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

By

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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.

Bhabani Bhetuwal

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REPORT OF RESEARCH COMMITTEE

Ms. Bhabani Bhetuwal 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 Lecture Mr. Rabindra Bhattarai and submit the thesis for evaluation and viva voce examination.

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Dissertation Proposal Defended Date

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APPROVAL SHEET

We have examined the dissertation entitled "**CAPITAL STRUCTURE AND PROFITABILITY OF FINANCE COMPANIES IN NEPAL**" presented by Ms. Bhabani Bhetuwal 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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Any remaining errors are mine.

Bhabani Bhetuwal

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ABBREVIATIONS

ANOVA	:	Analysis of Variance
DER	:	Debt to equity ratio
ETA	:	equity to total assets
GWFL	:	Good will Finance Limited
ICR	:	interest coverage ratio
LDTA	:	long term debt to total assets
MFL	:	Manjushree Finance Limited
PFL	:	Pokhara Finance Limited
ROA	:	Return on Assets
ROE	:	Return On equity
S. D	:	Standard Deviation
SDC	:	Shanker Dev Campus
SDTA	:	Short Term debt to total assets
SPSS	:	Statistical Package for the Social Sciences
T.U.	:	Tribhuwan University

ABSTRACT

The objectives of research are; to assess the current status of the capital structure and profitability of finance companies, to analyze the relationship between capital structure and profitability of the financial companies and to examine the impact of capital structure on the 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 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. The relationship of debt to equity ratio, long term debt to total assets, short term debt to total assets, equity to total assets, interest coverage ratio and bank size (log of assets) to the return on assets is significant. The relationship of interest coverage and return on equity is also significant. The relationship of debt to equity ratio, long term debt to total assets, short term debt to total assets, equity to total assets and bank size (log of assets) to the return on equity is not significant. The impact of long term debt to total assets, Short Term debt to total assets and interest coverage ratio to the return on assets is significant. The impact of Debt to equity ratio, equity to total assets and bank size (log of assets) is not significant to the return on assets. The impact of long term debt to total assets, Short Term debt to total assets and interest coverage ratio to the return on equity is significant. The impact of Debt to equity ratio, equity to total assets and bank size (log of assets) is not significant to the return on equity.

Keywords: *capital structure, profitability and finance companies*

CHAPTER –I

INTRODUCTION

1.1 Background of the Study

Capital structure refers to the mix of different sources of funding a company uses to support its operations and growth. These sources can include equity (such as common and preferred stock) and debt (like loans and bonds). Determining the optimal capital structure is crucial for companies as it impacts their cost of capital, risk profile, and ability to maximize shareholder value (Chalise & Adhikari, 2022). A well-balanced capital structure allows a company to use debt strategically to boost returns while maintaining financial stability and flexibility (Tran et al., 2023). However, excessive reliance on debt can increase financial risk and lead to solvency issues, especially during economic downturns or when interest rates are high (Mawlood, 2022). Conversely, a very conservative capital structure with too much equity can result in a higher cost of capital and lower investment returns. Therefore, companies must carefully evaluate their capital structure to find the right balance between debt and equity financing, taking into account factors like industry trends, growth potential, and market conditions (Ngoc, Tien & Thu, 2021).

In the banking and finance sector, capital structure refers to how banks fund their assets using a mix of hybrid securities, equities, and debts (Goyal, 2013). This concept has attracted considerable interest from researchers, making it a fascinating topic of study (Klingstedt & Lager, 2016; Kwan, 2015; Muritala, 2012). In finance, researchers have focused on understanding the relationship between bank performance and their capital structures. Many studies, particularly in business administration, aim to identify the factors that influence the financial performance of banks. Schmidt (2018) suggests that individual bank performance depends on their operational strategies, ability to recognize and capitalize on business opportunities, branding, marketing tactics, and similar factors. Other researchers have taken a more specific approach, examining whether certain financial statement parameters of retail banks correlate with their market performance.

Hirtle and Stiroh (2007) assert that while Miller and Modigliani's hypothesis is valid in certain theoretical scenarios, it lacks significant empirical support. Other research indicates that the relationship between capital structures and the performance of various

retail banks is largely influenced by contextual factors such as industry dynamics, geographical location, growth patterns, and strategic decisions (Carlson, 2018; Kothari, 2018; Onyia, 2016). Contrary to Miller and Modigliani's view, some scholars argue that capital structure is an active strategy employed by retail banking enterprises, suggesting these strategies are dynamic and subject to change over time (Barstow, 2019; Deesomak & Thomas, 2007).

Logically, each entity should buy at lower prices and sell at higher ones. Applied to capital markets, this means a company should issue new shares when the stock price is high and buy them back when it is low. Market timing theory (Baker and Wurgler, 2002) suggests this influence can last for a significant duration, with the current capital structure reflecting past market timing efforts. In terms of debt theory, there should be an inverse relationship between interest rates and debt issuances (Medzihorský, 2022).

Numerous studies have examined the impact of capital structure on the financial performance of retail banks, though some findings are contradictory (Johnson, 2019; Oguna, 2014). This mix of evidence and hypotheses has prompted researchers to further investigate how capital structure decisions affect the financial performance of retail banks. Fitzsimmons (2017) argued that financing decisions are crucial, as many risk factors in retail banks can be mitigated through financial strategies that promote organizational goals and growth.

Therefore, the study examine the capital structure and profitability of finance companies in Nepal

1.2 Problem Statement

Pinto et al. (2017) discuss the influence of capital structure on the financial performance of retail banks, highlighting that equity ownership dynamics have been a significant focus in financial administration research. Although dividends or shares may not be closely held, equity owners generally form a substantial group, with many shareholders holding significant stakes in retail banks. This often results in shareholders having fewer incentives to closely monitor managers, who, with such autonomy, may pursue goals that differ from those of the equity owners.

Retail banks in Nepal possess unique characteristics that make them interesting subjects for study. One notable feature is their relatively high asset backing, which supports their operations (Hawaldar et al., 2016). Financing decisions and equity performance are

closely tied to the underlying assets, which are assessed and maintained at current market value as shown in financial position statements (Amadeo, 2020). Additionally, Nepal's banking sector is seen as a highly secure investment option for investors.

Finance companies in Nepal, considered 'C' grade banks, primarily operate in small and rural areas. They invest in business projects using their capital and debentures to acquire new investments and projects that promise optimal returns. However, questions remain about how capital structure impacts profitability or performance and what factors influence 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 current status of the capital structure and 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 assess the current status of the capital structure and 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 classified as 'C' grade banks and financial institutions. These companies face significant performance challenges, marked by low returns and, in some cases, the risk of closure due to inadequate investment returns. The issue arises from their high costs relative to their returns. Decisions regarding capital structure aim 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? Investigating the relationship between capital and profitability is a crucial aspect of the research objectives. The rationale for this research is to determine whether capital structure indeed impacts profitability—a question of paramount importance in the finance sector today.

1.6 Limitations of the Study

The limitations of the research are as follows.

- The study investigates the impact of capital structure on the profitability of finance companies in Nepal,
- focusing on three specific firms: Manjushree Finance Limited, Pokhara Finance Limited, and Goodwill Finance Limited
- The study is based on secondary data.
- It relies on secondary data and covers a ten-year period from 2013/14 to 2022/23 for analysis.

CHAPTER-II

LITERATURE REVIEW

This chapter forms the core of the research effort, where the researcher explores the subject matter from multiple perspectives and angles. Here, "angle" refers to examining every variable associated with the research topic. It is crucial for the researcher to have a comprehensive grasp of the theoretical and conceptual foundations of each variable. Without a deep understanding of these concepts, advancing further in the research becomes difficult.

A literature review involves a meticulous analysis of existing knowledge, accomplished through summarizing, categorizing, and comparing prior studies, as well as reviewing literature and theoretical frameworks. This review is typically structured into three main 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 (Hafidh, 2022). 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 (Tran et al., 2023).

Debt to Equity Ratio

The debt-to-equity ratio (D/E ratio) is a fundamental financial metric used to assess a company's financial health and risk profile by comparing its total debt to shareholders' equity. This ratio provides valuable insights into how a company finances its operations and expansion: In essence, the debt-to-equity ratio quantifies the degree to which a company relies on debt financing compared to its own equity. It is calculated by dividing total debt (which includes both short-term and long-term debt) by shareholders' equity (comprising the residual interest in the company's assets after deducting liabilities). A higher ratio indicates that the company has more debt relative to its equity, implying higher financial leverage and potentially greater risk, as debt obligations must be met irrespective of the company's profitability (Dodoo et al., 2023). Conversely, a lower ratio suggests a more conservative financial structure, with less reliance on borrowing and potentially lower risk. For investors and analysts, the debt-to-equity ratio serves as a critical tool in evaluating a company's capital structure, risk appetite, and overall financial stability. It helps assess the company's ability to withstand economic downturns, manage its debt obligations, and sustain growth over the long term. By understanding this ratio, stakeholders can make more informed decisions regarding investment, lending, and strategic planning (Rasheed et al., 2022).

Long Term Debt to Total Assets

The long-term debt to total assets ratio is a critical financial metric that offers valuable insights into a company's capital structure and financial health. This ratio quantifies the proportion of a company's assets that are financed through long-term debt, providing a snapshot of its leverage and risk exposure. By dividing long-term debt (which includes obligations due in more than one year) by total assets (the sum of all current and non-current assets), the ratio highlights the extent to which a company relies on long-term borrowing to fund its operations and investments (Mawlood, 2022). A higher ratio indicates a greater reliance on debt financing, which can potentially amplify returns but also heighten financial risk. This is because higher debt levels necessitate consistent cash flow to meet interest payments and debt obligations, regardless of the company's

profitability. Conversely, a lower long-term debt to total assets ratio suggests a more conservative approach to financing, with a larger portion of assets funded through equity or short-term financing. While this may indicate lower financial risk, it could also mean foregoing potential growth opportunities that could be leveraged through debt (Usoro, 2022).

Short Term Debt to Total Assets

The short-term debt to total assets ratio is a financial metric that provides insight into how much of a company's assets are financed through short-term debt obligations. This ratio is calculated by dividing the company's short-term debt (debt due within one year) by its total assets, which include both current and non-current assets. By evaluating this ratio, stakeholders can assess the company's liquidity position and short-term financial obligations relative to its overall asset base. A higher ratio suggests that a larger portion of the company's assets is financed through short-term borrowing, which can indicate a higher degree of reliance on short-term credit lines or loans (Ngoc et al., 2021). This may be strategic for managing cash flow or operational needs but could also expose the company to risks if it faces difficulty in refinancing or repaying these obligations. Conversely, a lower short-term debt to total assets ratio indicates a more conservative approach to financing, with fewer short-term obligations relative to total assets. While this may imply stronger liquidity and less immediate financial risk, it could also mean potentially missed opportunities for leveraging short-term financing to support growth initiatives (Bhatta, 2021).

Equity to Total Assets

The equity to total assets ratio is a fundamental financial metric that evaluates the proportion of a company's assets financed through shareholders' equity. It provides insights into the company's capital structure and financial health by comparing the amount of equity invested by shareholders to the total assets owned by the company. By dividing shareholders' equity (which includes common stock, retained earnings, and additional paid-in capital) by total assets (the sum of all current and non-current assets), the ratio indicates the extent to which the company relies on equity financing rather than debt (Aishwarya, 2020). A higher ratio signifies that a larger portion of the company's assets is funded through equity, suggesting a conservative financial approach with lower financial leverage and potentially lower risk. Conversely, a lower equity to total assets ratio indicates a higher reliance on debt financing relative to equity. While this can

amplify returns through leverage, it also increases financial risk as the company must consistently meet interest payments and debt obligations, regardless of profitability (Sariv & Sedana, 2020).

Interest Coverage Ratio

The interest coverage ratio (ICR) is a vital financial metric used to evaluate a company's ability to meet its interest obligations on outstanding debt. This ratio measures the company's capacity to cover its interest expenses using its operating income, typically represented by earnings before interest and taxes (EBIT) (Bhattarai, 2020).

The interest coverage ratio (ICR) is a crucial financial metric used to assess a bank's ability to meet its interest obligations on outstanding debt using its operating income, primarily derived from interest income on loans, investments, and other financial assets. For banks, which rely heavily on interest income as their main revenue source, the ICR is especially significant. It measures the bank's ability to generate sufficient earnings to cover its interest expenses, which include payments on deposits, borrowings, and other liabilities. A higher ICR indicates that the bank can comfortably manage its interest payments without straining its financial resources, suggesting strong financial health and lower risk of default. This ratio is closely monitored by investors, regulators, and analysts as a key indicator of the bank's profitability, risk management practices, and overall financial stability in varying economic conditions. By assessing the ICR, stakeholders can make informed decisions regarding investment, lending, and strategic planning, ensuring prudent risk management and sustainable growth for the bank (Hirdinis, 2019).

Bank Size (Log of Assets)

Bank size, often represented as the logarithm of total assets, is a critical metric in assessing the scale and scope of a financial institution's operations. By taking the logarithm of total assets, typically using base 10 or the natural logarithm, financial analysts can standardize and compare banks of varying sizes more effectively. This transformation helps mitigate the scenes inherent in asset size data, providing a clearer picture of relative size differences among banks (Noreen, 2019).

The logarithm of assets offers several analytical advantages. Firstly, it facilitates the identification of patterns and trends across different banks, enabling meaningful comparisons in terms of operational capacity, market influence, and systemic importance. Secondly, it aids in modeling relationships between bank size and various performance

metrics, such as profitability, efficiency ratios, and risk exposure. This analytical approach is particularly valuable in regulatory assessments, where understanding the impact of bank size on systemic risk and regulatory requirements is crucial (Musah, 2018).

2.2 Empirical Review

Nuraeni (2024) investigated the interplay between capital structure, net profit margin, and company value in Indonesia's manufacturing sector. Using quantitative methods with data from 30 manufacturing companies, the study employed statistical analysis and linear regression modeling (SPSS version 26). Results showed that capital structure significantly reinforces the impact of net profit margin on company value, highlighting their interconnectedness in influencing firm performance.

Handini (2024) examined the impact of financial ratios, capital structure, and economic value added (EVA) on the financial performance of food and beverage companies listed on the Indonesia Stock Exchange. Analyzing data from 14 companies, the study utilized descriptive statistics, classical assumption tests, multiple linear analysis, and hypothesis tests (t, F, determination coefficient). Findings indicated that financial ratios negatively affect performance, while capital structure variables and EVA do not significantly influence the financial performance of these companies.

Dodoo et al. (2023) explored the effect of capital structure on firm performance in an emerging economy context. Using descriptive statistics, correlation analysis, and multiple regression, the study focused on how capital structure, particularly short-term and long-term debt, impacts company performance measured by return on assets (ROA) and return on equity (ROE). Results revealed a negative impact of short-term debt on ROA, while long-term debt and debt-to-equity ratio did not significantly affect ROE, underscoring the complex relationship between capital structure and firm performance.

Tran et al. (2023) studied the impact of capital structure and debt maturity on the profitability of firms listed on the Vietnamese stock exchange. Using descriptive statistics, correlation analysis, and multiple regression, the research found that capital structure negatively affects both return on assets (ROA) and return on equity (ROE). Specifically, the ratio of short-term debt to total assets was identified as diminishing profitability. Overall, the study concluded that capital structure does not significantly influence the performance of these companies.

Hafidh (2022) investigated the relationship between capital structure and bank performance in Tanzania, focusing on commercial banks operating in Zanzibar. Employing descriptive statistics, correlation analysis, and multiple regression, the research discovered a positive correlation between capital structure—particularly the short-term debt to equity (DE) ratio and equity to total asset ratio (ETA)—and financial performance measured by return on assets (ROA). As a result, the study concluded that capital structure exhibits a positive relationship with the performance of these banks.

Okore and Nwadiubu (2022) examined the impact of capital structure, specifically the debt-to-equity ratio, on the profitability of food and beverage firms. Utilizing descriptive statistics, correlation analysis, and multiple regression, the study revealed a positive correlation between capital structure—represented by the short-term debt to equity (DE) ratio and equity to total asset ratio (ETA)—and financial performance metrics such as return on assets (ROA). The research concluded that capital structure has a significant and positive impact on the performance of these companies.

Rasheed et al. (2022) conducted a study on the impact of capital structure and liquidity conditions on the profitability of pharmaceutical firms listed on the Pakistan Stock Exchange (PSX). Using descriptive statistics, correlation analysis, and multiple regression, the research found that a high debt-to-equity ratio significantly decreases profitability. Conversely, liquidity conditions showed a positive correlation with firm profitability. Ultimately, the study concluded that capital structure negatively affects company performance, while also noting a positive relationship between capital structure and performance.

Mawlood (2022) investigated the influence of capital structure decisions on the profitability of commercial banks in Iraq. Through descriptive statistics, correlation analysis, and multiple regression, the research revealed that a high debt-to-equity ratio has a significant negative impact on profitability. Therefore, the study concluded that capital structure detrimentally affects the performance of these banks.

Usoro (2022) explored the relationship between capital structure and the financial performance of U.S. retail banks. Using descriptive statistics, correlation analysis, and multiple regression, the study found that capital structure significantly influences earnings, liquidity, profitability, and dividend per share of the banks. As a result, the

research concluded that capital structure plays a crucial role in determining the performance of these banks.

Goet (2022) focused on the impact of capital adequacy on the profitability of listed commercial banks in Nepal. Utilizing descriptive statistics, correlation analysis, and multiple regression, the study revealed that the capital adequacy ratio notably affects the return on equity of the banks, while the credit deposit ratio does not. Therefore, the research concluded that capital structure has a significant impact on the performance of these banks.

Chalise and Adhikari (2022) studied how capital structure and firm size affect the financial performance of commercial banks in Nepal. Through descriptive statistics, correlation analysis, and multiple regression, the research found a negative association between return on assets (ROA) and earnings per share (EPS) with capital structure, specifically the Debt/Equity ratio. Consequently, the study concluded that capital structure negatively impacts the performance of these banks.

Ngoc et al. (2021) conducted research on the impact of capital structure on the financial performance of logistics service providers listed on the Ho Chi Minh City Stock Exchange. Using descriptive statistics, correlation analysis, and multiple regression, the study aimed to assess how capital structure influences profitability, measured by return on assets (ROA) and return on equity (ROE), among 30 logistics enterprises. The findings revealed a negative correlation between capital structure and profitability, particularly in terms of ROA. Therefore, the study concluded that capital structure negatively affects the performance of these companies.

Bhatta (2021) conducted research comparing the profitability performance of manufacturing and finance companies in Nepal. Through descriptive statistics, correlation analysis, and multiple regression, the study examined metrics such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The findings indicated a positive correlation between capital structure and profitability. Consequently, the research concluded that capital structure positively influences the performance of the companies.

Aishwarya (2020) conducted a study on the impact of capital structure on the profitability of companies listed on the Indian Stock Exchange, focusing on the automobile industry. Using descriptive statistics, correlation analysis, and multiple regression, the research explored how the Interest Coverage Ratio affects firm performance. The results showed a

significant positive correlation between profitability and capital structure variables, leading to the conclusion that there is a strong positive relationship between capital structure and company performance.

Sariv and Sedana (2020) investigated the relationship between profitability, liquidity, firm value, and capital structure in construction and building subsector companies listed on the Indonesia Stock Exchange. Through descriptive statistics, correlation analysis, and multiple regression, the study found that capital structure plays a positive and significant role in enhancing firm value and profitability. Consequently, the research concluded that capital structure significantly improves the performance of these companies.

Bhattarai (2020) examined the effects of capital structure on the financial performance of insurance companies in Nepal. Using descriptive statistics, correlation analysis, and multiple regression, the study analyzed factors like equity to total assets, leverage, and assets tangibility. The findings indicated that these factors positively influence the financial performance of Nepalese insurance companies, leading to the conclusion that capital structure has a beneficial impact on their performance.

Wardani and Subowo (2020) studied the factors influencing capital structure with profitability as a moderating variable. Using descriptive statistics, correlation analysis, and multiple regression, the research assessed how business risk, Fixed Asset Ratio (FAR), and Time Interest Earned (TIE) affect capital structure. The results revealed that TIE negatively impacts capital structure, while FAR has a positive effect. Consequently, the study concluded that capital structure positively affects the performance of the companies, with profitability playing a moderating role.

Uremadu and Onyekachi (2018) conducted research on the impact of capital structure on corporate performance in Nigeria, focusing on the consumer goods sector. Using descriptive statistics, correlation analysis, and multiple regression, the study aimed to explore how capital structure influences corporate performance. The findings indicated that both the long-term debt ratio to total assets and the total debt ratio to equity had a negative and statistically insignificant effect on returns on assets. Therefore, the study concluded that capital structure has a negligible and negative impact on the performance of the companies.

Hirdinis (2019) conducted research on the interaction between capital structure, firm size, firm value, and profitability. Using descriptive statistics, correlation analysis, and

multiple regression, the study aimed to examine how capital structure and firm size influence firm value, with profitability as a moderating factor. The results revealed a significant positive effect of capital structure on firm value. Consequently, the study concluded that capital structure has a positive and substantial impact on the performance of the companies.

Al-Nsour and Al-Muhtadi (2019) conducted research on capital structure, profitability, and firm value in Jordan. Using descriptive statistics, correlation analysis, and multiple regression, the study aimed to investigate the impact of these factors on firm value. However, the results showed no significant effect among the independent variables, including capital structure and profitability. Consequently, the research concluded that capital structure has an insignificant impact on the performance of the companies.

Singh and Bagga (2019) conducted research on the effect of capital structure on profitability using empirical panel data. Using descriptive statistics, correlation analysis, and multiple regression, the study assessed how total debt and total equity ratios influence profitability metrics such as Return on Assets (ROA) and Return on Equity (ROE). The findings indicated that both total debt and total equity ratios significantly affect profitability. Therefore, the research concluded that capital structure has a notable impact on the performance of the companies.

Noreen (2019) conducted comparative research on the impact of capital structure on profitability in Islamic and conventional banks of Pakistan. Using descriptive statistics, correlation analysis, and multiple regression, the study aimed to explore how capital structure influences profitability and whether it differs between the two types of banks. The findings revealed similar capital structures between Islamic and conventional banks, with significant differences in bank size. Return on Assets (ROA) showed a negative correlation with capital structure in both types of banks. Consequently, the research concluded that there is a negative relationship between capital structure and the performance of the companies.

Musah (2018) conducted research on the impact of capital structure on profitability of commercial banks in Ghana. Using descriptive statistics, correlation analysis, and multiple regression, the study investigated how short-term debt ratio, long-term debt ratio, and total debt ratio influence the profitability of banks, measured by Return on Assets and Return on Equity. The results indicated a negative relationship between short-term and

long-term debt ratios with bank profitability. Therefore, the research concluded that there is a negative relationship between capital structure and the performance of the companies.

Revathy and Santhi (2016) conducted research on the impact of capital structure on profitability of manufacturing companies in India. The study aimed to explore how capital structure variables influence business revenue and profitability of companies listed on the Bombay Stock Exchange. Using descriptive statistics, correlation analysis, and multiple regression, the findings indicated a strong negative impact of Debt Equity Ratio on profits. Consequently, the research concluded a strongly negative relationship exists between capital structure and the performance of these companies.

Singh and Singh (2016) conducted research on the impact of capital structure on profitability of selected listed Cement Companies in India. The study aimed to investigate how capital structure affects profitability, revealing a significant negative correlation between debt and profitability. Using descriptive statistics, correlation analysis, and multiple regression, the research concluded there exists a substantial negative relationship between capital structure and the performance of these companies.

Vatavu (2015) conducted research on the impact of capital structure on financial performance in Romanian listed companies. The study aimed to analyze the correlation between capital structure and financial performance. However, the findings using descriptive statistics, correlation analysis, and multiple regression indicated no statistically significant impact between debt and profitability. Consequently, the research concluded capital structure exhibits an insignificant relationship with the performance of the companies.

Tailab (2014) conducted research on the effect of capital structure on profitability of energy firms in America. The study aimed to assess the influence of capital structure on financial performance, revealing a notable negative impact of total debt on Return on Equity (ROE) and Return on Assets (ROA). Using descriptive statistics, correlation analysis, and multiple regression, the research concluded a significant relationship exists between capital structure and the performance of these companies.

Shubita and Alsawalhah (2012) conducted research on how capital structure affects financial performance in Jordanian industrial companies. The study aimed to analyze the relationship between capital structure and financial performance, revealing a significant negative relationship between debt and profitability. Using descriptive statistics,

correlation analysis, and multiple regression, the research concluded a notable negative relationship exists between capital structure and the performance of these companies.

Namalathasan (2010) conducted research on capital structure and its impact on profit-earning capacity of listed manufacturing companies in Sri Lanka. The study aimed to examine the relationship between capital structure and profitability ratios like Operating Profit Ratio (OPR), Net Profit Ratio (NPR), and Return on Capital Employed (ROCE). Using descriptive statistics, correlation analysis, and multiple regression, the findings indicated significant positive associations between Debt to Assets (D/A) ratio, Capital Gearing (CG) ratio, and certain profitability ratios. However, overall, the research concluded that capital structure exhibits a significant negative relationship with the performance of the companies, despite some positive associations with specific profitability metrics.

Table 1

Summary of Related Reviews

Authors/ year	Topic	Objectives	Methodology-Tools	Findings/Conclusion
Nuraeni et al. (2024)	Factors that affect the profitability ratio in manufacturing sector companies for the period 2018-2022.	To investigated the interaction between capital structure, net profit margin, and company value in the manufacturing sector in Indonesia.	This study employs quantitative methods utilizing financial data and relevant metrics to analyze a sample of 30 manufacturing companies operating in Indonesia.	The findings indicated a significant impact of capital structure on net profit margin, which in turn influenced the company's overall value in the manufacturing industry. The study highlighted that capital structure plays a reinforcing role in enhancing the effect of net profit margin on the company's overall value.
Handini (2024)	Financial Ratios, Capital Structure, and EVA Impact on IDX Food and Beverage Manufacturers	To examined how financial ratios, capital structure, and economic value added (EVA) affect Indonesia	The research analyzed a sample of 14 companies by utilizing financial statements	The research discovered that financial ratios have a negative impact on the financial performance of food and beverage

	2019-2021 Performance.	Stock Exchange	sourced from the Indonesia Stock Exchange website as secondary data. Various analytical methods were employed, including descriptive statistical tests, classical assumption tests, multiple linear analysis, and hypothesis testing using t-tests, F-tests, and determination coefficient tests.	companies listed on the Indonesia Stock Exchange. However, the study did not find significant effects of capital structure variables on the financial performance of these companies. Additionally, economic value added (EVA) was found not to have a significant impact on the financial performance of food and beverage firms listed on the Indonesia Stock Exchange.
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.	The research findings indicated that capital structure, particularly short-term debt and long-term debt, negatively impacts firm performance as measured by Return on Assets (ROA). However, capital structure variables like long-term debt and debt-to-equity ratio did not demonstrate a significant positive effect on firms' performance as measured by Return on Equity (ROE). Overall, these findings led the study to conclude

				that capital structure has a weak to no impact on the financial performance of the firms studied.
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 employed Feasible Generalized Least Squares (FGLS) estimations instead of Ordinary Least Squares (OLS) regression for their analysis.	They found that higher leverage is linked to reduced profitability. Moreover, they noted a negative 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 employed quantitative methods to analyze and achieve the specific goals of the study, utilizing SPSS econometric software to generate detailed regression and correlation outcomes.	The study's specific findings indicated that the capital structure significantly affects the efficiency of companies listed in Saudi Arabia. The results showed a notable impact with Total Debt (TD) and Debt-to-Equity (D/E) ratios, whereas the influence of Long-Term Debt (LTD) was less significant 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	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 employs a time-series approach, focusing	The analysis results reveal that both independent variables, namely the short-term debt-to-equity ratio (DE) and the equity-to-total-asset ratio, demonstrate a positive and

	operating in Zanzibar			statistically significant correlation with return on assets (ROA). However, it was found that only one independent variable, the long-term debt-to-total-assets ratio, exhibits 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 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.	The study adopted a causal research design and relied on secondary data. The population included all publicly quoted companies within the food and beverage industry. From this population, a sample of five listed companies operating in the food and beverage sector was selected for analysis.	The results show that the debt-to-equity ratio has a positive and significant impact on the gross profit ratio, net profit ratio, return on equity, and return on assets.
Rasheed, Shahid, Mukhtar and Ishaq(2022)	Impact of Capital Structure and Liquidity Conditions on the	To find the impact of capital structure and liquidity condition on the profitability of	The analysis employed OLS regression, as well as fixed and random	The findings indicated that a high debt-to-equity ratio negatively affects profitability significantly. In

	Profitability of Pharmaceutical Sector of Pakistan	pharmaceutical firms listed with Pakistan Stock Exchange (PSX).	effect models for the study.	contrast, favorable liquidity conditions showed a positive association with firm profitability.
Mawlood (2022)	Roles Of Capital Structure On Banks Profitability; Case Study From Commercial Banks In Iraq	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 utilized secondary data to achieve the research objectives, calculating regression and correlation analyses.	Based on the findings, commercial banks in Iraq with higher debt ratios generally exhibit lower profitability.
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 employed a quantitative approach with a causal-comparative design.	The findings suggested that decisions regarding banks' capital structure also influenced their liquidity.
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.	The suggestion is that customer deposits negatively affect bank profitability, whereas non-deposit liabilities contribute positively to it.
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.	Regression model, applying the quantitative method (with models of Pool OLS, FEM, REM and FGLS)	The research findings indicate that capital structure has a negative influence on firm profitability, as evidenced by both Return on Assets (ROA) and 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 information underwent detailed analysis to gather essential study data. Secondary sources such as journals, articles, books, both published and unpublished materials, electronic databases, and online resources were accessed and employed.	The study demonstrates a highly significant relationship between profitability and variables related to capital structure.
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 employs a sample selected through the census method. Path analysis is utilized as the technique for data analysis.	Profitability positively impacts capital structure significantly, whereas liquidity negatively affects capital structure in a notable manner. Capital structure, in turn, positively influences firm value significantly. Moreover, profitability has a positive and significant effect on firm value, while the impact of liquidity on firm value, although negative, is not statistically 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 study utilized secondary data extracted from annual reports. Data analysis employed the Ordinary Least Squares (OLS) multiple regression technique.	The study's results revealed that capital structure had a negligible and adverse impact on the performance of consumer goods firms in Nigeria. Particularly, both the long-term debt ratio to total assets and the total debt ratio to equity showed a negative and statistically insignificant influence on returns on assets.
Hirdinis (2019)	Capital Structure and Firm Size on Firm Value Moderated by Profitability	The purpose of this study is to determine the effect of capital structure and firm size on firm value, moderated by profitability.	This study utilizes non-participant observation alongside path analysis methodology, with multiple linear regressions employed as the method for data analysis.	Capital structure has a significant positive effect on firm value, while firm size shows a notable 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 conducted to assess the potential influence of capital structure and profitability on the company's value.	The findings indicated that a higher Debt-to-Equity Ratio (DER) is strongly associated with increased market value, whereas a lower Return on Assets (ROA) is significantly linked to decreased market value."
Singh and Bagga (2019)	The Effect of Capital Structure	To evaluate the effect of capital structure on the	The data was analyzed using descriptive	There is significant positive Impact of capital structure on

	on Profitability: An Empirical Panel Data Study.	profitability of Nifty 50 companies listed on National Stock Exchange of India from 2008 – 2017.	statistics, correlation analysis, and multiple panel data regression models.	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.	To compare the capital structure of Islamic and conventional banks, an independent samples T-test was used, while regression analysis was employed to examine the influence of capital structure on profitability	he results showed that the capital structures of both conventional and Islamic banks were similar, except for bank size, which showed significant differences. Additionally, Return on Assets (ROA) was negatively correlated with the capital structure of both types of banks, while Return on Equity (ROE) showed a positive correlation
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.	The data was analyzed using descriptive statistics, correlation analysis, and panel regression analysis	The regression analysis revealed that the profitability of banks in Ghana is negatively correlated with both short-term and long-term debt ratios. In contrast, the total debt ratio showed a positive relationship with bank profitability in Ghana
Revathy and Santhi (2016)	Impact of capital structure on profitability of	This paper investigates the impact of capital structure on profitability	The present study employs an analytical research design and	The study shows a strong direct correlation between capital structure variables and

	Manufacturing companies in India.	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 interrelationship is between capital structure variable and profitability.	utilizes Structural Equation Modeling (SEM) for analysis	profitability. Specifically, an increase in the Debt Equity Ratio is found to have a negative effect on the profits of manufacturing companies listed on the Bombay Stock Exchange in India.
Vatavu (2015)	The impact of capital structure on financial performance in Romanian listed companies	To examine the impact of capital structure on the financial firm performance of industrial companies in Turkey.	Regression model is used. To measure firm performance used	The regression results are not statistically significant due to missing data on long-term debt ratios.
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	The study revealed that total debt has a significantly negative impact on both Return on Equity (ROE) and Return on Assets (ROA) among American firms. Furthermore, sales size was found to negatively affect ROE, while short-term debt showed a positive influence on ROE. However, there was either an insignificant or varying relationship

				observed between long-term debt, debt-to-equity ratio, total asset size, 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 Exchange during a six-year period (2004-2009)	The study involved a sample of 39 companies, using secondary data and employing statistical techniques to analyze the relationship between capital structure and profitability	The results reveal significantly negative relation between debt 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.	The data were collected primarily from secondary sources, specifically from the financial reports of the selected companies, and a regression model was employed for analysis.	The findings suggest a strong positive correlation between the debt-to-equity ratio (D/E) and all profitability ratios. Capital structure significantly affects 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 in formativeness 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 2022/23
Sample	Three finance companies running Namely Manjushree Finance Limited (MFL), Pokhara Finance Limited (PFL) and Good will Finance Limited (GWFL) selected based propulsive sampling.
Variables	The independent variable is debt to equity ratio, long term debt to total assets, Short Term debt to total assets, equity to total assets, interest coverage ratio and bank size (log of assets). Dependent 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

- Debt to equity ratio
- Long term debt to total assets
- Short Term debt to total assets
- Equity to total assets
- Interest coverage ratio
- Bank size (log of assets)

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

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

Debt to equity ratio

The debt-to-equity ratio (D/E ratio) is a financial metric used to evaluate a company's financial leverage and risk. It compares the total debt of a company to its shareholders' equity. This ratio is significant for banks, as it helps assess their financial stability and risk exposure.

$$\text{Debt to equity ratio} = \frac{total\ debt}{total\ equity}$$

Long term debt to total assets

The long-term debt to total assets ratio is a financial metric that measures the proportion of a company's assets that are financed with long-term debt. This ratio is particularly useful for assessing the financial stability and risk of a company, including banks, by indicating how much of the company's assets are financed by long-term debt.

$$\text{Long term debt to total assets} = \frac{\text{Long term debt}}{\text{total assets}}$$

Short Term debt to total assets

The short-term debt to total assets ratio is a financial metric that measures the proportion of a company's assets financed with short-term debt. This ratio helps assess a company's

liquidity and short-term financial risk by showing the extent to which short-term obligations are used to finance the company's assets.

Short Term debt to total assets = $\frac{Short\ Term\ Debt}{Total\ Assets}$

Equity to total assets

The equity to total assets ratio is a financial metric that measures the proportion of a company's assets that are financed by shareholders' equity. This ratio is an important indicator of a company's financial stability and solvency, showing the extent to which the company relies on equity rather than debt to finance its assets.

Equity to total assets =$\frac{Total\ Equity}{Total\ Assets}$

Interest coverage ratio

For a bank where the primary source of income is interest income, the traditional interest coverage ratio (ICR) formula may need to be adjusted to reflect the specific nature of banking operations. Banks typically generate revenue through interest income from loans and investments, while also incurring interest expenses on deposits and borrowings.

Adjusted Formula for Banks

For banks, the ICR can be adjusted to focus on net interest income relative to interest expenses:

Interest Coverage Ratio =$\frac{Net\ Interest\ income}{interest\ expenses}$

Where,

Net Interest Income: The difference between the interest income earned on loans and investments and the interest expense paid on deposits and borrowings.

Interest Expense: The total interest payable on the bank's deposits and borrowings.

Interpretation

High Ratio: Indicates that the bank generates sufficient net interest income to cover its interest expenses, suggesting good financial health and a lower risk of default.

Low Ratio: Indicates potential difficulties in covering interest expenses, suggesting higher financial risk.

Bank size (log of assets)

In financial analysis, the size of a bank is often considered a key factor influencing its operations, risk profile, and overall stability. One common way to measure the size of a bank is by using the logarithm of its total assets. Using the logarithm (typically base 10 or natural log) helps to normalize the data and handle the large range of asset sizes among banks, making comparisons more manageable and meaningful.

Formula

Bank Size= log (Total Assets)

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 (σ)

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 (**σ**).

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

$ROA= \beta_0+ \beta_1\times DER+ \beta_2\times LDTA +\beta_3\times SDTA +\beta_4\times ETA+ 5\times ICR+ \beta_6\times BS +e$

Model II

$ROE= \beta_0+ \beta_1\times DER+ \beta_2\times LDTA +\beta_3\times SDTA +\beta_4\times ETA+ 5\times ICR+ \beta_6\times BS +e$

Where,

ROA= Return on Assets

ROE = Return On equity

DER=Debt to equity ratio

LDTA= long term debt to total assets

SDTA= Short Term debt to total assets

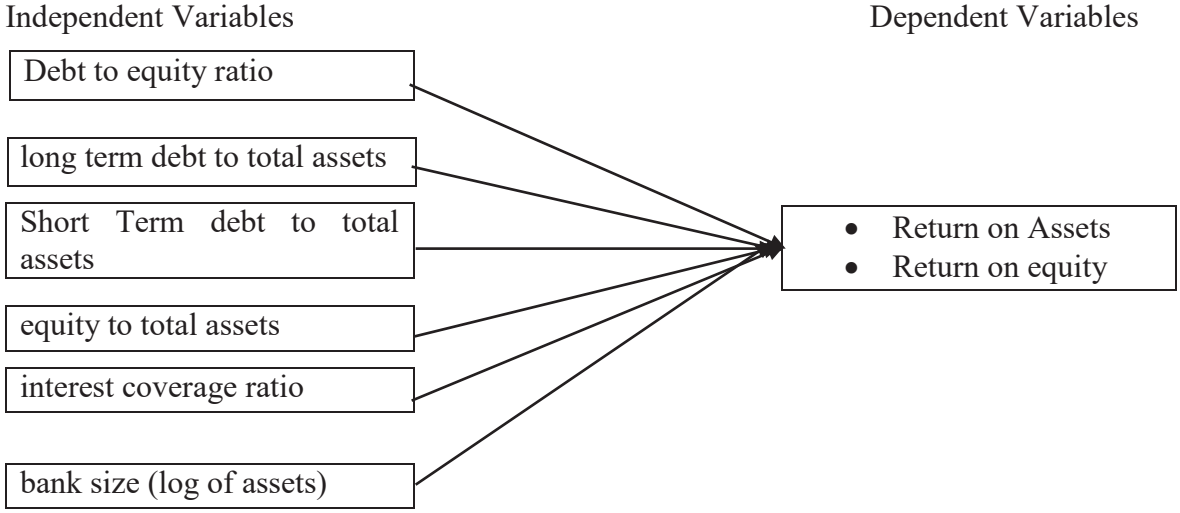
ETA=equity to total assets

ICR= interest coverage ratio

BS=bank size (log of assets)

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)*

Figure 1 Conceptual Framework

3.7 Definitions of Variables

Dependent 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.

Independent Variables

Debt to Equity Ratio

The debt-to-equity ratio (D/E ratio) is a fundamental financial metric used to assess a company's financial health and risk profile by comparing its total debt to shareholders' equity. This ratio provides valuable insights into how a company finances its operations and expansion: In essence, the debt-to-equity ratio quantifies the degree to which a company relies on debt financing compared to its own equity. It is calculated by dividing total debt (which includes both short-term and long-term debt) by shareholders' equity (comprising the residual interest in the company's assets after deducting liabilities). A higher ratio indicates that the company has more debt relative to its equity, implying higher financial leverage and potentially greater risk, as debt obligations must be met irrespective of the company's profitability. Conversely, a lower ratio suggests a more conservative financial structure, with less reliance on borrowing and potentially lower

risk. For investors and analysts, the debt-to-equity ratio serves as a critical tool in evaluating a company's capital structure, risk appetite, and overall financial stability. It helps assess the company's ability to withstand economic downturns, manage its debt obligations, and sustain growth over the long term. By understanding this ratio, stakeholders can make more informed decisions regarding investment, lending, and strategic planning.

Long Term Debt to Total Assets

The long-term debt to total assets ratio is a critical financial metric that offers valuable insights into a company's capital structure and financial health. This ratio quantifies the proportion of a company's assets that are financed through long-term debt, providing a snapshot of its leverage and risk exposure. By dividing long-term debt (which includes obligations due in more than one year) by total assets (the sum of all current and non-current assets), the ratio highlights the extent to which a company relies on long-term borrowing to fund its operations and investments. A higher ratio indicates a greater reliance on debt financing, which can potentially amplify returns but also heighten financial risk. This is because higher debt levels necessitate consistent cash flow to meet interest payments and debt obligations, regardless of the company's profitability. Conversely, a lower long-term debt to total assets ratio suggests a more conservative approach to financing, with a larger portion of assets funded through equity or short-term financing. While this may indicate lower financial risk, it could also mean foregoing potential growth opportunities that could be leveraged through debt.

Short Term Debt to Total Assets

The short-term debt to total assets ratio is a financial metric that provides insight into how much of a company's assets are financed through short-term debt obligations. This ratio is calculated by dividing the company's short-term debt (debt due within one year) by its total assets, which include both current and non-current assets. By evaluating this ratio, stakeholders can assess the company's liquidity position and short-term financial obligations relative to its overall asset base. A higher ratio suggests that a larger portion of the company's assets is financed through short-term borrowing, which can indicate a higher degree of reliance on short-term credit lines or loans. This may be strategic for managing cash flow or operational needs but could also expose the company to risks if it faces difficulty in refinancing or repaying these obligations. Conversely, a lower short-term debt to total assets ratio indicates a more conservative approach to financing, with

fewer short-term obligations relative to total assets. While this may imply stronger liquidity and less immediate financial risk, it could also mean potentially missed opportunities for leveraging short-term financing to support growth initiatives.

Equity to Total Assets

The equity to total assets ratio is a fundamental financial metric that evaluates the proportion of a company's assets financed through shareholders' equity. It provides insights into the company's capital structure and financial health by comparing the amount of equity invested by shareholders to the total assets owned by the company. By dividing shareholders' equity (which includes common stock, retained earnings, and additional paid-in capital) by total assets (the sum of all current and non-current assets), the ratio indicates the extent to which the company relies on equity financing rather than debt. A higher ratio signifies that a larger portion of the company's assets is funded through equity, suggesting a conservative financial approach with lower financial leverage and potentially lower risk. Conversely, a lower equity to total assets ratio indicates a higher reliance on debt financing relative to equity. While this can amplify returns through leverage, it also increases financial risk as the company must consistently meet interest payments and debt obligations, regardless of profitability.

Interest Coverage Ratio

The interest coverage ratio (ICR) is a vital financial metric used to evaluate a company's ability to meet its interest obligations on outstanding debt. This ratio measures the company's capacity to cover its interest expenses using its operating income, typically represented by earnings before interest and taxes (EBIT).

The interest coverage ratio (ICR) is a crucial financial metric used to assess a bank's ability to meet its interest obligations on outstanding debt using its operating income, primarily derived from interest income on loans, investments, and other financial assets. For banks, which rely heavily on interest income as their main revenue source, the ICR is especially significant. It measures the bank's ability to generate sufficient earnings to cover its interest expenses, which include payments on deposits, borrowings, and other liabilities. A higher ICR indicates that the bank can comfortably manage its interest payments without straining its financial resources, suggesting strong financial health and lower risk of default. This ratio is closely monitored by investors, regulators, and analysts as a key indicator of the bank's profitability, risk management practices, and overall financial stability in varying economic conditions. By assessing the ICR, stakeholders can

make informed decisions regarding investment, lending, and strategic planning, ensuring prudent risk management and sustainable growth for the bank.

Bank Size (Log of Assets)

Bank size, often represented as the logarithm of total assets, is a critical metric in assessing the scale and scope of a financial institution's operations. By taking the logarithm of total assets, typically using base 10 or the natural logarithm, financial analysts can standardize and compare banks of varying sizes more effectively. This transformation helps mitigate the scenes inherent in asset size data, providing a clearer picture of relative size differences among banks.

The logarithm of assets offers several analytical advantages. Firstly, it facilitates the identification of patterns and trends across different banks, enabling meaningful comparisons in terms of operational capacity, market influence, and systemic importance. Secondly, it aids in modeling relationships between bank size and various performance metrics, such as profitability, efficiency ratios, and risk exposure. This analytical approach is particularly valuable in regulatory assessments, where understanding the impact of bank size on systemic risk and regulatory requirements is crucial.

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 Debt to equity ratio

The debt-to-equity ratio (D/E ratio) is a fundamental financial metric used to assess a company's financial health and risk profile by comparing its total debt to shareholders' equity. This ratio provides valuable insights into how a company finances its operations

and expansion: In essence, the debt-to-equity ratio quantifies the degree to which a company relies on debt financing compared to its own equity

Table 5

Debt to equity ratio

Year/ Finance(DER)	MFL	PFL	GWFL
2023	717.3	864.31	819.07
2022	777.36	844.89	688.81
2021	680.75	701.77	650.23
2020	609.36	625.71	787.41
2019	859.75	537.39	628.74
2018	629.1	382.94	546.06
2017	457.06	484.16	562.07
2016	863.26	456.14	770.6
2015	779.43	466.33	792.86
2014	557.09	547.45	785.79
Mean	693.04	591.10	703.16
S.D	132.22	165.27	101.69
CV (%)	19.07	27.95	14.46

Source*: Appedix-1*

Table 5 shows the debt to equity ratio of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the debt to equity ratio is 703.16 of GWFL and lowest is 591.1 of PFL. The highest Standard deviation of finance companies is 165.27 of PFL and lowest is 101.69 of GWFL. On the basis of C.V the highest percent in the PFL is 27.95% and lowest percent is 14.46 % OF GWFL so the result is about the fluctuating nature. The data flow of the debt to equity ratio seem all the finance has fluctuating nature. On the basis of standard deviation and coefficient of variation the Pokhara finance are more fluctuating debt to equity ratio.

4.1.1.3 Long term debt to total assets

The long-term debt to total assets ratio is a critical financial metric that offers valuable insights into a company's capital structure and financial health. This ratio quantifies the proportion of a company's assets that are financed through long-term debt, providing a snapshot of its leverage and risk exposure. By dividing long-term debt (which includes obligations due in more than one year) by total assets (the sum of all current and non-current assets), the ratio highlights the extent to which a company relies on long-term borrowing to fund its operations and investments.

Table 6

Long term debt to total assets

Year/ Finance(LDTA)	MFL	PFL	GWFL
2023	87.76	89.62	89.11
2022	88.6	89.41	87.32
2021	87.19	87.53	86.67
2020	85.89	86.21	88.73
2019	89.57	84.31	86.27
2018	86.27	79.28	84.52
2017	82.05	82.36	88.06
2016	89.62	82.02	88.51
2015	88.63	82.34	88.8
2014	84.78	84.55	88.71
Mean	87.03	84.76	87.6
S.D	2.36	3.40	1.46
CV (%)	2.72	4.018	1.67

Source*: Appedix-1*

Table 6 shows the long term debt to total assets of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the long term debt to total assets is 87.6 of GWFL and lowest is 84.76 of PFL. The highest Standard deviation of finance companies is 3.4 of PFL and lowest is 1.46 of GWFL. On the basis of C.V the highest percent in the PFL is 4.018% and lowest percent is 1.67 % OF GWFL so the result is about the fluctuating nature. The data flow of the long term debt to total assets seem all the finance has fluctuating nature. On the basis of standard deviation and coefficient of variation the Pokhara finance are more fluctuating long term debt to total assets.

4.1.1.4 Short Term debt to total assets

The short-term debt to total assets ratio is a financial metric that provides insight into how much of a company's assets are financed through short-term debt obligations. This ratio is calculated by dividing the company's short-term debt (debt due within one year) by its total assets, which include both current and non-current assets. By evaluating this ratio, stakeholders can assess the company's liquidity position and short-term financial obligations relative to its overall asset base. A higher ratio suggests that a larger portion of the company's assets is financed through short-term borrowing, which can indicate a higher degree of reliance on short-term credit lines or loans.

Table 7

Short Term debt to total assets

Year/ Finance(SDTA)	MFL	PFL	GWFL
2023	83.39	87.6	86.11
2022	84.13	87.45	83.51
2021	82.48	86.06	83.11
2020	84.93	84.79	84.44
2019	89.12	82.29	84.2
2018	85.77	76.64	81.91
2017	81.54	79.82	84.94
2016	88.76	80.18	85.3
2015	88.31	80.19	85.68
2014	84.17	80.24	86.19
Mean	85.25	82.52	84.5
S.D	2.67	3.7	1.38
CV (%)	3.13	4.53	1.64

Source*: Appedix-1*

Table 7 shows the short term debt to total assets of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the short term debt to total assets is 85.25 of MFL and lowest is 82.52 of PFL. The highest Standard deviation of finance companies is 3.7 of PFL and lowest is 1.38 of GWFL. On the basis of C.V the highest percent in the PFL is 4.53% and lowest percent is 1.64 % OF GWFL so the result is about the fluctuating nature. The data flow of the short term debt to total assets seem all the finance has fluctuating nature. On the basis of standard deviation and coefficient of variation the Pokhara finance are more fluctuating short term debt to total assets.

4.1.1.5 Equity to total assets

The equity to total assets ratio is a fundamental financial metric that evaluates the proportion of a company's assets financed through shareholders' equity. It provides insights into the company's capital structure and financial health by comparing the amount of equity invested by shareholders to the total assets owned by the company. By dividing shareholders' equity (which includes common stock, retained earnings, and additional paid-in capital) by total assets (the sum of all current and non-current assets), the ratio indicates the extent to which the company relies on equity financing rather than debt. A higher ratio signifies that a larger portion of the company's assets is funded through equity, suggesting a conservative financial approach with lower financial leverage and potentially lower risk.

Table8

Equity to total assets

Year/ Finance(ETA)	MFL	PFL	GWFL
2023	12.23	10.37	10.88
2022	11.4	10.58	12.68
2021	12.81	12.47	13.33
2020	14.1	13.78	11.27
2019	10.42	15.69	13.72
2018	13.71	20.7	15.48
2017	17.95	17.01	15.67
2016	10.38	17.98	11.49
2015	11.37	17.66	11.2
2014	15.22	15.45	11.29
Mean	12.95	15.16	12.69
S.D	2.36	3.36	1.79
CV (%)	18.27	22.16	14.14

Source*: Appedix-1*

Table 8 shows the equity to total assets of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the equity to total assets is 15.16 of PFL and lowest is 12.69 of GWFL. The highest Standard deviation of finance companies is 3.36 of PFL and lowest is 1.79 of GWFL. On the basis of C.V the highest percent in the PFL is 22.16% and lowest percent is 14.14 % OF GWFL so the result is about the fluctuating nature. The data flow of the equity to total assets seem all the finance has fluctuating nature. On the basis of standard deviation and coefficient of variation the Pokhara finance are more fluctuating equity to total assets.

4.1.1.6 Interest coverage ratio

The interest coverage ratio (ICR) is a crucial financial metric used to assess a bank's ability to meet its interest obligations on outstanding debt using its operating income, primarily derived from interest income on loans, investments, and other financial assets. For banks, which rely heavily on interest income as their main revenue source, the ICR is especially significant. It measures the bank's ability to generate sufficient earnings to cover its interest expenses, which include payments on deposits, borrowings, and other liabilities.

Table 9

Interest coverage ratio

Year/ Finance(ICR)	MFL	PFL	GWFL
2023	49.65	38.96	21.16
2022	44.62	43.01	32.38
2021	42.07	53.3	40.37
2020	54.66	50.33	34.85
2019	53.27	57.29	43.87
2018	38.19	64.72	32.01
2017	54.2	88.26	41.73
2016	69.68	81.11	77.06
2015	43.17	85.71	56.5
2014	62.22	49.72	32.92
Mean	51.17	61.24	41.28
S.D	9.7	17.93	15.63
CV (%)	19.005	29.28	37.87

Source*: Appedix-1*

Table 9 shows the interest coverage ratio of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the interest coverage ratio is 61.24 of PFL and lowest is 41.28 of GWFL. The highest Standard deviation of finance companies is 17.93 of PFL and lowest is 9.7 of MFL. On the basis of C.V the highest percent in the GWFL is 37.87% and lowest percent is 19.005 % OF MFL so the result is about the fluctuating nature. The data flow of the interest coverage ratio seem all the finance has fluctuating nature. On the basis of standard deviation PFL and coefficient of variation the GWFL are more fluctuating interest coverage ratio.

4.1.1.7 Bank size (log of assets)

Bank size, often represented as the logarithm of total assets, is a critical metric in assessing the scale and scope of a financial institution's operations. By taking the logarithm of total assets, typically using base 10 or the natural logarithm, financial analysts can standardize and compare banks of varying sizes more effectively. This transformation helps mitigate the scenes inherent in asset size data, providing a clearer picture of relative size differences among banks.

Table 10

Bank size (log of assets)

Year/ Finance(BS)	MFL	PFL	GWFL
2023	4.23	4.14	4.17
2022	4.2	4.13	4.18
2021	4.14	4.04	4.12
2020	3.97	3.95	4.04
2019	3.99	3.89	3.94
2018	3.85	3.76	3.85
2017	3.68	3.66	3.76
2016	3.48	3.58	3.68
2015	3.39	3.53	3.57
2014	3.21	3.47	3.53
Mean	3.81	3.81	3.88
S.D	0.35	0.24	0.24
CV (%)	9.38	6.55	6.27

Source*: Appedix-1*

Table 10 shows the bank size (log of assets) of the Variables of the different three finance companies. Each finance companies total of 10 observations. The highest mean of the bank size (log of assets) is 388 of GWFL and lowest is 3.81 of MFL and PFL. The highest Standard deviation of finance companies is 0.35 of MFL and lowest is 0.24 of PFL and GWFL. On the basis of C.V the highest percent in the MFL is 9.38% and lowest percent is 6.27 % OF GWFL so the result is about the fluctuating nature. The data flow of the bank size (log of assets) seem all the finance has fluctuating nature. On the basis of standard deviation MFL and coefficient of variation the MFL are more fluctuating bank size (log of assets).

4.1.2 Descriptive Statistics Analysis

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

Table 11 shows the descriptive statistics of the research variables for achieving the objective one of the research. The objectives one of the research is to assess 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 debt to equity ratio, long term debt to total assets, short term debt to total

assets, equity to total assets, interest coverage ratio and bank size (log of assets). Total observation is 30 for each finance companies is 10 observation.

Table 11

Descriptive Statistics Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	30	-.62	7.27	1.8	1.54
Return On equity	30	-5.71	41.17	12.81	10.13
Debt to equity ratio	30	382.94	864.31	662.43	140.57
long term debt to total assets	30	79.28	89.62	86.49	2.76
Short Term debt to total assets	30	76.64	89.12	84.10	2.92
equity to total assets	30	10.37	20.70	13.6	2.74
interest coverage ratio	30	21.16	88.26	51.2	16.54
bank size (log of assets)	30	3.21	4.23	3.8	.28
Valid N (listwise)	30				

Source: *Appendix* -2

The return on assets minimum, maximum, mean and standard deviation of the research are -.62, 7.27, 1.8 and 1.54 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 debt to equity ratio minimum, maximum, mean and standard deviation of the research are 382.94, 864.31, 662.43 and 140.57 respectively. The long term debt to total assets minimum, maximum, mean and standard deviation of the research are 79.28, 89.62, 86.49 and 2.76 respectively. The short term debt to total assets minimum, maximum, mean and standard deviation of the research are 76.64, 89.12, 84.10 and 2.92 respectively. The equity to total assets minimum, maximum, mean and standard deviation of the research are 10.37, 20.70, 13.6 and 2.74 respectively. The interest coverage ratio minimum, maximum, mean and standard deviation of the research are 21.16, 88.26, 51.2 and 16.54 respectively. The bank size (log of assets) minimum, maximum, mean and standard deviation of the research are 3.21, 4.23, 3.8 and .28 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 used to examine the direction and strength of the relationship between two sets of variables, illustrating how they change together and indicating the

extent of their association. The Pearson correlation coefficient is employed to quantify this relationship, ranging from -1 to +1. A correlation coefficient of exactly -1 indicates a perfect negative correlation, meaning the variables move in opposite directions. Conversely, a correlation coefficient of +1 signifies a perfect positive correlation, indicating a strong positive relationship between the variables.

Table 12

Correlation of the Variables

		ROA	ROE	DER	LDTA	SDTA	ETA	ICR	BS
ROA	Pearson Correlation	1							
ROE	Pearson Correlation	.957**	1						
DER	Pearson Correlation	-.436*	-.243	1					
LDTA	Pearson Correlation	-.402*	-.204	.953**	1				
SDTA	Pearson Correlation	-.465**	-.302	.869**	.891**	1			
ETA	Pearson Correlation	.424*	.220	-.983**	-.968**	-.872**	1		
ICR	Pearson Correlation	.623**	.549**	-.438*	-.520**	-.385*	.479**	1	
BS	Pearson Correlation	-.364*	-.328	.336	.345	.139	-.356	-.514**	1

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

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Appendix-2

Table 12 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 debt to equity ratio, long term debt to total assets, short term debt to total assets, equity to total assets, interest coverage ratio and bank size (log of assets). 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 debt to equity and return on assets is negative and significant. The correlation negative shown by the 0.436 and significant by the 0.016 which is less than 0.05 so the relationship is significant.

The relationship between the long term debt to total assets and return on assets is negative and significant. The correlation negative shown by the 0.402 and significant by the 0.028which is less than 0.05 so the relationship is significant.

The relationship between the short term debt total assets and return on assets is negative and significant. The correlation negative shown by the 0.465 and significant by the 0.01 which is less than 0.01 so the relationship is significant.

The relationship between the equity to total assets and return on assets is positive and significant. The correlation positive shown by the 0.424 and significant by the 0.02 which is less than 0.05 so the relationship is significant.

The relationship between the interest coverage ratio and return on assets is positive and significant. The correlation positive shown by the 0.623 and significant by the 0.000 which is less than 0.01so the relationship is significant.

The relationship between the bank size and return on assets is negative and significant. The correlation negative shown by the 0.364 and significant by the 0.048 which is less than 0.05 so the relationship is significant.

The relationship between the debt to equity and return on equity is negative and not significant. The correlation negative shown by the 0.243 and significant by the 0.195 which is more than 0.05 so the relationship is not significant.

The relationship between the long term debt to total assets and return on equity is negative and not significant. The correlation negative shown by the 0.204 and significant by the 0.180 which is more than 0.05 so the relationship is not significant.

The relationship between the short term debt total assets and return on equity is negative and not significant. The correlation negative shown by the 0.302 and significant by the 0.105 which is more than 0.05 so the relationship is not significant.

The relationship between the equity to total assets and return on equity is positive and not significant. The correlation positive shown by the 0.220 and significant by the 0.243 which is more than 0.05 so the relationship is not significant.

The relationship between the interest coverage ratio and return on equity is positive and significant. The correlation positive shown by the 0.549 and significant by the 0.002 which is less than 0.01so the relationship is significant.

The relationship between the bank size and return on equity is negative and not significant. The correlation negative shown by the 0.328 and significant by the 0.076 which is more than 0.05 so the relationship is not significant.

4.1.4 Multiple Regression Analysis

Multiple regression analysis is a statistical method used to explore the connection between a single dependent variable and multiple independent variables. Its primary goal is to forecast changes in the dependent variable by examining changes in the independent variables. This method assesses how well several predictors can predict changes in the dependent variable. Additionally, the coefficient of determination, or R-squared, reveals the percentage of variance in the dependent variable explained by the regression model. In this study, two models are employed based on return on equity and return on assets for the regression analysis.

Regression Analysis Based on ROA

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 13

Model Summary of Model Based on ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.771[a]	.594	.488	1.10540

a. Predictors: (Constant), bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets

Source: Appendix-2

Table 13 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 debt to equity ratio, long term debt to total assets, short term debt to total assets, equity to total assets, interest coverage ratio and bank size (log of assets). Total observation is 30 for each finance companies is 10 observation. The table shows the adjusted R square is 0.488 which represent the total cumulative impact of the independent variables to the dependent variables is 48.8%. The remaining 51.2% is impacted by the other variables which are not included in this research.

Table 14

ANOVA of Based on ROA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.134	6	6.856	5.611	.001[b]
	Residual	28.104	23	1.222		
	Total	69.238	29			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets

Source: Appendix-2

Table 14 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), bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets. The regression value of the research is significant because of the significant value is 0.001 which is less than 0.05.

Table 15

Coefficient of Based on ROA

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-16.022	32.783		-.489	.630
	DER	-.011	.008	-1.027	-1.390	.178
	LDTA	.747	.338	1.335	2.213	.037
	SDTA	-.428	.170	-.810	-2.513	.019
	ETA	-.207	.495	-.368	-.419	.679
	ICR	.060	.017	.644	3.638	.001
	BS	-.921	.933	-.167	-.987	.334

a. Dependent Variable: Return on Assets

Source: *Appendix-2*

Table 15 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 bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets.

The impact of the debt to equity ratio to the return on assets is negative and not significant so the hypothesis is not true. The beta result, here is the negative 0.011 which represent the 1 percent change in to debt to equity ratio change in to the return on assets

by 0.011 percent negative. The result calculated beta is very much accurate because the low standard error i.e. 0.008. The impact is not significant because the significant is more than 0.05 i.e.0.178> 0.05.

The impact of the long term debt to total assets ratio to the return on assets is positive and significant so the hypothesis is true. The beta result, here is the 0.747 which represent the 1 percent change in to long term debt to total assets ratio change in to the return on assets by 0.747 percent. The result calculated beta is very much accurate because the low standard error i.e. 0.338. The impact is significant because the significant is less than 0.05 i.e.0.0.037<0.05.

The impact of the short term debt to total assets ratio to the return on assets is negative and significant so the hypothesis is true. The beta result, here is the negative 0.428 which represent the 1 percent change in to short term debt to total assets ratio change in to the return on assets by 0.428 percent negatively. The result calculated beta is very much accurate because the low standard error i.e. 0.17. The impact is significant because the significant is less than 0.05 i.e.0.0.0019<0.05.

The impact of the equity to total assets is negative and not significant so the hypothesis is not true. The beta result, here is the negative 0.207 which represent the 1 percent change in to equity to total assets change in to the return on assets by 0.207 percent negative. The result calculated beta is very much accurate because the low standard error i.e. 0.495. The impact is not significant because the significant is more than 0.05 i.e.0.679>0.05.

The impact of the interest coverage ratio to the return on assets is positive and significant so the hypothesis is true. The beta result, here is the 0.06 which represent the 1 percent change in to long term debt to total assets ratio change in to the return on assets by 0.06 percent. The result calculated beta is very much accurate because the low standard error i.e. 0.017. The impact is significant because the significant is less than 0.05 i.e. 0.001<0.05.

The impact of the bank size to the return on assets is negative and not significant so the hypothesis is not true. The beta result, here is the negative 0.921 which represent the 1 percent change in to bank size change in to the return on equity by 0.921 percent negative. The result calculated beta is low much accurate because the high standard error i.e. 0.933. The impact is not significant because the significant is more than 0.05 i.e.0.334> 0.05.

Regression Analysis Based on ROE

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 16

Model Summary of Based ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.744[a]	.554	.438	7.59

a. Predictors: (Constant), bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets

Source: *Appendix-2*

Table 16 shows the model summary of the research. The model summary here is presented based on independent variables bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets. The dependent variable is return on equity. The total observation of the research are 30. The table shows the adjusted R square is 0.438 which represent the total cumulative impact of the independent variables to the dependent variable is 43.8%. The remaining 56.2% is impacted by the other variables which are not included in this research.

Table 17

ANOVA of Based on ROE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1651.098	6	275.183	4.766	.003[b]
	Residual	1328.038	23	57.741		
	Total	2979.136	29			

a. Dependent Variable: Return On equity

b. Predictors: (Constant), bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets

Source: *Appendix-2*

Table 17 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 bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity

ratio, long term debt to total assets, equity to total assets. The regression value of the research is significant because of the significant value is 0.003 which is less than 0.05.

Table 18

Coefficient of Based on ROE

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-71.982	225.361		-.319	.752
	DER	-.091	.056	-1.256	-1.621	.119
	LDTA	5.403	2.321	1.472	2.328	.029
	SDTA	-3.233	1.172	-.932	-2.759	.011
	ETA	-2.975	3.400	-.805	-.875	.391
	ICR	.413	.114	.674	3.635	.001
	BS	-8.157	6.414	-.226	-1.272	.216

a. Dependent Variable: Return On equity

Source: *Appendix-2*

Table 18 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 bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets.

The impact of the debt to equity ratio to the return on equity is negative and not significant so the hypothesis is not true. The beta result, here is the negative 0.091 which represent the 1 percent change in to debt to equity ratio change in to the return on equity by 0.091 percent negative. The result calculated beta is very much accurate because the low standard error i.e. 0.056. The impact is not significant because the significant is more than 0.05 i.e.0.119> 0.05.

The impact of the long term debt to total assets ratio to the return on equity is positive and significant so the hypothesis is true. The beta result, here is the 5.403 which represent the 1 percent change in to long term debt to total assets ratio change in to the return on equity by 5.403 percent. The result calculated beta is very much accurate because the low standard error i.e. .2.321. The impact is significant because the significant is less than 0.05 i.e.0.0.029<0.05.

The impact of the short term debt to total assets ratio to the return on equity is negative and significant so the hypothesis is true. The beta result, here is the negative 3.233 which represent the 1 percent change in to short term debt to total assets ratio change in to the return on equity by 3.233 percent negatively. The result calculated beta is very much

accurate because the low standard error i.e. 1.172. The impact is significant because the significant is less than 0.05 i.e. 0.011<0.05.

The impact of the equity to total assets is negative and not significant so the hypothesis is not true. The beta result, here is the negative 2.975 which represent the 1 percent change in to equity to total assets change in to the return on equity by 2.975 percent negative. The result calculated beta is very much accurate because the low standard error i.e. 3.4. The impact is not significant because the significant is more than 0.05 i.e.0.391>0.05.

The impact of the interest coverage ratio to the return on equity is positive and significant so the hypothesis is true. The beta result, here is the 0.413 which represent the 1 percent change in to long term debt to total assets ratio change in to the return on equity by 0.413 percent. The result calculated beta is very much accurate because the low standard error i.e. 0.017. The impact is significant because the significant is less than 0.05 i.e. 0.001<0.05.

The impact of the bank size to the return on equity is negative and not significant so the hypothesis is not true. The beta result, here is the negative 8.157 which represent the 1 percent change in to bank size change in to the return on equity by 8.157 percent negative. The result calculated beta is low much accurate because the high standard error i.e. 6.414. The impact is not significant because the significant is more than 0.05 i.e.0.216> 0.05.

4.2 Discussion

The first objectives of research is to assess the current status of the capital structure and profitability of finance companies. It is found on the basis of standard deviation and coefficient of variation the Pokhara finance is the more fluctuating return on assets, Pokhara finance and goodwill finance are more fluctuating return on equity, Pokhara finance are more fluctuating debt to equity ratio, Pokhara finance are more fluctuating long term debt to total assets, Pokhara finance are more fluctuating short term debt to total assets, Pokhara finance are more fluctuating equity to total assets, PFL and coefficient of variation the GWFL are more fluctuating interest coverage ratio and MFL and coefficient of variation the MFL are more fluctuating bank size (log of assets). The result is consistent with the result of Dodoo et al., (2023); Hafidh, (2022). 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 result is consistent with the result of Bhatta, (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 relationship between the debt to equity and return on assets is negative and significant. The result is consistent with the result of Singh & Singh, (2016). The relationship between the long term debt to total assets and return on assets is negative and significant. The result is consistent with the result of Revathy & Santhi, (2016). The relationship between the short term debt total assets and return on assets is negative and significant. The result is consistent with the result of Musah, (2018). The relationship between the equity to total assets and return on assets is positive and significant. The result is consistent with the result of Noreen, (2019). The relationship between the interest coverage ratio and return on assets is positive and significant. The result is consistent with the result of Singh & Bagga, (2019). The relationship between the bank size and return on assets is negative and significant. The result is consistent with the result of Hirdinis, (2019). The relationship between the debt to equity and return on equity is negative and not significant. The result is consistent with the result of Uremadu & Onyekachi, (2018). The relationship between the long term debt to total assets and return on equity is negative and not significant. The result is consistent with the result of Wardani & Subowo, (2020). The relationship between the short term debt total assets and return on equity is negative and not significant. The result is consistent with the result of Bhattarai, (2020). The relationship between the equity to total assets and return on equity is positive and not significant. The result is consistent with the result of Sariv & Sedana, (2020). The relationship between the interest coverage ratio and return on equity is positive and significant. The result is consistent with the result of Aishwarya, (2020). The relationship between the bank size and return on equity is negative and not significant. The result is consistent with the result of Bhatta, (2021).

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 debt to equity ratio to the return on assets is negative and not significant so the hypothesis is not true. The result is consistent with the result of Ngoc et al., (2021). The impact of the long term debt to total assets ratio to the return on assets is positive and significant so the hypothesis is true. The result is consistent with the result of Chalise & Adhikari, (2022). The impact

of the short term debt to total assets ratio to the return on assets is negative and significant so the hypothesis is true. The result is consistent with the result of Usoro, (2022). The impact of the equity to total assets is negative and not significant so the hypothesis is not true. The result is consistent with the result of Mawlood, (2022). The impact of the interest coverage ratio to the return on assets is positive and significant so the hypothesis is true. The result is consistent with the result of Rasheed et al., (2022). The impact of the bank size to the return on assets is negative and not significant so the hypothesis is not true. The result is consistent with the result of Bhatta, (2021). The impact of the debt to equity ratio to the return on equity is negative and not significant so the hypothesis is not true. The result is consistent with the result of Okore & Nwadiubu, (2022). The impact of the long term debt to total assets ratio to the return on equity is positive and significant so the hypothesis is true. The result is consistent with the result of Hafidh, (2022). The impact of the short term debt to total assets ratio to the return on equity is negative and significant so the hypothesis is true. The result is consistent with the result of Dodoo et al., (2023). The impact of the equity to total assets is negative and not significant so the hypothesis is not true. The result is consistent with the result of Tran et al., (2023). The impact of the interest coverage ratio to the return on equity is positive and significant so the hypothesis is true. The result is consistent with the result of Mawlood, (2022). The impact of the bank size to the return on equity is negative and not significant so the hypothesis is not true. The result is consistent with the result of Hafidh, (2022).

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 refers to the mix of funding sources that a company uses to support its operations and growth. These sources typically include equity, such as common and preferred stocks, and debt, such as loans and bonds. Establishing an optimal capital structure is crucial for firms because it directly impacts their cost of capital, risk profile, and ability to increase shareholder value. A well-balanced capital structure allows a company to leverage debt effectively to enhance returns while maintaining financial stability and flexibility. However, relying too heavily on debt can increase financial risk and lead to solvency issues, especially during economic downturns or periods of high interest rates. Conversely, a cautious capital structure with an abundance of equity may result in higher capital costs and lower returns on investment. Therefore, businesses must carefully evaluate their capital structure to achieve a balanced mix of debt and equity financing, taking into account industry dynamics, growth prospects, and current market conditions.

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 assess the current status of the capital structure and 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 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. The relationship of debt to equity ratio, long term debt to total assets, short term debt to total assets, equity to total assets, interest coverage ratio and bank size (log of assets) to the return on assets is significant. The relationship of interest coverage and return on equity is also significant. The relationship of debt to equity ratio, long term debt to total assets, short term debt to total assets, equity to total assets and bank size (log of assets) to the return on equity is not significant. The impact of long term debt to total assets, Short Term debt to total assets and interest coverage ratio to the return on assets is significant. The impact of Debt to equity ratio, equity to total assets and bank size (log of assets) is not significant to the return on assets. The impact of long term debt to total assets, Short Term debt to total assets and interest coverage ratio to the return on equity is significant. The impact of Debt to equity ratio, equity to total assets and bank size (log of assets) is not significant to the return on equity.

5.2 Conclusion

The first objectives of research is to assess the current status of the capital structure and 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 bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets, return on assets and return on equity 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 debt to equity ratio, long term debt to total assets, short term debt to total assets, equity to total assets, interest coverage ratio and bank size (log of assets) to the return on assets is significant. The relationship of interest coverage and return on equity is also significant. The relationship of debt to equity ratio, long term debt to total assets, short term debt to total assets, equity to total assets and bank size (log of assets) to the return on equity is

not significant. In conclusion the relationship of capital structure and profitability is significant.

The third objectives of research is to examine the impact of capital structure on the profitability of the financial companies. It is found that impact of long term debt to total assets, Short Term debt to total assets and interest coverage ratio to the return on assets is significant. The impact of Debt to equity ratio, equity to total assets and bank size (log of assets) is not significant to the return on assets. The impact of long term debt to total assets, Short Term debt to total assets and interest coverage ratio to the return on equity is significant. The impact of Debt to equity ratio, equity to total assets and bank size (log of assets) is not significant to the return on equity. In conclusion the impact of long term debt to total assets, Short Term debt to total assets and interest coverage ratio to the return on assets and return on equity is significant.

5.3 Implications

The researcher aimed to determine an optimal capital structure that could enhance profitability, shareholder returns, and other benefits for manufacturing entities through an analysis of its relationship with profitability. Key components of the capital structure—such as preferred stock, secured debt, and common stock equity—were treated as independent variables. Their manipulation was studied to assess their impact on dependent variables like market share, survival rates, liquidity, deposits, and working capital ratios. Using a quantitative approach and causal-comparative research design, the study conceptualized capital structure in terms of ratios of secured debt to common stock equity and preferred stock to common stock equity.

The study anticipated selecting financing strategies to promote dividend growth and potentially reduce the cost of capital, particularly under prudent management within the retail banking sector. Several implications arose from the research:

It is crucial for finance companies to adopt a comprehensive approach to understand how capital structure affects profitability.

Effective communication with management about capital structure intricacies and their impact on financial performance is essential for implementing profitable strategies.

The board of directors plays a pivotal role in capital decisions, shaping the company's financial direction.

Disseminating information across all levels of the organization ensures alignment and efficiency in profit-making strategies.

Collaboration with regulatory bodies is vital for compliance and effective governance.

Research findings should be shared with the academic community to advance knowledge in finance.

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APPENDIX

Appendix 1: Raw Data from Respective Finance

1) Manjushree Finance Limited

Date (MSF)	Net profit after tax	Total assets	Total equity	Total liabilities	Long term liabilities	Short term liabilities	Interest expenses	Net interest income
2023	246	16862	2063	14798	737	14061	1410	700
2022	119	15924	1815	14109	712	13397	1013	452
2021	497	13711	1756	11954	645	11309	668	281
2020	263	9251	1304	7946	89	7857	719	393
2019	73	9848	1026	8821	44	8777	672	358
2018	92	7117	976	6140	36	6104	542	207
2017	51	4735	850	3885	24	3861	286	155
2016	32	3015	313	2702	26	2676	155	108
2015	19	2480	282	2198	8	2190	139	60
2014	12	1623	247	1376	10	1366	90	56

ROA(MSF)	ROE	DER	LDTA	SDTA	ETA	ICR	BS
1.458902	11.92438	717.3049	87.75946	83.38868	12.23461	49.64539	4.226909
0.7473	6.556474	777.3554	88.60211	84.13087	11.39789	44.61994	4.202052
3.624827	28.30296	680.7517	87.18547	82.48122	12.80724	42.06587	4.137069
2.842936	20.16871	609.3558	85.89342	84.93136	14.09577	54.65925	3.966189
0.741267	7.11501	859.7466	89.57149	89.1247	10.41836	53.27381	3.993348
1.292679	9.42623	629.0984	86.27231	85.76647	13.71364	38.19188	3.852297
1.077086	6	457.0588	82.04857	81.54171	17.95143	54.1958	3.67532
1.06136	10.22364	863.2588	89.61857	88.75622	10.38143	69.67742	3.479287
0.766129	6.737589	779.4326	88.62903	88.30645	11.37097	43.16547	3.394452
0.739372	4.8583	557.085	84.78127	84.16513	15.21873	62.22222	3.210319

2) Pokhara Finance Limited

Date (PRF)	Net profit	Total assets	Total equity	Total liabilities	Long term	Short term	Interest expenses	Net interest

	after tax				liabilities	liabilities		income
2023	23	13887	1440	12446	281	12165	1232	480
2022	90	13409	1419	11989	263	11726	816	351
2021	117	10864	1355	9509	159	9350	606	323
2020	73	8949	1233	7715	127	7588	608	306
2019	102	7757	1217	6540	157	6383	480	275
2018	101	5748	1190	4557	152	4405	343	222
2017	139	4603	783	3791	117	3674	213	188
2016	138	3804	684	3120	70	3050	180	146
2015	247	3398	600	2798	73	2725	182	156
2014	96	2920	451	2469	126	2343	179	89

ROA (PRF)	ROE	DER	LDTA	SDTA	ETA	ICR	BS
0.165623	1.597222	864.3056	89.62339	87.59991	10.36941	38.96104	4.142608
0.671191	6.342495	844.8908	89.4101	87.44873	10.58244	43.01471	4.127396
1.076951	8.634686	701.7712	87.52761	86.06406	12.47239	53.30033	4.03599
0.815734	5.920519	625.7097	86.21075	84.7916	13.77808	50.32895	3.951775
1.314941	8.381265	537.387	84.31094	82.28697	15.68906	57.29167	3.889694
1.757133	8.487395	382.9412	79.27975	76.63535	20.70285	64.72303	3.759517
3.01977	17.75223	484.1635	82.35933	79.81751	17.01065	88.26291	3.663041
3.62776	20.17544	456.1404	82.01893	80.17876	17.98107	81.11111	3.580241
7.268982	41.16667	466.3333	82.34255	80.19423	17.65745	85.71429	3.531223
3.287671	21.28603	547.4501	84.55479	80.23973	15.44521	49.72067	3.465383

3) Good will Finance Limited

Date (GWF)	Net profit after tax	Total assets	Total equity	Total liabilities	Long term liabilities	Short term liabilities	Interest expenses	Net interest income
2023	-92	14798	1610	13187	445	12742	1361	288
2022	146	15154	1921	13232	577	12655	979	317
2021	193	13294	1772	11522	473	11049	753	304

2020	113	10853	1223	9630	466	9164	769	268
2019	147	8724	1197	7526	180	7346	636	279
2018	61	7055	1092	5963	184	5779	503	161
2017	152	5789	907	5098	181	4917	369	154
2016	213	4797	551	4246	154	4092	231	178
2015	66	3750	420	3330	117	3213	246	139
2014	85	3366	380	2986	85	2901	240	79

ROA(GWF)	ROE	DER	LDTA	SDTA	ETA	ICR	BS
-0.62171	-5.71429	819.0683	89.11339	86.10623	10.87985	21.16091	4.170203
0.963442	7.600208	688.8079	87.31688	83.5093	12.67652	32.37998	4.180527
1.451783	10.89165	650.2257	86.67068	83.11268	13.32932	40.37185	4.123656
1.041187	9.239575	787.408	88.73123	84.43748	11.26877	34.85046	4.03555
1.685007	12.2807	628.7385	86.26777	84.20449	13.72077	43.86792	3.940716
0.864635	5.586081	546.0623	84.52162	81.91354	15.47838	32.00795	3.848497
2.625669	16.75854	562.0728	88.06357	84.93695	15.66765	41.73442	3.762604
4.440275	38.65699	770.5989	88.51365	85.30331	11.48635	77.05628	3.68097
1.76	15.71429	792.8571	88.8	85.68	11.2	56.50407	3.574031
2.525253	22.36842	785.7895	88.71064	86.18538	11.28936	32.91667	3.527114

Appendix 2: Calculated result from SPSS

Correlations

		Return on Assets	Return On equity	Debt to equity ratio	long term debt to total assets	Short Term debt to total assets	equity to total assets	interest coverag e ratio	bank size (log of assets)
Return on Assets	Pearson Correlation	1	.957**	-.436*	-.402*	-.465**	.424*	.623**	-.364*
	Sig. (2-tailed)		.000	.016	.028	.010	.020	.000	.048
	N	30	30	30	30	30	30	30	30
Return On equity	Pearson Correlation	.957**	1	-.243	-.204	-.302	.220	.549**	-.328
	Sig. (2-tailed)	.000		.195	.280	.105	.243	.002	.076

	N	30	30	30	30	30	30	30	30
Debt to equity ratio	Pearson Correlation	-.436*	-.243	1	.953**	.869**	-.983**	-.438*	.336
	Sig. (2-tailed)	.016	.195		.000	.000	.000	.015	.070
	N	30	30	30	30	30	30	30	30
long term debt to total assets	Pearson Correlation	-.402*	-.204	.953**	1	.891**	-.968**	-.520**	.345
	Sig. (2-tailed)	.028	.280	.000		.000	.000	.003	.062
	N	30	30	30	30	30	30	30	30
Short Term debt to total assets	Pearson Correlation	-.465**	-.302	.869**	.891**	1	-.872**	-.385*	.139
	Sig. (2-tailed)	.010	.105	.000	.000		.000	.035	.463
	N	30	30	30	30	30	30	30	30
equity to total assets	Pearson Correlation	.424*	.220	-.983**	-.968**	-.872**	1	.479**	-.356
	Sig. (2-tailed)	.020	.243	.000	.000	.000		.007	.053
	N	30	30	30	30	30	30	30	30
interest coverage ratio	Pearson Correlation	.623**	.549**	-.438*	-.520**	-.385*	.479**	1	-.514**
	Sig. (2-tailed)	.000	.002	.015	.003	.035	.007		.004
	N	30	30	30	30	30	30	30	30
bank size (log of assets)	Pearson Correlation	-.364*	-.328	.336	.345	.139	-.356	-.514**	1
	Sig. (2-tailed)	.048	.076	.070	.062	.463	.053	.004	
	N	30	30	30	30	30	30	30	30

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

*. Correlation is significant at the 0.05 level (2-tailed).

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.771[a]	.594	.488	1.10540

a. Predictors: (Constant), bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.134	6	6.856	5.611	.001[b]
	Residual	28.104	23	1.222		
	Total	69.238	29			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-16.022	32.783		-.489	.630
	Debt to equity ratio	-.011	.008	-1.027	-1.390	.178
	long term debt to total assets	.747	.338	1.335	2.213	.037
	Short Term debt to total assets	-.428	.170	-.810	-2.513	.019
	equity to total assets	-.207	.495	-.368	-.419	.679
	interest coverage ratio	.060	.017	.644	3.638	.001
	bank size (log of assets)	-.921	.933	-.167	-.987	.334

a. Dependent Variable: Return on Assets

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.744[a]	.554	.438	7.59873

a. Predictors: (Constant), bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1651.098	6	275.183	4.766	.003[b]
	Residual	1328.038	23	57.741		
	Total	2979.136	29			

a. Dependent Variable: Return On equity

b. Predictors: (Constant), bank size (log of assets), Short Term debt to total assets, interest coverage ratio, Debt to equity ratio, long term debt to total assets, equity to total assets

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	-71.982	225.361		-.319	.752
	Debt to equity ratio	-.091	.056	-1.256	-1.621	.119
	long term debt to total assets	5.403	2.321	1.472	2.328	.029
	Short Term debt to total assets	-3.233	1.172	-.932	-2.759	.011
	equity to total assets	-2.975	3.400	-.805	-.875	.391
	interest coverage ratio	.413	.114	.674	3.635	.001
	bank size (log of assets)	-8.157	6.414	-.226	-1.272	.216

a. Dependent Variable: Return On equity

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
Debt to equity ratio	30	382.94	864.31	662.4390	140.57648
long term debt to total assets	30	79.28	89.62	86.4903	2.76108
Short Term debt to total assets	30	76.64	89.12	84.1080	2.92252
equity to total assets	30	10.37	20.70	13.6092	2.74241
interest coverage ratio	30	21.16	88.26	51.2332	16.54510
bank size (log of assets)	30	3.21	4.23	3.8376	.28058
Valid N (listwise)	30				

Descriptive Statistics[a]

	N	Mean	Std. Deviation
Return on Assets	10	1.4352	.99731
Return On equity	10	11.1313	7.47548
Debt to equity ratio	10	693.0448	132.22059
long term debt to total assets	10	87.0362	2.36835
Short Term debt to total assets	10	85.2593	2.67348
equity to total assets	10	12.9590	2.36873
interest coverage ratio	10	51.1717	9.72425
bank size (log of assets)	10	3.8137	.35808
Valid N (listwise)	10		

a. finance = Manjushree Finance Limited

Descriptive Statistics[a]

	N	Mean	Std. Deviation
Return on Assets	10	2.3006	2.11134
Return On equity	10	13.9744	11.60370
Debt to equity ratio	10	591.1093	165.27208
long term debt to total assets	10	84.7638	3.40649
Short Term debt to total assets	10	82.5257	3.74010
equity to total assets	10	15.1689	3.36222
interest coverage ratio	10	61.2429	17.93540
bank size (log of assets)	10	3.8147	.24991
Valid N (listwise)	10		

a. finance = Pokhara Finance Limited

Descriptive Statistics[a]

	N	Mean	Std. Deviation
Return on Assets	10	1.6736	1.34041
Return On equity	10	13.3382	11.64212
Debt to equity ratio	10	703.1629	101.69974
long term debt to total assets	10	87.6709	1.46962
Short Term debt to total assets	10	84.5389	1.38729
equity to total assets	10	12.6997	1.79627
interest coverage ratio	10	41.2851	15.63716
bank size (log of assets)	10	3.8844	.24361
Valid N (listwise)	10		

a. finance = Good will Finance Limited

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