

**CAPITAL STRUCTURE MANAGEMENT OF SELECTED
MANUFACTURING COMPANIES LISTED IN NEPSE**

(A case study of Nepal Lube Oil Ltd. and Bottlers Nepal Ltd.)

A Thesis

Submitted by:

ANIL DAHAL

Shankar Dev Campus

T.U. Registration No.7-2-242-103-2001

Campus Roll no. 1544/061

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

Kathmandu, Nepal

In partial fulfillment of the requirements for the Degree of
Master of Business Studies (M.B.S.)

April 2012

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

ANIL DAHAL

Entitled:

**CAPITAL STRUCTURE MANAGEMENT OF SELECTED
MANUFACTURING COMPANIES LISTED IN NEPSE**

(A case study of Nepal Lube Oil Ltd. and Bottlers Nepal Ltd.)

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

.....
Asso. Prof. Prakash Singh Pradhan
(Thesis Supervisor)

.....
Bishweshor Man Shrestha
(Head of Research Department)

.....
Asso. Prof. Prakash Singh Pradhan
(Campus Chief)

Date :

VIVA-VOCE SHEET

We have conducted the viva –voce examination of the thesis presented

by

ANIL DAHAL

Entitled:

**CAPITAL STRUCTURE MANAGEMENT OF SELECTED
MANUFACTURING COMPANIES LISTED IN NEPSE**
(A case study of Nepal Lube Oil Ltd. and Bottlers Nepal Ltd.)

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master Degree of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

Date:-

DECLARATION

I hereby declare that the work reported in this thesis entitled "**CAPITAL STRUCTURE MANAGEMENT OF SELECTED MANUFACTURING COMPANIES LISTED IN NEPSE** (*A case study of Nepal Lube Oil Ltd. and Bottlers Nepal Ltd.*)" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of **Mr. Prakash Singh Pradhan** of Shankar Dev Campus, Kathmandu.

.....
ANIL DAHAL

Researcher

T.U. Registration No. 7-2-242-103-2001

ACKNOWLEDGEMENT

This is such a mind-blowing opportunity for M.B.S. students, which has been provided by TU. As for as thesis is concerned, it really increases the knowledge of the students in the course of analysis in their respective work. It helps the students to show their capacity as well as practical experience for the future works.

I attempt to prepare a thesis based on capital structure management of manufacturing companies. I would not have accomplished this thesis without the help of several hands. However, the thanks would be insufficient for them. However, I would like to express my heartfelt gratitude to all those respondents for their help and support.

My heartfelt gratitude goes to my respected Supervisor, Associate Prof. Prakash Singh Pradhan, Shankar Dev Campus, Kathmandu, T. U. for his valuable advice and perpetual inspiration through out the study period.

I would like to express my sincere thanks to the Campus Chief, Associate Prof. Prakash Singh Pradhan, head of the department....., head of research committee..... for providing me essential facilities who insisted me from time to time to under take this thesis writing. It's my pleasure to acknowledge with my sincere thanks to all the lectures of Shankar Dev Campus for their academic support. And also thanks to the officials of the Shankar Dev Campus, Kathmandu and Shankar Dev Campus Library who helped me in providing the valuable information, necessary documents and data for this study.

.My special thanks go to my intimate friends Dinesh Mahat, Madhusudhan Chaulagain, Samita Lamichhane (Dahal) and few of many names whose hands are always ready to help me.

Date :.....

ANIL DAHAL
Researcher

TABLE OF CONTENTS

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgement

Table of contents

List of Tables

List of Diagramme

Abbreviation

CHAPTER I INTRODUCTION

1.1 Background of the study	1
1.2 A brief overview of manufacturing companies selected for the study	2
1.3 Focus of the study	3
1.4 Statement of the problem	4
1.5 Objective of the study	4
1.6 Limitation of the study	5
1.7 Organization of the study	5

CHAPTER II REVIEW OF LITERATURE

2.1 Conceptual Framework	7
2.1.1 Optimal Capital Structure	8
2.1.2 Financial Structure and Capital Structure	9
2.1.3 Theories of Capital Structure	9
2.1.4 Assumption Of the theory of Capital Structure	10
2.1.5 Net Operating Income (NI)	12
2.1.6 Net Operating Income approach	15
2.1.7 Traditional Approach (TA)	18
2.1.8 Modigliani and Miller Approach (MM)	21
2.1.9 Determinants of the Capital Structure	30

2.2 Review of Related Thesis	33
2.2.1 Review of Related Study under Foreign Context	34
2.2.2 Related Articles under Foreign Context	36
2.2.3 Review of Related Study under Nepalese context	37
2.3 Research Gap	43

CHAPTER III RESEARCH METHODOLOGY

3.1 Introduction	45
3.2 Research Design	45
3.3 Source of Data	45
3.4 Population and Samples	46
3.5 Method of Analysis and Interpretation	46
3.5.1 Financial Tools	46
3.5.2 Statistical Tools	50

CHAPTER IV PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction	55
4.2 Leverage Ratio	55
4.2.1 Analysis of Long-term Debt and Shareholder's Equity	56
4.2.2 Analysis of Total Debt to Net worth Ratio	58
4.2.3 Analysis of Interest Coverage Ratio	59
4.3 Profitability Ratio	60
4.3.1 Analysis to Return on Total Assets	60
4.3.2 Analysis of Profit Margin Sales	63
4.3.3 Analysis of Return on Equity	65
4.4 Regression Analysis	67
a. Regression analysis between Net profit and Total Debt	67
b. Regression analysis between ROE and Debt ratio.	68
c. Regression analysis between Net Profit and Long term Debt	69
4.5 Major Findings	70

**CHAPTER V SUMMARY, CONCLUSION AND
RECOMMENDATION**

5.1 Summary	72
5.2 Conclusion	73
5.3 Recommendation	75

BIBILOGRAPHY

APPENDICES

LIST OF TABLES

Table No:	Title	Page
4.1	Debt Equity Ratio	57
4.2	Total Debt to Net Worth Ratio	58
4.3	Interest Coverage Ratio	60
4.4	Return to Total Assets Ratio	62
4.5	Profit Margin Ratio	64
4.6	Return on Equity	66
4.7	Regression analysis between Net Profit and Total Debt	68
4.8	Regression analysis between Net Profit and Long-term debt	669
4.9	Regression analysis between ROE and Debt ratio	70

LIST OF DIAGRAM

Figure No:	Title	Page
4.1	Debt Equity Ratio	57
4.2	Total Debt to Net Worth Ratio	59
4.3	Interest Coverage Ratio	61
4.4	Return to Total Assets Ratio	63
4.5	Profit Margin Ratio	65
4.6	Return on Equity	67

ABBREVIATION

B.S.	Bikram Sambat
BNL	Bottlers Nepal Limited
CV	Coefficient of Variation
EAT	Earning after tax
EBIT	Earning before interest and Tax
EPS	Earning Per Share
FY	Fiscal year
NLOL	Nepal Lube Oil Limited
NOI	Net operating Income
NP	Net Profit
PVT.	Private Limited
ROA	Return on Assets.
ROE	Return on Equity
S.D.	Standard Deviation
STD	Short-term debt
T.A.	Total Assets
T.D.	Total debt
T.U.	Tribhuvan University
TE	Total equity
EBIT	Earning Before Interest and Tax
JSML	Jyoti Spinning Mills Limited
RAJML	Pashupati Jute Mills Limited
UNL	Unilever Nepal Limited
AVOL	Arun Vanaspati Udhog
ULNL	unilever Nepal Limited
NLL	Nepal Liver Limited