CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The relative proportion of various sources of funds used in a business is termed as financial structure. Capital structure is a part of the financial structure and refers to the proportion of the various long-term sources of financing. It is concerned with making the array of the sources of the funds in a proper manner, which is in relative magnitude and proportion.The capital structure of a company is made up of debt and equity securities that comprise a firm's financing of its assets. It is the permanent financing of a firm represented by long-term debt, preferred stock and net worth. So it relates to the arrangement of capital and excludes short-term borrowings. It denotes some degree of permanency as it excludes short-term sources of financing.Again, each component of capital structure has a different cost to the firm. In case of companies, it is financed from various sources. In proprietary concerns, usually, the capital employed, is wholly contributed by its owners. In this context, capital refers to the total of funds supplied by both owners and long-term creditors. The question arises: What should be the appropriate proportion between owned and debt capital? It depends on the financial policy of individual firms. In one company debt capital may be nil while in another such capital may even be greater than the owned capital. The proportion between the two, usually expressed in terms of a ratio, denotes the capital structure of a company. Capital structure is the mix of the long-term sources of funds used by a firm. It is made up of debt and equity securities and refers to permanent financing of a firm. It is composed of long-term debt, preference share capital and shareholders' funds.Capital structure is essentially concerned with how the firm decides to divide its cash flows into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders.Various authors have defined capital structure in different ways.

Capital structure of a company refers to the composition or make up of its capitalization and it includes all long term capital resources viz., loans, reserves, shares and bonds'. Defined capital structure is as, 'balancing the array of funds sources in a proper manner, i.e. in relative magnitude or in proportions'.Capital

structure is essentially concerned with how the firm decides to divide its cash flows into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders'. Hence capital structure implies the composition of funds raised from various sources broadly classified as debt and equity. It may be defined as the proportion of debt and equity in the total capital that will remain invested in a business over a long period of time. Capital structure is concerned with the quantitative aspect. A decision about the proportion among these types of securities refers to the capital structure decision of an enterprise(Gerestenberg, 2019).

The relationship between capital structure and profitability is an important matter of discussion as regular improvement in profitability is important for growth and survival of firm. An attempt has been made in this paper to find out impact of capital structure on overall profitability of a firm. The Corporate financial performance, which is represented by dependent variables ROA (Return on Assets) and Net Profit Ratio, is taken into consideration and the effect of independent variables which are Sales of a firm, Total Assets of a firm, Debt Service Capacity, Dividend Pay-Outs, Degree of Financial Leverage, Degree of Operating Leverage of the firms belonging to the Oil and Natural Gas Industry of India were chosen for study. A sample of seven firms listed in NSE and BSE were selected and the financial data of these companies during the period 2005 and 2015 is used for this study. The Judgment Sampling which is non-random sampling technique is chosen for sample selection in this study. The correlations and regression analyses were used to estimate the functions relating to profitability measured by Return on Assets and Net Profit Ratio with measures of capital structure. The study witness that Log sales, degree of operating leverage and growth of asset are significant variables in determining the profitability when dependent variables are ROA and log assets, degree of financial leverage, Log sales, degree of operating leverage and growth of asset have significant relationship with net profit ratio of the select firms from Oil and Natural Gas Industry of India(Kalyani, 2017).

Capital structure has been extensively examined since the late 1990s, because leverage levels are important to the investment and growth of companies. A widely accepted explanation of firm capital structure is based on three key theories. First, the

pecking order model suggests that when firms require financing, their first preference is for internal funds, then debt, and finally equity. Second, the trade-off theory indicates that firms will find an optimal capital structure by balancing the cost benefits of additional debt. Third, agency theory observes that a firm's optimal capital structure is determined by the level of information asymmetry between managers and investors. Several empirical studies from the United States and other developed markets find firm capital structure is related to firm characteristics: namely,firm size, tangibility, profitability, tax shield, growth, and the firm's risk level.

In emerging markets where the number of firms is smaller than for more mature economies it is less likely that financial ratios and other descriptive variables will follow the normal distributions larger economies. Consequently, the conventional parametric approaches to analysis may prove inappropriate. The method proposed in this article is not found in prior studies in large developed markets as it is not necessary. The high level of heterogeneity of capital structure in emerging market firms indicate that not only will the capital structure and its determinants for firms in developing markets differ from those in developed markets the methods of analysis but will also need to vary. This study empirically explores the relationship between firm characteristics and capital structure in Sri Lankan–listed companies by applying conditional quintile regression. This method helps to identify how capital structure relationships differ across firms at different quintiles of the leverage distribution.

Further, this method provides a clear picture of the relative importance of capital structure determinants variables at different quintiles of the distribution of firms' leverage. Quintile regression sketches the entire distribution of leverage conditional on a set of explanatory variables. As this study sample contains a large number of outliers and the distribution of variables are not normal the quintile regression provides robust estimates. This study uses 6 years of data from Sri Lankan firms and finds that the determinants for firm capital structure vary across different quintiles of the firms' debt-to-assets distribution. Further, results indicate that there are significant differences for explanatory variables through the distribution of levels of leverage and the sign of explanatory variables also alter. As an example, firm profitability has a positive impact on lower to middle levels of the debt ratio but is not significant at higher levels of debt. In contrast, tax shield has a negative impact on middle values of

debt ratios and is not significant at either low and high levels of debt. This article makes a number of contributions to research and knowledge of companies' capital structure. First, it provides further evidence of the impact of firm characteristics on capital structure. Although, regression estimates find that standard asymmetric information costs variables explain debt-to-equity ratio in developed and especially Sri Lankan firms, conventional techniques using conditional means of the variables do not take full account of the heterogeneity of the sample of firms.

This study reports the results of estimating capital structure relationship with firm characteristics using leverage quintiles rather than the conditional mean. Due to the large variance for leverage distributions in Sri Lankan firms, which is the result of the metric not being a normal variety, a superior approach is to examine the relationship between quintiles of leverage distribution and capital structure determinants. Second, the econometric analysis is more robust than prior research. Quintile regression permits examination of the whole distribution of the capital structure of firms rather than single measures of the central tendency of the capital structure distribution. According to the findings, this study confirms nonlinearity in the determinants of capital structure in Sri Lanka. Such nonlinearity in firms' capital structure and their determinants raises concerns about the veracity of earlier research using ordinary least squares (OLS) estimates for Sri Lankan firms and in other emerging markets. This study provides new evidence for Sri Lankan and potentially other emerging market capital structure studies. Thirdly, this study is able to evaluate the relative importance of capital structure determinant variables at different points of distribution of a firm's leverage. These findings have commercial implications and could lead to a change in bank lending (borrowing) policies in Sri Lanka and other similar emerging markets(Wellalage, 2014).

1.1.1 Profile of Chaudhary Group

The catastrophic earthquake of 1934 crippled commerce and social infrastructure in Nepal. This acted as the catalyst, which augmented the need for rebuilding. Under the Rana Regime, the first row of shops along the popular Juddha Sadak (the present New Road) took shape. It was here that the founder Mr.Bhuramull Chaudhary was given a shop on a yearly rental fee of Rs. 200, which eventually increased to Rs 500. Mr. Bhuramull Chaudhary along with his son carried items from his shop to the palace with the help of several porters and arranged an open shop in the courtyard for

the Queen, courtiers and the King's people. This operation functioned under the informal name of Bhuramull Lunkaran Das (those were the days when no registration of private business firms was required). After the demise of the founder, Mr. Bhuramull Chaudhary, young Lunkaran Das Chaudhary took over the reins of the business at the age of 23 and took it to a whole new dimension. He embarked on a lucrative business of exporting jute from Biratnagar to USA & Europe. He imported fabrics from Japan & Korea under the name of Bhuramull Lunkaran and Arun Impex.

Modern Hosiery Industries Pvt.Ltd.-1965 is a modern hosiery industry producing high quality hosiery goods under the brand name of 'RHINO'. Although a pioneer in this field, the industry maintains its leadership by marketing its products competitively with imported substitute. Nepal Spinning, weaving & knitting Pvt. Ltd: 1965 A modern textile unit manufacturing synthetic fabrics from imported yarn. This industry has been licensed to manufacture 6.3 million meters, process/finish 8.0 million meters of fabric and produce 1,166 meters of partially oriented yarn Ratna Stainless Steel Pvt. Ltd. 1967. It was established in 1967 in Birgunj. It is a leading manufacturing unit of stainless steel utensils and tableware, which is also a semiautomatic plant. This was the first ever-furnishing outlet in Nepal under the banner of Flooring and Furnishing Center. In a short time the center had setup several major branches all over the country and had also established linkages with leading manufacturers of flooring and furnishing materials from India as well as abroad. By this time, Mr. Lunkaran Das Chaudhary had carved for himself a niche in the fabric trade and this encouraged him to start Arun Emporium in 1968.

This was the first and largest modern departmental arcade in Nepal with individual departments for ladies, gents, electronic and household goods. It was situated in Khichapokhari, the heart of the capital. The departmental arcade was marketing worldwide renowned products such as: Wain Shiel and Dormeuil Suiting's, Hilltop Blankets, Worldwide Electronic and Home appliances and also Christian Dior Cosmetics. Arun Impex: 1970 One of the most active import/export firms of the 1970s, its import lines include among others, textile, construction materials, hardware, food stuff and spices. The Sole distributorship of a number of worlds is known European manufacturers, include: Moulinex, S.A. France (manufactures of electrical household appliances); Max Factor, London (manufacturers of the world famous cosmetic products). Soon he diversified and established a construction

company under the name of United Builders. It was arguably the foremost construction company of Nepal at that time. Some of the prestigious projects undertaken were Jor Ganesh Press at Balaju, the first phase of the Soaltee Hotel, Janakpur Cigarette Factory and the road leading from Kathmandu to Trishuli.

He envisioned the spurt of the Industrial Revolution in a country that the west hadn't even reached and knew little of. However, he saw the nation empowered. Although Nepal was neither infra-structurally prepared nor geographically positioned to keep pace with the western world, he persevered. Today Chaudhary Group has over 100 Companies under its umbrella and an investment outlay of over $1Billion. Being the first Nepalese organization to have a distribution network spanning the subcontinent, it has made substantial presence in South Asia's fiercely competitive Food and Beverages market. Our Food & Beverages products have been a common household name in Nepal for decades. With ISO 9002 certification, providing the lead, our F&B products have crossed the borders to become a favorite in South Asian cities. The Group's progress over the last sixty-seven years has been a trial-blazer on the Nepalese horizon. In a land-locked, developing third world nation, this spells nothing short of very hard-earned success.

Apart from also being a responsible citizen, Chaudhary Group forms an intrinsic part of every realm of life from Biotech, Cement, Education, and Electronics & White goods, Energy and Infrastructure, Financial Services, FMCG, Hotels & Resorts, Realty to Retail. Since its inception, Chaudhary Group has contributed to the upliftment of the nation's economy, equalizing the infrastructure and entrepreneurial capability of Nepal with other developing nations. As Nepal's investment potential progressively draws the attention of leading multinationals, Chaudhary Group continues to lead, harnessing global partnerships in core sectors and offering cost-effective procurement affiliation to corporate worldwide. The company offers its products and services through dealers, distributors, retailers, and suppliers. Chaudhary Group is based in Kathmandu, Nepal (Chaudhary, 2019).

1.2 Statement of the Problem

Decisions relating to financing the assets of a firm are very crucial in every business and the finance manager is often caught in the dilemma of what the optimum proportion of debt and equity should be. As a general rule there should be a proper mix of debt and equity capital in financing the firm's assets. Capital structure is usually designed to serve the interest of the equity shareholders. Therefore instead of collecting the entire fund from shareholders a portion of long term fund may be raised as loan in the form of debenture or bond by paying a fixed annual charge. Though these payments are considered as expenses to an entity, such method of financing is adopted to serve the interest of the ordinary shareholders in a better way.Capital structure maximizes the market value of a firm, i.e. in a firm having a properly designed capital structure the aggregate value of the claims and ownership interests of the shareholders are maximized.

Capital structure minimizes the firm's cost of capital or cost of financing. By determining a proper mix of fund sources, a firm can keep the overall cost of capital to the lowest.

Capital structure maximizes the company's market price of share by increasing earnings per share of the ordinary shareholders. It also increases dividend receipt of the shareholders.Capital structure increases the ability of the company to find new wealth- creating investment opportunities. With proper capital gearing it also increases the confidence of suppliers of debt.Capital structure increases the country's rate of investment and growth by increasing the firm's opportunity to engage in future wealth-creating investments.There are usually two sources of funds used by a firm: Debt and equity. A new company cannot collect sufficient funds as per their requirements as it has yet to establish its creditworthiness in the market; consequently they have to depend only on equity shares, which is the simple type of capital structure. After establishing its creditworthiness in the market, its capital structure gradually becomes complex.Therefore this study was conducted to smack the gap. This study stated the following research questions.

- How debts effect on assets of Chaudhary Group?
- How equity influences in assets of Chaudhary Group?
- How asset dependent on debt and equity of and Chaudhary Group?

1.3 Objectives of the Study

The main objective of this study is to analyze the capital structure of Nepalese Manufacturing Companies. The specific objectives of this study are as follows:

- To examine the nature of relationship between capital structure and financial performance;
- To identify the impact of capital structure on financial performance;

1.4 Significance of the Study

The results from this project will allow a reappraisal on the base of capital structure analysis to find the inter-relationship between assets, debts, and equity of manufacturing companyChaudhary Group. This issue will help to Chaudhary Group to examine the contribution of assets, debts, and equity of manufacturing companies in return on assets (ROA) and return on shareholder's equity (ROE). This study will smackto assess the effect of debt on assets of Chaudhary Group, to examine the influence of equity in assets of Chaudhary Group and to ascertain the response how asset is dependent on debt and equity of Chaudhary Group.

1.5. Limitations of the Study

The limitation of the study is depicted as under.

- This study is based on case; findings may not be applicable for other organizations.
- Since the study is completely based on historical financial performance, accuracy of the findings largely based on the accuracy of the accounting records. The accuracy of the results is dependent also on the data provided in the audited annual report.
- The study has considered only quantitative factors in order to get the result of the study.
- This study is based by on past ten year's data ranging from fiscal year 20010 to 2019.
- OnlyChaudhary Group among various companies are taken for the study which does not give the overall picture of the company.

1.6 Organization of the Study

This study is organized into five chapters. The first chapter is the introduction. This chapter includes background of the study, profile of Chaudhary Group and, statement of the problem, objective of the study, significant of the study, limitation of the

studyand organization of the study. Similarly second chapter deals with introduction, literature survey, theoretical framework and concluding remarks. Third chapter depicts research methodology of the study. It includes the research design, nature and source of data, population and sample, definition of the variables, and methods of analysis. Fourth chapter consists with the presentation and analysis of data. It includes introduction and major findings of the study.Likewise, the last chapter isthe summary, conclusion and recommendations of the study. Finally, reference has been included at the end of the study.

CHAPTER-II

REVIEW OF THE LITERATURE

This chapter deals with review of literature of Capital Structure Analysis of Manufacturing Companies in Nepal a case study of Chaudhary Group. It helps to review of past studies and related literature concerned matters, which will advise to generate clear idea, opinion, and conceptual framework in research topic. It gives guidance to answer about what other has said, what other has done, and what other has written on Capital Structure Analysis of Manufacturing Companies. A literature review is secondary source of information and does not report new or original experiment work. Major sources of literature review are academic oriented literature, academic journals and articles and books. A basis for research is literature review. This chapter gives emphasis on conceptual framework, review of related empirical studies, and concluding remarks on research work.

2.1 Conceptual Framework

2.1.1 Concept of Capital Structure Analysis

If you are a stock investor who likes companies with good fundamentals, then a strong balance sheet is important to consider when seeking investment opportunities. By using three broad types of measurements working capital, asset performance, and capital structure you may evaluate the strength of a company's balance sheet, and thus its investment quality. In this article, we focus on analyzing the balance sheet based on a company's capital structure.

A firm's judicious use of debt and equity is a key indicator of a strong balance sheet. A healthy capital structure that reflects a low level of debt and a high amount of equity is a positive sign of investment quality.Capital structure describes the mix of a firm's long term capital which consists of a combination of debt and equity. Capital structure is a permanent type of funding that supports a company's growth and related assets. The equity portion of the debt-equity relationship is easiest to define. In a capital structure, equity consists of a company's common and preferred stock plus retained earnings. This is considered invested capital and it appears in the shareholders' equity section of the balance sheet. Invested capital plus debt comprises capital structure.

A discussion of debt is less straightforward. Investment literature often equates a company's debt with its liabilities. However, there is an important distinction between operational liabilities and debt liabilities, and it's the latter that forms the debt component of capital structure but that's not the end of the debt story.Investment research analysts do not agree about what constitutes a debt liability. Many analysts define the debt component of capital structure as a balance sheet's long term debt. However, this definition is too simplistic. Rather, the debt portion of a capital structure should consist of: short-term borrowings (notes payable); the current portion of long-term debt; long-term debt; and two-thirds (rule of thumb) of the principal amount of operating leases and redeemable preferred stock. When analyzing a company's balance sheet, seasoned investors would be wise to use this comprehensive total debt figure.

In general, analysts use three ratios to assess the strength of a company's capitalization structure. The first two are popular metrics: the debt ratio (total debt to total assets) and the debt-to-equity (D/E) ratio (total debt to total shareholders' equity). However, it is a third quota, the capitalization ratio-long-term debt divided by (long-term debt plus shareholders' equity)that delivers key insights into a company's capital position.With the debt ratio, more liabilities mean less equity and therefore indicate a more leveraged position. The problem with this measurement is that it is too broad in scope and gives equal weight to operational liabilities and debt liabilities. The same criticism applies to the debt-to-equity ratio. Current and non-current operational liabilities, especially the latter, represent obligations that will be with the company forever. Also, unlike debt, there are no fixed payments of principal or interest attached to operational liabilities.On the other hand, the capitalization ratio compares the debt component to the equity component of a company's capital structure; so, it presents a truer picture. Expressed as a percentage, a low number indicates a healthy equity cushion, which is always more desirable than a high percentage of debt.Unfortunately, there is no magic ratio of debt to equity to use as guidance. What defines a healthy blend of debt and equity varies according to the industries involved, line of business, and a firm's stage of development. However, because investors are better off putting their money into companies with strong balance sheets, it makes sense that the optimal balance generally should reflect lower levels of debt and higher levels of equity.

In finance, debt is a perfect example of the proverbial two-edged sword. Astute use of leverage (debt) is good. It increases the amount of financial resources available to a company for growth and expansion. With leverage, the assumption is that management can earn more on borrowed funds than what it would pay in interest expense and fees on these funds. However, to carry a large amount of debt successfully, a company must maintain a solid record of complying with its various borrowing commitments.A company that is too highly leveraged too much debt relative to equity might find that eventually its creditors restrict its freedom of action; or it could experience diminished profitability as a result of paying steep interest costs. In addition, a firm could have trouble meeting its operating and debt liabilities during periods of adverse economic conditions. Or, if the business sector is extremely competitive, then competing companies could (and do) take advantage of debt-laden firms by swooping in to grab more market share. Of course, a worst-case scenario might be if a firm needed to declare bankruptcy.

Fortunately, though, there are excellent resources that can help us determine if a company might be too highly leveraged the credit-rating agencies Moody's, Standard & Poor's (S&P), Duff & Phelps, and Fitch. These entities conduct formal risk evaluations of a company's ability to repay principal and interest on debt obligations, primarily on bonds and commercial paper. A company's credit ratings from these agencies should appear in the footnotes to its financial statements. So, as an investor, you should be happy to see high-quality rankings on the debt of companies that you're considering as investment opportunities likewise, you should be wary if you see poor ratings on companies that you are considering.Expressed as a formula, capital structure equals debt obligations plus total shareholders' equity:

Capital Structure=$DO+TSE$
Where:DO=debt obligationsTSE=total shareholders’ equity

The average firm in the market of United Kingdom has changed its leverage ratio dramatically in the last three decades, following some patterns which apparently cannot be explained by applying simplistic methods. In this paper the researcher tries to shed some light in the main stream of the Capital Structure Theories and its critical determinants that influence the evolution in the period of our study. Using the equity

decisions of an initial dataset of 3489 firms in UK, the researcher tries to reply in three main issues. First, using descriptive statistics, the researcher tries to consider how corporate capital structures have evolved during the last three decades in UK. Then, the researcher investigates if existing empirical models explain the changes in the issuing of debt and equity. And last, if these models cannot explain the changes, the researcher examines the nature of forces that are behind variation in financial policy. In our analysis, with a view to find the determinant forces behind, the researcher examines a wide set of linear regressions, concluding to a model comprising of the most prominent factors that affect capital structure changes. Our regression framework is an improvement that can implement the foundation for much future work(Seferiadis, 2012).

On a sample of 16.5 thousand Ukrainian firms we tested the relationship between capital structure and firm performance. We found that debt behavior of Ukrainian enterprises does not follow the free cash flow theory of capital structure. In particular, leverage is found to negatively affect firm performance, measured as the return on assets, operating profit margin, or total factor productivity. The purported relationship between leverage and firm performance remains stable with a different leverage measure, long-term interest bearing debt instead of total interest bearing debt. When the analysis was repeated for separate industry subsamples, it was revealed, though, that the only two industries in which the relationship holds are manufacturing and transport/energy. In order to handle a possible erogeneity problem, we applied instrumental variables technique. Average industry leverage and asset tangibility were found to be good instruments for leverage in ROA specification. We found the same U-shaped relationship between leverage and ROA. In the case of TFP and EBIT margin specifications the results are not so conclusive, as we apparently failed to found valid instruments(Iavorskyi, 2013).

Capital structure is an important factor in planning and realizing operations of a company. Operations and decisions of a company shape the capital structure. The aim of this paper is to investigate the firm-specific determinants of capital structure under changing economic conditions in Turkey. The paper applies panel data analysis for manufacturing firms listed on the Borsa Istanbul (BIST) over the period of 2003-2011. Results show that, established theories such as trade-off, pecking order, and

market timing fail to explain the observed leverages adequately, largely made up of short time debts. This outcome is not surprising as most of the assumptions of these theories are effective for the developed markets, which are not in force in the developing countries(Capital Structure in An Emerging Stock Market, 2015)

The financing decision is one of the most important imperative in corporate finance. Financial directors have to grapple with question what is the optimum level of debt versus equity to employ in order to fund the operations of a firm? The present article seeks to unravel the evolution of capital structure theory from both theoretical and empirical perspectives. The major contending theories of capital structure as well as their predictions are considered. It is demonstrated that there are reliably important firm level attributes that determine the capital structures of firms. The article also compares and contrasts the findings of empirical studies on capital structure that have been conducted in developing countries to those that have been conducted in the developed world. Arguably, developing countries' financial markets lack sophistication and this might curtail the companies from adjusting to their desired target debt ratios. In the final analysis it is demonstrated that the similarities in financing patterns between the developed countries and the emerging markets far outweigh the disparities(Sibindi, 2016).

2.1.2 Relationship between Asset, Debt Obligation and Total Shareholder's Equity

Capital structure choice is an important decision for a firm. It is important not only from a return maximization point of view, but also this decision has a great impact on a firm's ability to successfully operate in a competitive environment. The ability of companies to carry out their stakeholders' needs is tightly related to capital structure. Therefore, this derivation is an important fact that we cannot omit. Capital structure in financial term means the way a firm finances their assets through the combination of equity, debt, or hybrid securities. This study investigates the relationship of capital structure and financial performance of trading company which is listed in manufacturing company Chaudhary Group from 2010 to 2019. The results show that debt ratio is negatively correlated with all financial performance measures [Gross Profit (GP); Net Profit (NP); Return on Equity (ROE) and Earnings Per Share (EPS)] similarly debt-equity ratio (D/E) is negatively correlated with all financial

performance measures except GP and only (D/E) ratio shows significant relationship with NP.

2.1.3 Assumption of Capital Structure Analysis

Capital Structure analysis is based on several assumptions. These assumptions can be listed as follows.

(i) Two types of capital, viz., debt and equity, are employed;

(ii) Total assets of the firms must be presented;

(iii) Business risk should be constant;

(iv) Investors should bear the same subjective probability distribution relating to future operating income;

(v) The firm must enjoy a perpetual life.

2.1.4 Ratios and Its Classification

Financial ratios are relationships determined from a company's financial information and used for comparison purposes. Examples include such often referred to measures as return on investment (ROI), return on assets (ROA), and debt-to-equity, to name just three. These ratios are the result of dividing one account balance or financial measurement with another. Usually these measurements or account balances are found on one of the company's financial statements balance sheet, income statement, cashflow statement, and/or statement of changes in owner's equity. Financial ratios can provide small business owners and managers with a valuable tool with which to measure their progress against predetermined internal goals, a certain competitor, or the overall industry. In addition, tracking various ratios over time is a powerful means of identifying trends in their early stages. Ratios are also used by bankers, investors, and business analysts to assess a company's financial status.Ratios are calculated by dividing one number by another, total sales divided by number of employees, for example. Ratios enable business owners to examine the relationships between items and measure that relationship. They are simple to calculate, easy to use, and provide business owners with insight into what is happening within their business, insights that are not always apparent upon review of the financial statements alone. Ratios are aids to judgment and cannot take the place of experience. But experience with reading ratios and tracking them over time will make any manager a better manager. Ratios can help to pinpoint areas that need attention before the looming problem within the

area is easily visible.Virtually any financial statistics can be compared using a ratio. In reality, however, small business owners and managers only need to be concerned with a small set of ratios in order to identify where improvements are needed.It is important to keep in mind that financial ratios are time sensitive; they can only present a picture of the business at the time that the underlying figures were prepared. For example, a retailer calculating ratios before and after the Christmas season would get very different results. In addition, ratios can be misleading when taken singly, though they can be quite valuable when a small business tracks them over time or uses them as a basis for comparison against company goals or industry standards.

Perhaps the best way for small business owners to use financial ratios is to conduct a formal ratio analysis on a regular basis. The raw data used to compute the ratios should be recorded on a special form monthly. Then the relevant ratios should be computed, reviewed, and saved for future comparisons. Determining which ratios to compute depends on the type of business, the age of the business, the point in the business cycle, and any specific information sought. For example, if a small business depends on a large number of fixed assets, ratios that measure how efficiently these assets are being used may be the most significant. In general, financial ratios can be broken down into four main categories—1) profitability or return on investment; 2) liquidity; 3) leverage, and 4) operating or efficiency with several specific ratio calculations prescribed within each.

2.1.4.1 PROFITABILITY OR RETURN ON INVESTMENT RATIOS

Profitability ratios provide information about management's performance in using the resources of the small business. Many entrepreneurs decide to start their own businesses in order to earn a better return on their money than would be available through a bank or other low-risk investments. If profitability ratios demonstrate that this is not occurring particularly once a small business has moved beyond the start-up phase then entrepreneurs for whom a return on their money is the foremost concern may wish to sell the business and reinvest their money elsewhere. However, it is important to note that many factors can influence profitability ratios, including changes in price, volume, or expenses, as well as the purchase of assets or the borrowing of money. Some specific profitability ratios follow, along with the means of calculating them and their meaning to a small business owner or manager.

Gross profitability: Gross Profits/Net Sales measures the margin on sales the company is achieving. It can be an indication of manufacturing efficiency, or marketing effectiveness.

Net profitability: Net Income/Net Sales measures the overall profitability of the company, or how much is being brought to the bottom line. Strong gross profitability combined with weak net profitability may indicate a problem with indirect operating expenses or non-operating items, such as interest expense. In general terms, net profitability shows the effectiveness of management. Though the optimal level depends on the type of business, the ratios can be compared for firms in the same industry.

Return on assets: Net Income/Total Assets indicates how effectively the company is deploying its assets. A very low return on asset, or ROA, usually indicates inefficient management, whereas a high ROA means efficient management. However, this ratio can be distorted by depreciation or any unusual expenses.

Return on investment 1: Net Income/Owners' Equity indicates how well the company is utilizing its equity investment. Due to leverage, this measure will generally be higher than return on assets. ROI is considered to be one of the best indicators of profitability. It is also a good figure to compare against competitors or an industry average. Experts suggest that companies usually need at least 10-14 percent ROI in order to fund future growth. If this ratio is too low, it can indicate poor management performance or a highly conservative business approach. On the other hand, a high ROI can mean that management is doing a good job, or that the firm is undercapitalized.

Return on investment 2: Dividends +/- Stock Price Change/Stock Price Paid—from the investor's point of view, this calculation of ROI measures the gain (or loss) achieved by placing an investment over a period of time.

Earnings per share: Net Income/Number of Shares Outstanding—states a corporation's profits on a per-share basis. It can be helpful in further comparison to the market price of the stock.

Investment turnover: Net Sales/Total Assets—measures a company's ability to use assets to generate sales. Although the ideal level for this ratio varies greatly, a very low figure may mean that the company maintains too many assets or has not deployed its assets well, whereas a high figure means that the assets have been used to produce good sales numbers.

Sales per employee: Total Sales/Number of Employees—can provide a measure of productivity. This ratio will vary widely from one industry to another. A high figure relative to one's industry average can indicate either good personnel management or good equipment.

2.1.4.2 LIQUIDITY RATIOS

Liquidity ratios demonstrate a company's ability to pay its current obligations. In other words, they relate to the availability of cash and other assets to cover accounts payable, short-term debt, and other liabilities. All small businesses require a certain degree of liquidity in order to pay their bills on time, though start-up and very young companies are often not very liquid. In mature companies, low levels of liquidity can indicate poor management or a need for additional capital. Any company's liquidity may vary due to seasonality, the timing of sales, and the state of the economy. But liquidity ratios can provide small business owners with useful limits to help them regulate borrowing and spending. Some of the best-known measures of a company's liquidity include:

Current ratio: Current Assets/Current Liabilities—measures the ability of an entity to pay its near-term obligations. "Current" usually is defined as within one year. Though the ideal current ratio depends to some extent on the type of business, a general rule of thumb is that it should be at least 2:1. A lower current ratio means that the company may not be able to pay its bills on time, while a higher ratio means that the company has money in cash or safe investments that could be put to better use in the business.

Quick ratio (or "acid test"): Quick Assets (cash, marketable securities, and receivables)/Current Liabilities provide a stricter definition of the company's ability to

make payments on current obligations. Ideally, this ratio should be 1:1. If it is higher, the company may keep too much cash on hand or have a poor collection program for accounts receivable. If it is lower, it may indicate that the company relies too heavily on inventory to meet its obligations.

Cash to total assets: Cash/Total Assets—measures the portion of a company's assets held in cash or marketable securities. Although a high ratio may indicate some degree of safety from a creditor's viewpoint, excess amounts of cash may be viewed as inefficient.

Sales to receivables (or turnover ratio): Net Sales/Accounts Receivable—measures the annual turnover of accounts receivable. A high number reflects a short lapse of time between sales and the collection of cash, while a low number means collections take longer. Because of seasonal changes this ratio is likely to vary. As a result, an annual floating average sale to receivables ratio is most useful in identifying meaningful shifts and trends.

Days' receivables ratio: 365/Sales to receivables ratio—measures the average number of days that accounts receivable are outstanding. This number should be the same or lower than the company's expressed credit terms. Other ratios can also be converted to days, such as the cost of sales to payables ratio.

Cost of sales to payables: Cost of Sales/Trade Payables—measures the annual turnover of accounts payable. Lower numbers tend to indicate good performance, though the ratio should be close to the industry standard.

Cash turnover: Net Sales/Net Working Capital (current assets less current liabilities)—reflects the company's ability to finance current operations, the efficiency of its working capital employment, and the margin of protection for its creditors. A high cash turnover ratio may leave the company vulnerable to creditors, while a low ratio may indicate an inefficient use of working capital. In general, sales five to six times greater than working capital are needed to maintain a positive cash flow and finance sales.

2.1.4.3 LEVERAGE RATIOS

Leverage ratios look at the extent to which a company has depended upon borrowing to finances its operations. As a result, these ratios are reviewed closely by bankers and investors. Most leverage ratios compare assets or net worth with liabilities. A high leverage ratio may increase a company's exposure to risk and business downturns, but along with this higher risk also comes the potential for higher returns. Some of the major measurements of leverage include:

Debt to equity ratio: Debt/Owners' Equity—indicates the relative mix of the company's investor-supplied capital. A company is generally considered safer if it has a low debt to equity ratio—that is, a higher proportion of owner-supplied capital—though a very low ratio can indicate excessive caution. In general, debt should be between 50 and 80 percent of equity.

Debt ratio: Debt/Total Assets—measures the portion of a company's capital that is provided by borrowing. A debt ratio greater than 1.0 means the company has negative net worth, and is technically bankrupt. This ratio is similar, and can easily be converted to, the debt to equity ratio.

Fixed to worth ratio: Net Fixed Assets/Tangible Net Worth—indicates how much of the owner's equity has been invested in fixed assets, i.e., plant and equipment. It is important to note that only tangible assets (physical assets like cash, inventory, property, plant, and equipment) are included in the calculation, and that they are valued less depreciation. Creditors usually like to see this ratio very low, but the large-scale leasing of assets can artificially lower it.

Interest coverage: Earnings before Interest and Taxes/Interest Expense indicate how comfortably the company can handle its interest payments. In general, a higher interest coverage ratio means that the small business is able to take on additional debt. This ratio is closely examined by bankers and other creditors.

2.1.4.4 EFFICIENCY RATIOS

By assessing a company's use of credit, inventory, and assets, efficiency ratios can help small business owners and managers conduct business better. These ratios can show how quickly the company is collecting money for its credit sales or how many

times inventory turns over in a given time period. This information can help management decide whether the company's credit terms are appropriate and whether its purchasing efforts are handled in an efficient manner. The following are some of the main indicators of efficiency:

Annual inventory turnover: Cost of Goods Sold for the Year/Average Inventory shows how efficiently the company is managing its production, warehousing, and distribution of product, considering its volume of sales. Higher ratios over six or seven times per year—are generally thought to be better, although extremely high inventory turnover may indicate a narrow selection and possibly lost sales. A low inventory turnover rate, on the other hand, means that the company is paying to keep a large inventory, and may be overstocking or carrying obsolete items.

Inventory holding period: 365/Annual Inventory Turnover calculates the number of days, on average, that elapse between finished goods production and sale of product.

Inventory to assets ratio Inventory/Total Assets shows the portion of assets tied up in inventory. Generally, a lower ratio is considered better.*Accounts receivable turnover* Net (credit) Sales/Average Accounts Receivable gives a measure of how quickly credit sales are turned into cash. Alternatively, the reciprocal of this ratio indicates the portion of a year's credit sales that are outstanding at a particular point in time.*Collection period* 365/Accounts Receivable Turnover measures the average number of days the company's receivables are outstanding, between the date of credit sale and collection of cash (Clark, GilLafuente, HeyCunningham, Taulli, & Casteuble, 2005).

2.2. Review of Related Empirical Studies

2.2.1 Review of Research Articles

This study investigates the capital and ownership structure of firms receiving tender offers. Predictions of control-driven models developed by Harris and Raviv (1988) and Stulz (1988) and value-maximizing models developed by Israel (1991, 1992) are examined. The study reports results consistent with the predictions that: 1) target firms increase leverage during control contests, 2) leverage increases are higher when the tender offer is opposed, 3) leverage increases are higher when the tender offer is unsuccessful, and 4) ownership structure is important to explaining the success of tender offers. When tested jointly with other independent variables, only capital

structure change is statistically significant in explaining both management's opposition and the success of a tender offer(Ryan, 1995).

The investigation has been performed using panel data procedure for a sample of 129 Greek companies listed on the Athens Stock Exchange during 1997-2001. The number of the companies in the sample corresponds to the 63 per cent of the listed firms in 1996. The firm characteristics are analyzed as determinants of capital structure according to different explanatory theories. The hypothesis that is tested in this paper is that the debt ratio at time *t* depends on the size of the firm at time *t*, the growth of the firm at time *t*, its quick ratio at time *t* and its interest coverage ratio at time *t*. The firms that maintain a debt ratio above 50 per cent using a dummy variable are also distinguished. The findings of this study justify the hypothesis that there is a negative relation between the debt ratio of the firms and their growth, their quick ratio and their interest coverage ratio. Size appears to maintain a positive relation and according to the dummy variable there is a differentiation in the capital structure among the firms with a debt ratio greater than 50 per cent and those with a debt ratio lower than 50 per cent. These results are consistent with the theoretical background presented in the second section of the paper. This paper goes someway to proving that financial theory does provide some help in understanding how the chosen financing mix affects the firm's value (Eriotis, Vasiliou, & Ventoura, 2007).

Capital structure has been extensively examined since the late 1990s, because leverage levels are important to the investment and growth of companies. A widely accepted explanation of firm capital structure is based on three key theories. First, the pecking order model suggests that when firms require financing, their first preference is for internal funds, then debt, and finally equity. Second, the trade-off theory indicates that firms will find an optimal capital structure by balancing the cost benefits of additional debt. Third, agency theory observes that a firm’s optimal capital structure is determined by the level of information asymmetry between managers and investors. Several empirical studies from the United States and other developed markets find firm capital structure is related to firm characteristics: namely,firm size, tangibility, profitability, tax shield, growth, and the firm’s risk level. In emerging markets where the number of firms is smaller than for more mature economies it is less likely that financial ratios and other descriptive variables will follow the normal

distributions larger economies. Consequently, the conventional parametric approaches to analysis may prove inappropriate. The method proposed in this article is not found in prior studies in large developed markets as it is not necessary. The high level of heterogeneity of capital structure in emerging market firms indicate that not only will the capital structure and its determinants for firms in developing markets differ from those in developed markets the methods of analysis but will also need to vary. This study empirically explores the relationship between firm characteristics and capital structure in Sri Lankan–listed companies by applying conditional quintile regression. This method helps to identify how capital structure relationships differ across firms at different quintiles of the leverage distribution. Further, this method provides a clear picture of the relative importance of capital structure determinants variables at different quintiles of the distribution of firms' leverage. Quintile regression sketches the entire distribution of leverage conditional on a set of explanatory variables. As this study sample contains a large number of outliers and the distribution of variables are not normal the quintile regression provides robust estimates. This study uses 6 years of data from Sri Lankan firms and finds that the determinants for firm capital structure vary across different quintiles of the firms' debt-to-assets distribution. Further, results indicate that there are significant differences for explanatory variables through the distribution of levels of leverage and the sign of explanatory variables also alter. As an example, firm profitability has a positive impact on lower to middle levels of the debt ratio but is not significant at higher levels of debt. In contrast, tax shield has a negative impact on middle values of debt ratios and is not significant at either low and high levels of debt. This article makes a number of contributions to research and knowledge of companies' capital structure. First, it provides further evidence of the impact of firm characteristics on capital structure. Although, regression estimates find that standard asymmetric information costs variables explain debt-to-equity ratio in developed and especially Sri Lankan firms, conventional techniques using conditional means of the variables do not take full account of the heterogeneity of the sample of firms. This study reports the results of estimating capital structure relationship with firm characteristics using leverage quintiles rather than the conditional mean. Due to the large variance for leverage distributions in Sri Lankan firms, which is the result of the metric not being a normal variety, a superior approach is to examine the relationship between quintiles of leverage distribution and capital structure determinants. Second, the econometric analysis is more robust than prior research.

Quintile regression permits examination of the whole distribution of the capital structure of firms rather than single measures of the central tendency of the capital structure distribution. According to the findings, this study confirms nonlinearity in the determinants of capital structure in Sri Lanka. Such nonlinearity in firms' capital structure and their determinants raises concerns about the veracity of earlier research using ordinary least squares (OLS) estimates for Sri Lankan firms and in other emerging markets. This study provides new evidence for Sri Lankan and potentially other emerging market capital structure studies. Thirdly, this study is able to evaluate the relative importance of capital structure determinant variables at different points of distribution of a firm's leverage. These findings have commercial implications and could lead to a change in bank lending (borrowing) policies in Sri Lanka and other similar emerging markets(Locke & Wellalage, , 2014).

This study aims to explore the capital structure of listed Vietnamese companies in an updated context of financial development (the recent situation of domestic equity and debt capital market). By applying Random Effect model for panel data, we analyze 05 firm-specific and 01 country-specific determinants of capital structure based on the data set of 228 firms listed on Ho Chi Minh Stock Exchange during the period 2010 – 2014. The results indicated that The Pecking Order theory better explains the financing behaviors of Vietnamese listed firms. Accordingly, although in recent years, Vietnam's equity market and corporate debt capital market have evolved considerably, the capital structure of Vietnamese companies are still dominated by the use of short-term financing sources. High-growth firms or large-sized firms still rely heavily on external debt rather than equity issuance while State-owned enterprises (SOE) are reported to have positive association with the use of long-term financing sources. This study proposed some recommendations to the policymakers in two dimensions: improving the efficiency and role of capital markets to mitigate the reliance on short-term funds and ensuring that bank finance is allocated on a commercial basis(Huong, & Thanh, 2016).

The relationship between capital structure and profitability is an important matter of discussion as regular improvement in profitability is important for growth and survival of firm. An attempt has been made in this paper to find out impact of capital structure on overall profitability of a firm. The Corporate financial performance,

which is represented by dependent variables ROA (Return on Assets) and Net Profit Ratio, is taken into consideration and the effect of independent variables which are Sales of a firm, Total Assets of a firm, Debt Service Capacity, Dividend Pay-Outs, Degree of Financial Leverage, Degree of Operating Leverage of the firms belonging to the Oil and Natural Gas Industry of India were chosen for study. A sample of seven firms listed in NSE and BSE were selected and the financial data of these companies during the period 2005 and 2015 is used for this study. The Judgment Sampling which is non-random sampling technique is chosen for sample selection in this study. The correlations and regression analyses were used to estimate the functions relating to profitability measured by Return on Assets and Net Profit Ratio with measures of capital structure. The study witness that Log sales, degree of operating leverage and growth of asset are significant variables in determining the profitability when dependent variables are ROA and log assets, degree of financial leverage, Log sales, degree of operating leverage and growth of asset have significant relationship with net profit ratio of the select firms from Oil and Natural Gas Industry of India (Kalyani, 2017).

The relative proportion of various sources of funds used in a business is termed as financial structure. Capital structure is a part of the financial structure and refers to the proportion of the various long-term sources of financing. It is concerned with making the array of the sources of the funds in a proper manner, which is in relative magnitude and proportion.The capital structure of a company is made up of debt and equity securities that comprise a firm's financing of its assets. It is the permanent financing of a firm represented by long-term debt, preferred stock and net worth. So it relates to the arrangement of capital and excludes short-term borrowings. It denotes some degree of permanency as it excludes short-term sources of financing.Again, each component of capital structure has a different cost to the firm. In case of companies, it is financed from various sources. In proprietary concerns, usually, the capital employed, is wholly contributed by its owners. In this context, capital refers to the total of funds supplied by both owners and long-term creditors. The question arises: What should be the appropriate proportion between owned and debt capital? It depends on the financial policy of individual firms. In one company debt capital may be nil while in another such capital may even be greater than the owned capital. The proportion between the two, usually expressed in terms of a ratio, denotes the capital

structure of a company. Capital structure is the mix of the long-term sources of funds used by a firm. It is made up of debt and equity securities and refers to permanent financing of a firm. It is composed of long-term debt, preference share capital and shareholders' funds.Capital structure is essentially concerned with how the firm decides to divide its cash flows into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders.Various authors have defined capital structure in different ways.

Capital structure of a company refers to the composition or make up of its capitalization and it includes all long term capital resources viz., loans, reserves, shares and bonds'. Defined capital structure is as, 'balancing the array of funds sources in a proper manner, i.e. in relative magnitude or in proportions'.Capital structure is essentially concerned with how the firm decides to divide its cash flows into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders'. Hence capital structure implies the composition of funds raised from various sources broadly classified as debt and equity. It may be defined as the proportion of debt and equity in the total capital that will remain invested in a business over a long period of time. Capital structure is concerned with the quantitative aspect. A decision about the proportion among these types of securities refers to the capital structure decision of an enterprise(Gerestenberg, 2019).

Multinational Corporations (MNCs) are generally financed with a mixture of internal debt and equity from the parent corporation. Yet, financial theory has relatively little to say regarding the capital structure and its determinants in an international setting. This research empirically examines the major determinants of capital structure decisions of Multinational Corporations listed on the Karachi Stock Exchange for the period 2005. The data was studied using panel data regression analysis. Results suggest that apart from traditional determinants such as profitability, tangibility, size, Non Debt Tax Shield (NDTS) etc., specific international factors such as political risk, exchange rate risk, agency costs and bankruptcy costs are relevant to the multinational capital structure decision. The results are broadly consistent with theory. It is

therefore recommended that the management of listed MNCs in Pakistan should always consider their positions using these capital structure determinants as important inputs before embarking on debt financing decision. Multinational Corporations (MNCs) are generally financed with a mixture of internal debt and equity from the parent corporation. Yet, financial theory has relatively little to say regarding the capital structure and tonal setting. This research empirically examines the major determinants of capital structure decisions of Multinational Corporations listed on the Karachi Stock Exchange for the period 2005-2017. The data was studied using panel data regression Results suggest that apart from traditional determinants such as profitability, tangibility, size, Non Debt Tax Shield (NDTS) etc., specific international factors such as political risk, exchange rate risk, agency costs and the multinational capital structure decision. The results are broadly consistent with theory. It is therefore recommended that the management of listed MNCs in Pakistan should always consider their positions using these capital structure important inputs before embarking on(Ahmad & Ali, 2019)

Firms engage in factoring as an external financing option. Factoring is generally considered as a costly option. However, firms may prefer factoring financing when they reach a certain level of indebtedness that increasing it may negatively affect their firm value. Up to now, far too little attention paid on the role of factoring on the capital structure decisions. This paper is the first attempt to provide a theoretical framework and empirical evidence on the role of factoring as a determinant of capital structure. A Fractional Regression Model is estimated using a sample of 261 publicly listed firms in Turkey for the 2012–2017 periods. The empirical evidence presented in this paper implies that factoring does not effect on the initial decision of leveraging, whereas it is a determinant of capital structure for leveraged firms. Another significant finding is the existence of the relationship between increasing factoring and increased leverage(Dincb, Bilgina, & Yusuf, 2019).

2.2.2 Review of Thesis

The relationship between oil terms of trade growth volatility and economic growth in the GCC countries. Further it explores the possible effect of Islamic financial development on such relationship. By analyzing a sample of five GCC countries over the period of 1996-2016, we find empirical evidence of a significant positive

relationship between oil terms of trade growth volatility and economic growth. Our results also indicate that the effect of oil terms of trade growth volatility on growth is reinforced by the development of Islamic financial system(Gazdar, Hassan, & Safa, , 2018).

What kind of banks are less vulnerable to financial and economic sanctions? Answering this question can provide very important guidelines for many developing markets which are vulnerable to risk of sanction. This study investigates the effect of banks' characteristics as well as stateownership on the banks' vulnerability to financial sanctions. The paper provides results which indicate banks with higher capital and also higher state ownership tend to be more vulnerable to economic and financial sanctions. We also found that there is a negative relationship between banks' liquidity ratio and their vulnerability to financial sanctions(Meysam & Ali , 2019).

This research investigates the relationships among financial disclosure quality (FDQ), accounting-based risks (ABRs), stock, and bond market. Using three samples of different countries (Indonesia and Malaysia for stock ratings, and Australia for bond ratings) through pooled EGLS regression, the results suggest that FDQ related to reliability affects sock ratings, but not bond ratings. Leverage is found to be the most influential on stock and bond ratings. FDQ is, to some extent, found to affect the relationship between ABRs (i.e., operating income, leverage and ROI) and stock or bond ratings. Differentiating between stock and bond issuers is not empirically proven. Additionally, ancillary evidence that relevance is more pronounced than reliability; and bond ratings are more concerned with the variability of financial measures than stock, is left to further research for confirmation. This is ample evidence for the expanded value-relevance of financial disclosure in stock and bond market(Ibnu & Qizam, 2019).

In this current knowledge-based economy, firms' productivity and competitive advantage are no longer based on physical and financial assets but on intangible assets. This has compelled knowledge-intensive firms to look for a more reliable source for higher productivity and competitive advantage by focusing on their intellectual capital, which cannot be easily imitated. As banks are classified as knowledge intensive, this study examines investment in intellectual capital by banks

and examines how it has improved bank productivity measured in terms of asset turnover (ATO) and employee productivity (EP). Using a panel of 73 commercial banks in India for a 12-year period (2006-2017), the study found that some components of intellectual capital improve productivity, and others do not(Pattanayak & Godfred , 2019).

The objective of this paper is to investigate the notion of “doing well while doing good” through examining the performance of Islamic,sustainability, and Islamic sustainability equity indices and comparing against the global equity market benchmark. Specifically, we addressthree key issues that are of concern to most investors: (i) how different are the global portfolio's efficient frontiers that comprise the four types of equities?; (ii) what are the driving factors behind these index performance differences?; and (iii) do the performance and volatilities of these four indices vary across time-periods and regimes? Overall, our findings reveal that investors do not have to pay a price for investing in Islamic or sustainable equity indices. In fact, combining Islamic and sustainability investing strategies are more rewarding, particularly during the economic boom, bullish equity markets and subprime crisis periods. Policy implications are provided(Azmi, Ng, Dewandaru, & Ruslan , 2019).

The aim of this paper is to investigate the potential presence of explosive behavior in the real estate market of Turkey. The researcher applies the methodology developed by Chen et al. (2017) for co-moving systems with explosive processes on the monthly housing price indices and the housing unit prices over the period January 2010-December 2017. The empirical results indicate the existence of explosive behavior in the nationwide price index as well as the regional price indices. Upon analyzing the relationship between nationwide price index and regional price indices, some regions are found to have more aggressive real estate markets than the whole market(Cagll, 2019).

Firms engage in factoring as an external financing option. Factoring is generally considered as a costly option. However, firms may prefer factoring financing when they reach a certain level of indebtedness that increasing it may negatively affect their firm value. Up to now, far too little attention paid on the role of factoring on the

capital structure decisions. This paper is the first attempt to provide a theoretical framework and empirical evidence on the role of factoring as a determinant of capital structure. A Fractional Regression Model is estimated using a sample of 261 publicly listed firms in Turkey for the 2012-2017 periods. The empirical evidence presented in this paper implies that factoring does not effect on the initial decision of leveraging, whereas it is a determinant of capital structure for leveraged firms. Another significant finding is the existence of the relationship between increasing factoring and increased leverage(Bilgin & Dinc, 2019).

This paper reveals that foreign penetration in terms of assets and branches exhibits different impacts on credit risk in banking. In general, ahigher share of foreign banks' total assets exacerbates nonperforming loans, but the increased number of foreign banks diminishes credit risk. Moreover, the role of foreign banks in mitigating credit risk is conditional on the measure of bank competition and country income status. A higher share of foreign bank branches can diminish nonperforming loans after bank concentration, not bank market power, exceeds a certain level. These findings are more pronounced for emerging markets. In addition, higher bank credit risk due to foreign penetration and bank competition can partly be explained by the loss-leader hypothesis coming from higher bank noninterest income. Providing incentives for the banking industry to avoid cross-selling strategies in boosting noninterest income is necessary due to changes in foreign penetration and competition in banking(Muhammad , Wahyoe , & Wahdi , 2019).

2.3 Concluding Remarks (Research Gap)

There is a gap between this research and previous research. As reviewing the previous research, most of the enterprises were not operating effectively. Similarly, most of the researcher conducted a study on other enterprises. In this research, the effect of debt on assets, the influence of equity in assets and the response how assets is dependent on debt and equity, which are totally different from pervious study on capital structure analysis of manufacturing companies in Nepal. Most of previous studies are based on performance. However, this paper investigated the impact of capital structure on firm's financial performance, and has beentried to get the relationship between capital structure and performance of Manufacturing Companies in Nepal a case study of

Chaudhary Group perspective. In order to conduct the experiment Manufacturing Company's selected. In a nutshell, from the research it can say that capital structure has positively significant impact on return on asset (ROA). Moreover, debt and equity ratio uniformly impact on the ROA. So, this paper suggests maximizing shareholder wealth between equity and debt needs to make a perfect combination. On the contrary, other two dependent variable ROE and EPS as financial performance didn't have significant impact from capital structure. Contribution/Originality: This study is focused on the Manufacturing Companies in Nepal a case study of Chaudhary Group. Recently the Manufacturing industry is very flourishing in the market, but some manufacturing company went for bankruptcy after a few years of their starting. Therefore, this research is conducted to investigate how capital structure impact on Firm's financial performance, moreover, it will contribute to developing and emerging economies finance literature.The study also reveals that asset turnover is an important determinant of financial performance. With ROE as a measure of financial performance, size and age are also considered as major determinants of financial performance in model 1b. The study provides evidence of a negative and significant relationship between asset tangibility and ROA as a measure of performance in the model. The implication of this is that the sampled firms were not able to utilize the fixed asset composition of their total assets judiciously to impact positively on their firms' performance. Hence, this study recommends that asset tangibility should be a driven factor to capital structure because firms with more tangible assets are less likely to be financially constrained.

2.4 Theoretical Framework

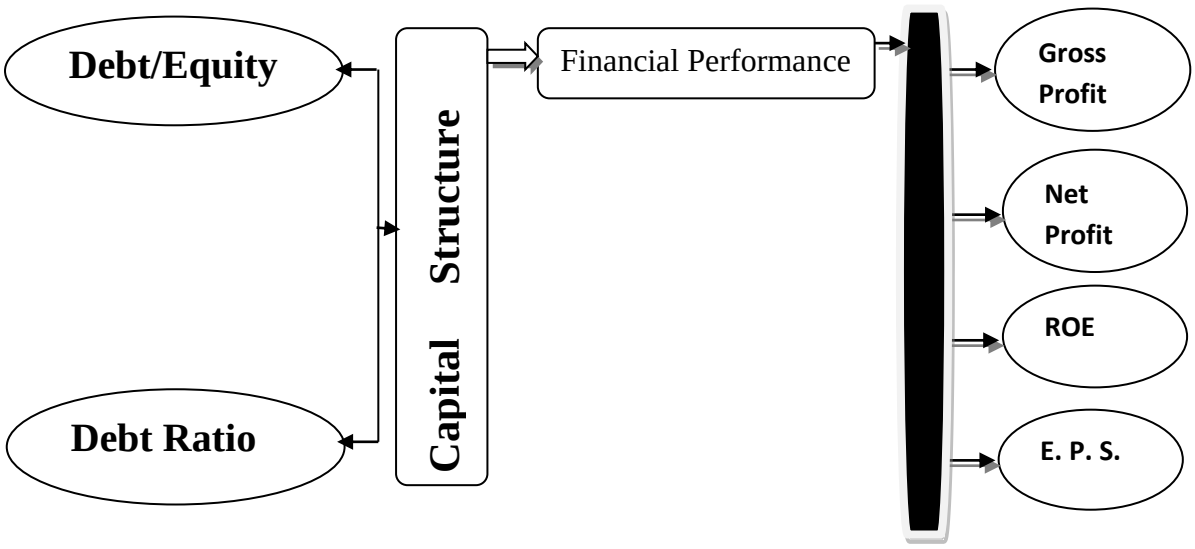

Figure 1 Research Framework

CHAPTER III
RESEARCH METHODOLOGY

Research is a logical and systematic search for new and useful information on a particular topic. It is an investigation of finding solutions to scientific and social problems through objective and systematic analysis. It is a search for knowledge, that is, a discovery of hidden truths. Here knowledge means information about matters. The information might be collected from different sources like experience, human beings, books, journals, nature, etc. A research can lead to new contributions to the existing knowledge. Only through research is it possible to make progress in a field. Research is indeed civilization and determines the economic, social and political development of a nation. The results of scientific research very often force a change in the philosophical view of problems which extend far beyond the restricted domain of science itself. Research is not confined to science and technology only.

There are vast areas of research in other disciplines such as languages, literature, history and sociology. Whatever might be the subject, research has to be an active, diligent and systematic process of inquiry in order to discover, interpret or revise facts, events, behaviors and theories. Applying the outcome of research for the refinement of knowledge in other subjects, or in enhancing the quality of human life also becomes a kind of research and development(Rajasekar, Philominathan, & Chinnathambi, 2013).This chapter concerns with research methodology adopted for study and includes the site selection, research design, population and sample, nature and sources of data such as primary data and secondary data, method of data collection, data analysis tools, analysis model, means of preparation and presentation of the data and tools of analysis and limitation of the methodology.

3.1. Research Design

Different textbooks place different meanings on research design. Some authors consider research design as the choice between qualitative and quantitative methods. Others argue that research design refers to the choice of specific methods of data collection and analysis. Important elements of research design include research strategies and methods related to data collection and analysis. Research design can be divided into two groups, exploratory and conclusive. Exploratory research, according

to its name merely aims to explore specific aspects of the research area. Exploratory research does not aim to provide final and conclusive answers to research questions. The researcher may even change the direction of the study to a certain extent, however not fundamentally, according to new evidences gained during the research process.Research design is the plan. Structure and strategy of investigation conceived to obtain answers to research questions and objective of this study. This study is conducted by the descriptive and analytical method of research design. The necessary job of this task is collecting important data and information from different reliable source. The data and information gathered were analyzed carefully and present them in systematic way(Dudovskiy, 2018).

3.2. Nature and Source of Data

There are mainly two source of data collection i.e. Primary and Secondary Source of Data. In this study, only Secondary data were collected. Secondary data is gathered from annual performance report, such as income statements, balance sheets, cash flow statements of Chaudhary Group. Official website is most reliable source of secondary data.Secondary data is research data that has previously been gathered and can be accessed by researchers. The term contrasts with primary data, which is data collected directly from its source. Secondary data is used to increase the sampling size of research studies and is also chosen for the efficiency and speed that comes with using an already existing resource. Secondary data facilitates large research projects, in which many research groups working in tandem collect secondary data. Common sources of existing secondary data include data collected by government public services departments, libraries, internet searches and censuses, such as the Nepal Census. Manufacturing Companies use market research to draw on existing information from social-media as a source of secondary data. Social media is becoming heavily favored in market research, as opinions are already available from millions of users on many topics and products. The benefit of using secondary data is that much of the preliminary work is done. The data may have already been sorted in an electronic format, published and reviewed with case studies already conducted. Secondary data can quickly become more or less public knowledge through use in the media. Due to its exposure and public examination, secondary data can carry more legitimacy than primary research data and is often used as verification of primary data. However, there are a number of potential problems in using secondary data. It

can be difficult to attain secondary data that the fits exact requirements of research studies. It can also be hard to verify the accuracy of secondary data, which can also become outdated over time(whatis.techtarget.com, 2018).

3.3. Population and Sampling Technique

Sampling techniques let us extend in this chapter what we have already presented in the beginning of descriptive statistics, including now the definition of some sampling techniques and concepts in order to be able to decide which is the appropriate sampling technique for each situation. There are many manufacturing companies operating their service in Nepal. Chaudhary Group is one of the largest manufacturing companies in Nepal serving more than 85 years as leading manufacturing company in Nepal. It is almost impossible to conduct the financial performance in this study. In this study, data has taken for last ten years from 2010 to 2019 financial data.

3.4. Defining the Variables

3.4.1 Debt to Equity (D/E)

The debt-to-equity (D/E) ratio is calculated by dividing a company's total liabilities by its shareholder equity. These numbers are available on the balance sheet of a company's financial statements. The ratio is used to evaluate a company's financial leverage. The D/E ratio is an important metric used in corporate finance. It is a measure of the degree to which a company is financing its operations through debt versus wholly-owned funds. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn. The debt-to-equity ratio is a particular type of gearing ratio. These balance sheet categories may contain individual accounts that would not normally be considered "debt" or "equity" in the traditional sense of a loan or the book value of an asset. Because the ratio can be distorted by retained earnings/losses, intangible assets, and pension plan adjustments, further research is usually needed to understand a company's true leverage. Because of the ambiguity of some of the accounts in the primary balance sheet categories, analysts and investors will often modify the D/E ratio to be more useful and easier to compare between different stocks. Analysis of the D/E ratio can also be improved by including short-term leverage ratios profit performance, and growth expectations. The debt-to-equity (D/E) ratio compares a company's total liabilities to its shareholder equity and can be used to evaluate how much leverage a

company is using. Higher leverage ratios tend to indicate a company or stock with higher risk to shareholders. It can be computed by using following formula.

$$\textbf{Debt to Equity } (\mathbf{D/E}) = \frac{\textbf{Total Debt}}{\textbf{Total Shareholder's Equity}}$$

3.4.2 Debt Ratio

The debt ratio is a financial ratio that measures the extent of a company's leverage. The debt ratio is defined as the ratio of total debt to total assets, expressed as a decimal or percentage. It can be interpreted as the proportion of a company's assets that are financed by debt. Some sources define the debt ratio as total liabilities divided by total assets. It can be calculated by using given formula.

$$\textbf{Debt Ratio } (\mathbf{DR}) = \frac{\textbf{Total Debt}}{\textbf{Total Assets}}$$

3.4.3 Gross Profit

Gross profit is the profit a company makes after deducting the costs associated with making and selling its products, or the costs associated with providing its services. Gross profit will appear on a company's income statement and can be calculated by subtracting the cost of goods sold (COGS) from revenue (sales). These figures can be found on a company's income statement.Gross profit assesses a company's efficiency at using its labor and supplies in producing goods or services. The metric only considers variable costs – that is, costs that fluctuate with the level of output, such as: materials, direct labor, assuming it is hourly or otherwise dependent on output levels, commissions for sales staff, credit card fees on customer purchases, equipment, perhaps including usage-based depreciation, utilities for the production site, and shippingAs generally defined, gross profit does not include fixed costs, or costs that must be paid regardless of the level of output. Fixed costs include rent, advertising, insurance, salaries for employees not directly involved in the production and office supplies. However, it should be noted that a portion of the fixed cost is assigned to each unit of production under absorption costing, which is required for external reporting under the generally accepted accounting principles (GAAP). Gross profit shouldn't be confused with operating profit, also known as earnings before interest and tax (EBIT), which is a company's profit before interest and taxes are factored in.

Operating profit is calculated by subtracting operating expenses from gross profit.Gross profit may also go by sales profit or gross income.The Formula for gross profit is mentioned below.

Gross Profit (GP) = Revenue - Cost of Goods Sold (COGS)

3.4.4 Net Profit

Net profit represents the number of sales dollars remaining after all operating expenses interest, taxes, and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue. Net profit is also referred to as the bottom line, net income, or net earnings. Net profit is one of the most closely followed numbers in finance, and it plays a large role in ratio analysis and financial statement analysis. Shareholders look at net profit closely because it is the source of compensation to shareholders of the company, and if a company cannot generate enough profit to compensate owners, the value of share will plummet. Conversely, if a company is healthy and growing, higher stock prices will reflect the increased availability of profits.One of the most important concepts to understand is that net profit is not a measure of how much cash a company earned during a given period. This is because the income statement includes a lot of non-cash expenses such as depreciation and amortization. To learn about how much cash a company generates, you need to examine the cash flow statement. Changes in net profit are endlessly scrutinized. In general, when a company's net profit is low or negative, a myriad of problems could be to blame, ranging from decreasing sales to poor customer experience to inadequate expense management. Net profit varies greatly from company to company and from industry to industry. Because net profit is measured in dollars and companies vary in size, it is often more appropriate to consider net profit as a percentage of sales, known as profit margin. Another common ratio is the price-to-earnings ratio, which tells investors how much they are paying (the stock's price) for each dollar of net profit the company is able to generate. Net Profit can be computed by using formula, which is given below.

Net Profit (NP) = Total Revenue – (All Operating Expenses + Interests + Taxes + Dividend of Preferred Stock)

3.4.5 Return on Equity

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE could be thought of as the return on net assets. ROE is considered a measure of how effectively management is using a company's assets to create profits. ROE is expressed as a percentage and can be calculated for any company if net income and equity are both positive numbers. Net income is calculated before dividends paid to common shareholders and after dividends to preferred shareholders and interest to lenders. Net Income is the amount of income, net of expense, and taxes that a company generates for a given period. Average Shareholders' Equity is calculated by adding equity at the beginning of the period. The beginning and end of the period should coincide with that which the net income is earned. Net income over the last full fiscal year, or trailing 12 months, is found on the income statement a sum of financial activity over that period. Shareholders' equity comes from the balance sheet a running balance of a company's entire history of changes in assets and liabilities. It is considered the best practice to calculate ROE based on average equity over the period because of this mismatch between the two financial statements. Learn more about how to calculate ROE.

Return on equity (ROE) deemed good or bad will depend on what's normal for a stock's peers. A good rule of thumb is to target an ROE that is equal to or just above the average for the peer group. ROE can be calculated from following formula.

$$\textbf{Return on Equity (DOE)} = \frac{\textbf{Net Income}}{\textbf{Total Shareholder's Equity}}$$

3.4.6 Earning Per Share

Earnings per share (EPS) are calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution. The higher a company's EPS, the more profitable it is considered. The earnings per share value are calculated as the net income (also known as profits or earnings) divided by the available shares. A more refined calculation adjusts the numerator and denominator for shares that could be created through options, convertible debt, or warrants. The numerator of the

equation is also more relevant if it is adjusted for continuing operations. To calculate a company's EPS, the balance sheet and income statement are used to find the period-end number of common shares, dividends paid on preferred stock (if any), and the net income or earnings. It is more accurate to use a weighted average number of common shares over the reporting term because the number of shares can change over time. Any stock dividends or splits that occur must be reflected in the calculation of the weighted average number of shares outstanding. Some data sources simplify the calculation by using the number of shares outstanding at the end of a period. The earnings per share metric are one of the most important variables in determining a share's price. It is also a major component used to calculate the price-to-earnings (P/E) valuation ratio, where the *E* in P/E refers to EPS. By dividing a company's share price by its earnings per share, an investor can see the value of a stock in terms of how much the market is willing to pay for each dollar of earnings. EPS is one of the many indicators you could use to pick stocks. If you have an interest in stock trading or investing, your next step is to choose a broker that works for your investment style. EPS can be computed by using following formula.

$$\textbf{Earning Per Share}(\textbf{EPS}) = \frac{\textbf{Net Income} - \textbf{Preferred Dividend}}{\textbf{Common Share Outstanding}}$$

3.5. Methods of Data Analysis

A method of Analysis helps to process raw data into the knowledge. Mainly, there are two methods of data analysis namely qualitative technique and quantitative technique. A qualitative method includes executive opinion, reference class forecasting, sales force polling, customer survey and scenario writing. In other hand quantitative technique represents Correlation Analysis. Capital Structure analysis is applied specially for business analysis and business planning. Business organization is run to earn profit providing the service to its customers. Profit is the fundamental part of the overall management function. Profit planning can be done only when the management has the information about the cost of the product. This study used different statistical tools that are mentioned below:

3.5.1 Correlation Analysis

*Correlation*is usually defined as a measure of the*linear*relationship between two quantitative variables (e.g., height and weight). Often a slightly looser definition is used, whereby correlation simply means that there is some type of relationship between two variables. This post will define positive and negative correlation, provide some examples of correlation, explain how to measure correlation and discuss some pitfalls regarding correlation. When the values of one variable are increase as the values of the other increase, this is known as *positive correlation.* When the values of one variable are decrease as the values of another increase to form an inverse relationship, this is known as *negative correlation.*

In the present study, we analyze our data by employing correlation and multiple regressions. For the study, entire analysis is done by personal computer. A well-known statistical package like excel2010 version was used in order to analyze the data. The following capital structure and financial performance ratios are taken into accounts which are given below.

Appendix-I

Table 3.1Calculation of capital structure and financial performance ratios:

Capital Structure Ratio	
Debt/ Equity Ratio	= Total debt (TD)/ Net worth(NW)
Debt Ratio	= Total debt (TD)/[Total debt (TD)+Net worth(NW)]

Noted from: Researcher Calculation

Appendix-II

Table 3.2The lists of manufacturing industries in Nepal are as follow:

S.N.	Name of Manufacturing Industries	Address
1	Chaudhary Group	Kathmandu, Nepal.
2	K.L. Dugar Group	Kathmandu, Nepal.
3	Hama Iron and Steel Industries Pvt. Ltd.	Kathmandu, Nepal.
4	Herbs Production & Processing Co. Ltd.	Kathmandu, Nepal.
5	Hulas Steel Industries Ltd.	Kathmandu, Nepal.
6	Nepal Bag Manufacturing Company	Kathmandu, Nepal.
7	Shiwakoti Bag Industry	Kathmandu, Nepal.
8	Brij Cement Industries Pvt. Ltd.	Lalitpur, Nepal.
9	Nepal Pharmaceutical Laboratory	Lalitpur, Nepal.
10	Hilltake Industries Pvt. Ltd.	Kathmandu, Nepal.
11	Asian Paints Nepal	Kathmandu, Nepal.
12	Quality Label Nepal Pvt. Ltd.	Kathmandu, Nepal.

Noted from: Researcher Calculation

In this study, there are many manufacturing industries in Nepal some of them are namelyChaudharyGroup,K.L. Dugar Group, Hama Iron and Steel Industries Pvt. Ltd., Herbs Production & Processing Co. Ltd., Hulas Steel Industries Ltd., Nepal Bag Manufacturing Company, Shiwakoti Bag Industry, Brij Cement Industries Pvt. Ltd., Nepal Pharmaceutical Laboratory, Hilltake Industries Pvt. Ltd., Asian Paints Nepal,

and Quality Label Nepal Pvt. Ltd. among above mentioned list ofmanufacturing; Chaudhary Group has been chosen for the study, which is more reliable for the study.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter stands for presenting and analysing data to achieve the formulated objectives. This is the main body of the chapter for the study. This chapter is subdividing in to different heading such as Debt to Equity (D/E), Debt Ratio, Capital Structure, Financial Performance, Gross Profit, Net Profit Return on Equity and Earning Per Share. It is depicted in the following way.

4.1.1 Capital Structure and Financial Performance

In the present study, the researcher analyzes our data by employing from annual report of Chaudhary Group. For the study, entire analysis is done by personal computer. A well-known statistical package like excel 2010 version was used in order to analyze the data. Data are arranged D/E, Debt to Assets as capital structure (independent variables) and GP, NP, ROE and EPS as financial performers (Dependent Variables). The following capital structure and financial performance ratios are taken into accounts, which are given below.

Table 4.1 Chaudhary Group's Capital Structure and Financial Performance

F/Y	Variables					
	D/E	Debt to Assets	GP	NP	ROE	EPS
2010	0.0624	0.0588	8702.60	5769.60	0.3270	32.7064
2011	0.0377	0.0363	9270.10	6943.30	0.3013	30.1351
2012	0.6922	0.4090	6767.00	5048.60	0.1869	18.6924
2013	0.7238	0.4199	5960.20	4458.40	0.1458	14.5849
2014	0.6645	0.3992	7124.60	5211.00	0.1552	15.5271
2015	0.6741	0.4026	6868.60	5185.10	0.1293	12.9316
2016	0.6003	0.3751	3021.30	2635.80	0.0638	6.3851
2017	0.9099	0.4764	2568.30	2575.30	0.0617	6.1772
2018	1.1140	0.5269	2272.20	1807.10	0.0435	4.3498
2019	1.8867	0.6535	1338.60	1228.20	0.0488	4.8870

Noted from: Financial Report of Chaudhary Group

The table 4.1 shows that financial year and variables. Data are based on fiscal years financial report of Chaudhary Group from 2010 to 2019. Data are arranged D/E, Debt

to Assets as capital structure (independent variables) and GP, NP, ROE and EPS as financial performer (Dependent Variables).

4.1.2 Correlation Matrix for Capital Structure and Financial Performance

Correlationis usually defined as a measure of the linearrelationship between two quantitative variables (e.g., height and weight). Often a slightly looser definition is used, whereby correlation simply means that there is some type of relationship between two variables. This post will define positive and negative correlation, provide some examples of correlation, explain how to measure correlation and discuss some pitfalls regarding correlation. When the values of one variable are increase as the values of the other increase, this is known as positive correlation. When the values of one variable are decrease as the values of another increase to form an inverse relationship, this is known as negative correlation. Correlation analysis is performed to find out the relationship between variables; D/E, Debt to Assets, GP, NP, ROE and EPS.

Table 4.2 Correlation Matrix for Capital Structure and Financial Performance

Variables	D/E	Debt to Assets	GP	NP	ROE	EPS
D/E	1.000					
Debt to Assets	0.929	1.000				
GP	-0.834*	-0.833	1.000			
NP	-0.843	-0.823	0.991**	1.000		
ROE	-0.789	-0.897	0.926	0.891	1.000	
EPS	-0.805	-0.913**	0.920	0.889	0.998	1.000

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

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

Note From: Researcher Calculation

The results show that debt to assets ratio is negatively correlated with all financial performance measures, Gross Profit (GP), Net Profit (NP), Return on Equity (ROE) and Earning Per Share (EPS). Similarly, Debt to Equity Ratio (D/E) is negatively

correlated with all financial performance measures, Gross Profit (GP), Net Profit (NP), Return on Equity (ROE) and Earning Per Share (EPS). Debt to Equity (D/E) and Debt to Assets ratios show significant relationship with all financial performance measures, Gross Profit (GP), Net Profit (NP), Return on Equity (ROE) and Earning Per Share (EPS), which are significance at one percentage level of significance. Each correlation of variables has been explained under following tables.

Table 4.3 Correlation of Debt to Equity with DA, GP, NP, ROE, and EPS

Variables	Debt to Equity
Debt to Equity	1.000
Debt to Assets	0.929
Gross Profit	-0.834
Net Profit	-0.843
Return on Equity	-0.789
EarningPerShare	-0.805

The table 4.3 shows, the relationship of Debt to Equity (DE) with Debt to Assets (DA), Gross Profit (GP), Net Profit (NP), Return on Equity (ROE) and Earning Per Share (EPS). Correlation of DE with DA is positive, which is 0.929. It is significant at one percentage level of significance. Debt to Equity (DE) has negative relationship with Gross Profit (GP), Net Profit (NP), Return on Equity (ROE) and Earning Per Share (EPS), which are -0.834, -0.843, -0.789 and -0.805 respectively.

Table 4.4 Correlation of Debt to Assets with GP, NP, ROE, and EPS

Variables	Debt to Assets
Debt to Equity	0.000
Debt to Assets	1.000
Gross Profit	-0.833
Net Profit	-0.823
Return on Equity	-0.897
Earning Per Share	-0.913

The table 4.4 shows, the relationship of Assets to Equity (DA) with Gross Profit (GP), Net Profit (NP), Return on Equity (ROE) and Earning Per Share (EPS). Debt to Assets (DA) has negative relationship with Gross Profit (GP), Net Profit (NP), Return on Equity (ROE) and Earning Per Share (EPS), which are -0.833, -0.823, -0.897 and -0.913 respectively. It is not significant at one percentage level of significance.

Table 4.5 Correlation of GP with NP, ROE, and EPS

Variables	Gross Profit
Debt to Equity	0.000
Debt to Assets	0.000
Gross Profit	1.000
Net Profit	0.991
Return on Equity	0.926
Earning Per Share	0.920

The table 4.5 shows, the relationship of Gross Profit (GP) with Net Profit (NP), Return on Equity (ROE) and Earning Per Share (EPS). Gross Profit (GP) has positive relationship with Net Profit (NP), Return on Equity (ROE) and Earning Per Share (EPS), which are 0.991, 0.926, and 0.920 respectively. It is significant at one percentage level of significance.

Table 4.6 Correlation of NP with ROE, and EPS

Variables	Net Profit
Debt to Equity	0.000
Debt to Assets	0.000
Gross Profit	0.000
Net Profit	1.000
Return on Equity	0.891
Earning Per Share	0.889

The table 4.6 shows, the relationship of Net Profit (NP) with Return on Equity (ROE) and Earning Per Share (EPS). Net Profit (NP) has positive relationship with Return on Equity (ROE) and Earning Per Share (EPS), which are 0.891, and 0.889 respectively. It is significant at one percentage level of significance.

Table 4.7 Correlation of ROE with EPS

Variables	Return on Equity
Debt to Equity	0.000
Debt to Assets	0.000
Gross Profit	0.000
Net Profit	0.000
Return on Equity	1.000
Earning Per Share	0.998

The table 4.7 shows, the relationship of Return on Equity (ROE) with Earning Per Share (EPS). Return on Equity (ROE) has positive relationship with Earning Per Share (EPS), which is 0.998. It is significant at one percentage level of significance.

4.2 Major Findings of the Study

The major findings of the study are presented in the following manner.

- The debt ratio is also referred to as the debt to assets ratio. The higher the debt ratio, the more leveraged a company is, implying greater financial risk. At the same time, leverage is an important tool that companies use to grow, and many businesses find sustainable uses for debt.
- The question arises: What should be the appropriate proportion between owned and debt capital? It depends on the financial policy of individual firms. In one company debt capital may be nil while in another such capital may even be greater than the owned capital. The proportion between the two, usually expressed in terms of a ratio, denotes the capital structure of a company. Capital structure is the mix of the long-term sources of funds used by a firm. It is made up of debt and equity securities and refers to permanent financing of a firm. It is composed of long-term debt, preference share capital and shareholders' funds. Capital structure is essentially concerned with how the firm decides to divide its cash flows into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders. Various authors have defined capital structure in different ways.
- Net Income is the amount of income, net of expense, and taxes that a company generates for a given period. Average Shareholders' Equity is calculated by

adding equity at the beginning of the period. The beginning and end of the period should coincide with that which the net income is earned. Net income over the last full fiscal year, or trailing 12 months, is found on the income statement a sum of financial activity over that period. Shareholders' equity comes from the balance sheet a running balance of a company's entire history of changes in assets and liabilities. It is considered the best practice to calculate ROE based on average equity over the period because of this mismatch between the two financial statements.

- It is more accurate to use a weighted average number of common shares over the reporting term because the number of shares can change over time. Any stock dividends or splits that occur must be reflected in the calculation of the weighted average number of shares outstanding. Some data sources simplify the calculation by using the number of shares outstanding at the end of a period. The earnings per share metric are one of the most important variables in determining a share's price. It is also a major component used to calculate the price-to-earnings (P/E) valuation ratio, where the *E* in P/E refers to EPS. By dividing a company's share price by its earnings per share, an investor can see the value of a stock in terms of how much the market is willing to pay for each dollar of earnings. EPS is one of the many indicators you could use to pick stocks. If you have an interest in stock trading or investing, your next step is to choose a broker that works for your investment style.

CHAPTER-V

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The analysis of capital structure of manufacturing company (Chaudhary Group) concluded as in designing the capital structure for Chaudhary Group, the first major policy decision facing the firm is that of determining the appropriate level of debt. For most of the Chaudhary Group, the decision involves a choice between the long-term debt and the equity. Chaudhary Group's debt capacity may be best defined not as the maximum amount which the lenders or debt investors are willing to lend to the firm, but as the amount of debt that the Chaudhary Group should use. The choice of an appropriate financing mix involves basically a trade-off between tax benefits and the costs of financial distress. The optimal debt level depends to an important extent on the operating risk of the Chaudhary Group. The greater the operating risk the less should be the degree of financial leverage. The firm along with several dimensions therefore, should analyze alternative financial plans. EBIT-EPS analysis is useful for evaluating the sensitivity of the EPS to a change in EBIT under alternative financing plans. Hence, no such standard form of capital structure can be prescribed, which takes care of all types of firms and situations. The financing mix for a particular Chaudhary Group must be tailored made to suit the requirements, situations and the position of the Chaudhary Group. The operating efficiency of the Chaudhary Group, the capital market conditions, the expectations of different types of investors, the liquidity position of the firm, and last but not the least, the legal and regulatory framework and the constraints etc. should all be factored in the evaluation of proposed capital structure.

5.2 Recommendations

The following recommendation has been forwarded on the basis of findings and conclusion.

- The company does not have any practice of budgeting. To improve the financial condition of Chaudhary Group, it should develop tactical (short) term and long-term profit planning.
- Chaudhary Group does not have separate costing department. Hence, the company should establish the separate costing department for the effective costing method.

- The traditional costing method is done by Chaudhary Group and the company has no precise distinction and made regarding the nature of cost as fixed and variable cost. Hence, Chaudhary Group should segregate the total cost into fixed and variable cost in a systematic and scientific manner.
- Chaudhary Group is bearing comparatively higher fixed cost basically administrative and operating expenses which is not good for the organization. Therefore, the company should initiate the cost control mechanism in order to reduce it.

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Appendix-I

Table 3.1Calculation of capital structure and financial performance ratios:

Capital Structure Ratio	
Debt/ Equity Ratio	= Total debt (TD)/ Net worth(NW)
Debt Ratio	= Total debt (TD)/[Total debt (TD)+Net worth(NW)]

Appendix-II

Table 3.2

The lists of manufacturing industries in Nepal are as follow:

S.N.	Name of Manufacturing Industries	Address
1	Chaudhary Group	Kathmandu, Nepal.
2	K.L. Dugar Group	Kathmandu, Nepal.
3	Hama Iron and Steel Industries Pvt. Ltd.	Kathmandu, Nepal.
4	Herbs Production & Processing Co. Ltd.	Kathmandu, Nepal.
5	Hulas Steel Industries Ltd.	Kathmandu, Nepal.
6	Nepal Bag Manufacturing Company	Kathmandu, Nepal.
7	Shiwakoti Bag Industry	Kathmandu, Nepal.
8	Brij Cement Industries Pvt. Ltd.	Lalitpur, Nepal.
9	Nepal Pharmaceutical Laboratory	Lalitpur, Nepal.
10	Hilltake Industries Pvt. Ltd.	Kathmandu, Nepal.
11	Asian Paints Nepal	Kathmandu, Nepal.
12	Quality Label Nepal Pvt. Ltd.	Kathmandu, Nepal.

Noted from: Google Search

Appendix-III

Table 4.1 Chaudhary Group's Capital Structure and Financial

F/Y	Variables					
	D/E	Debt to Assets	GP	NP	ROE	EPS
2010	0.0624	0.0588	8702.60	5769.60	0.3270	32.7064
2011	0.0377	0.0363	9270.10	6943.30	0.3013	30.1351
2012	0.6922	0.4090	6767.00	5048.60	0.1869	18.6924
2013	0.7238	0.4199	5960.20	4458.40	0.1458	14.5849
2014	0.6645	0.3992	7124.60	5211.00	0.1552	15.5271
2015	0.6741	0.4026	6868.60	5185.10	0.1293	12.9316
2016	0.6003	0.3751	3021.30	2635.80	0.0638	6.3851
2017	0.9099	0.4764	2568.30	2575.30	0.0617	6.1772
2018	1.1140	0.5269	2272.20	1807.10	0.0435	4.3498
2019	1.8867	0.6535	1338.60	1228.20	0.0488	4.8870

Noted from: Financial Report of Chaudhary Group

Table 4.2: Correlation Matrix for Capital Structure and Financial Performance

Variables	D/E	Debt to Assets	GP	NP	ROE	EPS
D/E	1.000					
Debt to Assets	0.929	1.000				
GP	-0.834*	-0.833	1.000			
NP	-0.843	-0.823	0.991**	1.000		
ROE	-0.789	-0.897	0.926	0.891	1.000	
EPS	-0.805	-0.913**	0.920	0.889	0.998	1.000

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

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

Table 4.3 Correlation of Debt to Equity with DA, GP, NP, ROE, and EPS

Variables	DE	DA	GP	NP	ROE	EPS
DE	1.000	0.929	-0.834	-0.843	-0.789	-0.805

Table 4.4 Correlation of Debt to Assets with GP, NP, ROE, and EPS

Variables	DE	DA	GP	NP	ROE	EPS
DA	0.000	1.000	-0.833	-0.823	-0.897	-0.913

Table 4.5 Correlation of GP with NP, ROE, and EPS

Variables	DE	DA	GP	NP	ROE	EPS
GP	0.000	0.000	1.000	0.991	0.926	0.920

Table 4.6 Correlation of NP with ROE, and EPS

Variables	DE	DA	GP	NP	ROE	EPS
NP	0.000	0.000	0.000	1.000	0.891	0.889

Table 4.7 Correlation of ROE with EPS

Variables	DE	DA	GP	NP	ROE	EPS
ROE	0.000	0.000	0.000	0.000	1.000	0.998