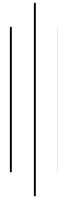


CAPITAL STRUCTURE MANAGEMENT OF SELECTED MANUFACTURING COMPANIES IN NEPAL

Submitted By:

Mahesh Sharma

Shanker Dev Campus,
Tribhuvan University
T.U. Registration no: 37514-94
Campus Roll no: 98/060

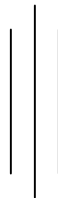


A Thesis Submitted to:

Office of the Dean,

Faculty of Management

Tribhuwan University



In partial fulfillment of the requirement for
Master of Business Study (MBS)

Ramshah Path, Kathmandu,
March 2009

RECOMMENDATI ON

This is to certify that the thesis submitted

by

Mahesh Sharma

Entitled

**CAPITAL STRUCTURE MANAGEMENT OF SELECTED
MANUFACTURING COMPANIES IN NEPAL**

has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination

.....

Rishi Raj Gautam
(Thesis Supervisor)

.....

(Campus Chief)

VIVA VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Mahesh Sharma

entitled

**CAPITAL STRUCTURE MANAGEMENT OF SELECTED
MANUFACTURING COMPANIES IN NEPAL**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master in Business Studies (M.B.S)

Viva-Voce Committee:

Head of Research Department:

Member (Thesis supervisor):

Member (External expert):

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Capital Structure Management of Selected Manufacturing Companies in Nepal**” submitted to Office of Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (M.B.S.) under the guidance and supervision of Mr. Rishi Raj Gautam, Lecturer, Shanker Dev Campus.

Date:

Researcher
Roll No. 98/060
Shanker Dev Campus

Acknowledgements

This thesis has been prepared in the partial fulfillment of the requirements for the degree of Master in Business Studies (MBS), Tribhuvan University gave us a grand opportunity to prepare thesis in Master Level as a practical work. It is new thinking for us. I am very grateful with Tribhuvan University for giving us a privilege to make a fieldwork based thesis. This kind of practical research makes a student qualified in his/ her study (academic course) as well as gives practical knowledge.

However, in the preparation of this study, it would be oriented and correlated with the course done in our academic that would be useful for the students.

I take this fine opportunity to express my deep indebtedness and sincere thanks to Mr. Rishi Raj Gautam, Lecturer, Shankar Dev Campus, Putalisadak, Tribhuvan University Board, for his keen interest, able guidance, critical discussion and suggestions and for his generosity in providing all possible facilities during the entire period of the study. The assistance provided to me by Rishi Raj Gautam cannot be forgotten.

Moreover, my appreciation and thanks are extended to all the Professors, Lecturers and intellectuals in designing such as applicable course in the MBS level syllabus.

Finally, I take this opportunity to extend by affection to my family for their moral support, encouragement and feedback during the thesis. I would also like to express my special thanks to all my friends whose inspiration and ideals helped me in every way of making this report. I am grateful to all of them.

Mahesh Sharma

MBS

Shankar Dev Campus

TABLE OF CONTENTS

	Page No.
CHAPTER I: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem	3
1.3 Objectives of the Study	6
1.4 Limitation of the Study	7
1.5 Significance of the Study	7
1.6 Methodology of the Study	8
1.7 Organization of the Study	10
CHAPTER II: REVIEW OF LITERATURE	1
2.1 Introduction	11
2.2 Meaning and Concept	11
2.3 Optimal Capital Structure	13
2.4 Factors Affecting Capital Structure	14
2.5 Assumption of Capital Structure	17
2.6 Theories of Capital Structure	18
2.6.1 Net Income Approach	19
2.6.2 Net Operating Income Approach	20
2.6.3 Traditional Approach	21
2.6.4 Modigliani-Miller Approach	22
2.7 Ratio Analysis Capital Structure	26
2.8 The Capital Structure Discussion	28
2.9 Review of Related Thesis	29
CHAPTER III: RESEARCH METHODOLOGY	36
3.1 Introduction	36
3.2 Research Design	36
3.3 Nature and Source of Data	36
3.4 Population and Samples	37
3.5 Analytical Tools Used	37
3.5.1 Financial Tools	37
CHAPTER IV: PRESENTATION AND ANALYSIS OF DATA	39
4.1 Descriptive Analysis of Ratios	40
4.2 Analysis of Leverage	40

4.2.1 Degree of Operating Leverage	41
4.2.2 Degree of Financial Leverage (DFL)	43
4.2.3 Long Term Debt as a Percentage of Total Debt	46
4.2.4 Debt-Equity (DE) Ratio in Terms of Long Term Debt	48
4.2.5 Debt to Total Assets Ratio (D/A Ratio)	49
4.2.6 Shareholders Equity to Total Assets Ratio	51
4.2.7 Interest Coverage Ratio:	53
4.2.8 Profit Margin	55
4.2.9 Earning Per Share (EPS)	58
4.2.10 Profit Earning Ratio (P/E Ratio)	60
4.3 Dupont System Analysis	62
4.3.1 Return on Equity	63
4.4 Major Findings of the Study	67
CHAPTER V: SUMMRY, CONCLUSION AND RECOMMENDATION	70
5.1 Introduction	70
5.2 Summary	70
5.3 Conclusion	72
Bibliography	