of such operation in the form of net income and net loss, By comparing income statement for successive periods, it is possible to observe the progress of business. The comparative income statement contains the same columns as the comparative balance sheet and provides the same type of information: the account balances, the rupees of increase or decrease and if desired, the percentage of increase or decrease.

Comparative income statement is a tool of financial statement analysis, in which the items of income statements of at least two years are compared and the changes between dates are indicated in absolute amount and in percentage increase or decrease. It is also known as comparative profit and loss account. In this way, a comparative income statement shows the operating results for a number of accounting periods so that changes in absolute data from one period to another could be ascertained in terms of money and percentage. Like comparative balance sheet comparative income statement too is not free from the limitation in the form of cumbersome calculations when more and more years are taken for comparative analysis.

2.1.4 Ratio Analysis

2.1.4.1 Concept of Ratio Analysis:

Ratio analysis is a powerful tool of financial analysis which helps in identifying financial strengths and weaknesses of business concerns. It is an important way to state meaningful relationship between components of financial statements. The primary purpose of ratios is to point out areas of further investigation.

Since 1800, ratio analysis has been a major tool used in the interpretation and evaluation of financial statements. However the presentation of an elaborate system of ratio analysis was made only in 1919 by Alexander wall, who criticized the bankers for its lopsided development owing to their decisions regarding the grant of credit on current ratios alone. Wall, one of the foremost proponents of ratio analysis pointed out that in order to get complete picture, it is necessary to consider relationships in financial statements other than of current assets to current liabilities relationship that might be measured quantitatively and used as checks on current ratio. Since then, comparative analysis by means of calculation of a series of ration rapidly became all the rage.

Ratio refers to the numerical or quantitative relationship between two items or variables. A ratio is calculated by dividing one item of the relationship with other. It is also defined as the indicated quotient of two mathematics expression and as the relationship between two or more things. The primary purpose of ratio is to point out areas for further investigation. Ratio analysis stands for the process of determining and presenting the relationship of items and groups of items in the financial statement to evaluate, the financial condition and performance of a firm, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating to pieces of financial data to each other Ratio analysis is a powerful and important tool and technique of financial analysis which helps in identifying the financial health of the organization. In other words, ratio analysis helps to the analyzer to make qualitative judgment about the firm's financial position as well as performance.

The technique of ratio analysis is getting wider acceptance in accounting and mathematical world. The ratio analysis provides guides and clues especially in spotting trends towards better or poor performance, and in finding out significant deviation from any average or relatively applicable standard. As a matter of fact absolute ratios are hard to interpret so comparison with related facts is the basis of ratio analysis. Four types of comparison is prevalent namely (a) intra firm (or trend ratios) comparison that is comparison of the ratios of the same firm over time (b) inter firm comparison.(c) comparison of items within a single year's financial statement of the firm; and (d) comparison with standards or plans like industrial average.

Although ratio analyst is widely used but no any ratio gives the entire picture on one hand and on the other hand, ratios by themselves are not conclusions as they are only means not ends in themselves. Ratio analysis involves basic standards of comparison for a useful interpretation of the financial statements. A single ratio by itself does not indicate favorable or unfavorable condition of a firm unless it is compared to some appropriate standard. Selection of a proper standard of comparison is a most important element in ratio analysis.

An experienced and skilled analyzer is also important for ratio analysis who can provide a meaningful understanding of the performance and financial position of a firm.

2.1.4.2 Types of Ratios

From the financial dada contained in the financial statements, several ratios can be calculated; these several ratios may be classified into different groups on some basis.They can be calculated from the accounting data contained in the balance sheet and profit and loss accounts. The ratios can be classified in the following four main categories.

1. Liquidity ratios
2. Capital and leverage ratios
3. Turnover ratios
4. Profitability ratios.

2.1.4.2.1 Liquidity Ratios:-

The ability of a firm to meet its obligation in the short term is known as liquidity. Liquidity ratios are calculated to test the liquidity position or short term solvency position of a firm. Liquidity position of a firm means the firm's ability to pay current liabilities. Generally short term creditors are interested in liquidity ratio. It reflects the short-term financial strength of the business. These ratios flash out picture of the capacity of an enterprise to meet its short-term obligation out of its short-term resources. [9] The company is unable to meet its short-term obligation due to lack of sufficient liquidity. High liquidity means as idle assets and unnecessary tied up funds in current assets. Therefore, we can say that liquidity is a prerequisite for the very survival of a firm. In other words liquidity measures the ability of the business concern to meet its measurable obligations.

Liquidity ratio shows the relationship between current and current liabilities. Different types of ratio have been used to measure the liquidity position of an enterprise which shows the relationship between current assets and current liabilities. High current assets over current liabilities is considered favorable. Current ratio and quick ratio are the most widely accepted liquidity ratios for general purpose. The commonly used ratio to measure liquidity position of the enterprises is current ratio and quick ratio which are explained below.

(a) Current Ratio:-

It is the relationship of current assets and current liabilities. Current assets are those assets which can be concerted into cash within a short period of time normally not exceeding one year. Current liabilities are those obligations which are payable with is a short period. This ratio signifies the relationship of current assets to current liabilities. It is essential to indicate firm's liquidity and short terms debt paying ability. Sometimes it is called working capital ratio. The current assets include raw materials, inventory, marketable securities, account receivable, debtors etc. Current liabilities include all short-term obligations which must be paid within a year. They are creditors, bills payable, outstanding expenses, bank overdraft, short-term debt etc. We can calculate current ratio by following formula.

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

High current ratio shows better liquidity position for many types of business. 2:1 is considered to be an adequate ratio. If the current ratio of ratio of the firm is less than 2:1 the solvency position of the firm is not good. The cash may not be available to pay current liabilities. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce a return.

(b) Quick Ratio:-

Quick ratio is also known as acid test ratio or liquid ratio. This is the ratio of very quick assets to current liabilities. All current assets are not equally liquid. Inventory and prepaid expenses cannot be termed to be liquid assets. This ratio is the better of financial strength than the current ratio as it gives no consideration to inventory, which may be very slow moving. The quick ratio can be calculated by the following formula.

$$\text{Quick/Acid test Ratio} = \frac{\text{Quick Liquid Assets}}{\text{Current Liabilities}}$$

Higher quick ratio shows better liquidity position. Quick assets include all current assets except inventory and prepaid expenses, which can be converted into cash immediately without losing a blue. A quick ratio of 1:1 has usually been considered favorable but the standard for the quick ratio varies from company to company.

2.1.4.2.2 Leverage/ Solvency Ratio

The use of finance is judged by financial leverage. These ratios are also called solvency ratio or capital structure ratio. It helps to judge the long-term financial position of the firm. This ratio indicates the situation of the capital structure, which is calculated to measure the company's ability of using debt for the benefit of shareholders. The leverage ratios are used to measure the firm's ability to meet long-term obligation. Generally, assets of the firm are financed both by equity and debt.

Leverage ratios are evaluated from the balance sheet items and also from the income statement which are useful to find out operating profit. It is useful to find out whether an enterprise is successful to cover the fixed change or not.

At last in conclusion it can be said that the firms with high leverage ratio run the risk of larger losses but also have a chance of gaining high return and vice-versa. Leverage Ratio indicates whether or not the firm's revenue can support interested and other fixed changes as well as whether or not there are sufficient assets to pay the debt of liquidates. It includes the following ratios.

Debt-Equity Ratio (a)

It is the ratio between borrowed capital and owner's capital. Low debt equity ratio indicates better solvency position and provides security to long term creditors in the event of liquidation. A high ratio shows large share of financing by the creditors those of the owners which indicates riskier position of the firm.

It is calculated as follows:-

$$\text{Debt-Equity ratio} = \frac{Long\ \ term\ \ debt}{Shareholder's\ \ Equity} \quad \underline{\textbf{OR}} \quad \frac{Total\ \ debt}{Shareholder's\ \ Equity}$$

Debt to total capital ratio:- (b)

It is the relationship between borrowed capital and total capital. Low debt to total capital ratio indicates better financial position and provides security to creditors in event of liquidation. High debt to total capital ratio indicates a greater risk to creditors and also to shareholders and vice-versa.

It is calculated as follows:-

$$\text{Debt to total capital ratio} = \frac{Long\ \ term\ \ debt}{Capital\ \ Employed\ /\ permanent\ \ capital}$$

OR

$$\frac{Total\ \ debt}{Capital\ \ employed}$$

Where,

Capital employed = long term debt + shareholders equity

2.1.4.2.3 Activity or Turnover Ratio:-

The relationship between sales and assets are indicted by turnover ratio. These ratios measure the degree's effectiveness in use of resources or fund by the firm. These ratios can be used to know whether the efficiency of the assets is utilized effectively or not. Therefore, these ratios indicate the efficiency with which corporation utilizes its resources.

Creditors and owner invest their funds for generating sales and profit. The better management of assets leads to the large amount of sales. The relationship between sales and various assets of a firm can be defined with the help of turnover ratios. These ratios are also called activities or efficiency ratios because they show the motion of converting assets into sales. Proper balance between assets into sales generally shows the better management of different types of assets. Thus, activities ratios are employed to evaluate the efficiency with which the firm manages and utilizes the assets to generate revenue. The turnover ratio is determined by;

a) Inventory Turnover Ratio
b) Debtors Turnover
c) Average Collection Period
d) Fixed Assets Turnover Ratio
e) Capital Employed Turnover Ratio
f) Total Assets Turnover Ratio

Inventory Turnover Ratio:- (a)

This ratio is also called stock turnover ratio. This ratio is analyzed for the measurement of efficiency of the firm's inventory management. This ratio means how many times the stock has turned over during the year.

Inventory turnover ratio indicates the efficiency of the firm in selling its products. In other words the inventory turnover ratio shows how rapidly the inventory is turning into receivable through sales.

It is calculated by dividing sales by the closing inventory. But in this, analysis we calculate into the proportion of sales to closing inventory.

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}} \quad \underline{\textbf{OR}} \quad \frac{\text{Sales}}{\text{Closing Inventory}}$$

If inventory is too low, excess inventory turnover is too high, inventories are too small, and it may be that the firm is constantly running from shortage of inventory there by closing customer. Generally, a high inventory turnover indicates a good inventory management but the objective must be to maintain a level of inventory relative to sales that is not excessive but at the sometime is sufficient to meet customer's needs.

Debtors Turnover:- b)

Debtor's turnover ratio indicates the velocity of debt collection of a firm. It shows how quickly receivable or debtors are converted into cash in other words; the debtor turnover ratio is a test of the liquidity of the debtors of a firm. A high turnover ratio indicates that within a short period, the firm is collecting the cash from debtors. A low ratio indicates that debts are not being collected rapidly; it is calculated by dividing the credit sales by average debtors. It is calculated as below:-

$$\text{Debtors Turnover} = \frac{\text{Credit sales}}{\text{Average debtors}}$$

Average Collection Period:- c)

The average collection period represents the average number of days for which the firm must wait after making a sale before collecting the cash from debtors. [17]It represents the average numbers of days for collecting the cash from debtors. Minimum collection period is preferable we can calculate average collection period in this way:

$$\text{Average Collection Period} = \frac{\text{Days in a year}}{\text{Debtor's Turnover ratio}}$$

OR

$$\text{Average Collection Period} = \frac{\text{Days in a year} \times \text{debtors}}{\text{Sales}}$$

This result of the ratio will be in a number of days and minimum days are preferable, which shows that the firm is collecting from the debtors with in a short period.

Fixed Assets Turnover Ratio:- d)

The fixed assets turnover ratio measures the efficiency with which the firm is utilizing its investment is fixed assets as land, building, plant and machinery. It also indicates the adequacy of sales in relations to the investment in fixed assets. [18]It is calculated by dividing by net fixed assets.

$$\text{Fixed assets turnover ratio} = \frac{\text{Sales}}{\text{Net fixed assets}}$$

Generally, high fixed assets turnover ratio indicates efficient utilization of fixed assets in generating sales; it includes how often the net fixed assets turnover during the year, but the lower ratio indicates inefficient, management and utilization of fixed assets. It means a decline in the capacity utilization of the business concern.

Current Assets Turnover Ratio:- e)

Current assets turnover ratio measures the efficiency of the company in utilizing its investment on current assets. It shows the number of times the average current assets turnover during the year. It is calculated by sales dividing by current assets. A higher current assets turnover indicates good current assets management and vice-versa.

$$\text{Current Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total current assets}}$$

Total Assets Turnover Ratio:- f)

The total assets turnover ratio is calculated by comparing the net sales to total assets. This ratio is a measurement of generating sales per rupees of investment in total assets. Total assets contribute not only to the sales but it also contributes to the production. High assets turnover denotes better utilization of total assets in generating revenue and vice-versa. Increasing total assets turnover ratio indicates the increasing overall efficiency of total assets utilization.

$$\text{Total assets turnover ratio} = \frac{\text{Sales}}{\text{Total Tangible assets}}$$

This ratio indicates the generated per rupee of investment in total assets. Generally, a high ratio indicates over trading on fixed assets while a low ratio shows excessive investment is a symptom of ideal capacity. The traditional standard for the ratio is two times.

2.1.4.2.4 Profitability Ratio

Profitability ratios show the overall efficiency of the business concerns. The relations of the return of the firm to either its sales or its equity of its assets are known as profitability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the return generated on sales and investment .[19] these ratios give final answer about how effectively the firm is being managed. It is a control measure of the earning power and operating efficiency of a firm.

Not only any business concern has to earn profit but also it has to consider social responsibility. Here two contrast things have been arisen; a good enterprise must make proper balance between them. The different between total revenue and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay an adequate return to different parties depends upon firm's profit5. Profitability ratios are calculated to measure the operating efficiency of the firm. It can be classified into following major groups.

a) Gross Profit Margin
b) Net Profit Margin
c) Operating Ratios
d) Return On total Assets
e) Return on Capital Employed
f) Return on Shareholders Equity
g) Return on Common Shareholder's Equity

a) Gross Profit Margin

Gross Profit margin expresses the relationship between gross profit and sales. It is gross profit divided by sales. Gross profit is the result of the relationship between prices, sales volume and costs. A change in the gross margin can be brought by the changes in any of these factors. 20 If profit margin falls down the cost of production will increase. This ratio is generally expressed in farms of percentage. We can use following formula.

$$\text{Gross profit Margin} = \frac{\text{Gross profit}}{\text{sales}} \times 100\% \quad \textbf{OR} \quad \frac{\text{Sales} - \text{Cost of goods}}{\text{sales}} \times 100\%$$

High gross profit margin implies that the firm is able to produce at relatively in lower cost.

b) Net Profit margin

Net profit margin is the relationship between Net Profit and net sale. Net profit is obtained when operating expenses and income tax are subtracted from the gross profit. It is very useful to the proprietors and prospective investors because it reveals the overall profitability of the concern. We calculated net profit margin by using this formula.

$$\text{Net profit Margin} = \frac{\text{Net Profit after tax}}{\text{Net Sales}} \times 100$$

c) Operating Ratio

The operating ratio is an important ratio that explains the change in net profit. The operating expenses ratio is computed by dividing all operating expenses, cost of goods sold, selling expenses, and general and administrative expenses by sales. 21Operating expenses exclude interest tax, and dividend. This ratio is given below:

$$\text{Operating expenses ratio} = \frac{\text{Expenses (Cost of goods sold + operating expenses)}}{\text{Sales}}$$

The lower ratio shows higher operating profit. The higher ratio is not favorable.

d) Return on Total Assets:-

The ratio measures the return on total investment in the corporation. It compares profit with capital investment by the owners and creditors. 22In other words, it evaluates the efficiency of the company in utilization and mobilization of its assets. It is calculated by dividing net profit after tax by total assets.

$$\text{Return on assets} = \frac{\text{Net Profit after tax}}{\text{Total Assets}} \times 100\%$$

Higher return on total assets ratio shows higher earning of the firm in term of its assets. Lower return on total assets shows unsound financial position due to low level of return.

e) Return on Capital Employed

Return on capital employed indicates how well management has used the funds supplied by creditors and owners. It is calculated by dividing net profit after tax by capital employed. Capital employed refers to long-term funds supplied by the creditors and owners of the firm. Higher ratio shows better utilization of log-term funds of owners and creditors and vice-versa. It is calculated as follows.

$$\text{Return on capital employed} = \frac{\text{Net profit after tax + Interest}}{\text{Capital employed}} \times 100\%$$

A higher ratio shows better utilization of long term funds of owners and creditors and vice-versa.

f) Return on shareholder's equity

Return on shareholders equity shows how well the firm has used the resources of the owners to earn an adequate rate of return. This ratio is also called return on proprietor's funds. It is calculated by dividing net profit by shareholders equity. A high ratio shows better utilization of owners fund and vice-versa.

$$\text{Return on shareholder equity} = \frac{\text{Net Profit after tax}}{\text{Shareholder's equity}}$$

g) Return on common shareholder's equity

It is the ratio between earning available to equity shareholders and common shareholders equity. It is calculated as below:-

$$\text{Return on common shareholders equity} = \frac{\text{Profit after tax - Pref. dividend}}{\text{Common shareholders equity}}$$

Where,

Common shareholder's equity = shareholder's equity – preference share capital

Miscellaneous ratios:-

i) $$\text{Earning per share} = \frac{\text{profit after tax - pref. dividend}}{\text{No.of equity shares}}$$

ii) $$\text{Dividend per share} = \frac{\text{Dividend paid to shareholders}}{\text{No.of equity shares}}$$

iii) $$\text{Dividend yield Ratio} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

iv) $$\text{Earning yield Ratio} = \frac{\text{Earning per share}}{\text{Market value per share}}$$

v) $$\text{Price earning ratio} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

vi) $$\text{Dividend pay - out Ratio} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

There are so many studies, which are related on financial performance of public enterprises. Here, some public and private company or industries research has been presented in the related research work in the topic of financial performance analysis.

1. Mr. Om Prakash Prasad Yadav.

Mr. Om Prakash Yadav has tried to highlight the research work on the topic of financial performance analysis in manufacturing public enterprises in Nepal (A financial performance of Birgunj Sugar Factory Limited). The main objective focuses by him was to interpret the trend to financial performance of Birgunj Sugar Factory Limited one how they are contributing in the national developments. The research has undergone through publishes document and planning documents. He has analyzed last seven year periods starting from F.Y. 2050/051 to 2056/057. He has uses selected data of financial and statistical tools. On the basis of his date presentation and their analysis, the most remarkable finding has been presented below:

- The Liquidity position of BSFL is poor and unsatisfactory during the study period 2056/057. The factory will not be able to meet its maturing debt and obligations in times. The current borrowing and its interest payable has been increasing year by year.

- ❖ The capital structure position of the factory is not sound. There is a heavy increase in debt financing. The factory pays higher rate of interest or heavy interest on its loan which reduced the rate of return on equity holder's fund. As a result the owner's of the factory have not receivers any amount.

- ❖ Profitability position o BSFL has been in losses. Inappropriate use of resources, lack of power supply, high power rate rise in the price of raw material, disturbed personnel relations, over staffing, increase in wages and salary of workers and employee, old technology and old machinery, strike, high cost production, heavy interest on loan, are the main causes to become net profit negative of the factory.

- ❖ The decision making power in these manufacturing public enterprises are concentrate only in top level management.

- ❖ The sales of factory are fluctuating but total expenses are increasing.

Recommendation:-

- ➢ Liquidity ratios indicate that BSFL has unsound liquidity position, which means that the factory has not sufficient current assets to meet its current obligation. Therefore, it is suggested for management that they must maintain the proper balance between current assets and current liabilities of the factory.

- ➢ The management of BSFL has to pay more attention on the utilization of total fixes and current assets. Fixed assets such as old machinery and plants should be changed to new machine which can generate more sales and profit through their more effective utilization.

- ➢ To improve the profitability position of BSFL, it is recommended that there should be standard costing method; it should also follow a consistent policy in recording its expenses. and revenue.

2. Mr. Dilip Raj Regmi.

Dilip Raj Regmi has conducted research about financial performance in Nepalese manufacturing public enterprises (Financial performance. of Janakpur Cigarette Factory Ltd.) The basic objective of the study is financial performance analysis of Janakpur Cigarette Factory and to glance whether government plans and policies are in the some direction. In the research methodology it includes data gathered through various sources. It has been interpreted and analyze with the help of various analysis tools and technology.

The major findings of this study are presented below:

- The liquidity position of Janakpur Cigarette Factory was unsatisfactory.
- The profitability position was not favorable.
- JCF was unable to utilize its available resource effectively.
- The cost volume profit relationship in JCF was not favorable.

Recommendation:-

- The management of JCF should try to minimize heat and power expenses, wages and salaries and administration
- The management of the company needs to increase in production of sales volume for the utilization of available capacity.
- The management of the company should try to minimize the gap between planed and actual sales by the application of short-range sales plan in practice.

Mr. Nur Nidhi Neupane. 3.

Mr. Nur Nidhi Neupane has written a thesis about financial performance of manufacturing public enterprises of Nepal. "A case study of HCIL" He has included six years period starting from F.Y. 2054/55 to F.Y. 2059/60 for the sake of long run planning. The presentation and analysis of data admirable he has briefly presented the long-range & short-range data and he has also described about the weakness as well as conclusion very well. He has used secondary data for unpublished documents, magazine & report of auditors" general office and primary data collected from the personal interview.

On the basis of his research, he has forced the following conclusion.

- Each and every department is suffering from their responsibility. No provision for reward & punishment is followed.
- Full capacity utilization (installed capacity) is being the unachieved dream; this should not be treated as so. Only 50% of installed capacity is achieved.
- The production aspect is some times hampered because of poor repairing & maintenance pattern. The disturbance on production is continued for a long-term, due to lack of preventive maintenance and repairing of machinery. There seems lack of exports technicians.

- The inventory policy regarding raw material and work-in-progress is insufficient. The company even doesn't maintain the level of safety margin in appropriate manner.

Recommendation:-

- The personal of HCIL seem to be demodulating to their works, so the proper motivation program should be conducted. And reward and punishment system should be made more effectively.

- The company should follow the modern management technique to reduce the unnecessary employees and the salary & benefits provided to them will be minimized or the expenses will be minimizing so far.

- Operating expenses should be reduced substantially to push up the Net profit percentage.

Pramila Dangol. 5.

Pramila Dangol made a study in respect of financial performance of Hetaera Cement Industries Ltd. She has included five year period starting from F.Y. 2051/52 to F.Y. 2055/56. Some major conclusion of the study is as follows:

- HCIL have set the programs of maintaining an optimum enterprises environment that maximizes the interest and motivation of all employees.

- Red tapism is another main obstacle in decision making and implementation of plans and programs. Every function requires unnecessary formalities which create delay in decision making and functioning.

- HCIL have not any statement of specific goals about research and development, factory production, capacity utilization and cost control.

- HCIL is suffering from excessive fixed cost and administrative expenses. But these enterprises are not sensitive towards cost reduction program.

Recommendation:-

- There should be more emphasis on equity financing of HCIL is comparison to long term financing. To reduce interest expenditure.

- Expenditure salary and wages should be reduces by controlling excess number of employee.

- To eliminate red-tapism, unnecessary formalities should be corrected and avoided which create delays in decision making and functioning.

- The percentage of margin of safety is not higher so to meet the higher profit HCIL should keep the sales highly significant or more that that.

5. Dhan Bahadur Thapa.

Dhan Bahadur Thapa made a study in respect of financial performance of Bhrikuti Paper Mills limited. He has included five year period starting from F.Y. 2044/45 to F.Y. 2048/49.

Some major conclusions of that study are as follows:-

- Turnover of capital employee show its passiveness but its inventory are inefficiently managed.

- Turnover of the mills indicates that it has growing efficiency and utilization of its total assets in relations to sales.

- Turnover of liquid assets are poor, so its financial resources blocked in current assets.

- Financial situation fluctuates time to and loss co-operative management personnel as well.

- Unstable personnel and scarcity of raw material management are seemed frequently in the mill area.

HISTORICAL DEVELOPMENT OF NEPALESE PUBLIC ENTERPRISES 2.3

Public Enterprises have played significant role in the economy of almost every countries of the world. Trade & industry were left autonomous in the hand of businessmen in almost every country before the world war governed by the principle of "Laissez faire". In

Such classical type's economy, internal and external trade was also free from the government intervention. The First World War (1914 - 1918 A.D.) made the state to realize the value of the policy of protectionism. More especially, after success of economic planning in former USSR during the Great Depression of 1929, the policy of protectionism was developed as "Keynesianism". It envisaged on important role for public sector enterprises. Many revoutionary changes (Like) "October Revaluation" in Russia emerge of International Labour Organization (ILO) and Second World War (1939 - 1945) created a favorable environment of protectionism. Many states imposed restriction trade for private sector. Then, government involved in industrial and commercial activities and also controlled the private sector to achieve the national goals and objectives.

In the industrial and economic development of a country, PEs have played special important role. But the question raises, What is the meaning of PEs ? Generally, it is defined as autonomous or semi autonomous corporation or companies which engaged in the business activities. And it is controlled and owned by the state. Hansons says "the term PE a more restricted, a more familiar sense, to mean state ownership and operation of industrial, agricultural, financial and commercial undertaking. PE means the industrial, commercial and economic activities carried by the central government or by state government or by jointly the central government and state government and in each case either society or in association with private enterprise, so long as it is managed by a self contained management.

State owned enterprises are financially autonomy and legally distinct entities whole or partly owned by central or sub national government". It is defined as an institution operating service of an economic or social character, on behalf of the government, but as an independent legal entity, largely autonomous in its management, though responsible to the public, through government and parliament and subject to same direction by the government, equipped on the other hand with independent and separate funds of its own and the legal and commercial attributer of a commercial enterprise.

Generally, public enterprises are owned, controlled and managed by government. They are usually autonomously organized with the government providing the initial capital and being responsible for a continuous overview of their activities, finance and development. In this connection, Laxmi Narayan says, broadly speaking Public Enterprise means an activities of business character managed and owned 51 percent or more by government central, state or local providing goods and service for a price. On the basis of the mentioned definitions, PEs has two main character namely public ownership and business entrepreneurship. Public ownership gives the right to control, to operation and decision making for government. Similarly, the business entrepreneurship implies that the government expects a return on the capital investment in PEs and goods and service are made available for price which may be adjusted from time to time to cover the cost of inputs.

PEs is known as many synonyms. In India, PEs is known as 'Public Sector" and "Public Undertaking". In many Latin American and African countries, PEs is named "Parastatal" or "Parastatal Sector". The World Bank uses the term "State Owned Enterprises". It is also known as "Public Sector Undertaking", "Government Owned Enterprises", "Government Controlled Enterprises", National Company, and "State Economic Enterprises".

Most of the countries of the world had developed PEs in order to achieve the national goal and objectives. Especially, developing countries of the world had established PEs for the rapid economic development of their economy. In the developing countries, they are established in order to develop the infrastructure of development (like transportation, telecommunication, hydro-electricity, water supply, production of required goods and services for their people) with the view point, PEs were established in production, service, distribution and other commercial sectors. The same ideas were behind the emergence of such enterprises. Accordingly, PES were established in order to prepare infrastructure, to produce goods, and services, to promote expert, to help in correction the unfavorable balance of payment to create employment opportunities, to increase government revenue, to contribute such significant area of the national development and to assist in the country is economic advancement. History of Nepalese public enterprise is no longer because the history of industrial and commercial development is also no longer. Similarly, the concept of planning economy was started from 2013 B.S. and budget was systematized since 2008 B.S. The absolute dynastic Rana rule in Nepal was the main cause of delay to forward rapid economic development of the nation. The Rana rule is characterized as the most autocratic and over centralized type of regime. The large farms and other resources of the nation were captured by the rulling class. Exploitation of the people and resources of the nation was at the extreme. People were deprived of all fundamental rights. The whole system was based on the pleasure of the prime minister. The political system was purely a 'Hukumi rule' system instead of rule of law. The growth of the new ideas was prevented and the country was kept isolated from the outside world. Toward the end of the Rana rule, a demand for political reforms began to gain ground gradually. as a result of such movement for freedom, democracy dawned in the country in 1951 A.D. and the autocratic political system come to an end. But Rana prime minister Juddha Shamser created a few liberal environment for the industrialization. He promoted agriculture and established 'Nepal Industrial Board (NIB) in 1936 A.D. He brought into force the 'Nepal Company Act' and private company Act. As a result such works, Juddha Match Factory (JMF), Biratnagar Jute Mill (1994) was established as joint stock company in the both governments and private sector's investment. After succession of resolution of 2007 B.S., Nepal was taken particular dimension of socio-economic development of the nation following table shows the historical development of the Nepalese public enterprise on the basis of every development plan.

Table 2.1

Establishment of PES in Nepal

Plan Period	Industry	Trade	Finance	Public	Service	Total

	Sector	Sector	Sector	Utility	Sectors	
Pre-Planning Period before 2013 B.S.	-	-	1	-	-	1
First Plan Period (2018-2019) B.S.	2	1	2	-	3	8
Interim Period (2018-2019) B.S.	2	2	2	-	5	11
Second Plan Period (2019-2022) B.S.	5	3	2	1	9	22
Third Plan Period (2022-2027)	12	5	6	2	9	34
Fourth Plan Period (2027-2032) B.S.	10	17	7	4	13	51
Fifth Plan Period (2032-2037) B.S.	20	17	8	4	10	59
Sixth Plan Period (2037-2047) B.S.	21	10	8	3	11	53
Seventh Plan Period (2042-2047) B.S.	25	9	9	3	14	60
Eighth Plan Period (2049-2054) B.S.	14	5	8	3	14	44
Ninth Plan Period (2054-2059) B.S.	2	6	5	1	9	23*

Source: Ministry of Finance, Various Plans.

Above mentioned table shows a clear picture of development of Nepalese public enterprise on the basis of plan period. The researcher is also going to mention the major policy taken by the government of Nepal name and established year of the PEs during the each plan period.

Development of PEs During the First Plan period 2.3.1

The declared policy of the First Plan (1956-1961) was to establish PEs as required and to ensure simple and short operational procedures in order to realize the objectives of the plan. Furthermore, the plan stated that the government would monopolies the undertaking in the field of transportation and irrigation because in these sectors government's involvement was presumed to generate greater public welfare. The plan has further envisaged to establish PEs in the manufacturing sector in some big industries (like cement, sugar, cigarettes and steel). Feasibility study reports provided the result about the public enterprises were in satisfactory and favorable position for the country. Only seven PEs were established during the first five year plan. Following are the name and established year of the PEs during the first plan.

S.N.	Name of PE	Sector	Established Year
1.	Ashahaya Kalyan Kendra	Service	1957/58
2.	Royal Nepal Airlines Corporation	Service	1957/58
3.	Nepal Industrial Development Corporation	Service	1958/59
4.	Balaju Yantrashala Limited	Industry	1959/60
5.	Balaju Industrial District	Industry	1959/60
6.	Raghupati Jute Mills Limited	Industry	1959/60
7.	Timber Corporation of Nepal	Trading	1960/61

Development of PEs during the Interim plan period 2.3.2

Interim plan period (1961 - 1962 A.D.) was a link period between first five years plan and second three years plan. During the period, the government of Nepal change in the policy of first five years plan about the public enterprises. Similarly in the plan period the government of Nepal declared industrial enterprises act 28th may 1961 which act was made under the first plan's guidelines. During the plan period, Following three public enterprises were established.

S.N.	Name of PE	Sector	Established Year
1.	Shree Ratna Recording Corporation	Service	1961/62
2.	National Trading Limited	Trading	1961/62

1961/62	Service	National Construction Company	3.

Development of PEs During the second plan period. 2.3.3

The second three years plan (1962 - 1965) laid emphasis to manufacturing industries to promote industrialization in the country. The plan clearly demarcated the areas of public enterprises as basis utilities and communication etc. as well as support services for all sectors and other physical inputs, seeds and fertilizers to agriculture on credit. During the plan period, eleven public enterprises were established. The plan period was also growth period of Nepalese public enterprises. Following public enterprise were established during the plan period.

Establish Year	Sector	Name of PE	S.N.
1962/63	Service	Provident fund Corporation	1.
1962/63	Social	Gorkha Patra Corporation	2.
1962/63	Industrial	Nepal Electricity Corporation	3.
1963/64	Industrial	Hetauda Industrial District	4.
1963/64	Service	Nepalese Carpet Limited	5.
1963/64	Service	Patan Industrial District	6.
1963/64	Finance	Rastriya Banijya Bank	7.
1964/65	Industry	Birgunj Sugar Factory Limited	8.
1964/65	Industry	Janakpur Cigarette Factory Limited	9.
1964/65	Service	Transport Corporation of Nepal	10.
1964/651	Service	Fuel Corporation Limited	11.

Development of Public Enterprises During the Third Plan. 2.3.4

The third five years plan period (1965 - 1970) emphasized the need to involve both the private sectors as well as public sector in the industrialization process of the country. It out lined the need to follow pragmatic approach as to which industries are required to be established under the public as well as private sector. The plan gave priority to the import substitutive products of basic needs and export promotional industries which based upon the local raw material. During the plan period, following public enterprises were established.

Establish year	Sector	Name of PE	S.N.

1965/66	Industry	Banshbari Leather and Shoe factory Ltd.	1.
1966/67	Industry	Agriculture Input Corporation	2.
1966/67	Industry	Chandeshwari Textile Industries Ltd.	3.
1966/67	Industry	Cottage Industries and Handicraft Emporium	4.
1966/67	Industry	Nepal Tea Development Corporation	5.
1968/69	Industry	Agricultural Tools factory Ltd.	6.
1968/69	Finance	Agricultural Development Bank	7.
1968/69	Finance	National Insurance Corporation	8.
1969/70	Industry	Brick and Tile factory Limited	9.
1969/70	Industry	Dairy Development Corporation	10.
1969/70	Industry	Himal Cement Company Limited	11.
1969/70	Public utility	Nepal Telecommunication Corporation	12.

Development of Public Enterprises During the Fourth Plan. 2.3.5

In the fourth five years plan period (1970 - 1975), the largest numbers of public enterprises were established. So, public enterprises of each and every sectors were increased. Similarly, the number of established of public enterprises was set up from 34 to 51. During the plan period nineteen public enterprises were established in the different sectors of the economy. The plane envisaged the policy of promoting industries in the public sector at least for the initial period. The plane stated that it could not be said that public enterprises will set up all the basic and feasible industries capable to making special contribution to the industrial development of the country. The government will attempt to establish paper, fertilizer and cement industries with the aim of gradually selling them to the private sector in the future.

The plan also stated the policy of creating basic infrastructure intended to provide incentives and facilities for investment in the private sector although the provision of such incentives and facilities did not result in an increase in the quality of production investment. The government will have to be active in directly establishment industrial project with these proclaim objectives initiative was taken to establish following numbers of public enterprises.

Established Year	**Sector**	**Name of PEs**	**S. N.**
1970/71	Industry	Balaju Textial Industry Limited	1.
1970/71	Industry	Rastriya Chamal Karkhana Limited	2.

1970/71	Trade	Nepal Oil Corporation Limited	3.
1970/71	Service	Tobacco Development Company Ltd.	4.
1970/71	Service	Jute development & trading Corp.	5.
1971/72	Social	Cultural Corporation	6.
1970/71	Trade	Nepal Transit and Warehousing Ltd.	7.
1972/73	Service	Royal Nepal Film Corporation	8.
1972/73	Industrial	Royal Drugs Limited	9.
1972/73		Nepal Live stock Company Limited	10.
1972373	Public utilities	Nepal Drinking Water Corporation	11.
1973/74	Industry	Agro-line Industry Limited	12.
1973/74	Industry	Vegetable Ghee Industry Limited	13.
1973/7415.	Trade	Nepal Food Corporation	14.
1974/75	Industry	Hetauda Textile Industry Limited	15.
1974/75	Industry	Nepal Chauri Ghee Industry	16.
1974/75	Public utilities	Eastern Electricity Corporation	17.
1974/75	Service	Electronic Data Processing Center	18.
1974/75	Finance	Credit Guarantee Corporation	19.

Besides above mentioned, eight public enterprises were established as paddy and rice Export Company during the plan period. The main objectives of the companies were to purchase and to sell the rice and paddy from Janakpur, Lumbini, Sagarmatha, Narayani, Mechi, Koshi, seti and Mahakali Zone.

Development of PEs During the fifth Plan 2.3.6

In the fifth years plan (1975-1980) adopted the industrial policy, 1974 and provisioned for establishment of four industrial districts and four industrial ventures in the public sector, projecting a substantial expansion in the private industrial sector. The plan assigned greater responsibility to the public sector for the industrial development. The plan was also emphasized to mobilize local capital skill and resources to maximum extent to generate employment opportunity in order to absorb surplus agricultural labor; to bring about qualitative and quantitative improvement in productivity in industrial products, to gain self -

sufficiency in the production of daily necessities goods and certain construction materials, to reduce regional economic imbalance, and improve balance of payment creating a favorable of trade balance through import substitution and export promotion. During the plan period, following public enterprises were established under the different sector of the economy.

S.N.	Name of PEs	Sector
1.	Hetauda Cement Factory Ltd.	Industry
2.	Security market corporation	Finance
3.	Dharan Industrial Estate	Industry
4.	Nepalgunj Industrial Estate	Industry
5.	Butwal Industrial Estate	Industry
6.	Pokhara Industrial Estate	Industry
7.	Hetauda Leather Factory	Industry
8.	Nepal Institute of Standard	Service

During the plan period, Nepal, carpet limited and vegetable Ghee Industry were handed over to private sector.

2.3.7 Development of PEs During the sixth plan.

The sixth five plan period (1980 - 1985) was declared as definite policy about the public enterprises in Nepal. Considering the poor performance of Nepalese public enterprises, the plan promised to provide to provide greater autonomy and less political intervenes in the PEs internal operation. The plan also declared about the consolidation of similar public enterprises, liquidation fixation of public enterprises which had minimum as per the government decision, selling the ownership as share to private sector for maximum participation of public.

It was further stated in the plan, only those industries that call for a type of technology and level of investment which is not readily forth coming from the private sector and yet the setting up of which is the national interest will be set up in the public sector of the existing state run-industries, those that are considered worthily of being transferred to private will be sold out.

It was clearly stated, public commercial and industrial enterprises will be vested with the sufficient freedom of action to conduct their day to day operation, and they will be made free from the undeclared forms of government interference and control. They will be run on

strict commercial principles as autonomous and independent agencies. During the plan period, following public enterprises were established in different sector of the economy.

S.N.	Name of PEs	Sector
1.	Lumbini Sugar Factory Limited	Industry
2.	Bhrikuti Paper Industries	Industry
3.	Nepal Paper Industries	Industry
4.	Herbs Production and Processing Company Ltd.	Industry
5.	Nepal Re- Sin & Turpentine	Industry
6.	Butwal Spinning factory	Industry
7.	Nepal Oriented Magnetize Limited	Industry
8.	Nepal Metal Company	Industry

The policy input of the plan contains the consolidation of similar public enterprise was implemented during the plan period. So, in the plan period notable changes has been taken place in the structure of Nepalese public enterprises. Following public enterprises were merged.

S.N.	Name of Separate PEs	Name of Merged PEs
1.	a. Eastern Electricity corporation b. Nepal Electricity corporation	Nepal Electricity Authority
2.	a. Cultural Corporation b. Ratna Recording Corporation	Cultural Corporation
3.	a. Rastriya Chamal Karkhana b. Nepal food Corporation	Nepal Food Corporation
4.	a. Asahaya Kalyan Kendra b. Balaju Textile Industry	Balaju Textile Industry
5.	a. Fuel Corporation b. Timber Corporation of Nepal	Timber Corporation of Nepal

During the plan period, Hetauda Leather industry was disposed to private sector. Paddy and rice Exporting Company Limited were gone to liquidate during 1982. The above mentioned facts shows that the plan had been changed the structure of Nepalese public enterprises and also taken particular director of qualitative as well as quantitative development of the public enterprises.

Development of PEs During the Seventh Plan 2.3.8

The seventh five year plan period (1985 - 1990) expressed concern at the state of affairs of PEs and pointed to the in adequacy of returns from them as compared to the huge size of investment and therefore called upon the need to run them efficiently. Similarly, it was declared for giving them the required autonomy and recommended suitable reward and punishment on the basis of performance evaluation in the interest of efficiency. The plan also specified the following objectives and policies to public enterprises.

Major Objectives: 1

i. The government corporation will supply the essential goods and basic services to the people.

ii. So long as the private sector if not prepared to produce necessary import substituting goods and undertaken the expansion of the infrastructure, government corporation will be developed as a major medium for producing such goods and services.

iii. Encouragement will be given to private sector's participation in the management and investment of Government Corporation and gradually transfer of ownership to them will be affected.

iv. Steps to mobilize resource from the private sector will be intensified and the participation of the sector, through saving generation will be encouraged in government corporations.

The above mentioned objectives, it is cleared that the seventh plan had been taken the way of liberalization process. It had been given emphasis on the private sector for the investment in such enterprises as well as management participation of them.

Major Policies II)

To achieve the above objectives, the following policies were applied during the seventh plan period.

i. Amalgamation of similar public enterprises.

ii. Either privatization or liquidation of poor and seek public enterprises.

iii. Clear cut responsibility and full accountability were given to chief executives.

iv. Quality control of the products of monopolized public enterprises.

v. Floatation of ownership of the corporation as share to the massive people.

vi. Depending upon the nature of the public enterprises, especially on the basis of whether, it was established to earn profit, or to run at breakeven point, or to run purely on subsidy, a set of functional objective will be developed and government enterprises would be classified accordingly

S.N.	Name of PEs	Sector	Established Year
1	Nepal Television	Social	2041 B. S.
2	Nepal Coal Limited	Industry	--------
3	Udayapur Cement Industry Ltd.	Industry	2044 B.S.

2.3.9 Development of PEs during Eighth Plan

The Eight Five Year Plan Period (1992 - 1997) had been laid down much more emphasis on privatization because after succession the mass movement of 2046 B.S. and restoration of democracy, the government]s policies were guided by the liberalization. Nepal is going to the liberalization progress through the Structural Adjustment Programme (SAP) which is taken the first election government after restoration of democracy.

The pan high lighted the necessity of privatization mentioned. "Although, the establishment of public enterprises has greatly assisted in the country's industrial and professional development and helped to prepare the necessary institution base, the enterprises themselves could not succeed. To accelerate the pace of national development it has become necessary to increase efficiency in all areas through proper and efficient management. Together with this, it has become necessary to bring about changes in the structural frame work of the corporations in order to enhance the standard of services rendered by them. Mainly, the following reasons make the privatization of public enterprises a necessary. (1) Most of the enterprises are running in losses, (2) PEs lock commercial ethics, (3) PEs are over staffed, (4) lack of skilled professional and responsible management in the corporations, and (5) unnecessary government interference. Because of these reasons, the government of Nepal has adopted the aim of privatizing public enterprises. The objectives of privatization are mainly concerned with the development of industry and business sectors, increment in productive and efficiency, the mobilization of saving and increase in public participation in the commercial field."

The government has adopted a policy of liberal economy with the aim to raise the living standard of the people by bringing about structural reforms in various sectors of the economy. In this process, it has been carrying on the policy of giving priority to the involvement of private sector in public enterprises. In line with this, sixteen public

enterprises have already been privatized by way of different process during the Eight Plan Period (1992 - 97).Out of the sixteen enterprises privatized so far, three (Harisiddhi Brick and Tile Factory, Bhrikuti Paper Factory, and Bansbari Shoe Factory) were handed over to the private sector in the first phase and remaining 13 in the second phase of privatization programme.

The enterprises privatized during the eight plan and the modalities adopted are presented below:

S.N.	Enterprises	Modalities
1	Bhrikuti Paper Factory	Sales of assets and business
2	Harishiddhi Brick and Tile Factory	Sales of assets and business
3	Bansbari Leather and Shoe Factory	Sale of assets and business
4	Nepal Film Development Corporation	Sale of share
5	Textiles Industry Balaju	Sale of share
6.	Unprocessed Leather Collection and Processing Centre	Sale of Share
7.	Nepal Bitumine & Barrel Industry	Sale of Share
8.	Nepal Lube Oil	Sale of Share
9.	Tobacco Development Company	Liquidation
10.	Jute Development Corporation	Liquidation
11.	Nepal cast Iron Industry	Sale of Share
12.	Shree Raghupati Jute Mill	Sale of Share
13.	Agricultural Input Factory	Sale of Share
14.	Nepal bank Limited	Sale of Share
15.	Bhaktapur Brick factory	Lease
16.	Biratnagar Jute mill	Management Contract

2.3.10 Development of PEs during Ninth Plan.

The ninth five year plan (1997- 2002) also specified the following objectives, policies and implementation strategy, programme and conclusions.

Objective (I)

Though the main objective of privatization is to enhance production uses of resources, in the light of economic, social and political realities of the country three can be various aims of privatization. The programme of privatization has been oriented to attain multiple objectives. In line with this, the ninth plan has set the following objectives of the privatization.

- To increase the effectiveness and productivity of government resources through efficient utilization.
- To make the government gradually assume the role of facilitator by encouraging and motivating the private sector for participation in economic development.
- To help maintain economic stability by enforcing financial discipline and relieving the government progressively from the burden of financing corporation deficits.
- To promote the participation of common people in the economic development by means of privatization.

Policy and Implementation strategy (II)

To achieve the above mentioned objectives following policy and implementation strategy were applied during the plan period.

- As the process of privatization affects different sections of society, it is necessary that the concerns of those affected be needed to. Accordingly, a consensual environment will be created through keeping people well informed about the positive and adverse consequences associated with the process.
- Because the modality of privatization is directly related to its objective, the process will be pushed ahead by adopting appropriate modality so as to ensure a fair opportunity for all the investors.
- While selecting a corporation for privatization, it will be assessed process applying various criteria such as the nature of the job currently performed by the enterprise, its future prospects, current economic profile, potential to attract private sector investors, the size of additional investment required, technological and managerial requirement, the expected role of government and the needs of the consumers, etc. Besides detailed analysis will be carried out to determine the priority based on the study of timing, sequencing and pace of privatization.
- The selection of the investor will be made only after the careful assessment of the business and technical resources, skills, knowledge and experience, the business plan, financial status and reputation, managerial efficiency, access to national and international market competitive ability, etc.
- To ensure that the government gets fair price from privatization arrangements will be made to provide the prospective investor with all relevant information

about the enterprises. To enhance the credibility of the programme and secure a competitive price for the enterprises, all relevant information about the business value of the enterprises, the value of its assets, its strengths and prospects will be widely disseminated in the public.

- In view of many public enterprises operating poorly due to the lack of capital and technology, foreign investment will be encouraged income corporations requiring huge amount of capital and modern technology.

- The terms and conditions in which the transfer of ownership and management of a corporation is to be negotiated with the investor concerned will be explicitly laid down. Such terms and conditions will address the issues such as the continuity of an enterprise, restriction on the sale of assets and reduction in employees compensation, value payment, the rights and duties of the investors, the right of the government of Nepal size of share which must be distributed to the employees, and general public, resolution of disputes and the types of Act applicable to the process.

- A clear policy and approach will be evaluated to protect the interests and rights of the employees as well as to determine the other necessary compensation to be given to them while privatizing government corporations.

- Keeping in view the differences in the operations of government owned enterprise and business enterprises in the private sector, programmes will be launched where possible, to make government corporation which are to be privatized, operate like commercial enterprises by developing appropriate work culture, initiating measures to improve their efficiency and even by restructuring them as required.

- Monitoring of the privatized enterprises will be undertaken in post privatization phase with a view to ensuring that they are observing all terms and conditions are providing necessary goods and services as required, and the results will be made public. Moreover, the public will be informed about various aspects of corporation such as their efficiency, employment profile, quality and prices of goods and services, business expansion, revenue increase and economic status etc.

- Measures will be taken to promote the private sector by keeping the door open for investment, enacting appropriate laws and by laws and executing them. Emphasis will be given to the development of capital market, banking and financial sector. Instruments like shares and debentures will be utilized as a means of mobilizing necessary resources.

- As the private and the public monopolies tend to be similar, to prevent the monopoly from taking place before privatizing public monopolies, necessary laws and by - laws will be formulated for the appropriate regulation of such monopolies.

- Necessary amendment, based on experience of the past and long-term perspective, will be made in the existing privatization Act to improve its effectiveness. In line with the act, a more practical, scientific and transparent set of rules will be formulated and implemented.

- Transparency of the programme will be enhanced in a way to ensure that the actions and procedures confirm the dictates of law, all people willing to participate in the programme get equal opportunity, and anybody with an interest in the entire business or the decision process of privatization be given all relevant information without any barriers.

Programme (III)

To achieve the mentioned objectives, action will be taken to privatize to following enterprise during the Ninth plan based on the findings of studies.

S.N.	Name of PEs
1.	Nepal Tea Development Corporation
2.	Pokhara Dairy Development Project
3.	Gorkhapatra Corporation
4.	Himal Cement Company Limited
5.	Nepal Rosin and Turpentine Limited
6.	Nepal bank Limited
7.	Salt Trading Limited
8.	Rastriya Beema sansthan
9.	Rastriya Banijya Bank
10.	Butawal Power Company Limited
11.	Lumbini Sugar Factory Limited
12.	Janakpur Cigarette factory Limited
13.	Nepal Transport Corporation
14.	Nepal Housing Development Finance Company
15.	Industrial Management Limited
16.	Agricultural Line Industry
17.	Agricultural Projects Service Centre
18.	Birgunj Sugar factory Limited
19.	Dairy Development Corporation
20.	Cotton Development Corporation
21.	Herbs Production and processing company
22.	Hetauda Cloth Industry Limited
23.	Morang Sugar Factory Limited
24.	Nepal Telecommunication Corporation
25.	Royal Nepal Airlines Corporation
26.	Birendra International Conference center
27.	Nepal Oriend Magnetsite
28.	Hetauda Cement Company Limited
29.	Udayapur Cement Industry Limited
30.	Nepal Electricity Authority

In case of the enterprises remaining in the public sector for the time being, various improvement programmes should be initiated so as to optimize the utilization of available resources and capabilities. Structural reforms will be achieve improving goods, services and overall business efficiency, refining the process of pricing, controlling financial irregularities and leakage, making political and government involvement more productive, and orienting the size and capacity of enterprises towards the market.

During the ninth plan period, only public enterprise (Nepal Tea Development Corporation) has been privatized. Nepal transport Corporation (NTC) and cottage Industries and Handicraft Sales Emporium (CHISE) have been close down and Sajha Transport (ST) has been liquidated during the FY 2001/02. Public notice has been issued in the case of Hetauda Textiles Company for the propose scheme of selling out its assets and business. Similarly, Butwal power company, the preferred bidders have been selected in the process of selling out of 75percent shares of the government of Nepal.

Negotiation is underway to fix the process of sales purchase agreement. The process in under way to set up two separate company dealing separately with seed and chemical fertilize by liquidating Agriculture Inputs corporation. In the next F.Y, the government is expected to privatize three enterprises as per its commitment to the privatization programme.

HISTORICAL DEVELOPMENT OF NWPALESE CEMENT INDUSTRIES 2.4

History of industries process in Nepal being with the formulation of first company act 1936 and while the establishment of jute mill in Biratnagar while cottage and small scale industries were developed since ancient diaeval period and that a glorious time for the development of handicraft and cottage industries . A treaty was signed between and Tibet in 1645 A.D that helped to strengthen Nepalese monopolizes 'trans Himalayan trade 'activities since the period of 'Malla Dynasty'. The treaty was a milestone for the Nepalese industries development. However the history of modern industries development of Nepal can be classified into the following three periods.

i. Rana Ruling Period (1936 to 1950 A.D)

ii Middle Period (1950 to 1956 A.D)

iii Industrialization of Planning Period (1956to Current FY)

The Rana Ruling period of industrialization of Nepal was started from 1936 A.D, and forwarded to before the Revolution of 1950'. It was a period of rapid industrial development mainly due to world situation. The scarcity situation created by war, facilities given by the government like custom concession etc. Availability of foreign capital and technology were some other reason for such scarcity, some industries were established. They were Juddha match factory (1993), Biratnagar jute mill (1993 BS), and Morang sugar Mill (2003 BS). The middle age of modern industries development of Nepal was started from 1950 and forwarded

before stating the planning developed in 1956 AD. It was a short gap period between Rana ruling and first five years plan (1956-1961 AD). It was also declining period of Nepalese industrial development due to end of the war and minimization of abnormal profit in the sector. The other course of such decline of Nepalese industrial development were bad industries relationship (labor and employer relationship), world causes of great depressing of well banking and financing system , lack of transportation facilities , lack of communication facility and lack of many other infrastructures of the industrialization .

After the inception of planning in Nepal in 1956, the government started to develop the basic infrastructure network first and establish different types of enterprises coming up to the present stage , Nepal has completed nine development plans . since 1956, thousand firm are in different industrial sector have been establishment such as consumer product's industries (sugar ,match, cigarette ,dairy product noodle, oil, soap, etc.), textile industries carpet industries cement industries metal industries (Iron, steel zinc etc.) pharmaceutical industries etc .

After mention the brief history of Nepalese industries development, the researcher in also going to mention a brief history and present condition of Nepalese Cement Industries.

History of Nepalese Cement Industries is no longer because the history of industrialization and commercialization is no longer. Family autocratic Rana ruling political system was the main cause of delay to forward the rapid industrial, commercial and overall socio-economic development of the nation. So, process of nation development could not be forwarded properly. Lack of the industrialization and commercialization, modernization process of the nation could not far forward. As a result, the modern construction system and technology could not be taken. So, the history of Nepalese cement Industries is not far longer. Most of the houses and other construction work were traditionally done with using local construction material before producing and commercially introducing the cement. Especially, Chunasurri' was a domestic construction material as traditional cement which was very expensive and it was not readily available in the local market.

In modern age, construction works from small huts to huge buildings, dams, and other civil engineering structures are carried out with help of cement. Cement is a fundamental construction material and widely used as popular and modern construction material due to its inherent features , which become solid quickly when it mixed with water and sand , sand and bricks; and water , sand and brick. Cement is a compound prepared by burning of the mixture of limestone, clay, iron ore, silica sand and gypsum. Now a day, cement is used for massive construction of huge buildings, dams, channels roads, bridges, airports and other construction works.

To fulfill the demand of such construction material, cement had been imported form India, Malaysia and other foreign countries in the past. The need of cement industry as Import Substitution Industry (ISI) was of greater valuable to the Nepalese economy. Keeping the fact in mind, Himal Cement Company limited was established in 1966AD from the private sector and converted into public Limited company in 1974 A.D. Which is the first cement industries of Nepal. Similarly , Hetauda cement industries limited was established in 1976 as second cement factory. The demand of cement has been acceleratory increasing day

to day , to fulfill the increasing demand , the government of Nepal has been incorporated another cement industry as third cement industries on the basis of production capacity named is udayapur cement Industries limited (UCIL).

Cement is a fundamental construction material for strong and durable construction work. The demand of cement has been increasing day by day. So, the private sector is also interested to enter the industry. The private sector established three cement industries namely. Annapurna cement industries, Tribeni cement industries and Maruti cement industries. The following table shows the name of Nepalese cement industries and the production capacity.

Table 2.2

Annual Production Capacity of Nepalese Cement Industries

S.N	Name of firm	Annual Production
1	Himal cement company limited , Chobar, kirtipur	1,08,400Mt
2	Hetauda cement industry , Lamsure , Hetauda	2,60,000Mt
3	Udayapur cement industries ,limited , Udaypur	2,77,200MT
4	Shreemaruti cement industries chanra , Udaypur	16500Mt
5	Triveni cement (Nepal)pvt.ltd. Gondrang , Bharatpur	9,000Mt
6	Annupurna cement industry	9,00Mt
7	Pancharatna cement udyog (pvt)Ltd. khanikhola,Abukhaireni	-

	Total production capacity	**6,80,100Mt**

Growth and expansion of each and every industries depends upon the demand of their production , profitability of the industries availability of technological support , availability of labor (skilled , semi-skilled and unskilled), availability of raw materials etc .The scientific geological survey of Nepal which began in 1967A.D(2026B.S) made it possible to establish some industries according to availability of raw materials especially, the research is going to mentioned about the cement industries which requires limestone as basic raw material .

"Limestone is the raw material necessary for cement factories. 'Chobra' hill certain 1,53,000 tones (1.53 crore tones) of limestone deposit, which allows production of 400 tonnes of cement from factory everyday . 'Bhaise' (Makawanpur) has 800,000 tones (0.8 crore tones and 'Okhare' 10,000,000 tonnes (1 corer tones) of limestone deposits, which allows the cement factory at Hetauda to produce 7750 tones per day . Udayapur (sindhuli) high quality limestone deposits of 70,000,000 tones (7 crore tones) with a factory out put of 800 tones daily . Dhankuta (Nigale)has another deposit of 11,500,000 tones (1.5 core tonnes).[100]

The above mentioned information are summarized in the following table

Table 2.3

Limestone Deposits of Nepal with Production Capacities

Plant area	Deposist(Crore tones)	Cement production /days
Sindhuli (Udauapur)	7.00	800t/day
Chobhar (kathmandu)	1.53	400t/day
Nigale (Dhankuta)	1.50	(not mined)
Okhare(Hetauda)	1.00	77 t/day
Bhaise(Makawanpur)	0.80	not mined
Total estimated deposit	12.38(crore tones)	1975/day

Above mentioned facts shows that the demand of cement is accelerating day by day. Labor forces and raw materials are also available for the industries. So, growth, expansion

and diversification of Nepalese Cement Industries is greater than other industries because the liberal economic policy is in favor to attract the capital investment from the private sectors of the industries.

CHAPTER - THREE

RESEARCH METHODOLOGY

The basis objective of the study is to analyze the financial performance of HCIL and to recommend necessary suggestions for the improvement of financial condition and financial performance. To fulfill this objective of the study, appropriate methodology has been followed. So, this part is concerned with research methodology applied in this study. This covers research design, source of data, data collection procedure, data processing and tabulation and analytical tools used.

3.1 Research Design

This study consists of the research design of which is analytical and exploratory. For the study historical data for sis fiscal years are collected. Analytical design is used to access and analyze the financial position of the HCIL. The exploratory design has been used to explore and find out necessary suggestions for strengthening the financial condition.

3.2 Source of data

This study has been based to collect necessary data as following:-

a) Annual reports of HCIL that comprises balance sheet and income statements

b) Published and unpublished reports of the factory.

c) Other official reports.

3.3 Data Collection Procedure

The main sources of data are secondary and they are collected directly from official records and published statement of concerned factory. The researcher has consulted with concerned office for data and information. Verification and clarification of data has been done through personnel interview and discussion with the concerned authority.

3.4 Data Processing Procedure

This study is mainly based on secondary data. Therefore the required annual reports are collected from the corporation through personal contact with the financial chief of the factory. All these secondary data and information are properly synthesized, arranged, tabulated in accordance with the requirement of the study.

3.5 Analytical Tools Used in the study

Since the study is concentrated on financial aspects of HCIL. Some important financial tools and techniques are used for the analysis.

For the purpose of this analysis the ratios are divided into four groups and are dealt accordingly in separate chapters. The three groups of ratios are given below:-

a) Liquidity Ratio:- There are two types of liquidity ratio:

1. Current ratio:-

This ratio will be obtained by dividing the current assets by current liabilities i.e.

$$CurrentRatio = \frac{CurrentAssets}{CurrentLiabilities}$$

2. Quick ratio:-

This quick ratio is found out by dividing the total quick assets by current liabilities. The quick or acid test ratio is sometimes called liquidity ratio.

$$QuickRatio = \frac{QuickLiquid}{CurrentLiabilities}$$

b. Capital Structure/ Leverage Ratio

This ratio consists of following two ratios:-

I) Total Debt to Net worth

This ratio can be obtained by dividing total Debt by total assets.

$$TotalDebttoTotalassets = \frac{TotalDebt}{TotalAssets}$$

c. Assets Management or Activity ratio

This ratio consists with following ratios:-

I) Inventory Turnover ratio:-

The inventory turnover ratio is calculated by dividing average inventory. The fixed assets turnover ratio is sales dividing by net fixed assets.

$$InventoryTurnover = \frac{sales}{AverageInventory}$$

II) $$FixedAssetsTurnover = \frac{Sales}{NetFixedAssets}$$

III) $$TotalAssetsTurnover = \frac{NetSales}{NetAssets}$$

IV) $$CurrentAssetsTurnover = \frac{Sales}{CurrentsAssets}$$

d. Profitability Ratio

1. Operation ratio

This operation ratio is found out by dividing cost of goods sold plus operating expenses by sales.

$$OperatingRatio = \frac{Costofgoodssold + operating\ \text{exp.}}{Sales}$$

2. Return on Total Assets

it is calculated by dividing net profit after taxes by total assets.

$$\text{Return on Total Assets} = \frac{Net\ \text{Pr}\ ofitafterTaxes + Intrerest}{TotalSales}$$

3.6 Tools of Statistical Analysis

Statistics is the science which deals with collection, classification and tabulation of numerical facts as the basis for explanation, description and comparison of phenomenon. Statistical analysis is a technique of collecting data, ordering them and making useful them according to investigator's purpose in solving a variety of different problem. Statistical can be used in economics, business, industry, mathematics and others according to the purpose of analysis and study.

In the context of collecting data fro inquiry some data's are collected by the investigator himself. If the data's are collected for the first time and are original in character, they are called primary data. If the data are collected already and also used by others, such data are called secondary data's. Sometimes some data may be primary

for some person and secondary to others. For example, if data collected and used by HCIL to study the financial position of its own industry are primary data to it. If the same data are later used by some other agencies or persons, they will be secondary data for them.

To make this research study more meaningful, statistical analysis is also tried to apply to evaluate and interpret the financial performance of HCIL by showing a relationship between various financial variables. For such analysis, some important Statistical tools have been followed & a brief introduction about them is given below. The statistical tools used in this study are: Simple arithmetic mean, standard Deviation, Coefficient of variation, Coefficient of correlation and coefficient of determination.

3.6.1 Simple Arithmetic Mean

The simple arithmetic mean average of simple mean is the most commonly used of all average. This is due to the simplicity of its calculation and other advantages. It is defined as the value which we get by dividing the aggregate of various items of the same groups by the total number of items. In case discrete and continues series, frequencies of the items are also taken into consideration.

$$\overline{X} = \frac{\sum X}{N}$$

3.6.2 Standard Deviation

Standard Deviation is a technique commonly used to measure of risk or dispersion. It measures deviation of variances about the spraying of actual facts either that may be quantity or amount. Means of standard deviation measures the absolute dispersion or variability, greater the standard deviation. The greater will be the magnitude of the deviation of the values from their mean. A small S.D. means a higher degree of informality of the observation as well as homogeneity of series. Hence S.D. is extremely useful in judging the representative of the mean. We can compute S.D. from the following formula:

$$S.D. = \sqrt{\frac{x^2}{N} - (\frac{x}{N})^2}$$

3.6.3 Coefficient of Variation

The corresponding relative measure of variability is known as the coefficient of variation. That series or group for which, C.V. is greater is said to be more consistent, less uniform, less stable or less homogeneous. On the other hand, the series for which C.V. is less is said to be less variable or more consistent, more uniform. More stable or more homogenous. It is denoted by C.V. and is obtained by following formula:

$$C.V. = \frac{\pm}{\overline{X}} \times 100$$

Whether

C.V.= Coefficient of Variation

$\pm$ = standard deviation of related series

$\overline{X}$ = Mean of related series

3.6.4 Coefficient of Correlation

It is the most important statistical tool which is used to show the relationship between two variables. If the relationship is of quantitative nature, the appropriate tool for discovering and measuring the relationship is correlation analysis and is expressed in a brief formula. Correlation is an analysis of the correlation between two or more variables. One of which is dependent and another is independent variable. This co-efficient of correlation would discuss to show the relationship between two variables. Coefficient of correlation is denoted by r. This technique is used widely practice. The ledger of relationship is measured by the following formula.

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

Where,

r = The coefficient of correlation

$\sum xy$ = The total of produce of items in two series

$\sum x$ =The total of X series

$\sum y$ = The total of Y series

$\sum x^2$ = The total of the square of item in X series

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

N = The number of items.

The value of coefficient of correlation as obtained by the above formula shall always lie between ± 1. When r = +1, it means there is perfect positive correlation between the variable. When r = -1, it means there is perfect negative correlation between the variable. When r = 0, it means there is no relationship between the two variable.

However, in practice such value of r as +1, -1, 0 are rare. We normally get values which lie between +1 & -1. The coefficient of correlation is not only the magnitude of correlation but also in its direction.

3.6.5 Coefficient of Determination

One very convenient and useful way of interpreting and measuring the strength or extent of association exists between two variable is coefficient of determination. It is a measure of degree of linear association or correlation between two variables. It is also called square of coefficient of correlation and denoted by r^2.

3.7 Method of Presentation

The technique for presentation used are of most descriptive and analytical nature and the data have been presented basically in tabular from then after some important tabular information of the data have been graphically presented.

CHAPTER FOUR

DATA PRESENTATION AND INTERPRETATION:-

This chapter entitled "data presentation and interpretation" Objectives of study is to evaluate and interpret the financial soundness of HCIL by analyzing the financial statement. To pasteurize the real financial position, the methods and techniques mentioning in research methodology will be discussed. It means this chapter is incorporated with various analytical tools. To get a detailed knowledge, required calculation will be searched and will be analyzed through comparative study. For such, comparative ratio analysis and statically analysis will be implemented as best. As a consequence, in last chapter major findings will be conclude and suggestions and recommendation will be given to improve the existing position of HCIL.

4.1 Analysis by financial tools.

4.1.1 Comparative ratio analysis.

The purpose of this analysis is to reflect the financial position of HCIL with the help of ratio analysis. A relationship between different financial items will be determined and the effects and indications will be interpreter comparing each other. In this context various ratios i.e. liquidity, leverage, turnover and profitability will be used which are given below.

4.1.1.1. Liquidity ratios:-

Liquidity ratios measure the firm's ability to means its meeting short term obligations. This ratios show, the firm is capable to pay its short term obligations or not. A firm should not be suffered from lack of liquidity. It should maintain an ability to pay cash to its creditor other wise it will loose its beliefs from them. To make the firm effective it should maintain a proper balance between high liquidity and lack of liquidity current ratio of 2:1 is considered to be satisfactory. Here we are going to analyze and interpret the liquidity position of HCIL by taking 6 year's data since FY 2057/058 to2062/063. Because a single ratio itself does not indicate anything of the industry. Two commonly uses liquidity ratios are presented here.

Current ratio:- 4.1.1.1.1

Current ratio is a broad measure of liquidity position of the firm. The ratio helps to analyze day to day solvency. The ratio also explains that how much current assets is there as against each rupees of current liabilities. This ratio is computed by dividing current assets to its current liabilities. In the balance sheet of HCIL items included in current assets are inventory receivable and cash and bank balance. Where as current liabilities consist of interest accrued and outstanding and other liabilities and provision computation of current ratio and index are presented in the following table. We here means (X), standard deviation (S.D.), coefficient of variation (C.V.) are also included.

Current ratio of HCIL

Table No : - 4

Fiscal year	Current assets	Current liabilities	Ratio (times)	Index %
2057/58	379757700	598781144	0.6342	100
2058/59	451023704	809160930	0.5574	0.8789
2059/60	414158867	863227424	0.4798	0.7565
2060/61	393695295	889291716	0.4427	0.6980
2061/62	452115281	906351911	0.4988	0.7865
2062/63	471006690	925438834	0.5089	0.8024
$\overline{X}$				
S.D				
C.V				

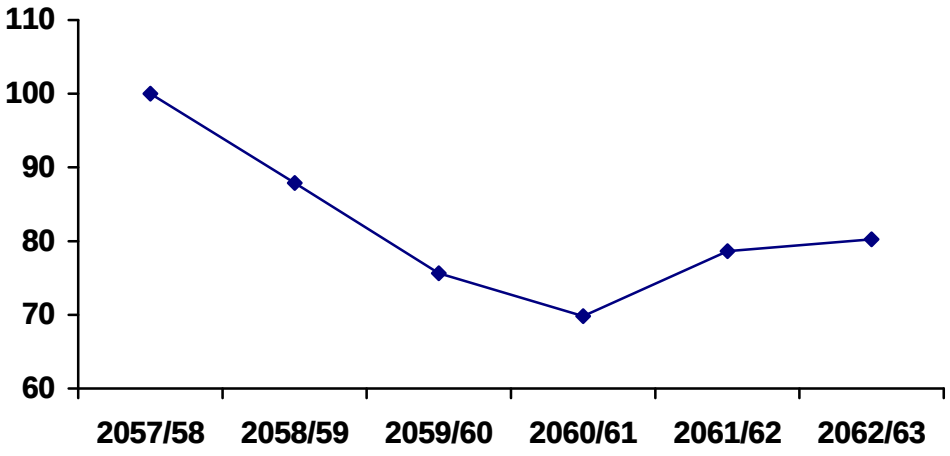
Above table shows that the current ratio of HCIL is quite lower. An n average of these ratio is just 0.5203. The current ratios of every fiscal year are fluctuating up and down. A highest current ratio 0.6342 times is in fiscal year2057/58 and a lowest current ratio 0.4427 times is in fiscal year 2060/61. These ratios show that current ratio is nearly double than the current assets. All the current ratio are lower then one where as average mean of previous six years current ratio (C) is 1.0308 times but during this studies period HCIL has maintained an average 0.5203 times which is lower then previous average ratio. The ratio of HCIL is in decreasing trend. The liquidity position of HCIL is weakening. Current ratio has fallen up to 0.4427 times from 0.6342 times and had increased up to 0.5089 times. A highest index 100% in fiscal year 2057/58 and lowest index 69.80%is in fiscal year 2060/61. Where 100% index is supposes in the base year 2057/58. The current ratio are too dispersion and variation during study period.

Generally, if current assets cover current liabilities by two times or CR, is (2:1) the position is regarded as favorable. The manufacturing industry's standard is 2:1 where as the average current ratio of profit making Nepalese manufacturing public enterprises is 3:1. But all current ratio of HCIL are lower then these standards. This also indicates the liquidity position of HCIL is quite unfavorable. From liquidity point of view, to see the current ratios, HCIL cannot pay the short term creditor by changing over the current assets into cash, in an accounting year. There is not capability of paying interest as well as principal loan easily. Every year current liabilities is in increasing trend. This may be due to increasing of outstanding interest. To improve the problem of low current ratio, the amount of interest outstanding should be reduced, proper planning of deposit and purchase should be made; avoided cash and bank balance should be utilized in productive field.

A graphic presentation of current ratio during the study period is given in the following graph:-

Current Ratio

Graph No: - 1



4.1.1.1.2 Quick Ratio: -

Quick Ratio is a more refined measure of firm's liquidity. It measures the firm's ability of how quickly it can convert its current assets in to cash in order to meet its current liabilities. Inventory is not included while computing the quick ratio. This means the firm should have ability to pay off current liabilities without selling any inventory. Quick assets are that assets which can be easily converted into cash in an accounting year. Quick ratio is computed by dividing quick assets by total current liabilities. In HCIL, Quick assets are receivables and cash & bank balance. The quick ratios of HCIL from F. Y. 2057/58 to 2062/63 are given in table No-5. Where statistical calculations average mean, standard deviation of variance are also included.

Quick Ratio (in times)

Table No: -5

Fiscal Year	Quick Assets	Current Liabilities	Ratio (times)	Index %
2057/58	118,061,989	598,781,144	0.1972	100
2058/59	153,055,422	809,160,930	0.1891	95.90
2059/60	155,336,487	863,227,424	0.1800	91.28
2060/61	141,969,590	889,291,716	0.1594	80.83
2061/62	197,589,829	906,351,911	0.2180	110.55
2062/63	231,349,605	925,438,834	0.2500	126.77
$\overline{X}$			0.1989	
S.D.			0.0288	
C.V.			14.50%	
C			0.318	

Above table shows that the quick ratio of HCIL are fluctuating up and down and ranged between 0.2500 to 0.1594 times. A highest ratio 0.2500 times is in F.Y. 2062/63. An arithmetical average mean ratio is 0.1989 times during the study period where as previous 6 year average mean of quick ratio is 0.318. The previous average is better then the present average and all computed ratios are less then 1 which indicates that the funds available have been locked up in unproductive assets. The low quick ratio in HCIL implies that there is a relatively large holding of inventory. The quick liquidity position of HCIL is not favorable. It has no capability of paying short term obligation without selling inventory. Generally quick ratio 1:1 is considered satisfactory. As compared to the manufacturing industries standard 1:1 and the average ratio of profit enterprises is 1.687:1. HCIL is far from these standards which show HCIL has unsound liquidity position during the study period.

4.1.1.2 Leverage/ Capital Structure Ratios: -

Leverage ratios are also called long-term solvency ratio or capital structure ratios. The term "solvency" implies the ability of a firm to meet the payments associated with its long-term debts. Thus solvency ratios are the measure of the company's ability to meet its long-term obligations. Generally in firm, funds are provided by owners and lenders as appropriate mix of funds is maintained there. If the firm has taken debts, then it should have ability to pay off interest as well as principal. Other wise it will lose its belief from debtors.

Total Debt to Net worth Ratio: - 4.1.1.2.1

This ratio is used to analyze the long term solvency of a firm and it reflects the relative claims of creditor's*against owners. Therefore there should *against owners be a proper balance between the total debt and equity. This ratio can be computed by dividing total debts includes long-term loan and current liabilities and net worth includes, share capital and capital reserve in which accumulated loss and deferred revenue expenditure is deducted. Computed ratios are given in table no-3 where mean, S.D. and C.V. are also presented.

Total Debt to Net worth Ratios (in times)

Table No: - 6

Fiscal Year	Total Debt	Net Worth	Ratio (times)
2057/58	715,225,866	173,550,012	4.1211
2058/59	868,184,969	56,334,721	15.4112
2059/60	872,857,467	(6,467,323)	-134.964
2060/61	889,291,716	(96,429,662)	-9.2221
2061/62	906,351,911	(75,921,044)	-11.9381
2062/63	925,438,834	(10,374,440)	89.20
$\overline{X}$			-37.63
S.D.			60.261
C.V.			160.141%

C			4.016

In general the debt to net worth ratio of 1:1 said to be the firm is in optimum level and the operation condition is satisfactory. High debt to equity ratio means the company is using high level of debt. This is not profitable to both creditors as well as owners. Debt magnifies the shareholders earning as well as increases risk. So optimum level is preferred. A highly debt burdened firm will find difficulty in raising funds from creditors and owners in future. The owners' equity is treated as a margin of safety by creditors. If the equity base is thin, creditors risk will be high, low debt to equity ratio shows the high investment of shareholders, in the firm is greater the cushion against losses in the event of liquidation.

The debt to net worth ratio of HCIL was very high during the study period. In the fiscal year 2059/60 to 2062/63 the net worth is negative means excess amount of debt employee. There is no meaning to calculate ratio with negative net worth because there is no or negative share of owners in financing the industries assets. In other fiscal year 057/58 and 058/59 there is positive net worth because there is no or negative share of owners in financial the industries assets. In other fiscal year 057/58 and 058/59 the ratio are 4.12.11, 15.4112 times respectively. Which seems unbelievable i.e. excessively high. This shows the worst condition of HCIL.

4.1.1.2.2 Total Debt to total assets:-

Total debt to total assets ratio indicates what percentage of total assets of the company is financed by its creditors. It is the proportion of total debt to total assets of the company. Total debt indicates long-term debt and current liabilities. A higher ratio represents a greater risk to creditors and also to shareholders under depression. A low ratio represents security to creditors in extended credit. The total debt to total assets ratio of HCIL from F.Y. 2057/58 to 2062/63 is presented in the following table.

Total Debt to total Assets Ratio of HCIL.

Table No :- 7

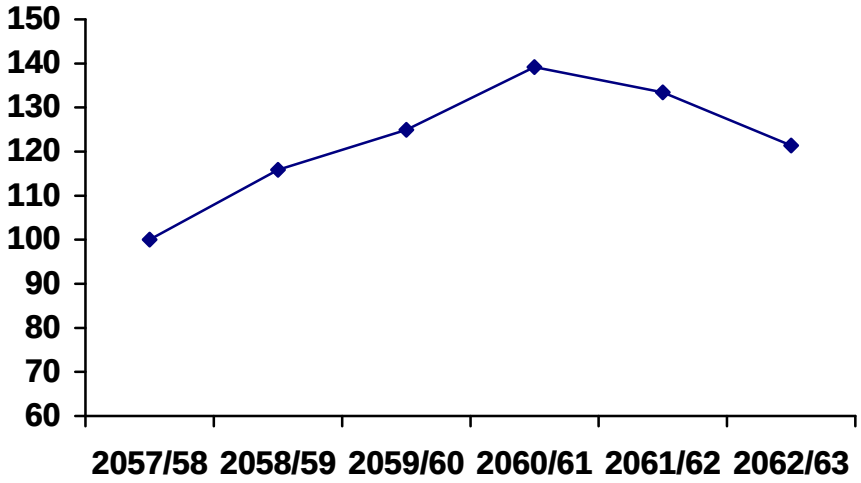
Fiscal Year	Total Debt	Total Assets	Ratio	Index %
2057/58	715,225,867	827,040,044	0.865	100
2058/59	868,184,970	866,078,250	1.002	115.84
2059/60	872,857,467	807,070,711	1.081	124.97
2060/61	889,291,716	738,610,922	1.050	139.19
2061/62	906,351,911	785,460,984	1.154	133.41
2062/63	925,438,834	881,336,982	1.050	121.39
$\overline{X}$			1.059	
S.D.			0.1196	
C.V.			11.30 %	

C			0.6913	

Total debt to total assets ratio shows that the relationship between total liabilities (i.e. long- term loan plus total C.L.) and total assets. Financial risk increases with the increase in this ratio. So, the high ratio shows bad signal for the firm. From this ratio, we can know the financial condition of HCIL. Total debt to total assets ratio of HCIL ranged from 0.865 to 1.204 times during the study period. The average total debt to total assets i.e. 1.059 times are greater than 1:1 ratio. This shows that the ratio of HCIL is not satisfactory. S.D. & C.V. of ratio are 0.1196 & 11.30% respectively. Besides base year a highest index of 13.19% is seemed in F.Y. 2060/61 & lower index of 100% in base year 2057/58. The trend of debt to total assets ratio is shown in following graph.

Total debt to total assets ratio

Graph No:- 2



Interest Coverage Ratio:- 4.1.1.2.3

Interest coverage ratio is determined by dividing earning before depreciation, interest and tax by interest. This ratio is also called times interest charges. This ratio measures the extent to which earnings can decline without resultant financial embarrassment to the firm because of inability to meet annual interest costs. Failure to meet this obligation can bring legal action by the creditors. This ratio shows how many times the interest charges are covered by funds that are ordinary available to pay the interest. Generally high ratio is favorable but too high ratio indicates that the business concern has very strict policy in using debt. A lower ratio indicates the excessive use of debt. The calculated Interest Coverage ratio is presented in the following table.

Interest Coverage Ratio (In Times)

Table No.:- 8

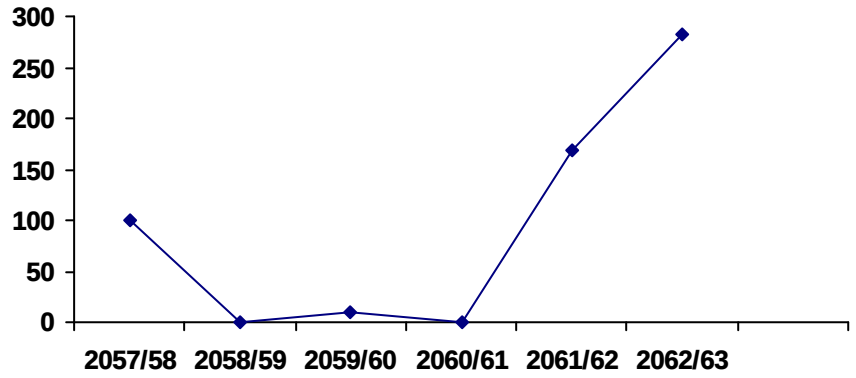
Fiscal Year	EBDIT	Interest Charge	Ratio	Index%
2057/58	50,639,559	34,939,421	1.45	100%
2058/59	(44,392,246)	33,846,745	-	-
2059/60	4,819,365	32,219,617	0.150	10.34%
2060/61	(24,672,604)	33,836,208	-	-
2061/62	85,354,680	34,972,128	2.441	168.34%
2062/63	138,734,461	31,553,782	4.080	281.38%
$\overline{X}$			1.353	
S.D.			1.657	

C.V.			122.51%	
c			0.9865	

The above table shows that, HCIL has no ability of paying interest charges in F.Y. 2058/59, 2059/60 and 2060/61. EBIDT compared to interest is very low. Due to outstanding of paying interest HCIL has gone in deficit in that year. Besides this, a highest interest coverage ratio of 4.080 times in F.Y. 2062/63. In this F.Y. HCIL has an ability of paying interest easily. In this F.Y. ratio has increased by 2.81 times compared to base year. Similarly a lowest ratio in F.Y. 2058/59, 2059/60 and 2060/61. In this F.Y., HCIL could not have succeeded to pay interest. But in other F.Y. ratios are more than 1.00 times. So in these years, HCIL could have succeeded to pay interest but are just only paying. To see the average mean ratio it shows HCIL has no ability to pay off interest charges of loan. The average mean of previous 6 years ratios is 0.9865 times which was also too low at that time. HCIL has no capacity of paying off interest. The present average is higher than previous average. There is little improvement than previous. So HCIL should improve average it is interest paying capability by improving it's financial activities. To see the S.D. there is seemed a higher dispersion in ratios. That indicates a loss consistency in paying of interest S.D. & C.V. are 1.657 and 122.5% respectively. A highest index of 281.38% compared to base year is in F.Y. 2062/63 and a lowest index 0% in F.Y. 2058/59 and 2060/61. HCIL should concentrate more to increase in EBDIT for the paying off interest charge. To increase EBIDT all the operating expenses should be minimized. The trend of ratio is shown in following graph.

Interest Coverage Ratio

Graph No:-3



Activity Turnover Ratio:- 4.1.1.3

Activity turnover ratios measure how effectively, the firm employs the resources all its command. These ratios all involve compressions between the level of sales and investment in various assets accounts. They presume that proper balance should exits between sales and the various assets i.e. inventories, account receivable, fixed assets and others. The following effectiveness of assets utilization of HCIL.

Inventory turnover Ratio:- 4.1.1.3.1

This ratio indicates the efficiency of the firm in selling its product. It also shows how rapidly the inventory is turning into sales and receivable. A high inventory turnover ratio is indicator of good inventory management and vice-versa. It can be calculated by dividing the sales by closing inventory. Another method also can be used to calculate this ratio dividing cost of goods sold by average inventory. The average inventory is taken from inventory of finished goods generally in manufacturing company. The calculated turnover ratios have been given in the following table.

Inventory Turnover Ratio (In times)

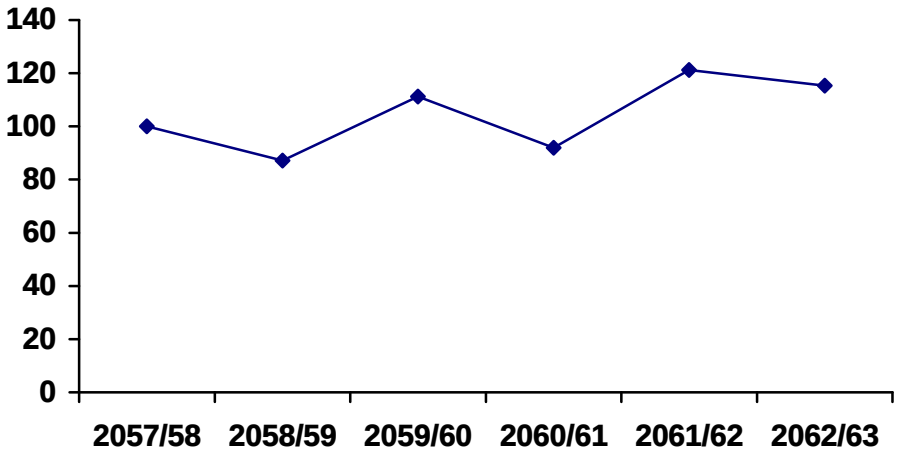
Table No:- 9

Fiscal	Cost of goods sold	Average Inventory	Ratios	Index %
2057/58	432,914,262	261,695,711	1.654	100 %
2058/59	403,469,639	279,831,996	1.442	87.18 %
2059/60	512,103,339	278,395,331	1.839	111.21 %
2060/61	388,547,455	255,274,043	1.522	92.02 %
2061/62	507,615,117	253,125,579	2.005	121.22 %
2062/63	471,549,204	247,091,269	1.908	115.35 %
$\overline{X}$			1.728	
S.D.			0.225	
C.V.			12.87 %	
C			1.657	

Above table shows that HCIL has no excessive stocks of Inventory. The higher inventory turnover ratio is favorable to a firm. In the table the ratio are ranged from 1.522 to 2.005 times. The average mean ratio is 1.7284 times. The present mean is higher than previous mean which shows the inventory management is better now. The dispersion of ratio is not so higher. S.D. and C.V. are 0.225 and 12.77% respectively. A higher index of 121.22% compared to base years in F.Y. 2061/62 and lowest index is seemed in F.Y. 2058/59 is 87.18%. In composite, the inventory turnover position of HCIL is not satisfactory in comparison t manufacturing company standard (4 times). Trend of inventory turnover ratio is presented in following graph

Inventory Turnover ratio

Graph No:-4



Fixed Assets Turnover Ratio:- 4.1.1.3.2

This ratio measures the efficiency of the fixed assets (plant and equipment) management and also it indicates the adequacy of sales in relation to investment in fixed assets. This ratio answer how well the firm has utilized it's investment in the fixed assets. This ratio can be computed by dividing net sales by net fixed assets. A high fixed assets turnover indicates the efficient utilization of fixed assets generally in sales and vice-versa. In the case of HCIL, net fixed assets include the investment in plant site, mines site and okhre mines. The fixed assets turnover ratio of HCIL has been given in the following table.

Fixed Assets Turnover Ratio (in times)

Table No: -10

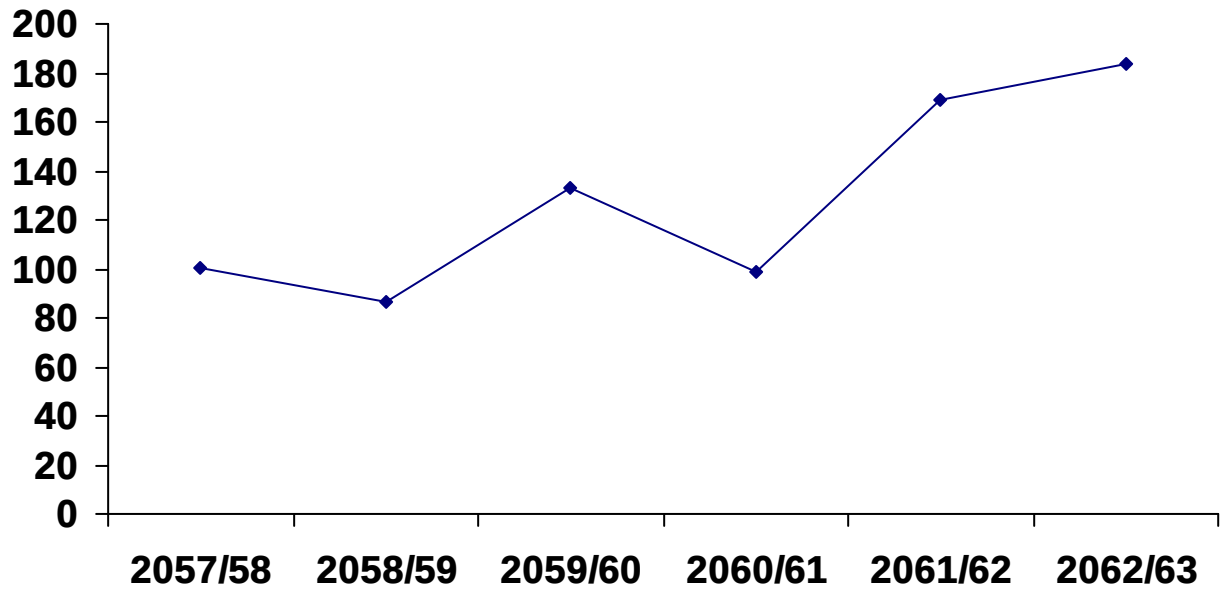
Fiscal Year	Net Sales	Net Fixed Assets	Ratio	Index %
2057/58	542,170,326	434,282,344	1.248	100%
2058/59	427,639,961	397,339,807	1.076	86.22 %
2059/60	598,141,522	366,207,308	1.633	133.25 %
2060/61	416,057,519	337,033,619	1.234	98.88 %
2061/62	655,404,841	310,932,336	2.107	168.83 %
2062/63	658,720,309	286,856,863	2.296	183.97 %
$\overline{X}$			1.60	
S.D.			0.505	
C.V.			32.40 %	
c			1.006	

Above table shows that the ratios are in the range of between 1.076 to 2.296 times. Where a highest fixed assets turnover ratio of 2.296 times in F.Y. 2062/63 which cannot be said preferable ratio because it is too less than the standard (3.00 times) of manufacturing industries. Average mean ratio of HCIL is seemed 1.391 times. The dispersion in series of ratios is not so high and also can be said no high consistency. S.D. and C.V. are 0.505 and 32.40% respectively. A highest index of 183.97% in F.Y. 2062/63 and a lowest index of

86.22% in F.Y. 2058/59 beside base year's ratio. It can be sai8d that HCIL has not used its fixed assets to as a high percentage of capacity. For improvement of this ratio, HCIL should try to increase in sales by utilizing fixed assets more and more. The trend of ratio is presented in following graph

Fixed Assets Turnover ratio

Graph No:- 5



Net Assets Turnover Ratio: - 4.1.1.3.3

Net assets turnover ratio shows the firms efficiency in utilization of net assets in generation of sales. It is proportion of total sales to net assets. It can be calculated by dividing sales by net assets. A high net assets turnover ratio shows better utilization of net assets and vice-versa. The calculate net assets turnover ratios are given in following table.

Net Assets Turnover Ratio (in times)

Table No: - 11

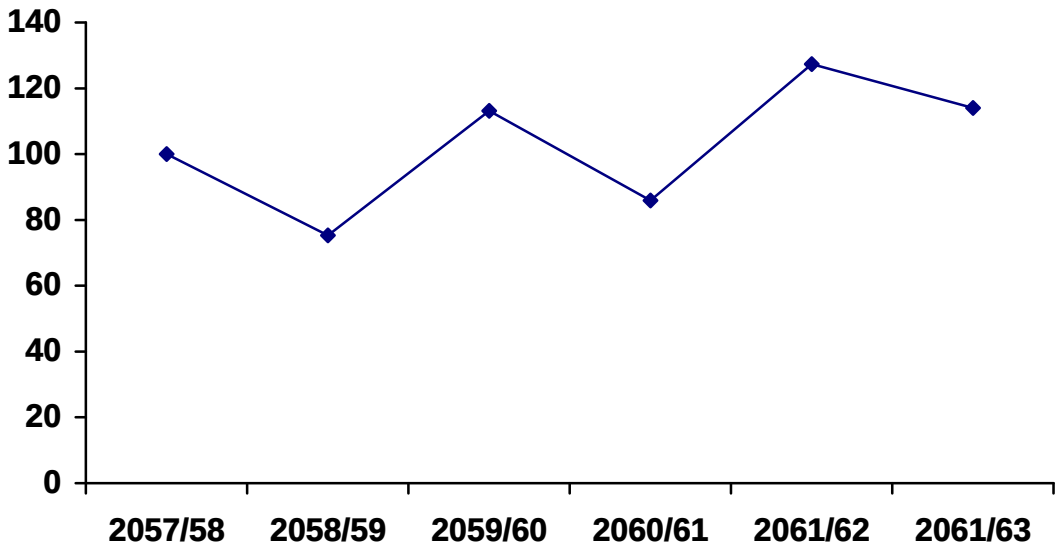
Fiscal Year	Sales	net Assets	Ratio	Index %
2057/58	542,170,326	827,040,44	0.655	100
2058/59	427,639,169	866,078,250	0.493	75.27
2059/60	598.141,522	807,070,711	0.741	113.13
2060/61	416,057,519	738,610,922	0.563	85.95
2061/62	655,404,841	785,460,984	0.834	127.35
2061/63	658,720,309	881,336,982	0.747	114.05
$\overline{X}$			0.672	
S.D.			0.127	
C.V.			18.92%	

c			0.558	

The above table shows that a highest ratio 0.834 times is seemed in F.Y. 2061/62 and lowest ratio 0.493 times in F.Y. 2058/59 compared to base year ratio 0.655 times. These ratios are in the range of 0.493and 0.834 times. These ratios don't show the favorable financial condition. The average mean ratio 0.672 times shows that one rupee of assets makes 67 paisa of income while selling the product. Where as the previous 6 years average ratio is 0.558 times which is also unfavorable ratio. But present average ratio is higher than previous average but originally it is also too low than standard. In the huge capital investment project, it can not be said the sound financial position. To see the ratio, HCIL could not have succeeded to generate even one rupee of income in the investment of one rupee up to the fiscal year 2061/62. These ratios are of manufacturing industry standard (2 times). S.D. and C.V. are 0.127 and 18.92% respectively. This table shows that HCIL is not generating sufficient volume of sales in the size of its assets investment, means HCIL could not have been using the available resources properly. It represents the in efficiency of the management of HCIL. For improving this condition, HCIL should make sound profit oriented planning to utilize the resources of HCIL tactfully and skillfully. If such ratio continues, there is no life of HCIL to service in the society. The friend of ratios is given in the following in the following graph.

Net Assets Turnover Ratio

Graph No:- 6



Debtors Turnover Ratio:- 4.1.1.3.4

The liquidity position of the firm depends on liquidity of debtors to a great extent. Debtors or receivables are expected to be converted into cash over a short period. The debtor's turnover ratio indicates the number of times on the average that debtor's each year. Generally the higher the value of debtors turnover is said the more efficient in the management of credit. These ratios compute sales dividing by debtors. The debtor's turnover ratio of HCIL has been given in following table.

Debtors Turnover Ratio (in times)

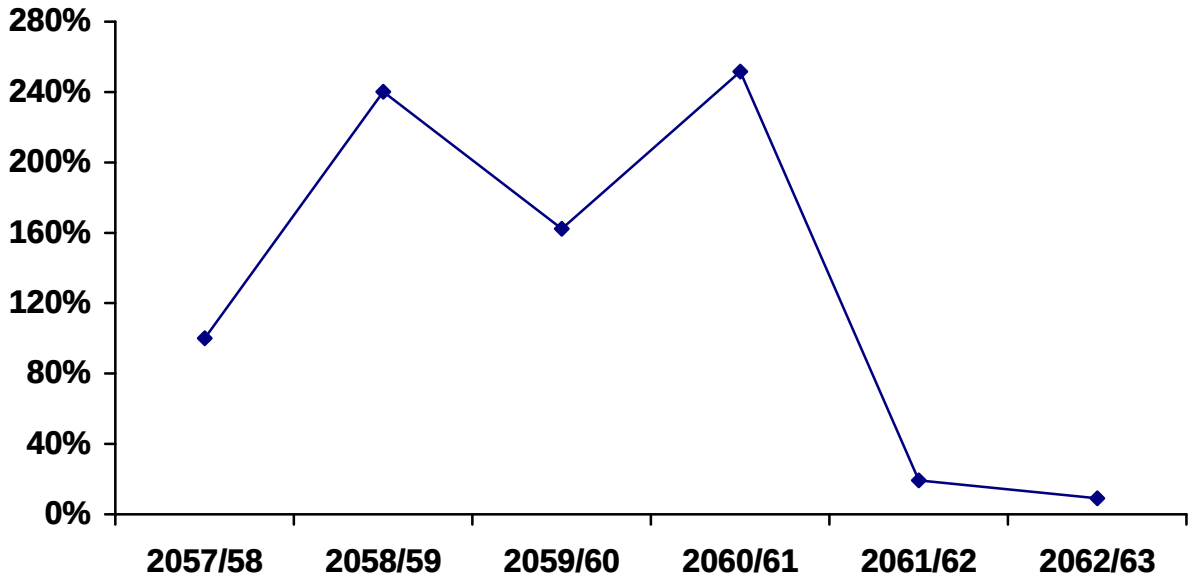
Table No:-12

Fiscal Year	Net Sales	Debtors	Ratio	Index %
2057/58	542,170,326	616,057	880.06	100
2058/59	427,639,961	202,231	2113.67	240.17
2059/60	598,141,522	418,744	1428.42	162.28
2060/61	416,057841	187,903	2214.21	251.60
2061/62	655,404,841	3,680,365	170.10	19.32
2062/63	658,720,309	8,206,163	80.27	9.12
$\overline{X}$			1147.80	
S.D.			929.10	
C.V.			80.94%	
c			716.76	

The above table shows that a highest debtor's turnover ratio is 2214.21 times in the F.Y.2060/61 and lowest ratio is 80.27 times in F.Y. 2062/63 compared to the base year. Where as previous 6 years average debtors turnover ratio is 716.76 times. This is very favorable financial indication of HCIL. Present average is more than previous years average debtors turnover ratio. So, there is no problem of collecting receivable during the study period. As compared to the average ratio all the ratio are highly fluctuating up and down, means a high dispersion is there in the series of these ratios. S.D. and C.V are 929.10 and 80.94% respectively. A highest index of ratio of 251.60% is in F.Y 2060/61 and a lowest index ratio of 9.12% is in F.Y. 2062/63 as compared to base year. The debtors' turnover ratio of HCIL compared to the standard of manufacturing industries (6 times) is very high. So it can be said that the debtors' turnover ratio is highly satisfactory and there is no-problem on the collection of credit amount. The trend of debtors' turnover is presented in following graph.

Debtors Turnover Ratio

Graph No:-7



4.1.1.3.5 Average collection period (ACP):-

The average number of days for which book debts remains outstanding is called the average collection period or days sales outstanding. It is computer by dividing days in a year by debts turnover. The average collection period measure the quality of debtors. It indicates the rapidity and soundness of their collection. The shorter the average collection period, the better the quality of debtors, as a shorter collection period implies the prompt payment by debtors. The average collection of HCIL is presented in following table.

Average collection period

Table No:-13

Fiscal year	Days in a year	Debtors Turnover	ACP (in days)
2057/58	960	880.60	4/5
2058/59	360	2113.67	1/6
2059/60	360	1428.42	1/4
2060/61	360	2214.21	1/6
2061/62	360	170.10	2/2
2062/63	360	80.27	9/2
$\overline{X}$			5/4

The above table shows that the highest average collection period is 9/2 days in F.Y. 2062/63 and lowest average collection period is 1/6 days in F.Y. 2060/61. Average mean of

ACP is 5/4 days. All average collection period of all F.Y's are favorable for HCIL to collect the debt amount. The collection power of HCIL from receivable or debtors is very well and quick getting of cash.

4.1.1.4 Profitability Ratios:-

A firm should earn profit to survive and grow over a long period of time. Profit is essential to sustain the operations of the business to be able to obtain fund from investors for expansion and growth and to contribute towards the social overheads for the welfare of the society. Profitability is the net result of a large number of policies and decision. Profitability ratios given final answer about how efficiently the firm is being managed. Generally profitability ratios are calculated in relation to sales and investment. To measures the level of profitability, following profitability ratio are computed.

4.1.1.4.1 Gross Profit Margin /Ratio:-

The gross profit margin reflects the efficiency with which management produced each unit of product. The ratio indicates the average spread between the cost of good sold and sales revenue. It is computed by dividing gross profit by sales. A high gross profit margin is a sign of good management and vice-versa. The calculated gross profit margin of HCIL is given in the following table.

Gross Profit Margin (in percentage)

Table No :-14

Fiscal year	Gross profit	Net sales	Ratio	Index %
2057/58	109,256,064	542,170,326	20.15	100
2058/59	24,170,322	427,639,961	5.65	28.04
2059/60	86,038183	598,141,522	14.38	72.85
2060/61	27,510,063	416,057,519	6.61	32.80
2061/62	147,789,724	655,404,841	22.55	111.91
2062/63	187,171,105	658,720,309	28.41	141.00
$\overline{X}$			16.30	
S.D.			9.07	
C.V.			55.65%	
C			22.55	

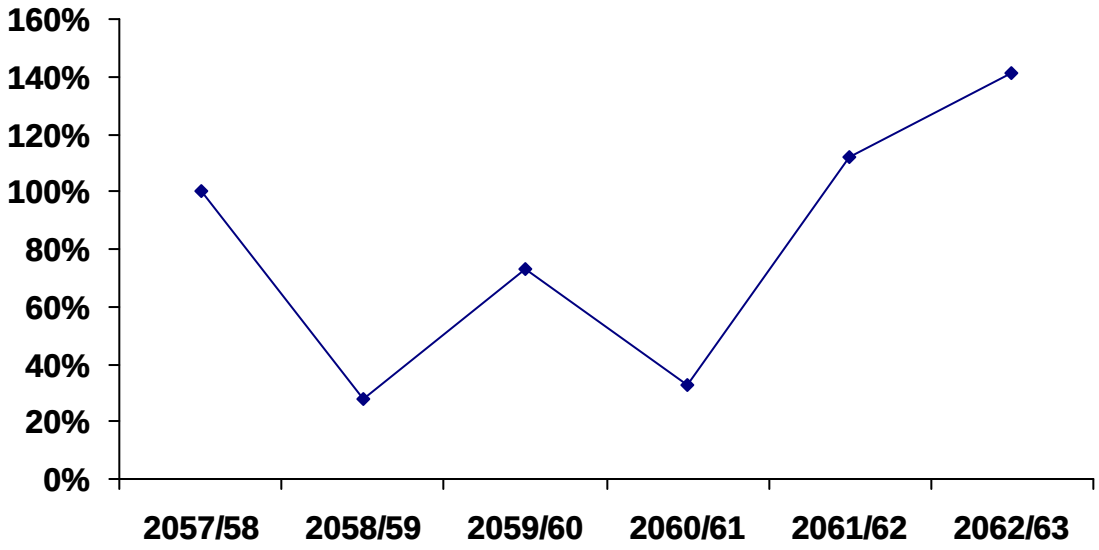
Above table shows that gross profit margin ratio of HCIL has been fluctuating. The highest gross profit margin ratio is in F.Y. 2062/63 is 28.41% and the lowest gross profit margin is in F.Y. 2058/59 is 5.63%. Where as gross profit margin is in base years 2057/58 is 20.15%. These ratios all are supposed low which indicates unfavorable condition in HCIL. This ratios reflect that the per unit cost of production in HCIL is high against its sale price.

The average gross profit margin ratio during the study period is 16.30% where as the average gross profit margin of previous 6years period is 22.55%. This indicates that the present average is lower than the previous average and company is suffering from high cost of production and less sales revenue. The average gross profit margin of HCIL is too low against the average of profit making enterprise standard (41.17%), which also shows that the financial condition of HCIL is quite unsatisfactory. The high or low gross profit margin depends upon sales revenue and cost of production. The gross profit margin ratio of HCIL indicates the general efficiency of management of production department is very week. To decrease the high cost of production HCIL can apply various cost control mechanisms likes use of master budgeting, in which sales, production, overhead, purchase and cash budgets are made. Likewise use of flexible budgeting, standard costing, and cost volume profit analysis can help to control it to some extent. It should also consider a proper pricing policy as well.

The trends of gross profit margin are given in following graph.

Gross Profit Margin

Graph No: - 8



Net Profit Margin Ratio: - 4.1.1.4.2

This ratio is the overall measure of the firm's ability to turn each rupee sales into net profit. This ratio establishes a relationship between net profit and sales indicates management's efficiency in manufacturing, administrating and selling the products. If the net profit margin is inadequate, the firm will fall to achieve satisfactory return on owner's equity. A higher net profit margin is taken favorable and vice-versa. It is completed by dividing net profit by sales. The calculated net profit margin is given in the following table.

Net Profit Margin Ratio (in percentage)

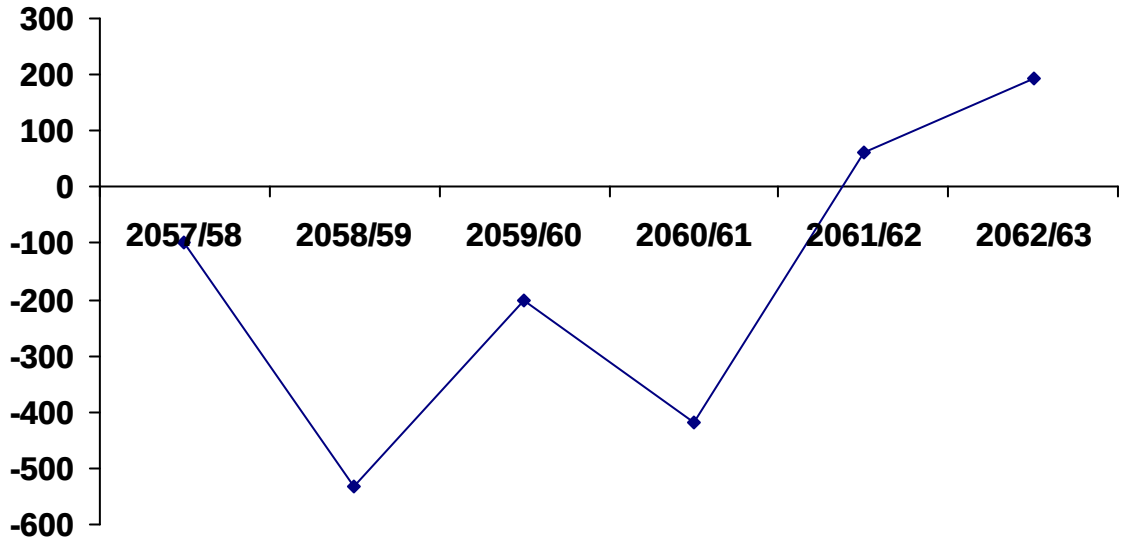
Table No: - 15

Fiscal Year	Net Profit	Net sales	Ratio	Index %
2057/58	(27,856,096)	542,170,326	-5.14	100
2058/59	(116,912,827)	427,639,961	-27.34	531.91
2059/60	62,487,944)	598,141,522	-10.45	203.31
2060/61	(89,571,204)	416,057,519	-21.53	418.87
2061/62	20,722,181	655,404,841	3.16	61.48
2062/63	65,718,408	658,720,309	9.98	194.16
$\overline{X}$			8.55	
S.D.			14.26	
C			4.32	

The above table shows that there are two positive net profit margin ratio 3.16% and 9.98% in F.Y. 2061/62 and 2062/63 respectively. But all other profit margin ratios are negative which indicates the poor profitability position of HCIL. By using simple arithmetic mean technique. The average net profit margin comes out to be in negative form 8.55% which indicates the HCIL is suffering from losses during the study period. Whereas the previous 6 years average net profit margin also indicates that HCIL was also suffering from losses in those periods. But last two F.Y's net profit margin ratio is positive. This shows that a little improvement. Similarly the net profit margin ratio of HCIL is lower comparing to average standard of manufacturing industries standard 15%. This also indicates that financial position of HCIL is not satisfactory.

Net Profit Margin Ratio

Graph No: - 9



The dispersion of NPV is also high and ratios are highly fluctuating. There is less consistency in profit and loss. A highest index 194.16% of net profit margin is in F.Y. 2062/63 and lowest index 513.91% is in F.Y. 2058/59 comparing to the base year index 100%. A trend of net profit margin ratios is shown in the above graph.

A higher or low net profit margin ratio depends upon operating as well as non operating expenses. The expenses show that the overall efficiency of the management of HCIL in producing, administrating and selling the product is quite unsatisfactory. To overcome such a disease of high cost of administration and production, HCIL should strictly take a step against unnecessary administrative expenses. This may have born by over staffing made through political pressure, high salary and allowance, other welfare funds made in the interest of them ignoring the overall efficiency and to reduce cost of production and cost of pertain HCIL should immediately imitate and programmed of better financial management and general management. In HCIL, the poor picture of profitability has been cover by other non operational income is in too low proportion of sales.

Operating Expenses Ratio 4.1.1.4.3

The operating expenses ratio is an important ratio that explains the changes in the profit margin ratio. This reflects the efficiency on minimizing costs. This ratio is computed by dividing operating expenses i.e., cost of by sales. Normally, a low ratio is favorable against high operating ratio. The calculated operating ratios are given in the following table.

Operating Expenses Ratio (%)

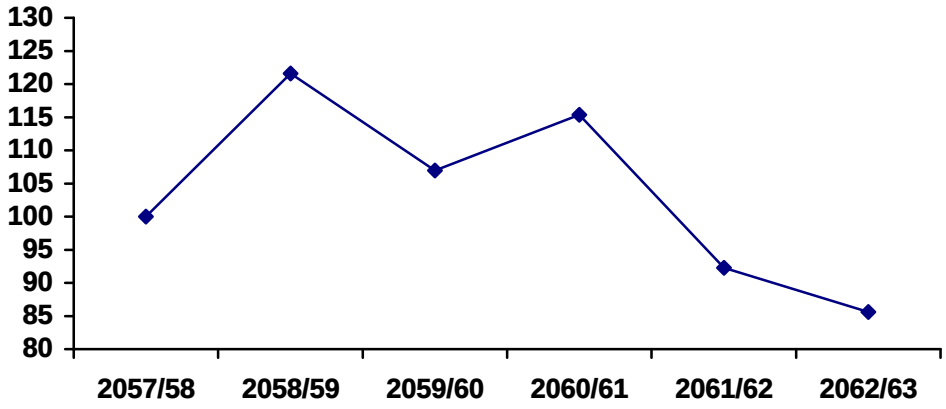
Table No: - 16

Fiscal Year	Operating Expenses	Net sales	Ratio	Index %
2057/58	528152475	542170326	97.41	100
2058/59	506560607	487639961	118.45	121.60
2059/60	623232635	598141522	104.19	106.96
2060/61	467561106	416057519	112.37	115.36
2061/62	58917127	655404841	89.90	92.29
2062/63	550539991	658720309	83.89	85.58
$\overline{X}$			100.98	
S.D.			38.90	
C.V.			38.52	
C			92.87	

The above table shows that a highest operating expenses ratio 118.45% is in F.y 2058/59 a lowest ratio 83.58% is in Fy 2062/63. Average mean operating expenses ratio is 100.98. These reflect that to earn one rupee, approximately 100.83 paisa total operating expenses has been invested. It can not be said favorable position. Generally is all f.y high cost more than 83.58 paisa is invested to earn one rupee. Average mean of previous 6 year's operating expenses ratio is 92.87%, which also indicates that maximum expenses were invested in the industry which helps to be in losses. This indicates that there are more expenses than generating sales revenue during the study period. HCIL should try to minimize these costs by applying appropriate control techniques. There is so high fluctuation in ratio, dispersion of ratio is low. S.P. and c.v. are 38.90 and 38.52 respectively. A highest index of 85.58% of operating expenses ratio is in f.y 2062/63. On the basis of this result, HCIL should concentrate their financial activities to control the production cost as well as administrative and selling cost. If this existing cost increases in this ratio, no benefit and earning will be achieved. A trend of the ratio is given in following graph.

Graph No: - 10

Operating Expenses Ratio



Cost of goods sold Ratio: - 4.1.1.4.4

The cost of goods sold ratio reflects how mach amount of sales has been covered by the goods sold. By this ratio, the efficiency of management has been measured. A low ratio is favorable and vice-versa. This ratio is calculated by dividing cost of goods sold by net sales. The calculated cost of goods sold ratios are given in the following table.

Cost of Goods sold Ratio (%)

Table No: - 17

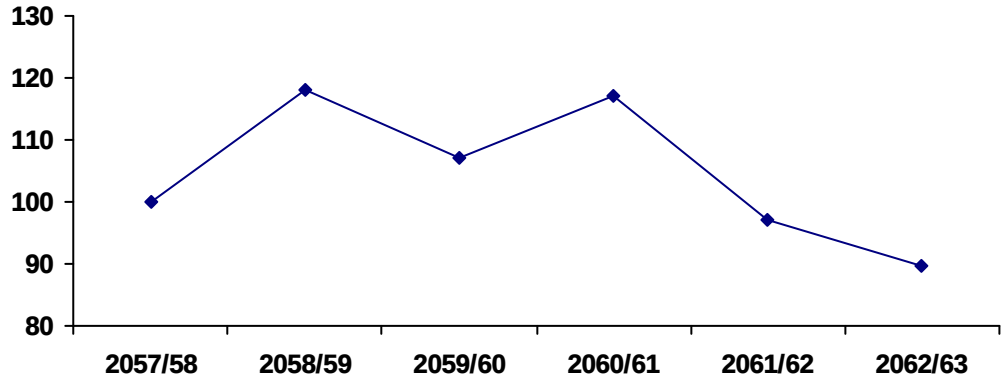
Fiscal Year	Cost of goods sold	Net Salary	Ratio (%)	Index %
2057/58	432,914,262	542,170,326	79.85	100
2058/59	403,469,639	427,639,961	94.35	118.16
2059/60	512,103,339	598,141,522	85.61	107.21
2060/61	388,547,455	416,057,519	93.38	116.94
2061/62	507,615,117	655,404,841	77.45	97.00
2062/63	471,549,202	658,720,309	71.58	8.64
$\overline{X}$			83.70	
S.D.			9.07	
C.V.			10.84%	
C			74.45	

Above table shows that highest cost of goods sold ratio 94.35% is in F.Y. 2058/59 and a lowest ratio 71.83 is in F.Y. 2062/63 besides the base year ratio is 79.85%. There ratios all are higher. This higher ratio indicates unfavorable financial position of HCIL. The average mean of this ratio is 83.70. This value indicates that 83.70 paisa has been spent in the cost of one rupee. It cannot be supposed favorable because it is more and still other expenses also exist. Similarly the previous 6 year's average cost of goods sold ratio is 74.45% which is less than present average value but was also high at that period. Due to these costs, HCIL has suffered form losses. Company to average ratio of profit making enterprises standard 58.83% the average ratio of cost of goods sold of HCIL is too high. This indicates HCIL is investing more cost in production of goods. This should be minimized by using appropriate cost

control technique. The ratios are medially fluctuating. The dispersions of ratios are not being high S.D. & C.V. is 9.07 and 10.84% respectively. A highest index 118.16% in F.Y. 2058/59 and lowest index of 89.64% is in F.Y. 2062/63 100% index is supposed in base year 2057/58. The trend of cost of goods sold ratio is presented in following graph.

Cost of goods sold Ratio

Graph No: - 11



Other Operating Expenses Ratio:- 4.1.1.4.5.

The other operating expenses ratio is the indicator of operating efficiency of manufacturing enterprise. It establishes the relationship between the operating expenses (besides cost of goods sold) and net sales. Other operating expenses included administrative distribution, depreciation and other general expenses. Lower the other operating expenses, higher the net operating profit. Normally a low ratio is favorable against high ratio. This ratio is calculated by operating expense (excluding cost of goods sold) divided by net sales. The calculated ratio is given in following table.

Other Operating Expenses Ratio (%)

Table No:- 18

Fiscal Year	Other Operating Expenses	Net Sales	Ratio %	Index %
2057/58	95,238,213	542,170,326	17.57	100
2058/59	103,090,968	427,639,961	24.11	137.20
2059/60	111,129,296	598,141,522	18.58	105.75
2060/61	79,013,651	416,057,519	19.00	108.14
2061/62	81,556,610	655,404,841	12.44	70.80
2062/63	78,990,789	658,720,309	12.00	68.30
$\overline{X}$			17.28	

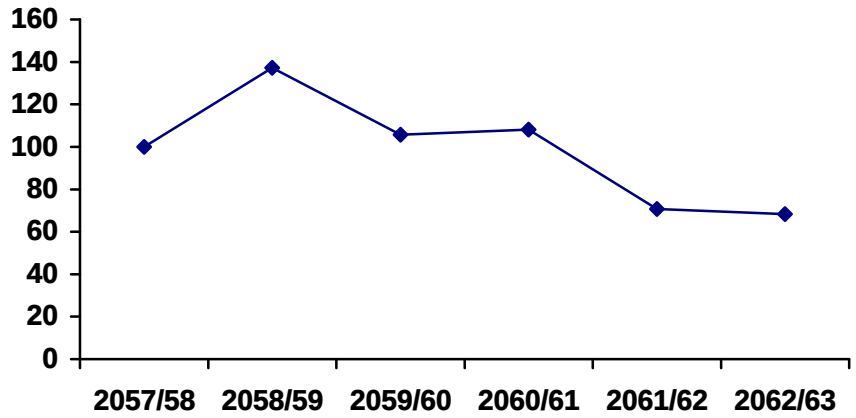
S.D.			4.53	
C.V.			26.22%	
C			18.43	

Above table shows that a highest operating expenses ratio is 24.11% in F.Y. 2058/59 and lowest ratio 12% is in F.Y. 2062/63. Besides the base year ratio is 17.57%. The ratio is in decreasing. Trend that can be supposed good indication but originally they are higher in nature. The average mean of other operating expenses ratio is 17.28% which indicates 17.28 paisa (excluding cost of goods sold) is investing in the operation of industry to get a sales of one rupee. It can be supposed high operating expenses. As The previous 6years average mean of other operating expenses ratio is 18.43%. It is little higher than present. It indicates that little improving in the expenses then the previous expenses on the basis of this result, the company has tried to control the operating expenses but-still it is unfulfilled. Further, HCIL should try to reduce the amount of operating expenses.

This expense plays a vital role in increase or decrease in the amount of profit. The S.D. and C.V. of ratios are -4.53, 26.22% of respectively. A higher index of 137.20% in F.Y. 2058/59 and lowest index of 68.30% is in F.Y. 2062/63, where as 100% index is supposed in base year 2057/58. The trend of other operating expenses ratio is presented in following graph.

Other Operating Expenses Ratio

Graph No: - 12



Operating Profit Ratio: - 4.1.1.4.6

This ratio reflects the efficiency of utilization of resources for generating the sales or profit. Operating profit is concerned only to that mobilization of resources. This ratio is calculated by dividing operating profit by sales. High result denotes the efficiency of production is taken favorable. The operating profit ratio of HCIL for the F.Y. 2057/58 to F.Y. 2062/63 is given in the following table.

Table No: - 19

Operating profit Ratio (%)

Fiscal Year	Operating profit	Net sales	Ratio	Index %
2057/58	14,017,851	542,170,326	2.58	100
2058/59	(78,920,646)	487,639,961	-18.45	-715.12
2059/60	(250,911,113)	598,141,522	-4.19	-162.40
2060/61	(51,503,587)	416,057,519	-12.38	-479.85
2061/62	66,233,124	655,404,481	10.11	430.62
2062/63	108,180,318	658,720,309	16.42	634.43
$\overline{X}$			-0.985	
C			7.1237	

The above table shows that there are three negative operating profit ratio -18.45%, -4.19% and -12.38% in the F.Y. 2058/59, 2059/60 and 2060/61 respectively. But all other positive ratios are also too less which indicates poor profitability position of HCILL. The higher positive ratio is just 16.42 in F.Y. 2062/63. By using simple arithmetic mean technique the average operating profit ratio is -0.985 which indicates that HCIL is suffering from losses during the study period. But the last two financial year's ratio is positive which shows little improvement. There is a higher fluctuation in these ratios. No consistency in operating profit has been seen. A higher index 634.43% is in F.Y. 2062/63 and a lowest index 715.12% is in F.Y. 2058/59 which is calculated by supposing the base year 100% index. The main reasons behind such a low operating profit is heavy cost of production, excessive administration and selling expenses and other general expenses. So the management should pay due attention in this regard.

Return on Total Assets Ratio: - 4.1.1.4.7

This ratio is also called return on investment. The term investment may refer to total assets. This ratio measures the profitability of all financial resources invested in the firm's assets means this ratio shows the capability of management to get higher efficiency by utilizing the assets. The ratio of net profit to total assets measures the return on total investment in the firm. High ratio is taken favorable and vice-versa. The calculated return on total assets ratios has been given in the following table.

Return on total Assets.(%)

Table No: - 20

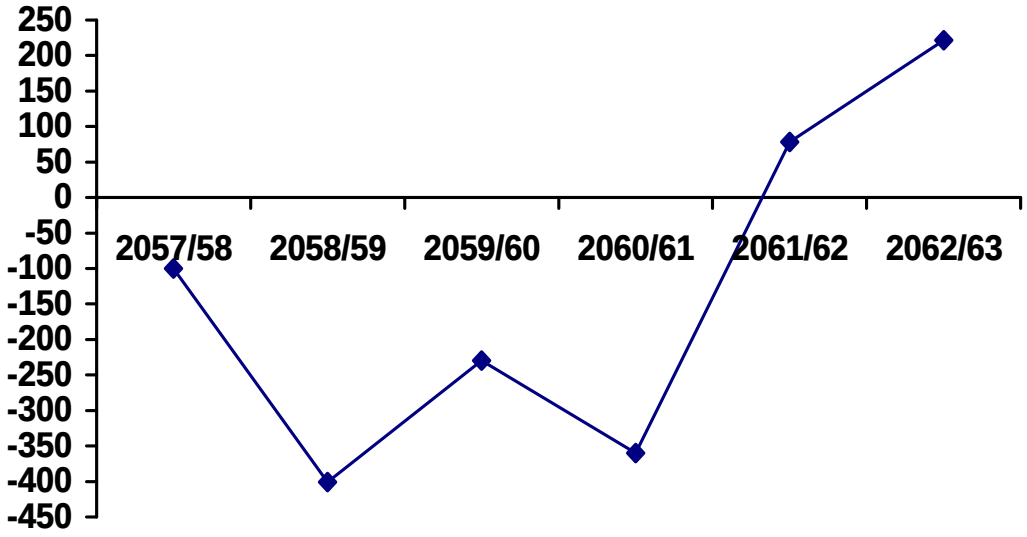
Fiscal Year	Net Profit	Total Assets	Ratio (%)	Index(%)
2057/58	(27856096)	827040044	-3.37	-100.00
2058/59	(116912827)	866078250	-13.50	-400.60
2059/60	(62487944)	807070711	-7.74	-229.67
2060/61	(89574204)	738610922	-12.13	-359.94
2061/62	20722181	785460984	2.64	78.34
2062/63	65718408	881336982	7.46	221.36
$\overline{X}$			-4.44	
C			-2.12	

The above table shows the craning power of total assets investing in HCIL and the ratios of return on total assets. A highest return on total assets ratio 7.46% is in F.Y. 2062/63 and a lowest ratio (13.50%) is in F.Y. 2058/59 besides the base year's ratio is (3.37%). Average of these ratios is negative (4.44%).

The average mean ratio of return on total assets of previous 6 years period is also in negative form (2.12%)./ This also shows too low earning power of HCIL in that period. But the ratio of last two financial year's is little improving. The reasons for negative return on total assets ratio is negative net profit. It is seemed, there is no efficiency of utilizing the assets to achieve earning in HCIL. The fluctuation of these ratios is so high and less consistency. The ratio and average are low comparing to the manufacturing industry standard (10%to 12%). A highest index of ratio 221.36% in F.Y. 2062/63 and lowest index of (400.60%) in F.Y. 2058/59 compared to base year as 100%. It is known from the above table that the invested assets are not mobilized properly as to determine capacity. So HCIL should concentrate its assets for increasing productivity. The trend of ratio is presented in following graph.

Return on Total Assets Ratio

Graph No:-13



4.1.1.4.8 Return on Shareholders Equity:-

Return on shareholders equity is calculated to see the profitability of the owner's investment. It indicates how well the firm has used the resources of owner. The return on shareholders equity is calculated as net profit after taxes divided by shareholders equity (In case of HCIL equals to net worth). A high ratio represents the sound profitability position of a firm and vice-versa. The calculated returns on equity ratio are given in following table.

Return on Shareholders equity Ratio (%)

Table No.:-18

Fiscal years	Net profit	Shareholders equity	Ratio%
2057/58	**(27856096)**	**173550012**	**-16.05**
2058/59	**(116912827)**	**56334721**	**-20.75**
2059/60	**(62487944)**	**(6467323)**	**-**
2060/61	**(89571204)**	**(96429662)**	**-**
2061/62	**20722181**	**(75921044)**	**-**
2062/63	**65718408**	**10374440**	**-**
$\overline{X}$			
S.D			
C.V.			
C			**-11.02**

The firm's real owners are the ordinary shareholders who bear all the risk, participate in management and are entitle to all the profits remaining after all outside claims including preference dividend. Return on equity indicates how

well the firm has used the resources of owners. The earning of a satisfactory return is the most desirable objectives of the business. Here the HCIL has suffered from heavy loss during study period. Loss occurred means no dividend to equity holders are all. Here the equity holders of HCIL are negative earning. After F.Y. 2058/59 the net worth of HCIL is negative. It means there is no or negative share of owners on capital structure. It suffers from heavy debt burden. So it is not necessary or meaningless to calculate return on equity ratio in these years. But having positive net worth's in F.Y. 2057/58 and 2058/59 also due to heavy loss the ratio is in negative 16.05% &20.75% respectively with high percentage. This shows the financial condition of HCIL is very worst. This situation shows the existence of this industry is no more. So HCIL should initiate immediately a systemized programmer of sound financial management for utilizing the available resources to maximize the owner's welfare. A sound profit oriented planning programme should be prepared in HCIL to improve position of profitability.

Analysis by statistical tools:- 4.2.

Statistical analysis is a useful tools for evaluating the financial position by showing relationship between various financial variables. There is relationship or not between two variables, what relationship is between them and their trend will be discussed in the study. This analysis will help the management of HCIL to find out the problems and to make decision for useful profit planning. To achieve the objectives of the study, some important statistical tools like arithmetic mean, standard deviation, coefficient of variance, coefficient of correlation, trend analysis and regression analysis will be discussed and is used to find out the financial indication of various aspects of HCIL.

4.2.1. Arithmetic mean:-

Arithmetic mean analysis is an important tool which is used to evaluate the performance of business concerns in average as a whole of successive years. Arithmetic mean of a given set observations is their sum divided by the number of observation. A.M. is denoted by symbol X. In this research study, A.M. of different ration has been calculated. The computed A.M. is compared with the average ratio of past 6 year's of HCIL during the F.Y. 2057/58 to 2062/63 and with the standard average of manufacturing and profit making enterprise of Nepal.

In average, what performance has been seen during the study period is evaluated and interpreted with the help of A.M. in the section of ratio analysis. The computed A.M. of various ratios has been presented in the table of ratio. To compute the value of A.M. of current ratio, the table no:-1 has been rearranged in such a manner that is given in following table. Similarly, the value of current ratios are also arranged to compute the value of S.D. for simplicity there.

Data's to compute A.M., S.D. and C.V of current ratios .

Table No:-22

F.Y.	X	$X-\overline{X}$	$(X-\overline{X})^2$
2057/58	0.6342	0.1139	0.01297
2058/59	0.5574	0.0371	0.00138
2059/60	0.4798	-0.0405	0.00164
2060/61	0.4427	-0.0776	0.00602
2061/62	0.4988	-0.0215	0.00046
2062/63	0.5089	-0.0114	0.00013
N=6	$\sum X$ =3.1218		0.0226

Where X = current ratio

$\overline{X}$ = arithmetic mean

$$\text{A.M. } (\bar{X}) = \frac{\sum x}{N} = 0.5203$$

The calculated A.M. is not favorable in the case of current ratios. This tools suggests the management to maintain the A.M. with standard of other manufacturing industries to keep the favorable financial position. In HCIL, most of all average ratios are below the standard of other business and manufacturing enterprise. The A.M of current ratio is not favorable for HCI L.

4.2.2. Standard Deviation:-

Standard deviation is a statistical tool which is commonly used to measure the risk or dispersion of observations. Standard deviation measured the absolute dispersion or variability of a series. The computed A.M. of various ratios has been presented in the table of ratio. Standard deviation is denoted by ± and it is computed as follows.

$$\pm = \frac{\sqrt{\sum(x-\bar{x})^2}}{n-1}$$

$$= \sqrt{\frac{0.226}{6-1}}$$

$$= 0.0672$$

The value of S.D. can be supposed a lower value, so there is a high degree of uniformity in the current ratio during the study period. This tool suggests the management to keep the ratio nearest each other to make the better financial position. High dispersion of value is not favorable for any type of business concern.

4.2.3. Co-efficient of Variance:-

The coefficient of variance is the relative measure of dispersion, which is also define as the ratio of standard deviation to the mean expressed in percentage. It has been presented in all concerned table and is calculated as

$$\text{C.V.} = \frac{S.D.}{\bar{X}} \times 100$$

$$= \frac{0.0672}{0.5203} \times 100 = 12.93\%$$

This result indicates that there is high consistency in the value of current ratios.

Correlation Analysis:- 4.2.4.

This is a statistical tool that we can use to describe the degree which one variable nearly related to another.

A. calculation of co-efficient of Co-relation between sales and gross profit:-

We Know that,

Karl Pearson's co-efficient of correlation

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

Here,

N=number of series of X and Y absorbed.

X=Values of sales (in RS.)

Y=Values of Gross profit (in RS.)

Co-relation between sales and gross profit

Table No:-23

Fiscal years	X(in millions)	Y(in millions)	X^2	Y^2	Xy
2057/58	542.17	106.26	293948.30	11937.75	59237.50
2058/59	427.64	24.17	182021.69	584.19	10336.06
2059/60	598.14	86.04	357771.43	7402.88	51463.96
2060/61	416.06	27.51	173105.92	156.80	11445.81
2061/62	655.40	147.80	429549.16	21844.84	96868.12
2062/63	658.72	187.17	433912.04	35032.61	123296.62
	$\sum X =$	$\sum Y =$	$\sum X^2 =$	$\sum Y^2 =$	$\sum XY =$
	3298.13	**581.95**	**187030.60**	**76959.07**	**352648.07**

Now, substituting the values in the above formula, we get

$$r = \frac{6 \times 352648.07 - (3298.13 \times 581.95)}{\sqrt{6 \times 1870308.60 - (3298.13)^2}\sqrt{6 \times 76959.07 - (581.95)^2}}$$

$$= \frac{2115888.42 - 1919346.75}{\sqrt{11221851.6 - 10877.66}\sqrt{461754.42 - 338665.80}}$$

$$= \frac{196541.67}{3348.28 \times 350.84}$$

$$= \frac{196541.67}{1174.71} = 0.1673$$

4.2.5. Calculation of coefficient of Determination

$$r^2 = (0.1673)^2$$

$$= 0.028$$

Here, the value of 'r' is position. It shows that correlation between sales and gross profit is positive, i.e., it moves in the same direction. Coefficient of determination tells that only 2.80% of the variation in the gross profit has been explained by the sales.

B. Calculation of coefficient of correlation between sales and profit after tax.

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

Here,

N=6

X=Denotes sales (in Rs.)

Y=Denotes profit after tax (in Rs.)

Co-relation between sales and profit after tax

Tables No:-24

Fiscal Year	X(in millions)	Y(in millions)	X^2	Y^2	xy
2057/58	542.17	-27.86	293948.30	786.18	-15104.85
2058/59	427.64	-116.91	182021.69	13676.95	-49995.40
2059/60	598.14	-62.48	357771.46	3903.75	-37371.78
2060/61	416.06	-89.57	173105.92	8022.78	-37266.50
2061/62	655.40	20.72	429549.16	429.32	13579.90
2062/63	658.72	65.72	433912.04	4319.12	83291.08
	$\sum x =$	$\sum y =$	$\sum x^2 =$	$\sum y^2 =$	$\sum xy =$
	3298.13	**-210.38**	**1870308.6**	**31119.10**	**-82867.55**

$$r = \frac{6x - 82867.55 - (3298.13x - 210.38)}{\sqrt{6x1870308.6 - (3298.13)^2}\sqrt{6 \times 31119.10 - (-210.38)^2}}$$

$$= \frac{-497205.3 + 693860.58}{\sqrt{11221851.6 - 10877.66}\sqrt{186714.6 - 44259.74}}$$

$$= \frac{196655.28}{1263.74}$$

$$= 0.1556$$

Calculation of coefficient of Determination

$$r^2 = (0.1556)^2$$

$$= 0.0242$$

Here, the positive "r" shows the relationship between sales and net profit after tax moves in positive direction. Coefficient of Determination tells that only 2.42 % of variation in the profit after tax has been explained by the sales

CHAPTER FIVE

SUMMARY, FINDINGS AND RECOMMENDATIONS

Summary 5.1

The government of Nepal has established the various public enterprises in different sectors during the different periodic plans to accelerate the social and economic development in the country, taking the PEs as a development tool. To fulfill the minimum public needs and to build basic physical infrastructures, PEs has been established on the public sector. Among the various PEs, HCIL is one of the most invested and huge government project. HCIL is an undertaking of government of Nepal and was established in 2033 B.S. to produce the constructive cement material and to fulfill the internal demand of cement in Nepal. The plant of HCIL has an annual capacity of 260000 Mt. of cement and was installed with loan assistance from Asian Development Bank (ADB). It commenced its commercial production since 2042 B.S. Since the commercial operations it has been facing various problems. The demand of its product is quite sufficient but the supply side of HCIL is less. It is not succeeding to supply the demand as its annual capacity. Instead of profit, it is going on heavy loss year by year. Success of any business enterprises is measured by capacity utilization and surplus generation but HCIL is far from these elements. It has been an economic prudent to the government. It this situation continues for some time, how can the industry survive in the society? It has been a sensitive aspect I the present context.

Actually what financial situation is there in HCIL? It needs a research study during the some past years. Financial analysis is a major aspect of research study, so here a financial aspect of HCIL during the past 6 year's periods has been studied to observe the existing financial strength and weakness of HCIL. To any research studies statistical data are necessary and very important so for this financial information have been collected from the central office of the HCIL during the six years periods from F.Y.2057/58 to F.Y. 2062/63. After collecting them, they are organized in a systematic way in order to use the financial as well as statistical tools easily as necessary. To make this study more effective, review of some research studies have been adopted relating to the financial performance of Nepalese public enterprises of various researchers.

To study the financial position, financial tools like ratio analysis, and statistical tools like arithmetic mean, standard deviation, coefficient of variance, and correlation analysis have been followed. With the help of these tools, it has been easy to evaluate and interpret the financial position of HCIL. Graphs, charts and tables have been also used to make the study more effective.

Ratio analysis has been employed in this study to identify the financial strength and weakness of HCIL through a comparison of the industries ratios over a period and comparing with the average standard of other industries. Ratio analysis consists of liquidity ratio, leverage ratios, turnover ratios and profitability ratios. Liquidity ratios measure the ability of HCIL to meet the short term obligation whereas the leverage ratios reflect the HCIL's

efficiency in utilizing it's assets in generating sales whereas profitability ratios measure the overall financial performance of HCIL by determining the effectiveness in generating the profit. The evaluation and int3rpretation of ratios are an attempt to determine the significance and meaning of the financial statements which would be helpful in forecasting the future prospects.

Statistical tools have been observed in this study to analysis the financial performance of HCIL by showing the relationship between various financial terms. Trend analysis has been adopted to show the trends of direction of financial items of financial statements over a period. This will help to forecast for improvement of financial performance. Arithmetic mean reflects the average financial performance of HCIL over a period. Average of various ratios has been computed and has been compared with the average of past 6 year's periods of the same industry and average standard of other industry. Standard deviation has been adopted to show the dispersion or variability of ratios over a period. This helps the management of HCIL to control the fluctuation of financial performances. Correlation analysis is adopted to show the relationship between various financial variables either their relationship is significant or not and they are associated with each other positively or inversely.

While applying the methods of analysis like financial and statistical tools to analyze and evaluate the financial soundness of HCIL, following results have been achieved; the results are taken as the findings of this study.

Findings 5.2

On the basis of evaluation and interpretation of methods of analysis, financial statements, accounting system and reports, booklets, souvenirs and from other related materials during the study periods some facts are observed. These observations are pointed as the findings of this study. These findings will be very useful to both the management of HCIL as well as to its debt holders. The main findings are as follows:

Current ratios and quick ratios show that the liquidity position of HCIL is very weak. It i9ndicates HCIL is not capable to pay its current obligations easily. Also there is no consistency in the ratios over a study period. The quick ratio indicates HCIL lit out selling its inventories; it cannot pay off its current liabilities. The two ratios together imply that the short term liabilities are not processed for generating high output. They are just used for operation purpose only.

To see the total debt to net worth ratio as well as the long-term debt to net worth ratio there is a high portion of debt capital against equity capital or net worth. These ratios also indicate that the long-term financial liquidity position o HCIL is not favorable. If this situation remains along with a time, there will be difficult to recover the long-term liabilities by the industry and debtors my not take interest to invest capital in the industry.

The average interest coverage ratio of HCIL is not favorable because EBIT is not capable to pay the annual interest charges of loan. How can HCIL run smoothly in this condition ?

Inventory turnover ration indicates that there are no excessive stocks of inventory. This also indicates that the funds are mobilized in necessary activities. There is also no worst dispersion in the turnover ratios.

The fixed assets turnover ratio is highly unfavorable due to investment of huge amount in fixed assets and less turnover of sales as compared to fixed assets. The trend of these ratios can be supposed satisfactory to some extent.

The total assets turnover ratio is also highly unsatisfactory. The total assets creates nominal amount of sales per rupee. The trend of these ratios is not satisfactory but the dispersion is less during the study periods.

Debtor's turnover ratio is extremely high and it shows that the industry has not adopted good credit policy to increase sales. It means all sales are in cash. There is a high variability in the dispersion of ratios over a period.

Gross profit margin ratio is not satisfactory because the cost of goods sold is high and also the trend of these ratios looks unsatisfactory.

Net profit margin ratio indicates the inefficiency of management to earn required profit. The average ratio is in negative from although there are two positive ratios in the study periods. There is a least consistency in the ratios over the periods.

Operating expenses ratio indicates that the industry is investing a high amount of expenses to earn a one rupee of sales. This is too unfavorable condition for HCIL. Also there is too less variability in the ratios. Similarly the cost of goods sold and the other operating expenses ratios are also too unfavorable for HCIL.

Return on total assets ratio is also unsatisfactory. The average ratio is in negative picture although there are two positive figures in the study periods but in small figure. There is a high veniality in the ratios.

Return on shareholder's equity is unsatisfactory. The average turn on equity ratio is in negative figure and there is least consistency in the variability of the ratios during the study periods.

There is no consistency in working capital in the financial performance of HCIL. Increase and decrease in W.C. has not played a role theoretically in getting of profit.

Decrease in working capital, sale of fixed assets, miscellaneous income and funds from operation are used in payment of long-term loan, payment of interest on long-term loan, to fulfill the W.C., to purchase of fixed assets and to invest in okhre mines development in HCIL.

There is a high portion of funds from operation is total available funds where as a high portion of total available funds is used in payment of long-term loan and interest on loan.

The trend of CA and CL doesn't look satisfactory. It doesn't show the efficiency in liquidity position. The increasing rate of CL is over than the rate of C.A.

The trend of net profit (loss) is very unsatisfactory. It is highly fluctuated every year. The trend line has started from the negative stage and ended to negative area.

Most of all arithmetic mean (average) ratios over a study period are generally low and less consistency in them. Less consistency in the ratios is not favorable for the industry.

Coefficient of correlation analysis between sales and gross profit indicates there is positive as well as significant correlation between these financial items.

Coefficient of correlation analysis between sales and net profit (loss) indicates that there is a positive as well as significant correlation between these financial variables.

The capacity utilization of plant doesn't satisfactory. Highest capacity utilization is 54% during study period. This indicates that the machines and equipment are kept idle instead of mobilization them in productive work.

The accounting information given by final accounts is seemed confusing. The financial statements are not prepared systematically by classifying the financial items according to their nature.

The demand of HCIL's product is quite sufficient but the supply side of HCIL is less. It indicates that there is some problem in production works. That may be due to unusual delay in obtaining the essential spares and raw materials but there is no any problem in marketing of cement.

Limestone produced from Bhainse quarry is low in quality or low in lime content. Hence, higher grade if limestone must be purchased and blended to get desired quality of raw material mix for ordinary Portland cement manufacturing.

The above findings indicate that HCIL has very weak financial position and lack of managerial professionalism to run the industry smoothly. HCIL has no effective programmers to achieve desired goals and objectives and overcome the existing problems and challenges. Major factors for such dismal performances are the low capacity utilization, poor competitive capacity, lack of professionalism, weak managerial capability, delay and untimely decision making, lack of risk taking capabilities and so on. Other factors contributing to poor performance are the frequent changes of management, political interference that has further worsened the situation of HCIL.

Recommendation 5.3

To study the financial performance of HCIL for a six years period, a detail research study has been prepared by the review of related materials and by applying the various financial as well as statistical tools. From this study, a result has been achieved which is given in the findings section. To observe the main findings of this study and the financial statements of HCIL, the financial position of HCIL is not too much satisfactory or the industry seems financially too weak. If this situation continues for some years, then the HCIL

will be great burden on public revenue. For solving this problem, a concrete step should be followed by the management of HCIL. Organizational, managerial, technical and manufacturing Problems should be found out and they should be avoided by an appropriate managerial planning process. On the basis of above analysis and the findings, following suggestions and recommendations can be presented to improve the financial position of HCIL. If these recommendations can be adopted by the government and the management of HCIL, then HCIL will be benefited and improved undoubtedly.

1. The demand of Hetauda cement is quite sufficient but the supply side of HCIL is less. Its capacity utilization is around 54% of annual capacity. It indicates, the rest capacity of plant is idle. This may be due to lack of raw materials in the production process. As possible, the plant capacity should be used at maximum in the range of annual capacity. An availability of row materials should be made fixed for regular production process. A provision of raw materials like coal, gypsum iron core, limestone should be stored for a sixth month period by maintaining an appropriate inventory. Any way the production work should be continued. It should not be interrupted.

2. HCIL is suffering from getting a high qualitative limestone material. Limestone produced from Bhainse is low in lime content. Now HCIL is purchasing a higher qualitative limestone from others to mix in the limestone of Bhainse for getting desired quality. Since a long period, HCIL is developing its own Okhre limestone deposit for getting a higher quality of limestone. Even, limestone is not available from the Okhre quarry. Due to lack of capital, the development of Okhre limestone should be completed as soon as possible in next two years because it is too urgent job to HCIL for smooth operation of plant. Technically this development project is vast, if foreign technology is necessary there, technical assistance also should be demanded from technical donors.

3. Some of the installed machines and equipment have become old and useless. Their repairs and maintenance should be done repeatedly. For such preventive maintenance method to be safe from idle time and break down problem. High amount of repair and maintenance cost is seen in each fiscal years. This also should be minimized as possible.

4. The management of HCIL should try to minimize heat and power expenses, wages and salaries and administrative expenses because these costs are increasing in every fiscal year.

5. An appropriate man power planning should be followed. Over staffing should be avoided by providing facilities to resign them. Motivational programmers should be conducted in this way that they would think it is our own industry. Reward and punishment system should also be introduced to make more effective. Effective training programmer should be provided to the job. Honesty should have to be created to all the personnel's in the HCIL.

6. The industry should be modernized by keeping modern equipments. It helps to reduce unnecessary employees and provided good information. Upward and downward information system should be adopted to achieve goals.

7. The government should appoint the quite skilled professional person on the post of chairman and the general manager. The top level management BOD should make their mind concentrated to the performance to HCIL. They should not look for getting only physical and economical facilities. They should have position attitude to the life of HCIL. Similarly the G.M. should be appointed from the internal personnel's because he will be quite known to the activities of HCIL than the other political person. Government intervention in every activity should be avoided. Fully autonomy should be given to the top level management. Now only semi antinomy has been provided by the government in real sense. The system of frequent change as well as the G.M. should be avoided because this system has been creating the unstable environment in the job performance of the HCIL. The frequent change of chairman and G.M. should be avoided; they should work in their post at least for five years periods.

8. Goals and objectives should be defined clearly to regulate sells and productions. The management should make short range and long ranges sells and production plan. It should be tried to minimize the gap between planed and actual by adopting short range plan towards long range plan.

9. Planning, controlling and budgeting are the base of management and are closely interlinked. A major reason for installing a budget system is to provide a means of control. Control is the process of insuring that the actual performance goes according to predetermined, plan. It includes reporting actual performance versus the budget. HCIL is not adopting the various budgetary control systems and the concept of variance analysis has been ignored completely. So it suggested to the management of HCIL that to prepare the strategies and practical profit planning in the industry. Flexible budget, sales budget, production budget can be used for the short range as well as the long range planning system. For cost variance analysis, standard costing is very useful for financial technique. From these planning more detail information about actual and standard performance will be known which also helps in preparation of future profit planning programs. It is also suggested to follow the cost volume profit analysis by the management of HCIL. This tool helps the HCIL to keep at equilibrium position or in no loss or no profit position. From this analysis the variable and fixed cost are also know

10. The observation of accounting system, generally the final account reveals that the HCIL does not prefer of modern practices of accounting system and there is also the lack of accounting charts and manual. The accounting dates are not reported timely to concerning department. Auditing is not also adapted in time, generally it is followed lately. So it is suggested to the management of HCIL that to flow the modern accounting system and to keep the data in time whatever come out at present. Similarly in the field of financial management, modern tools and techniques of

financial analysis like funds flow analysis, cash flow analysis, ratio analysis and trend analysis have not been adopted by the concerned authority. So it is also suggested to implement such tools and techniques to analyze the financial position to know actually what financial progress has been achieved at the end of period.

11. The interruption of electricity power time to time by the NEA is also the cause of breaking of production works and the increasing of manufacturing cost. For solving such problem, power generator should be managed for emergency purpose so that it could not interrupt the production work. The time of disconnecting the power line can be know if regular contact is made to NEP. This information will help the management to control the production work in the industry.

12. A healthy working environment, environment of mutual trust and mutual understanding and mutual cooperation among the employees from top level should be created.

13. The liquidity position is looked poor and it must be improved by adopting an appropriate strategy of maintaining adequate liquidity position either by increasing more current assets or by reducing the level of current liabilities or changing both the variables in either direction.

14. HCIL has not maintained and appropriate capital structure in terms of long term solvency. HCIL has been suffering from the payment of huge amount of interest as well as long term loan. Therefore, the long term debt must be reduced taking short term loan and by increasing owners capital.

15. The activity ratio shows the inefficiency of management and less utilization of plant and machines as compared to its capacity. The production level should be increased by utilizing its present fixed assets at full capacity by adopting short range and long range production plan. Unnecessary fixed assets should be sold off. The plant layout should be managed in order to help to increase production if necessary.

16. Profitability ratio indicates weak financial position. HCIL has been suffered by heavy loss due to lower amount of sales and the higher cost of production and operating cost as well as interest and differed revenue expenditures. The industry should launch a long range program to cut down the excessive cost and adopt standard costing, budgeting, cost control, techniques in this regard.

17. The available funds should be invested in the sector of productive function.

The End