

**A COMPARATIVE ANALYSIS OF CAPITAL
STRUCTURE OF SELECTED DEVELOPMENT
BANKS IN NEPAL**

By:

KALPANA TRIPATHI

Roll No: 164/2065

T.U. Registration No: 7-2-295-89-2005

**A Thesis Submitted to
Office of the Dean
Faculty of Management
Tribhuvan University
Prithvi Narayan Campus**

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

**Pokhara
September 2012**

RECOMMENDATION

This is to certify that the thesis

Submitted by:

KALPANA TRIPATHI

Entitled:

**A COMPARATIVE ANALYSIS OF CAPITAL STRUCTURE OF
SELECTED DEVELOPMENT BANKS IN NEPAL**

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

.....

Supervisor

Name: Dr. Pushpa Raj Sharma

Signature:

Date:

.....

Head, Research Department

Name: Dr. Pushpa Raj Sharma

Signature:

Campus Chief:

Signature:

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

KALPANA TRIPATHI

Entitled

A COMPARATIVE ANALYSIS OF CAPITAL STRUCTURE OF SELECTED DEVELOPMENT BANKS IN NEPAL

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 requirements for the degree of

Master of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department:

Member (Thesis Supervisor):

Member (External Expert):

Date:

ACKNOWLEDGEMENT

It is a great pleasure and satisfaction for me to complete this study for the partial fulfillment of the requirements for the degree of Masters in Business Studies under the faculty of Management, T.U.

I would like to extend my deepest and heartiest sense of gratitude to my thesis supervisor Associate Professor Dr. Pushpa Raj Sharma as well as the head of research department for his constant encouragement, patience guidance and valuable suggestion at every step of my work. This work would not have been in the present form without his observations and intellectual direction in the course of completion.

I wish to express my special appreciation to all my respected teachers, staff of P.N. Campus library, staff of concerned banks, lovely friends and to all who help, inspire, encourage and support me directly or indirectly to shape out this thesis.

I am very indebted to my lovely mother who encourages, inspire and cooperate me and keep me in the lamp of education and still helping me in every success of my life. Heartfelt thanks goes to my lovely daughters (Swastika, Ismarika PANGENI and Deepsikha Gairhe) for their praise worthy and silence during the completion of this task.

At last but not the least, I would like to express sincere thanks to staff of department of management (Dai Prakash Thapa) and my sister (Shova PANGENI and Deepa Gairhe) and Shreesti Chhantyal for the continuous inspiration and support. A very special word of thanks goes to my brother in law Bishnu PANGENI and Deepak Gairhe through many stages of typing and retyping.

Finally, thanks to Sakuntala Kunwar of Kanchan Computer Sewa for taking care of other computer works.

Kalpana Tripathi

2069/05/27

TABLE OF CONTENTS

	<i>Page</i>
<i>Recommendation Letter</i>	<i>ii</i>
<i>Viva -Voce Sheet</i>	<i>iii</i>
<i>Acknowledgment</i>	<i>iv</i>
<i>List of Tables</i>	<i>vi</i>
<i>List of Figures</i>	<i>vii</i>
<i>Abbreviations</i>	<i>viii</i>
Chapter	
I. INTRODUCTION	1–13
1.1 General Background	1
1.2 Statement of the Problem	10
1.3 Objectives of the Study	11
1.4 Significance of the Study	12
1.5 Delimitations of the Study	12
1.6 Organization of the Study	13
II. REVIEW OF LITERATURE	14–48
2.1 Conceptual / Theoretical Review	14
2.2 Review of Related Studies	35
III. RESEARCH METHODOLOGY	49–57
3.1 Research Design	49
3.2 Population and Sample	50
3.3 Sources and Methods of Data Collection	50
3.4 Data Processing Tools and Techniques	50
IV. DATA PRESENTATIONS AND ANALYSIS	58–85
4.1 Financial Analysis	58
4.2 Leverage Analysis	64
4.3 Profitability Analysis	66
4.4 Capital Structure Analysis	76
4.5 Correlation Analysis	79
4.6 Major Findings	82
V. SUMMARY CONCLUSIONS AND RECOMMENDATIONS	86–91
5.1 Summary	86
5.2 Conclusions	87
5.3 Recommendations	89
BIBLIOGRAPHY	
APPENDICES	

LIST OF TABLES

<i>Tables</i>	<i>Page</i>
4.1 Debt to Total Assets Ratio	59
4.2 Debt Equity Ratio	61
4.3 Interest Coverage Ratio	63
4.4 Degree of Financial Leverage	65
4.5 Return on Assets	67
4.6 Return on Equity	69
4.7 Earnings per Share	71
4.8 Price Earnings Ratio	73
4.9 Net Worth to Total Assets Ratio	75
4.10 Shareholder Reserve to Share Capital Ratio	76
4.11 Overall Capitalization Rate	77
4.12 Equity Capitalization Rate	78
4.13 Correlation Coefficient between EBIT and I with Probable Error	80
4.14 Correlation Coefficient between TD and SE with Probable Error	80
4.15 Correlation Coefficient between D/E and ROA with Probable Error	81
4.16 Correlation Coefficient between Overall Cost of Capital and Debt Equity Ratio with Probable Error	82

LIST OF FIGURES

<i>Figures</i>	<i>Page</i>
2.1 Net Income Approach	25
2.2 Net Operating Income Approach	27
2.3 Traditional Theory	29
2.4 M-M Approach, Proposition-I	32
2.5 M-M Approach, Proposition-II	33
4.1 Debt to Total Assets Ratio	60
4.2 Debt Equity Ratio	62
4.3 Interest Coverage Ratio	64
4.4 Degree of Financial Leverage	66
4.5 Return on Assets	68
4.6 Return on Equity	70
4.7 Earnings per Share	72
4.8 Price Earnings Ratio	74

ABBREVIATIONS

ATM	=	Automated Teller Machine
B	=	Market Value of Debt
BBB	=	Bishwa Bikas Bank Limited
BDB	=	Business Development Bank Limited
BUDBL	=	Business Universal Development Bank Limited
CDB	=	City Development Bank Limited
DFL	=	Degree of Financial Leverage
DPS	=	Dividend per Share
EAT	=	Earnings after Taxes
EBIT	=	Earnings before Interest and Taxes
EBT	=	Earnings before Taxes
EPS	=	Earnings per Share
GBB	=	Gandaki Bikas Bank Limited
GBBL	=	Garima Bikas Bank Limited
GDP	=	Gross Domestic Product
I	=	Interest
IASB	=	International Accounting Standard Board
ICR	=	Intellectual Capital Reporting
ICR	=	Interest Coverage Ratio
IFRSS	=	International Financing Reporting Standards
INASP	=	International Network for Availability of Scientific Publication
JVBs	=	Joint Venture Banks
LTD	=	Long Term Debt
MM	=	Modigliani and Miller
MPPS	=	Market Price per Share
NEPSE	=	Nepal Stock Exchange
NI	=	Net Income
NOI	=	Net Operating Income
NPAT	=	Net Profit after Taxes
NRB	=	Nepal Rastra Bank
P/E Ratio	=	Price Earnings Ratio
PE	=	Probable Error
r	=	Correlation Coefficient
ROA	=	Return on Assets
ROE	=	Return on Equity
S	=	Total Market Value of Stock
SEBON	=	Security Board of Nepal
TD	=	Total Debt
TU	=	Tribhuvan University
V	=	Total Market Value of Firm
WACC	=	Weighted Average Cost of Capital