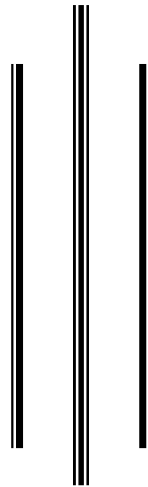


**COMPARATIVE ANALYSIS
OF
CAPITAL STRUCTURE
OF
COMMERCIAL BANKS**



By:

KOPILA KHANAL
POST GRADUATE CAMPUS
BIRATNAGAR
T.U. Registration No: 7-1-3-1192-2001

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirement of the degree of
Masters of Business Studies (MBS)

Biratnagar
November, 2009



**TRIBHUVAN UNIVERSITY
POST GRADUATE CAMPUS
BIRATNAGAR
NEPAL**

Tel No: 021-522204
021-526327

Ref No:

Date:

RECOMMENDATION

This is to certify that the thesis:

*Submitted by
Kopila Khanal*

Entitled

**"COMPARATIVE ANALYSIS OF CAPITAL
STRUCTURE OF
COMMERCIAL BANKS"**

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

Supervisor

.....
(DR. Khagendra Acharya)

Head of Department

.....
(Dr. Madhav Bdr Shrestha)

Campus Chief

.....
(Mr. Harihar Bhandari)

Date:



**TRIBHUVAN UNIVERSITY
POST GRADUATE CAMPUS
BIRATNAGAR
NEPAL**

Tel No: 021-522204
021-526327

Ref No:
Date:

VIVA VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

KOPIKA KHANAL

entitled

**"COMPARATIVE ANALYSIS OF CAPITAL
STRUCTURE OF
COMMERCIAL BANKS"**

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 requirement for

Master's Degree in Business Studies (M.B.S.)

Viva-voce Committee

Head of the Research Committee

Member (Thesis Supervisor)

Member (External Expert)

Date:

DECLARATION

I hereby Declare that the thesis entitled “Comparative Analysis Of Capital Structure of Commercial Bank”, submitted to Post Graduate College, Faculty of Management, Tribhuwan University is my original work done for the partial fulfillment of requirement of the Master Degree of Business Studies (MBS) under the supervision of Dr. Khagendra Acharya of Post Graduate College, Tribhuwan University.

Kopila Khanal

Exam Roll No:77

Campus Roll No:54

T.U. Redg No: 7-3-1192-2001

P.G.Campus, Biratnagar

Date:2066/08/16.....

ACKNOWLEDGEMENT

I would like to thank many people who have helped me and encouraged me to bring out this research work.

Firstly, I owe a debt of gratitude to my respected thesis supervisor **Dr. Khagendra Acharya**, Professor, Post Graduate Campus who has supported me by giving guidelines, advice and valuable suggestions and unending sympathy throughout my research work.

I would also like to thank Mr. Kabindra Regmi and Mr. Dev Narayan Chaudhari for providing necessary information and data without which my research work would have been incomplete. Similarly, Mr. Uttam Koirala, Mr. Yogesh Sharma and Miss Kaushila Dahal have been equally helpful, and I express my gratitude to them.

My special appreciation goes to all the staff of library of Post Graduate College, Biratnagar for their assistance in providing valuable materials.

It is my pleasure to thank my colleagues who have supported me in different ways.

Lastly, my heartiest thanks go to my family and campus staff along with classmates who have supported me by providing constant help and encouragement.

Kopila Khanal

Biratnagar

Date: 2066/08/16

TABLE OF CONTENTS

<u>Contents</u>	<u>Page No.</u>
Recommendation	
Viva-voce sheet	
Declaration	
Acknowledgement	
Table of content	
List of tables	
List of figures	
Abbreviation	

CHAPTER-ONE

INTRODUCTION	1-14
1 Background of the Study	1
1.1 An introduction about sample banks	
1.1.1 NABIL Bank Ltd	3
1.1.2 Kumari Bank Ltd.	6
1.1.3 Nepal SBI Bank Ltd	8
1.2 Focus of the study	10
1.3 Statement of Problem	11
1.4 Significance of the study	12
1.5 Objective of the study	12
1.6 Limitation of the study	13
1.7 Organization of the study	13

CHAPTER-TWO

REVIEW OF LITERATURE 15-35

2.1 Review of Literature	15
2.1.1 Conceptual Review	15
2.1.2 Theories of Capital Structure	19
i. The Net Income Approach	19
ii. The Net Operating Income Approach	20
iii The Traditional Approach	23
iv The Modigliani- Miller Approach	25
2.2 Review from Journals and articles	28
2.3 Thesis Review	31

CHAPTER-THREE

RESEARCH METHODOLOGY 36-38

3.1 Research Design	36
3.2 Population and Sample	36
3.3 Source of Data	37
3.4 Methods of analysis and presentation of data	37
3.5 Tools of Analysis	37

CHAPTER-FOUR

PRESENTATION AND ANALYSIS OF DATA 39-72

4.1 Introduction	39
4.2 Descriptive Analysis of ratio	40
1. Share Capital Trend	40
2. Reserve and surplus Trend	42
3. Borrowing Trend	45
4. Deposits Trend	48
5. Total Liabilities Trend	51
6. Leverage	54
6.1 Degree of operating leverage	55

6.2 Degree of Financial Leverage	55
6.3 Degree of Combined leverage	56
7. Capital Structure/ Leverage/ Solvency Ratio	60
7.1 Debt Equity ratios	61
7.2 Debt Assets ratio	61
7.3 Interest Coverage ratio	65
7.4 Capital Adequacy/ Sufficiency ratios	67

CHAPTER-FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS 73-80

5.1 Summary	73
5.2 Conclusions	74
5.3 Recommendations	79

BIBLIOGRAPHY

APPENDIXES

LIST OF TABLES

<u>Table</u>	<u>Page No.</u>
1.1 Capital structure of NABIL based on annual report 2064\65	5
1.2 Ownership of equity capital of NABIL	5
1.3 Capital structure of KBL based on annual report 2064\65	7
1.4 Ownership of equity capital of KBL	7
1.5 Capital structure of NSBL based on annual report 2064\65	9
1.6 Ownership of equity capital of NSBL	9
4.1 Paid up capital, Reserves, Borrowings & Deposits of NABIL, KBL and NSBL for the year 2064/65	40
4.2 Share capital trend of NABIL Bank Ltd.	40
4.3 Share capital trend of Kumari Bank Ltd	41
4.4 Share capital trend of Nepal SBI Bank Ltd	42
4.5 R/S Trend of NABIL Bank Ltd.	43
4.6 R/S Trend of Kumari Bank Ltd	43
4.7 R/S Trend of Nepal SBI Bank Ltd	44
4.8 Borrowing Trend of NABIL Bank Ltd	45
4.9 Borrowing Trend of Kumari Bank Ltd	46
4.10 Borrowing Trend of Nepal SBI Bank Ltd	47
4.11 Deposit Trend of NABIL Bank Ltd	49
4.12 Deposit Trend of Kumari Bank Ltd	49
4.13 Deposit Trend of Nepal SBI Bank Ltd	50
4.14 Total liabilities trend of NABIL Bank Ltd	51
4.15 Total liabilities trend of Kumari Bank Ltd	52
4.16 Total liabilities trend of Nepal SBI Bank Ltd	53
4.17 Calculation of DOL, DFL and DCL of NABIL Bank Ltd	57
4.18 Calculation of DOL DFL and DCL of Kumari Bank Ltd	58
4.19 Calculation of DOL DFL and DCL of Nepal SBI Bank Ltd	59
4.20 Calculation of Debt/Equity Ratio and Debt Assets ratio of NABILBank Ltd	62
4.21 Calculation of Debt/Equity Ratio and Debt Assets ratio of Kumari Bank Ltd	63
4.22 Calculation of Debt/Equity Ratio and Debt Assets ratio of Nepal SBI Bank Ltd	64
4.23 Computation of interest coverage Ratio of NABIL Bank Ltd.	65
4.24 Computation of interest coverage Ratio Kumari Bank Ltd	66
4.25 Computation of interest coverage Ratio of Nepal SBI Bank Ltd	67
4.26 Capital sufficiency Ratio of NABIL Bank Ltd	70
4.27 Capital sufficiency Ratio of Kumari Bank Ltd	71
4.28 Capital sufficiency Ratio of Nepal SBI Bank Ltd	71

LIST OF FIGURES

<u>Figure No.</u>	<u>Page No.</u>
1.1.1 Graphical Presentation of Ownership Of equity capital of NABIL	5
1.1.2 Graphical Presentation of Ownership Of equity capital of KBL	7
1.1.3 Graphical Presentation of Ownership Of equity capital of NSBL	10
2.1 The effects of leverage on the cost of capital under NI approach	20
2.2 The effects of leverage on the cost of capital under NOI approach	22
2.3 The cost of capital under MM hypothesis proposition I	27
2.4 The cost of equity under MM hypothesis proposition II	28
4.1 Share Capital Trend of NABIL	41
4.2 Share Capital Trend of KBL	41
4.3 Share Capital Trend of NSBL	42
4.4 R/S Trend of NABIL	43
4.5 R/S Trend of KBL	44
4.6 R/S Trend of NSBL	45
4.7 Borrowing Trend of NABIL	46
4.8 Borrowing Trend of KBL	47
4.9 Borrowing Trend of NSBL	48
4.10 Deposits Trend of NABIL	49
4.11 Deposits Trend of KBL	50
4.12 Deposits Trend of NSBL	51
4.13 Total Liabilities Trend of NABIL	52
4.14 Total Liabilities Trend of KBL	53
4.15 Total Liabilities Trend of NSBL	54
4.16 Calculation of C/M, EBIT and EBT of NABIL	57
4.17 Calculation of C/M, EBIT and EBT of KBL	58
4.18 Calculation of C/M, EBIT and EBT of NSBL	59
4.19 Graphical Presentation of Total Debt and Total Equity & Total Assets of NABIL	62
4.20 Graphical Presentation of Total Debt and Total Equity & Total Assets of KBL	63
4.21 Graphical Presentation of Total Debt and Total Equity & Total Assets of NSBL	64
4.22 Graphical Presentation of EBIT and Interest of NABIL	66
4.23 Graphical Presentation of EBIT and Interest of KBL	66
4.24 Graphical Presentation of EBIT and Interest of NSBL	67
4.25 Graphical Presentation of Total Fund and Risk Weighted Assets of NABIL	70
4.26 Graphical Presentation of Total Fund and Risk Weighted Assets of KBL	71
4.27 Graphical Presentation of Total Fund and Risk Weighted Assets of NSBL	72

ABBREVIATION

A/C	:	Account
AD	:	Anno Domini – abbr. of the Christian Era
ATM	:	Automated Teller Machine
BS	:	Bikram Sambat
B/S	:	Balance Sheet
C/M	:	Contribution Margin
CSR	:	Capital sufficiency ratio
DCL	:	Degree of Combined Leverage
DFL	:	Degree of Financial Leverage
DOL	:	Degree of Operating Leverage
EAT	:	Earning After Tax
EBIT	:	Earning before Interest Tax
EBT	:	Earning before tax
F\Y	:	Fiscal year
Gov.	:	Government
i.e.	:	That is
KBL	:	Kumari Bank Ltd.
Ltd.	:	Limited
Mgmt.	:	Management
NABIL	:	Nepal Arab Bank Ltd.
NRB	:	Nepal Rastra Bank
NSBL	:	Nepal SBI Bank Ltd
P/L	:	Profit & Loss Account
R/S	:	Reserve and Surplus
T\E	:	Time interest earned