IMPACT OF CAPITAL STRUCTURE ON PROFITABILITY OF NEPALESE MANUFACTURING COMPANIES

A Dissertation Proposal submitted to the Office of the Dean, Faculty of Management in partial fulfillment of requirement for the Master's Degree

By

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May, 2024

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of the dissertation entitled "**Impact of Capital Structure on Profitability of Nepalese Manufacturing Companies**". The work of this dissertation has not been submitted previously for conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Mamta Lama

June 2024

REPORT OF RESEARCH COMMITTEE

Mrs. Mamta Lama has defended a research proposal entitled "**Impact of Capital Structure on Profitability of Nepalese Manufacturing Companies",** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Joginder Goet and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled "**Impact of Capital Structure on Profitability of Nepalese Manufacturing Companies**", presented by Mamta Lama candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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ACKNOWLEDGMENTS

This study entitled "**Impact of Capital Structure on Profitability of Nepalese Manufacturing Companies**" has been conducted to fulfill the partial requirement for the degree of Masters of Business Studies (MBS) of Tribhuvan University. This study is the outcome of support from lots of people. I am thankful to all the people who have direct and indirect support for my research work.

Firstly I would like to give sincere gratitude to my supervisor Mr. Jogender Goet sir who constantly guided me with my research work. I am forever grateful for the professional advice and constructive supervision he has provided regarding the study. Without his guidance, this study would not get its complete form. He always provided me the room for improvement and helped me to complete this study.

Similarly, I would like to appreciate all my family members and friends who took a sincere interest in my work and always motivated me toward my goal. I owe their support, love, and motivation to complete my work. I would like to extend gratitude to you all for whatever is provided to me and forever indebted to it.

Mamta Lama

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ABBREVIATIONS

BNB	:	Bottlers Nepal (balaju)
BNT	:	Bottlers Nepal (Terai)
DER	:	Debt to Equity Ratio
FY	:	Fiscal Year
HDL	:	Himalayan Distillery
ICR	:	Interest Coverage Ratio
LTDTA	:	Long Term Debt to Total Assets
ROA	:	Return on Assets
ROE	:	Return On equity
SD	:	Standard Deviation
Sig	:	Significant
SPSS	:	Statistical Package for Social Science
STDTA	:	Short Term Debt to Total Assets
TDTA	:	Total Debt to Total Assets
TU	:	Tribhuvan University
ULCL	:	Unilever Company

ABSTRACT

The objectives of the research are to examine the current status of the capital structure and profitability of a manufacturing companies in Nepal, to analyze the relationship of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the profitability and to examine the impact of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the profitability. The descriptive and casual comparative research design is used for the research. The secondary data are collected from the annual report of the respective selected sample manufacturing companies. The descriptive analysis, correlation analysis and regression analysis are used for the analysis of the data. The result shows the different between minimum and maximum is very high and different between mean and minimum, mean and maximum is also high. Also the standard deviation is high. The overall result shows the current situation of the selected manufacturing variables are fluctuating. The relationship of total debt to total assets and, debt equity ratio, short term debt to total assets to the return on assets is negative and significant. The interest coverage ratio to the return on assets is positive and significant relationship. The long term debt to total assets to the return on assets is negative and not significant relationship. The total debt to total asset to the return on equity is negative and not significant relationship. The interest coverage ratio to the return on equity is positive and not significant relationship. The debt equity ratio, short term debt to total assets and long term debt to total assets ratio have negative and not significant relationship. The impact of total debt to total assets, deb equity ratio and short term debt to total asset ratio to the return on assets is significant. The impact of long term debt to total assets and interest coverage ratio to the return on assets is not significant. The impact of total debt to total assets, deb equity ratio and short term debt to total asset ratio to the return on equity is significant. The impact of interest coverage ratio and long term debt to total assets ratio is not significant to the return on equity.

Keyword: total debt to total assets and, debt equity ratio, short term debt to total assets to the return on assets and interest coverage ratio

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Capital structure pertains to the combination of a company's long-term financing sources used to support its operations and growth, primarily involving debt and equity. This mix influences the firm's risk and return profile, impacting its overall financial health and strategic direction. An effective capital structure balances the cost of capital with the advantages of financial leverage, aiming to optimize the company's value while managing potential financial risks. Debt is often less expensive due to the tax deductibility of interest, which can enhance returns but also increases financial risk. Equity, although more costly and dilutive to ownership, offers greater financial stability and flexibility (Chalise & Adhikari, 2022). The ideal capital structure varies by industry, market conditions, and the specific goals and risk tolerance of the business, necessitating a tailored approach to financing decisions. Determining capital structure is crucial in capital investment decisions, significantly influencing a firm's performance. Hence, careful consideration is essential when deciding on the capital structure. It is a crucial element of the balance sheet and, more broadly, the financial structure of a company, encompassing a mix of long-term debt, equity, and preference shares (Nguyen & Nguyen, 2020).

The interest coverage ratio is a key financial metric that assesses a company's ability to meet its interest payment obligations on outstanding debt. It is calculated by dividing a company's earnings before interest and taxes (EBIT) by its interest expenses over a specific period. A higher interest coverage ratio indicates a robust ability to cover interest payments, suggesting financial health and stability. Conversely, a lower ratio may signal potential difficulties in meeting debt obligations, raising concerns among creditors and investors (Bhattarai, 2020). This ratio is crucial for evaluating the risk associated with a company's debt load, influencing lending decisions and investment attractiveness. It also indicates how well a company manages its debt in relation to its earnings, playing a significant role in strategic financial planning and analysis (Sikveland et al., 2022).

Long-term debt and short-term debt are fundamental components of a company's financial obligations. Long-term debt typically includes loans and financial obligations due more than

one year in the future, such as bonds, mortgages, and long-term loans. This type of debt is often used to finance significant investments like infrastructure, equipment, and expansion projects, providing a stable source of capital over an extended period. Long-term debt can carry lower interest rates and more manageable repayment schedules due to its longer repayment horizon, but it also increases the company's long-term financial commitments and interest expenses. In contrast, short-term debt encompasses financial obligations due within one year, such as short-term loans, credit lines, and accounts payable. Short-term debt is usually used to address immediate financing needs, like working capital requirements, inventory purchases, or other operational expenses. While short-term debt can be advantageous due to its quick availability and flexibility, it often comes with higher interest rates and the need for prompt repayment, which can strain a company's liquidity if not managed carefully (Pokharel, 2023).

Return on equity (ROE) measures profitability relative to shareholders' equity by dividing net income by the average shareholders' equity. It indicates how effectively a company uses the money invested by its shareholders to generate profits. A higher ROE signifies efficient use of equity capital and is often seen as a sign of strong management performance. Investors use ROE to compare the profitability of companies within the same industry, helping them make informed investment decisions (Pokharel, 2023). Return on assets (ROA), on the other hand, measures a company's ability to generate earnings from its total assets by dividing net income by the average total assets. This metric provides insight into how efficiently a company utilizes its assets to produce profits. A higher ROA indicates better asset utilization and operational efficiency. ROA is particularly useful for comparing companies with different levels of debt, as it excludes the impact of financial leverage and focuses solely on asset performance (Nguyen & Nguyen, 2020).

Hirtle and Stiroh (2007) contested Miller and Modigliani's theory, acknowledging its validity in specific theoretical contexts but noting its lack of empirical support. Other researchers have emphasized that the correlation between capital structures and the performance of retail manufacturing firms depends heavily on contextual factors such as industry, country, growth, and strategy (Carlson, 2018; Kothari, 2018; Onyia, 2016). Contrary to Miller and Modigliani's perspective, some argue that capital structure is an active and dynamic strategy employed by retail manufacturing firms, subject to change over time (Barstow, 2019; Deesomak & Thomas, 2007).

Various studies have explored the impact of capital structure on the financial performance of retail manufacturing firms, yielding conflicting findings (Johnson, 2019; Oguna, 2014). The mixed evidence and divergent assumptions have spurred researchers to delve deeper into understanding how capital structure decisions influence the financial performance of retail manufacturing firms. Fitzsimmons (2017) emphasized the significance of financing decisions, asserting that these decisions play a crucial role in mitigating risks associated with retail manufacturing and driving organizational objectives and growth. The relationship between capital structure ratios and profitability ratios is evident. Companies utilizing short-term debt tend to have higher shareholder and market value, while those relying on long-term debt may experience a decrease in profitability (Mesquita & Lara, 2008).

The capital structure significantly impacts the profitability of Nepalese manufacturing companies. A well-optimized capital mix of debt and equity can enhance financial performance by lowering the overall cost of capital. Debt, being relatively cheaper due to the tax deductibility of interest, can boost profitability through financial leverage. However, excessive reliance on debt increases financial risk and interest obligations, which can strain cash flow and reduce net income, especially during economic downturns. Conversely, equity financing, while more expensive and potentially dilutive, provides greater financial stability and flexibility, aiding in sustained growth and investment in innovation. For Nepalese manufacturing firms, finding the right balance is crucial. Companies with a prudent capital structure can leverage debt for expansion while maintaining sufficient equity to mitigate risks, leading to improved profitability. Therefore, strategic financial management that carefully considers the proportion of debt and equity is essential for enhancing the profitability and long-term success of manufacturing companies in Nepal.

1.2 Problem Statement

The influence of capital structure on the financial performance of retail manufacturing has been widely examined in the field of financial administration (Pinto et al., 2017). Despite equity owners having a relatively loose connection to dividends or shares, there is often a significant number of equity owners, with many holding a substantial portion of retail shares. This trend results in these shareholders having fewer incentives to closely monitor managers. Consequently, managers may pursue objectives that diverge from those of the equity owners.

Retail manufacturing in Nepal exhibits unique characteristics that make it an intriguing subject for study. One such characteristic is the high collateralization of their assets, which supports their operational activities (Hawaldar et al., 2016). Financing decisions and equity performance are closely tied to the underlying assets, which are valued at market value on the financial position statement (Amadeo, 2020). Additionally, the manufacturing sector in Nepal is perceived as a secure investment, enhancing the attractiveness of retail manufacturing for investors.

Capital is essential for companies, serving as a prerequisite for business operations. Manufacturing companies, focused on production, require land, labor, and capital. Capital, also known as investment, is the monetary amount contributed by company owners and can take the form of share capital, debt capital, and loan capital. There are two types of capital based on their nature over time: working capital for day-to-day operations and long-term capital for future endeavors.

Profitability is a critical aspect for every profit-making organization, and financing capital can significantly impact it. Research aims to understand the consequences of financing with equity, debt, or loans on profitability. Each form of capital incurs costs: equity requires dividend payments, long-term debt necessitates fixed-rate interest payments, and loans demand interest payments.

The research is about to solve the problem about the capital structure related. If capital is about equity, loan and debenture what will be the profit is the main problem of the research. Here some of the problem are maintain in the statement form and they are following.

- What is the current status of capital structure and profitability of manufacturing companies in Nepal?
- Whether there is any relationship of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the return on assets and return on equity of manufacturing companies in Nepal?
- What is the impact of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the return on assets and return on equity of manufacturing companies in Nepal?

1.3 Objective of the Study

The main objective of the research is to analysis the impact of the capital structure to the profitability of the Manufacturing Companies in Nepal. More objectives are mention below they are on the basis of problem question.

- To assess the current status of the capital structure and profitability of a manufacturing companies in Nepal.
- To analyze the relationship of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the return on assets and return on equity of manufacturing companies in Nepal.
- To examine the impact of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the return on assets and return on equity of manufacturing companies in Nepal.

1.4 Hypotheses

The hypothesis statement are the following.

Hypotheses 1

There is significant relationship of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the profitability.

Hypotheses 2

There is significant impact of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the profitability.

1.5 Rationale of the study

The researcher sought to establish a correlation between capital structure and profitability to identify the optimal capital mix that maximizes manufacturing performance in terms of profitability, shareholders' earnings, and other benefits. By manipulating independent variables such as preferred stock, secured debt, and common stock equity, the study examined their effects on dependent variables like market share, survival, liquidity, deposits, and working capital ratio. A quantitative method and causal comparative research design were employed,

considering capital structure as a form of finance determined by the ratio of secured debt to common stock equity compared to preferred stock to common stock equity.

Financing choices expected to result in higher dividend growth are likely to be implemented, particularly if administrators and shareholders in the retail manufacturing sectors are well-disciplined and informed, leading to reduced capital costs. A company is considered to have good corporate value if its debt is smaller than its equity. Increasing equity through signals or information to investors about the company's strong performance attracts investment, contributing to higher equity and, consequently, increased company value.

According to signaling theory, companies must provide complete, relevant, and accurate information about their capital structure, as investors rely on this information for investment decisions that impact company value and ultimately aim to maximize shareholder welfare.

This research focuses on the determinants of the capital structure of manufacturing companies in Nepal, particularly relevant due to recent losses in shareholders' equity returns and the face value of shares falling below the manufacturing companies' face value. The study is crucial for exploring the current reasons behind manufacturing capital relations.

The findings of this research are beneficial for company managers, board directors, and investors in manufacturing companies, guiding decision-making related to capital structure and share investments. Additionally, it provides valuable insights for all manufacturing-related decision-making processes and serves as a resource for future researchers exploring capital structure and previous viewpoints.

1.6 Limitations of the study

The research is following limitations;

- Only three manufacturing companies are the sample they are: Bottlers Nepal (balaju), Bottlers Nepal (Terai) and Himalayan Distillery and ten year data were used for the research and they are between 2013/2014-2022/2023.
- Data were taken from the website of the manufacturing companies; it means all data are secondary data for studies.
- Excel and SPSS 22 version is the tools for data presentation, different statistical calculation and analysis.

CHAPTER-II

LITERATURE REVIEW

A literature review is a comprehensive examination and condensation of prior research related to a specific subject or inquiry. It offers an insight into the present understanding within a particular domain, emphasizing essential discoveries, ongoing debates, and areas where the existing literature lacks coverage. The following is a broad outline for undertaking a literature review.

2.1 Theoretical Review

Theories of Capital Structure

Capital Structure Irrelevance Theory of Modigliani and Miller

The Modigliani and Miller (1958) Capital Structure Irrelevance Theory is considered the cornerstone of modern capital structure theory. Based on assumptions about investor behavior and capital market conditions, Modigliani and Miller propose that a firm's value remains unaffected by its capital structure. In an ideal scenario where securities are traded in a perfect capital market, all relevant information is equally accessible to both insiders and outsiders (no information asymmetry), and there are no transaction costs, bankruptcy costs, or taxes. Borrowing and lending occur at the same interest rates for both firms and individual investors, enabling homemade leverage. Additionally, firms within the same risk class with similar operating leverage do not gain tax savings from interest payable on debt, and companies maintain a 100% dividend payout ratio. Under these conditions, Modigliani and Miller's theory shows that there is no optimal debt-to-equity ratio, and capital structure is irrelevant to shareholders' wealth.

Trade off Theory

One fundamental theory prevailing in capital structure theory proposes that the ideal level of debt is reached when the additional advantage gained from debt financing equals its corresponding additional cost. Firms can attain an optimal capital structure by adjusting the levels of debt and equity, thereby striking a balance between the benefits of tax shields and the costs associated with financial distress. The consensus among researchers is lacking regarding the specific components constituting these benefits and costs. Departing from the constraints

of the capital structure irrelevance proposition by MM, Myers (1984) employs the trade-off theory as a theoretical foundation to address the "Capital Structure Puzzle." Myers (1977) contends that utilizing debt up to a certain threshold helps offset the costs related to financial distress and takes advantage of the interest tax shield.

Pecking Order Theory

In accordance with the discoveries of Donaldson (1961), Myers and Majluf (1984) introduce the pecking order theory, which posits that management generally favors internally generated funds over external sources. This theory suggests that firms prioritize internal financing over acquiring debt capital and outlines the preference sequence where companies use internal funds first, followed by issuing debt, and, as a last resort, resorting to equity capital issuance.

Market Timing Theory

The market timing theory of capital structure posits that companies choose to issue new equity when their stock prices are perceived as overvalued, and, conversely, they repurchase shares when stock prices are seen as undervalued (Baker & Wurgler, 2002). These fluctuations in stock prices play a crucial role in corporate financing decisions, ultimately affecting the firm's overall capital structure. Furthermore, Baker and Wurgler (2002) note that, consistent with the pecking order theory, the market timing theory does not aim for a specific target leverage since equity transactions are entirely based on current stock market conditions.

Credit Rating – Capital Structure (CR-CS) Hypothesis

Kisgen (2006) proposed the Credit Rating-Capital Structure (CR-CS) hypothesis as an extension of the traditional trade-off theory of capital structure. This hypothesis suggests that a firm's capital structure decisions are influenced by the costs and benefits associated with different credit rating levels. Kisgen (2006) also explains that changes in credit ratings directly affect a firm's capital structure choices. Firms near a potential credit rating change are likely to issue less debt compared to firms that are not close to such a rating change.

Profitability

The initiation of dividend payments is inherently linked to a company's profitability. Consequently, profitability is a key criterion, with the level of profit being a crucial factor influencing decisions regarding dividends and stock prices. According to this theory, dividends are generally distributed based on annual profits, reflecting the company's ability to pay dividends. Therefore, it is unlikely for financially distressed companies to engage in dividend payouts. The pecking order hypothesis suggests that companies prioritize funding their investments with internal resources, and if external financing is needed, they prefer debt over equity. This preference aims to minimize costs associated with asymmetric information and other transaction-related expenses (Myers, 1984).

Common Stock or Equity

Common stock is a financial instrument representing ownership in a corporation. Holders of common stock have the right to elect the board of directors and vote on corporate policies. Typically, this form of equity ownership offers higher long-term returns. However, in the event of liquidation, common shareholders receive the company's assets only after bondholders, preferred shareholders, and other debt holders have been paid in full.

Short Term Debt

Companies typically accumulate two main types of debt: financing and operating liabilities. Financing debt results from activities undertaken to secure funds for business expansion, whereas operating debt arises from obligations related to routine business operations. Financing debt is usually considered long-term debt, with a maturity date extending beyond 12 months, and it is generally listed in the total liabilities section of the balance sheet after current liabilities. In contrast, operating debt, such as accounts payable, arises from essential business activities and is expected to be settled within 12 months or the current operating cycle. This type of debt, known as short-term debt, often includes short-term manufacturing loans or commercial paper issued by the company.

Long Term Debt

Long-term liabilities, also referred to as long-term debts, are financial obligations that a company owes to external creditors, with payment due beyond a 12-month period. This

differentiates them from current liabilities, which must be settled within the next 12 months. On the balance sheet, long-term liabilities are usually presented alongside current liabilities.

Leverage

The level of leverage significantly influences a firm's performance, as noted by Mehari and Aemiro (2013). Leverage indicates the extent to which a company uses borrowed funds. A highly leveraged company risks bankruptcy if it struggles to meet debt obligations, and it may face difficulties in attracting new lenders. However, financial leverage can positively impact a firm's performance by serving as a mechanism to discipline management. This disciplinary function helps prevent the misallocation of company resources by guiding and controlling management, as suggested by Grossman and Hart (1982).

Growth

The expansion of an organism or a particular part of it, usually due to an increase in the number of cells, is known as growth. In humans and other mammals, growth may stop once maturity is reached, whereas in many plants, growth continues throughout their lifespan. Some body parts, like hair and nails, continue to grow throughout a human's life.

Interest Coverage Ratio

The interest coverage ratio is a financial metric that evaluates a company's ability to meet its interest obligations on existing debt while also measuring its profitability. This ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) by its interest expense over a given period. Also known as the times interest earned (TIE) ratio, it is commonly used by lenders, investors, and creditors to assess a company's risk level regarding its current debt and its capacity for future borrowings.

2.3 Empirical Review

Adhikari and Ghosh (2024) examined the relationship between firm-specific variables and the performance of life insurance companies in India. They analyzed the impact of underwriting risk, company size, liquidity, volume of equity capital, and tangibility on the performance of six life insurers over ten financial years. Using descriptive statistics, correlation, and multiple regression analysis, the study found that underwriting risk, liquidity, and company size positively correlate with profitability, while tangibility and equity capital have a negative

relationship with profitability. All firm-specific factors, except tangibility, significantly influenced insurers' profitability.

Ombuh et al. (2024) studied the impact of capital structure on the financial performance of non-bank financial institutions listed on the Indonesia Stock Exchange in 2022. The study focused on the return on assets (ROA) and return on equity (ROE) ratios as dependent variables, with the debt-to-assets and debt-to-equity ratios as independent variables. Regression analysis revealed a significant negative impact of capital structure on financial performance, particularly affecting ROE. The findings highlight the need for non-bank financial institutions to manage debt financing carefully to avoid excessive financial burdens that could reduce profitability. Prudent capital management practices are recommended to ensure financial stability and long-term success.

Nuraeni (2024) investigated the interaction between capital structure, net profit margin, and company value in the manufacturing sector in Indonesia. The study aimed to understand how these factors influence the overall value of manufacturing companies in the region. Using quantitative methods and statistical analysis with SPSS version 26, the study analyzed financial data from 30 manufacturing companies. The results indicated that both capital structure and net profit margin significantly affect company value, with the capital structure reinforcing the impact of the net profit margin on company value.

Handini (2024) examined the effects of financial ratios, capital structure, and Economic Value Added (EVA) on the financial performance of food and beverage manufacturing companies listed on the Indonesia Stock Exchange. The study analyzed 14 companies using financial statements obtained from the Indonesia Stock Exchange website as secondary data. Statistical methods such as descriptive analysis, classical assumption tests, multiple linear regression, and hypothesis testing using t-tests, F-tests, and determination coefficients were employed. The findings indicated that financial ratios negatively affect the financial performance of listed food and beverage companies. Capital structure variables did not show significant effects on financial performance, and Economic Value Added (EVA) also did not significantly influence these companies' financial outcomes.

Mardani and Indrawati (2023) conducted an analysis on the determinants of capital structure in the Indonesian manufacturing sector, examining 103 companies across 618 observations

from 2011 to 2017. The study identified five significant factors—business size, profitability, debt tax shield, growth, and liquidity—that influenced capital structure. Profitability and liquidity were found to have negative correlations with capital structure, while firm size, debt tax shield, and growth showed positive correlations.

Damayanti and Jayanti (2023) explored the factors affecting the capital structure of mining companies listed on the Indonesia Stock Exchange, selecting 15 mining firms from 2017 to 2021 through purposive sampling. Using multiple linear regression analysis, the study found that liquidity had a notable negative impact on the capital structure of these mining companies, while profitability did not exhibit a significant negative effect. Asset structure and sales growth did not show considerable positive effects on capital structure.

Ghani et al. (2023) investigated the determinants of capital structure in the energy sector firms across Pakistan, India, Bangladesh, and Sri Lanka, utilizing panel data of 34 companies from 2007 to 2020. They identified asset tangibility and current ratio as critical determinants, emphasizing the Dynamic Trade-Off theory's applicability. The findings aimed to provide insights for policymakers addressing energy scarcity and enhancing regional integration.

Benyamin and Soekarno (2023) analyzed the determinants of capital structure in infrastructure companies listed on the Indonesia Stock Exchange. Using imbalanced panel data regression with GLS estimators, the study applied the trade-off hypothesis and identified profitability, tangibility, growth, and liquidity as significant factors influencing capital structure. Growth negatively impacted the leverage ratio, while profitability, tangibility, and liquidity exerted positive effects, with profitability demonstrating the most substantial influence.

Panda et al. (2023) investigated the dynamic responses of capital structure decisions to shocks and their sensitivity concerning financial flexibility. Their study, on 2,094 listed Indian manufacturing firms from 2009 to 2019, employed Panel Corrected Standard Error models and Panel Vector Autoregression models. The findings highlighted substantial variations in the dynamic responses of capital structure under different conditions of financial flexibility, guiding firm managers and policymakers in understanding the implications of leveraging debt structures.

Ngo and Nguyen (2023) explored the impact of capital structure on the profitability of 34 listed real estate firms in the Hanoi Stock Exchange during the period 2018-2021, including the

Covid-19 pandemic. Using fixed effect and random effect models, along with Mann & Whitney U tests, their study revealed a negative relationship between the debt-to-total assets variable and the profit efficiency of the real estate firms. This indicated that Vietnamese real estate firms balanced their capital sources, leaning towards equity to mitigate borrowing costs amid expected rising interest rates and constrained lending in the manufacturing sector.

Bashyal and Bhandari (2023) investigated the influence of capital structure on the financial performance of insurance companies in Nepal. Their study utilized panel least squares regression on data from 14 insurance companies spanning 2013-2020 and employed fixed effect, random effect, and pooled OLS models. They identified Effective Tax Rate Adjusted (ETTA) with a positive and statistically significant impact on Return on Assets (ROA), while Total Debt Ratio (TDR) had a negative and statistically significant impact on ROA.

Pokharel (2023) explored the primary factors influencing capital structure and their effects on company performance, specifically focusing on Nepalese pharmaceutical manufacturing firms. The study highlighted that pharmaceutical companies in Nepal tend to have highly leveraged financing structures, with a total debt-to-income ratio around 65% and a significant reliance on long-term debt.

Chalise and Adhikari (2022) investigated the impact of capital structure and firm size on the financial performance of Nepalese commercial manufacturing companies. Analyzing data from 14 commercial manufacturing firms spanning from 2013/2014 to 2018/2019, the study found a negative association between Return on Assets (ROA) and Earnings Per Share (EPS) with capital structure. In contrast, a positive correlation was observed between ROA and EPS with firm size, measured by total assets.

Neykov et al. (2022) estimated the determinants of capital structure for forest enterprises across the Czech Republic, Slovakia, and Bulgaria. Using panel data analysis on 18 forest enterprises from 2015 to 2019, the study revealed that enterprise size plays a significant role in determining capital structure, with larger firms showing a more favorable profile in terms of responsibility sharing.

Roslan et al. (2022) analyzed the determinants of debt among Shariah-compliant firms in Malaysia, utilizing static panel data from Malaysian enterprises spanning from 2010 to 2020. The study found a positive relationship between company size and profitability among

Shariah-compliant enterprises listed on Bursa Malaysia, while business risks showed a negative correlation.

Medzihorský (2022) identified critical determinants of capital structure for wood-processing enterprises in Slovakia, using panel regression data from 2016 to 2019. The study highlighted a negative relationship between leverage and profitability, growth potential, and cash reserves. The findings aligned closely with the principles of the pecking-order theory in shaping debt-to-equity decisions among Slovak wood-processing businesses.

Khouri (2022) conducted an analysis on the determinants of capital structure in 207 non-financial Algerian enterprises between 2013 and 2017, employing the Tobit-panel random effects model. The study identified profitability, tangibility, debt-tax shield (DTS), and non-debt tax shield (NDTS) as critical determinants influencing the debt ratio at the firm level, with profitability and DTS exerting a positive influence.

Sikveland et al. (2022) investigated the determinants of capital structure in hospitality firms, focusing on the impact of seasonality and firm clustering using data from all Norwegian hospitality businesses from 2008 to 2018. Employing a fixed-effects panel data model, the study found that seasonality influenced by foreign visitors increased the reliance on long-term debt, while clustering of hospitality businesses in specific areas heightened dependence on short-term financing.

Bhattacharjee and Dash (2021) investigated the factors determining capital structure in the Indian cement sector and assessed the applicability of capital structure theories. The study, spanning from 2003 to 2011 and involving 25 cement enterprises, utilized panel regression techniques including GLS fixed effects, random-effects models, and pooled regression (OLS). It identified profitability and the collateralizable value of assets as key factors influencing capital structure decisions within the Indian cement industry.

Bako and Marsoem (2020) explored the determinants of capital structure in the coal mining subsector listed on the Indonesia Stock Exchange from 2014 to 2018. Using purposive sampling and a random effect panel data model, the study analyzed variables such as profitability (ROA), asset structure, liquidity (current ratio), and company size. The findings indicated that liquidity variables had a significant negative impact on capital structure, while profitability, asset structure, and company size showed no statistically significant effect.

Nguyen and Nguyen (2020) investigated the determinants of firm capital structure in Vietnam, focusing on 290 non-financial companies listed on the Vietnamese stock market. Employing the Generalized Method of Moments (GMM), the study examined factors including return on assets (ROA), return on equity (ROE), firm size, physical assets, risks, and growth. The results revealed that ROA, tangible assets, risks, and growth positively influenced capital structure decisions, while ROE had a negative impact. Sector-specific variations were observed, with firm size consistently affecting capital structure in oil & gas and material companies.

Bhattarai (2020) analyzed the impact of capital structure on the financial performance of insurance companies in Nepal, using panel data from 14 insurance firms spanning from 2007-2008 to 2015-2016. Employing various models such as Pooled OLS, random effect, and fixed effect models, the study investigated factors including total debt ratio, equity to total assets, leverage, firm size, liquidity ratio, and asset tangibility. The findings highlighted that equity to total assets, leverage, and asset tangibility significantly influenced the financial performance of Nepalese insurance companies.

Wardani and Subowo (2020) conducted a study on the impact of business risk, Fixed Asset Ratio (FAR), and Time Interest Earned (TIE) on capital structure, with profitability as a moderating factor. Their research focused on 155 manufacturing firms listed on the Indonesia Stock Exchange from 2015 to 2017. Through purposive sampling, the study revealed that FAR had a significantly positive effect on capital structure, whereas business risk and TIE had a significantly negative impact. Additionally, the study suggested that profitability could moderate the influence of FAR on capital structure decisions.

Bilgin and Dinc (2019) provided both theoretical insights and empirical evidence on factoring as a determinant of capital structure, analyzing 261 publicly traded companies in Turkey from 2012 to 2017. Their findings indicated that factoring influenced the capital structure of leveraged firms but did not impact the initial decision to leverage.

Dhodary (2019) investigated the determinants of capital structure in Nepalese trading and manufacturing firms, examining eleven key non-financial firm-specific factors. The study identified asset tangibility, profitability, liquidity, and interest coverage ratio as significant determinants shaping the capital structure of Nepalese trading and manufacturing enterprises.

Jaishi and Poudel (2019) explored the relationship between leverage and efficiency in non-financial firms in Nepal. Their study, based on secondary data from annual reports of fifteen companies listed on the Nepal Stock Exchange, found that investments in tangible assets positively correlated with efficiency. However, the relationship between size, tangibility, profitability, and growth with leverage exhibited inconsistencies across non-financial sectors.

Pathak (2019) compared the capital structure of commercial manufacturing firms in Nepal, focusing on Himalayan Manufacturing and Manufacturing of Kathmandu LTD over a five-year period from 2013 to 2017. The study highlighted fluctuations in the ratio of long-term debt, interest coverage, return on assets, and return on shareholder's equity among Nepalese commercial manufacturing firms.

Dhodary (2018) investigated capital structure preferences in Nepalese non-financial enterprises, surveying board members, executives, CEOs, and managers to understand their borrowing policies. The study revealed varied preferences in maturity structure for borrowing among these enterprises, with considerations such as interest rates and asset-liability matching not consistently factored into debt decisions.

Cevheroglu-Acar (2018) examined firm-specific determinants of capital structure in Turkish non-financial firms, evaluating variables such as liquidity, profitability, growth, non-debt tax shields, size, tangibility, and risk. Using panel regression from 2009 to 2016, the study found that size, profitability, non-debt tax shields, tangibility, and liquidity significantly influenced capital structure decisions. The research concluded that Turkish non-financial firms' capital structure behavior aligned more closely with the pecking order theory than the trade-off theory.

Astuti (2018) investigated the determinants influencing the capital structure of manufacturing firms in Indonesia, filling a research gap that had previously overlooked this sector due to its unique characteristics. The study utilized linear regression analysis, with asset turnover, liquidity, collateral, company growth, risk, profitability, and size as variables affecting capital structure. The debt-to-assets ratio was used as a proxy for assessing capital structure, revealing significant impacts of these determinant factors on manufacturing firms' capital structure decisions.

Zhang and Liu (2017) explored the relationship between Total Factor Productivity (TFP) and leverage measures (total, short-term, and long-term leverage) among Chinese non-listed firms from 1999 to 2007. Their research highlighted that TFP had a negligible correlation with state-owned enterprises but a strong positive correlation with leverage measures for private and foreign-owned businesses. The study identified financial constraints, leverage costs, and the institutional environment as factors influencing this relationship. It also demonstrated TFP's significant contribution to both formal and informal leverage, shedding light on its role in shaping capital structure decisions.

Uremadu (2012) presented empirical evidence on the impact of bank capital structure and liquidity on profitability. Using descriptive statistics and the auto-regressive distributed lag (ADL) model, the study analyzed data with an OLS methodology, incorporating unit root tests for stationary and integration. The findings indicated a positive influence of factors such as cash reserve ratio and liquidity ratio on bank profits in Nigeria, while variables like bank credits to the domestic economy and savings deposit rate showed a negative impact. The study underscored the critical role of liquidity ratios in determining bank profitability in the Nigerian context.

Pradhan et al. (2016) examined the effect of liquidity on the performance of Nepalese development banks. Using independent variables such as investment ratio, liquidity ratio, capital ratio, and quick ratio, the study analyzed secondary data from annual reports and supervision reports of Nepal Rastra Bank. Regression models revealed a positive correlation between capital ratio and return on equity, indicating that higher capital ratios contributed to higher returns. Conversely, liquidity ratios and quick ratios showed negative correlations with return on equity, suggesting that higher liquidity levels were associated with lower profitability in Nepalese development banks.

Table 1

Summary of Article

S. N	Author/ Date	Title	Objectives	Methodology	Finings
1	Adhikari and Ghosh (2024)	Firm Specific Factors and Profitability of Indian Life	To analyze the association of firm specific variables with	In addition to fundamental descriptive statistics, the	The results indicate that underwriting risk, liquidity, and

		Insurers.	the performance of life insurance companies operating in India.	study employed correlation analysis and multiple regression as statistical methodologies.	company size are positively associated with profitability among insurers, whereas tangibility and equity capital exhibit a negative correlation. All these firm-specific factors, except for tangibility, significantly impact insurers' profitability according to the study's findings.
2	Ombuh et al. (2024)	Impact of Capital Structure on Firm Performance of Financial Companies Listed on the Indonesia Stock Exchange.	To investigated how the capital structure influences the financial performance of non-bank financial institutions listed on the Indonesia Stock Exchange	The research centers on two primary dependent variables: the Return on Assets (ROA) ratio and the Return on Equity (ROE) ratio. The independent variables examined include measures of capital structure, specifically the debt-to-assets ratio and the debt-to-equity ratio.	The findings from the regression analysis reveal a notable adverse effect of capital structure on financial performance, specifically impacting return on equity (ROE). These results emphasize the critical need for non-bank financial institutions to prudently manage their capital resources when utilizing debt financing.
3	Nuraeni (2024)	Factors that affect the profitability ratio in manufacturing sector	To investigate the interaction between capital structure, net profit margin,	This study explored the correlation between capital structure, net profit margin,	The findings indicated a significant influence of capital structure and net profit margin on

		companies for the period 2018-2022	and company value in the manufacturing sector in Indonesia.	and company valuation using statistical analysis and linear regression modeling techniques.	company valuation within the manufacturing industry. Specifically, the study revealed that capital structure enhances the impact of net profit margin on company value.
4	Handini (2024)	Financial Ratios, Capital Structure, and EVA Impact on IDX Food and Beverage Manufacturers 2019-2021 Performance	To examined how financial ratios, capital structure, and economic value added (EVA) affect Indonesia Stock Exchange-listed food and beverage manufacturers' financial performance.	Data analysis in this study involved descriptive statistical tests, tests of classical assumptions, multiple linear analysis, and hypothesis testing using t-tests, F-tests, and determination coefficient tests.	The research discovered that financial ratios have a detrimental effect on the financial performance of food and beverage companies listed on the Indonesia Stock Exchange. However, the study did not find significant impacts of capital structure variables on the financial performance of these listed companies in the food and beverage manufacturing sector.
5	Mardani and Indrawati (2023)	The Determinants of Capital Structure: Evidence from Indonesia.	To examine the determinants of capital structure.	Multiple regression analysis was used to investigate 103 companies across 618 observations, aiming to uncover the factors that	According to the study's findings, business size, profitability, debt tax shield, growth, and liquidity were identified as key determinants influencing capital structure decisions. Profitability and

				influence the capital structure decisions of Indonesian manufacturing firms.	liquidity were negatively correlated with capital structure, whereas firm size, debt tax shield, and growth showed positive correlations.
6	Damayanti and Jayanti (2023)	Determinants of capital structure in mining companies listed on the indonesia stock exchange.	To explain the analysis of the factors affecting the capital structure of mining companies listed on the Indonesia Stock Exchange.	The study utilized purposive sampling to select 15 mining companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. Multiple linear regression analysis was employed as a key methodology in the research.	The results revealed a notable negative effect of liquidity on the capital structure of mining companies listed on the Indonesia Stock Exchange. However, profitability did not demonstrate any significant adverse impact in this regard.
7	Ghani, Rehan, Salahuddin & Hye /(2023)	Discovering Capital Structure Determinants for SAARC Energy Firms.	To explore the capital structure determinants of energy sector firms which are operating in the four large economies of the SAARC region that are Pakistan	In this study, a comprehensive dataset comprising 34 energy sector firms was analyzed using panel data techniques over a specified period.	The findings offer new insights for policymakers to develop coordinated strategies addressing issues related to energy scarcity and promoting regional-level integration.
8	Benyamin and Soekarno (2023)	Capital Structure Determinants of Public	To analyze the capital structure's determinants,	The study utilizes imbalanced panel data	Capital structure is shaped by various factors including profitability,

		Infrastructure Companies in Indonesia.	which have a significant impact.	regression with GLS estimators to analyze secondary data. It applies the static capital structure model as its analytical framework.	tangibility, growth, and liquidity. Notably, growth shows a significant negative influence on the leverage ratio, whereas profitability, tangibility, and liquidity have positive effects. Among these factors, profitability emerges as the most influential.
9	Panda, Nanda, Hegde & Yadav/ (2023)	Receptivity of capital structure with financial flexibility: a study on manufacturing firms.	To investigate the static capital structure decisions' dynamic responses due to shocks and its relative sensitivity in the presence of financial flexibility.	The study utilizes Panel Corrected Standard Error (PCSE) models and Panel Vector Auto regression (Panel-VAR) models to analyze dynamic responses and relative sensitivity. The sample includes 2,094 listed Indian manufacturing firms observed from 2009 to 2019.	Financially flexible firms show a favorable response in their debt ratio to asset tangibility and size, but they tend to react negatively to growth opportunities, non-debt tax shields, and profitability. These findings offer crucial insights for firm managers and policymakers, aiding in the understanding of constraints associated with optimizing their debt structures while maintaining financial flexibility.
10	Ngo & Nguyen/ (2023)	Impact of capital structure on the	To examine the impact of the capital structure on	Fixed-effect and random-effect models were utilized	This suggests that Vietnamese real estate firms strategically

		profitability of real estate firms listed on Hanoi stock exchange amid Covid-19.	the profitability	alongside Mann & Whitney U tests and other diagnostic tests to detect and rectify potential model deficiencies.	manage their capital structure amidst expected rising interest rates and restricted lending in the sector. They diversify their funding sources by incorporating both short-term and long-term loans, alongside equity investments.
11	Neykov, Krišťáková, Antov, Halalisan, Hajdúchová, Sedliačiková & Šišák/ (2022)	Capital Structure Determinants of Forest Enterprises: Empirical Study Based on Panel Data Analysis from the Czech Republic, Slovakia, and Bulgaria.	To estimate the capital structure determinants of forest enterprises in the Czech Republic, Slovakia, and Bulgaria in the context of the relationship between leverage and the factors of its appearance.	The study evaluated the factors influencing the capital structure of 18 forest enterprises, with six enterprises analyzed per country. The data analysis spanned from 2015 to 2019 and employed selected indicators to assess these determinants.	The results indicated that forest enterprises in these three countries can be differentiated according to their size and can develop distinctive operational connections, where larger enterprises notably enhance the distribution of responsibilities.
12	Roslan, Khaidzir, Azman, Jizad & Zainoddin/ (2022).	Determinant of Capital Structure from Shariah-Compliant in the Industrial Products and Services.	To analyze the most reliable debt determinants identified in the literature on the Shariah-compliant in Malaysia.	The study utilized static panel data methodology to analyze a sample of Malaysian enterprises over the period from 2010 to 2020, with data analysis	The findings revealed that Shariah-compliant enterprises listed on the Bursa Malaysia demonstrated a favorable relationship between their size and profitability. In contrast, they

				conducted using E-views software.	exhibited a negative correlation with business risks.
13	Medzihorský (2022)	Capital structure determinants of wood-processing enterprises in Slovakia.	To pinpoint the key factors influencing the capital structure of wood-processing enterprises in Slovakia and compare these determinants with those observed in other global industries.	Panel regression analysis during the period from 2016 to 2019 revealed compelling evidence of an inverse correlation between leverage and profitability, growth potential, and cash flow.	He found that during the crisis, there was some indication of a detrimental relationship between leverage and company size. Moreover, several hypotheses concerning capital structure received limited validation.
14	Khouri (2022)	Firm level determinants of capital structure in Algeria.	To analyze the capital structure determinants	Correlation and regression analyses were utilized alongside a research design that integrates descriptive and causal comparative approaches.	The positive influence of profitability is bolstered by the beneficial impact of the debt tax shield (DTS) variable. As a company achieves profitability, the ability to deduct interest expenses for tax purposes becomes advantageous. Moreover, the non-debt tax shield (NDTS) provides an additional avenue for funding business operations.
15	Sikveland, Xie & Zhang/ (2022)	Determinants of capital structure in the hospitality	To investigate the determinants of capital	A fixed-effects panel data model was applied to	They demonstrate that the influx of foreign visitors seasonally

		industry: Impact of clustering and seasonality on debt and liquidity.	structure of hospitality firms with emphasis on the effects of seasonality and firm clustering.	analyze data from all hospitality businesses in Norway over the period from 2008 to 2018.	increases the proportion of long-term debt in the capital structure of enterprises. Moreover, the concentration of hospitality businesses in specific areas intensifies their reliance on short-term financing.
17	Bhattacharjee & Dash/ (2021)	Determinants of capital structure in the Indian Cement Sector.	To examine the determinants of capital structure in the Indian cement sector and, accordingly, the applicability of capital structure theories for the Indian cement sector.	Throughout the research duration spanning a sample comprising 25 cement industry enterprises was examined.	The study's results indicated a notable negative relationship between Financial Leverage and Profitability, and a significant association with Collateralized Value. Notably, the findings did not strongly endorse either the Static Trade-Off theory or the Pecking Order theory.
18	Bako & Marsoem /(2020)	Determinant of Capital Structure of Coal Sub-Sector Mining Companies Listed on Indonesai Stock Exchange.	To tested the determinant of the capital structure consisting of variable profitability	The study utilized purposive sampling to select its sample, comprising ten businesses chosen according to specific criteria. The panel data was then analyzed using regression	The findings suggest that liquidity variables exerted a significant negative influence on the capital structure of mining companies listed on the Indonesia Stock Exchange, while factors such as profitability, asset structure, and company size did not show any

				analysis, employing the selected random effect model as the preferred method for data analysis.	noticeable impact on the capital structure.
19	Nguyen & Nguyen /(2020)	Determinants of Firm Capital Structure: Empirical Evidence from Vietnam.	To investigate the factors affecting firm capital structure in the context of Vietnam.	The study included 290 non-financial companies listed on the Vietnamese stock market. It utilized the Generalized Method of Moments (GMM) to analyze and interpret the findings.	The study indicated that variables like return on assets, tangible assets, risks, and growth positively and significantly influenced the capital structure of companies. In contrast, return on equity was found to have a statistically significant negative effect.
16	Bilgin &Dinc /(2019)	Factoring as a determinant of capital structure for large firms: Theoretical and empirical analysis.	To provide a theoretical framework and empirical evidence on the role of factoring as a determinant of capital structure.	A fractional regression model was developed using data from 261 publicly traded companies in Turkey over the period from 2012 to 2017.	The study's empirical findings suggest that while the capital structure factor does not influence the initial decision to leverage, it does affect leveraged enterprises. Additionally, there is a notable correlation between increased factoring and higher leverage levels.
17	Dhodary (2019)	Determinants of Capital Structure on Trading and Manufacturing	To explore the determinants of capital structure in Nepalese	The study, covering the fiscal years	The study pinpointed asset tangibility, profitability, liquidity, and

		Enterprises: A Case of Nepal.	trading and manufacturing firms, considering eleven significant non-financial firm-specific factors.		interest coverage ratio as crucial factors shaping the capital structure of trading and manufacturing enterprises in Nepal.
18	Jaishi and Poudel (2019)	Capital Structure and Firm Efficiency of Non-Financial Institutions in Nepal.	To investigated the relationship between leverage and efficiency in non-financial firms in Nepal	Using a descriptive and causal research approach, the study analyzed secondary data from 60 observations.	Discovered that the efficiency and leverage of non-financial companies in Nepal were notably affected by factors such as size, tangibility, profitability, and growth.
19	Uremadu (2012)	Bank capital structure, liquidity and profitability evidence from the Nigerian banking system.	To presented empirical evidence of the effect of bank capital structure and liquidity on profitability.	The data underwent analysis using descriptive statistics and the auto-regressive distributed lag (ADL) model. Specifically, the study employed an OLS methodology that included unit root tests to assess stationary and integration properties of the data.	They observed that the cash reserve ratio, liquidity ratio, and corporate income tax positively impacted banking system profits, while bank credits to the domestic economy, savings deposit rate, gross national savings (used as a proxy for deposits with the central bank), balances with the central bank, inflation rate, and foreign private investments had a negative influence.

2.3 Research Gap

This study investigates the factors influencing the capital structure of Nepalese manufacturing companies, with profitability as the dependent variable and Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short-term debt to total assets, and Long-term debt to total assets as independent variables. Both descriptive and casual comparative research designs are employed in the study. The sample comprises three manufacturing businesses in Nepal, and secondary source data spanning 10 years for each company are utilized.

Previous research focused on the Nepalese manufacturing sector typically involved less than one manufacturing firm and utilized only five years of data for the research sample. These studies predominantly employed a descriptive research design. Future research in this area may consider incorporating data from all manufacturing companies and extending the analysis beyond a 10-year timeframe.

CHAPTER- III

RESEARCH METHODOLOGY

The research methodology acts as a structured framework that outlines the precise methods and procedures used to gather, select, process, and analyze information relevant to a specific topic. In a research paper, the methodology section allows readers to critically evaluate the study's overall validity and reliability. This chapter functions as a thorough guide, detailing the sequential steps taken throughout the research process.

3.1 Research Design

This study employs descriptive and causal-comparative research designs to investigate the factors influencing dividend policy. The descriptive research design is used to identify and gather comprehensive information on these determinants. Additionally, the study utilizes both descriptive and analytical research designs to examine the nature and correlations among the dependent variables, namely Return on Assets and Return on Equity, and the independent variables.

3.2 Population and Sample

Sampling is conducted through propulsive sampling, selecting samples based on a propulsive basis. Likewise, financial statements from three manufacturing companies over a ten-year research period (FY 2014 to FY 2023) have been chosen as the sample for the study.

Table 2

Sample of the Manufacturing

S.N.	Manufacturing Companies	Sample
1	Bottlers Nepal (balaju)	1
2	Bottlers Nepal (Terai)	1
3	Himalayan Distillery	1
	Total	3

3.3 Nature and Sources of Data

This research will utilize secondary data to explore the relationships, causal connections, and predictive strengths between capital structures and profitability. The data on firm-specific variables, including [specific variables], will be collected from the annual reports of the sample firms accessible in their respective website databases. Additionally, data from NEPSE and SEBON will be retrieved to meet the data needs for this study.

3.4 Instrument of Data Collection

Primary data collection employs a variety of instruments including questionnaires, observations, interviews, laboratory experiments, quasi-experiments, and scales. Secondary data is sourced from the manufacturing concern's website, involving the examination of annual reports. Economic reports and other published statistical data are also utilized. Additionally, informal discussions and procedures are employed to gather supplementary information.

3.5 Methods of Analysis

To attain the study objectives, a range of financial and statistical tools/methods have been utilized. The data analysis is conducted in accordance with the available data pattern.

3.5.1 Financial Analysis

- Total debt to total assets
- Total debt to total equity ratio
- Interest coverage ratio
- Short term debt to assets ratio
- Long term debt to assets
- Return on assets
- Return on equity

Total Debt to Total Assets Ratio

The total debt to total assets ratio is computed to assess the proportion of assets financed by debt capital. Debt financing for asset acquisition is often cheaper but carries higher risk compared to equity financing. Calculating the total debt to total assets ratio in financial analysis helps determine the proportion of assets funded through debt, providing insights into the risk associated with debt financing. The ratio is calculated using the formula:

Total Debt to Total Assets Ratio = $\frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$

Total Debt to Total Equity Ratio

This ratio is computed to assess the proportion of debt relative to equity capital. It helps gauge the ability of equity assets to cover debt obligations in the event of liquidation. The ratio is calculated using the following formula:

Total Debt to Total Equity Ratio = $\frac{Total\ Debt}{Total\ Equity} \times 100\%$

Interest Coverage Ratio

The interest coverage ratio is a financial indicator that evaluates a company's capability to fulfill its interest obligations on outstanding debt. It serves as a gauge of financial health and risk. The formula for computing the interest coverage ratio is:

Interest Coverage Ratio = $\frac{Earning\ Befor\ Interest\ and\ Tax}{Interest\ Expenses}$

Short Term Debt to Assets Ratio

The Short-Term Debt to Assets Ratio is a financial measure indicating the percentage of a company's short-term debt relative to its total assets. It offers insights into the company's short-term liquidity and its capacity to meet immediate obligations using current assets. The formula used to compute the Short-Term Debt to Assets Ratio is:

Short Term Debt to Assets Ratio = $\frac{Short\ Term\ Debt}{Total\ Assets}$

Long Term Debt to Assets Ratio

The Long-Term Debt to Assets Ratio is a financial indicator that reveals the percentage of a company's long-term debt relative to its total assets. It aids in evaluating how much of the company's assets are financed through long-term debt, offering insights into its long-term financial leverage. The formula used to compute the Long-Term Debt to Assets Ratio is:

Long Term Debt to Assets Ratio = $\frac{\text{Long−Term Debt}}{\text{Assets Ratio}}$

Return on Assets

Return on Assets (ROA) is a financial measure that assesses a company's profitability by gauging its capacity to generate earnings from its assets. ROA is presented as a percentage and is computed using the formula:

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

Return on Equity

Return on Equity (ROE) is a financial indicator used to assess a company's profitability by analyzing its capability to generate returns for its shareholders. ROE is expressed as a percentage and is calculated using the formula:

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

3.5.2 Statistical Analysis

Mean ($\bar{X}$)

In statistics, the mean signifies the average or the most commonly occurring value within a dataset. It serves as a measure of central tendency in probability distributions, alongside the median and mode, and is often referred to as the expected value.

Standard Deviation (**σ**):

Standard deviation is a measure used to quantify the extent of variability or dispersion within a dataset. It is calculated as the square root of the variance, which measures how each data point deviates from the mean. It is denoted by (**σ**).

Standard Deviation (**σ**): S.D= $\sqrt{\frac{\sum(X - \overline{X})^2}{N}}$

Where,

X=variables

$\overline{X}$ = mean

N= No. of Period

Coefficient of Variation (C.V):

The category with a higher coefficient of variation is regarded as more variable or less consistent, stable, uniform, or homogeneous. The coefficient of variation (C.V.), represented as C.V., is determined by dividing the standard deviation by the mean. Thus,

C.V. = $\frac{\sigma}{\bar{x}}$

Where,

C.V. = Coefficient of Variation

σ = Standard Deviation of the distribution

$\bar{x}$ = Arithmetic Mean of the distribution.

Correlation Analysis

It's a statistical method that reveals how two sets of variables are related in terms of direction and strength. It quantifies the degree of association between them. In this study, the Pearson correlation coefficient has been utilized to clarify this relationship. The coefficient value ranges from -1 to +1. A correlation coefficient of -1 indicates a perfect negative correlation, where the variables move exactly in opposite directions. Conversely, a correlation coefficient of +1 indicates a perfect positive correlation, showing a consistent positive relationship between the variables.

$$\text{Correlation Coefficient (r)} = \frac{n\sum XY - \sum X \sum Y}{\sqrt{[\{n\sum x^2 - (\sum X)^2\}\{n\sum Y^2 - (\sum Y)^2\}]}}$$

Where,

N = number of X and Y

$\sum$XY = Sum of the series X and Y

$\sum$X = Sum of the in series X

$\sum$Y = Sum of the in series Y

$\sum X^2$ = Sum of the square off in series X

$\sum Y^2$ = Sum of the square off in series Y

Multiple Regression Model

The regression models utilized in this study are designed to investigate the relationship between dependent and independent variables. This relationship will be expressed in the following form:

Model I

$ROE = \beta_0+\beta_1\times TDTA+\beta_2\times DER+\beta_3\times ICR+\beta_4\times STDTA+ \beta_5\times LTDTA+e$

Model II

$ROA = \beta_0+\beta_1\times TDTA+\beta_2\times DER+\beta_3\times ICR+\beta_4\times STDTA+ \beta_5\times LTDTA+e$

Where,

ROA= Return on Assets

ROE = Return On equity

TDTA = Total Debt to Total Assets

DER= Debt to Equity Ratio

ICR= Interest Coverage Ratio

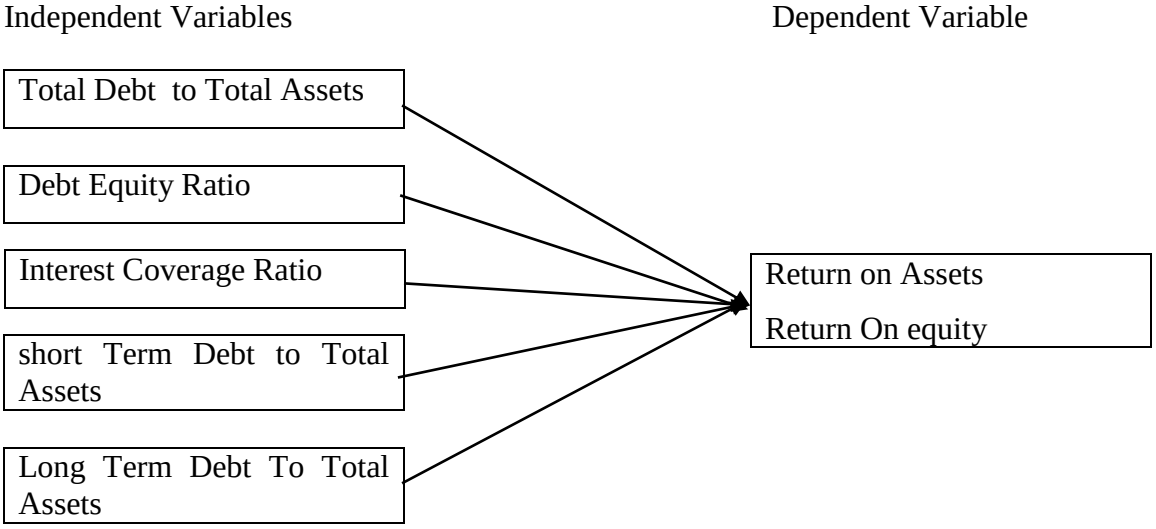
STDTA= Short Term Debt to Total Assets

LTDTA= Long Term Debt to Total Assets

3.6 Research Framework

Figure1

Conceptual Framework



Source: *Nasimi and Nasimi (2018); Shubita and Alsawalhah (2012)*

3.7 Definitions of the Variables

Profitability

Profitability plays a pivotal role in determining whether dividends are paid out by a company. Dividends typically originate from annual profits, reflecting the company's ability to distribute earnings to shareholders. According to the pecking order theory, firms primarily fund investments through internal resources. In cases where external funding is required, companies prefer debt financing over equity financing to mitigate costs linked to asymmetric information and transaction expenses (Myers, 1984).

Return on Assets (ROA) measures how effectively a company utilizes its assets to generate profit. It is computed by dividing net income by the average total assets over a specific period.

Return on Equity (ROE) evaluates a company's profitability and efficiency in generating earnings from shareholders' equity. It is calculated by dividing net income by average shareholders' equity.

Total Debt to Total Assets

The total debt to total assets ratio is a financial metric that assesses a company's leverage by comparing its total debt to its total assets. This ratio reveals the proportion of a company's assets financed through debt. A higher ratio indicates that a larger portion of the company's assets is funded by debt, suggesting potentially higher financial risk, particularly if the company struggles to meet its debt obligations. Conversely, a lower ratio signifies less reliance on debt financing, which is often interpreted as a sign of financial stability. Investors and analysts use this ratio to evaluate a company's financial health and risk profile, aiding in investment decisions and credit assessments.

Debt Equity Ratio

The debt equity ratio is a financial measure that compares a company's total debt to its total shareholders' equity. This ratio provides insights into the balance between debt and equity financing within a company's capital structure. A higher debt equity ratio indicates that the company relies more heavily on debt financing, which can suggest higher financial risk due to the ongoing obligations to service interest and repay principal. Conversely, a lower ratio indicates a greater reliance on equity financing, often indicating a stronger financial position with reduced risk of insolvency. Investors and analysts frequently use the debt equity ratio to evaluate a company's financial leverage and long-term financial stability. It serves as a critical tool in assessing a company's risk profile and overall financial health, influencing decisions related to investment and lending.

Interest Coverage Ratio

The Interest Coverage Ratio is a critical financial metric used to assess a company's ability to meet its interest obligations on outstanding debt. It is computed by dividing a company's earnings before interest and taxes (EBIT) by its interest expenses for the same period. This ratio serves as an indicator of the company's capability to generate sufficient income to cover

its interest payments, providing valuable insight into its financial stability and risk of default. A higher Interest Coverage Ratio suggests that the company has a stronger ability to meet its interest obligations, indicating lower financial risk. Conversely, a lower ratio may indicate potential challenges in servicing debt, which can raise concerns for investors and creditors. This ratio plays a crucial role in evaluating a company's financial health and is commonly used alongside other metrics to support decisions related to lending, investment, and strategic management.

Short Term Debt to Total Assets

The Short-Term Debt to Total Assets ratio is a financial metric that evaluates the percentage of a company's total assets financed through short-term debt, which includes obligations due within one year. This ratio provides insights into the liquidity and financial flexibility of a company. A higher ratio indicates that a significant portion of the company's assets is supported by short-term liabilities, potentially increasing liquidity risk if the company encounters difficulties in renewing or repaying this debt. Conversely, a lower ratio suggests a more stable financing structure for its assets with reduced dependence on short-term borrowing. Investors and analysts utilize this ratio to assess a company's short-term financial health and its capability to fulfill immediate financial obligations. It serves as a crucial gauge for evaluating the company's exposure to risk and overall financial stability.

Long Term Debt to Total Assets

The Long-Term Debt to Total Assets ratio is a financial metric that assesses the proportion of a company's assets financed by long-term debt, encompassing loans and financial commitments with maturities exceeding one year. This ratio offers insights into the company's capital structure and financial leverage. A higher ratio indicates a greater reliance on long-term debt for financing assets, potentially indicating a higher risk profile due to the ongoing obligation to service this debt over an extended period. However, it could also suggest strategic investments in growth and expansion funded through long-term borrowing. Conversely, a lower ratio signifies reduced dependence on long-term debt, often interpreted as a sign of financial prudence and stability. Investors and analysts use this ratio to evaluate the company's long-term financial health, risk management strategies, and capacity to sustain growth while meeting its debt obligations.

CHAPTER-IV

RESULT AND DISCUSSION

The study focuses on interpreting and presenting numerical data in an analytical format to facilitate clear communication. This involves systematically organizing and tabulating data, followed by its presentation using tables, graphs, and citations. The initial stage examines the financial situation using descriptive statistics and statistical methods like correlation and multiple regression. The subsequent section includes a thorough discussion of the research outcomes.

4.1 Result

4.1.1 Descriptive Statistics Analysis

Descriptive statistical analysis provides an overview of the current status of the variables. This assessment involves measuring the minimum, maximum, mean, and standard deviation of the variables.

Table 3

Descriptive Statistics Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	30	-4.38	45.08	12.16	11.58
ROE	30	-11.61	54.35	23.14	15.22
TDTA	30	8.56	81.79	52.55	19.76
DER	30	9.36	455.98	147.49	112.97
ICR	30	-2.74	237.25	26.26	45.29
STDTA	30	7.69	62.75	40.28	16.08
LTDTA	30	.87	141.25	19.27	28.21
Valid N (listwise)	30				

Source: *Appendix-2*

Table 3 show the descriptive statistics analysis table of the research. Here the three manufacturing BNB, BNL and HDL are the sample. The total number of observation denoted by the “N” are 30 which is the total of each manufacturing 10 observations. The manufacturing minimum, maximum, mean and standard deviation is calculated.

The minimum, maximum, mean, and standard deviation for return on assets -4.38, 45.08, 12.16 and 11.58 respectively. The minimum, maximum, mean, and standard deviation for return on equity are -11.61, 54.35, 23.14 and 15.22 respectively. The minimum, maximum, mean, and standard deviation for total debt to total assets are 8.56, 81.79, 52.55 and 19.76 respectively. The minimum, maximum, mean, and standard deviation for total debt to total equity are 9.36, 455.98, 147.49 and 112.97 respectively. The minimum, maximum, mean, and standard deviation for interest coverage ratio are -2.74, 237.25, 26.26 and 45.29 respectively. The minimum, maximum, mean, and standard deviation for short term debt to total assets are 7.69, 62.75, 40.28 and 16.08 respectively. The minimum, maximum, mean, and standard deviation for long term debt to total assets are .87, 141.25, 19.27 and 28.21 respectively.

The table shows the Return on equity, Return on assets, total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets of minimum, maximum, mean and standard deviation. The result shows the different between minimum and maximum is very high and different between mean and minimum, mean and maximum is also high. Also the standard deviation is high. The overall result shows the current situation of the selected manufacturing variables are fluctuating.

4.1.2 Correlation Analysis

Correlation is a statistical measure that shows how closely related two or more variables are. The correlation coefficient quantifies the strength and direction of this relationship, indicating how changes in one variable are associated with changes in another.

Table 4

Correlation of Variables

		ROA	ROE	TDTA	DER	ICR	STDTA	LTDTA
ROA	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	30						
ROE	Pearson Correlation	.854**	1					
	Sig. (2-tailed)	.000						
	N	30	30					
TDTA	Pearson Correlation	-.752**	-.365*	1				
	Sig. (2-tailed)	.000	.047					
	N	30	30	30				
DER	Pearson Correlation	-.541**	-.142	.862**	1			
	Sig. (2-tailed)	.002	.456	.000				
	N	30	30	30	30			
ICR	Pearson Correlation	.458*	.242	-.680**	-.449*	1		
	Sig. (2-tailed)	.011	.197	.000	.013			
	N	30	30	30	30	30		
STDTA	Pearson Correlation	-.586**	-.191	.909**	.755**	-.590**	1	
	Sig. (2-tailed)	.001	.312	.000	.000	.001		
	N	30	30	30	30	30	30	
LTDT	Pearson Correlation	-.156	-.039	.281	.138	-.181	.377*	1
A	Sig. (2-tailed)	.410	.836	.132	.468	.339	.040	
	N	30	30	30	30	30	30	30

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

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

Source: *Appendix-1*

Table 4 shows the relationship between the independent and dependent variables. The independent variables are total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets and dependent variables are Return on equity and Return on assets. The total observations are 30 which is denoted by "N".

The relationship between the total debt and total assets to the return on assets is negative but significant. The correlation value negative is 0.752 and significant value 0.000 which less than 0.01 represent the relationship between the total debt and total assets to the return on assets is negative but significant.

The relationship between the total debt and total equity to the return on assets is negative but significant. The correlation value negative is 0.541 and significant value 0.002 which less than 0.01 represent the relationship between the total debt and total equity to the return on assets is negative but significant.

The relationship between the interest coverage ratios to the return on assets is positive and significant. The correlation value positive is 0.458 and significant value 0.000 which less than 0.01 represent the relationship between the interest coverage ratios to the return on assets is positive and significant.

The relationship between the short term debts to total assets to the return on assets is negative but significant. The correlation value negative is 0.586 and significant value 0.001 which is less than 0.01 represent the relationship between the short term debts to total assets to the return on assets is negative but significant.

The relationship between the long term debts to total assets to the return on assets is negative and not significant. The correlation value negative is 0.156 and significant value 0.41 which is more than 0.05 represent the relationship between the long term debts to total assets to the return on assets is negative and not significant.

The relationship between the total debt and total assets to the return on equity is negative but significant. The correlation value negative is 0.365 and significant value 0.047 which less than 0.05 represent the relationship between the total debt and total assets to the return on equity is negative but significant.

The relationship between the total debt and total equity to the return on equity is negative but not significant. The correlation value negative is 0.142 and significant value 0.456 which more than 0.05 represent the relationship between the total debt and total equity to the return on equity is negative and not significant.

The relationship between the interest coverage ratios to the return on equity is positive and not significant. The correlation value positive is 0.242 and significant value 0.197 which is less than 0.01 represent the relationship between the interest coverage ratios to the return on equity is positive and significant.

The relationship between the short term debts to total assets to the return on equity is negative but not significant. The correlation value negative is 0.191 and significant value 0.312 which is more than 0.05 represent the relationship between the short term debts to total assets to the return on equity is negative and not significant.

The relationship between the long term debts to total assets to the return on equity is negative and not significant. The correlation value negative is 0.039 and significant value 0.836 which is more than 0.05 represent the relationship between the long term debts to total assets to the return on equity is negative and not significant.

4.1.3 Multiple Regression Analysis

Multiple regression analysis involves examining how independent variables affect dependent variables. This study utilizes two models: one focusing on return on equity and the other on return on assets.

Multiple Regression model I

The regression analysis is based on the return on assets as an independent variables is called the ROA model. The multiple regression model summary, ANOVA and coefficient is calculated.

Table 5

Model Summary Based ROA Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.853[a]	.727	.670	6.65

a. Predictors: (Constant), LTDTA, DER, ICR, STDTA, TDTA
Source: *Appendix-2*

Table 5 displays the model summary for 30 observations across three manufacturing, with 10 observations for each. An R^2 value of 0.727 indicates that 72.7% of the total variations in return on assets (ROA) can be explained by the independent variables—namely, total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets. However, 27.3% of the total variation in ROA is attributed to other factors. The adjusted R square, at 0.67, serves as an indicator of the model's goodness of fit. This value represents the cumulative variations in return on assets explained by the

independent variables, which include total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets.

Table 6

ANOVA Table ROA Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2826.963	5	565.393	12.769	.000[b]
	Residual	1062.710	24	44.280		
	Total	3889.673	29			

a. Dependent Variable: ROA

b. Predictors: (Constant), LTDTA, DER, ICR, STDTA, TDTA

Source: *Appendix-3*

Table 6 presents the analysis of variance (ANOVA) for three manufacturing, each with ten observations. The dependent variable is return on assets, while the independent variables include total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets. The regression value is deemed significant, as its value of 0.000 is below the 5% threshold.

Table 7

Coefficient Table ROA Model

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	51.102	6.910		7.395	.000
	TDTA	-1.288	.235	-2.198	-5.474	.000
	DER	.070	.024	.680	2.898	.008
	ICR	-.080	.041	-.313	-1.967	.061
	STDTA	.501	.196	.696	2.559	.017
	LTDTA	.021	.049	.050	.423	.676

a. Dependent Variable: ROA

Source: *Appendix-2*

Table 7 show the coefficient table of the research. Here the three manufacturing BNB, BNL and HDL are the sample manufacturing. The total number of observation denoted by the “N” are 30 which is the total of each manufacturing 10 observations. The objective three of the research related to the impact of the independent to dependent variables is meet.

The impact of total debt to total assets to the return on assets is negative and significant. The beta value is negative 1.288 represent the 1% change in total debt to total assets than 1.288% change in to the return on assets as negative. The calculated result is high accurate because the standard error is low i.e. 0.235. The significant value is 0.000 which is less than 0.05 so the impact is significant. The hypothesis is also true.

The impact of total debt to total equity to the return on assets is positive and significant. The beta value is positive 0.07 represent the 1% change in total debt to total equity than 0.07% change in to the return on assets as positive. The calculated result is high accurate because the standard error is low i.e. 0.024. The significant value is 0.008 which is less than 0.05 so the impact is significant. The hypothesis is also true.

The impact of interest coverage ratio to the return on assets is negative and not significant. The beta value is negative 0.08 represent the 1% change in interest coverage ratio than negative 0.08% change in to the return on assets. The calculated result is high accurate because the standard error is low i.e. 0.041. The significant value is 0.061 which is more than 0.05 so the impact is not significant. The hypothesis is also not true.

The impact of short term debt to total assets ratio to the return on assets is positive and significant. The beta value is positive 0.501 represent the 1% change in short term debt to total assets ratio than 0.501% change in to the return on assets as positive. The calculated result is high accurate because the standard error is low i.e. 0.196. The significant value is 0.017 which is less than 0.05 so the impact is significant. The hypothesis is also true.

The impact of long term debt to total assets ratio to the return on assets is positive and not significant. The beta value is positive 0.021 represent the 1% change in long term debt to total assets ratio than 0.021% change in to the return on assets as positive. The calculated result is high accurate because the standard error is low i.e. 0.049. The significant value is 0.676 which is more than 0.05 so the impact is not significant. The hypothesis is not true.

Multiple Regression Model II

The regression analysis is based on the return on equity as an independent variables is called the ROE model. The multiple regression model summary, ANOVA and coefficient is calculated.

Table 8

Model Summary Based ROE Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667[a]	.444	.329	12.47

a. Predictors: (Constant), LTDTA, DER, ICR, STDTA, TDTA
Source: *Appendix-1*

Table 8 displays the model summary for 30 observations across three manufacturing, with 10 observations for each. An R^2 value of 0.444 indicates that 44.4% of the total variations in return on assets (ROE) can be explained by the independent variables—namely, total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets. However, 54.6% of the total variation in ROE is attributed to other factors. The adjusted R square, at 0.329, serves as an indicator of the model's goodness of fit. This value represents the cumulative variations in return on equity explained by the independent variables, which include total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets.

Table 9

ANOVA Table ROA Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2986.813	5	597.363	3.840	.011[b]
	Residual	3733.868	24	155.578		
	Total	6720.680	29			

a. Dependent Variable: ROE
b. Predictors: (Constant), LTDTA, DER, ICR, STDTA, TDTA
Source: *Appendix-1*

Table 9 presents the analysis of variance (ANOVA) for three manufacturing, each with ten observations. The dependent variable is return on equity, while the independent variables include total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets. The regression value is deemed significant, as its value of 0.011 is below the 5% threshold.

Table 10

Coefficient Table ROA Model

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	62.554	12.952		4.830	.000
	TDTA	-1.790	.441	-2.323	-4.058	.000
	DER	.131	.045	.969	2.897	.008
	ICR	-.105	.076	-.311	-1.375	.182
	STDTA	.933	.367	.986	2.543	.018
	LTDTA	.029	.091	.053	.315	.756

a. Dependent Variable: ROE
Source: *Appendix-1*

Table 10 show the coefficient table of the research. Here the three manufacturing BNB, BNL and HDL are the sample manufacturing. The total number of observation denoted by the "N" are 30 which is the total of each manufacturing 10 observations. The objective three of the research related to the impact of the independent to dependent variables is meet.

The impact of total debt to total assets to the return on equity is negative and significant. The beta value is negative 1.79 represent the 1% change in total debt to total assets than.1.79% change in to the return on equity as negative. The calculated result is high accurate because the standard error is low i.e. 0.441. The significant value is 0.000 which is less than 0.05 so the impact is significant. The hypothesis is also true.

The impact of total debt to total equity to the return on equity is positive and significant. The beta value is positive 0.131 represent the 1% change in total debt to total equity than 0.131% change in to the return on equity as positive. The calculated result is high accurate because the standard error is low i.e. 0.045. The significant value is 0.008 which is less than 0.05 so the impact is significant. The hypothesis is also true.

The impact of interest coverage ratio to the return on equity is negative and not significant. The beta value is negative 0.105 represent the 1% change in interest coverage ratio than 0.105% change in to the return on equity as negative. The calculated result is high accurate because the standard error is low i.e. 0.076. The significant value is 0.182 which is more than 0.05 so the impact is significant. The hypothesis is not true.

The impact of short term debt to total assets ratio to the return on equity is positive and significant. The beta value is positive 0.933 represent the 1% change in short term debt to total

assets ratio than 0.933% change in to the return on equity as positive. The calculated result is high accurate because the standard error is low i.e. 0.367. The significant value is 0.018 which is less than 0.05 so the impact is significant. The hypothesis is also true.

The impact of long term debt to total assets ratio to the return on equity is positive and not significant. The beta value is positive 0.029 represent the 1% change in long term debt to total assets ratio than 0.029% change in to the return on equity as positive. The calculated result is high accurate because the standard error is low i.e. 0.091. The significant value is 0.756 which is more than 0.05 so the impact is not significant. The hypothesis is not true.

4.2 Discussion

The first objectives of research is to examine the current status of the capital structure and profitability of a manufacturing companies in Nepal. It is found that the Return on equity, Return on assets, total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets of minimum, maximum, mean and standard deviation. The result is consistent with the result of Bhattacharjee and Dash, (2021). The result shows the different between minimum and maximum is very high and different between mean and minimum, mean and maximum is also high. Also the standard deviation is high. The overall result shows the current situation of the selected manufacturing variables are fluctuating. The result is consistent with the result of Benyamin and Soekarno, (2023).

The second objective of research is to analyze the relationship of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the profitability. It is found that the relationship between the total debt and total assets to the return on assets is negative but significant. The result is consistent with the result of Panda, Nanda, Hegde and Yadav, (2023). The relationship between the total debt and total equity to the return on assets is negative but significant. The result is consistent with the result of Ngo and Nguyen, (2023). The relationship between the interest coverage ratios to the return on assets is positive and significant. The result is consistent with the result of Medzihorský, (2022). The relationship between the short term debts to total assets to the return on assets is negative but significant. The result is consistent with the result of Roslan, Khaidzir, Azman, Jizad & Zainoddin, (2022). The relationship between the long term debts to total assets to the

return on assets is negative and not significant. The result is consistent with the result of Khouri, (2022). The relationship between the total debt and total equity to the return on equity is negative but not significant. The result is consistent with the result of Sikveland, Xie and Zhang, (2022). The relationship between the interest coverage ratios to the return on equity is positive and not significant. The result is consistent with the result of Damayanti and Jayanti, (2023). The relationship between the short term debts to total assets to the return on equity is negative but not significant. The result is consistent with the result of Astuti, (2018). The relationship between the long term debts to total assets to the return on equity is negative and not significant. The result is consistent with the result of Cevheroglu-Acar, (2018).

The third objective of research is to examine the impact of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the profitability. It is found that the impact of total debt to total assets to the return on assets is negative and significant. The result is consistent with the result of Ghani et al., (2023). The impact of total debt to total equity to the return on assets is positive and significant. The result is consistent with the result of Cevheroglu-Acar, (2018). The impact of interest coverage ratio to the return on assets is negative and not significant. The result is consistent with the result of Damayanti and Jayanti, (2023). The impact of short term debt to total assets ratio to the return on assets is positive and significant. The result is consistent with the result of Bhattacharjee and Dash, (2021). The impact of long term debt to total assets ratio to the return on assets is positive and not significant. The result is consistent with the result of Bilgin and Dinc, (2019). The impact of total debt to total assets to the return on equity is negative and significant. The result is consistent with the result of Neykov, Krišťáková, Antov, Halalisan, Hajdúchová, Sedliačiková & Šišák, (2022). The impact of total debt to total equity to the return on equity is positive and significant. The result is consistent with the result of Bako and Marsoem, (2020). The impact of interest coverage ratio to the return on equity is negative and not significant. The result is consistent with the result of Nguyen and Nguyen, (2020). The impact of short term debt to total assets ratio to the return on equity is positive and significant. The result is consistent with the result of Astuti, (2018). The impact of long term debt to total assets ratio to the return on equity is positive and not significant. The result is consistent with the result of Mardani and Indrawati, (2023).

CHAPTER-V

SUMMARY AND DISCUSSION

This chapter serves as the concluding section of the dissertation. Within it, the researcher provides a comprehensive summary of the study, outlines the key findings in the conclusion, and elucidates the practical implications of the research.

5.1 Summary

Determining how a company structures its capital is a critical element in making investment decisions, as it significantly influences overall performance. It involves combining long-term debt, equity, and preference shares, all of which are essential components of the financial structure and balance sheet. This study investigates various elements of capital structure, such as preferred stock, secured debt, and common stock equity, treated as independent variables. The study examines their impact on dependent variables including market share, survival rate, liquidity, deposits, and working capital ratio through statistical analysis. Using a quantitative approach and a causal comparative research design, the researcher evaluates capital structure as a financial construct, primarily focusing on the ratio of secured debt to common stock equity relative to the ratio of preferred stock to common stock equity. On the basis of the given background the study is conducted on "Impact of Capital Structure on Profitability of Nepalese Manufacturing Companies".

The problem statement of research what is the current status of capital structure and profitability of manufacturing companies in Nepal? Whether there is any relationship of financial leverage, growth, common stock and long term debt to the profitability? What is the impact of financial leverage, growth, common stock and long term debt to the profitability? The objectives of the research are to examine the current status of the capital structure and profitability of a manufacturing companies in Nepal, to analyze the relationship of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the profitability and to examine the impact of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the profitability. The descriptive and casual comparative research design is used for the research. The secondary data are collected from the annual report of the

respective selected sample manufacturing companies. The descriptive analysis, correlation analysis and regression analysis are used for the analysis of the data. The finding if the research are the Return on equity, Return on assets, total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets of minimum, maximum, mean and standard deviation. The result shows the different between minimum and maximum is very high and different between mean and minimum, mean and maximum is also high. Also the standard deviation is high. The overall result shows the current situation of the selected manufacturing variables are fluctuating. The relationship of total debt to total assets and, debt equity ratio, short term debt to total assets to the return on assets is negative and significant. The interest coverage ratio to the return on assets is positive and significant relationship. The long term debt to total assets to the return on assets is negative and not significant relationship. The total debt to total asset to the return on equity is negative and not significant relationship. The interest coverage ratio to the return on equity is positive and not significant relationship. The debt equity ratio, short term debt to total assets and long term debt to total assets ratio have negative and not significant relationship. The impact of total debt to total assets, deb equity ratio and short term debt to total asset ratio to the return on assets is significant. The impact of long term debt to total assets and interest coverage ratio to the return on assets is not significant. The impact of total debt to total assets, deb equity ratio and short term debt to total asset ratio to the return on equity is significant. The impact of interest coverage ratio and long term debt to total assets ratio is not significant to the return on equity.

5.2 Conclusion

The first objectives of research is to examine the current status of the capital structure and profitability of a manufacturing companies in Nepal. It is found that the Return on equity, Return on assets, total debt to total assets, total debt to total equity, interest coverage ratio, short term debt to total assets and long term debt to total assets of minimum, maximum, mean and standard deviation. The result shows the different between minimum and maximum is very high and different between mean and minimum, mean and maximum is also high. Also the standard deviation is high. In conclusion result shows the current situation of the selected manufacturing variables are fluctuating.

The second objective of research is to analyze the relationship of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the profitability. It is found that the relationship of total debt to total assets and, debt equity ratio, short term debt to total assets to the return on assets is negative and significant. The interest coverage ratio to the return on assets is positive and significant relationship. The long term debt to total assets to the return on assets is negative and not significant relationship. The total debt to total asset to the return on equity is negative and not significant relationship. The interest coverage ratio to the return on equity is positive and not significant relationship. The debt equity ratio, short term debt to total assets and long term debt to total assets ratio have negative and not significant relationship.

The third objective of research is to examine the impact of Total Debt to Total Assets, Debt equity ratio, Interest coverage ratio, short term debt to total assets and Long term debt to total assets to the profitability. It is found that the impact of total debt to total assets, deb equity ratio and short term debt to total asset ratio to the return on assets is significant. The impact of long term debt to total assets and interest coverage ratio to the return on assets is not significant. The impact of total debt to total assets, deb equity ratio and short term debt to total asset ratio to the return on equity is significant. The impact of interest coverage ratio and long term debt to total assets ratio is not significant to the return on equity.

5.3 Implications

Maintaining a lower debt level compared to equity enhances corporate value. Increasing equity through issuing more shares signals strong company performance, attracting investor confidence and investment. Investors favor companies demonstrating high quality, which drives equity growth and overall company value. Thus, there exists a direct correlation between capital structure and company worth, with higher capital structures typically enhancing company valuation. According to signaling theory, companies should provide transparent and accurate information about their capital structure to aid informed investor decisions, thereby maximizing shareholder welfare. The research findings have practical implications, addressing key questions regarding capital structure determinants in Nepal's manufacturing sector.

This research is particularly relevant given recent declines in shareholder equity returns among manufacturing firms. Exploring the current factors influencing manufacturing capital relations

is crucial. The study is beneficial for manufacturing company managers, boards of directors, and investors in making decisions related to capital structure and investments in manufacturing shares.

It also assists all companies in manufacturing-related decision-making processes. Furthermore, this research provides a foundation for future researchers exploring capital formation and building on previous studies.

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APPENDIX

Botteler Nepal Balaju Ltd

Rs. In Millon

Year (Balaju)	NPAT	TA	TE	TD	EBIT	IE	STD	LTD
2023	405	5640	2389	3251	371	38	2722	529
2022	197	4005	1980	2024	327	15	1447	573
2021	61	3771	1757	2012	41	24	1429	581
2020	-16	3628	1718	1906	-85	31	1377	527
2019	357	3413	1779	1633	402	32	1187	443
2018	307	2772	1517	1252	336	13	889	363
2017	244	2751	1213	1537	290	4	1184	353
2016	181	2142	1012	1127	232	17	826	301
2015	-99	2262	853	1406	89	29	1153	253
2014	170	2163	796	1569	212	25	1356	264

Source: Annual Report of Botteler Nepal Balaju ltd

Bottlers Nepal (Terai)

Rs. In Millon

Year (terai)	NPAT	TA	TE	TD	EBIT	IE	STD	LTD
2023	638	9240	3908	5332	1025	315	4568	784
2022	625	8328	3316	5011	1167	215	3673	1131
2021	423	8038	2691	5346	792	290	2600	1615
2020	5	8323	2266	6057	291	298	3888	2164
2019	453	7746	2340	5405	668	60	3979	1424
2018	741	4249	1987	2259	941	40	1888	371
2017	482	4203	1266	2934	649	62	2587	347

2016	276	3749	860	2888	446	103	2244	644
2015	186	3426	623	2799	418	142	2039	760
2014	175	3356	602	2745	395	131	2001	650

Source: Annual Report of Bottlers Nepal (Terai) ltd

Himalayan Distillery

Rs. In Millon

Year (disti)	NPAT	TA	TE	TD	EBIT	IE	STD	LTD
2023	660	3669	3354	314	949	4	282	32
2022	1056	3192	2844	347	1476	2	306	41
2021	1041	2309	2004	294	1476	17	269	35
2020	466	1995	1252	742	707	30	711	31
2019	537	1403	988	400	815	19	373	32
2018	294	1200	796	404	507	18	367	37
2017	48	1017	580	437	96	15	177	260
2016	248	959	612	345	428	12	196	148
2015	8	102	39	72	179	13	64	95
2014	13	80	39	44	280	14	44	113

Source: Annual Report of Himalayan Distillery ltd

BNB

Year (BNB)	ROA	ROE	TDTA	DER	ICR	STDTA	LTDTA
2023	7.180851	16.9527	57.64184	136.082	9.763158	48.26241	9.379433
2022	4.92	9.95	50.54	102.22	21.8	36.13	14.31
2021	1.62	3.47	53.35	114.51	1.71	37.89	15.41
2020	-0.44	-0.93	52.54	110.94	-2.74	37.95	14.53
2019	10.46	20.07	47.85	91.79	12.56	34.78	12.98
2018	11.08	20.24	45.17	82.53	25.85	32.07	13.1

2017	8.87	20.12	55.87	126.71	72.5	43.04	12.83
2016	8.45	17.89	52.61	111.36	13.65	38.56	14.05
2015	-4.38	-11.61	62.16	164.83	3.07	50.97	11.18
2014	7.86	21.36	72.54	197.11	8.48	62.69	12.21

BNT

Year (BNT)	ROA	ROE	TDTA	DER	ICR	STDTA	LTDTA
2023	6.904762	16.32549	57.70563	136.4381	3.253968	49.43723	8.484848
2022	7.5	18.85	60.17	151.12	5.43	44.1	13.58
2021	5.26	15.72	66.51	198.66	2.73	32.35	20.09
2020	0.06	0.22	72.77	267.3	0.98	46.71	26
2019	5.85	19.36	69.78	230.98	11.13	51.37	18.38
2018	17.44	37.29	53.17	113.69	23.53	44.43	8.73
2017	11.47	38.07	69.81	231.75	10.47	61.55	8.26
2016	7.36	32.09	77.03	335.81	4.33	59.86	17.18
2015	5.43	29.86	81.7	449.28	2.94	59.52	22.18
2014	5.21	29.07	81.79	455.98	3.02	59.62	19.37

HDL

Year (HDL)	ROA	ROE	TDTA	DER	ICR	STDTA	LTDTA
2023	17.98855	19.678	8.55819	9.361956	237.25	7.686018	0.872172
2022	33.08	37.13	10.87	12.2	59.04	9.59	1.28
2021	45.08	51.95	12.73	14.67	86.82	11.65	1.52
2020	23.36	37.22	37.19	59.27	23.57	35.64	1.55
2019	38.28	54.35	28.51	40.49	42.89	26.59	2.28
2018	24.5	36.93	33.67	50.75	28.17	30.58	3.08
2017	4.72	8.28	42.97	75.34	6.4	17.4	25.57

2016	25.86	40.52	35.97	56.37	35.67	20.44	15.43
2015	7.84	20.51	70.59	184.62	13.77	62.75	93.14
2014	16.25	33.33	55	112.82	20	55	141.25

Appendix 2: Spss Calculation

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	30	-4.38	45.08	12.1688	11.58131
ROE	30	-11.61	54.35	23.1422	15.22326
TDTA	30	8.56	81.79	52.5589	19.76081
DER	30	9.36	455.98	147.4994	112.97809
ICR	30	-2.74	237.25	26.2679	45.29806
STDTA	30	7.69	62.75	40.2872	16.08741
LTDTA	30	.87	141.25	19.2735	28.21979
Valid N (listwise)	30				

Correlations

		ROA	ROE	TDTA	DER	ICR	STDTA	LTDTA
ROA	Pearson Correlation	1	.854**	-.752**	-.541**	.458*	-.586**	-.156
	Sig. (2-tailed)		.000	.000	.002	.011	.001	.410
	N	30	30	30	30	30	30	30
ROE	Pearson Correlation	.854**	1	-.365*	-.142	.242	-.191	-.039
	Sig. (2-tailed)	.000		.047	.456	.197	.312	.836
	N	30	30	30	30	30	30	30
TDTA	Pearson Correlation	-.752**	-.365*	1	.862**	-.680**	.909**	.281
	Sig. (2-tailed)	.000	.047		.000	.000	.000	.132
	N	30	30	30	30	30	30	30
DER	Pearson Correlation	-.541**	-.142	.862**	1	-.449*	.755**	.138
	Sig. (2-tailed)	.002	.456	.000		.013	.000	.468
	N	30	30	30	30	30	30	30
ICR	Pearson Correlation	.458*	.242	-.680**	-.449*	1	-.590**	-.181
	Sig. (2-tailed)	.011	.197	.000	.013		.001	.339
	N	30	30	30	30	30	30	30
STDTA	Pearson Correlation	-.586**	-.191	.909**	.755**	-.590**	1	.377*
	Sig. (2-tailed)	.001	.312	.000	.000	.001		.040
	N	30	30	30	30	30	30	30

LTDTA	Pearson Correlation	-.156	-.039	.281	.138	-.181	.377*	1
	Sig. (2-tailed)	.410	.836	.132	.468	.339	.040	
	N	30	30	30	30	30	30	30

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

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

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.853[a]	.727	.670	6.65429

a. Predictors: (Constant), LTDTA, DER, ICR, STDTA, TDTA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2826.963	5	565.393	12.769	.000[b]
	Residual	1062.710	24	44.280		
	Total	3889.673	29			

a. Dependent Variable: ROA

b. Predictors: (Constant), LTDTA, DER, ICR, STDTA, TDTA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	51.102	6.910		7.395	.000
	TDTA	-1.288	.235	-2.198	-5.474	.000
	DER	.070	.024	.680	2.898	.008
	ICR	-.080	.041	-.313	-1.967	.061
	STDTA	.501	.196	.696	2.559	.017
	LTDTA	.021	.049	.050	.423	.676

a. Dependent Variable: ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667[a]	.444	.329	12.47308

a. Predictors: (Constant), LTDTA, DER, ICR, STDTA, TDTA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2986.813	5	597.363	3.840	.011[b]
	Residual	3733.868	24	155.578		
	Total	6720.680	29			

a. Dependent Variable: ROE

b. Predictors: (Constant), LTDTA, DER, ICR, STDTA, TDTA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	62.554	12.952		4.830	.000
	TDTA	-1.790	.441	-2.323	-4.058	.000
	DER	.131	.045	.969	2.897	.008
	ICR	-.105	.076	-.311	-1.375	.182
	STDTA	.933	.367	.986	2.543	.018
	LTDTA	.029	.091	.053	.315	.756

a. Dependent Variable: ROE

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