# CAPITAL STRUCTURE MANAGEMENT OF COMMERCIAL BANK OF NEPAL

(With reference to Bank of Kathmandu Ltd. Everest Bank Ltd., Himalayan Bank Ltd And Nepal SBI Bank Ltd.,.)

#### **A THESIS**

#### **Submitted by:**

Shanti Pal Shanker Dev Campus Roll No.: 238/064

Exam Roll No.: 390787/2066 T.U. Registration No.: 5-1-61-125-2001

#### **Submitted to:**

Office of the Dean Faculty of Management Tribhuvan University

In Partial Fulfillment of the Requirements for the Degree of Master of Business Studies (MBS)

Ramshapath, Kathmandu

December, 2012

#### **VIVA -VOCE SHEET**

We have conducted the viva-voce of the thesis

#### Entitled:

## CAPITAL STRUCTURE MANAGEMENT OF COMMERCIAL BANK OF NEPAL

Submitted by:

#### Shanti Pal

And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for

#### **Master Degree of Business Studies (M.B.S.)**

Viva-Voce Committee

Chairperson, Research Department	
Member (Thesis Supervisor)	
Member (External Expert)	
Date:	

#### RECOMMENDATION

This	is	tο	certify	that	the	thesis:
11113	19	w	CCILIIV	uiai	uic	uicsis.

Submitted by:

**Shanti Pal** 

#### Entitled:

## CAPITAL STRUCTURE MANAGEMENT OF COMMERCIAL BANK OF NEPAL

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

**DECLARATION** 

I hereby declare that the thesis entitled "CAPITAL STRUCTURE MANAGEMENT OF

COMMERCIAL BANK OF NEPAL" has been submitted to Central Department of

Management, Tribhuwan University is my own created work reported in the form of partial

fulfillment of the requirement of Master's of Business studies (M.B.S.) course under the

guidance of respected teacher supervisor Associate Professor Kishor Maharjan of Shanker

Dev Campus Ramshapath Kathmandu.

Shanti Pal

Researcher

Exam Roll No.: 390787/2066

T.U. Registration No.: 5-1-61-125-2001

#### ACKNOWLEDGEMENT

The entitled thesis CAPITAL STRUCTURE MANAGEMENT OF COMMERCIAL BANK OF NEPAL has been prepared for the partial fulfillment of the requirement of Master's Degree of Business Studies (M.B.S) under the Faculty of Management, Tribhuwan University, is based on research models involving the use of quantitative as well as qualitative aspect of Capital Structure.

I wish to extend my deep sense of indebtedness to supervisor Associate Professor Kishor Maharjan my thesis supervisor, who provided me valuable guidelines, insightful comments, encouragement and generous treatment to complete this thesis. This work has been come out in the present form with his inspiration, valuable suggestions, and guidelines. Similarly, I also extremely indebted to all the teachers and library staff of Shanker Dev Campus and Central Department, who helped me in my research study.

I also acknowledge all of my friends for their help in different ways. I am greatly thankful to the staff of banks for providing required data during the research period. I would like to offer sincere thank to Mr. Rabin Sangraula and Mr. Bharat Sangraula for computer typing and to Mr. Yam Kumar Bastola & Mr. Gyanendra Bdr. Dahal for valuable advice during my work to help throughout the preparation of the research.

It is a matter of great pleasure and privilege for me to express my sincere gratitude to my parents and specially my husband, Mr. Bikash Chand who always inspired me to complete this journey of higher education, encouraging and providing me the congenial environment and continuous support in every effort and endeavor.

I hope the possible errors would be covered by the subsequent studies in this field in the future.

#### **Table of Content**

	PERI	Page No		
Intro	duction			
	ackground of the study	1		
	listory of Banks	3		
	anking industry in Nepal	4		
	unctions of Commercial Banks	5		
	rofile of the Concerned Banks	6		
	Nepal SBI Bank Ltd.	6		
	Everest Bank Ltd.	7		
	Bank of Kathmandu Ltd.	8		
	Himalayan Bank Ltd.	8		
	apital Structure of Commercial Banks	9		
	ocus of the Study	10		
	tatement of the Problem	11		
	Objectives of the Study	11		
1.10	e ,	12		
	Limitation of the Study	13		
1.12	Organization of the Study	13		
_	oter II			
	ew of Literature			
	ntroduction	15		
	eview of the Books	15		
	Conceptual Framework	15		
	Theories of Capital Structure	16		
	1 Traditional Theory	17		
	2 Modigliani- Miller Theorem	17		
	3 Trade off Theory	18		
	4 Free Cash Flow theory	18		
	5 Packing Order Theory	19		
	6 Stakeholder Theory	19		
	Approaches of Capital Structure	20		
	1 Traditional Approach	21		
	2 Net Income Approach	24 26		
	.3 Net Operating Income Approach	28		
	4 Modigliani-Miller Approach	32		
	Leverage	33		
	.1 Financial Leverage eview of Journals	33		
	eview of Articles	35 37		
	eview of Thesis	38		
∠.0 K	esearch Gap	42		
_	oter III			
	arch Methodology	43		
3.1 Introduction				
3.2 R	esearch Design	43		

3.3 Data Collection Procedure	44
3.3.1 Nature and Sources of Data	44
3.3.2 The population and Sample	45
3.4 Tools for Analysis	45
3.4.1 Financial Tools	45
3.4.1.1 Ratio Analysis	46
3.4.1.2 Leverage Analysis	49
3.4.1.3 Capital Structure Analysis	50
3.5 Statistical Tools	50
3.5.3 Correlation Coefficient	51
3.5.4 Probable Error	51
Chapter IV	
Data Presentation and Analysis	
4.1 Introduction	53
4.2 Ratio Analysis	54
4.2.1 Long Term Debt to Total Debt Ratio	56
4.2.2 Long term debt to Capital Employed Ratio	56
4.2.3 Debt to total Assets Ratio	58
4.2.4 Debt Equity Ratio	60
4.2.5 Interest Coverage Ratio	61
4.2.6 Return on Total Assets	63
4.2.7 Return on Shareholders Equity	65
4.2.8 Earning Per Share	67
4.3 Capital Structure	69
4.3.1 NI Approach	69
4.3.2 NOI Approach	71
4.4 Leverage Analysis	73
4.4.1 Analysis of Financial Leverage	74
4.5 Correlation Analysis	76
4.5.1 Total Debt and Shareholders Equity	76
4.5.3 EBIT and Interest	77
4.6 Major Findings of the Study	78
Chapter V	
Summary, Conclusion and Recommendation	
5.1 Summary	89
5.2 Conclusion	83
5.3 Recommendation	86

### **LIST OF TABLES**

Table No.	Description Page No.	).
4.1	Long Term Debt and Total Debt Position	55
4.2	Comparative Long Term Debt to Capital Employed Ratio	57
4.3	Comparative Debt to Total Asset Ratio	59
4.4	Comparative Debt to Equity Ratio	61
4.5	Comparative Interest Coverage Ratio	63
4.6	Position of comparative Return on Total Assets	64
4.7	Position of comparative ROSHE	66
4.8	Position of Comparative EPS	68
4.9	Comparative Position of Overall Capitalization Rate	70
4.10	Comparative Position of Effect of Debt on	
	Equity Capitalization rate	72
4.11	Comparative Degree of Financial Leverage	75
4.12	Correlation Coefficient between Total Debt and	
	Shareholders' Equity with probable error	77
4.13	Correlation Coefficient between EBIT and Interest with PE	78

### **LIST OF FIGURES**

Figure No.	Description	Page No.
1.	The effect of Leverage on Cost of Capital under	
	Traditional Theory	24
2.	The effect of Leverage on Cost of Capital under	
	NI approach	26
3.	The effect of Leverage on Total Market Value	
	of the firm under NI approach	26
4.	The effect of Leverage on Cost of Capital under	
	NOI approach	28
5.	The effect of Leverage on Total Market Value	
	of the firm under NOI approach	28
6.	The Cost of Capital under the MM Hypothesis	31
7.	Behavior of Ko, Ki, and Ke under MM Hypothesis	32

BoK : Bank of Katmandu

Co. : Company

CV : Coefficient of Variation

D/E : Debt to Equity

DFL: Degree of Financial Leverage EBIT: Earning Before Interest and Tax

EBL: Everest Bank Limited EPS: Earning Per Share

FY: Fiscal Year

HBL: Himalayan Bank Limited

I : Interest

IM : Interest MarginKd : Cost of DebtKe : Cost of Equity

Ko : Average Cost of Capital

Ltd. : Limited

MM : Modigliani and Miller

NI : Net Income

NOI : Net Operating Income

NP: Net ProfitP.E: Probable ErrorROA: Return on AssetsROE: Return on Equity

Rs. : Rupees

S.D.: Standard Deviation
SBIL: Nepal SBI Bank Limited

SPSS: Software program of Social Science

T.U. : Tribhuwan University

V : Value of Firm\

Vl : Value of Levered Firm

Vol : Volume

Vu : Value of Unleveled Firm "r" : Correlation Coefficient