

Management and Its Impact on Financial Performance: An Empirical Analysis of Agricultural Development Bank Limited (Adbl), Nepal

Raja Babu Shah

Tribhuvan University

Kundan Yadav

en.kundan@gmail.com

Lovely Professional University

Rukaya Yasmin

Hajee Mohammad Danesh Science and Technology University

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MANAGEMENT AND ITS IMPACT ON FINANCIAL PERFORMANCE: AN EMPIRICAL ANALYSIS OF AGRICULTURAL DEVELOPMENT BANK LIMITED (ADBL), NEPAL

Abstract

Working capital management (WCM) is critical for balancing liquidity and profitability in financial intermediaries. This study evaluates the working capital structure, liquidity trends, and financing practices of Agricultural Development Bank Limited (ADBL), a premier development bank in Nepal. Utilizing secondary data spanning five fiscal years (FY 2075/076 to FY 2079/080), this paper analyzes current asset allocation, current liabilities composition, net working capital, and key liquidity metrics. The findings indicate consistent expansion in ADBL's current assets (from NPR 149.77 billion to NPR 263.23 billion) and current liabilities (from NPR 122.99 billion to NPR 210.91 billion), yielding a positive growth in net working capital from NPR 26.78 billion to NPR 52.32 billion. While the bank maintained an average current assets-to-total assets ratio of over 97% and a current ratio fluctuating between 1.16 and 1.25, the quick ratio remained tight (0.08 to 0.14) due to a heavy concentration of assets in customer loans. The study highlights that a hybrid financing policy balancing maturity-matching and conservative strategies underpins ADBL's operational stability, and recommends enhanced liquid cash reserves and credit risk modeling to sustain growth.

Keywords: Working Capital Management, Liquidity Ratios, Agricultural Development Bank Limited, Current Assets, Nepal Banking

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1. Introduction

Financial institutions serve as vital engines for macroeconomic growth and industrial expansion by systematically mobilizing domestic savings and directing credit toward productive sectors. In developing economies, financial development is often prioritized because natural, agricultural, and human resources frequently remain underutilized or diverted into unorganized hoarding due to market frictions and institutional gaps (Gameel & Mbarek, 2026; Levine, 1999; Reddy & Pavani, 2026). Financial intermediaries, particularly banks, address these market inefficiencies by offering safe savings instruments, fostering banking habits, and establishing formal credit channels (Oyasor, 2025). Within this structural framework, development banks occupy a distinct role. Unlike commercial banking entities that prioritize short-to-medium-term commercial returns in urban retail centers, development financial institutions are tasked with specific policy mandates chiefly expanding credit access, agricultural infrastructure, and rural enterprise development (Lin, 2024; Wang et al., 2025). In Nepal, the Agricultural Development Bank Limited (ADBL) represents the cornerstone of this institutional effort, operating largely under government ownership to sustain rural productivity and broaden financial inclusion.

At the institutional level, a bank's operational continuity and solvency depend heavily on the efficacy of its short-term financial decision-making. While corporate finance literature historically prioritized long-term capital budgeting and equity valuation, contemporary management emphasizes the continuous administration of current assets and current liabilities collectively defined as working capital management (WCM). Working capital represents both the operational lifeblood and the controlling nerve center of an enterprise. Inadequate working capital induces technical illiquidity, compromises deposit redemption, and undermines public trust, whereas excessive idle capital inflates holding costs and dampens asset yields (Miller, 1995; Sahay et al., 2015).

Working capital dynamics within banking institutions differ fundamentally from those in non-financial and manufacturing firms (Mishra, 2025; Sakulsinlapakorn, 2024). Rather than managing physical inventories, raw materials, and accounts payable, a bank's current assets consist predominantly of liquid cash, balances maintained with the central bank (Nepal Rastra Bank), short-term interbank placements, government securities, and performing loan portfolios. Conversely, its current liabilities comprise customer deposits (demand, savings, and term), call liabilities, short-term borrowings, and accrued obligations (Bhatt, 2020; B. Shrestha, 2018, 2024a; R. Shrestha et al., 2024). Managing working capital in a development bank like ADBL therefore involves managing the structural trade-off between maintaining liquidity to service unanticipated withdrawals and deploying resources into interest-earning agricultural assets.

The formalization of banking in Nepal has progressed from informal money-lending practices toward a regulated financial sector. Historically, non-institutional lenders, merchant-goldsmiths (Sahus), and caste-based lending groups such as the Tankadhari handled local financing, frequently imposing high interest rates and compounding debt across rural households. The first state-sponsored credit entity, the Tejarath Adda, was initiated in 1933 B.S. under Prime Minister Ranodip Singh, advancing credit against gold and silver without accepting public deposits. Modern institutional banking began with the incorporation of Nepal Bank Limited (NBL) in 1994 B.S. (1937 A.D.) under the Nepal Bank Act 1936. To supervise the sector and execute monetary policy, the central bank, Nepal Rastra Bank (NRB), was created in 2012 B.S. (1956 A.D.). This was followed by the establishment of Rastriya Banijya Bank in 2022 B.S. and specialized development vehicles: the Nepal Industrial Development Corporation (NIDC) in 2016 B.S. and ADBL in 1968 A.D. (2024 B.S.). Subsequent economic liberalization in the mid-1980s spurred private joint-venture commercial banks and finance companies, transitioning the sector toward market-driven pricing and risk-weighted regulatory standards (Tribhuvan University Central Library, 2026).

Despite financial modernization, banks in developing markets face operational hurdles, including fluctuating deposit volumes, credit-deposit mismatches, and variable market liquidity (Kumar et al., 2025). For ADBL, these challenges are compounded by the nature of its loan portfolio. The bank finances long-cycle agricultural activities that are vulnerable to climatic shocks, seasonality, and delayed cash conversion cycles. Holding large, non-earning liquid reserves guarantees compliance with statutory reserve requirements but depresses interest margins and overall profitability. Conversely, deploying deposits aggressively into illiquid loan books maximizes interest margins, but exposes the institution to liquidity mismatch risks, particularly during periods of tight interbank liquidity.

1.1 Research Objectives

The overarching objective of this empirical study is to evaluate the working capital management performance, liquidity behavior, and structural composition of Agricultural Development Bank Limited (ADBL).

To fulfill this overarching aim, the study addresses the following specific research objectives:

- To analyze the growth, composition, and proportional trends of current assets and current liabilities within ADBL over the five-year study period.
- To evaluate the volume, behavior, and stability of Net Working Capital maintained by the bank.
- To assess the short-term solvency and liquidity position of ADBL utilizing financial ratio metrics (current ratio, quick ratio, and cash-to-deposit ratio).
- To examine the underlying current asset financing policies (aggressive, conservative, or maturity matching) adopted by the management of ADBL.
- To evaluate the effects of working capital management practices on the overall profitability and financial stability of the institution.

The empirical investigation is bounded by specific research parameters. The study relies primarily on secondary financial disclosures and audited annual reports issued by ADBL across five fiscal years (FY 2075/076 through FY 2079/080). Furthermore, it focuses strictly on working capital performance and liquidity indicators, omitting unrelated operational facets such as capital adequacy ratios, non-performing loan classifications, and internal corporate governance frameworks. Given ADBL's institutional mandate to finance agricultural and rural sectors, the observed patterns reflect its distinct developmental operational profile within the Nepalese financial sector.

2 Conceptual Framework and Literature Review

2.1 Conceptual Framework

Working capital management governs the continuous administration of an enterprise's short-term resources and immediate obligations, determining operational survival and long-term solvency. In financial theory, working capital is analyzed through two dimensions:

- **Gross Working Capital:** Represents total capital committed to current assets. In banking, this comprises cash balances, statutory central bank reserves, interbank call placements, government treasury bills, and active loans and advances. It focuses on optimizing short-term asset deployment to prevent resource hoarding or overextension into non-earning assets.
- **Net Working Capital (NWC):** Defined algebraically as the surplus of current assets over current liabilities ($NWC = CA - CL$). A positive balance serves as a liquidity buffer for depositors, protecting the bank against sudden liquidation shocks. Conversely, negative net working capital reflects a structural liquidity deficit that increases solvency risk.

Financial institutions hold working capital under three core motives: the transaction motive to cover predictable daily withdrawals and clearing obligations; the precautionary motive to absorb unanticipated deposit runs or liquidity shocks; and the speculative motive to capitalize on advantageous treasury yields and money market shifts (Kumar et al., 2025; Wang et al., 2025).

2.2 Classification and Working Capital Policies

Working capital is classified by operational duration into permanent working capital the core volume of operating assets required uninterruptedly throughout the business cycle and temporary working capital, which fluctuates to meet seasonal agricultural financing cycles and festive cash withdrawal spikes. Management administers these resources through two complementary strategic policies:

Current Assets Investment Policy

- **Relaxed Policy:** Maintains large holdings of cash and liquid securities under liberal credit terms. It offers strong solvency and minimal default risk but depresses overall return on assets due to the low yield of liquid reserves.
- **Restricted Policy:** Minimizes liquid balances to maximize exposure to high-yielding advances. While it raises operating profitability, it increases exposure to liquidity shortages during sudden cash drains.
- **Moderate Policy:** Balances risk and return by sustaining intermediate liquidity buffers while allocating resources into earning assets.

Current Assets Financing Policy

- **Aggressive Policy:** Finances temporary current assets and a portion of permanent current assets using short-term obligations like call borrowings. It lowers interest costs but exposes the bank to significant refinancing and interest rate volatility.
- **Conservative Policy:** Finances permanent assets and the majority of temporary requirements using stable, long-term capital and core deposits, minimizing liquidity risk at the expense of higher interest costs.
- **Maturity-Matching (Hedging) Policy:** Aligns the maturity duration of financing instruments with the operational life of the underlying assets, funding permanent current assets with long-term debt and temporary fluctuations with short-term liabilities.

2.3 Empirical Literature Review

Empirical literature across developing economies underscores the ongoing trade-off between liquidity preservation and profitability maximization.

- **Industrial and Public Enterprise Studies:** An analysis of financial governance among state-owned enterprises in Nepal reveals structural inefficiencies across working capital components. Widespread deficiencies in short-term financial planning, unpredictable relationships between liquidity and sales turnover, and chronic operational deficits were identified among ten state-owned entities (B. Shrestha, 2024b). A subsequent evaluation of nine manufacturing corporations determined that while firms sustained a balanced risk-return profile, they maintained excessive inventory-to-asset concentrations and suffered from compromised liquidity measures (Risal, 2018). Later findings demonstrated that corporate liquidity levels were largely dictated by routine transaction needs, with permissive credit terms and inadequate recovery mechanisms causing substantial capital lockups in accounts receivable (Regmi, 2025).
- **Banking Sector Studies:** The structure of commercial banking statements diverges significantly from standard corporate balance sheets, as minimal fixed assets and heavy reliance on deposit liabilities create elevated operating leverage fueled primarily by loan portfolios (R. Shrestha et al., 2024). The risks inherent in spontaneous short-term obligations are critical, where unchecked working capital configurations can swiftly precipitate insolvency during economic contractions (Poudel et al., 2024). Academic theses validate these structural characteristics across various institutions: Bank of Kathmandu

expanded its working capital base but faced depressed asset yields (Sah, 2023); broader commercial banking samples maintained positive net working capital alongside consistent earnings expansion (Bhatt, 2020; Sah, 2023); and joint-venture institutions systematically functioned with current ratios far below the conventional 2:1 manufacturing threshold while maintaining their statutory cash reserve mandates (B. Shrestha, 2018).

2.4 Research Gap

While published literature extensively examines the working capital dynamics of manufacturing enterprises, public utilities, and private commercial banks in Nepal, empirical investigations focusing on state-owned development banks remain scarce. Private commercial institutions operate primarily within urban centers, focusing on liquid, short-term corporate trade portfolios.

In contrast, Agricultural Development Bank Limited (ADBL) is tasked with a specialized public mandate: financing rural credit, agricultural modernization, and micro-enterprises with extended gestation cycles and higher recovery risks. This study addresses this empirical gap by analyzing ADBL's working capital structure, liquidity trends, and financing strategies across the five-year period from FY 2075/076 to FY 2079/080.

3 Research Methodology

3.1 Research Design and Framework

This empirical study employs both descriptive and analytical research designs to evaluate the working capital management and liquidity structure of Agricultural Development Bank Limited (ADBL). The descriptive framework documents the scale, structural components, and longitudinal trends of the bank's current assets, current liabilities, and net working capital. Concurrently, the analytical design evaluates operational interrelationships using financial ratio modelling and statistical tools, assessing how short-term asset-liability decisions influence the institution's solvency and liquidity profile over time.

3.2 Population, Sample, and Data Sources

The empirical parameters governing this investigation include:

- **Target Population:** All licensed development banking institutions operating within Nepal's regulated financial sector under the supervision of Nepal Rastra Bank (NRB).
- **Sampling Unit:** Agricultural Development Bank Limited (ADBL), selected via purposive (judgmental) single-case sampling due to its large balance sheet, government ownership, extensive nationwide branch network, and specialized agricultural mandate.
- **Study Period:** A five-year fiscal observation horizon spanning FY 2075/076 to FY 2079/080 (2018/19 through 2022/23).
- **Data Sources:** The study relies exclusively on secondary data extracted from audited financial statements, annual balance sheets, income statements, and official publications issued by ADBL, alongside regulatory directives from Nepal Rastra Bank (NRB).

3.3 Data Processing and Analytical Tools

Raw financial figures were extracted from annual reports, organized into standardized accounting schedules, and grouped into operational categories: Current Assets (CA), Current Liabilities (CL), Net Working Capital (NWC), and Quick Assets (QA). Quantitative evaluation is carried out through the following analytical metrics:

Financial Ratios

- **Net Working Capital (NWC):** Evaluates the absolute net short-term asset cushion maintained to absorb liquidity shocks:

$$NWC = \text{Current Assets (CA)} - \text{Current Liabilities (CL)}$$

- **Current Ratio (CR):** Evaluates short-term solvency and coverage of immediate liabilities using current assets:

$$\text{Current Ratio} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

- **Quick / Acid-Test Ratio (QR):** Measures the bank's ability to settle immediate liability calls using purely liquid assets, excluding customer loan advances:

$$\text{Quick Ratio} = \frac{\text{Quick Assets (QA)}}{\text{Current Liabilities (CL)}}$$

(Where QA includes Cash and Cash Equivalents, Due from NRB, and Other Trading Assets).

- **Cash and Bank Balance to Total Deposit Ratio:** Determines the proportion of non-fixed customer deposits held in immediate cash and central bank reserves to satisfy daily teller withdrawals:

$$\text{Cash to Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits (Excluding Fixed Deposits)}}$$

- **Component Allocation Ratios:** Analyzes internal asset distribution via percentage metrics: Current Assets to Total Assets (CA/TA), Cash to Current Assets (Cash/CA), and Net Working Capital to Current Assets (NWC/CA).

Statistical Metrics

- **Trend and Percentage Growth:** Measures annual percentage expansions, portfolio composition changes, and directional shifts across the five-year timeframe.
- **Arithmetic Mean ($\bar{X}$):** Measures central tendencies for asset levels, liability pools, and key liquidity indicators across the multi-year series.
- **Coefficient of Variation (CV):** Gauges the relative dispersion and stability of net working capital components over the study period:

$$CV = \left(\frac{\sigma}{\bar{X}} \right) \times 100\%$$

4 Results and Discussion

4.1 Structural Composition of Working Capital

Current assets form the foundation of bank intermediation, supporting daily clearing obligations, withdrawal demands, and credit disbursements. Across the five-year evaluation window (FY 076/075 to FY 080/079), Agricultural Development Bank Limited (ADBL) consistently maintained over 93% of its total assets in current assets, peaking at 98.99% in FY 080/079. Concurrently, current liabilities expanded by 71.48%, driven primarily by customer deposits, which constituted over 94% of short-term obligations (see Table 1).

Table 1: Structural Composition and Growth of Working Capital Components of ADBL (FY 076/075 to FY 080/079)

Fiscal Year	Current Assets (CA) in NPR	Total Assets (TA) in NPR	CA / TA (%) PDF	Current Liabilities (CL) in NPR	Net Working Capital (NWC) in NPR

076/075	149,767,492,262	151,683,561,714	98.74%	122,991,461,662	26,776,030,600
077/076	177,417,720,708	179,252,471,935	98.98%	148,177,597,673	29,240,123,035
078/077	220,291,123,739	223,090,725,657	98.75%	190,586,878,456	29,704,245,283
079/078	230,325,794,273	246,868,133,729	93.30%	192,358,170,436	37,967,623,837
080/079	263,230,958,898	265,929,199,267	98.99%	210,907,298,856	52,323,660,042

Customer loans and advances dominated current assets, rising from NPR 108.81 billion to NPR 176.30 billion. To balance liquidity, investment securities were expanded significantly from NPR 16.85 billion to NPR 57.62 billion. Net Working Capital (NWC = CA – CL) grew steadily from NPR 26.78 billion to NPR 52.32 billion—a 95.41% increase averaging 16.24% of current assets with a low coefficient of variation (13.25%), confirming a resilient operational buffer (illustrated in Figure 1).

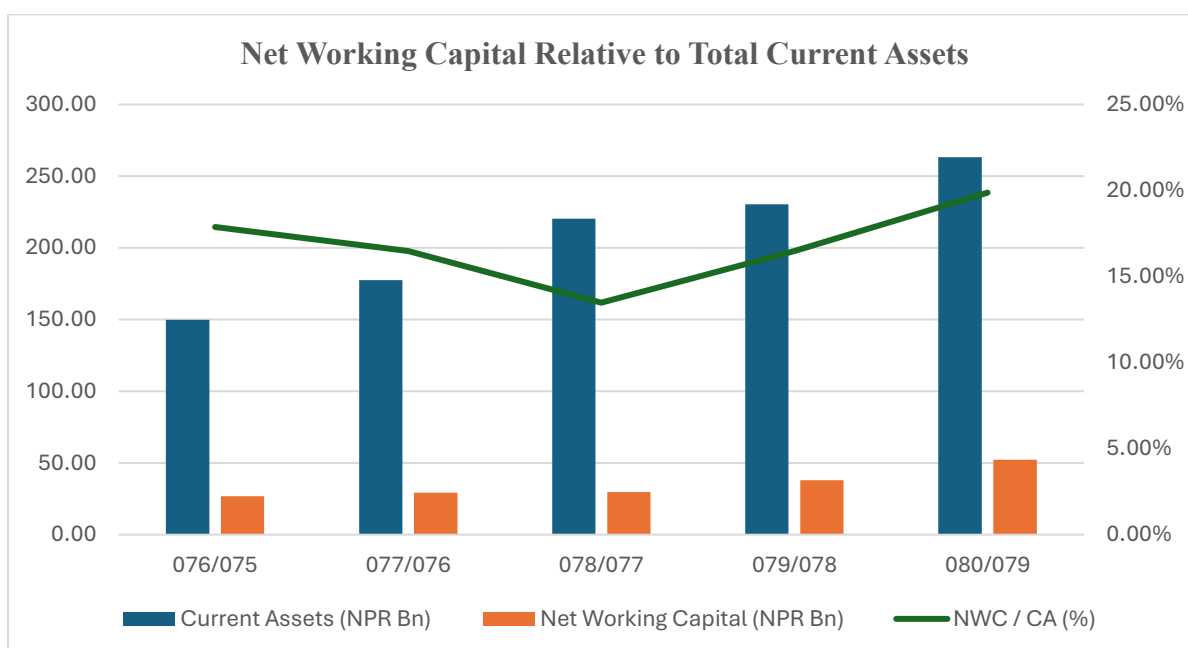


Figure 1: Evolution of Net Working Capital Relative to Total Current Assets

4.2 Liquidity and Solvency Analysis

ADBL's short-term solvency was examined using the Current Ratio (CR), Quick Ratio (QR), and Cash-to-Deposit metrics summarized in Table 2.

Table 2: Comparative Liquidity Ratios of Agricultural Development Bank Limited

Fiscal Year	Current Ratio (CA/CL) PDF	Quick Assets (QA) in NPR	Quick Ratio (QA/CL) PDF	Cash to Deposits Ratio PDF
076/075	1.22	16,494,120,067	0.13	0.10
077/076	1.20	21,073,966,272	0.14	0.06
078/077	1.16	22,047,926,404	0.12	0.07

079/078	1.20	17,730,258,845	0.09	0.00*
080/079	1.25	17,573,946,064	0.08	0.05

*Reporting classification anomaly in direct cash balances. (Quick Assets = Cash + Due from NRB + Trading Assets).

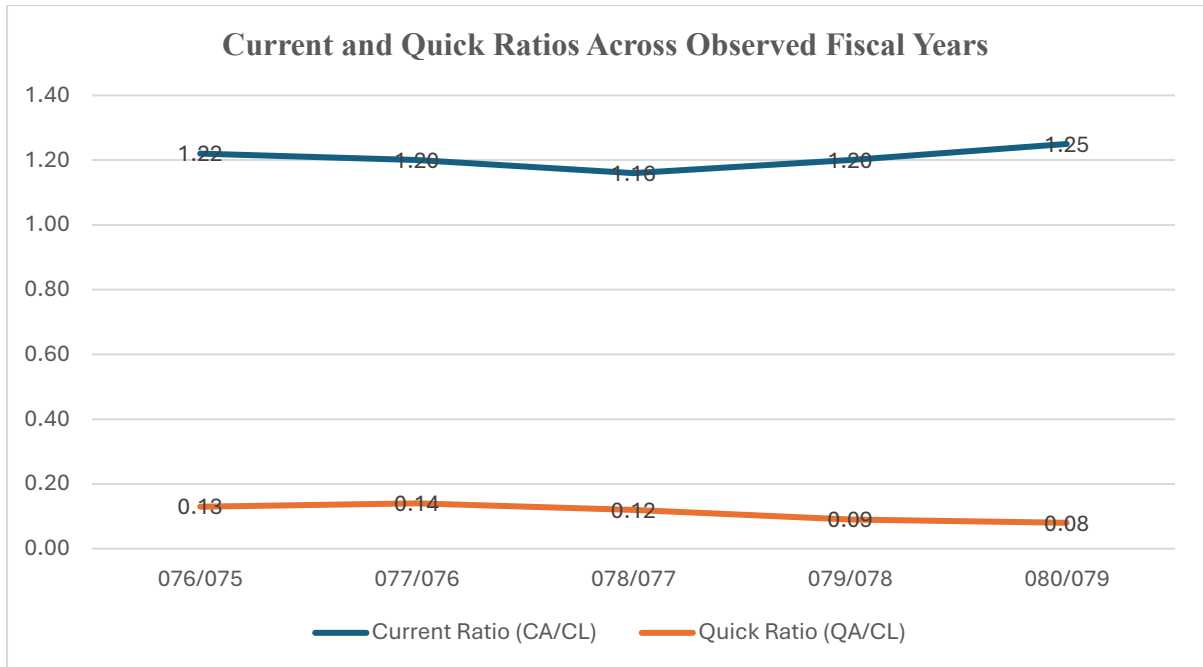


Figure 2: Trajectory of Current and Quick Ratios Across Observed Fiscal Years

The Current Ratio remained stable between 1.16 and 1.25 (as depicted in Figure 2). While lower than the classical industrial 2:1 standard, this range is typical for banking institutions supported by daily deposit turnover, central bank lines, and interbank markets. In contrast, the Quick Ratio ranged from 0.08 to 0.14 because customer loans are excluded due to fixed maturities. Cash-to-deposits averaged approximately 7% in active reporting years, fulfilling Nepal Rastra Bank's Cash Reserve Ratio (CRR) mandates while limiting idle, non-earning reserves.

4.3 Discussion and Financing Policy Evaluation

The empirical evidence demonstrates that ADBL operates under a **hybrid financing policy**:

- **Maturity-Matching:** The bank finances the majority of its customer loans through client deposits of comparable maturities, matching asset yields with liability costs.
- **Conservative Hedging:** A substantial volume of permanent current assets is funded via equity capital and long-term reserves, generating a growing positive NWC (NPR 52.32 billion) that protects against liquidity shocks.

These findings confirm that banks operate with high operating leverage driven by financial assets rather than physical infrastructure. While maintaining positive net working capital protects daily operational solvency, the exceptionally low quick ratio hovering between 0.08 and 0.14 reveals a crucial reality: ADBL relies heavily on secondary liquidity tools, such as discounting treasury securities, to manage withdrawal pressures without disrupting its core agricultural credit portfolio.

5 Conclusion and Recommendations

5.1 Conclusion

This empirical study evaluated the working capital structure, liquidity trends, and financing practices of Agricultural Development Bank Limited (ADBL) over a five-year timeframe (FY 076/075 to FY 080/079). As a specialized, government-owned development bank, ADBL demonstrates substantial balance sheet expansion while maintaining high asset-side liquidity. Current assets expanded by 75.76% (from NPR 149.77 billion to NPR 263.23 billion), consistently accounting for over 93% to 98% of total assets. Concurrently, current liabilities rose by 71.48% (from NPR 122.99 billion to NPR 210.91 billion), driven primarily by customer deposits, which constituted over 94% of short-term obligations.

The bank achieved sustained positive growth in Net Working Capital ($NWC = CA - CL$), which increased by 95.41% from NPR 26.78 billion to NPR 52.32 billion. With an average NWC-to-current assets proportion of 16.24% and a low coefficient of variation of 13.25%, ADBL maintained an expanding financial cushion to satisfy short-term commitments. Liquidity evaluations reveal a stable Current Ratio ranging between 1.16 and 1.25, which aligns with commercial and development banking norms supported by central bank backstops and predictable deposit inflows.

However, ADBL's Quick Ratio remained low, ranging from 0.08 to 0.14, due to the exclusion of loans and advances to customers from immediate liquid assets. This confirms that while the bank operates under a balanced hybrid financing model blending maturity-matching with conservative equity reserves—it remains dependent on secondary liquidity instruments, such as treasury securities, to insulate long-term agricultural advances from immediate deposit withdrawal shocks.

5.2 Recommendations

Based on the empirical findings, the following strategic measures are recommended to strengthen ADBL's working capital management:

- **Stabilize Immediate Cash Reserve Holdings:** ADBL should address the annual volatility observed in its cash and bank balances relative to customer deposits. Establishing a systematic, dynamic cash-forecasting model will prevent holding idle, non-earning liquidity while ensuring consistent compliance with central bank Cash Reserve Ratio (CRR) mandates without reporting gaps.
- **Expand Intermediate Liquid Portfolios:** To bridge the divergence between the current ratio (1.25) and quick ratio (0.08), the bank should broaden its holdings in short-term secondary market treasury instruments and interbank call assets. This diversification enhances the pool of quick assets available for immediate counter liquidity without contracting the agricultural loan book.
- **Implement Dynamic Asset-Liability Stress Testing:** Due to the seasonal cash conversion cycles characteristic of rural agricultural borrowers, ADBL's treasury management should establish regular stress-testing frameworks. Conducting multi-scenario liquidity simulations against sudden depositor withdrawal runs will protect the institution from credit-deposit mismatches.
- **Refine Credit Recovery Mechanisms:** The bank must enhance monitoring protocols over its customer loan portfolio (which expanded to NPR 176.30 billion in FY 080/079) to minimize loan defaults and prevent asset illiquidity from degrading core working capital.
- **Leverage Technology for Working Capital Efficiency:** Integrating automated cash-management platforms, mobile banking services, and digital loan servicing will streamline operational expenses and accelerate transaction turnaround times, strengthening both operating margins and institutional liquidity.

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