

**CAPITAL STRUCTURE MANAGEMENT OF NEPALESE
COMMERCIAL BANKS**

Submitted By:

DEEPA K.C.

Goldengate International College

T.U. Regd. No. : 7-2-453-86-2005

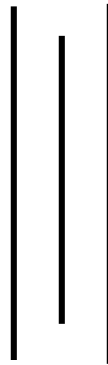
2nd Year Exam Symbol No.: 4530004

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University



In partial fulfillment of the requirement for the Degree of

Masters in Business Studies (M.B.S)

Old Baneshwor, Kathmandu

April, 2013

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

DEEPA K.C.

Entitled:

CAPITAL STRUCTURE MANAGEMENT OF NEPALESE COMMERCIAL BANKS

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

.....

Mr. Bivab Neupane

(Thesis Supervisor)

.....

Mr. Gobinda Kadel

(MBS Program Director)

.....

Prof. Dr. Puspa Kandel

(Head of Research Department)

Date:

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

DEEPA K.C.

Entitled:

**CAPITAL STRUCTURE MANAGEMENT OF NEPALESE
COMMERCIAL BANK**

*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 the*

Degree of Masters in 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 Nepalese Commercial Banks**” 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. Bivab Nepane** of Goldengate Int’l College.

.....

Deepa K.C.

Goldengate International College

T.U. Regd. No.: 7-2-453-86-2005

2nd Year Exam Symbol No.: 4530004

ACKNOWLEDGEMENTS

I take this opportunity to express my sincere gratitude towards my all the teachers of Goldengate International College, TU who have inculcated in me the thirst for knowledge.

I would first and foremost like to express my cordial gratitude towards Mr. Bivab Neupane, who have supervised this study giving me all the inspiration as well as guidance on the technical matters of this research study. I owe them thanks too for their kind consideration in making me realize this dream in increasing short time.

I specially thank to the organizations; Bank of Kathmandu Limited and Nabil Bank Limited which provided me the required data and information for the study. Similarly, I thank all the staffs of Goldengate Internatioal College library for providing various books, reports and other publications.

Finally, I would like to thank all my friends and family members who have given me the moral during the entire period of study.

Deepa K.C.

Goldengate International College

TABLE OF CONTENTS

Recommendation

Viva- Voce Sheet

Declaration

Acknowledgements

Table of Contents

List of Tables

List of Figures

Abbreviations

CHAPTER-I: INTRODUCTION

Page No.

1.1 Background of the study	1
1.2 Commercial Banking Scenario in Nepal	4
1.3 Statement of the problem	6
1.4 Objective of the study	8
1.5 Significance of the study	8
1.6 Limitation of the study	9
1.7 Organization of the study	10

CHAPTER -II: REVIEW OF LITERATURE

2.1 Conceptual Review	12
2.1.1. Concept of capital structure	12
2.1.2. Concept of cost of capital	17
2.1.3. Assumptions of capital structure	20

2.1.4. Theories of Capital Structure	22
2.1.5. Factor affecting capital structure	35
2.1.6. Optimal Capital Structure	37
2.2. Review of Journals and Articles	38
2.3. Review of Thesis	45
2.4. Research Gap	48

CHAPTER III : RESEARCH METHODOLOGY

3.1. Introduction	50
3.2. Research Design	52
3.3. Population and Sample of Data	52
3.4. Nature and Types of Data	53
3.5. Sources of Data	53
3.5.1. Data Gathering Procedure	54
3.5.2. Data Processing Procedure	54
3.6 Method of Data Analysis	55
3.7 Tools of Analysis	56
3.7.1. Accounting Tools	56
3.7.2. Statistical Tools	57
3.7.2.1. Standard Deviation	57
3.7.2.2. Coefficient of Variation	58
3.7.2.3 Karl Pearson's Correlation Coefficient	58
3.7.2.4 Coefficient of (multiple) Determination (r^2)	60
3.7.2.5 Students t-Test	60

CHAPTER IV: PRESENTATION AND ANALYSIS OF DATA

4.1. Introduction	62
4.2. Analysis of Debt to Equity Ratio	63
4.3. Total Debt to Total Assets Ratio	66
4.4. Analysis of Interest Coverage Ratio (I/C Ratio)	69
4.5. Analysis of Degree of Financial Leverage	72
4.6. Analysis of return on Total Asset (ROA)	75
4.7. Analysis of Return on Equity (ROE)	78
4.8. Market Related Ratio	80
4.8.1. Earning Per Share (EPS)	81
4.8.2. Dividend Per Share (DPS)	84
4.8.3. Dividend Payout (DP) Ratio	87
4.8.4. Price Earning Ratio (PE Ratio)	89
4.9. Analysis of Capital Structure	92
a. Net Income Approach (NI)	94
b. Net Operating Income (NOI)	96
4.10. Weighted Average Cost of Fund	99
4.11 Statistical Analysis	105
4.11.1 Coefficient of Correlation between EBIT and Interest Payment	105
4.11.2 Coefficient of Correlation between K_o and D/E Ratio	106
4.11.3 Coefficient of Correlation between Return on Equity (RoE) and Debt-Equity Ratio	107
4.11.4 Coefficient of Correlation between Debt-Equity Ratio	

and Return on Assets (RoA)	108
4.12 Test of Hypothesis	110
4.13 Student t-test Regarding Capital Structure	110
4.14 Major Findings of the study	113

CHAPTER V: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary	120
5.2. Conclusions	123
5.3. Recommendations	124

Bibliography

Appendices

List of Tables

Table 4.1	Debt to Equity Ratio of NABIL Bank	64
Table 4.2	Debt to Equity Ratio of BOK	65
Table 4.3	Total Debt to Total Asset Ratio of NABIL Bank	67
Table 4.4	Total Debt to Total Asset Ratio of BOK	68
Table 4.5	Interest Coverage Ratio of NABIL Bank	70
Table 4.6	Interest Coverage Ratio of BOK	71
Table 4.7	Degree of Financial Leverage of NABIL Bank	73
Table 4.8	Degree of Financial Leverage of BOK	74
Table 4.9	Return of Total Assets of NABIL Bank	76
Table 4.10	Return on Total Assets of BOK	76
Table 4.11	Return on equity of NABIL	79
Table 4.12	Return on Equity of BOK	79
Table 4.13	Earning Per Share of NABIL Bank	82
Table 4.14	Earning Per Share of BOK	82
Table 4.15	Dividend Per Share of NABIL Bank	85
Table 4.16	Dividend Per Share Of BOK	85
Table 4.17	Dividend Payout Ratio of NABIL Bank	87
Table 4.18	Dividend Payout Ratio of BOK	88
Table 4.19	Price Earning Ratio of NABIL Bank	90

Table 4.20	Price Earning Ratio of BOK	90
Table 4.21	Value of the Firm of NABIL Bank	92
Table 4.22	Value of the firm of BOK	93
Table 4.23	Overall Capitalization Rate of NABIL Bank	95
Table 4.24	Overall Capitalization Rate of BOK	95
Table 4.25	Equity Capitalization Rate (K_e) under NOI Approach of NABIL Bank	97
Table 4.26	Equity Capitalization Rate (K_e) under NOI Approach of BOK	98
Table 4.27	Cost of Debt of BOK	100
Table 4.28	Cost of Equity of BOK	101
Table 4.29	Weights of Debt and Equity of BOK	101
Table 4.30	Cost of Debt of NABIL Bank	102
Table 4.31	Cost of Equity of NABIL Bank	102
Table 4.32	Weights of Debt and Equity of NABIL Bank	103
Table 4.33	Weighted Average Cost of Fund (WACF) of BOK	103
Table 4.34	Weighted Average Cost of Fund (WACF) of NABIL Bank	104
Table 4.35	Coefficient of Correlation between EBIT and Interest Payment of NABIL Bank	105
Table 4.36	Coefficient of Correlation between EBIT and Interest Payment of Bok	106
Table 4.37	Coefficient of Correlation between K_o and D/E ratio of NABIL Bank	107
Table 4.38	Coefficient of Correlation between K_o and D/E ratio of BOK	107
Table 4.39	Coefficient of Correlation between ROE and D/E Ratio of NABIL Bank	108

Table 4.40	Coefficient of Correlation between ROE and D/E Ratio of BOK	108
Table 4.41	Relationship between Debt-Equity Ratio and Return on Assets of NABIL Bank	109
Table 4.42	Relationship between Debt-Equity Ratio and Return on Assets of BOK109	

List of Figures

Figure 4.1	Debt Equity Ratio	66
Figure 4.2	Debt to Total Asset Ratio	68
Figure 4.3	Interest Coverage Ratio	71
Figure 4.4	Degree of Financial Leverage	74
Figure 4.5	Return on Total Assets	77
Figure 4.6	Return on Equity	80
Figure 4.7	Earning Per Share	83
Figure 4.8	Dividend Per Share	86
Figure 4.9	Dividend Payout Ratio	88
Figure 4.10	Price Earning Ratio	91
Figure 4.11	Values of the Firm	93
Figure 4.12	Overall Capitalization Rate	96
Figure 4.13	Equity Capitalization Rate	99
Figure 4.14	Weighted Average Cost of Fund (WACF)	104

Abbreviations

BOK	Bank of Kathmandu
D/E Ratio	Dividend Earning Ratio
DFL	Degree of Financial Leverage
D/P Ratio	Dividend Payout Ratio
DPS	Dividend Per Share
EBIT	Earning Before Interest and Tax
Eg.	Example
EPS	Earning Per Share
FY	Fiscal Year
I/C Ratio	Interest Coverage Ratio
i.e.,	That is
Int.	Interest
NBL	Nepal Bank Limited
NI	Net Income
NOI	Net Operating Income
NRB	Nepal Rastra Bank
P/E Ratio	Price Earning Ratio
RBB	Rastriya Banijya Bank

ROA	Return on Asset
ROE	Return on Equity
Rs.	Rupees
TD	Total Debt
TE	Total Equity
WACC	Weighted Average Cost of Capital
WACF	Weighted Average Cost of Fund