

An Internship Report  
on  
Working Capital Management and its Effects on ROE of Sonali Bank  
Limited

*This report is submitted to the Department of Finance and Banking, Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur for the partial fulfillment of the degree of Master of Business Administration (MBA) in Finance.*



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March, 2022

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March, 2022



*Dedicated  
To My  
Beloved Parents*

## ACKNOWLEDGEMENT

It is my great privilege to express my gratitude to the almighty Allah for such great opportunity to be in touch with Sonali Bank Limited for 90 days. I have to put my heartened feelings and gratitude for the kindness and assistance that was provided to me to complete my assigned report on the topic of **“Working Capital Management and its Effects on ROE of Sonali Bank Limited”**

In preparing this report and for giving me the direction and showing me the right path, I want to express my deepest gratitude and I will never forget to thank my honorable supervisor Humaira Begum, Assistant Professor, Department of Finance and Banking, Hajee Mohammad Danesh Science and Technology University. I also want to express my gratitude to my honorable co-supervisor Ayrin Sultana, Assistant Professor, Department of Finance and Banking, Hajee Mohammad Danesh Science and Technology University. I will never forget the kind cooperation I received from my honorable supervisor and co-supervisor. I express my heartfelt thank to all the officials, all other faculty members who gave me necessary information and excellent guidance to prepare this internship report. I would like to thank from the deep of my heart to those people who are related with making of this report successful.

At last but not the least, I am fully indebted to Hajee Mohammad Danesh Science and Technology University, Dinajpur for giving me an opportunity to complete my MBA in Finance and for giving me a scope to gather practical experience and enrich my knowledge thereby.

May almighty Allah bless all of them.

.....  
**Mst. Shrabone Akter Bristy**

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MBA in Finance

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সোনালী ব্যাংক লিমিটেড

**Sonali Bank Limited**

উদ্ভাবনী ব্যাংকিং এ আপনার বিশ্বস্ত সঙ্গী

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NO. SBL/RAJ/BAG/2022/215

Date: 10/03/2022

### TO WHOM IT MAY CONCERN

This is to certify that, **Mst. Shrabone Akter Bristy** having Student ID No. **1905755**, MBA in Finance, Faculty of Business Studies, a student of Hajee Mohammad Danesh Science & Technology University (HSTU), Dinajpur, under MBA program has successfully completed her **90 (Ninety) days** internship program (**From 21 November, 2021 to 20 February, 2022**) at Sonali Bank Limited, Bagha Branch, Rajshahi.

During her internship period **Mst. Shrabone Akter Bristy** was found honest, sincere & responsible to her assigned duties.

We wish her every success for the days to come.

.....  
Md. Ashrafuzzaman  
Manager  
Sonali Bank Limited  
Bagha Branch, Rajshahi.

## CERTIFICATE OF SUPERVISOR

This is to certify that **Mst. Shrabone Akter Bristy**, a student of MBA in Finance, Department of Finance and Banking, Faculty of Business Studies, bearing student ID No. 1905755 has prepared an internship report entitled on “**Working Capital Management and its Effects on ROE of Sonali Bank Limited**” under my supervision.

I have gone through the draft copy of the report. Thoroughly I found it satisfactory for submission to the Department as a part of partial fulfillment of MBA degree.

I recommend the report to submit for awarding the degree of MBA in Finance, HSTU, Dinajpur.

I wish her every success in life.

-----  
**Humaira Begum**

Assistant Professor &

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Hajee Mohammad Danesh Science and Technology University, Dinajpur.

## **CERTIFICATE OF CO-SUPERVISOR**

I hereby declare that the concerned report entitled on “**Working Capital Management and its Effects on ROE of Sonali Bank Limited**” is done by **Mst. Shrabone Akter Bristy**, a student of MBA in Finance, Department of Finance and Banking, Faculty of Business Studies, bearing student ID No. 1905755, completed her internship under my co-supervision and submitted for the partial fulfillment of the requirement of the degree of MBA in Finance at Hajee Mohammad Danesh Science and Technology University, Dinajpur.

I found the internship report satisfactory for submission to the Department as a part of partial fulfillment of MBA degree.

I wish her every success in life.

-----

**Ayrin Sultana**

Assistant Professor &

Internship Co-supervisor

Department of Finance and Banking

Faculty of Business Studies

Hajee Mohammad Danesh Science and Technology University, Dinajpur.

## STUDENT'S DECLARATION

I hereby declare that the internship report entitled on “**Working Capital Management and its Effects on ROE of Sonali Bank Limited**” embodies the result of my own efforts after the completion of 90 days internship with Sonali Bank Limited at Bagha Branch, Rajshahi, has prepared under the supervision of Humaira Begum, Assistant Professor and co-supervision of Ayrin Sultana, Assistant Professor, Department of Finance and Banking, Faculty of Business Studies, HSTU, Dinajpur.

I also confirm that the report is only prepared for my academic requirement, not for any other purposes and has not been/will not be submitted elsewhere for any other purposes.

I would be very happy to provide you with any clarification regarding the report.

-----  
**Mst. Shrabone Akter Bristy**

Student ID: 1905755

MBA in Finance

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## **ABSTRACT**

This paper is an attempt to investigate the effects of working capital management efficiency as well as effects on the ROE of the Sonali Bank Limited. The paper tries to find out whether empirical results on the relationship between working capital management practices and ROE of bank like Sonali Bank Limited. The data was collected from secondary sources; this data was mainly collected from published financial statements. This data was over a period of 8 years from 2013 to 2020. The descriptive statistics such as mean and standard deviation were used to measure variations. Correlation and regression analysis were used to analyze the data and testing of hypotheses. This paper found that working capital variables like credits payment period, leverage, growth and credit risk has negative relation with return on equity but there was a positive relation with Cash Conversion Cycle and Debtors collection period. Among six hypotheses only one hypotheses were accepted. It can conclude that there is a relationship with working capital management variables with ROE (uses as a proxy).

Keywords: Working capital management, Cash Conversion Cycle, Debtors collection period, ROE.

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# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

Working Capital refers to that part of the firm's capital, which is required for financing short-term or current assets such as cash, marketable securities, debtors and inventories. Funds thus, invested in current assets keep revolving fast and are constantly converted into cash and this cash flows out again in exchange for other current assets. Working Capital is also known as revolving or circulating capital or short-term capital. Among all the problems of financial management, the problems of working capital management have probably been recognized as the most crucial one. It is because of the fact that working capital always helps a business concern to gain vitality and life strength. Sonali Bank was established in 1972 under the Bangladesh Banks (Nationalisation) Order, through the amalgamation and nationalisation of the branches of National Bank of Pakistan, Bank of Bahawalpur and Premier Bank branches located in East Pakistan until the 1971 Bangladesh Liberation War. When it was established, Sonali Bank had a paid up capital of 30 million taka. In 2001, its authorised and paid up capital were Tk 10 billion and Tk 3.272 billion respectively. Presently, its authorised and paid up capital is Tk 10 billion and Tk 9 billion respectively. The bank's reserve funds were Tk 60 million in 1979 and Tk 2.050 billion on 30 June 2000. In 2013, \$250,000 was stolen from the bank by cyber criminals using the Swift International payments network. In 2016 the Bank signed an Memorandum of Understanding with PayPal. Sonali Bank has a total of 1227 branches. The most recent branch that opened services is in Rajshahi University Campus Branch, Rajshahi. Out of them, 467 are located in urban areas, 746 in rural areas, and 2 are located overseas (India). It also operates the Sonali Exchange Company Inc. in USA, Sonali Exchange in Dubai (UAE), Sonali Bank (UK) Ltd., United Kingdom, Hong Kong, (HAR), and Singapore to facilitate foreign exchange remittances. Sonali Bank UK remits up to 25 destinations across Bangladesh directly, these include Dhaka, Chittagong, Sylhet, Moulvibazar, Beanibazar, Balaganj, Biswanath, Jagannathpur, Sunamganj, Gopalganj, Nabigonj, Hobigonj, Kulaura, Tajpur. This study seeks to investigate the problems a bank like SBBL bank that is a Public bank and its working capital management and its effect on bank ROE. Working Capital has an important role played by banks in developing countries also like Bangladesh. The banking industry also

appears not to be doing badly, In spite of its importance and attractiveness, not all banks have had it easy operating in the country. While some banks have had to liquidate like Oriental Bank (bankrupt), BASIC Bank Limited Islamic Bank Limited and Janata Bank Limited have huge cash crisis. Even though strong empirical support may not be found to support the assertion that poor working capital management practices could play a major role in bank performance and failures, very few would deny it. These are the major motivations for the current study. Specifically, the study unveils the relationship between working capital management and ROE of Sonali Bank Limited SBL as a sample of a case study. Working Capital is also known as revolving or circulating capital or short-term capital. Among all the problems of financial management, the problems of working capital management have probably been recognized as the most crucial one. It is because of the fact that working capital always helps a business concern to gain vitality and life strength. Sonali Bank conducts its business to provide services to the customers and society at large and thus maximizes values for its stakeholders in a fair, transparent and ethical way. Profit maximization is not the sole objective of the Bank. Along with profit earning we are committed to make positive contribution to the economy and the society as a whole in a sustainable manner.

## **1.2 Significance of the study**

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between balance sheet items and profit and loss accounts. Financial analysis can be done by the management of the firm, namely the owner, borrower, investor and others. Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "indicative quotes of two mathematical expressions" and "relationship session between two or more objects".

The ratio helps to summarize a large amount of financial data and give quality verdicts about the firm's financial performance. Working Capital Management works on managing current assets. Management of current assets is similar to specific assets in which both cases the firm analyses their impact on their returns and risk profiles. But the management of immovable property and current assets is different in three aspects. First, in real estate management, time is a very important element; As a result, discounting and compound strategies play an important role in capital budgets. Secondly, large holdings of current assets, especially cash, strengthen the firm's liquidity position (and reduce

risk). Thirdly, the level of fixed and current assets depends on expected sales, but it is only current assets which can be coordinated with sales fluctuations in the short term. Thus with such importance attached, a due diligence should be given to proper management of the working capital.

### **1.3 Objectives**

- i. To examine the relationship between working capital management and ROE of Sonali Bank Ltd during 2013-2020.
- ii. To suggest some measures for improvement in working capital management of Sonali Bank Ltd.
- iii. To assess the current liability positions and the efficiency with which the overall working capital is being managed.

### **1.4 Limitation of the report**

The report faced some problems during its preparation, which has limited the purpose of the report. The limitations are:

- i. To maintain the confidentiality of the information data availability is a big issue.
- ii. The internship has been made for three months long duration but it is very much difficult to set true practical experience with current world circumstances in this short span of time.

In spite of all these limitations I have tried to put the best effort as per as possible.

### **1.5 Overview of Sonali Bank Limited**

#### **1.5.1 Overview**

Sonali Bank Limited is a state-owned leading commercial bank in Bangladesh. It is the largest bank of the country. Sonali Bank was established in 1972 under the Bangladesh Banks (Nationalization) Order, through the amalgamation and nationalization of the branches of National Bank of Pakistan, Bank of Bahawalpur and Premier Bank branches located in Pakistan until the 1971 Bangladesh Liberation War. When it was established, Sonali Bank had a paid up capital of 30 million taka. In 2001, its authorized and paid up capital were Taka 10 billion and Taka 3.272 billion respectively. Presently, its

authorized and paid up capital is Taka 10 billion and Taka 9 billion respectively. The bank's reserve funds were Taka 60 million in 1979 and Taka 2.050 billion on 30 June 2000. The bank has been converted to a Public Limited Company with 100% ownership of the government and started functioning as Sonali Bank Limited from November 15, 2007 taking over all assets, liabilities and business of Sonali Bank. After corporatization, the management of the bank has been given required autonomy to make the bank competitive & to run its business effectively During 2013, \$250,000 was stolen from the bank by Cyber criminals using the Swift International payments network. In 2016, the Bank signed a legal Memorandum of Understanding with PayPal.

Sonali Bank has a total of 1211 branches. Out of them, 343 are located in urban areas, 862 in rural areas, and 2 are located overseas. It also operates the Sonali Exchange Company Inc. in USA and Sonali Bank (UK) Ltd., United Kingdom, to facilitate foreign exchange remittances. Sonali Bank UK remits up to 14 destinations across Bangladesh directly, these include Dhaka, Chittagong, Sylhet, Moulvibazar. Beanibazar. Balaganj, Biswanath, Jagannathpur, Sunamganj, Gopalganj, Nabigonj, Hobigonj, and Kulauraor Tajpur. There are currently three branches in the UK, one located in Osborn Street, London, another in Small Heath; Birmingham and in Manchester. Sonali bank Limited is governed by a Board of Directors consisting of 11 members. It is headed by the Managing Directors & CEO, who is a well-known Banker and a reputed professional. The corporate head quarter of the bank is located at Motijheel, Dhaka, Bangladesh. The main commercial center of the capital.

### **1.5.2 Vision**

Socially committed leading banking institution with global presence.

### **1.5.3 Mission**

Dedicated to extend a whole range of quality product that support divergent needs of people aiming at enriching their lives, creating value for stakeholders and contributing toward socio-economic development of the country.

#### **1.5.4 Objectives of Bank**

Sonali Bank has a various types of Objectives. Important objectives of Sonali Bank are as follows:

1. To collect of deposits
2. To alleviate poverty
3. To secure deposit
4. To inspire savings
5. To create employment
6. To control loan
7. To create medium of exchange
8. To expand trade and commerce
9. To helps in industrialization
10. To increase the capital formation
11. To provide the customers service
12. To earn profit
13. To ensure Regional Development.

Without those objectives, there are some others too. The bank is responsible to provide all types of banking services to the door steps of people. The bank participates in various socio-economic development activities and also takes part in implementation of various polities and program made by government. As the largest state oriented and professional managed leading bank of the country.

#### **1.5.5 Strategic Significance of Bank**

As a commercial bank, Sonali Bank has some core responsibilities towards customers, management, shareholders and other business organizations, the bank is responsible for sound customer satisfaction through quality and timely services. Like every commercial bank this bank has some common goals to be met. In the present world, security is a common talk in wealth preservation. This bank helps clients to securitize their wealth through secure banking system. Sonali Bank helps the regional development of Bangladesh by the expansion of loan portfolio to the business, agro-sectors, industry. A unique feature of Sonali Bank is that it works in favor of Bangladesh bank by settling commercial transactions among commercial bank known as clearing house. It has

expanded its online services maintaining competition with others commercial banks such online checking customers account, issuing visa and master card to support online transactions, online settlement of customers account etc. The bank does some social services to create positive image in the country such as acceptance of scraped money, providing scholarship facility to meritorious students. Finally, the bank is serving society and more responsive to the environment through innovation and challenges.

## **CHAPTER 2**

### **LITERATURE REVIEW**

Sultana (2021) reported that working Capital refers to that part of the firm's capital, which is required for financing short-term or current assets such as cash marketable securities, debtors and inventories. Funds thus, invested in current assets keep revolving fast and are constantly converted into cash and this cash flow out again in exchange for other current assets. It is an attempt to investigate the effects of working capital management efficiency as well as effects on the profitability of Sonali Bank Limited, Bangladesh. This tries to find out whether empirical results on the relationship between working capital management practices and profitability of Sonali Bank Limited, Bangladesh. The data was collected from secondary sources; this data was mainly collected from published financial statements. This data was a period of 8 years from 2013 to 2020. The descriptive statistics such as mean and standard deviation were used to measure variations. Correlation and regression analysis were used to analyze the data and testing of hypotheses. It is found that working capital variables like credits payment period, leverage, growth and credit risk has negative relation with return on equity but there was a positive relation with Cash Conversion Cycle and Debtors collection period. Among six hypotheses only two hypotheses were accepted. It can conclude that there is a relationship with working capital management variables with profitability.

Oladipupo, Adekanbi and Oluwadare (2019) found that in companies listed on the Nigerian Stock Exchange, cash collection and spending have negative effects; the current ratio of payment and inventory period both have a positive impact on the rate of return of assets. From there, they recommend that while maintaining a shorter collection, they do not extend the payment time for creditors to enjoy a cash discount (if any) and businesses should be proactive in managing the principle materials to avoid idle resources that could negatively impact their financial performance.

Soukhakian and Khodakarami (2019) when studying the relationship between working capital management and efficiency as well as the regulatory role of macroeconomic factors (inflation and GDP) in Iran's listed manufacturing firms, has found that the cash conversion cycle is negatively related to an asset's rate of return (ROA). Macroeconomic

variables are positively and significantly related to ROA, but do not adjust the relationship between working capital management and business performance.

Vijayakumaran and Vijayakumaran (2017), while studying Sri Lanka's listed manufacturing firms from 2011 to 2016, found that when working capital is low, the relationship between WCM and profitability is positive. On the contrary, when the level of working capital is high, this relationship is reversed. From there, the researchers recommend the optimal working capital for businesses to balance the costs and benefits of maintaining working capital and thereby maximizing operational efficiency.

Nobanee (2017) when looking at the relationship between working capital performance and profitability of construction firms listed in the United Arab Emirates found a negative relationship between the cycle of net trade and the profits of the construction firms over a period of crisis. The study results also show a positive and important relationship between the net trade cycle and the profitability of UAE construction companies during the non-crisis period.

For the purpose of examining the relationship between working capital management and firm profitability, using table data set on high-growth firms from Central, Eastern and Southeast Europe from 2006 to 2015, Botoc and Anton (2017) found an inverse U-shaped relationship between working capital level and firm's profitability. From there, they point out the importance of short-term financial decisions in enhancing high-growth firms' profits.

Vijayakumaran (2017) found that when working capital was low, the relationship was positive, conversely, when the level of working capital is high, the relationship is reversed. Deriving from this, the researchers recommend that the optimal working capital for businesses is to balance the costs and benefits of maintaining working capital and thereby maximize their performance.

Sharma and Kaur (2016) examined that the working capital performance of Bharti Airtel during the period 2007-08 to 2014-15. An attempt has been made to measure the working capital performance with the help of ratio analysis. Statistical as well as econometric techniques are employed in order to assess the behavior of the selected ratios. Quick ratio, inventory turnover ratio, Debtors turnover ratio, gross profit ratio, operating profit ratio showed satisfactory performance and current ratio, of the company

were not found to be satisfactory. Except 2012 and 2014, working capital turnover ratio showed negative results. The correlation coefficient between liquidity and profitability of the selected company is observed to be 0.08. Motaals test also indicated significant improvement in liquidity performance during the study period. Finally, there exists significant negative relationship between liquidity and profitability, which indicates that Bharti Airtel has maintained post optimal level of liquidity (i.e., excess liquidity) during the period under study.

Lima, Martins, and Brandão (2015) found such factors as average collection period, average payment period, average inventory period, cash conversion cycles are negatively associated with profitability. In examining the relationship between WCM and the performance of Sri Lankan listed manufacturing companies between 2011 and 2016,

The study of Aregbeyen (2013) on the effectiveness of working capital management on the profitability of 48 large manufacturing firms on the Nigerian Stock Exchange (NSE) between 1993 and 2005 shows that WCM significantly reduces the profitability. The article concludes that improving WCM efficiency is essential and recommends that Nigerian manufacturing companies shorten the Average Collection Period, Average Payment Period, Inventory Turnover in Days and Cash Conversion Cycle. Studying the impact of working capital management on the profitability of SMEs in the Eurozone.

Gul et al. (2013) surveyed the impact of WCM on the profitability of 55 small and medium enterprises in Pakistan from 2006 - 2012 and found a positive relation between accounts payables and profitability; while there is a reverse link between accounts payables, inventory and CCC with increased profitability.

Studying the effect of working capital management on the performance of companies listed on the Tehran Stock Exchange (TSE), Vahid, Elham, Mohsen, and Mohammadreza (2012) found the factors of the Average Collection Period, Inventory Turnover, Average Payout, Cash Conversion Cycle, and Net Trade profitability have a negative impact on profitability. This research also shows that the cash conversion cycle factor, although negatively related to profitability, is negligible.

Vural, Sökmen, and Çetenak (2012) studied 75 listed manufacturing firms on Istanbul Stock Exchange for the 2002 - 2009 period and concluded that the CCC and accounts payables are negatively related to profitability of a firm. It means that managers of a

company can raise its profitability by reducing the collection period of accounts payables and CCC. At the same time, this work did not find any link between the number of day inventory, accounts payables and profitability.

Song, Liu, and Chen (2012) found that the engineering working capital turnover ability, inventory turnover, liquid assets turnover, and receivables turnover have a positive impact on market competition performance. The study also found that the cash conversion cycle and the liquidity of working capital have a negative impact on competitive activities in the market.

Napompech (2012) when performing regression analysis on samples of 255 companies listed on the Stock Exchange of Thailand from 2007 to 2009 found an inverse relationship between operating gross profit and inventory conversion time and receivable debt collection. She suggested that managers can increase the profitability of a firm by reducing the CCC, inventory conversion period and receivable collection period. This study also reminded that these surveyed companies cannot raise their profitability by deferring payments to their suppliers. Through considering the impact of factors reflected on the working capital on engineering product market competition performance.

Alipour (2011) executed a survey of 1,063 companies listed at the Tehran Stock Exchange during the period 2001 - 2006 and found a strong reverse link between CCC and profitability of these firms. In which, two components of CCC including accounts payables and inventory expressed a significant negative relationship with profitability; while accounts payables and profitability showed a direct strong relation. This research suggested managers should reduce accounts payables and inventory in order to raise firm's profitability.

Mansoori and Muhammad's study (2012) of 92 industrial companies in Singapore in the period 2004-2011 or study by Lazaridis and Tryfonidis (2006) of 131 companies listed on the Athens Stock Exchange between 2001-2004 also showed similar results.

Nimalathan (2010) studied that the impact of working capital management on profitability of selected listed manufacturing companies from financial year 2003-2007. Correlation and regression analysis were performed. Results reveals that cash conversion cycle (CCC) and return on assets (ROA) are negatively correlated the value of -0.127

which is highly significant at 1 percent level of significance, which means that as the cash conversion cycle increases ROA decreases. In addition, inventory conversion period (ICP) is highly significant at 1 percent level. It indicates that with increasing level of ICP, ROA will be increased -0.065 levels. Further the coefficient of the CCC variable is negative at a value of -0.0503 and p value is 0.006. This implies that an increase in the number of day's cash conversion cycle by 1 day is associated with a decline in ROA by 5.03%. The results suggest that managers can increase profitability of manufacturing firms by reducing the number of day's inventories and accounts receivable.

Similar results with very few disparities are shown in Kenya Mathuva, Siddiquee and Khan (2009) found that, firms which are better at managing working capital are found to be able to make counter cycle moves to build competitive advantage. They are also better at generating fund internally and also face lesser trouble while seeking external sources of financing.

Singh and Pandey (2008) suggested that for successful working capital of any business organization, fixed and current assets play a vital role, and that the management of working capital is essential as it has a direct impact on profitability and liquidity.

Lazaridis and Tryfonidis (2006), investigated the relationship of corporate profitability and working capital management for firms listed at Athens Stock exchange. They reported that there is statically significant relationship between profitability measured by gross operating profit and cash conversion Cycle. Furthermore, Managers can create profit by correctly handling the individual components of working capital to an optimum level.

Deloof (2003) took his research on a survey of 1,009 big Belgian non- financial firms during the period of 1992 - 1996 and found a substantial negative link between gross operating income and the number of days of accounts receivable, accounts payables and inventory. It means that, in order to raise the profitability of a firm, its manager should reduce the number of days' accounts receivable, accounts payables and inventory while less profitable firms wait longer to pay their bills. In other words, this study concluded that there is a strong negative link between CCC and the profitability of the firm.

Shin and Soenen (1998) studied at 58,985 firms over the period 1975-1994 and concluded that there is a significant relationship between the length of a firm's net trade

cycle (NTC) and its profitability. They used NTC instead of CCC to measure WCM, because NTC is basically equal to the CCC where all its three components were expressed as a percentage of sales. In other words, it has a strong negative relationship between CCC and the profitability of a company. It means that the longer the NTC of a firm, the riskier it is for its profitability.

## **CHAPTER 3**

### **METHODOLOGY**

Methodology is the technique through which the research will be done. To do this research secondary data have been used mostly. SBL is one of the renowned names in the banking industry of Bangladesh. This research paper contains the analysis of eight years' data of SBL from the period of 2013 to 2020.

#### **3.1 Sample selection**

The evaluation of financial performance of Sonali bank Limited has become an important focus the study. So, this study uses Sonali bank as a sample.

#### **3.2 Selection period**

This study takes into account bank data of eight years from 2013 to 2020. Eight years bank data have taken as a sample or the purpose of the analysis of financial performance of Sonali bank Limited.

#### **3.3 Sources of data**

This study uses secondary data constituting the income statements and balance sheet sourced from the bank's annual reports and financial statements for the eight years period, between 2013-2020, available from websites. Secondary data is mainly collected from the annual reports of the company as well as some previous work on working capital management.

They are

- Official website of Sonali Bank Ltd.

#### **3.4 Data analysis**

As it is a quantitative report, data have been tabulated, analyzed and interpreted with the help of different financial ratios and statistical tools and most of the calculation was done through Microsoft Excel and SPSS.

### 3.5 Research Design

This research is ex-post facto research. This approach evaluates the relationship between variables which have been already occurred. Here variables were used to test the relationship between the working capital management and the ROE. I have used quantitative methods as financial data collected from the database was analyzed. The time series will be used to do the research. This is because I am going to use eight years time periods and observe the behaviors of working capital components, debt and size of the firm throughout those eight years from 2013 to 2020.

### 3.6 Variables

This study undertakes the issue key variables that may influence working capital management of Sonali Bank Limited (SBL). Choice of the variables is influenced by the previous studies on working capital management. All variables stated below have been tested the hypotheses of this study. They include dependent and independent and some control variables: For the purpose of analysis the ultimate measurement of ROE has been chosen to be return on equity (ROE). Variables calculations

Dependent variable: Return on equity (ROE)  $(y) = \text{Net Income after Taxes} / \text{Total Equity Capital}$ .

Independent Variables are: CCC, CPP, DCP, TDA, GRO and LLR.

x1 =Cash Conversion Cycle (CCC): Debtors collections period –Credit or period  
Assessing Relationship between Working Capital Management and Return on Equity of Sonali Bank Limited.

x2=Creditors Payment Period (CPP): Short term debt/Interest expense

x3=Debtors Collection Period (DCP): Current Assets/Investment Income

x4= Leverage (TDA): Total Debt/Net Asset

x5=Bank Growth (GRO) = Year on Year change in interest Income

x6=Credit Risk (LLR): Non Performing Loan/Gross Loan

### 3.7 Model specification

Following the study of Kithinji, (2010), this study utilized the econometric model namely the simple linear regression model. The specific model is given below.

$$Y \text{ (ROE) } I,t = \alpha + \beta_1 X_{1,t} + \beta_2 X_{2,t} + \beta_3 X_{3,t} + \beta_4 X_{4,t} + \beta_5 X_{5,t} + \beta_6 X_{6,t} + \varepsilon_{it}$$

Here Y's is the dependent variable, X's are the independent variables,  $\alpha$ ,  $\beta$  are unknown parameters to be calculated;  $\varepsilon$  is the error term, I refer to banks ( $i=1$ ) and t refers to time period ( $t=1$ ,  $T= (2013-2020)$ ).

### 3.8 Hypothesis of the Study

H01 - There is a no statistically significant relationship between CCC and ROE of the bank.

H02 - There is a no statistically significant relationship between CPP and ROE of the bank.

H03 - There is a no statistically significant relationship between DCP and ROE of the bank.

H04 - There is a no statistically significant relationship between TDA and ROE of the bank.

H05 - There is a no statistically significant relationship between GRO and ROE of the bank.

H06 - There is a no statistically significant relationship between LLR and ROE the bank.

## CHAPTER 4

### RESULTS AND DISCUSSION

#### 4.1 Results and Discussion

The Table-1 gives the descriptive statistics of the collected variables. The mean and median of Return on Equity (ROE) is and 573.38% and 406.5 respectively. The Cash Conversion Cycle (CCC) shows that, it takes the bank's around 203days on average (median 287 days). While creditors' payment period (CPP) average is 311 days (median 312days). On the other hand, Debtors collection period (DCP) shows average is 580 days. It means Sonali bank takes longer time to collect money then it disburses cash to its customers. Leverage (TDA) mean is 6.5099. Growth rate (GRO) mean is 1.3364% and median is 19.44%. Credit risk (LLR) is mean is .2624 and median is 2.85.

**Table 1: Descriptive Statistics**

|     | Min   | Max   | Mean    | Median | Stand Deviation | Variance |
|-----|-------|-------|---------|--------|-----------------|----------|
| CCC | 11.61 | 19.34 | 13.8862 | 12.75  | 2.76020         | 7.619    |
| CPP | .25   | .86   | .5600   | 0.586  | .19023          | .036     |
| DCP | 12.30 | 19.74 | 14.4500 | 13.205 | 2.7315          | 7.461    |
| TDA | 5.66  | 8.08  | 6.5099  | 6.511  | .79380          | .630     |
| GRO | -.85  | 4.88  | 1.3364  | 0.8582 | 1.83606         | 3.371    |
| LLR | 2.18  | .39   | .2624   | 0.2593 | .062448         | .004     |
| ROE | .99   | 11.05 | 5.7738  | 4.065  | 4.07198         | 16.581   |

#### 4.2 Pearson's Correlation Coefficient Analysis (SBL)

Table 2 presents Pearson Correlation coefficients for all variables are considered. There is a strong positive correlation between Return on Equity (ROE) with Cash Conversion Cycle (CCC) and Debtors Collection Period (DCP) that is 11.61 and 12.30% respectively. But there is a negative relationship between the Creditors Payment Period (CPP), Leverage (TDA), Growth (GRO) and Credit Risk (LLR) that is -.227%, -.067%, -.620%, .382% respectively relations with ROE. By analyzing the results, it is concluded the result is significant and If SBL increases working management then bank's ROE will be decreased.

### 4.3 Correlation between ROE and Working Capital Ratios

**Table 2: Correlation Matrix**

| VAR        | PROF (ROE) | CCC   | CPP   | DCP   | TDA   | GRO  | LLR |
|------------|------------|-------|-------|-------|-------|------|-----|
| PROF (ROE) | 1          |       |       |       |       |      |     |
| CCC        | .304       | 1     |       |       |       |      |     |
| CPP        | -.226      | -.184 | 1     |       |       |      |     |
| DCP        | .292       | .998  | -.117 | 1     |       |      |     |
| TDA        | -.067      | .601  | -.151 | .597  | 1     |      |     |
| GRO        | .620       | -.193 | -.571 | -.235 | -.021 | 1    |     |
| LLR        | .382       | -.248 | -.490 | -.285 | -.410 | .450 | 1   |

Source: SPSS

### 4.4 Regression Analysis

**Table 3: Regression Model**

|         |     |               |     |       |        |
|---------|-----|---------------|-----|-------|--------|
| Model a | ROE | -0.462+0.304X | CCC | 0.09  | Reject |
| Model b | ROE | 8.483+0.226X  | CPP | 0.051 | Reject |
| Model c | ROE | -0.511+0.292X | DCP | 0.08  | Reject |
| Model d | ROE | 8.007+0.067X  | TDA | 0.004 | Reject |
| Model e | ROE | 3.935+0.620X  | GRO | 0.385 | Accept |
| Model f | ROE | -0.765+0.382X | LLR | 0.014 | Reject |

Source: SPSS

The level of significant at 0.01

From the below (Table 3 and 4) calculation it shows that there is a significant relationship between dependent variable and independent variables. And at 1% level of significance the correlation for Cash conversion cycle is 30.4%. Here, adjusted R square is -.059 which means that about -5.9% variation of dependent variable is explained by independent variables included in this model. Table 3 and 4 shows the regression results run on Islamic Bank Bangladesh Limited. From ANOVA test it is revealed that the table significance value is grater that the calculated value. So, it rejected Five (5) null hypotheses (CPP is,0.051 DCP is 0.08, CCC is0.093 TDA is 0.004, and LLR is 0.014)

and one (1) null hypotheses are accepted (GRO is .0.385) at 1% level of significance. It means there is a significant relation between dependent variable and independent variables. But there is not significant relationship between bank Cash conversion cycle and growth with ROE. Thus, it can conclude that the there is a strong significant relationship between working capital management and bank ROE.

**Table 4: Regression Analysis**

| Dependent variable | Independent Variable | R    | R Square | Adjusted R Square | Coefficients | F-test | T-Stat | Std. Error |
|--------------------|----------------------|------|----------|-------------------|--------------|--------|--------|------------|
| ROE                | CCC                  | .304 | .093     | -.059             | .304         | .613   | .783   | .574       |
| ROE                | CPP                  | .226 | .051     | -.107             | .226         | .323   | -.568  | 8.513      |
| ROE                | DCP                  | .292 | .085     | -.067             | .292         | .558   | .747   | .582       |
| ROE                | TDA                  | .067 | .004     | -.161             | .067         | .027   | -.164  | 2.090      |
| ROE                | GRO                  | .620 | .385     | .282              | .620         | 3.751  | 1.937  | .710       |
| ROE                | LLR                  | .382 | .146     | .004              | .382         | 1.027  | 1.013  | 24.585     |

Source: SPSS

From below table (3 and 4) shows that, Rate 30.4%,  $R^2$  is 9.3% and Adjusted R square for CCC is -5.9% and F statistics for CCC is 7.8%. That means Cash Conversion Period is negatively related with ROE that means its ROE. If bank increases its Cash Conversion Period type (CCC) then it decreases banks ROE.

But for Creditors Payment Period (CPP) results show that the R is 22.6%,  $R^2$  is 5.1%, and Adjusted R square for CCP is 10.7%. -22.6 coefficient is -2.9%. That means Creditors Payment Period is negatively related with ROE.

Deferral Cash Payment (DCP) results shows that, R is 29.2%,  $R^2$  square is 8.5% and Adjusted R Square is -6.5% and F statistics for DCP is 55.8% and  $t=7.7\%$ . It means that Deferral Cash Payment period (DCP) is positively related with Return on Equity (ROE). If bank increases its Deferral Cash Payment period, then it increases banks ROE.

A leverage (TDA) result shows that, R is 6.7%,  $R^2$  is 0.4%, Adjusted R square is -16.1%,  $F=2.7\%$ ,  $t=-16.4\%$ , coefficient is  $-6.7\%$  and at 1% level of significance. TDA results shows that there is strong negative relation between leverage ratios with ROE. If leverage increases, then banks' profits of the banks will be declined.

The result of multiple regression test results shows that growth (GRO) R is 62%,  $R^2$  is 38.5%, Adjusted R square is 28.2 and t 375.1%. F375, 1% and coefficients is 62% The result indicated that ROE has accepted with GRO. If banks increase its growth, then it reduces its ROE.

A multiple regression test done to credit risk (LLR) the results shows that the R is 38.2%,  $R^2$  is 14.6%, Adjusted R square is 14.6%  $f=102.7$ ,  $t=-101.3$  and coefficients is 38.2%. The result indicated that ROE has significant relationship with LLR. The result indicated that ROE has strong negative relationship with LLR. If banks increase its credit risk then it reduces its ROE.

## CHAPTER 5

### FINDINGS AND SUGGESTIONS

#### 5.1 Findings

After conducting the report through various analysis and evaluation of influence of WCM on SBL's ROE, many findings have been found; it includes both positive and negative findings.

- i. The function of corporate finance department of SBL is distinguished and certain.
- ii. This has sound standard operating procedures for accomplishing every task. SBL has an efficient and effective distribution strategy.
- iii. SBL follows an aggressive working capital policy. Its collection of loans proceeds system and fund disbursement systems are convenient for both borrowers and depositors.
- iv. For effective fund collection system, the collection of account receivable is excellent over the years and it takes in between 237 to 334 days low processing time to collect fund which is satisfactory.
- v. For efficient liquidity management the department is able to make payment to its creditor as early as possible.
- vi. Hence accounts payable period is comparatively low in this organization which is 129.72 and above in the year 2013 and 2020.
- vii. The inventory conversion period of SBL is too high hitting a maximum of 171.78 in the year 2013-2020.
- viii. Since it cannot convert inventory into sales quickly enough, its inventory increases resulting in decreased quick ratio.
- ix. This higher inventory period ensures smooth supply of the products to the customers. SBL has strong and good liquidity position and had no opportunity to run out from short-term financial solvency and this ability rises gradually (Current/Quick/Cash).
- x. The current ratio rate is between 1 and 1.3 which indicates a sound liquidity position of the company. But after 2013 the quick ratio which was 0.38 started to increase, though it is still very low.

- xi. SBL's most of debts consist of creditors, accrual and bank overdraft where borrowing cost is insignificant.
- xii. SBL's asset-liability management efficiency increased day by day. The company increases its sales through inventory control and was efficiently managing and selling its inventory so they tied up the fewer funds.
- xiii. After analyzing the correlation between ROE and working capital components, it has been found that inventory period, CCC and size of the firm have significant impact on ROE.
- xiv. After regression analysis shows a positive relation of ROE with payable days, gearing ratio and size of the firm. The analysis shows negative relation of receivable period and inventory period with ROE.

## **5.2 Suggestions**

- i. Credit risk management should be taken under an intensive care because the leverage ratio, and capital adequacy ratio have negative relationship with the ROE.
- ii. The financial products of the bank should be innovative and more lucrative for small earning people.
- iii. The branch network should be extended every corner of the country.
- iv. Bank should introduce long-term credit policy.
- v. Bank should introduce new short-term schemes like micro credit for poor and urban people.
- vi. Bank should keep necessary documents like Annual Report, prospectus, Bulletin, Brochure etc.
- vii. Bank should provide more training facilities for the employees to upgrade their skill level.
- viii. Bank should recruit talented personnel from external sources.
- ix. Bank should provide on-line banking facilities.
- x. Bank should changes the desk of the officers, so that their skill will be increase and their knowledge about banking system will also improve.

## **CHAPTER 6**

### **CONCLUSION POLICY IMPLICATION AND FUTURE WORK**

#### **6.1 Conclusion**

It can conclude that there is a significant relationship between working capital management and Sonali Bank Ltd's ROE. Efficient working capital management has a direct effect on a firm's ROE even though a greater proportion of these studies are based on Sonali Bank. This paper focused and analyzed on working capital practice of Sonali Bank Ltd. Throughout its life its contribution in socio economic prospect of Bangladesh has the greater significance. The conclusion is in confirmation this paper finding is similar with (Deloof 2003), (Eljelly 2004), (Shin and Soenan 1998) who found a strong negative relationship between the measures of working capital management including the average collection period, inventory turnover in days, average payment period and cash conversion cycle with corporate ROE. On basis of the above analysis it may further conclude that these results can be further strengthened if the banks manage their working capital in more efficient ways. There is much to be done about working capital in Commercial Bank in Bangladesh in future. This paper suggests that further research be conducted on the same topic with different banks and extending the years of the sample.

#### **6.2 Policy Implication**

The outcome of this report will be contributed both practically and theoretically. Providing new insight into the bank performance of Sonali Bank, this report will have a significant impact on the banking industry in Bangladesh. In addition to the result of this report, it will be very useful for the banking sector as well as other financial institution. That means the result of this study helps the policy maker to take an initiative to improve performance and gain sustainable competitive advantage rather than competitors. In the banking industry Management of working capital fulfils the role of maintaining cash converting power to pay their customers according to the requirements so that the financial managers should concentrate to keep their liquidity position and the bank should maximize their profit accordingly. If these banking firms properly manage their funds in a proper way, this will ultimately increase ROE of these companies.

#### **6.3 Future Work**

The scope of further research may be extended to the working capital components management including cash, marketable securities, receivables and inventory management etc. In addition, the following recommendations can be made in order to ascertain the value addition of investors' speculation: In this report we take only one banks with 8 years data. This can be enriched the time period in near future with adding more variables. Further study can be done with incorporating the other banks to make a comparison among them. Working capital management standards and parameters should be established and communicated to the investors. This will help investors to achieve the standard and take better investment decisions. Impact of socio-economic condition in the country should be considered when the decisions are being taken, so that it is to identify the weaknesses of investment may be the best one to improve the firm's financial performance (which decision into which investment). Forecasting working capital management information should be disclosed to the existing and potential investors so that they can motivate to help to achieve the high level of firm's financial performance.

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## APPENDIX

### Eight years Financial Statement from 2013-2020

(Figure in million except stated otherwise)

| Particulars                                            | 2020    | 2019    | 2018    | 2017    | 2016    |
|--------------------------------------------------------|---------|---------|---------|---------|---------|
| <b>Balance Sheet</b>                                   |         |         |         |         |         |
| Authorized Capital                                     | 60000   | 60000   | 60000   | 60000   | 60000   |
| Paid up Capital                                        | 45300   | 45300   | 45300   | 41300   | 38300   |
| Reserve Fund and Surplus                               | 48998   | 22893   | 24837   | 24787   | 29075   |
| Total Shareholders' Equity                             | 85616   | 68193   | 70137   | 66087   | 67375   |
| Deposits                                               | 1258786 | 1158788 | 1097666 | 1064311 | 1031608 |
| Loans And Advances                                     | 586232  | 551026  | 464166  | 423218  | 384538  |
| Investments                                            | 629691  | 500387  | 440921  | 462577  | 468881  |
| Fixed Assets including Premises, Furniture and Fixture | 33891   | 33466   | 33377   | 33307   | 33114   |
| Total Assets                                           | 1591233 | 1472601 | 1306842 | 1256712 | 1200590 |
| Total Off Balance Sheet Exposure                       | 949413  | 1022368 | 1097372 | 1148178 | 196926  |
| Earning Assets                                         | 1195517 | 1068333 | 930841  | 850536  | 796747  |
| Non-earning Assets                                     | 395716  | 404269  | 376002  | 406175  | 403843  |
| Net Worth                                              | 85616   | 68193   | 70137   | 66087   | 67374   |
| <b>Income Statement</b>                                |         |         |         |         |         |
| Interest Income                                        | 31666   | 35955   | 32708   | 27674   | 31010   |
| Income on Investment                                   | 40289   | 28144   | 34341   | 33956   | 30968   |
| Non-interest Income                                    | 12824   | 12711   | 11272   | 12723   | 9001    |
| Total Income                                           | 84780   | 76810   | 78321   | 74353   | 70979   |
| Interest Expenses                                      | 41906   | 40083   | 39001   | 42900   | 47352   |
| Non-interest Expenses                                  | 21346   | 19627   | 19063   | 19498   | 19375   |
| Total Expenses                                         | 63253   | 59710   | 58064   | 62398   | 66727   |
| Net Interest Margin (NIM)                              | 30049   | 24016   | 28048   | 18730   | 14626   |
| Net Non-interest Expenses                              | 8703    | 6916    | 7791    | 6775    | 10334   |
| Operating Profit                                       | 21526   | 17100   | 20257   | 11955   | 4251    |
| Earnings Before Provision, Depreciation and Tax        | 22321   | 17680   | 20811   | 12460   | 4818    |
| Profit Before Provision and Tax                        | 21526   | 17100   | 20257   | 11955   | 4251    |
| Net Profit After Tax                                   | 3234    | 2710    | 2264    | 7092    | 152     |
| <b>Capital Matrix</b>                                  |         |         |         |         |         |
| Risk Weighted Assets (RWA)                             | 633601  | 526242  | 530879  | 460763  | 451931  |
| Total Required Capital                                 | 63360   | 52624   | 53088   | 46076   | 45193   |
| Total Regulatory Capital Maintained                    | 63500   | 53096   | 53617   | 47684   | 46688   |
| Capital Surplus/(Shortfall)                            | 141     | 472     | 529     | 1608    | 1495    |
| Capital Adequacy Ratio (CAR)                           | 10.02%  | 10.09%  | 10.10%  | 10.35%  | 10.33%  |
| Core Capital Ratio                                     | 7.68%   | 8.65%   | 8.18%   | 8.07%   | 7.45%   |
| Supplementary Capital Ratio                            | 2.34%   | 1.44%   | 1.92%   | 2.28%   | 2.88%   |
| Amount of Supplementary Capital                        | 14826   | 7574    | 10208   | 10517   | 13031   |

(Figure in million except stated otherwise)

| Particulars                                            | 2017    | 2016    | 2015    | 2014   | 2013   |
|--------------------------------------------------------|---------|---------|---------|--------|--------|
| <b>Balance Sheet</b>                                   |         |         |         |        |        |
| Authorized Capital                                     | 60000   | 60000   | 60000   | 60000  | 20000  |
| Paid up Capital                                        | 41300   | 38300   | 38300   | 31200  | 11250  |
| Reserve Fund and Surplus                               | 24787   | 29075   | 20083   | 21279  | 18809  |
| Total Shareholders' Equity                             | 66087   | 67375   | 58383   | 59579  | 50009  |
| Deposits                                               | 1064311 | 1031608 | 866012  | 778043 | 685895 |
| Loans And Advances                                     | 423218  | 384538  | 346346  | 337554 | 343451 |
| Investments                                            | 462577  | 468881  | 407955  | 322727 | 272256 |
| Fixed Assets including Premises, Furniture and Fixture | 33307   | 33114   | 33016   | 32768  | 32503  |
| Total Assets                                           | 1240332 | 1200590 | 1026109 | 934592 | 852223 |
| Total Off Balance Sheet Exposure                       | 1148178 | 196926  | 251953  | 229930 | 175803 |
| Earning Assets                                         | 835465  | 796747  | 708930  | 637709 | 537666 |
| Non-earning Assets                                     | 404867  | 403843  | 317178  | 296883 | 314557 |
| Net Worth                                              | 66087   | 67374   | 58383   | 59579  | 50009  |
| <b>Income Statement</b>                                |         |         |         |        |        |
| Interest Income                                        | 27674   | 31010   | 32313   | 29904  | 27802  |
| Income on Investment                                   | 33956   | 30968   | 27400   | 23136  | 15536  |
| Non-interest Income                                    | 12723   | 9001    | 9689    | 11701  | 10380  |
| Total Income                                           | 74353   | 70979   | 69402   | 64741  | 53718  |
| Interest Expenses                                      | 42900   | 47352   | 46699   | 43284  | 38797  |
| Non-interest Expenses                                  | 19498   | 19375   | 14051   | 12910  | 11951  |
| Total Expenses                                         | 62398   | 66727   | 60750   | 56194  | 50748  |
| Net Interest Margin (NIM)                              | 18730   | 14626   | 13014   | 9756   | 4511   |
| Net Non-interest Expenses                              | 6775    | 10334   | 4362    | 1209   | 1571   |
| Operating Profit                                       | 11955   | 4251    | 8651    | 8547   | 2971   |
| Earnings Before Provision, Depreciation and Tax        | 12460   | 4818    | 9221    | 9111   | 3481   |
| Profit Before Provision and Tax                        | 11955   | 4251    | 8651    | 8547   | 2911   |
| Net Profit After Tax                                   | 7092    | 152     | 586     | 6054   | 3580   |
| <b>Capital Matrix</b>                                  |         |         |         |        |        |
| Risk Weighted Assets (RWA)                             | 460762  | 451931  | 394310  | 406843 | 372391 |
| Total Required Capital                                 | 46076   | 45193   | 39431   | 40684  | 37239  |
| Total Regulatory Capital Maintained                    | 47684   | 46688   | 39744   | 49785  | 28282  |
| Capital Surplus/(Shortfall)                            | 1608    | 1495    | 313     | 9101   | (8957) |
| Capital Adequacy Ratio (CAR)                           | 10.35%  | 10.33%  | 10.08%  | 12.24% | 7.59%  |
| Core Capital Ratio                                     | 8.07%   | 7.45%   | 6.43%   | 7.72%  | 3.80%  |
| Supplementary Capital Ratio                            | 2.28%   | 2.88%   | 3.65%   | 4.52%  | 3.80%  |
| Amount of Supplementary Capital                        | 10517   | 13031   | 14387   | 18375  | 14141  |