

CAPITAL STRUCTURE AND VALUE OF THE FIRM

(A Comparative Study on Manufacturing and Non -Manufacturing Companies)

A THESIS

SUBMITTED BY:

Khadak Singh Bist

Roll No. 381 (060-062)

T.U. Registration No. 7-3-25-60-2003

Symbol No. 1270 (2062)

Nepal Commerce Campus

SUBMITTED TO:

Office of The Dean

Faculty of Management

Tribhuvan University

**In Partial Fulfillment of the Requirement of the Degree
for Master of Business Studies (M.B.S)**

New Baneshwor, Kathmandu

May, 2009

VIVA VOCE SHEET

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

Khadak Singh Bist

Entitled

CAPITAL STRUCTURE AND VALUE OF THE FIRM
(A Comparative Study on Manufacturing and Non- Manufacturing Companies)

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

Viva Voce Committee:

Chairperson, Research Department: _____

Member (Thesis Supervisor): _____

Member (Thesis Supervisor): _____

Member (External Expert): _____

Date: 2066

RECOMMENDATION

This is to certify that the thesis

Submitted by
Khadak Singh Bist

Entitled

CAPITAL STRUCTURE AND VALUE OF THE FIRM
(A Comparative Study on Manufacturing and Non- Manufacturing Companies)

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

.....
(Prof. Dr. Bihari Binod Pokharel)
Head of Research Department
and
Thesis Supervisor

.....
(Madan Kumar Luitel)
Thesis Advisor

.....
(Diwakar Pokhrel)
Campus Chief

Date: 2066

DECLARATION

I hereby declare that this thesis entitled “**CAPITAL STRUCTURE AND VALUE OF THE FIRM (A Comparative Study on Manufacturing and Non-Manufacturing Companies)**” submitted to Research Department of Nepal Commerce Campus, New Baneshwor, Faculty of Management, Tribhuvan University, is my original work as partial fulfillment of the requirement of the degree of Master of Business Studies (MBS), which is Prepared under the supervision of Prof. Dr. Bihari Binod Pokhreh and Mr. Madan Kumar Luitel, Lecturer of Nepal Commerce Campus, Tribhuvan University.

Khadak Singh Bist
Nepal Commerce Campus
Roll No. 381 (060-062)
MBS Symbol No. 1270 (2062)
T.U. Registration No.: 7-3-25-60-2003

Date: May, 2009

ACKNOWLEDGEMENTS

It is immense pleasure to acknowledge all the helping hands that assisted me in completing this thesis.

This study is the result of cooperation and support of many people. First of all I would like to extend my sincere gratitude to Thesis Supervisor Prof. Dr. Bihari Binod Pokharel, Head of the research department, Mr. Madan Kumar Luitel of Nepal Commerce Campus.

I also express my sincere thanks to staff of library of Nepal Commerce Campus, Tribhuvan University, Nepal Stock Exchange Ltd, securities Board, Nepal, Kathamandu for kind co-operation while collecting the data and information. I am also thankful to my friends who helped me directly and indirectly.

I would like to express my sincere gratitude to all my family members specially my elder brother Mr. Pawan Singh Bist for their continuous support in my efforts.

Last but not least, I am also grateful to Mr Uttam, Sher Singh, Man Singh and Mr. Suresh Pradhan for the calculation of statistical parameters and as well as Computer works.

A part from those above mentioned, would like to express my heartiest an deepest thanks to whom, I might forget to mention here.

Khadak Singh Bist

Kathamandu, Nepal

May, 2009

TABLE OF CONTENTS

Contents	Page No.:
Recommendation	i
Viva-Voce sheet	ii
Declaration	iii
Acknowledgements	iv
Table of Contents	v
List of Tables	vii
List of- Figures	viii
List of Abbreviations	ix
CHAPTER - I: INTRODUCTION	1-9
1.1 General Background of the study	1
1.2 Focus of the study	4
1. 3 Statement of the Problems	4
1.4 Objectives of the Study	6
1.5 Significance of the study	6
1.6 Limitations of the Study	7
1.7 Organization of the Study	8
CHAPTER- II : REVIEW OF LITERATURE	10-46
2.1 Review of Capital Structure Theories	10
2.1.1 Behavioral Theories	10
2.1.2 Contemporary Theories	11
2.1.1 Behavioral Theories	11
2.1.2 Contemporary Theories	18
2.1.3 Factors Affecting capital structure	25
2.2 Review From Books	28
2.3 Review of Empirical Studies	30
2.3.1 Modigliani and Miller First Study	30
2.3.2 Barage Study	32
2.3.3 Western Study	34
2.3.4 M-M Second Study	35
2.3.5 Wipperm Study	36
2.3.6 Sharma and Rao Study	37
2.3.7 Hamada Study	38
2.3.8 Pandey Study	39
2.3.9 Shrestha Study	42

2.4 Review of Theses: Dissertations	43
2.4.1 Adhikari Study	43
2.4.2 Khatri Study	44
2.4.4 Khaniya Study	45
CHAPTER III : RESEARCH METHODOLOGY	47-54
3.1 Research Design	47
3.2 Nature and Sources of Data	47
3.3 Population and Sample size	48
3.4 Data presentation and Analysis method	49
3.5. Tools Employed	49
3.6 Description of Variables	51
3.6.1 The ratio of market value and book value (total assets)	51
3.6.2 Leverage (L)	52
3.6.3 Size (Log S)	52
3.6.4 Growth (G)	53
3.6.5 Dividend Pay out Ratio (DPR)	53
3.6.6 Earning Variability (EV)	54
3.6.7 Liquidity (Liq)	54
CHAPTER- IV: PRESENTATION AND ANALYSIS OF DATA	55-75
4.1 Value of Variables along with Means and Standard Deviation	55
4.2 Capital Structure and Value of the firm	59
4.2.1 Correlation Analysis	60
4.2.2. Simple regressions of the Variables	64
4.2.3 Multiple Regression Analysis	67
4.3 Corporate tax and Value of the firm.	70
CHAPTER- V: SUMMARY, CONCLUSION AND RECOMMENDATIONS	76-82
5.1 Summary	76
5.2 Conclusion	79
5.3 Recommendations	80
BIBLIOGRAPHY	83
ANNEXURES	
ANNEXURES- I	i-viii
ANNEXURES- II	i-viii

LIST OF TABLES

S.N.	Table No.	Title	Page No.:
1	3.1	Sample size and study period	48
2	4.1	Means and Standard Deviations of the Variables for Manufacturing Sector	56
3	4.2	Means and Standard Deviations of the Variables for Non Manufacturing Sector	57
4	4.3	Correlation Coefficients between Variables for Manufacturing Sector	60
5	4.4	Correlation coefficient between variables for Non Manufacturing sector	62
6	4.5	Results of Simple Regression Analysis for Manufacturing Sector (Model-I)	64
7	4.6	Results of Simple Regression Analysis for Non Manufacturing Sector	65
8	4.7	Result of Multiple Regression for Manufacturing Sector (Model - II)	67
9	4.8	Result of Multiple Regression for Non-Manufacturing Sector	69
10	4.9	Multiple Regression Results for Manufacturing Sector (Model- III)	71
11	4.10	Multiple Regression Results for Non Manufacturing Sector	72

LIST OF FIGURES

S.N.	Table No.	Title	Page No.;
1	2.1	Cost of Capital and D/E ratio under NI Approach	13
2	2.2	Value of firm and D/E ratio under Ni Approach	13
3	2.3	Cost of Capital and D/E ratio under NOI Approach	15
4	2.4	Value of firm and D/E ratio under NOI Approach	15
5	2.5	Cost of Capital and D/E ratio under Traditional Approach	17
6	2.6	Value of firm an D/E ratio under Traditional Approach	17
7	2.7	Value of firm and D/E ratio under M-M Approach	23

ABBREVIATIONS

CDM	:	Central Department of management
Co.	:	Company
Contd.	:	Continued
CE	:	Size of capital Employed
D/E	:	Debt Equity ratio
Ed	:	Edition
e.g.	:	For example
EQ	:	Equity Capital
Es	:	Enterprises
Etc	:	excreta
FOM	:	Faculty of management
Fy	:	Fiscal Year
i.e.	:	that is
Ltd.	:	Limited
NEPSE Ltd	:	Nepal Stock Exchange Limited
No.	:	Number
Rs.	:	Rupees
S.D.	:	Standard Deviation
S.E	:	Standard Error
Sn.	:	Serial Number
SEBO/N	:	Securities Board, Nepal
TD	:	Total Debt
Vol.	:	Volume
Yrs.	:	Years