

# **CAPITAL STRUCTURE AND PROFITABILITY OF FINANCE COMPANIES IN NEPAL**

A Dissertation submitted to the Office of the Dean, faculty of management in partial  
fulfillment of requirement for the Master's Degree

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April 2024

## **CERTIFICATION OF AUTHORSHIP**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Capital Structure and Profitability of Finance Companies in Nepal**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degree nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declared that all information sources and literature used are cited in the reference section of the dissertation.

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## REPORT OF RESEARCH COMMITTEE

Ms. Kusum Ghimire has defended research proposal entitled “**Capital Structure and Profitability of Finance Companies in Nepal**“, successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Dr. Binita Manandhar and submit the thesis for evaluation and viva voce examination.

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We have examined the dissertation entitled “**Capital Structure and Profitability of Finance Companies in Nepal**” presented by Ms. Kusum Ghimire for the degree of Masters of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

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## ACKNOWLEDGEMENT

This dissertation on “**Capital Structure and Profitability of Finance Companies in Nepal**” has been prepared as a partial fulfillment of the requirement for the degree of Master in Business Studies (MBS). This study would not have been materialized without the continued support of and cooperation from number of individuals. I take this opportunity to thank them all. First and foremost, I offer my sincerest gratitude and indebts to my supervisor Binita Manandhar, who has supported me throughout my report with his patience and knowledge. He has shared thoughtful suggestions and valuable comments on every chapter on my work. His guidance helped me throughout the research and writing of this dissertation. Without him, this dissertation could not have been completed. I am equally indebted to other teachers and other staffs for their kind help. My sincere thanks also go to all the friends who help me the understanding the research them. I would like to express my thanks to my friends for their support and all the fun we have had over these past years.

Most importantly, none of this could have happened without my family. My grateful thanks go to my grandparents and mom for their constant encouragement and support. This dissertation stands as a testament to their unconditional love and encouragement. Finally, I would like to thank everybody who was important to the successful realization of my dissertation, as well as expressing my apology that I could not mention personally one by one.

Any remaining errors are mine.

Kusum Ghimire

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## **ABBREVIATIONS**

ANOVA	:	Analysis of Variance
CAR	:	Capital Adequacy ratio
EBL	:	Everest Bank Limited
KBL	:	Kumari Bank Limited
LLPER	:	loan loss provision to equity ratio
LLPTLR	:	Loan loss provision to total loan ratio
LR	:	Loan Ratio
NBL	:	Nepal Bank Limited
OER	:	operating Efficiency ratio
ROE	:	Return on Equity ratio
S. D	:	Standard Deviation
SDC	:	Shanker Dev Campus
SPSS	:	Statistical Package for the Social Sciences
T.U.	:	Tribhuwan University

## ABSTRACT

The objectives of study are to examine the impact of capital structure on the profitability of the financial companies. To explore the factors affecting the profitability of finance companies. To analyze the relationship between capital structure and profitability of the financial companies. The objectives are met using the descriptive and casual comparative research design. The independent variables of the study are Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock and dependent variables are return on equity and return on assets. The population of the study are 17 finance companies. The sample are three finance companies running Namely Manjushree Finance Limited (MFL), Pokhara Finance Limited (PFL) and Good will Finance Limited (GWFL). The data are secondary nature collected from the annual report of the finance companies. The descriptive statistics analysis, correlation analysis and regression analysis are conducted for the achievement of the objectives. It is found that the Total Liabilities to Total Assets and return on assets has positive and significant impact. Price earnings ratio, common Stock and Long term Debt have not significant impact of the return on assets. The impact of Total Liabilities to Total Assets to the return on equity is positive and significant. Price earnings ratio, common Stock and Long term Debt have negative and not significant impact the return on equity. The result of the minimum, maximum and mean different are seem very high and the standard deviation also seem very high for all the variables. The higher standard deviation mean the higher fluctuate or deviate in the data flows. In conclusion the current status of the each variables is fluctuating in nature. The relationship of total liabilities and total assets is significant with return and assets and return on equity. The price earnings ratio and return on assets and return on equity is not significant. The common stock and return on equity and return on assets is not significant relationship. The long term debt and return on equity and return on assets is nit significant relationship.

*Keywords: Price earnings ratio, common Stock and Long term Debt, total liabilities and total assets, return on assets and return on equity*

# CHAPTER –I

## INTRODUCTION

### 1.1 Background of the Study

Capital structure denotes the combination of various funding sources a company employs to support its activities and expansion. These may encompass equity (like common and preferred stock) and debt (such as loans and bonds). Establishing an ideal capital structure holds significant importance for companies, influencing their cost of capital, risk exposure, and capacity to enhance shareholder value (Chalise & Adhikari, 2022). An optimally balanced capital structure enables a company to strategically utilize debt to amplify returns while upholding financial stability and adaptability (Tran et al., 2023). Nevertheless, an overreliance on debt can elevate financial risk and precipitate solvency challenges, particularly amid economic downturns or when interest rates are elevated (Mawlood, 2022). On the other hand, an excessively cautious capital structure featuring an abundance of equity could yield a heightened cost of capital and diminished investment returns. Hence, enterprises must meticulously assess their capital structure to achieve an appropriate equilibrium between debt and equity financing, considering variables such as industry trends, growth potential, and market circumstances (Ngoc, Tien & Thu, 2021).

In the realm of banking and finance, capital structure denotes how banks fund their assets by combining various hybrid securities, equities, and debts (Goyal, 2013). The notion of capital structure has captivated the attention of numerous researchers, serving as an intriguing subject of inquiry (Klingstedt & Lager, 2016; Kwan, 2015; Muritala, 2012) In the realm of finance, researchers have concentrated on delineating the correlation between bank performance and their capital structures. Many studies, particularly within the domain of business administration, have centered on identifying the elements or influences that shape the financial performance of banking entities Schmidt (2018) some have contended that the performance of individual banks hinges on their operational strategies, adeptness in recognizing and leveraging prevailing business innovations and opportunities, branding, marketing tactics, and similar factors. Alternatively, other researchers have adopted a more targeted approach, investigating whether specific parameters in the financial statements of retail banking firms correlate with their market performance.

According to Hirtle and Stiroh (2007), Miller and Modigliani's hypothesis holds validity primarily in certain theoretical scenarios but lacks substantial empirical backing. Alternative research suggests that the connection between capital structures and the performance of different retail banks is predominantly influenced by contextual factors such as industry dynamics, geographical location, growth patterns, and strategic decisions (Carlson, 2018; Kothari, 2018; Onyia, 2016). In contrast to Miller and Modigliani's perspective, additional scholars have posited that the capital structure dimension constitutes an active strategy pursued by retail banking enterprises. They contend that these strategies are dynamic and subject to change rather than remaining static over time. (Barstow, 2019; Deesomak & Thomas, 2007).

Each logical entity should purchase at lower prices and sell at higher ones. Translating this straightforward concept to capital markets, a company should issue new shares when the stock price is comparatively high and execute buybacks when it is lower. According to market timing theory (BAKER and WURGLER 2002), this influence can endure for a significant duration. Consequently, the existing capital structure reflects past market timing endeavors. When considering debt theory, there should be an inverse correlation between interest rates and debt issuances (Medzihorský, 2022).

Numerous interconnected studies have explored the impacts of capital structure on the financial performances of retail banks, albeit with some findings contradicting each other (Johnson, 2019; Oguna, 2014). This array of mixed evidence and conjectures has spurred researchers to delve deeper into exploring the impact of decisions related to capital structure on the financial performance of retail banks. Fitzsimmons (2017) They argued that the significance of financing decisions cannot be overstated, as many of the factors commonly associated with risks in retail banks can be effectively mitigated through financial decisions and strategies that foster organizational objectives and growth.

## **1.2 Problem Statement**

The influence of capital structure on the financial performance of retail banks, according to Pinto et al. (2017),

The dynamics of equity ownership have been a subject of empirical investigation in the realm of financial administration. Even if dividends or shares are not closely held, equity owners typically constitute a sizable number, with a considerable proportion of shareholders wielding significant stakes in retail banks. These patterns often lead to

shareholders having fewer incentives to monitor managers closely. In turn, managers, when granted such autonomy, may pursue objectives divergent from those of equity owners. Retail banks in Nepal exhibit distinctive characteristics that make them intriguing subjects for study. One aspect is that they are secured with relatively high backing to their assets, which sustains their operations (Hawaldar et al., 2016). Financing decisions and equity performance are intricately linked to the underlying assets, which are appraised and retained at the current market value as depicted in the financial position statement. (Amadeo, 2020). Moreover, the banking sector in Nepal is perceived as a highly secure investment destination for investors.

Finance companies in Nepal are considered the 'C' grade banks, primarily operating in small and rural areas of society. They serve as investors in business projects, utilizing their capital and debentures for acquiring new investments and projects that offer optimal returns. However, questions arise regarding the impact of capital structure on profitability or performance, as well as the factors influencing it. Various stakeholders in the finance sector have raised related inquiries, necessitating research to address these questions. Here in this research some of the question are short out, the question of the research is following:

- What are the factors affecting the profitability of finance companies?
- Whether there is the relationship between capital structure and profitability of the financial companies?
- What is the impact of capital structure toward the profitability of the financial companies?

### **1.3 Objectives of the Study**

The objectives of study are as follows.

- To explore the factors affecting the profitability of finance companies.
- To analyze the relationship between capital structure and profitability of the financial companies.
- To examine the impact of capital structure on the profitability of the financial companies.

## **1.4 Hypothesis**

### Hypothesis 1

There is the significant relationship of capital structure and profitability of the financial companies.

### Hypothesis 2

There is the significant impact of capital structure toward the profitability of the financial companies.

## **1.5 Rationale of the Study**

As of mid-July 2023 in Nepal, there are 17 finance companies categorized as 'C' grade banks and financial institutions. These finance companies are experiencing significant challenges in their performance, characterized by low returns and some facing the risk of closure due to inadequate returns on investments. The discrepancy lies in their high costs compared to returns. The decision-making process regarding capital structure aims to secure low-cost capital for investments while maximizing returns. Capital options include debt, preference shares, and equity. In Nepal, which types of capital are predominantly utilized by finance companies? Which capital yields higher returns and which yields lower returns? Exploring the relationship between capital and profitability constitutes a crucial aspect of the research objectives. The rationale behind this research stems from the imperative to ascertain whether capital structure indeed impacts profitability—a question of utmost importance in the finance sector in recent times.

## **1.6 Limitations of the Study**

The limitations of the research are as follows.

- The study is concerned on Impact of Capital Structure on Profitability of Finance Companies in Nepal.
- Three financial companies namely: Manjushree Finance Limited, Pokhara Finance Limited and Good will Finance Limited are taken for the study.
- The study is based on secondary data.
- The research covers the ten years period from 2013/14 to 2022/23.

## **CHAPTER-II**

### **LITERATURE REVIEW**

This chapter constitutes the crux of the research endeavor. The researcher delves deeply into the subject matter from various perspectives and angles. "Angle" here refers to the exploration of every variable associated with the research topic. The researcher must grasp the theoretical and conceptual underpinnings of each variable comprehensively. Without a thorough understanding of these concepts, proceeding with further work becomes challenging. A literature review entails a meticulous analysis of a portion of existing knowledge, achieved through summarizing, classifying, and comparing prior studies, as well as reviewing literature and theoretical frameworks. This review is typically divided into three sections.

#### **2.1 Theoretical Review**

##### **Profitability**

The initiation of dividend payments typically begins with profitability, making it logical to view profitability as a pivotal determinant. Profit levels are among the most influential factors shaping decisions regarding dividends and stock prices. The theoretical framework posits that dividends are typically distributed based on annual profits, indicative of a company's capacity to pay dividends. According to the pecking order hypothesis, companies prioritize internal financing for investments. If external financing becomes necessary, they tend to favor debt financing over equity financing to mitigate costs associated with asymmetric information and other transaction expenses (Myers, 1984). Profitability in business encompasses the company's capacity to generate profits, which is defined as the remaining revenue after deducting all business expenses. Profitability indicates the company's effectiveness in generating profit from its operations. For startup companies, it is often recommended to reinvest as much profit as possible, as this contributes directly to the growth of the company's cash reserves, facilitating further investments in operations. Accumulating substantial cash reserves not only supports economic investments but also enhances the company's attractiveness to external investors. Significant cash reserves imply the company's resilience to external factors such as economic downturns. Furthermore, reinvesting profits signals to investors the owner's commitment to expanding the enterprise, which is a crucial factor influencing investors' decisions to invest. Profitability is fundamental to the success of any business,

as turning a profit is the primary objective of running a business and greatly influences external investors' decisions to invest in the company.

### **Financial Leverage**

The financial structure of a company encompasses both debt obligations and equity financing. Long-term financing typically pertains to the capital structure of the company, and the extent to which a company relies on debt financing is termed financial leverage. Apart from tax advantages such as the deduction of interest on income, utilizing debt financing has the potential to enhance the return on equity. However, leveraging carries inherent risks; by acquiring debt financing, a company commits to recording fixed financial costs associated with interest payments and capital, and failure to meet these obligations could lead to the company's liquidation. The risk associated with high financial leverage may consequently result in lower dividend payments, as companies prioritize maintaining internal cash flow to fulfill their obligations rather than distributing it to shareholders. In addition, Rozeff (1982) it has been observed that companies with high leverage often minimize distributions to mitigate transaction costs linked with external financing. Moreover, certain agreements impose restrictions on dividend disbursements. Therefore, all else being equal, an inverse correlation between debt and dividend payments appears logical. Numerous studies have documented a negative association between debt levels and dividend payouts. (Jensen et al., 1992, Gugler and Yurtoglu, 2003).

### **Growth**

Growth is illustrated by dividing the market price per share by the earnings per share. The Price-to-Earnings Ratio (P/E ratio) serves as a valuation metric for a company, comparing its current share price to its per-share earnings. It's the most prevalent measure of a stock's expensiveness. The P/E ratio is calculated by dividing a stock's market capitalization by its after-tax earnings over a 12-month period, typically the trailing period, but sometimes the current or forward period. The resulting value remains consistent whether the calculation is performed for the entire company or on a per-share basis. Nicholson (1960) revealed that stocks with a low P/E ratio have a better investments performance than high P/E stocks. Fama and French (1992) revealed the positive association between the stocks and earning price ratio.

### **Common stock**

Common stock represents ownership in a corporation. In the event of liquidation, common stockholders receive whatever assets are left after creditors, bondholders, and preferred stockholders have been paid. For instance, companies that have issued common stock typically hold annual meetings to nominate directors or discuss their earnings. Common stockholders are invited to these meetings and have the privilege to inquire about operations or participate in the election of directors by casting their votes. Some companies issue two classes of common stock, one with voting rights and the other without. A notable example is technology giant Alphabet, which has two classes of common stock shares: Class A and Class C. Class A shares, traded under the ticker symbol GOOGL, include voting rights, while Class C shares, traded under the ticker symbol GOOG, do not. Nonetheless, both types of common stock confer ownership stakes to their holders.

### **Long Term Debt**

Long-term liabilities, also referred to as long-term debts, denote the debts owed by a company to third-party creditors, which are payable beyond a 12-month period. This sets them apart from current liabilities, which are obligations due within 12 months. On the balance sheet, long-term liabilities are listed alongside current liabilities. Long-term debt, specifically, encompasses debts maturing in more than one year. The concept of long-term debt can be approached from two perspectives: financial statement reporting by the issuer and financial investing. In financial statement reporting, companies are required to document the issuance of long-term debt and all associated payment obligations in their financial statements. Conversely, investing in long-term debt involves allocating funds into debt investments with maturities exceeding one year.

### **2.2 Review of Related Studies**

Dodoo, Kumi and Mangudhla (2023) conducted a research on “The effect of capital structure on firm performance: empirical evidence from emerging economy”. The research aimed to explore the influence of capital structure on firm performance in an emerging economy. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings revealed that capital structure, particularly short-term debt (STD) and long-term debt (LTD), negatively affects company performance, as indicated by return on assets (ROA). However, capital structure, including long-term debt (LTD) and debt-to-equity ratio (DE), did not have a significant

impact on firm performance as measured by return on equity (ROE). In conclusion, the research suggests that capital structure indeed exerts a significant influence on the performance of companies.

Tran et al. (2023) conducted a research on “Capital Structure and Profitability of Listed Firms in a Transition Market, Does Debt Maturity Matter”. The research aimed to assess how capital structure and debt maturity influence the profitability of enterprises listed on the Vietnamese stock exchange. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings indicated that capital structure has a negative impact on both return on assets (ROA) and return on equity (ROE). Additionally, the research revealed that the ratio of short-term debt to total assets diminishes the profitability of companies in Vietnam. However, the research concluded that capital structure does not significantly affect the performance of the companies.

Hafidh (2022) conducted a research on “Examining the effect of capital structure on the banks’ performance in Tanzania: A case commercial banks operating in Zanzibar”. The research aimed to explore the relationship between capital structure and bank performance in Tanzania, focusing on commercial banks operating in Zanzibar. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings revealed a positive correlation between capital structure, specifically the short-term debt to equity (DE) ratio and equity to total asset ratio (ETA), and financial performance, as measured by return on assets (ROA), among the commercial banks operating in Zanzibar. Consequently, the research concluded that capital structure exhibits a positive relationship with the performance of these companies.

Okore and Nwadiubu (2022) conducted a research on “Impact of Capital Structure on the Profitability of Food and Beverage Firms”. The research aimed to investigate the impact of the debt-to-equity ratio on various financial metrics including gross profit margin ratio, net profit margin ratio, return on equity, and return on assets. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings revealed a positive correlation between the capital structure, represented by the short-term debt to equity (DE) ratio and equity to total asset ratio (ETA), and financial performance, particularly return on assets (ROA), among the commercial banks operating in Zanzibar. Consequently, the research concluded that capital structure has a positive and significant impact on the performance of these companies.

Rasheed et al. (2022) conducted a research on “Impact of Capital Structure and Liquidity Conditions on the Profitability of Pharmaceutical Sector of Pakistan”. The research aimed to explore the influence of capital structure and liquidity conditions on the profitability of pharmaceutical firms listed on the Pakistan Stock Exchange (PSX). Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings indicated that a high debt-to-equity ratio significantly and adversely affects profitability. Conversely, liquidity conditions exhibited a positive association with firm profitability. Ultimately, the research concluded that capital structure has a negative and significant impact on the performance of the companies, while also noting a positive relationship between capital structure and performance.

Mawlood (2022) conducted a research on “Roles of Capital Structure on Banks Profitability; Case Study from Commercial Banks in Iraq”. The research aimed to investigate how capital structure decisions influence the profitability of commercial banks. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings indicated that a high debt-to-equity ratio significantly and adversely affects profitability. Consequently, the research concluded that capital structure has a negative and significant impact on the performance of the companies.

Usoro (2022) conducted a research on “Relationship between Capital Structure and Financial Performance of U.S. Retail Banks”. The research aimed to explore the correlation between capital structure and financial performance. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings revealed that capital structure exerted a notable influence on earnings, liquidity, profitability, and dividend per share of the banks. As a result, the research concluded that capital structure significantly impacts the performance of the companies.

Goet (2022) conducted a research on “Impact of Capital Adequacy on Profitability of Commercial Banks in Nepal”. The aim of the research was to investigate the influence of various bank-specific factors, including capital adequacy, on the profitability of listed commercial banks in Nepal. Descriptive statistics, correlation analysis, and multiple regression were utilized to analyze the data. The findings revealed that the capital adequacy ratio had a significant impact on the return on equity of the banks, whereas the credit deposit ratio did not. Consequently, the research concluded that capital structure has a significant impact on the performance of the companies.

Chalise and Adhikari (2022) conducted a research on “The Impact of Capital Structure and Firm Size on Financial Performance of Commercial Banks in Nepal”. The research aimed to investigate how capital structure and firm size affect the financial performance of Nepalese commercial banks. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings revealed a negative relationship between return on assets (ROA) and earnings per share (EPS) with capital structure, represented by the Debt/Equity ratio. Consequently, the research concluded that capital structure has a negative impact on the performance of the companies.

Ngoc, Tien and Thu (2021) conducted a research on “The impact of capital structure on financial performance of logistic service providers listed on Ho Chi Minh City stock exchange”. The research aimed to assess the influence of capital structure on profitability, as indicated by the return on assets (ROA) and return on equity (ROE) indicators, among 30 logistics enterprises listed on the Ho Chi Minh City Stock Exchange. Descriptive statistics, correlation analysis, and multiple regression were utilized to analyze the data. The findings revealed a negative correlation between capital structure and profitability, specifically in terms of ROA for firms. As a result, the research concluded that capital structure has a negative impact on the performance of the companies.

Bhatta (2021) conducted a research on “Capital Structure and Profitability of Manufacturing and Finance Companies in Nepal”. The research aimed to compare the profitability performance of selected companies using metrics such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings indicated a positive correlation between capital structure and profitability. Consequently, the research concluded that capital structure has a positive relationship with the performance of the companies.

Aishwarya (2020) conducted a research on “A Study on Impact of Capital Structure on Profitability of Companies Listed in Indian Stock Exchange with respect to Automobile Industry”. The aim of the study was to examine how the Interest Coverage Ratio influences Firms Performance. Descriptive statistics, correlation analysis, and multiple regression were employed to scrutinize the data. The results of the study indicated a robustly significant correlation between profitability and capital structure variables. Consequently, the research inferred that there exists a notably positive relationship between capital structure and the performance of companies.

Sariv and Sedana (2020) conducted a research on “Profitability and Liquidity on Firm Value and Capital Structure as Intervening Variable”. The aim of the study was to assess how profitability and liquidity influence firm value and to examine the mediating role of capital structure in this relationship within construction and building subsector companies listed on the Indonesia Stock Exchange. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings revealed that capital structure has a positive and significant impact on firm value and profitability. Consequently, the study concluded that capital structure significantly enhances the performance of the companies.

Bhattarai (2020) conducted a research on “Effects of capital structure on financial performance of insurance companies in Nepal.” The aim of the study was to investigate how capital structure influences the financial performance of insurance companies in Nepal. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The results revealed that factors such as equity to total assets, leverage, and assets tangibility affect the financial performance of Nepalese insurance companies. Consequently, the study concluded that capital structure positively impacts the performance of these companies.

Wardani and Subowo (2020) conducted a research on “Factors That Influence Capital Structure with Profitability as A Moderating Variable.” The aim of the study was to assess how business risk, Fixed Asset Ratio (FAR), and Time Interest Earned (TIE) influence capital structure, with profitability acting as a moderating variable. Descriptive statistics, correlation analysis, and multiple regression were utilized to analyze the data. The results indicated that Time Interest Earned (TIE) exhibits a notable negative impact on capital structure, whereas the Fixed Asset Ratio (FAR) shows a considerable positive effect. Consequently, the study concluded that capital structure has a positive impact on the performance of the companies.

Uremadu and Onyekachi (2018) conducted a research on “The impact of capital structure on corporate performance in Nigeria: A quantitative study of consumer goods sector.” The aim of the study was to investigate how capital structure influences corporate performance in Nigeria, with a specific emphasis on the consumer goods sector of the economy. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The results revealed that the long-term debt ratio to total assets and the total debt ratio to equity both had a negative and statistically insignificant

effect on returns on assets. Consequently, the study concluded that capital structure has a negative and insignificant impact on the performance of the companies.

Hirdinis (2019) conducted a research on “Capital structure and firm size on firm value moderated by profitability.” The aim of the study was to examine how capital structure and firm size influence firm value, with profitability serving as a moderating factor. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The results revealed a notable positive effect of capital structure on firm value. Consequently, the study concluded that capital structure has a positive and significant impact on the performance of the companies.

Al-Nsour and Al-Muhtadi (2019) conducted a research on “Capital Structure, Profitability and Firm’s Value: Evidence from Jordan.” The aim of the study was to investigate the impact of capital structure and profitability on firm value. Descriptive statistics, correlation analysis, and multiple regression were utilized for data analysis. However, the results revealed no significant effect among all independent variables, including capital structure and profitability variables. Consequently, the research concluded that capital structure has an insignificant impact on the performance of the companies.

Singh and Bagga (2019) conducted a research on “The effect of capital structure on profitability: An empirical panel data study.” The aim of the study was to assess how capital structure impacts profitability. Descriptive statistics, correlation analysis, and multiple regression were employed for data analysis. The findings indicated the influence of total debt and total equity ratios on profitability metrics, namely Return on Assets (ROA) and Return on Equity (ROE). Consequently, the research concluded that total debt and total equity ratios significantly affect profitability, as measured by ROA and ROE.

Noreen (2019) conducted a research on “Impact of capital structure on profitability: A comparative study of Islamic and conventional banks of Pakistan.” The aim of the study was twofold: first, to investigate how capital structure influences the profitability of both Islamic and conventional banks, and second, to determine whether the capital structure differs between the two types of banks. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings revealed that the capital structure of both types of banks was similar, except for bank size, which showed significant differences. Additionally, Return on Assets (ROA) exhibited a negative correlation with the capital structure of both conventional and Islamic banks.

Consequently, the research concluded that there is a negative relationship between capital structure and the performance of the companies.

Musah (2018) conducted a research on “The impact of capital structure on profitability of commercial banks in Ghana.” The aim of the study was to investigate how capital structure, measured by short-term debt ratio, long-term debt ratio, and total debt ratio, influences the profitability of commercial banks in Ghana, as measured by Return on Assets and Return on Equity. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The results revealed a negative relationship between short-term debt ratio and long-term debt ratio with the profitability of banks in Ghana. Consequently, the research concluded that there is a negative relationship between capital structure and the performance of the companies.

Revathy and Santhi (2016) conducted a research on “Impact of capital structure on profitability of manufacturing companies in India.” The aim of the study was to explore the influence of capital structure on the profitability of manufacturing companies in India and to examine the hypothesized relationship regarding how capital structure variables impact the business revenue of these companies, as well as the interrelationship between capital structure variables and profitability. Descriptive statistics, correlation analysis, and multiple regression were utilized for data analysis. The findings revealed a robust one-to-one relationship between capital structure variables and profitability, indicating that an increase in Debt Equity Ratio negatively affects the profits of manufacturing companies listed on the Bombay Stock Exchange in India. Consequently, the research concluded that there exists a strongly positive relationship between capital structure and the performance of these companies.

Singh and Singh (2016) conducted a research on “Impact of Capital structure on firm's profitability: A Study of selected listed Cement Companies in India.” The aim of the study was to explore how capital structure influences the profitability of selected cement companies in India. Descriptive statistics, correlation analysis, and multiple regression were employed to analyze the data. The findings revealed a noteworthy negative correlation between debt and profitability, indicating that companies with a higher proportion of debt tend to exhibit lower profitability. Consequently, the research concluded that there exists a significant negative relationship between capital structure and the performance of these companies.

Vatavu (2015) conducted a research on “The impact of capital structure on financial performance in Romanian listed companies.” The aim of the study was to ascertain the correlation between capital structure and financial performance. Descriptive statistics, correlation analysis, and multiple regression were employed for data analysis. However, the findings indicated that there was no statistically significant impact between debt and profitability. Consequently, the research concluded that capital structure exhibits an insignificant relationship with the performance of the companies.

Tailab (2014) conducted a research on “The effect of capital structure on profitability of energy American firms.” The aim of the study was to assess the influence of capital structure on financial performance. Descriptive statistics, correlation analysis, and multiple regression were utilized to analyze the data. The findings indicated that total debt had a notable negative impact on Return on Equity (ROE) and Return on Assets (ROA), whereas sales size demonstrated a significantly negative effect solely on ROE, and short-term debt exhibited a positive influence on ROE. Consequently, the research concluded that there exists a significant relationship between capital structure and the performance of the companies.

Shubita and Alsawalhah (2012) conducted a research on “analyzed in this study about problem does capital structure affect the Industrial Jordanian companies?” The aim of the study was to investigate how capital structure affects financial performance. Descriptive statistics, correlation analysis, and multiple regression were employed for data analysis. The findings revealed a notable negative relationship between debt and profitability. Consequently, the research concluded that there exists a significant negative relationship between capital structure and the performance of the companies.

Namalathasan (2010) conducted a research on “Capital structure and its impact on profit ability: a study of listed manufacturing companies in Sri Lanka”. The aim of the study was to examine the relationship between capital structure and profit-earning capacity. Descriptive statistics, correlation analysis, and multiple regression were employed for data analysis. The findings revealed that the Debt to Assets (D/A) ratio demonstrated a strong positive association with Operating Profit Ratio (OPR), Net Profit Ratio (NPR), and Return on Capital Employed (ROCE). Similarly, the Capital Gearing (CG) ratio exhibited a positive correlation with Gross Profit Ratio (GPR) and NPR. Additionally, the Interest Coverage (IC) ratio was found to significantly correlate with ROCE and NPR. Moreover, capital structure significantly impacted all profitability ratios except ROCE

and Return on Investment (ROI). However, the research concluded that capital structure exhibits a significant negative relationship with the performance of the companies.

Table 1

*Summary of Related Reviews*

Authors/ year	Topic	Objectives	Methodology-Tools	Findings/Conclusion
Dodoo, Kumi and Mangudhla / (2023)	The effect of capital structure on firm performance: empirical evidence from emerging economy.	To provide new empirical evidence on the effect of capital structure on firm performance in Ghana. To examine the effect of capital structure on firm performance of listed nonfinancial firms in Ghana.	They applied 2 Step System GMM and OLS regression methods.	They discovered that capital structure (specifically, Short-Term Debt and Long-Term Debt) negatively affects the firm's performance as measured by Return on Assets (ROAs). Conversely, capital structure (Long-Term Debt and Debt Equity) does not have a significant positive effect on firms' performance as measured by Return on Equity (ROE). These findings led the study to conclude that, in general, capital structure has a weak-to-no impact on the financial performance.
Tran, Van Nguyen and Tran / (2023)	Capital Structure and Profitability of Listed Firms in a Transition Market, Does Debt Maturity Matter?	To examine the impact of various factors on profitability. They examine the impact of capital structure on a business's profitability	They use the Feasible Generalized Least Square (FGLS) estimations instead of OLS regression.	They discovered that increased leverage is associated with decreased profitability. Additionally, they observed an inverse correlation between the capital structure of Vietnamese firms and their profitability.

Gubaer and Hassan/(2022)	The Impact of Capital Structure on Profitability: An Empirical Examination of Selected Firms in Saudi Stock Exchange.	The research looks at the particular effect associated with funds framework around the success associated with Outlined companies working within Saudi Persia.	The research utilized the quantitative method of analyze plus achieve the particular goals of the research and even SPSS econometric software program to create detailed, regression, together with relationship outcomes.	The specific findings revealed that the capital structure impacts the efficiency of Saudi listed companies. The results were significant with Total Debt (TD) and Debt-to-Equity (D/E) ratios and less significant with Long-Term Debt (LTD) based on the p-value of the correlation coefficient.
Hafidh /(2022)	Examining the effect of capital structure on the banks' performance in Tanzania: A case commercial banks operating in Zanzibar	To determine capital structure and banks performance in Tanzania, a case commercial banks operating in Zanzibar.	The research design of this study is descriptive and conducted on the basis of time series approach covering years between 2015–2020 studies.	The analysis results indicate that both independent variables (short-term debt-to-equity ratio, DE, and equity-to-total-asset ratio) exhibit a positive and significant correlation with return on assets. However, only one independent variable (long-term debts-to-total-assets ratio) was identified to have a negative and significant relationship with return on assets
Okore and Nwadiubu /(2022)	Impact of Capital Structure on the Profitability of Food and Beverage Firms	The specific objectives were to determine the effect of debt equity ratio on gross profit margin ratio, analyze the	The study employed a causal research design and utilized secondary data. The population	The findings indicate that the debt-to-equity ratio positively and significantly influences the gross profit ratio, net profit ratio, return on equity, and return

			effect of debt Equity ratio on net profit margin ratio, assess the effect of debt equity ratio on return on equity and, examine the effect of debt equity ratio on return on asset.	consisted of all quoted companies in the food and beverage industry. From this population, a sample of five listed companies from the food and beverage sector was selected.	on assets.
Rasheed, Shahid, Mukhtar and Ishaq/(2022)	Impact of Capital Structure and Liquidity Conditions on the Profitability of Pharmaceutical Sector of Pakistan	Of	To find the impact of capital structure and liquidity condition on the profitability of pharmaceutical firms listed with Pakistan Stock Exchange (PSX).	The OLS regression, fixed and random effect models were used for analysis.	The results demonstrated that a high debt-to-equity ratio has a significant and adverse impact on profitability. Conversely, favorable liquidity conditions are positively associated with firm profitability.
Mawlood/ (2022)	Roles Capital Structure Banks Profitability; Case Study From Commercial Banks In Iraq	Of On	Examines the impact of capital structure decisions on the profitability of commercial banks listed on the Bagdad Stock Exchange for the period from 2009 to 2020.	He based on secondary data to obtain research objectives. Regression correlation is calculated.	According to the findings, commercial banks with higher debt ratios tend to have lower profitability in Iraq
Usoro/ (2022)	Relationship Between Capital Structure and Financial Performance of U.S. Retail Banks		To investigate, using a sectorial analysis, the relationship between capital structure and financial performance.	The research methodology for this study was quantitative with a causal comparative Design.	The results indicated that when banks decide on their capital structure, an effect on the liquidity of the banks could also be observed.

Pham, Hoang and Pham/ (2022)	The impact of capital structure on bank profitability: evidence from Vietnam	To examine the impact of capital structure and firm size on financial performance of Nepalese commercial banks.	Secondary data, regression model is used.	It is suggested that customer deposits exert a detrimental impact on bank profitability, while non-deposit liabilities contribute positively to bank profitability.
Ngoc, Tien and Thu/ (2021)	The impact of capital structure on financial performance of logistic service providers listed on ho chi minh city stock exchange	To determine the impact of capital structure on profitability (represented by ROA and ROE indicators) of 30 logistics enterprises listed on Ho Chi Minh City Stock Exchange (HOSE) in the period of 2012-2019.	Regression model, applying the quantitative method (with models of Pool OLS, FEM, REM and FGLS)	The findings from the research have demonstrated that the capital structure negatively influences the profitability of firms, as indicated by Return on Assets (ROA). This negative impact also extends to profitability represented by Return on Equity (ROE).
Aishwarya/ (2020)	A Study on Impact of Capital Structure on Profitability of Companies Listed in Indian Stock Exchange with respect to Automobile Industry	To study factors affecting the profitability of the company. To identify and analyze the existing relationship between Capital Structure and Profitability. To analyze the effect of Debt to Equity Ratio on Firms Performance. To analyze the effect of Interest coverage Ratio on Firms Performance	Financial data were scrutinized to obtain the necessary information for the study. Secondary data sourced from various journals, articles, books, published and unpublished materials, as well as electronic databases and online resources, were collected and utilized.	The study proves that the relationship between profitability and capital structure variables are strongly significant.

Sariv and Sedana / (2020)	Profitability and Liquidity on Firm Value and Capital Structure as Intervening Variable	To determine the effect of profitability and liquidity on firm value and determine the role of capital structure in mediating the effect of profitability and liquidity on firm value in the construction and building subsector companies listed on the Indonesia Stock Exchange (IDX) for the period 2013-2017.	This study uses samples with the census method. The data analysis technique used is path analysis.	Profitability exerts a positive and notable influence on capital structure, while liquidity demonstrates a negative and significant impact on capital structure. Capital structure, in turn, exhibits a positive and significant effect on firm value. Additionally, profitability positively and significantly affects firm value, whereas liquidity has a negative impact on firm value, albeit not significant.
Uremadu and Onyekachi / (2018)	The Impact of Capital Structure on Corporate Performance in Nigeria: A Quantitative Study of Consumer Goods Sector	This study examined the impact of capital structure on corporate performance in Nigeria with special focus on consumer goods firm sector of the economy.	The data used in this study were secondary data sourced from the annual reports. Multiple regression of Ordinary Least Square (OLS) analytical technique was used to analyze the data.	The findings of the study indicated an insignificant and negative effect of capital structure on the corporate performance of the consumer goods firm sector in Nigeria. Specifically, the long-term debt ratio to total assets and the total debt ratio to equity both demonstrated a negative and insignificant impact on returns on assets.
Hirdinis/ (2019)	Capital Structure and Firm Size on Firm Value Moderated by	The purpose of this study is to determine the effect of capital structure and	This study employs the non-participant observation	Capital structure exerts a notable positive impact on firm value, whereas firm size

	Profitability	firm size on firm value, moderated by profitability.	method along with path analysis technique. Multiple linear regressions are utilized as the method of data analysis.	demonstrates a significant negative influence on firm value.
Al-Nsour and Al-Muhtadi/ (2019)	Capital Structure, Profitability and Firm's Value: Evidence from Jordan	To empirically examine the effect of capital structure and profitability on firm's value.	Multiple regression analysis is undertaken to analyze the potential effect of capital structure and profitability on firm's value	The findings indicated that the Debt-to-Equity Ratio (DER) has a significant positive impact on market value, whereas Return on Assets (ROA) has a significant negative effect on market value.
Singh and Bagga / (2019)	The Effect of Capital Structure on Profitability: An Empirical Panel Data Study.	To evaluate the effect of capital structure on the profitability of Nifty 50 companies listed on National Stock Exchange of India from 2008 – 2017.	The data has been analyzed by using descriptive statistics, correlation and multiple panel data regression models	There is significant positive Impact of capital structure on firm's profitability.
Noreen / (2019)	Impact of Capital Structure on Profitability: A Comparative Study of Islamic and Conventional Banks of Pakistan	It examines the effect of capital structure on profitability of Islamic and conventional banks; It determines that whether the capital structure of Islamic and conventional banks is same or not.	For comparing the capital structure of Islamic and conventional banks, an independent samples T-test was employed, while regression analysis was utilized to	The findings revealed that the capital structure of both conventional and Islamic banks was comparable, except for bank size, which exhibited significant differences. Furthermore, Return on Assets (ROA) demonstrated a negative correlation

			assess the impact of capital structure on profitability.	with the capital structure of both conventional and Islamic banks. Conversely, Return on Equity (ROE) exhibited a positive correlation with the capital structure of both types of banks.
Musah/ (2018)	The impact of capital structure on profitability of commercial banks in Ghana	The study examined the effect of capital structure (measures as short term debt ratio, long term debt ratio, and total debt ratio) on profitability (measured as Return on Assets and Return on equity) of commercial banks in Ghana.	Data was analyzed using descriptive statistics, correlation analysis as well as panel regression analysis.	The regression analysis uncovered that the profitability of banks in Ghana is inversely correlated with both short-term debt ratio and long-term debt ratio. Conversely, the total debt ratio exhibited a positive association with the profitability of banks in Ghana.
Revathy and Santhi/ (2016)	Impact of capital structure on profitability of Manufacturing companies in India.	This paper investigates the impact of capital structure on profitability of the manufacturing companies in India and attempts to establish the hypothesized relationship as to how far the capital structure variables affect the business revenue of Companies and what the	Analytical research design is used in the present Study. Analyzed through Structural equation modeling.	The study demonstrates a robust one-to-one correlation between capital structure variables and profitability. An increase in the Debt Equity Ratio is observed to negatively impact the profits of manufacturing companies listed on the Bombay Stock Exchange in India.

		interrelationship is between capital structure variable and profitability.		
Vatavu/ (2015)	The impact of capital structure on financial performance in Romanian listed companies	To examine the impact of capital structure on the financial performance of industrial companies in Turkey.	Regression model is used. To measure firm performance used	Due to missing data regarding long-term debt ratios, those regression results are not statistically significant.
Tailab (2014)	The Effect of Capital Structure on Profitability of Energy American Firms	Analyze the effect of capital structure on financial performance. Two main sets of variables	Secondary data were collected from financial statements which were taken from emergent online. The data were analyzed by using Smart PLS, multiple regression	It was discovered that total debt has a notably adverse effect on Return on Equity (ROE) and Return on Assets (ROA) among American firms. Additionally, sales size exhibits a significantly negative effect solely on ROE. However, short-term debt demonstrates a positive influence on ROE. There was either an insignificant or varying relationship observed between long-term debt, debt-to-equity ratio, size in terms of total assets, and profitability.
Shubita and Alsawalhah (2012)	The Relationship between Capital Structure and Profitability	Examining the effect of capital structure on profitability of the industrial companies listed on Amman Stock	The study comprised a sample of 39 companies, utilizing secondary data and employing statistical	The results reveal significantly negative relation between debt and profitability.

		Exchange techniques to during a six-year period (2004-2009) analyze the relationship between capital structure and profitability.
Namalathasan / (2010)	Capital structure and its impact on profitability:  A study of listed manufacturing companies in Sri Lanka	To analyze the capital structure and its impact on profit earning capacity during 2003 to 2007 (05 years) financial year of listed manufacturing companies in Sri Lanka.  Data were collected from secondary sources mainly from financial report of the selected companies, regression model is used.  The findings indicate a robust positive correlation between the debt-to-equity ratio (D/E) and all profitability ratios. Capital structure significantly influences all profitability ratios except for Return on Capital Employed (ROCE) and Return on Investment (ROI).

### 2.3 Research Gap

The research is done in the name of impact of capital structure on profitability of finance companies in Nepal. Here three sample finance companies are selected for studies in ten year of data. Regression, correlation and descriptive statistics are the statistical tools and SPSS is the data presentation and analysis tools for the studies. This research is the mandatory requirement of master degrees of business studies from Tribuwan University. The time periods of this research is very short that is around 3 month. The research is used explanatory and descriptive research design.

Previous researcher are done research for their nonacademic propose, they are taken the sample sized more than 5 institution, they used casual comparative research design, panel methods for research, time frame is more and less of three years. Most of the research is based on whole population as sample also used primary data. If research is done by upcoming researcher they may also sample selection will be done more than 3 to 17 finance companies which are here in Nepal now. They can also use secondary data, more than 10 years of data and they used a time as much they can.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

The research methodology encompasses the systematic approach to obtaining answers to a problem through organized and methodical procedures involving the collection, analysis, and interpretation of data. In this context, the chapter on research methodology covers aspects such as research design, data sources, population and sample selection, as well as methods and tools employed for data analysis. It serves as the blueprint, structure, and strategic framework for conducting investigations aimed at addressing research questions or testing research hypotheses. The main contents of research methodology in course of this study are as below:

#### **3.1 Research Design**

The study has been grounded in a diverse array of variables and factors related to microfinance services. Employing a descriptive research design, the study aims to present comparative data from various banks to enhance the informativeness of the report for the reader. Financial and statistical tools will be utilized to analyze and interpret the financial information. The descriptive nature of the study lies in its endeavor to elucidate both independent and dependent variables. The independent variables encompass financial leverage, growth, common stock, and long-term debt, while the dependent variables encompass profitability-related ratios such as return on assets and return on equity. So the research employed descriptive and causal-comparative research design.

#### **3.2 Nature and Source of Data**

In this study, the researcher elaborates on the nature and sources of data. Data can be classified into two types: primary data and secondary data. Various sources are available for different research endeavors. These sources include broadcast sources, such as articles by researchers, annual reports, newspapers, tax reports, government policies, and books, as well as unbroadcast sources, such as internal organizational decision-making records, meeting minutes, and vouchers. For this research, secondary data were utilized, and the data were collected from the annual reports of finance companies in Nepal.

#### **3.3 Population and Sample**

There are total 17 C class bank called finance company in Nepal. Finance banks working all over the country at present, which are taken as a population of this study work. Among

them, this study uses only three finance companies in Nepal are selected randomly for the studies.

Table 2

*Population and Sample*

Populations	17 finance companies as per NRB in the f/y end 2021/22
Sample	Three finance companies running Namely Manjushree Finance Limited (MFL), Pokhara Finance Limited (PFL) and Good will Finance Limited (GWFL selected based on availability of data.
Variables	The independent variable is financial leverage, growth (P/E), common stock and long term debt. Independent variables in profitability related ratio such as return on assets and return on equity.

### 3.4 Instrument of Data Collection

An instrument refers to the tools utilized for data collection. Various instruments are employed for gathering primary data, including questionnaires, laboratory experiments, quasi-experiments, observations, interviews, and scales. Secondary data, on the other hand, are obtained from the websites of the relevant banks and through the collection of data from their annual reports. Additionally, economic reports from the Nepal Rastra Bank (NRB), specifically the Banking and Financial Statistics report, along with other published statistical data, have been utilized. Informal discussions and procedures have also been employed to acquire additional information.

### 3.5 Methods of Analysis

For the achievement of the objectives of the study various statistical tools are used. They are descriptive statistic, correlation analysis and multiple regression analysis. The analysis of data is done according to the patterns of available data.

#### 3.5.1 Financial Analysis

- Return On Assets
- Return On Equity

- Total Liabilities To Total Assets
- Price Earnings Ratio

Return on Assets:

Return on assets is the profitability ratio and the ratio is calculated by net profit after tax divided by total assets. The formula for calculation is following:

$$\text{Return on Assets} = \frac{\text{Net profit After Tax}}{\text{Total Assets}}$$

Return on equity:

This ratio is also the profitability ratio. This is calculated by net profit after tax divided by total equity. The formula is

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Equity}}$$

Total Liabilities to Total Assets:

This is the ratio of leverage and the ratio is calculated total liabilities divided by total assets. The formula is

$$\text{Total Liabilities to Total Assets} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Price Earnings Ratio

Price Earnings ratio is the ratio of market price per share divided by earning per share. The formula is

$$\text{Price Earnings Ratio} = \frac{\text{Market price of share}}{\text{Earning per share}}$$

### **3.5.2 Statistical Analysis**

#### **Descriptive Analysis**

Descriptive analysis involves examining the mean, standard deviation, minimum, and maximum values of the given variables in the dataset.

#### **Arithmetic Mean**

The arithmetic mean, also known as the average, is calculated by dividing the sum of all values by the number of observations in the sample. It provides a representation of the entire dataset, typically falling between the two extremes. Therefore, the average is often

considered a measure of central tendency. In this study, the average is utilized to analyze data related to sample banks over a span of ten fiscal years.

**Standard Deviation ( $\sigma$ ):**

The standard deviation serves as a metric for quantifying the extent of variation or spread within a dataset. It is computed as the square root of the variance, which involves assessing each data point's deviation from the mean. It is denoted by ( $\sigma$ ).

**Minimum**

The minimum represents the lowest value within a given dataset. It is also referred to as the smallest value observed in the respective variable under study. When analyzing statistics, the minimum value is the data point that is either less than or equal to all other values within the dataset. If the data were arranged in ascending order, the minimum would be the first number in the list. While it is possible for the minimum value to be repeated in the dataset, by definition, it is a unique number. As such, there cannot be two minimum values, as one value must be smaller than the other.

**Maximum**

The maximum represents the highest value within a given dataset. It is also referred to as the largest value observed in the respective variable under study. When examining statistics, the maximum value is the data point that is either greater than or equal to all other values within the dataset. If the data were arranged in ascending order, the maximum would be the last number listed. The maximum value is unique for a given dataset, although it can be repeated. There is only one maximum value for a dataset, as it represents the highest observed value.

**Correlation Analysis**

It is a statistical method utilized to determine the direction and strength of the relationship between two sets of variables. It illustrates how two variables co-vary and indicates the extent of their association. This relationship is elucidated through the application of the Pearson correlation coefficient. The correlation coefficient value ranges from -1 to +1. A correlation coefficient of -1 signifies a perfect negative correlation, indicating that the variables move precisely in opposite directions. Conversely, a correlation coefficient of +1 denotes a perfect positive correlation, indicating that the variables are directly related.

### Multiple Regression Model

The regression models will be employing in this study intend to analyze the relationship i.e., dependent and independent variables. The relationship between the dependent and independent variables will be stated in the following form:

Model I

$$ROA = \beta_0 + \beta_1 * TLTA + \beta_2 * PER + \beta_3 * CS + \beta_4 * LTD + e$$

Model II

$$ROE = \beta_0 + \beta_1 * TLTA + \beta_2 * PER + \beta_3 * CS + \beta_4 * LTD + e$$

Where,

ROA= Return on Assets

ROE = Return On equity

TLTA = Total Liabilities to Total Assets

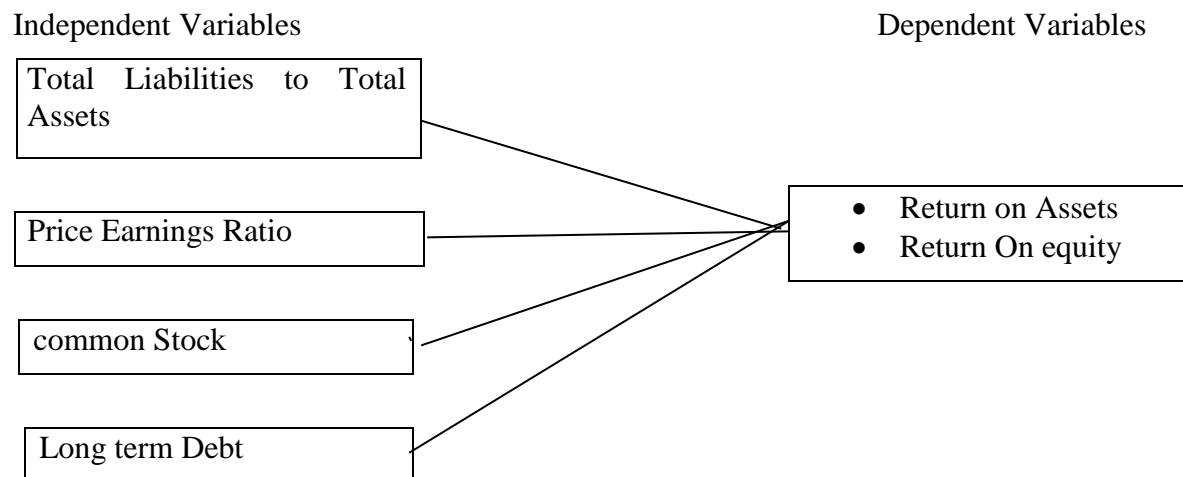
PER = price earnings ratio

CS = common Stock

LTD = Long term Debt

### 3.6 Research Framework

The convenient presentation of the research, the variables is abbreviated as follows. This can be shown in the following figure.



Source: Usoro, (2022); Chalise & Adhikari, (2022); Dodoo, Kumi & Mangudhla, (2023)

Figure 1 Conceptual Framework

### 3.7 Definition of Variables

#### Profitability

The decision to distribute dividends is contingent upon the level of profitability. Therefore, profitability serves as a fundamental criterion and profit levels play a crucial role in shaping decisions regarding dividend payments and stock prices. According to theory, dividends are typically disbursed from annual profits, reflecting a company's capacity to distribute dividends. Hence, it is improbable for companies experiencing financial difficulties to pay dividends. The pecking order hypothesis posits that companies prioritize internal financing for investments, resorting to external financing only when necessary. Moreover, companies tend to prefer debt financing over equity financing to mitigate the costs associated with asymmetric information and other transaction expenses (Myers, 1984).

- Return on Assets

The Return on Assets (ROA) ratio is a financial measure that evaluates a company's profitability relative to its total assets. This ratio is represented as a percentage and is computed by dividing the company's net income by its average total assets. The ROA ratio offers insight into the efficiency with which a company utilizes its assets to generate profits. A higher ROA suggests that a company is more adept at generating income from its assets. Conversely, a lower ROA implies that the company is less proficient in asset utilization.

It is essential to acknowledge that the interpretation of the ROA ratio can differ across industries. Variations in asset structures and capital requirements exist among industries, rendering comparisons of ROA ratios between companies in different sectors less meaningful. Therefore, it is typically more beneficial to assess ROA ratios when comparing companies within the same industry.

- Return on Equity

The Return on Equity (ROE) ratio is a financial indicator that assesses a company's profitability relative to its shareholders' equity. This ratio is presented as a percentage and is determined by dividing the company's net income by its average shareholders' equity. ROE offers insights into how efficiently a company generates profits from the equity invested by its shareholders. A higher ROE indicates effective utilization of shareholders' equity to generate returns, while a lower ROE may suggest less efficiency in utilizing

equity to generate profits. ROE serves as a critical financial metric for investors and analysts, often employed to evaluate a company's performance and compare it with industry peers. However, it is essential to consider ROE within the context of the industry and company-specific factors. Different industries may exhibit varying average ROE levels, and differences in business models can influence the interpretation of the ratio.

### **Financial Leverage or Total Liabilities to Total Assets**

The financial structure of a business encompasses both debt obligations and equity financing. Long-term financing typically pertains to the capital makeup of the company, and the extent to which a company relies on debt financing is termed financial leverage. Alongside tax advantages, such as interest deduction on income, debt financing can potentially enhance the return on equity. Nonetheless, leveraging carries inherent risks; by securing debt financing, a company commits to fixed financial obligations like interest payments and principal, and failure to meet these commitments may lead to the company's liquidation. The risks associated with heightened financial leverage may consequently result in diminished dividend distributions, as companies prioritize retaining internal cash flow to fulfill obligations rather than dispersing it to shareholders. In addition, Rozeff (1982) It is observed that companies with elevated leverage tend to limit distributions to mitigate the transaction expenses linked with external financing. Furthermore, specific agreements may impose constraints on dividend disbursements. Hence, all else being equal, an inverse correlation between debt and dividend payments appears logical. Numerous research investigations have documented a negative association between debt levels and dividend allocations (Jensen et al., 1992, Gugler & Yurtoglu, 2003).

### **Price-to-Earnings Ratio**

It indicates growth and is calculated by dividing the market price per share by the earnings per share. The Price-to-Earnings Ratio (P/E ratio) serves as a metric for assessing a company's valuation, comparing its current share price to its per-share earnings. Widely regarded as a measure of a stock's relative expense, the P/E ratio is determined by dividing a stock's market capitalization by its after-tax earnings over a 12-month period, typically the trailing period, although occasionally the current or forward period may be used. The resultant value remains consistent whether calculated for the entire company or on a per-share basis. Nicholson (1960) Indicated that stocks exhibiting

a low P/E ratio tend to outperform those with higher P/E ratios. Fama and French (1992) uncovered a positive correlation between stocks and earnings price ratio.

### **Common stock**

Common stock represents ownership in a company and is a type of security traded in the market. In the event of liquidation, common stockholders are entitled to the remaining assets after creditors, bondholders, and preferred stockholders have been paid. This ownership grants common stockholders certain privileges, such as a share of the company's profits distributed as dividends and the right to participate in voting on significant matters, including leadership decisions. For instance, companies that issue common stock typically hold annual meetings where common stockholders can nominate directors and discuss financial performance. During these meetings, common stockholders have the opportunity to pose questions related to company operations and cast votes during director elections. Some companies offer multiple classes of common stock, with one class possessing voting rights and another without. A notable example is Alphabet, which issues Class A shares with voting rights and Class C shares without voting rights, both representing ownership stakes in the company.

### **Long term debt**

Long-term liabilities, also known as long-term debts, are obligations owed by a company to third-party creditors that extend beyond a 12-month period. This sets them apart from current liabilities, which must be settled within a year. On the balance sheet, long-term liabilities are listed alongside current liabilities. Long-term debt refers to debts with maturity dates beyond one year. Long-term debt can be approached from two angles: financial statement reporting by the issuer and financial investing. In financial statement reporting, companies are required to document the issuance of long-term debt and all related payment obligations on their financial statements. Conversely, investing in long-term debt involves allocating funds into debt instruments with maturities exceeding one year.

## CHAPTER-IV

### RESULT AND DISCUSSION

This chapter serves as the core section of the report, where the researcher undertakes analysis to address the research objectives and provide solutions to the identified problem. The initial segment of the research comprises the results, wherein analysis is performed in accordance with the research objectives, encompassing descriptive statistics analysis, correlation analysis, and regression analysis. The subsequent segment pertains to the discussion of the results, which involves comparing the findings of the current research with those of prior studies.

#### 4.1 Result

##### 4.1.1 Financial Analysis

Financial analysis is the analysis of the ratio. The ratio calculated in this statement is for the gaining the current status of the selected is assess. The mean and standard deviation of the each is calculated.

##### 4.1.1.1 Profitability (Return on Assets and Return on Equity)

Profitability, measured by return on assets (ROA) and return on equity (ROE), is crucial for investors, demonstrating how effectively management utilizes investments. ROA indicates the net income generated by a finance companies assets, while ROE reflects returns to shareholders on the book value of their investment.

Table 3  
*Return on Assets*

Year/ Finance(ROA)	MFL	PFL	GWFL
2023	1.46	0.17	-0.62
2022	0.75	0.67	0.96
2021	3.62	1.08	1.45
2020	2.84	0.82	1.04
2019	0.74	1.31	1.69
2018	1.29	1.76	0.86
2017	1.08	3.02	2.63
2016	1.06	3.63	4.44
2015	0.77	7.27	1.76
2014	0.74	3.29	2.53
Mean	1.43	2.3	1.67
S.D	0.997	2.11	1.34
CV (%)	69.72	91.73	80.23

Source: *Appedix-1*

Table 3 shows the return on assets of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the return on assets is 2.3 of PFL and lowest is 1.43 of MFL. The highest Standard deviation of finance companies is 2.11 of PFL and lowest is 0.997 of MFL. On the basis of C. V the highest percent in the PFL is 91.73% and lowest percent is 69.72 % so the result is about the fluctuating nature. The data flow of the return on assets seem all the finance has fluctuating nature. On the basis of standard deviation and coefficient of variation the Pokhara finance is the more fluctuating return on assets.

Table 4

*Return on Equity*

Year/ Finance(ROA)	MFL	PFL	GWFL
2023	11.92	1.6	-5.71
2022	6.56	6.34	7.6
2021	28.3	8.63	10.89
2020	20.17	5.92	9.24
2019	7.12	8.38	12.28
2018	9.43	8.49	5.59
2017	6	17.75	16.76
2016	10.22	20.18	38.66
2015	6.74	41.17	15.71
2014	4.86	21.29	22.37
Mean	11.13	13.97	13.33
S.D	7.47	11.6	11.64
CV (%)	67.11	83.03	87.3

Source: *Appedix-1*

Table 4 shows the return on equity of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the return on equity is 13.97 of PFL and lowest is 11.13 of MFL. The highest Standard deviation of finance companies is 11.6 of PFL and lowest is 0.997 of MFL. On the basis of C. V the highest percent in the GWFL is 87.3% and lowest percent is 67.11 % so the result is about the fluctuating nature. The data flow of the return on equity seem all the finance has fluctuating nature. On the basis of standard deviation and coefficient of variation the Pokhara finance and goodwill finance are more fluctuating return on equity.

#### 4.1.1.2 Financial Leverage or Total Liabilities to Total Assets

An organization's financial composition encompasses both debts (liabilities) and equity financing. Long-term funding typically pertains to the company's capital structure, and the extent to which it relies on debt financing is termed financial leverage. Besides tax advantages, such as interest deductions from income, utilizing debt financing can amplify return on equity. Nonetheless, leveraging entails risks; acquiring debt financing obligates the company to incur fixed financial expenses related to interest payments and capital, and non-compliance with these commitments may lead to the company's dissolution.

Table 5

##### *Total Liabilities to Total Assets*

Year/ Finance(ROA)	MFL	PFL	GWFL
2023	4.37	2.02	3.01
2022	4.47	1.96	3.81
2021	4.7	1.46	3.56
2020	0.96	1.42	4.29
2019	0.45	2.02	2.06
2018	0.51	2.64	2.61
2017	0.51	2.54	3.13
2016	0.86	1.84	3.21
2015	0.32	2.15	3.12
2014	0.62	4.32	2.53
Mean	1.78	2.23	3.13
S.D	1.9	0.828	0.649
CV (%)	106.7	37.13	20.73

Source: *Appedix-1*

Table 5 shows the Leverage ratio of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the Leverage ratio is 3.13 of PFL and lowest is 1.13 of MFL. The highest Standard deviation of finance companies is 11.6 of GWFL and lowest is 1.78 of MFL. On the basis of C. V the highest percent in the MFL is 106.7% and lowest percent is 20.73 % so the result is about the fluctuating nature. The data flow of the leverage seem all the finance has fluctuating nature. On the basis of standard deviation and coefficient of variation the Manjushree finance are more fluctuating leverage.

#### 4.1.1.3 Price-to-Earnings Ratio

The Price-to-Earnings Ratio (P/E ratio) gauges a company's value by comparing its current share price with its per-share earnings. It signifies the growth depicted by the market price per share divided by the earnings per share. Widely utilized as a measure of stock valuation, the P/E ratio is indicative of how pricey a stock is perceived to be. Calculated by dividing a stock's market capitalization by its after-tax earnings across a 12-month period, typically the trailing period but occasionally the current or forward period, the P/E ratio remains consistent whether computed for the entire company or on a per-share basis.

Table 6

#### *Price-to-Earnings Ratio*

Year/ Finance(ROA)	MFL	PFL	GWFL
2023	30.1	135.45	-49.49
2022	55.24	40.55	32.2
2021	21.91	54.92	30.57
2020	8.98	19.08	10.21
2019	13.45	11.56	7.31
2018	12.29	12.12	16.28
2017	10.3	14.97	12.07
2016	20.39	19.72	8.88
2015	29.3	7.15	16.01
2014	21.22	12	12.14
Mean	22.3	32.75	9.61
S.D	13.74	39.06	22.475
CV (%)	61.6	119.26	233.8

Source: *Appedix-1*

Table 6 shows the Price-to-Earnings Ratio of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the Price-to-Earnings Ratio is 32.75 of PFL and lowest is 9.61 of GWFL. The highest Standard deviation of finance companies is 39.06 of PFL and lowest is 13.74 of MFL. On the basis of C. V the highest percent in the GWFL is 233.8% and lowest percent is 61.6 % so the result is about the fluctuating nature. The data flow of the Price-to-Earnings Ratio seem all the finance has fluctuating nature. On the basis of standard deviation and coefficient of variation the Pokhara and goodwill finance are more respectively fluctuating Price-to-Earnings Ratio.

#### 4.1.1.3 Common Stock

Common stock denotes an ownership interest in a corporation and is classified as a security. In the event of liquidation, common stockholders are entitled to any remaining assets after satisfying obligations to creditors, bondholders, and preferred stockholders. Various types of stocks are traded in financial markets, and common stock signifies fractional ownership in a company. Typically, common stockholders receive dividends as a share of the company's profits and possess voting rights concerning significant decisions related to corporate governance.

Table 7

##### *Common Stock*

Year/ Finance(ROA)	MFL	PFL	GWFL
2023	1610	1440	2063
2022	1921	1419	1815
2021	1772	1355	1756
2020	1223	1233	1304
2019	1197	1217	1026
2018	1092	1190	976
2017	907	783	850
2016	551	684	313
2015	420	600	282
2014	380	451	247
Mean	1063.2	1037.2	1107.3
S.D	666.37	369.26	550.68
CV (%)	62.67	35.6	49.73

Source: *Appedix-1*

Table 7 shows the Common Stock of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the Common Stock is 1107.3 of GWFL and lowest is 1063.2 of MFL. The highest Standard deviation of finance companies is 666.37 of MFL and lowest is 369.26 of PFL. On the basis of C. V the highest percent in the MFL is 62.67% and lowest percent is 35.6 % so the result is about the fluctuating nature. The data flow of the Common Stock seem all the finance has fluctuating nature. On the basis of standard deviation and coefficient of variation the Manjushree finance are more fluctuating Common Stock.

#### 4.1.1.3 Long Term Debt

Long-term liabilities, also known as long-term debts, refer to obligations owed by a company to third-party creditors, with payment due beyond a period of 12 months. This

sets them apart from current liabilities, which are obligations due within a 12-month timeframe. On a company's balance sheet, long-term liabilities are listed alongside current liabilities. Long-term debt specifically pertains to debt obligations maturing over a period exceeding one year. There are two perspectives through which long-term debt can be examined: from the standpoint of financial statement reporting by the issuer and from a financial investing perspective. From a reporting standpoint, companies are required to disclose the issuance of long-term debt and all corresponding payment obligations in their financial statements. Conversely, investing in long-term debt entails allocating funds to debt investments with maturities extending beyond one year.

Table 8

*Long Term Debt*

Year/ Finance(ROA)	MFL	PFL	GWFL
2023	737	281	445
2022	712	263	577
2021	645	159	473
2020	89	127	466
2019	44	157	180
2018	36	152	184
2017	24	117	181
2016	26	70	154
2015	8	73	117
2014	10	126	85
Mean	233.1	152.5	286.2
S.D	322.3	70.33	181.64
CV (%)	138.26	46.11	63.46

Source: *Appedix-1*

Table 8 shows the Long Term Debt of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the Long Term Debt is 286.2 of GWFL and lowest is 152.5 of PFL. The highest Standard deviation of finance companies is 322.3 of MFL and lowest is 70.33 of PFL. On the basis of C. V the highest percent in the MFL is 138.26% and lowest percent is 46.11 % so the result is about the fluctuating nature. The data flow of the Long Term Debt seem all the finance has fluctuating nature. On the basis of standard deviation and coefficient of variation the Manjushree finance are more fluctuating Long Term Debt.

#### 4.1.2 Descriptive Statistics Analysis

To achieve one of the research objectives, a descriptive statistics analysis was performed. This analysis involved examining the descriptive statistics of each selected sample manufacturing company collectively, representing the industry as a whole. The table presents calculations for the minimum, maximum, mean, and standard deviation of the research variables.

Table 9

##### *Descriptive Statistics Analysis*

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	30	-.62	7.27	1.80	1.545
Return On equity	30	-5.71	41.17	12.81	10.13
Total Liabilities to Total Assets	30	.32	4.70	2.38	1.33
price earnings ratio	30	-49.49	135.45	21.56	27.95
common Stock	30	247.00	2063.00	1069.23	524.5
Long term Debt	30	8.00	737.00	223.93	217.1
Valid N (listwise)	30				

Source: *Appendix -2*

Table 9 shows the descriptive statistics of the research variables for achieving the objective one of the research. The objectives one of the research is to explore the current Situation of the dependent and independent variables. The dependent variable of the research are Return on Equity and Return on Assets. The independent variables of the research are Total Liabilities to Total Assets, price earnings ratio, common Stock, Long term Debt. Total observation is 30 for each finance companies is 10 observation.

The Return on Assets minimum, maximum, mean and standard deviation of the research are -.62, 7.27, 1.80 and 1.545 respectively. The Return on Equity minimum, maximum, mean and standard deviation of the research are -5.71, 41.17, 12.81 and 10.13 respectively. The Total Liabilities to Total Assets minimum, maximum, mean and standard deviation of the research are 0.32, 4.70, 2.38 and 1.33 respectively. The price earnings ratio minimum, maximum, mean and standard deviation of the research are -49.49, 135.45, 21.56 and 27.95 respectively. The common Stock minimum, maximum, mean and standard deviation of the research are 247.00, 2063.00, 1069.23 and 524.5 respectively. The Long term Debt minimum, maximum, mean and standard deviation of the research are 8.00, 737.00, 223.93 and 217.1 respectively.

The result of the minimum, maximum and mean different are seem very high and the standard deviation also seem very high for all the variables. The higher standard deviation mean the higher fluctuate or deviate in the data flows. In conclusion the current status of the each variables is fluctuating in nature.

#### 4.1.3 Correlation Analysis

Correlation analysis is employed to reveal the direction and strength of the relationship between two sets of variables, elucidating how they vary together and indicating the degree of their association. The Pearson correlation coefficient is utilized to elucidate this relationship, with values ranging from -1 to +1. A correlation coefficient of precisely -1 denotes a perfect negative correlation, suggesting that the two variables move exactly in opposite directions. Conversely, a correlation coefficient of +1 signifies a perfect positive correlation, indicating that the variables are closely associated in a positive direction.

Table 10

#### *Correlation of the Variables*

		Return on Assets	Return On equity	Total Liabilities to Total Assets	price earnings ratio	common Stock	Long term Debt
Return on Assets	Pearson						
	Correlation	1					
	Sig. (2-tailed)						
	N	30					
Return On equity	Pearson						
	Correlation	.957**	1				
	Sig. (2-tailed)	.000					
	N	30	30				
Total Liabilities to Total Assets	Pearson						
	Correlation	.186**	.238**	1			
	Sig. (2-tailed)	.006	.004				
	N	30	30	30			
price earnings ratio	Pearson						
	Correlation	-.189	-.159	-.004	1		
	Sig. (2-tailed)	.316	.401	.983			
	N	30	30	30	30		
common Stock	Pearson						
	Correlation	-.320	-.322	.469**	.216	1	
	Sig. (2-tailed)	.085	.083	.009	.252		
	N	30	30	30	30	30	
Long term Debt	Pearson						
	Correlation	-.180	-.127	.790**	.165	.828**	1
	Sig. (2-tailed)	.341	.502	.000	.383	.000	
	N	30	30	30	30	30	30

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Appendix-2

Table 10 shows the correlation analysis of the research variables for achieving the objective two of the research. The objectives one of the research is to examine the relationship of the dependent and independent variables. The dependent variable of the research are Return on Equity and Return on Assets. The independent variables of the research are Total Liabilities to Total Assets, price earnings ratio, common Stock, Long term Debt. Total observation is 30 for each finance companies is 10 observation.

The relationship between the Return On equity and return on assets is positive and significant. The correlation positive shown by the 0.957 and significant by the 0.000 which is less than 0.01 so the relationship is significant called 1% level of significant.

The relationship between the Total Liabilities to Total Assets and return on assets is positive and significant. The correlation positive shown by the 0.186 and significant by the 0.006 which is less than 0.01 so the relationship is significant.

The relationship between the price earnings ratio and return on assets is negative and but not significant. The correlation negative shown by the 0.189 and not significant by the 0.316 which is more than 0.05 so the relationship is not significant.

The relationship between the common Stock and return on assets is negative and but not significant. The correlation negative shown by the 0.32 and not significant by the 0.085 which is more than 0.05 so the relationship is not significant.

The relationship between the Long term Debt and return on assets is negative and but not significant. The correlation negative shown by the 0.18 and not significant by the 0.341 which is more than 0.05 so the relationship is not significant.

The relationship between the Total Liabilities to Total Assets and return on equity is positive and significant. The correlation positive shown by the 0.238 and significant by the 0.004 which is less than 0.01 so the relationship is significant.

The relationship between the price earnings ratio and return on equity is negative and but not significant. The correlation negative shown by the 0.159 and not significant by the 0.401 which is more than 0.05 so the relationship is not significant.

The relationship between the common Stock and return on equity is negative and but not significant. The correlation negative shown by the 0.322 and not significant by the 0.083 which is more than 0.05 so the relationship is not significant.

The relationship between the Long term Debt and return on equity is negative and but not significant. The correlation negative shown by the 0.127 and not significant by the 0.502 which is more than 0.05 so the relationship is not significant.

#### 4.1.4 Multiple Regression Analysis

Multiple regression analysis is a statistical technique used to investigate the relationship between a single dependent (outcome) variable and multiple independent (predictor) variables. The main objective of multiple regression analysis is to predict changes in the dependent variable based on changes in the independent variables. It evaluates the effectiveness of several predictors in forecasting changes in the dependent variable. Moreover, the coefficient of determination, also known as R-squared, indicates the proportion of variance in the dependent variable explained by the regression equation. Two models, based on return on equity and return on assets, are employed for the regression analysis.

#### Multiple Regression Analysis Based on Return on Assets

Return on Assets is the dependent variable of the research. The dependent variable of the research is based multiple regression equation using the Model summary, ANOVA and coefficient is calculated here under.

Table 11

*Model Summary of Model One*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.566 <sup>a</sup>	.320	.211	1.37

a. Predictors: (Constant), Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock

*Source: Appendix-2*

Table 11 shows the model summary of the research. The model summary here is presented based on dependent variable of the research Return on Assets. The independent variables of the research are Total Liabilities to Total Assets, price earnings ratio, common Stock, Long term Debt. The total observation of the research are 30. The table shows the adjusted R square is 0.211 which represent the total cumulative impact of the independent variables to the dependent variables is 21.1%. The remaining 79.9% is impacted by the other variables which are not included in this research.

Table 12

*ANOVA of Model One*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.157	4	5.539	2.941	.040
	Residual	47.081	25	1.883		
	Total	69.238	29			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock

Source: Appendix-2

Table 12 shows the ANOVA of model one of the research. The model one of the research dependent variable is return on assets and independent variables called predictor are Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock. The regression value of the research is significant because of the significant value is 0.040 which is less than 0.05.

Table 13

*Coefficient of Model One*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.966	1.067		.905	.374
	Total Liabilities to Total Assets	.962	.373	.834	2.579	.016
	price earnings ratio	-.003	.009	-.045	-.265	.793
	common Stock	.000	.001	-.042	-.120	.906
	Long term Debt	-.006	.004	-.796	-1.577	.127

a. Dependent Variable: Return on Assets

Source: Appendix-2

Table 13 shows the coefficient of the model one. The model one of the research dependent variable is return on assets and independent variables called predictor are Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock.

The impact of the Total Liabilities to Total Assets to the return on assets is positive and significant so the hypothesis is true. The beta result, here is the 0.962 which represent the

1 percent change in to Total Liabilities to Total Assets change in to the return on assets by 0.962 percent. The result calculated beta is very much accurate because the low standard error i.e. 0.373. The impact is significant because the significant is less than 0.05 i.e.0.016.

The impact of the price earnings ratio to the return on assets is negative and not significant so the hypothesis is not true. The beta result, here is the 0.003 which represent the 1 percent change in to price earnings ratio change in to the return on assets negative by 0.003 percent. The result calculated beta is very much accurate because the low standard error i.e. 0.009. The impact is not significant because the significant is more than 0.05 i.e.0.793.

The impact of the common Stock to the return on assets is zero and not significant so the hypothesis is not true. The beta result, here is the 0.000 which represent the 1 percent change in to price earnings ratio change in to the return on assets by 0.00 percent. The result calculated beta is very much accurate because the low standard error i.e. 0.001. The impact is not significant because the significant is more than 0.05 i.e.0.906.

The impact of the long term debt to the return on assets is negative and not significant so the hypothesis is not true. The beta result, here is the 0.006 which represent the 1 percent change in to long term debt change in to the return on assets negative by 0.006 percent. The result calculated beta is very much accurate because the low standard error i.e. 0.004. The impact is not significant because the significant is more than 0.05 i.e.0.127.

### **Multiple Regression Analysis Based on Return on Equity**

Return on equity is the dependent variable of the research. The dependent variable of the research is based multiple regression equation using the Model summary, ANOVA and coefficient is calculated here under.

Table 14

#### *Model Summary of Model Two*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.577 <sup>a</sup>	.333	.226	8.9

a. Predictors: (Constant), Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock

Source: *Appendix-2*

Table 14 shows the model summary of the research. The model summary here is presented based on independent variables Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock. The dependent variable is return on equity. The total observation of the research are 30. The table shows the adjusted R square is 0.226 which represent the total cumulative impact of the independent variables to the dependent variable is 22.6%. The remaining 78.4% is impacted by the other variables which are not included in this research.

Table 15

*ANOVA of Model Two*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	992.240	4	248.060	3.121	.033 <sup>b</sup>
	Residual	1986.896	25	79.476		
	Total	2979.136	29			

a. Dependent Variable: Return On equity

b. Predictors: (Constant), Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock

Source: *Appendix-2*

Table 15 shows the ANOVA of model two of the research. The model two of the research dependent variable is return on equity and independent variables called predictor are Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock. The regression value of the research is significant because of the significant value is 0.033 which is less than 0.05.

Table 16

*Coefficient of Model Two*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.257	6.930		1.336	.194
	Total Liabilities to Total Assets	5.942	2.423	.785	2.452	.022
	price earnings ratio	-.005	.062	-.015	-.088	.931
	common Stock	-.004	.007	-.225	-.651	.521
	Long term Debt	-.026	.023	-.559	-1.117	.275

a. Dependent Variable: Return On equity

Source: *Appendix-2*

Table 16 shows the coefficient of the model one. The model one of the research dependent variable is return on equity and independent variables called predictor are Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock.

The impact of the Total Liabilities to Total Assets to the return on equity is positive and significant so the hypothesis is true. The beta result, here is the 5.257 which represent the 1 percent change in to Total Liabilities to Total Assets change in to the return on equity by 5.257 percent. The result calculated beta is very low accurate because the high standard error i.e. 2.423. The impact is significant because the significant is less than 0.05 i.e.0.022.

The impact of the price earnings ratio to the return on equity is negative and not significant so the hypothesis is not true. The beta result, here is the 0.005 which represent the 1 percent change in to price earnings ratio change in to the return on equity negative by 0.005 percent. The result calculated beta is very much accurate because the low standard error i.e. 0.062. The impact is not significant because the significant is more than 0.05 i.e.0.931.

The impact of the common Stock to the return on equity is negative and not significant so the hypothesis is not true. The beta result, here is the 0.004 which represent the 1 percent change in to price earnings ratio change in to the return on equity by 0.04 percent. The result calculated beta is very much accurate because the low standard error i.e. 0.007. The impact is not significant because the significant is more than 0.05 i.e.0.521.

The impact of the long term debt to the return on equity is negative and not significant so the hypothesis is not true. The beta result, here is the 0.026 which represent the 1 percent change in to long term debt change in to the return on equity negative by 0.026 percent. The result calculated beta is very much accurate because the low standard error i.e. 0.023. The impact is not significant because the significant is more than 0.05 i.e.0.275.

## **4.2 Discussion**

The first objectives of research is to explore the factors affecting the profitability of finance companies. It is found that the Manjushree finance are more fluctuating Long Term Debt, Manjushree finance are more fluctuating Common Stock, the Pokhara and goodwill finance are more respectively fluctuating Price-to-Earnings Ratio, Manjushree finance are more fluctuating leverage, the Pokhara finance and goodwill finance are more fluctuating return on equity and the Pokhara finance is the more fluctuating return on

assets. The result is consistent with Noreen, (2019). The minimum, maximum and mean different are seem very high and the standard deviation also seem very high for all the variables. The result is consistent with Musah, (2018). The higher standard deviation mean the higher fluctuate or deviate in the data flows. In conclusion the current status of the each variables is fluctuating in nature. The result is consistent with Ngoc, Tien and Thu, (2021).

The second objectives of research is to analyze the relationship between capital structure and profitability of the financial companies. It is found that the relationship between the Return On equity and return on assets is positive and significant. The result is consistent with Aishwarya, (2020). The relationship between the Total Liabilities to Total Assets and return on assets is positive and significant. The result is consistent with Sariv and Sedana, (2020). The relationship between the price earnings ratio and return on assets is negative and but not significant. The result is consistent with Bhattarai, (2020). The relationship between the common Stock and return on assets is negative and but not significant. The result is consistent with Noreen, (2019). The relationship between the Long term Debt and return on assets is negative and but not significant. The result is consistent with Al-Nsour and Al-Muhtadi, (2019). The relationship between the Total Liabilities to Total Assets and return on equity is positive and significant. The result is consistent with Singh and Bagga, (2019). The relationship between the price earnings ratio and return on equity is negative and but not significant. The result is consistent with Revathy and Santhi, (2016). The relationship between the common Stock and return on equity is negative and but not significant. The result is consistent with Okore and Nwadiubu, (2022). The relationship between the Long term Debt and return on equity is negative and but not significant. The result is consistent with Rasheed et al., (2022).

The third objectives of research is to examine the impact of capital structure on the profitability of the financial companies. It is found that the impact of the Total Liabilities to Total Assets to the return on assets is positive and significant so the hypothesis is true. The result is consistent with Dodoo et al., (2023). The impact of the price earnings ratio to the return on assets is negative and not significant so the hypothesis is not true. The result is consistent with Uremadu and Onyekachi, (2018). The impact of the common Stock to the return on assets is zero and not significant so the hypothesis is not true. The result is consistent with Tran et al., (2023). The impact of the long term debt to the return on assets is negative and not significant so the hypothesis is not true. The result is

consistence with Hafidh, (2022). The impact of the Total Liabilities to Total Assets to the return on equity is positive and significant so the hypothesis is true. The result is consistence with Okore and Nwadiubu, (2022). The impact of the price earnings ratio to the return on equity is negative and not significant so the hypothesis is not true. The result is consistence with Rasheed et al., (2022). The impact of the common Stock to the return on equity is negative and not significant so the hypothesis is not true. The result is consistence with Mawlood, (2022). The impact of the long term debt to the return on equity is negative and not significant so the hypothesis is not true. The result is consistence with Musah, (2018).

## CHAPTER-V

### SUMMARY AND CONCLUSION

Summary, conclusion and implication are the inside of this chapter. The summary is the detail from the start and end. The conclusion is the objective base finding and in short overall finding. The implication is the future use of the research.

#### 5.1 Summary

Capital structure denotes the combination of various funding sources utilized by a company to support its activities and expansion. These sources commonly encompass equity, like common and preferred stocks, as well as debt, such as loans and bonds. Establishing an optimal capital structure holds paramount importance for firms, as it directly influences their cost of capital, risk profile, and capacity to enhance shareholder value. An appropriately balanced capital structure enables a company to effectively leverage debt to amplify returns while upholding financial stability and adaptability. However, an excessive reliance on debt may heighten financial risk and precipitate solvency challenges, particularly during economic downturns or periods of elevated interest rates. Conversely, an overly cautious capital structure characterized by an abundance of equity might result in a higher cost of capital and diminished returns on investment. Consequently, enterprises must meticulously assess their capital structure to strike a harmonious equilibrium between debt and equity financing, considering factors such as industry dynamics, growth prospects, and prevailing market conditions. On the basis of the given background the study is conducted on “Capital Structure and Profitability of Finance Companies in Nepal”.

The problem of the study are what is the impact of capital structure toward the profitability of the financial companies? What are the factors affecting the profitability of finance companies? Whether there is the relationship between capital structure and profitability of the financial companies? The solving of the problem using some objectives and they are to examine the impact of capital structure on the profitability of the financial companies. To explore the factors affecting the profitability of finance companies. To analyze the relationship between capital structure and profitability of the financial companies. The objectives are meet using the descriptive and casual comparative research design. The independent variables of the study are Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock and dependent

variables are return on equity and return on assets. The population of the study are 17 finance companies. The sample are three finance companies running Namely Manjushree Finance Limited (MFL), Pokhara Finance Limited (PFL) and Good will Finance Limited (GWFL). The data are secondary nature collected from the annual report of the finance companies. The descriptive statistics analysis, correlation analysis and regression analysis are conducted for the achievement of the objectives. It is found that the Total Liabilities to Total Assets and return on assets has positive and significant impact. Price earnings ratio, common Stock and Long term Debt have not significant impact of the return on assets. The impact of Total Liabilities to Total Assets to the return on equity is positive and significant. Price earnings ratio, common Stock and Long term Debt have negative and not significant impact the return on equity. The result of the minimum, maximum and mean different are seem very high and the standard deviation also seem very high for all the variables. The higher standard deviation mean the higher fluctuate or deviate in the data flows. In conclusion the current status of the each variables is fluctuating in nature. The relationship of total liabilities and total assets is significant with return and assets and return on equity. The price earnings ratio and return on assets and return on equity is not significant. The common stock and return on equity and return on assets is not significant relationship. The long term debt and return on equity and return on assets is nit significant relationship.

## **5.2 Conclusion**

The first objectives of research is to explore the factors affecting the profitability of finance companies. It is found that the result of the minimum, maximum and mean different are seem very high and the standard deviation also seem very high for all the variables. The higher standard deviation mean the higher fluctuate or deviate in the data flows. In conclusion the current status of the each variables is fluctuating in nature.

The second objectives of research is to analyze the relationship between capital structure and profitability of the financial companies. It is found that the relationship of total liabilities and total assets is significant with return and assets and return on equity. The price earnings ratio and return on assets and return on equity is not significant. The common stock and return on equity and return on assets is not significant relationship. The long term debt and return on equity and return on assets is nit significant relationship. In conclusion the relationship of total liabilities and total assets is significant with return and assets and return on equity.

The third objectives of research is to examine the impact of capital structure on the profitability of the financial companies. It is found that the Total Liabilities to Total Assets and return on assets has positive and significant impact. Price earnings ratio, common Stock and Long term Debt have not significant impact of the return on assets. The impact of Total Liabilities to Total Assets to the return on equity is positive and significant. Price earnings ratio, common Stock and Long term Debt have negative and not significant impact the return on equity. In conclusion the impact of total liabilities to total assets to the return on assets and return on equity is positive and significant.

### **5.3 Implications**

Through an examination of the relationship between capital structure and profitability, the researcher aimed to ascertain an ideal blend of capital that could optimize the performance of manufacturing entities, enhancing profitability, shareholder returns, and other associated benefits. Key elements of the capital structure, such as preferred stock, secured debt, and common stock equity, served as independent variables, and their manipulation was undertaken to evaluate their effects on various measurable dependent variables, including market share, survival rates, and liquidity, deposits, and working capital ratios. Employing a quantitative methodology and a causal-comparative research design, the study sought to conceptualize capital structure as a form of financing determined by the ratio of secured debt to common stock equity juxtaposed with the ratio of preferred stock to common stock equity. The selection of financing strategies geared towards fostering greater dividend growth was anticipated, potentially curbing the cost of capital, especially when guided by prudent and well-informed management and shareholders within the retail banking domain. The following are the implication of the research.

A comprehensive approach to addressing the impact of capital structure on profitability is imperative for finance companies.

Firstly, it is essential to communicate with management regarding the intricacies of capital structure and how it influences the company's bottom line. Implementing effective profit-making mechanisms is crucial in this endeavor.

Secondly, the board of directors plays a pivotal role in making decisions pertaining to capital. Their guidance and decisions shape the company's financial landscape.

Thirdly, disseminating information to decision-makers at all levels within the organization is vital for ensuring alignment and efficiency in profit-making strategies. Additionally, cooperation with governing bodies is necessary for maintaining compliance and effectively controlling company operations.

Lastly, findings from such endeavors should be made available to researchers for future reference and scholarly advancement in the field of finance. This holistic approach ensures a comprehensive understanding and implementation of strategies to optimize profitability in finance companies.

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## APPENDIX

### Appendix 1: Raw Data from Respective Finance

#### 1) Manjushree Finance Limited

Date	Net profit after tax	Total assets	Total equity	Total liabilities	Long term liabilities	PE ratio(growth)
2023	246	16862	2063	14798	737	30.1
2022	119	15924	1815	14109	712	55.24
2021	497	13711	1756	11954	645	21.91
2020	263	9251	1304	7946	89	8.98
2019	73	9848	1026	8821	44	13.45
2018	92	7117	976	6140	36	12.29
2017	51	4735	850	3885	24	10.3
2016	32	3015	313	2702	26	20.39
2015	19	2480	282	2198	8	29.3
2014	12	1623	247	1376	10	21.22

ROA	ROE	TLTA	PER	CS	LTD
1.46	11.92	4.37	30.1	2063	737
0.75	6.56	4.47	55.24	1815	712
3.62	28.3	4.7	21.91	1756	645
2.84	20.17	0.96	8.98	1304	89
0.74	7.12	0.45	13.45	1026	44
1.29	9.43	0.51	12.29	976	36
1.08	6	0.51	10.3	850	24
1.06	10.22	0.86	20.39	313	26
0.77	6.74	0.32	29.3	282	8
0.74	4.86	0.62	21.22	247	10

## 2) Pokhara Finance Limited

Date	Net profit after tax	Total assets	Total equity	Total liabilities	Long term liabilities	PE ratio(growth)
2023	23	13887	1440	12446	281	135.45
2022	90	13409	1419	11989	263	40.55
2021	117	10864	1355	9509	159	54.918
2020	73	8949	1233	7715	127	19.08
2019	102	7757	1217	6540	157	11.56
2018	101	5748	1190	4557	152	12.12
2017	139	4603	783	3791	117	14.97
2016	138	3804	684	3120	70	19.72
2015	247	3398	600	2798	73	7.15

ROA	ROE	TLTA	PER	CS	LTD	
0.17	1.6	2.02	135.45	1440	281	
0.67	6.34	1.96	40.55	1419	263	
1.08	8.63	1.46	54.92	1355	159	
0.82	5.92	1.42	19.08	1233	127	
1.31	8.38	2.02	11.56	1217	157	
1.76	8.49	2.64	12.12	1190	152	
3.02	17.75	2.54	14.97	783	117	
3.63	20.18	1.84	19.72	684	70	
7.27	41.17	2.15	7.15	600	73	
3.29	21.29	4.32	12	451	126	
2014	96	2920	451	2469	126	12

## 3) Good will Finance Limited

Date	Net profit after tax	Total assets	Total equity	Total liabilities	Long term liabilities	PE ratio(growth)
2023	-92	14798	1610	13187	445	-49.49
2022	146	15154	1921	13232	577	32.2
2021	193	13294	1772	11522	473	30.57
2020	113	10853	1223	9630	466	10.21
2019	147	8724	1197	7526	180	7.31
2018	61	7055	1092	5963	184	16.28
2017	152	5789	907	5098	181	12.07
2016	213	4797	551	4246	154	8.88
2015	66	3750	420	3330	117	16.01
2014	85	3366	380	2986	85	12.14

ROA	ROE	TLTA	PER	CS	LTD
-0.62	-5.71	3.01	-49.49	1610	445
0.96	7.6	3.81	32.2	1921	577
1.45	10.89	3.56	30.57	1772	473
1.04	9.24	4.29	10.21	1223	466
1.69	12.28	2.06	7.31	1197	180
0.86	5.59	2.61	16.28	1092	184
2.63	16.76	3.13	12.07	907	181
4.44	38.66	3.21	8.88	551	154
1.76	15.71	3.12	16.01	420	117
2.53	22.37	2.53	12.14	380	85

## Appendix 2: Calculated result from SPSS

Descriptive Statistics<sup>a</sup>

	N	Mean	Std. Deviation
Return on Assets	10	1.4352	.99731
Return On equity	10	11.1313	7.47548
Total Liabilities to Total Assets	10	1.7769	1.90081
price earnings ratio	10	22.3180	13.74284
common Stock	10	1063.2000	666.37140
Long term Debt	10	233.1000	322.37847
Valid N (listwise)	10		

a. finance = Manjushree Finance Limited

**Descriptive Statistics<sup>a</sup>**

	N	Mean	Std. Deviation
Return on Assets	10	2.3006	2.11134
Return On equity	10	13.9744	11.60370
Total Liabilities to Total Assets	10	2.2381	.82843
price earnings ratio	10	32.7518	39.06243
common Stock	10	1037.2000	369.25926
Long term Debt	10	152.5000	70.33610
Valid N (listwise)	10		

a. finance = Pokhara Finance Limited

**Descriptive Statistics<sup>a</sup>**

	N	Mean	Std. Deviation
Return on Assets	10	1.6736	1.34041
Return On equity	10	13.3382	11.64212
Total Liabilities to Total Assets	10	3.1320	.64929
price earnings ratio	10	9.6180	22.47597
common Stock	10	1107.3000	550.68080
Long term Debt	10	286.2000	181.46980
Valid N (listwise)	10		

a. finance = Good will Finance Limited

## Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	30	-.62	7.27	1.8031	1.54516
Return On equity	30	-5.71	41.17	12.8146	10.13552
Total Liabilities to Total Assets	30	.32	4.70	2.3823	1.33884
price earnings ratio	30	-49.49	135.45	21.5626	27.95538
common Stock	30	247.00	2063.00	1069.2333	524.50270
Long term Debt	30	8.00	737.00	223.9333	217.10445
Valid N (listwise)	30				

## Correlations

		Return on Assets	Return On equity	Total Liabilities to Total Assets	price earnings ratio	common Stock	Long term Debt
Return on Assets	Pearson Correlation	1	.957**	.186	-.189	-.320	-.180
	Sig. (2-tailed)		.000	.326	.316	.085	.341
	N	30	30	30	30	30	30
Return On equity	Pearson Correlation	.957**	1	.238	-.159	-.322	-.127
	Sig. (2-tailed)	.000		.204	.401	.083	.502
	N	30	30	30	30	30	30
Total Liabilities to Total Assets	Pearson Correlation	.186**	.238**	1	-.004	.469**	.790**
	Sig. (2-tailed)	.006	.004		.983	.009	.000
	N	30	30	30	30	30	30
price earnings ratio	Pearson Correlation	-.189	-.159	-.004	1	.216	.165
	Sig. (2-tailed)	.316	.401	.983		.252	.383
	N	30	30	30	30	30	30
common Stock	Pearson Correlation	-.320	-.322	.469**	.216	1	.828**
	Sig. (2-tailed)	.085	.083	.009	.252		.000
	N	30	30	30	30	30	30
Long term Debt	Pearson Correlation	-.180	-.127	.790**	.165	.828**	1
	Sig. (2-tailed)	.341	.502	.000	.383	.000	
	N	30	30	30	30	30	30

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.566 <sup>a</sup>	.320	.211	1.37231

a. Predictors: (Constant), Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.157	4	5.539	2.941	.040 <sup>b</sup>
	Residual	47.081	25	1.883		
	Total	69.238	29			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.966	1.067		.905	.374
	Total Liabilities to Total Assets	.962	.373	.834	2.579	.016
	price earnings ratio	-.003	.009	-.045	-.265	.793
	common Stock	.000	.001	-.042	-.120	.906
	Long term Debt	-.006	.004	-.796	-1.577	.127

a. Dependent Variable: Return on Assets

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.577 <sup>a</sup>	.333	.226	8.91492

a. Predictors: (Constant), Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	992.240	4	248.060	3.121	.033 <sup>b</sup>
	Residual	1986.896	25	79.476		
	Total	2979.136	29			

a. Dependent Variable: Return On equity

b. Predictors: (Constant), Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.257	6.930		1.336	.194
	Total Liabilities to Total Assets	5.942	2.423	.785	2.452	.022
	price earnings ratio	-.005	.062	-.015	-.088	.931
	common Stock	-.004	.007	-.225	-.651	.521
	Long term Debt	-.026	.023	-.559	-.117	.275

a. Dependent Variable: Return On equity

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## ABSTRACT

The objectives of study are to examine the impact of capital structure on the profitability of the financial

companies. To explore the factors affecting the profitability of finance companies. To analyze the relationship between capital structure and profitability of the financial companies. The objectives are meet using the descriptive and casual comparative research design. The independent variables of the study are Long term Debt, price earnings ratio, Total Liabilities to Total Assets, common Stock and dependent variables are