A STUDY ON CAPITAL STRUCTURE MANAGEMENT OF NEPLESE COMMERCIAL BANKS

(With Special Reference to Nepal Credit and Commerce Bank and Bank of Kathamandu)

A Thesis

Submitted By: Indira Devkota Shanker Dev Campus Campus Roll No.: 1224/062 T.U. Registration NO:7-1-22-713-98 Exam Roll No.:1765/064

> Submitted To: Office of the Dean Faculty of Management Tribhuvan University

In partial fulfillment of the requirements for the Master's Degree in Business Studies(M.B.S.) Kathmandu, Nepal March,2013

RECOMMENDATION

This is to certify that the Thesis

Submitted by: Indira Devkota

Entitled:

A STUDY ON CAPITAL STRUCTURE MANAGEMENT OF NEPALESE COMMERCIAL BANKS (With Special Reference to Nepal Credit and Commerce Bank Ltd. And Bank of Kathmandu)

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. Achvut Raj Bhattrai)	(Prof. Dr. Kamal Deep Dhakal)	(Asso. Prof. Prakash Singh Pradhan)
	× • • •	, , , , , , , , , , , , , , , , , , ,
Thesis Supervisor	Head of Research Department	Campus Chief

VIVA – VOICE SHEET

We have conducted the viva-voice examination of the thesis

Submitted by:

Indira Devkota

Entitled:

A STUDY ON CAPITAL STRUCTURE MANAGEMENT OF NEPALESE COMMERCIAL BANKS (With Special Reference to Nepal Credit and Commerce Bank Ltd. And Bank of Kathmandu)

and found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirements for Master's Degree in Business Studies(M.B.S.)

Viva-Voice Committee:

Head of Research Department:.....

Thesis supervisor:....

External Expert:....

Date:....

DECLARTION

I, hereby, declare that the work reported in this thesis entitled "A Study on Capital Structure Management of Nepal's Commercial Banks(With Special Reference to Nepal Credit and Commerce Bank and Bank of Kathmandu)" Submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment for the Master's Degree in Business Studies (M.B.S) under the Supervision of Asso. Prof. Achyut Raj Bhattarai, Shanker Dev Campus.

Date:....

Indira Devkota Researcher Shanker Dev Campus

ACKNOWLEDGEMENTS

This thesis work could not have been completed without the support and cooperation of many individuals and organization.

First and foremost, I wish to express my sincere and deep sense of gratitude to my thesis supervisor and my respected sirAsso. Prof. Achyut Raj Bhattarai, Shanker Dev Campus, for their valuable suggestions, encouragement and guidance while supervising my thesis work. They have provided me much of their precious time till the completion of this work. Their wise counsel and guidance provided me the inspiration to go ahead with the work.

I am also grateful to all the professors, lecturers, as well as assistance administrator of the Shanker Dev Campus, whose suggestion made me able to finalize this thesis

I express debt of gratitude to my friends for their continuous support in my efforts to complete this thesis work. I owe a special thanks to Mr Sadhuram Paudyal who provided valuable support in my efforts to complete this thesis work.

Needless to say, to error is human being. I am not exception from it. So I am responsible for some deficiencies that may have remained in this work.

Indira Devkota Researcher Shanker Dev Campus

TABLE OF CONTENTS

Recommendation	
Viva-Voice Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
CHAPTERS	Page No.
CHAPTER-I INTRODUCTION	1-9
1.1Background of the Study	1
1.2 Statement of the problem	5
1.3 Objective of the study	7
1.4 Significance of the study	7
1.5 Limitation of the study	8
1.6 Organization of the study	8
CHAPTER-II REVIEW OF LITERATURE	10-33
2.1 Theoretical Review	10
2.2 Review of Related Studies	19
2.3 Research Gap	33
CHAPTER –III RESEARCH METHODOLOGY	34-48
3.1 Introduction	34
3.2 Research Design	34
3.3 Nature and Sources of Data	34
3.4 Population and Sample	35
3.5 Data Collection Procedure	35
3.6 Data Processing procedures	35
3.7 Tools and Techniques Employed	36
CHAPTER –IV DATA PRESENTATION AND ANALYSIS	42-68
4.1 Ratio Analysis	42
4.2 Analysis of Capital Structure	56

4.3	Leverage Analysis	58
4.4	Correlation Analysis	60
4.5	Major Findings of the Study	66
CHAP	FER – V SUMMARY, CONCLUSION AND RECOMMENDAT	ION
		69-73
5.	1 Summary	69
5.	2 Conclusion	71

5.3 Recommendation	73

BIBLIOGRAPHY

APPENDICES

LIST OF THE TABLES

Tables	Page No.
Table No 4.1: Debt to Equity Ratio	43
Table No 4.2: Interest Coverage Ratio	44
Table No 4.3: Return on Total Assets	46
Table No 4.4: Return on Shareholder Equity	47
Table No 4.5: Earning per share	48
Table No 4.6: Debt to Total Assets Ratio	50
Table No 4.7: Long Term Debt to Capital Employed Ratio	52
Table No 4.8: Long Term Debt to Total Debt Ratio	54
Table No 4.9: Dividend Per Share	55
Table No 4.10: Position of overall Capitalization rate	56
Table No 4.11: Equity Capitalization Rate under NOI Approach	58
Table No 4.12: Comparative position of Financial Leverage	60
Table No 4.13: Correlation Coefficient between TD and SHE	61
Table No 4.14: Correlation Coefficient between LTD and SHE	62
Table No 4.15: Correlation Coefficient between EBIT and INTERE	EST 63
Table No 4.16: Correlation Coefficient between EBIT and DPS	65

LIST OF THE FIGURES

Figures No	•	Page No.
Fig No. 4.1	Comparative position of Debt to Equity Ratio	43
Fig No. 4.2	Comparative position of Interest Coverage Ratio	45
Fig No. 4.3	Position of comparative Return on Total Assets	46
Fig No. 4.4	Position of comparative ROSHE	48
Fig No. 4.5	Position of comparative EPS	49
Fig No.4.6	Comparative position of Long Term Debt to Capital	51
Fig No. 4.7	comparative position of Long Term Debt to Capital	
Employed R	atio	52
Fig No. 4.8	Long Term Debt and Total Debt position	54

LIST OF ABBREVIATION

	Summation
ВОК	Bank of Kathmandu
C. V	Coefficient of Variation
D/E	Debt to Equity Ratio
DFL	Degree of Finance Leverage
DPS	Dividend Per Share
EAT	Earning After Tax
EBIT	Earning Before Interest and Tax
EBL	Everest Bank Ltd
EBT	Earning Before Tax
EPS	Earning Per Share
FY	Fiscal year
I/C	Interest Coverage
Kd	Cost of Debt
Ke	Cost of Equity
Ко	Overall Capitalization Rate
Ks	Cost of Equity
Ltd	Limited
LTD	Long Term Debt
MM	Modigliani Miller
NCC	Nepal Credit and Commerce Bank
NI	Net Income
P.E	Probability Error
ROA	Return on Assets
ROE	Return on Equity
ROSHE	Return on Shareholders' Equity
S.D	Standard Deviation
SHE	Shares holders Equity
TD	Total Debt