FACTORS THAT AFFECT CAPITAL STRUCTURE OF MANUFACTURING COMPANIES IN NEPAL

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

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Factors that Affect Capital Structure of Manufacturing Companies in Nepal"**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has 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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REPORT OF RESEARCH COMMITTEE

Ms. Sharada Rijal has defended research proposal entitled **"Factors that Affect Capital Structure of Manufacturing Companies in Nepal"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Asso. Prof. Dr. Kapil Khanal and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled **"Factors that Affect Capital Structure of Manufacturing Companies in Nepal"** presented by Sharada Rijal a 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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Sharada Rijal

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ABBREVIATIONS

CV	:	Coefficient of Variation
DNL	:	Dabur Nepal Limited
GDP	:	Gross Domestic Products
HDL	:	Himalayan Distillery Limited
LEV	:	Leverage
LIQ	:	Liquidity
LSIZE	:	Natural Logarithm of Size or Total Assets
Ltd.	:	Limited
ROA	:	Return on Total Assets
SCP	:	Structure Conduct Performance
SD	:	Standard Deviation
GROWTH	:	Sales Growth
TANG	:	Tangibility
TU	:	Tribhuvan University
UNL	:	Unilever Nepal Limited

ABSTRACT

This study investigates the factors that affect capital structure of manufacturing companies in Nepal. Secondary data was gathered from commercial banks of Nepal for ten year periods (2013/14-2022/23). This study used correlation and multiple regression analysis to analyze the data. The result shows that liquidity, size of companies, return on assets, growth and tangibility are important factors affecting the capital structure of manufacturing companies in Nepal. The correlation analysis shows that liquidity has significant negative relation with leverage ratio of manufacturing companies. Similarly, return on assets has significant negative relationship with leverage ratio whereas there is insignificant positive correlation between size of companies and leverage. Further, growth has insignificant negative correlation with leverage. Moreover, tangibility (TANG) has insignificant positive relationship with leverage ratio or capital structure of the manufacturing companies. The multiple regression analysis reveals that liquidity and return on assets has significant negative impact on leverage of manufacturing companies of Nepal. Similarly, size of companies has significant negative impact on leverage of manufacturing companies. However, growth has insignificant positive impact on leverage ratio of the manufacturing companies. Finally, tangibility has significant negative effect on leverage. Therefore, this study concluded that liquidity ratio, return on assets, size of companies, growth and tangibility are the key factors of capital structure in Nepalese manufacturing companies.

Keywords: Leverage, liquidity, return on total assets, growth and tangibility

CHAPTER I
INTRODUCTION

1.1 Background of the Study

A manufacturing business is typically founded with a number of objectives. Maximizing the wealth and profitability of its shareholders is the company's primary goal. Adding to the company's value is one technique to accomplish goals. The company's ongoing survival depends on its ability to turn a profit each year. Managers need to be careful about the judgments made because the company is expanding annually. The manager makes decisions based on the company's assets as well. Large corporations typically have more debt than small companies because they are more likely to have a more diversified capital source, which reduces their risk of bankruptcy and improves their ability to meet their obligations (Brigham & Houston, 2006).

The debt and equity used to finance a business make up its capital structure, or financial architecture. The capacity of a business to meet the expectations of its shareholders is closely linked to its capital structure. Understanding its foundation is very crucial and shouldn't be overlooked. In the language of finance, capital structure refers to how businesses employ a combination of debt, equity, and hybrid securities to finance their assets. Preferred stock, common equity, and long- and short-term debt make up a company's capital structure in its whole. The basis of a company's capital structure is how it raises money from various sources to fund its general operations and growth (Sarlija & Harc, 2012).

Studies have shown that in addition to firm-specific characteristics, macroeconomic conditions and events can have an impact on the capital structure. When monetary contractions induce a recession, large enterprises' total net debt issues increase. Expansions lower the risk of a company's debt by increasing taxable income, lowering the likelihood of bankruptcy, and increasing the value of collateral. It is believed that during recessions, agency issues are more prevalent. If managers are going to be penalized by debt, then leverage need to be counter-cyclical. Furthermore, a negative

association between economic development and leverage is predicted by the Pecking Order Theory (Frank & Goyal, 2009).

Shrestha (1985) noted that there was an imbalanced capital structure and low capital gearing in Nepal's public firms. The author also noted that there was no pattern in the overall trend of capital structure of Nepalese enterprises. Pradhan and Ang (1994) said that retained earnings are the most often utilized funding source in Nepalese businesses to cover their cash needs. The pecking order theory of capital structure is supported by this data. Baral (2004) notes that factors influencing the capital structure of Nepalese companies listed on the Nepal Stock Exchange (NEPSE) include size, business risk, growth rate, earning rate, dividend payout, debt servicing capability, and level of operating leverage.

In an attempt to understand capital structure, most corporate finance research has examined a variety of capital structure factors from different theoretical angles. Consideration has been given to firm-, industry-, and country-specific aspects in research. Their findings, however, differed according on the study's methodology, data gathering, and sample characteristics. Furthermore, studies have identified several factors affecting a company's financial leverage (Rajan & Zingales, 1995).

Numerous studies have been conducted in the literature on the relationship between a company's debt level and its size (Gupta, 1969; Titman & Wesseles, 1988). The trade-off principle states that large corporations frequently Numerous studies have examined growth as a factor influencing the financial leverage of corporations. According to the Pecking Order Theory, a growing business may opt to pursue debt rather than equity if it doesn't have enough retained earnings. According to the trade-off theories, material possessions provide lenders with security and collateral during hard times. Consequently, it is found that collateral value—that is, the ratio of fixed assets to total assets—is a significant factor influencing the amount of leverage.

Numerous studies have been conducted in Nepal to look into the global context as well as the variables impacting corporate capital structure. These studies and those carried out in other countries have likewise produced results that are in conflict with one another. Consequently, theories of capital structure remain susceptible to

differences of opinion regarding the standards that ought to guide management in establishing the proper leverage ratio. The goal of this study is to examine the factors that affect the capital structure of Nepali manufacturing companies in the context of the previously stated facts and environment.

1.2 Problem Statement

Many studies on capital structure theory have been published in recent years. Nonetheless, according to Myers's (1984) research, every capital structure theory is dependent on a specific set of conditions. Because of this, the theories are conditional theories of capital structure, each of which focuses on specific costs and advantages of distinct financing techniques, rather than being generic theories. To date, the majority of capital structure studies have relied on data from businesses in industrialized nations; very few have included data from emerging nations. There has been no research done on banks' capital structures, and it is unclear how they are put together and what internal (firm-specific) factors affect the decisions they make about corporate finance. Thus, there is a compelling need to carry out independent research on the factors influencing capital structure in banks given the distinct financial characteristics of banks and the context in which they function.

The capital structure and the process by which corporations select their capital structure are the subjects of debate in the field of corporate finance. One of the factors that is most frequently cited in the explanation of a company's debt load is its size. According to studies, debt as a source of funding is positively correlated with the firm's size (Crutchley & Hansen, 1989). More information about a larger company is anticipated to be available, which lowers the degree of information asymmetries in the market and facilitates borrowing money from lenders. A company's physical assets might be thought of as an accurate representation of the actual guarantees it can provide to its creditors. Its level of debt is influenced by the relative importance of those assets to total assets, and it increases as warrantees are given by the company to meet its obligations resulting from contractual debt (Chung, 1993; Rajan & Zingales, 1995). The relationship between the size of the businesses and the amount of debt capital in Nepal is still unknown.

Nasimi (2016) analyzed that tangibility had a major impact on capital structure, as did profitability, size, growth, tangibility, cost of financial distress, and non-debt tax shield impacts. In the case of India's service business, tangibility and profitability were important elements influencing the capital structure decision (Bagga & Kaur, 2016). However non-debt tax shield and tax had a positive significant impact on capital structure in manufacturing companies. Elangovan and Karthik (2017) came to the conclusion that, when considering leverage, tangibility, scale, growth potential, and liquidity are favorable factors whereas profitability, risk, tax, dividends, and interest cover are significantly negative. The existence of industry-specific factors influencing capital structure in the Indian capital market (Hedau et al., 2018).

With the exception of non-debt tax shield, all other factors such as tangibility, liquidity, profitability, debt-to-equity, growth rate, and firm size were found to be statistically significant in determining the capital structure of the listed Iron and Steel Manufacturing companies (Levi & Merlyn, 2018). Benozir (2019) discovered that the short-term and total debt ratios were positively impacted by business size, profitability, collateral value of the asset, and liquidity ratio. The short-term debt ratio and the total debt ratio are adversely impacted by dividend and non-debt tax shields. Dhodary (2019) came to the conclusion that the main factors influencing corporate capital structure in Nepalese trading and manufacturing companies are asset tangibility, profitability, liquidity, and interest coverage ratio.

Ashraf and Rezina's (2020) researched that profitability, business size, and liquidity all significantly positively correlated with the debt ratio, supporting the trade-off argument. However, there was no significant correlation found between the aforementioned ratio and tangibility, growth rate, or age. Timilsina (2020) demonstrated that while return on assets, asset growth, and liquidity are adversely connected with total debt to total assets, bank size and asset tangibility were positively correlated. Similarly, there is a negative correlation between total debt to total equity and return on assets, bank size, asset tangibility, asset growth, and liquidity. When seen in this light, the current study is predicated on variables that impact the capital structure of Nepali manufacturing firms. This study mainly addresses the following issues:

- What is the position of capital structure of selected manufacturing companies?

- Is there any relationship between specific factors and capital structure of manufacturing companies in Nepal?
- What is the impact of specific factors on capital structure of manufacturing companies in Nepal?

1.3 Objectives of the Study

The main objective of this study is to analyze the factors that affect capital structure of manufacturing companies in Nepal. The specific objectives are given below:

- To analyze the position of capital structure of selected manufacturing companies.
- To examine the relationship between specific factors and capital structure of manufacturing companies in Nepal.
- To evaluate the impact of specific factors on capital structure of manufacturing companies in Nepal.

1.4 Rational of the Study

Taking into account the growth and vitality of Nepal's manufacturing industry, evaluating the variables influencing capital structure decisions can assist interested parties in creating creative plans to maintain their dominance in the field. Consequently, this study is highly relevant not only for the researcher at this point in their academic career but also for the reasons listed below: First off, a lot of research has been done on capital structure decisions; however, less focus has been placed on the financial systems of emerging nations.

In order to contribute to the body of knowledge, this study evaluates the capital structure decision that impacts firm-specific manufacturing factors in developing countries like Nepal. Second, the study is essential for assisting policymakers, auditors, managers, and creditors in making well-informed decisions and policies that consider how Nepal's non-financial industry is financed. Finally, the study greatly advances future research in numerous economic sectors by providing an image of the company level drivers impacting capital structure decisions of manufacturing businesses in Nepal.

1.5 Limitations of the Study

This study has the following limitations which are as follows;

- This study has taken three manufacturing companies namely; Unilever Nepal Limited, Dabur Nepal Privated Limited and Himalayan Distillery Limited to analyze the factors affecting capital structure.
- The study covers only the latest ten fiscal years i.e. 2013/14 to 2022/23.
- This study only focuses on capital structure and ignores other aspects of companies.
- The study is based on secondary data.
- This study used descriptive statistic, correlation analysis and multiple regression analysis to analyze the data.

CHAPTER- II
LITERATURE REVIEW

A critical and fundamental phase in every research endeavor is the literature evaluation. In order to become aware of all prior studies, their flaws, and their conclusions so that fresh research can be conducted, it comprises reviewing research studies or other pertinent assertions in the relevant field of study. This chapter can be related to by looking at and evaluating a few pertinent books, articles, published and unpublished works in various economic journals, periodicals, newspapers, the annual balance sheet of the relevant companies, earlier theses on related topics, and topic-related internet searches. This chapter is divided into two sections: a theoretical review and an empirical review.

2.1 Theoritical Review

2.1.1 Theories of Capital Structure

Diverse perspectives exist about capital structure. Nonetheless, this paper reviews a number of ideas, including the trade-off theory, agency theory, capital structure theory, Modigliani and Miller (MM) theory, and static trade-off theory.

2.1.1.1 Capital Structure Theory

Both Modigliani and Miller (1958) introduced the theory of capital structure as well as the basic idea of capital structure. According to capital structure theory, a company's capital structure has no bearing on the firm's value. The market value of the is unaffected by whether it is heavily leveraged or has a smaller debt component. The operational profitability of a company determine its market value (Modigliani & Miller, 1958).

The way a business finances its assets is known as its capital structure, and it affects the company's capital adequacy. A business can finance its operations through debt, equity, or various mixes of the two. A company's capital structure may consist of more debt than equity, more equity than debt, only one of the two components, or an equal portion of both debt and stock. Every strategy has benefits and advantages of its own (Kwan & Eisenbeis, 1995).

Numerous scholars have employed capital structure theory in their theoretical and empirical investigations about the capital structure of financial or non-financial domains. The primary focus of these studies is the non-financial sector (Bourke, 1989), very few studies have been done previously on the capital structure of the financial sector and even fewer on the factors that influence the Capital Adequacy Ratio (CAR) in various sectors, particularly in developing nations.

2.1.1.2 Trade-Off Theory

According to the trade-off theory of capital structure, a business weighs the costs and advantages of using different levels of debt and equity financing to choose how much of each to employ. The traditional version of the theory took into account striking a balance between the tax benefits of debt and the deadweight costs of bankruptcy. It claims that there are costs associated with financing with debt, such as the expenses of financial difficulty, as well as benefits associated with debt, such as tax advantages (Kraus & Litzenberger, 1973).

Anticipated expenses linked to financial difficulties significantly reduce a company's worth, acting as a counterbalance to the tax benefits of taking on more debt. Conversely, there is a claim that capital is extremely expensive. In order to offset the higher bankruptcy risk linked to the likelihood of financial difficulties and a correspondingly low capital ratio, investors seek a premium. Companies must take on greater risks in order to earn a bigger risk premium on their investments in order to produce a "adequate" return on equity. This is true the higher the level of capital. Therefore, in order to avoid an inefficient cost of capital, more risk calls for higher percentages of equity in the company's capital structure. It is unclear what the buffer effect and this negative incentive effect will ultimately result in. It's feasible that when capital levels rise, the default risk will rise as well (Brealey & Myers, 2003).

2.1.1.3 Agency Theory

According to agency theory, a firm is a "nexus of contracts" made up of several resource providers. The two main players in agency theory are agents, who run the day-to-day operations of the company, and principals, who provide funding. The organization incurs agency costs because the agents' interests aren't always the

principal's. These costs include the costs of keeping an eye on agents' behavior, such as budgetary constraints, pay policies (such as stock options, bonuses, and other incentives), and the money lost on sales as a result of operating guidelines and management limits.

The expenses of sub-optimal decisions—described as choices that are made with the interests of agents rather than principals—as well as the bonding costs of the agents are also included. According to agency theory, managerial decisions in today's widely held shares of corporations deviate from what is necessary to optimize returns to shareholders (Pratt & Zeckhauser, 1985). Agency theory outlines strategies to minimize agency loss, such as manager incentive programs that pay them for maximizing shareholder interests.

2.1.1.4 Modigliani and Miller (MM) Theory

The groundbreaking research on capital structure done by Modigliani and Miller in 1958 served as a foundation for the construction of the theoretical framework that would eventually house a number of different ideas related to corporate finance. The well-known idea of "capital structure Irrelevance," which holds that financial leverage has no bearing on a firm's value, was reached by Modigliani and Miller in 1958. Their hypothesis, however, was predicated on extremely narrow premises that are untrue in practice. These presumptions include ideal capital markets, homogeneous expectations, no taxes, and no transaction costs. The concept of a "optimal" capital structure, which optimizes the firm's worth and hence lowers its overall cost of capital, is brought about by the existence of bankruptcy costs and tax advantages associated with interest payments.

In 1958, Modigliani and Miller reexamined their previous stance by including tax benefits as factors influencing a firm's capital structure. The fact that interest is a tax-deductible expense is the main characteristic of taxes. A company that pays taxes gets a "tax-shield" in the form of decreased taxes paid, which partially offsets the interest. Therefore, Modigliani and Miller (1963) suggested using as much loan capital as possible to boost profitability and thereby optimize enterprises' value.

2.1.1.5 Static Trade-off Theory

Diverse capital structure theories exist about the connection between profitability and leverage. According to the trade-off argument, businesses typically choose debt when it comes to tax implications. Therefore, profitable businesses would use more debt since higher leverage would raise the value of their debt tax shield (Myers, 1984). Additionally, it says that businesses aim for debt levels that strike a compromise between the tax benefits of taking on more debt and the costs of potential financial hardship. In addition to the tax benefits of debt, extremely prosperous companies may be persuaded to include additional debt in their capital structure due to agency and bankruptcy expenses. This is due to the fact that extremely profitable businesses have a higher propensity to repay debt, which lowers their chance of bankruptcy. In order to optimize their tax shield at more enticing loan charges, they will therefore demand additional debt. The trade-off theory predicts a positive link between leverage and profitability in light of these factors.

2.1.1.6 Signaling Hypothesis Theory

Ross (1977) presented the capital structure management signaling hypothesis, which shows a positive association between profitability and leverage in contrast to the pecking order theory, which asserts a negative relationship between the two. The fundamental tenet of the signaling hypothesis is that outside investors are informed about insider information by the capital structure decision. Insiders, or managers, are aware of the true distribution of firm returns, but investors are not, according to Ross. Since debt might result in managers losing their jobs if their company goes bankrupt, managers are more at ease with equity than debt. Keeping in mind this, managers' continued addition of debt to the company's capital structure indicates their confidence in the business and serves as a "signal of higher future cash flow." High levels of debt are viewed by investors as indicators of "higher quality," hence profitability is anticipated to positively correlate with leverage. The literature reveals conflicting findings about how signaling influences capital structure choices.

Leverage and signaling have a negative relationship (Jensen et al., 1992). In their analysis, the dividend payment serves as a symbol for signaling, and in this instance, debt concerns act as a stand-in for agency issues. When it comes

to accessing the equity market, a company with a reputation for paying dividends as a means of signaling faces with less asymmetric information. A positive association is seen when dividend payments are indicative of improved financial health because they increase the ability to take on debt. Bhaduri (2002) discovered, however, that signaling didn't seem to have much of an impact on leverage.

2.1.1.7 Pecking Order Theory of Capital Structure

The idea of asymmetric knowledge between firm insiders and outsiders, as well as the ensuing adverse selection issues, is the foundation of the pecking order theory, which was first put forth (Myers & Mujluf, 1984). In the study of capital structure, this theory is yet another crucial one. Since managers are more likely than outside investors to know the underlying value of a company's assets and potential for future growth, investors constantly monitor financing decisions in order to get information about a company's potential. Pecking order theory does not suggest an ideal debt ratio, in contrast to trade-off theory. Instead, it makes the argument that a company's capital structure is a function of its ongoing financing needs as well as its efforts to reduce the costs associated with adverse selection.

Since they are insiders of the company and possess superior knowledge of its worth, managers are hesitant to issue new equity when they believe the company is undervalued because doing so dilutes the shares held by current owners. Stated differently, the new issuance would benefit new shareholders at the expense of existing shareholders, who are likely to oppose. A company will only issue equity if its managers believe the stock is currently overpriced. A company effectively signals to the market that its equity is excessively expensive by declaring an issue, and the empirically observed decline in share prices on the day of the announcement is one evidence of adverse selection costs. As a result, using internal funds wherever possible is the best course of action for a company to meet its funding needs because it eliminates all asymmetric knowledge issues. A company will issue debt as a backup option if its internal funds run out since, as a fixed claim, debt is theoretically less susceptible to information asymmetry than stock, which acts as a residual claim. Equity is only the absolute last option for funding; hybrid securities, such junior debt

or convertible debt, are the next best thing. Accordingly, the pecking order hypothesis assigns a ranking to financing sources based on how much information asymmetry affects them; internal funds have the lowest adverse selection costs, whereas stock has the greatest.

2.1.1.8 Market Timing Theory of Capital Structure

The main argument of market timing theory is that capital structure changes as a result of previous attempts to time the equities market (Baker & Wurgler 2002). They provide evidence that market timing initiatives have a long-lasting effect on corporate capital structure, with businesses favoring debt in certain situations and equity when the relative cost of equity is low. They contend that the weighted average of a company's historical market-to-book ratios has a persistently negative impact on firm leverage, and that this effect is consistent with neither the trade-off hypothesis nor the pecking order theory. Rather, the authors advise businesses to align their equity offerings with the state of the stock market. They argue for an ad hoc theory of capital structure, in which the observable capital structure is just the accumulation of earlier attempts to time the equity market, rather than the conclusion of a dynamic optimization approach.

Research indicates that market timing influences financing activity and increases short-term deviations from leverage targets (Leary & Roberts 2005; Kayhan & Titman 2007). These studies also show that deviations do reverse, indicating that the target's fundamental trade-offs have a significant impact on firm value. Overall, these results are consistent with a modified version of the capital structure's dynamic trade-off theory that takes market timing into account as a short-term determinant.

2.1.2 Factors that affect Capital Structure

2.1.2.1 Liquidity

One of the unique independent variables employed in the study of capital structure determinants for enterprises is liquidity. Liquidity is essentially a company's capacity to pay short-term debts when they fall due. There are two viewpoints. Concept on how leverage and company liquidity are related. According to the trade-off theory, a positive relationship between leverage and liquidity is presumable. According to this

hypothesis, a corporation with greater liquidity (more current assets) will typically borrow money from outside sources more frequently since they can pay off their debts faster.

Furthermore, because they are better able to fulfill their short-term obligations, organizations with higher levels of liquidity may be able to support higher levels of leverage. As a result, a high asset liquidity ratio may be advantageous since it indicates that the company can pay its debts with ease and has a lower default risk. Additionally, the proof that the degree of leverage and liquidity are directly related (Faris, 2010).

2.1.2.2 Profitability

The relationship between capital structure and a company's profitability can be described through the use of the pecking order hypothesis, as previously mentioned. According to the hypothesis, when it comes to funding business projects or operations, corporations would initially use internally generated funds (IGF) rather than funds obtained from outside the company. As a result, there is an information asymmetry, as defined by Myers (1984), between the managers who are inside stakeholders and the less informed other stakeholders, including market participants. The company would use the least risky source of funds before using the most risky one. This occurs because managers of a firm are better informed about the (financial) issues of the firm than the other stakeholders outside. According to this claim, it is sufficient to state that companies with higher profitability and easier access to the IGF would rely on them, as opposed to companies with extremely low retain earnings that must rely on outside funding sources (debt). Therefore, the primary and most dependable source of funding with the lowest cost is retain revenues. Consequently, Titman and Wessels (1988) agreed that businesses with extremely high profit margins would often maintain somewhat lower debt ratios since they can raise the capital required for internal business operations.

2.1.2.3 Company Size

One of the key determinants of a company's capital structure or leverage is its size; the larger the company in terms of sales or turnover, the higher the amount of debt it

will employ. This is because larger businesses may tolerate higher debt ratios since they have more revenue streams or business segments and, as a result, experience less income swings. Larger organizations are typically given preference when receiving financing from external fund providers since they are perceived as having less operational or business risk. Furthermore, loan servicing and interest should not be difficult to repay with rising turnover levels that can be converted into profit. Nonetheless, smaller businesses typically incur higher costs to address asymmetric information concerns with outside funding sources, which limits their ability to accept external recognition for their operations (Oppong-Boakye et al., 2013).

2.1.2.4 Growth Opportunities

Pecking order theory states that emerging companies might use retain earnings to support short-term growth or development initiatives. However, pressure on retain earnings would suggest that when internally produced funds run out, the company will need to go outside for funding to support its expansion. Mixed results have been found in the research about the relationship between leverage and growth prospects. According to Myers (1977), there is a negative correlation between growth rate and leverage. This is because fast-growing enterprises typically lack tax shields, making the advantage of tax deductibility of financing costs less valuable to them. Michaelas et al. (1999) found a favorable correlation between a company's leverage and long-term liabilities and its potential for future growth and development. Additionally, Oppong-Boakye et al. (2013) discovered a negative relationship between debt and growth.

2.1.2.5 Firm risk

One of the key determinants of a firm's capital structure has been shown to be the degree of risk in the business. According to Catanias (1983), a company's operational hazard determines the optimal debt-to-equity ratio, which can be explained by the tax shield bankruptcy cost hypothesis. Given the costs associated with agency and bankruptcy matters, there is no reason for a business to take full advantage of the 100 percent tax benefits offered by the static model structure. A corporation is more motivated to reduce leverage in its debt-to-equity ratio or capital structure as the likelihood of incurring these charges increases. Operating risk is still one of the variable factors that affect a company's exposure to this kind of risk since it raises the

likelihood that it won't be able to pay its debts and will thus be subject to higher costs as its profit stream becomes less predictable. Businesses that have higher levels of volatility in their earnings growth are more likely to run into situations where their cash flow may not be sufficient to pay down their debt. According to Kim and Sorensen (1986), businesses with a high likelihood of business risk are less able to manage financial risk and, as a result, would take on less debt. On the other hand, Oppong-Boakye et al. (2013) proposed that companies with extremely high operational risk are more likely to have high levels of gearing, as equity investors are hesitant to fund companies with significant operational risk. These companies' management typically relies more on debt than equity.

2.1.2.6 Tangible Assets

Due to the collateral value (tangibility) of its fixed assets, a company with a lot of them can readily raise loans at lower rates. Because they may get loans at a lower interest rate, companies with a higher ratio of tangible assets are more likely to borrow money. As a result, it is anticipated that the tangibility of assets and the firm's leverage will positively relate.

According to Harris and Raviv (1991) and Titman and Wessels (1988), tangibility may play a significant role in determining the firm's debt levels. Debt that is secured by assets limits the borrower's use of the money for a particular project and increases the guarantee of repayment to the creditors. Consequently, businesses with a large amount of fixed assets would also have a significant debt load.

2.1.2.7 Age of Companies

The age of a company is seen as a reasonable benchmark for evaluating its social image in capital structure models. As the company operates for a longer period of time, it steadily develops a positive business image for itself, which is the reputation or goodwill it gains in relation to its management and administration, products, and, most importantly, its ability to fulfill its obligations to its stakeholders on time as acknowledged by the market (Diamond, 1989) and its credit worthiness.

2.2 Empirical Review

Nasimi (2016) analyzed determinants of capital structure: An empirical evidence, US). The objective of this study was to determine the key factors influencing the capital structure of fifteen companies that are listed on the New York Stock Exchange's S&P 500 index. Six independent factors have been tested for their effects on three dependent variables using multiple regression analysis. The findings demonstrated that tangibility significantly affects the three dependent variables—total debt ratio, long-term debt ratio, and short-term debt ratio—among the six independent variables, which stand for profitability, size, growth, tangibility, cost of financial distress, and non-debt tax shield effects. Thus, the factors that determine the capital structure of IT companies in the US are profitability, size, growth, tangibility, cost of financial distress, and non-debt tax shield effects.

Bagga and Kaur (2016) analyzed capital structure: a study of manufacturing vis-a-vis service industries in India. Finding the important elements influencing Indian manufacturing enterprises' capital structure decisions was the study's primary goal. In order to accomplish this goal, 196 companies throughout the course of 11 years were sampled, yielding a total of 21560 observations. Ordinary least square regression is utilized for several years to ascertain the association between capital structure (dependent variable) and nine independent factors. The study's conclusions showed that, while tangibility and profitability are important elements influencing capital structure decisions in India's service sector, non-debt tax shield and tax have a positive and significant impact on capital structure in manufacturing businesses.

Elangovan and Karthik (2017) examined determinants of capital structure: Empirical study on select companies in India. The study concentrated on factors that influence the capital structure of particular Indian businesses. Leverage ratio was used as a stand-in for capital structure, and nine independent variables—profitability, tangibility, size, growth opportunity, risk, liquidity, tax, dividend, and interest—were chosen as determinants. The sample consisted of four distinct companies, and the study was conducted between 2006 and 2016. Regression analysis and correlation were the statistical techniques employed in this investigation. The data illustrates that while profitability, risk, taxation, dividends, and interest cover were significantly

unfavorable when using leverage, tangibility, scale, growth potential, and liquidity were all positive. It was attempted to reduce the debt fund for the chosen enterprises' capital structure. It will contribute to a rise in profitability.

Hedau et al. (2018) analyzed determinants of capital structure: A sector specific approach. Using data from 2008 to 2018, this study examined the similarities and differences in the factors influencing capital structure across various segments of the Indian capital market. The dependent variable, the debt to equity ratio, was broken down into its explanatory and dependent components using an OLS regression model. The current study was one of the very few that, at least in relation to the Indian capital market, focused on distinct industries. The study's conclusions support the existence of sector-specific capital structure drivers in the Indian capital market. The study has an impact on the finance industry by deepening our knowledge of the range of variables affecting the capital structure of businesses across industries.

Pervin and Nowreen (2018) examined determinants of Capital structure of commercial banks in Bangladesh listed in the Dhaka Stock Exchange Limited. The objective of the study was to identify the factors and examine how they affected Bangladeshi commercial banks' capital structures. Data from 30 private commercial banks in Bangladesh that were listed on the Dhaka Stock Exchange (DSE) Limited were used for the study's purposes throughout a ten-year period, from 2007 to 2016. The study employed an econometric methodology to investigate the correlation between the capital structure of banks and their primary factors. The coefficient that quantifies the degree of influence of the determinants on the capital structure of banks is numerically estimated using the ordinary least square (OLS) technique. The results of the analysis showed that risk had a substantial positive relationship with the capital structure of the banking industry, whereas profitability and bank size had a significant negative relationship. Age, tangibility, liquidity, and asset growth did not significantly affect the capital structure of Bangladesh's banking sector.

Levi and Merlyn (2018) investigated an empirical study on capital structure decision of select iron and steel manufacturing companies in India. This study attempted to investigate the unique firm characteristics that impact capital structure decisions, which are crucial for all businesses, particularly Indian iron and steel manufacturing

organizations. The top ten Iron and Steel Manufacturing businesses listed on the NSE are chosen based on their market capitalization. Accounting data from businesses spanning a ten-year period, from 2008 to 2017, was selected using a multi regression model, and an empirical investigation was carried out. In the context of India, firm-specific characteristics such tangibility, firm size, liquidity, debt-equity, non-debt tax shield, growth rate, and profitability were examined to determine their impact on the leverage structure of a sample of iron and steel manufacturing enterprises. Leverage total was considered the dependent variable, whereas firm-specific variables were considered the independent variables. The study concluded that all other parameters, such as tangibility, liquidity, profitability, debt-equity, growth rate, and firm size, were statistically significant drivers of the capital structure of the listed iron and steel manufacturing companies, with the exception of non-debt tax shield.

Benozir (2019) analyzed determinants of capital structure: a study on listed manufacturing companies of Bangladesh. This study determined the significant and trustworthy firm-specific elements that affect the capital structure of Bangladeshi listed manufacturing enterprises. This study examined data from 30 manufacturing companies registered on the Dhaka Stock Exchange over a 13-year period (FY 2007-2019) across eight distinct industries. Nine independent variables were taken as proxies for the determinants, including firm size, age, profitability, non-debt tax shields, collateral value of asset, tax, dividend, liquidity ratio, and growth rate of asset. Three leverage ratios—the total debt ratio, long-term debt ratio, and short-term debt ratio—were used as capital structure measures at their book value. Six important determinants were identified by random effect to bit regression analysis and panel corrected standard error (PCSE). The total debt ratio and the short-term debt ratio were positively impacted by firm size, asset collateral value, liquidity ratio, and profitability. The short-term debt ratio and the total debt ratio are adversely impacted by dividend and non-debt tax shields. Age has a negative relationship with both overall debt and debt over time. Long-term loans are positively impacted by firm size and taxation, whereas short-term debt is negatively impacted by taxation. This analysis determined the growth rate to be negligible.

Dhodary (2019) analyzed determinants of capital structure on trading and manufacturing enterprises: a case of Nepal. The primary objective of this study was to

investigate the factors that influence capital structure in Nepalese manufacturing and trading companies. Secondary sources provided the data that were needed to complete the study. Financial information for ten fiscal years, from F/Y 2005/2006 to F/Y 2015/2016, for each enterprise. The study came to the conclusion that the main factors influencing corporate capital structure in Nepalese trading and manufacturing companies are asset tangibility, profitability, liquidity, and interest coverage ratio.

Ashraf and Rezina (2020) investigated factors affecting the capital structure of the textile industry in Bangladesh: an inferential study. The study's primary objective was to determine the key variables affecting the capital structure of textile companies and the relationships between them in the setting of Bangladesh. Prior to determining the factors that influence textile enterprises, the researchers looked at various conditional theories of capital structure. Panel data for textile businesses listed in the A category on the Dhaka Stock Exchange were chosen for this purpose. Multiple regression models covering the years 2008–2017 were created by the study. Firm profitability, tangibility, growth, age, liquidity, and size are important independent variables. The dependent variable in this case was the leverage ratio. In line with the trade-off principle, the study discovered that profitability, business size, and liquidity had a substantial positive association with the debt ratio. However, there was no significant correlation found between the aforementioned ratio and tangibility, growth rate, or age. Financial managers will find the study's conclusions useful in making informed judgments about fund borrowing and equity financing. After that, they can responsibly employ borrowing to maintain the market worth of their businesses.

Timilsina (2020) investigated determinants of capital structure in Nepalese commercial banks. The factors influencing capital structure in Nepalese commercial banks were investigated in this study. Regression models and Pearson's correlation coefficients are estimated to examine the importance and influence of bank-specific variables on the capital structure of commercial banks in Nepal. The findings indicated that while return on assets, asset growth, and liquidity were negatively connected with total debt to total assets, bank size and asset tangibility positively correlated with total debt to total assets. Similarly, there was a negative correlation between total debt to total equity and return on assets, bank size, asset tangibility, asset growth, and liquidity.

Nguyen and Tran (2020) examined factors affecting capital structure of listed construction companies on Hanoi stock exchange. Determining the impact of various factors on the capital structure of construction companies listed on the Hanoi Stock Exchange was the goal of this article. The information in this article was gathered and computed from the 2012 to 2019 financial statements of fifty-four construction companies that were listed on the Hanoi Stock Exchange. This paper has developed a regression model to ascertain the relationship between intrinsic factors influencing the capital structure of construction companies listed on the Hanoi Stock Exchange, using panel data and the quantitative analytic tool E-view. The debt-to-equity ratio is used in the study to calculate the dependent variable, which is capital structure. Independent factors include growth, size, loan interest rate, profitability, coefficient of solvency, and tangible asset structure. The findings demonstrated that while business size and expansion have a beneficial impact on capital structure, profitability has the reverse effect. There is no relationship between capital structure and the solvency of short-term debt, the average loan interest rate, or the composition of physical assets.

Haa and Tub (2021) examined factors affecting capital structure of businesses in real estate sector on stock exchange. A study on the variables influencing capital structure has been done. The study employed testing to choose the best model using the GLS (generalized least squared) estimate method in relation to panel data. The findings of the research indicated that the number of years of operation, the ratio of fixed assets to total assets, and lucrative real estate firms all had a negative impact on capital structure. In contrast, three characteristics that positively impacted capital structure were expansion, size, and renewable energy. Furthermore, the capital structure choices made by real estate companies were unaffected by the corporate income tax rate. Research has led to advice for real estate industry leaders on how to create a financing structure that works.

Ihsan and Saim (2021) analyzed factors influencing SMEs’ capital structure: a comparative analysis from Turkey. The objective of this research was to examine the variables influencing small and medium-sized enterprises' (SMEs) capital structure choices in Turkey between 2007 and 2018, using a comparative framework. The study's findings indicate that there was no discernible variation in firm size. Second, SMEs' financial debt rises in tandem with their asset growth and increased efficiency.

Growing assets result in long-term debt, whereas increasing efficiency results in short-term borrowing. However, long-term borrowing declines as profitability rises. According to the data, SMEs attempt to use internal resources to meet their financial demands, which is consistent with the pecking order idea. Thirdly, there is no connection found between financial debt and the asset structure, risk, and liquidity strength of SMEs. This result suggests that SMEs did not act with agency charges or financial strain in mind. In other words, their actions were inconsistent with the trade-off principle.

Nga and Long (2021) investigated the choice of capital structure: a study on energy industry in a developing country. This study set out to investigate the key variables that, in the context of a growing economy, significantly affect the capital structure of the energy sector. This study conducted a survey utilizing the generalized least square (GLS) approach using a sample data set of 250 energy enterprises from 2010 to 2019. Profitability, firm age, state shareholding, depreciation tax shield, etc. were the primary elements considered in this investigation. The study discovered that, with the exception of business growth, all variables—such as firm performance, age, size, asset structure, short-term solvency, and depreciation—had a substantial impact on the capital structure decision of the firm in the context of the energy sector in a developing nation. In addition, it was discovered that the size of the company and its asset structure had a beneficial impact, however other characteristics including depreciation, asset age, performance, and short-term solvency had a negative impact. We also infer from this research that financial managers have historically used the idea of representational cost and the notion of pecking order as a foundation for developing sound capital structures for companies.

Panda et al. (2023) analyzed receptivity of capital structure with financial flexibility: A study on manufacturing firms. The aim of this research was to examine the relative sensitivity of static capital structure decisions in the context of financial flexibility, as well as their dynamic responses to shocks. We employ Panel Vector Autoregression (Panel-VAR) and Panel Corrected Standard Error (PCSE) models on a sample of 2,094 listed Indian Manufacturing firms from 2009 to 2019 in order to capture this. This study discovered that while growth opportunity had a negligible beneficial impact on capital structure, asset tangibility, effective tax rate, profitability, and size

had a considerable negative impact on capital structure (debt ratio and leverage ratio). Additionally, non-debt tax shields had a negligible positive effect on leverage and a large positive impact on the debt ratio. Furthermore, liquidity significantly impacted the leverage ratio but only marginally affected the debt ratio. These results can help policymakers and company management assess the drawbacks of basing their debt structure on the idea of financial flexibility.

Table 1

Summary of Empirical Review

S.N.	Author/ Date	Title	Objective	Methodology	Major Findings
1	Nasimi, R. N. (2016).	Determinants of capital structure: An empirical evidence, US).	This study developed a study on identifying the most significant determinants of capital structure of 15 firms listed on the S & P 500 index	Multiple regression analysis has been employed for testing the impact of six independent variables on three dependent variables9	The findings demonstrated that tangibility significantly affects the three dependent variables—total debt ratio, long-term debt ratio, and short-term debt ratio—among the six independent variables, which stand for profitability, size, growth, tangibility, cost of financial distress, and non-debt tax shield effects.
2	Bagga, R., & Kaur, J. (2016).	Capital structure: A study of manufacturing vis-a-vis service industries in India.	The main objective of the study was to determine the significant factors affecting capital structure decision of manufacturing companies in India.	This study used multiple regression analysis to analyze the data.	The study's conclusions showed that taxes and non-debt tax shields have a positive, considerable impact on capital structure in manufacturing industries, but in India's service sector, tangibility and profitability have a large impact on capital structure decisions.
3	Elangovan, R., & Karthik, P. (2017).	Determinants of capital structure: Empirical study on select companies in India.	The study focused on determinants of the capital structure of select Indian companies.	The statistical tools used in the study were correlation and regression analysis.	This analysis discovered that while profitability, risk, tax, dividend, and interest cover were significantly negative with leverage, tangibility, scale, growth potential, and liquidity were all favorable.
4	Hedau, A., Singh, S., & Janor, H.	Determinants of capital structure: A sector specific	This study dealt with the analysis of similarities and dissimilarities of determinants	OLS regression model was used to decompose the influence	The study's conclusions support the existence of sector-specific capital structure drivers in the Indian capital market. The study has an impact on the

	(2018).	approach.	of capital structure among different sectors of Indian capital market	of explanatory variable on debt to equity ratio, which was dependent variable.	finance industry by deepening our knowledge of the range of variables affecting the capital structure of businesses across industries.
5	Pervin, R., & Nowreen, R. (2018).	Determinants of capital structure of commercial banks in Bangladesh listed in the Dhaka stock exchange limited	The study attempted to indentify the determinants and analyze their impact on capital structure of commercial banks in Bangladesh.	The ordinary least square (OLS) technique is used to analyze the data.	This analysis demonstrated that while risk had a substantial positive relationship with the capital structure of the banking industry, profitability and bank size had a significant negative relationship. Age, tangibility, liquidity, and asset growth did not significantly affect the capital structure of Bangladesh's banking sector.
6	Levi, S., & Merlyn, S. (2018).	An empirical study on capital structure decision of select iron and steel manufacturing companies in India.	This study tried to examine the firm precise factors which determine the capital structure decisions	Using multi regression model, accounting data of companies over a period of 10 years from 2008-2017 was chosen	This study discovered that every other component, including tangibility, liquidity, profitability, debt-equity, growth rate, and firm size, was a statistically significant predictor of the capital structure of the listed iron and steel manufacturing businesses, with the exception of non-debt tax shield.
7	Benozir, N. J. (2019).	Determinants of capital structure: A study on listed manufacturing companies of Bangladesh.	This study identified the reliable and noteworthy firm-specific factors which determine the capital structure of listed manufacturing companies of Bangladesh.	This study used multiple regression analysis to analyze the data.	According to this study, the overall debt ratio and the short-term debt ratio were positively impacted by business size, profitability, the liquidity ratio, and the collateral value of the asset. The short-term debt ratio and the total debt ratio are adversely impacted by dividend and non-debt tax shields. Age has a negative relationship with both overall debt and debt over time.
8	Dhodary, S. (2019).	Determinants of capital	This study mainly aimed at examining the	This study used multiple regression	The study discovered that the primary factors influencing corporate capital structure in

		structure on trading and manufacturing enterprises: A case of Nepal.	determinants of capital structure in Nepalese trading and manufacturing firms.	analysis to analyze the data.	Nepalese trading and manufacturing enterprises are asset tangibility, profitability, liquidity, and interest coverage ratio.
9	Ashraf, A., & Rezina, S. (2020).	Factors affecting the capital structure of the textile industry in Bangladesh: An inferential study.	The main objective of the study was to recognize the major factors influencing the capital structure of the textile firms.	The study developed multiple regression models for the period 2008 to 2017.	In line with the trade-off principle, the study discovered that profitability, business size, and liquidity had a substantial positive association with the debt ratio. However, there was no significant correlation found between the aforementioned ratio and tangibility, growth rate, or age.
10	Timilsina, L. P. (2020).	Determinants of capital structure in Nepalese commercial banks.	This study examined the determinants of capital structure in Nepalese commercial banks.	The Pearson's correlation coefficients and regression models are estimated to analyze the data.	The findings indicated that while return on assets, asset growth, and liquidity were negatively connected with total debt to total assets, bank size and asset tangibility positively correlated with total debt to total assets. Similarly, there was a negative correlation between total debt to total equity and return on assets, bank size, asset tangibility, asset growth, and liquidity.
11	Nguyen, N. M., & Tran, K. T. (2020).	Factors affecting capital structure of listed construction companies on Hanoi stock exchange.	The aim of this article was to determine the influence of factors on the capital structure of construction companies listed on the Hanoi Stock Exchange.	With the application of E-view software in quantitative analysis to build panel data regression model.	The findings demonstrated that while business size and expansion have a beneficial impact on capital structure, profitability has the reverse effect. There is no relationship between capital structure and the variables measuring short-term debt solvency, average loan interest rate, and tangible asset structure.
12	Haa, N. H. P., & Tub, M. T. (2021).	Factors affecting capital structure of businesses in real estate sector on	The study has been conducted on factors affecting capital structure.	The study used GLS (generalized least squared) estimation method related to panel data as well as testing	This study demonstrated that the number of years of operation, the ratio of fixed assets to total assets, and lucrative real estate firms all had a negative impact on capital structure. In contrast, three variables that positively impacted capital structure

		stock exchange.		to select the most appropriate model.	were expansion, size, and renewable energy.
13	Ihsan, D., & Saim, K. (2021).	Factors influencing SMEs' capital structure: a comparative analysis from Turkey.	This study aimed to analyse the factors affecting SMEs' capital structure decisions with a comparative analysis covering SMEs	This study used multiple regression analysis to analyze the data.	According to the data, SMEs attempt to use internal resources to meet their financial demands, which is consistent with the pecking order idea. Thirdly, there is no connection found between financial debt and the asset structure, risk, and liquidity strength of SMEs.
14	Nga, N. T. V., & Long, G. N. (2021).	The choice of capital structure: A study on energy industry in a developing country.	The aim of this research was to explore the factors that have a significant impact on the capital structure of energy industry in the case of an emerging economy	This study used generalized least square (GLS) method to perform a survey.	The study discovered that, with the exception of business expansion, every element that affected a firm's decision regarding its capital structure in the context of the energy sector in a developing nation was substantial, including asset structure, age and size of the firm, depreciation, and short-term solvency.
15	Panda, A. K., Nanda, S., Hegde, A. A., & Yadav, A. K. K. (2023).	Receptivity of capital structure with financial flexibility: A study on manufacturing firms.	The purpose of this study was to empirically investigate the static capital structure decisions' dynamic responses	This study used Panel Corrected Standard Error (PCSE) models and Panel Vector Autoregression (Panel-VAR) models	This study discovered that while growth opportunity had a negligible beneficial impact on capital structure, asset tangibility, effective tax rate, profitability, and size had a considerable negative impact on capital structure (debt ratio and leverage ratio). Additionally, non-debt tax shields had a negligible positive effect on leverage and a large positive impact on the debt ratio. Furthermore, the leverage ratio was significantly impacted negatively by liquidity.

2.3 Research Gap

The term "research gap" describes the difference between this research and earlier research. First, there is a research gap in terms of time between this study and earlier ones. Although they had previously researched earlier eras, their analysis covers the years 2022–2023. Subsequently, whereas earlier research likewise employed a limited time frame of no more than five years, this study covered ten years. Aside from that,

the results of earlier research on the variables influencing the capital structure of manufacturing enterprises were both restricted and inclusive. In order to determine the factors influencing the capital structure of manufacturing enterprises in Nepal, this study attempts to investigate a variety of explanatory variables, including liquidity, tangible assets, firm size, profitability, and growth, as well as the dependent variable, capital structure (leverage ratio). This study attempted to apply the t-test and the multicollinearity test in addition to using descriptive, correlation, and multiple regression analyses that were not examined for data analysis. Furthermore, since those manufacturing businesses were left out by the previous researchers, this study has focused on three manufacturing companies: Unilever Nepal Limited, Dabur Nepal Private Limited, and Himalayan Distillery Limited. For this reason, this work makes a significant effort to close the research gap.

CHAPTER- III
RESEACH METHODOLOGY

The methodical process of solving an issue by systematic information gathering, recording, analysis, interpretation, and reporting regarding the various aspects of a phenomenon under study is known as research methodology. The procedures and methods used throughout every facet of the investigation are described in the research methodology for this work. The population and sample, nature and sources of data, research strategy, and analysis method are the four components.

3.1 Research Design

Research design is a plan of overall scheme or program of research. To achieve the specific objective of the study, descriptive and causal research design has been carried out in terms of factors that affect the capital structure of manufacturing companies in Nepal. Descriptive research design is adopted for analyzing status and pattern of capital structure whereas causal research design is followed to analyze the impact of independent variables on capital structure of manufacturing companies.

3.2 Population and Sample and Sampling Design

Nowadays a number of manufacturing companies have been emerging rapidly. Some have already been established and others are in the process of establishment. There are all together 118 manufacturing companies operating in Nepal. In this study, all the manufacturing companies are population of the study. Among them Unilever Nepal Limited, Dabur Nepal Private Limited and Himalayan Distillery Limited are selected as sample on the basis of purposive sampling method because these three companies are top three in profitability in the present context.

3.3 Nature and Sources of Data, and Instrument of Data Collection

This study is based on secondary data which is taken from annual reports of related companies and their websites. Secondary data are those data that are collected by someone else or used already and made available to other in the form of published statistics. So, the major sources and types of data include these published sources

such as annual reports of the manufacturing companies, various theses related to this study and books, journals and articles etc.

3.4 Method of Analysis

For the fulfillment of the study objective various statistical analysis have been employed.

Descriptive Analysis

Numerical summaries and descriptions of data are known as descriptive statistics. The information gathered from an experiment, survey, historical record, etc. is referred to as "data." The following list contains statistical tools that were utilized in this study to more precisely analyze the data;

Arithmetic Mean

It is the best value, which represent to the whole group means is the arithmetic average of a variable. It is used to find out mean of variabes used in this study. Mean is calculated as:

$$\text{Mean } (\bar{X}) = \frac{\Sigma X}{n}$$

Where,

ΣX = Sum of given Observation

n = No. of Observation

Standard Deviation

Since the standard deviation met the majority of the requirements for a good measure of dispersion, it is the absolute measure of dispersion in which the flaw found in other measures of dispersion is present. Greater standard deviation, the variability will be higher and vice versa. Dispersion quantifies how much the data deviate from the central value. Put differently, it is beneficial to examine the data's quality in terms of its variability. It is employed to determine the standard deviation of every ratio computed in this investigation. It is calculate as:

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}}$$

Where,

$X-\bar{X}$ = Deviation from the exact arithmetic Mean

N = number of years / observations/time period

Coefficient of Correlation (r)

The relationship between an independent variable and another independent variable is known as the correlation coefficient. It is a technique for ascertaining how these two variables are related to one another. A variable is said to have a correlation coefficient if the two are so related that changes in one variable's value are caused by changes in the value of another.

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

Regression Analysis

Regression analysis is a collection of statistical procedures used in statistical modeling to estimate the relationships between variables. When the focus is on the link between a dependent variable (capital structure, or leverage) and one or more independent variables (liquidity, tangible assets, profitability, firm size, and asset growth), it encompasses a wide range of modeling and analysis tools. More precisely, regression analysis clarifies how, when any one of the independent variables is changed while the other independent variables are kept constant, the usual value of the dependent variable, also known as the "criterion variable," varies.

Model Specification

In this model capital structure (leverage) is considered as dependent variable whose value is affected by the values of other independent variables.

$LEV = \beta_0 + \beta_1 LIQ + \beta_2 ROA + \beta_3 SIZE + \beta_4 TAN + \beta_5 GROWTH$

Where,

LEV_{it} = Leverage ratio of companies i^{th} for the time period t

LIQ = Liquidity ratio of companies i^{th} for the time period t

ROA = Profitability (return on assets) of companies i^{th} for the time period t

SIZE = Firm size of companies i^{th} for the time period t

TAN = Tangible assets of companies i^{th} for the time period t

GROWTH = Growth of assets of companies i^{th} for the time period t

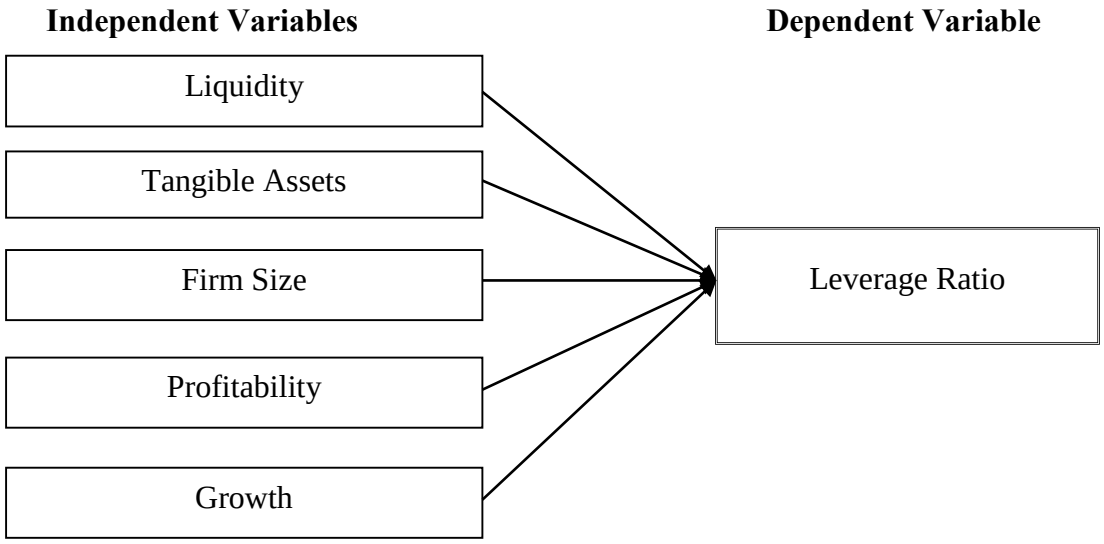
β_0 = The intercept (constant)

β_1, β_2, β_3, β_4, β_5, = The slope which represents the degree with which capital structure changes as the independent variable changes by one unit variable.

e = error component

3.5 Research Framework and Definition of Variables

From the theoretical and empirical literature reviews, the following conceptual framework of the study is developed by the researcher.



Source: Nasimi, R. N. (2016); Elangovan and Karthik (2017); Dhodary (2019); Ashraf and Rezina (2020) and Timilsina (2020)

Figure 1 Research Framework of the Study

Dependent Variable

Leverage

The literature has examined a number of capital structure metrics; however, the majority of studies employ a leverage metric, which evaluates a company's level of debt. Regarding the appropriate measure of leverage, there is no agreement. Several studies (Frank and Goyal, 2009; Shyam-Sunder and Myers, 1999) use the debt ratio as a gauge of leverage. One measure of leverage that was taken into consideration in the aforementioned prior studies, including Rajan and Zingales (1995) and Booth et al. (2001), was the debt to equity ratio.

Independent Variables

Liquidity

The firms' decisions about their capital structure are influenced by their liquidity position in a variety of ways. Because they are better able to pay their short-term debts when they become due, companies with higher liquidity ratios may be able to support a relatively higher debt ratio. This would suggest that a company's debt ratio and liquidity position are positively correlated. Conversely, companies possessing more liquid assets could utilize them to fund their ventures. Consequently, the company's debt ratio ought to be negatively impacted by its liquidity position. Bhole and Mahakud (2004) and Antoniou et al. (2008) are two studies that have employed the ratio of current assets over current liabilities to measure liquidity. This study also uses the ratio of current assets to current liabilities to measure liquidity in accordance with the literature.

Firm Size

Several research have found a favorable relationship between debt ratios and firm size. Ang et al. (1982) stated that the ratio of direct bankruptcy costs to the firm value diminishes with increasing firm size provides the justification for this belief, implying that these costs may have little influence on the borrowing decisions of larger enterprises. Due to their greater diversity, large companies typically have less variable cash flows. Large companies, have better access to the market and can borrow money at more favorable terms (Ferri & Jones, 1979).

Profitability

Regarding the relationship between leverage and business profitability, this is one of the key theoretical disputes. Within the framework of their pecking order theory of capital structure, Myers and Majluf (1984) observed that companies prioritize retained earnings above debt financing as their primary means of funding investments, with fresh stock offerings coming in last. A negative correlation is anticipated between leverage and company profitability because, all other things being equal, profitable businesses will have more internal finance. Of all the empirical findings, this link is one of the more systematic ones (Harris & Raviv, 1991; Rajan & Zingales, 1995).

Tangible Assets

According to the majority of capital structure theories, a company's choice of capital structure is influenced by the kinds of assets it owns. Because they are typically more valuable than intangible assets in the event of bankruptcy and are less susceptible to information asymmetry, tangible assets are more likely to influence a company's borrowing decisions. When the present creditors lack such a guarantee, a company can raise the value of its equity by issuing collateralized debt (Scott, 1977). Businesses are therefore motivated to do so, and it makes sense to anticipate a positive correlation between the tangible assets and the firms' leverage.

Growth

Businesses with growth possibilities are more capable of developing new goods, expanding existing ones, and making acquisitions than businesses without such opportunities. The percentage change in sales is used to calculate the growth factor. Titman & Wessels (1988) found that there is a bad correlation between debt and prospects for growth. Businesses that have room to grow need additional capital to do so. When internal resources are insufficient, businesses would then look to outside funding sources, which would increase their debt levels (Dhodary, 2019).

CHAPTER - IV
RESULTS AND DISCUSSION

This study looks into the variables influencing Nepalese manufacturing enterprises' capital structures. Consequently, the findings and their analysis are covered in this chapter, which is split into three pieces. The first section included a description of the capital structure, contributing factors, and a descriptive and correlational analysis of the study's variables. The second portion addressed the fulfillment of the linear regression model's assumptions, and the third section provided an outline for the debate. Data analysis techniques were used to compute the ratio of the chosen dependent and independent variables as well as the ratio scale measurement for further statistical analysis.

4.1 Results

This section use statistical analytical tools, including multiple regression analysis, correlation analysis, and descriptive statistics, to analyze the factors influencing the capital structure of manufacturing enterprises.

4.1.1 Descriptive Statistics of Variables

Table 2 displays the descriptive statistics for the study's explanatory and explained variables. The study draws upon a panel data set consisting of three manufacturing companies that were active in the Nepalese financial sector between 2013/14 and 2022/23. When examining them broadly, the statistics show that there is a great deal of variation in the manufacturing companies' capital structure indicators.

Table 2

Descriptive Statistics of Variable of Manufacturing Companies

Variables	N	Minimum	Maximum	Mean	Std. Deviation
LIQ	30	.72	10.82	2.3903	2.20109
ROA	30	2.92	45.08	19.7997	12.53111
LSIZE	30	3.98	5.15	4.5502	.33837
GROWTH	30	-26.82	78.59	10.1673	24.76596
TANG	30	10.67	59.80	28.7273	13.58754
LEV	30	.09	1.48	.7100	.35175

Source: Appendix –II

Table 2 shows the descriptive statistics of dependent and independent variables used in the study. The liquidity has average of 2.3903 percent with the standard deviation of 2.20109 and the minimum and maximum range from 0.72 to 10.82 percent. It also reveals that the average return on assets (ROA) is 19.7997 percent with the standard deviation of 12.53111 and minimum value of 2.92 percent and maximum value of 45.08 percent.

The variable size of the company (LSIZE) has average of 4.5502 with the standard deviation of 0.33837 and the minimum and maximum range from 3.98 to 5.15. At the same time, the mean of the growth is 10.1673 percent with standard deviation of 24.76596 and ranges from -26.82 percent to 78.59 percent. This implies that value of growth can vary on both sides by 24.76596.

Further, tangibility has mean value of 28.7273 and standard deviation of 13.58754 ranging from 10.67 to 59.80 which means the value can be deviated by 13.58754. Finally, the average leverage ratio is 0.7100 with standard deviation of 0.35175 and minimum and maximum leverage ratio is 0.09 percent and 1.48 percent respectively.

4.1.2 Correlation Analysis

A table displaying correlation coefficients between variables is called a correlation matrix. The correlation between two matching variables is displayed in each cell of the table. Data can be summarized using a correlation matrix. This gives us a quick overview of the variables that correlate at different strengths and levels of significance. A correlation value of 0 signifies the absence of a linear relationship between the two variables. The correlation coefficient between two variables goes from +1, which represents a perfect positive link, to -1, which represents a perfect negative relationship. Correlation matrix is presented as following in Table 3.

Table 3

Pearson Correlation Coefficients of Study Variables

	LIQ	ROA	LSIZE	GROWTH	TANG	LEV
LIQ	1					
ROA	.313	1				
	(.092)					
LSIZE	.011	-.353	1			
	(.952)	(.055)				
GROWTH	-.098	.217	-.020	1		
	(.607)	(.249)	(.917)			
TANG	-.386*	-.391*	-.536**	.197	1	
	(.035)	(.033)	(.002)	(.297)		
LEV	-.673**	-.643**	.036	-.197	.343	1
	(.000)	(.000)	(.851)	(.296)	(.063)	

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Source: Appendix-III

Table 3 reveals the correlation test between both dependent and independent variables using correlation coefficient matrix. The correlation test shows that liquidity (LIQ) has significant positive relation with leverage ratio (LEV) in 1 percent level of significance since p-value (i.e. .000) is less than 1 percent. Likewise, return on assets has significant negative relation with leverage (LEV) of manufacturing companies since p-value (i.e. .000) is less than 1 percent. However, there is insignificant positive correlation between size of companies (LSIZE) and leverage ratio of manufacturing companies in Nepal since p-value (i.e. .851) is higher than 5 percent. The correlation matrix also shows that sales growth (GROWTH) has insignificant negative correlation with leverage or capital structure of manufacturing companies since p-value (i.e. .296) is higher than 5 percent. Moreover, tangibility (TANG) has insignificant poisitive relationship with leverage ratio (LEV) of the manufacturing companies since p-value (i.e. .063) is higher than 5 percent.

4.1.3 Results of Regression Analysis

It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between dependent variables (leverage or capital structure) and independent variables (liquidity, size of companies, return on assets, growth and tangibility). Ordinary least square regression (OLS) of panel data analysis is used as a major tool of analysis.

Table 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.864[a]	.747	.694	.19445

a. Predictors: (Constant), TANG, GROWTH, LIQ, ROA, LSIZE

Source: Appendix-IV

The coefficient of determination R^2 (multiple regression) is a summary measure that tells how well the sample regression line fits the data. In other word, the R^2 statistic tells us the proportion of variance in the dependent variable that is accounted for by the independent variables. In this study, R square is 0.747 which indicates that, the model fits (accounts) for 74.70 percent of the variance in the dependent variable, leverage or capital structure. The strength of variables relationship (multiple correlation coefficients) is based on the value of R statistic which is 0.864, indicated that there is a high degree of relationship between study variables. This implies that the leverage ratio was highly influenced by its independent variables. Standard error of estimate is flawlessly associated with regression analysis.

Table 5

Analysis of Variance (ANOVA)

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.681	5	.536	14.180	.000[b]
	Residual	.907	24	.038		
	Total	3.588	29			

a. Dependent Variable: LEV

b. Predictors: (Constant), TANG, GROWTH, LIQ, ROA, LSIZE

Source: Appendix-IV

An examination with ANOVA (F–value) indicates that explains the most possible combination of predictor variables that could contribute to the impact of dependent variables. Results show significant impact of ROA indicator. On the F-values of 14.180 ($p = 0.000 < 0.05$) for TANG, GROWTH, LIQ, ROA, LSIZE as LEV proxy, it clearly shows that there is a significant relationship between the dependent variable (leverage ratio) and the independent variables.

Table 6

Regression Coefficient of Independent Variables with Leverage

Variables	Coefficients	t-statistics	p-value	VIF
(Constant)	4.195	3.424	.002	
LIQ	-.095	-5.169	.000	1.255
ROA	-.023	-4.172	.000	3.782
LSIZE	-.535	-2.461	.021	4.141
GROWTH	.001	.091	.929	1.599
TANG	-.013	-2.143	.042	4.961

Source: Appendix-IV

Table 6 presents the regression coefficient of independent variables liquidity, size of companies, return on assets, growth and tangibility and the intercept value of dependent variable leverage ratio. It shows that variance inflation factors (VIF) values are below 10. That's why, there is no multicollinearity in the model.

The results of regression model indicated that the relationship between liquidity (LIQ) has a negative relationship with leverage ratio (LEV) by a coefficient estimate of -0.095. This means that holding other independent variables constant and when one percent increases in liquidity (LIQ), as a result it decreases leverage ratio (LEV) of the manufacturing companies by -0.095 percent and the p value of liquidity (LIQ) is 0.000 discloses that it is statistically significant negative effect of liquidity on leverage ratio or capital structure at 5 percent level of significance.

According to the regression result of return on assets (ROA) has a negative relationship with LEV by a coefficient estimate of -0.023. This means that holding other independent variables constant and when one percent increases in return on assets (ROA), consequently it decreases LEV of the manufacturing companies by -0.023 percent and the p value of return on assets (ROA) is 0.000 reveals that it is statistically significant at 5 percent level of significance. Accordingly, the result supports the working hypothesis that return on assets (ROA) has negative and statistically significant effect on LEV of the manufacturing companies.

In accordance with the regression result of size of the companies (SIZE) has a negative relationship with leverage ratio (LEV) by a coefficient estimate of -0.535. This means that holding other independent variables constant and when one percent increases in SIZE, as a result it decreases leverage ratio (LEV) of the manufacturing

companies by -0.535 percent and the p value of size of companies is 0.021. Testing in the 5 percent significance level p-value is higher and hypothesis is accepted concluding that size of companies has statistically significant negative influence on the leverage ratio (LEV) of the manufacturing companies.

The results of regression model indicated that the relationship sales growth (GROWTH) has a positive relationship with leverage ratio (LEV) by a coefficient estimate of 0.001. This means that holding other independent variables constant and when one unit increase in sales growth, as a result it increases leverage ratio (LEV) of the sample companies by 0.001 percent and the p value of sales growth is 0.929 discloses that it is statistically insignificant at 5 percent level of significance. This means sales growth has insignificant positive impact on leverage ratio (LEV) of sample manufacturing companies.

The regression result of tangibility (TANG) has a negative relationship with leverage ratio (LEV) by a coefficient estimate of -0.013. This means that holding other independent variables constant and when one percent increases in tangibility (TANG), consequently it decreases leverage ratio (LEV) of the manufacturing companies by --0.013 percent and the p value of tangibility is 0.042 reveal that it is statistically significant at 5 percent level of significance. Hence, tangibility (TANG) has significant negative impact on leverage ratio (LEV) of manufacturing companies.

4.2 Discusion

The major objective of the study is to examine the factors affecting capital structure of Nepalese manufacturing companies. To achieve the objectives of the study, five specific factors such as return on assets, liquidity, tangibility, return on assets, growth and size of companies are used. The study uses the secondary data to fulfill its objectives. The study is used panel data for the sample of three manufacturing companies in Nepal which had ten years period from 2013/14 to 2022/23. This study is mainly depends on the use of secondary data that consists of financial annual reports of the respective companies.

The correlation analysis found that liquidity (LIQ) has significant positive relation with leverage ratio (LEV) of manufacturing companies in Nepal which is similar with

the finding of Levi and Merlyn (2018). However, it contradicts with the finding of Elangovan and Karthik (2017); Dhodary (2019); Ashraf and Rezina (2020); Timilsina (2020) concluded that liquidity had negative relationship with leverage ratio. Likewise, return on assets has significant negative relation with leverage (LEV) of manufacturing companies. This is consistent with the finding of Elangovan and Karthik (2017) found that return on assets had negative association with leverage. This is also consistent with the finding of Dhodary (2019); Timilsina (2020) but opposite to the finding of Nasimi (2016); Levi and Merlyn (2018); Ashraf and Rezina (2020) mentioned that return on assets had positive relationship with leverage ratio. However, there is insignificant positive correlation between size of companies (LSIZE) and leverage ratio of manufacturing companies in Nepal which is consistent with the finding of Nasimi (2016) observed that size had positive relationship with leverage ratio. This is also consistent with the finding of Timilsina (2020) but this is not consistent with the finding of Elangovan and Karthik (2017); Levi and Merlyn (2018); Ashraf and Rezina (2020).

The correlation matrix also shows that sales growth (GROWTH) has insignificant negative correlation with leverage or capital structure of manufacturing companies. This is consistent with the finding of Elangovan and Karthik (2017). This is also consistent with the finding of Nasimi (2016); Ashraf and Rezina (2020); Timilsina (2020) concluded that growth had negative relationship with leverage ratio but this is not consistent with the finding of Levi and Merlyn (2018); Dhodary (2019). Moreover, tangibility (TANG) has insignificant poisitive relationship with leverage ratio (LEV) of the manufacturing companies which is concistent with the finding of Elangovan and Karthik (2017). This is also consistent with the previous study of Ashraf and Rezina (2020); Timilsina (2020). However, it contradicts with the finding of Nasimi (2016); Levi and Merlyn (2018); Dhodary (2019) observed that tangibility had negative relationship with leverage ratio.

The multiple regression analysis found that there is statistically significant negative effect of liquidity on leverage ratio or capital structure at 5 percent level of significance. This finding is similar with the previous study of Pervin and Nowreen (2018) found that liquidity had negative impact on leverage or capital structure. This is also similar with the finding of Dhodary (2019); Ashraf and Rezina (2020); Nga

and Long (2021) while this is not consistent with the finding of Bagga and Kaur (2016); Hedau, Singh and Janor (2018); Levi and Merlyn (2018). Similarly, return on assets (ROA) has negative and statistically significant effect on LEV of the manufacturing companies which is consistent with the finding of Nasimi (2016); Bagga and Kaur (2016); Hedau, Singh and Janor (2018) concluded that liquidity had negative impact on leverage. This result also line with Pervin and Nowreen (2018); Dhodary (2019); Nga and Long (2021); Haa and Tub (2021) but opposite to the finding of Levi and Merlyn (2018).

Further, size of companies has statistically significant negative influence on the leverage ratio (LEV) of the manufacturing companies. This is consistent with the finding of Nasimi (2016). This is also similar with the finding of Pervin and Nowreen (2018); Ashraf and Rezina (2020) but opposite to the finding of Bagga and Kaur (2016); Hedau, Singh and Janor (2018); Dhodary (2019); Nguyen and Tran (2020); Haa and Tub (2021); Nga and Long (2021). However, sales growth has insignificant positive impact on leverage ratio (LEV) of sample manufacturing companies. The result is similar with the finding of Hedau, Singh and Janor (2018) concluded that growth had significant positive impact on leverage. This is also similar with the prior study of Levi and Merlyn (2018); Dhodary (2019); Nguyen and Tran (2020) but opposite to the finding of Nasimi (2016); Bagga and Kaur (2016); Ashraf and Rezina (2020). Finally, tangibility (TANG) has significant negative impact on leverage ratio (LEV) of manufacturing companies. This is consistent with the finding of Haa and Tub (2021). However, it contradicts with the finding of Nasimi (2016); Bagga and Kaur (2016); Hedau, Singh and Janor (2018); Pervin and Nowreen (2018); Dhodary (2019); Ashraf and Rezina (2020); Nga and Long (2021) concluded that tangibility had positive effect on leverage ratio.

CHAPTER - V
SUMMARY AND CONCLUSION

The study's conclusions are emphasized in this final chapter, along with a summary and some recommended implications for the benefit of the chosen manufacturing enterprises in order to prepare the nation for the current economic crisis.

5.1 Summary

One of the most significant decisions that financial managers make in the current day is the choice of capital structure. Many additional company finance considerations revolve upon the choice of capital structure. A corporate financial manager's several goals include maximizing shareholder wealth by ensuring a low cost of capital. Therefore, one of the most useful management strategies for controlling the cost of capital is capital structure. When the cost of capital is at its lowest, an ideal capital structure is reached. However, what could be the factors that influence this kind of ideal capital structure? In the instance of Nepali manufacturing enterprises, this research has provided an answer to the main question. The capital structure of a company is said to be influenced by both macro and micro elements. Accounts in the income statement and balance sheet that are under management's control are known as micro variables. As a result, they are referred to as firm-specific variables as well. Macro variables, on the other hand, have a major impact on capital structure but are unrelated to internal processes and outside of a company's control. In this study, factors that influence growth, tangibility, return on assets, liquidity, and company size are considered.

The main objective of this study is to analyze the factors that affect capital structure of manufacturing companies in Nepal. The specific objectives are to analyze the position of capital structure of selected manufacturing companies, to examine the relationship between specific factors and capital structure of manufacturing companies in Nepal and to evaluate the impact of specific factors on capital structure of manufacturing companies in Nepal. This study used descriptive and causal research design has been carried out in terms of factors that affect the capital structure of manufacturing companies in Nepal. Descriptive research design is adopted for analyzing status and pattern of capital structure whereas causal research design is

followed to analyze the impact of independent variables on capital structure of manufacturing companies. There are all together 118 manufacturing companies operating in Nepal. In this study, all the manufacturing companies are population of the study. Among them Unilever Nepal Limited, Dabur Nepal Private Limited and Himalayan Distillery Limited are selected as sample on the basis of purposive sampling method because these three companies are top three in profitability in the present context. Annual reports and other publications from the basis of secondary data are used. The secondary data has been collected mainly through the annual reports of the manufacturing companies, covering ten years periods, i.e. from the fiscal year 2013/14 to 2022/23. This study used descriptive analysis, correlation analysis and multiple regression analysis with the help of SPSS version 26.

The result shows that liquidity, size of companies, return on assets, growth and tangibility are important factors affecting the capital structure of manufacturing companies in Nepal. The correlation analysis shows that liquidity has significant negative relation with leverage ratio of manufacturing companies. Similarly, return on assets has significant negative relationship with leverage ratio whereas there is insignificant positive correlation between size of companies and leverage. Further, growth has insignificant negative correlation with leverage. Moreover, tangibility (TANG) has insignificant positive relationship with leverage ratio or capital structure of the manufacturing companies. The multiple regression analysis reveals that liquidity and return on assets has significant negative impact on leverage of manufacturing companies of Nepal. Similarly, size of companies has significant negative impact on leverage of manufacturing companies. However, growth has insignificant positive impact on leverage ratio of the manufacturing companies. Finally, tangibility has significant negative effect on leverage. Therefore, this study concluded that liquidity ratio, return on assets, size of companies, growth and tangibility are the key factors of capital structure in Nepalese manufacturing companies.

5.2 Conclusion

The result concluded that liquidity, size of companies, return on assets, growth and tangibility are important factors affecting the capital structure of manufacturing companies in Nepal. This study also concluded that a large share of financing by the creditors relatively to the owners due to the highest leverage ratio.

The correlation analysis concluded that there is significant negative relation between liquidity with leverage ratio of manufacturing companies. Likewise, return on assets has significant negative relationship with leverage ratio. Then, there is insignificant positive correlation between size of companies and leverage of manufacturing companies. In addition, growth has insignificant negative correlation with leverage. Finally, tangibility (TANG) has insignificant positive relationship with leverage ratio or capital structure of the manufacturing companies.

The multiple regression analysis concluded that liquidity has significant negative impact on leverage. Likewise, return on assets and size of companies have significant negative impact on leverage ratio of manufacturing companies. However, growth has insignificant positive impact on leverage ratio of the manufacturing companies. Further, tangibility has significant negative effect on leverage. Hence, this study concluded that liquidity ratio, return on assets, size of companies, growth and tangibility are the important factors of leverage ratio or capital structure of manufacturing companies in Nepal.

5.3 Implications

On the basis of above summary and conclusion, the following implications are presented;

- The findings indicated that leverage significantly affects the capital structure of manufacturing enterprises in terms of liquidity ratio, return on assets, company size, growth, and tangibility. The information and conclusions alert policymakers to the need to concentrate on helping the businesses who want formal finance the most but are unable to obtain it, as well as to create transparent reporting mechanisms that would facilitate the acquisition of additional funding from outside sources.
- This study will also help managers of manufacturing companies, as it will give them a better understanding of the factors that affect capital structure.
- This study addresses some current concerns regarding variables influencing capital structure. The management of manufacturing organizations can utilize this study to help them make decisions about how to improve performance.

- The study's conclusions are beneficial to investors and future researchers. This paper will be an invaluable resource for researchers in the future.
- All things considered, additional studies on this subject ought to employ a sample size of more than three manufacturing firms and a duration of more than ten years. Furthermore, only five independent variables—liquidity, company size, return on assets, sales growth, and tangibility—were examined in this study. As a result, additional research is required, taking into account macroeconomic determinants as well as industry-specific aspects in the context of Nepal.

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