

**A COMPARATIVE STUDY OF CAPITAL
STRUCTURE MANAGEMENT BETWEEN
KUMARI BANK LTD. AND SIDDHARTHA BANK
LTD.**

Submitted By:

Priya Shrestha

Thakur Ram Multipual Campus

TU Reg. No. : 7-2-3-439-09-2003

Campus Roll No: 24/2063

Exam Roll No: 617

A thesis submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

*In partial fulfillment of the requirement for the degree of Masters of
Business Studies (M.B.S)*

Birgunj, Nepal

July 2011

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Priya Shrestha

Entitled:

A COMPATATIVE ANALYSIS OF CAPITAL STRUCTURE MANAGEMENT BETWEEN KUMARI BANK LTD. AND SIDDHARTHA BANK LTD.

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

.....
Sanjay Shrestha

Thesis Supervisor

.....
Deepak Shayak

Chairman of Research Committee

.....
Campus Chief

VIVA-VOCE SHEET

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

by

PRIYA SHRETSHA

Entitled

**A COMPATATIVE ANALYSIS OF CAPITAL
STRUCTURE MANAGEMENT BETWEEN KUMARI
BANK LTD. AND SIDDHARTHA BANK 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
Masters Degree of Business Studies (M.B.S.)*

Viva-Voce Committee

Head of Management Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I here by declare that the work reported in this thesis entitled **A comparative analysis of Capital Structure Management between Kumari Bank Ltd. and Siddhartha Bank Ltd.** submitted to Thakur Ram Multipal Campus, 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. Sanjay Shrestha

.....

Priya Shrestha

Researcher

TU Reg. No. : 7-2-3-439-09-2003

Date:.....

ACKNOWLEDGEMENT

This study has been possible with the generous help and cooperation of many. I, therefore, wish to convey my heartfelt thanks and sincere appreciation to all the people who have been very kind to me in the preparation of this study.

I wish to express my sincere gratitude and deep respect to my supervisor **Mr. Sanjay Shrestha**, under whose scholarly guidance, I could complete the present work. I would also acknowledge all the faculty members of Thakur Ram Multiple Campus for their valuable suggestions.

I am equally thankful to many friends, with whom I have spent time discussing their experience; I wish to thank all of them for their time and effort in helping me in research writing. Lastly, I would like to express my heartiest thanks to my parents for their moral as well as economic support during the study period. It is hoped that it will stimulate a wide circle to engage in discussion on the relevant issued. Any errors of judgment and fact are my responsibility although every effort has been made to eliminate the latter following the comments received from various personnel.

Priya Shrestha

Thakuram Multiple Campus

TABLE OF CONTENTS

Table of Contents	
List of Tables	
List of Charts	
Abbreviations	

CHAPTER I: INTRODUCTION

1.1. Economic Background of the Country	Error! Bookmark not defined.
1.2. Background of the Study	4
1.3. Statement of the Problem.....	8
1.4. Objective of the Study	10
1.5. Justification of the Study	10
1.6. Limitation of the the Study	11
1.7. Organization of the Study	12

CHAPTER II: REVIEW OF LITERATURE

2.1. Conceptual Framework.....	13
2.1.1. History of Banking	13
2.1.2. Emergence of Commercial Banks in the Economy	15
2.1.3. Status of Commercial Banks' Assets and Liabilities	18
2.1.4. Profile of the Organization.....	19
i. Kumari Bank Limited.....	19
ii. Siddhartha Bank Limited.....	21
2.1.5. Concept of Capital Structure	21

2.1.5.1. Assumptions of Theories of Capital Structure	29
2.1.5.2. Theories of Capital Structure	30
I. Net Income (NI) Approach	31
II. Net Operating Income Approach.....	33
III. Traditional Approach	34
IV. Modigliani-Miller (M-M) Theory	37
2.1.5.3. Important Tools of Capital Structure	48
2.2. Review of NRB Directives	50
2.3. Review of Thesis	56

CHAPTER III: RESEARCH METHODOLOGY

3.1 Introduction.....	61
3.2 Research Design	61
3.3 Population and Sampling	62
3.4 Nature and Type of Data.....	63
3.4.1 Source of Data	63
3.4.2 Data Gathering Procudere.....	64
3.4.3 Data Processing Procudere	64
3.5 Techinque of Analysis	65
3.6 Tools of Analysis	Error! Bookmark not defined. 66
3.6.1 Accounting Tools	66
3.6.2 Statistical Tools	66
3.6.2.1 Expected rate of return or average rate of return.....	66

3.6.2.2 Standard Deviation.....	67
3.6.2.3. Coefficient of Variation.....	67
3.6.2.4. Karl Pearson's Correlation Coefficient.....	67
3.6.2.4. Karl Pearson's Correlation Coefficient.....	68
3.6.2.5. Coefficient of (multiple) determination (r^2).....	69

CHAPTER IV: DATA PRESENTATION AND ANALYSIS

4.1 Capital Structure Analysis	70
4.1.1 Fixed Deposit Analysis	70
4.1.2 Analysis of Shareholders' Equity	73
4.1.3 Analysis of Fianacial Mix of the Banks	76
4.1.3.1 Debt to Equity Ratio	76
4.1.3.2 Debt to Total Capital Ratio (DER)	Error! Bookmark not defined. 80
4.1.4 Analysis of Capital Adequacy of the Bank	83
4.1.5 Analysis of the Debt Capacity of the Bank	86
4.1.6 Capital Structure position of the Banks	88
4.1.7 Overall Capitalization Rate	90
4.2 Return on Capital Employed	91
4.3 Return of Equity (ROE)	92
4.4 Statistical Analysis	94
4.4.1 Correlation Coefficient Analysis	94

CHAPTER V: SUMMARY, CONCLUSION AND
RECOMMENDATION

5.1. Summary	103
5.2. Major Findings.....	106
5.3. Major Recommendations.....	109
BIBLIOGRAPHY	111
APPENDIX.....	114

ABBREVIATIONS

A.D.	Anno Domini/ After Death
ADB	Asian Development Bank
AGM	Annual General Meeting
BOK	Bank of Kathmandu
CDs	Certificates of Deposits
DB	Development Bond
DER	Debt Equity Ratio
FY	Fiscal Year
HBL	Himalayan Bank Limited
JMF	Juddha Match Factory
JVB	Joint Venture Bank
KBL	Kumari Bank Limited
MoF	Ministry of Finance
NA	Not Available
NBB	Nepal Bangladesh Bank
NCDs	Negotiable Certificates of Deposits
NEPSE	Nepal Stock Exchange
NEA	Nepal Electricity Authority
NIB	Nepal Investment Bank Limited
NRB	Nepal Rastra Bank
NSB	National Savings Bond

NSCs	National Saving Certificates
NSML	Nepal Share Markets Ltd.
OTC	Over-the Counter
SB	Saving Bond
SBL	Siddhartha Bank Limited
SCB	Standard Charter Bank
SEBON	Securities Board of Nepal
SEC	Securities Exchange Center
SLR	Statutory Liquidity Ratio
TB	Treasury Bills/ T- Bills, T- Bonds
T-notes	Treasury Notes

LIST OF TABLE		Page No
Table 2.1	List of 'A' class financial institutions as on October 2009	17
Table 4.1	Fixed deposits position and index table of KBL & SBL	70
Table 4.2	Fixed deposits as percentage of total liabilities of KBL & SBL	72
Table 4.3	Fixed deposits to total debt of KBL & SBL	73
Table 4.4(a)	Composition of shareholders equity of KBL	74
Table 4.4(b)	Composition of shareholders equity of SBL	74
Table 4.5	Net-worth to total liabilities of KBL & SBL	75
Table 4.6	Shareholders equity composition & Index of KBL & SBL	75
Table 4.7	Fixed deposits to net worth ratio of KBL & SBL	77
Table 4.8	DER of KBL & SBL	79
Table 4.9	Fixed Deposit to Capital employed of KBL & SBL	81
Table 4.10	Total debt to total assets of KBL & SBL	82
Table 4.11	Capital Adequacy Ratio (Core Capital)	83
Table 4.12	Capital Adequacy Ratio (Supplementary Capital)	84
Table 4.13	Capital Adequacy Ratio (Total Capital Fund)	85
Table 4.14	Interest coverage ratio of KBL & SBL	87
Table 4.15	Capital structure mix of KBL	89
Table 4.16	Capital structure mix of SBL	89
Table 4.17	Overall capitalization rate of KBL & SBL	90
Table 4.18	Return on Capital Employed of KBL & SBL	91
Table 4.19	Return on equity	93
Table 4.20	Correlation coefficient between EBIT & Interest Payment	95
Table 4.21	Correlation coefficient between return & debt capital	97
Table 4.22	Correlation coefficient between DER & ROE	99
Table 4.23	Correlation coefficient between K_0 & DER	101

LIST OF FIGURE		Page No.
Figure 2.1	The effect of leverage on the cost of capital under NI approach	32
Figure 2.2	The effect of Leverage on cost of capital	34
Figure 2.3	Relationship between cost of Capital and Leverage	37
Figure 2.4	Relationship between Costs of Capital & Leverage	42
Figure 4.1	Comparative Bar Diagram of Fixed Deposit	71
Figure 4.2	Comparative Bar Diagram if Net Worth	76
Figure 4.3	Line Diagram of Fixed Deposit to Net Worth	78
Figure 4.4	Line Diagram of Capital Adequacy Ratio (Core Capital)	83
Figure 4.5	Line Diagram of Capital Adequacy Ratio (Supplementary	84
Figure 4.6	Line Diagram of Capital Adequacy Ratio (Total Capital)	85