

TABLE OF CONTENTS

	Page No.
Declaration	
Recommendation	
Viva voce sheet	
Acknowledgements	
Table of contents	i
List of Tables	iv
List of Figures	viii
List of Acronyms	ix

Chapter I

Introduction

1.1	General background	1
1.2	Statement of the problem	7
1.3	Objectives of the study	17
1.4	Statement of hypotheses	17
1.5	Research methodology	18
1.6	Significance of the study	24
1.7	Limitation of study	26
1.8	Organization of the study	27

Chapter II

Capital Structure and its Determinants in Nepalese Enterprises

2.1	Introduction	28
2.2	Review of literature	30
2.3	Research methodology	84
2.4	Analysis of data	96
	2.4.1 Capital structure or leverage position	96
	2.4.2 Descriptive statistics of capital structure and its determinants	98
	2.4.3 Capital structure and its determinants-all sample	99

2.4.4	Capital structure and its determinants -manufacturing sample	105
2.4.5	Capital structure and its determinants - nonmanufacturing sample	108
2.5	Discussion	112

Chapter III

Effect of Leverage on Profitability in Nepalese Enterprises

3.1	Introduction	118
3.2	Empirical evidence on leverage and profitability	120
3.3	Study's methodology	149
3.4	Data analysis and findings	156
	3.4.1 Profitability position	156
	3.4.2 Leverage and profitability-all sample	158
	3.4.3 Leverage and profitability- manufacturing sample	162
	3.4.4 Leverage and profitability-nonmanufacturing sample	166
3.5	Discussion	172

Chapter IV

Effects of Leverage on Cost of Capital in Nepalese Enterprises

4.1	Introduction	177
4.2	Empirical evidence on capital structure and cost of capital	179
4.3	Research methodology	190
4.4	Analysis of data	200
	4.4.1 Cost of capital position of sample companies	200
	4.4.2 Descriptive statistics of cost of capital and its predictors	203
	4.4.3 Relationship among cost of capital and predictors	203
	4.4.4 Effect of leverage on cost of capital	204
4.5	Discussion	207

Chapter V

Effects of Leverage on Firm Value in Nepalese Enterprises

5.1	Introduction	210
5.2	Empirical evidence on leverage and firm value	214
5.3	Research methodology	226
5.4	Data analysis and results	236

5.4.1	Descriptive statistics	236
5.4.2	Leverage and firm value-all sample	237
5.4.3	Leverage and firm value- manufacturing sample	240
5.4.4	Leverage and firm value- nonmanufacturing sample	243
5.5	Discussion	246

Chapter VI

Corporate Financing Policy in Nepal: A Survey

6.1	Introduction	249
6.2	Review of literature	252
6.3	Survey procedure	261
6.3.1	Research design	261
6.3.2	Population and sampling	262
6.3.3	Construction, pre-testing and development of questionnaire	264
6.3.4	Verification of non-response bias	266
6.3.5	Data analysis method	266
6.3.6	Reliability and validity	267
6.4	Survey results	268
6.5	Discussion	305

Chapter VII

Summary, Conclusion and Recommendations

7.1	Summary	310
7.2	Conclusion	324
7.3	Recommendations	329
	Bibliography	336
	Annexure	

LIST OF TABLES

Table No.	Title	Page No.
1.1	Number of enterprise selected for the study	20
1.2	Enterprises selected, period covered and observations for the study	21
2.1	Major studies on capital structure and its determinants before 1980s	45
2.2	Major studies on capital structure and its determinants during 1980s to 1990s	47
2.3	Major studies on capital structure and its determinants during 2000s to date	54
2.4	Expected relationship between capital structure and its determinants	95
2.5	Debt to total assets ratios for the period of 1998 to 2012	97
2.6	Descriptive statistics of dependent and independent variables	99
2.7	Correlation matrix of determinants of capital structure- all sample	100
2.8	Regression results of determinants of capital structure-all sample	103
2.9	Correlation matrix of determinants of capital structure-manufacturing sample	106
2.10	Regression results of determinants of capital structure-manufacturing sample	107
2.11	Correlation matrix of determinants of capital structure-nonmanufacturing sample	109
2.12	Regression results of determinants of capital structure-nonmanufacturing sample	111
2.13	Test results of determinants of capital structure with priori the expectations	113
2.14	Comparison of the test results in manufacturing and non-manufacturing sample	116
3.1	Major studies on effect of leverage on profitability before 2000	121
3.2	Major studies on effect of leverage on profitability after 2000 to date	125
3.3	Effect of leverage on profitability along with priori predicted signs	156
3.4	EBIT to total assets ratios (ROA) for the period of 1998 to 2012	157
3.5	Descriptive statistics of profitability variables-all sample	159
3.6	Correlation coefficients of leverage and profitability variables-all sample	160

3.7	Regression results of leverage and profitability-all sample	161
3.8	Descriptive statistics of profitability variables-manufacturing sample	163
3.9	Correlation coefficients of leverage and profitability variables-manufacturing sample	164
3.10	Regression results of leverage and profitability-manufacturing sample	165
3.11	Descriptive statistics of profitability variables-nonmanufacturing sample	167
3.12	Correlation coefficients of leverage and profitability variables-nonmanufacturing sample	168
3.13	Regression results of leverage and profitability-nonmanufacturing sample	169
3.14	Test results of effect of leverage on profitability (ROA) and priori expectation	173
4.1	Major studies related to leverage and cost of capital before 1990	181
4.2	Major studies related to leverage and cost of capital 1990s to date	185
4.3	Enterprises selected for the study	190
4.4	Effect of leverage along with other variables on cost of capital - priori Hypothesis	200
4.5	Cost of capital (COC) for the period of 2003 to 2012	200
4.6	Cost of equity (COE) for the period of 2003 to 2012	202
4.7	Descriptive statistics of cost of capital, leverage variables and other variables	203
4.8	Pearson correlation matrix of cost of capital and predictors	204
4.9	Effect of total leverage on cost of capital	205
4.10	Effect of long-term leverage on cost of capital	206
4.11	Effect of short-term leverage on cost of capital	206
4.12	Comparison of the test results with the priori expectation	208
5.1	Major studies on effect of capital structure on firm value before 2000	216
5.2	Major studies on effect of capital structure on firm value during 2000s to date	221
5.3	Enterprises selected for the study	227
5.4	Effect of capital structure on firm value along with priori hypothesis	236
5.5	Descriptive statistics of dependent and independent variables	237

5.6	Correlation coefficients of variables	238
5.7	Regression results of leverage and firm value-all sample	239
5.8	Correlation coefficients of variables-manufacturing samples	240
5.9	Regression results of leverage and firm value-manufacturing sample	241
5.10	Correlation coefficients of variables- nonmanufacturing samples	243
5.11	Regression results of leverage and firm value- nonmanufacturing sample	244
5.12	Comparison of test results with priori expectation for leverage and firm value	247
6.1	Major studies on financing practices before 2000	253
6.2	Major studies on financing practices during 2000s to date	256
6.3	Questionnaire distributed and response rate	263
6.4	Reliability statistics	269
6.5	Respondents' profile and industry representation	270
6.6	Financing policies practiced by Nepalese companies	272
6.7	Financing policies setters in Nepalese companies	273
6.8	Influencing parties in setting target financial structure ratios	274
6.9	Methods for describing financing policies in Nepalese companies	275
6.10	Tax issues have a major influence on financing decisions	276
6.11	A policy of maintaining spare debt capacity in Nepalese companies	276
6.12	Borrowing more at the same interest rate in Nepalese companies	277
6.13	Use of off-balance sheet financing techniques in Nepalese companies	278
6.14	Industry norm ever used for financing decision in Nepalese companies	278
6.15	Financial leverage measures used in Nepalese companies	279
6.16	Factors governing firms' financing decisions in Nepalese companies	281
6.17	Preferences for short-, medium- or long-term funding sources in Nepalese companies	282
6.18	Sources of long-term funds in order of preference for financing new investments	283
6.19	Circumstances making equity issue	284
6.20	Circumstances making a debt issue	284
6.21	Factors affecting firm's choice between short-term and long-term debts	285
6.22	Factors affecting firm's choice to the appropriate amount of debt	286

6.23	Factors affecting to issue convertible debt in Nepalese companies	288
6.24	Factors affecting firm's choice to issue common stock	289
6.25	Percent of the common stock owned by the largest three stock owners	290
6.26	Number of people owned the company's common stocks	290
6.27	Firm ever issued right share as sources of equity financing	291
6.28	Situation firms prefer to issue right shares	292
6.29	Level of company borrowing in relation to equity capital	293
6.30	Owners' characteristics factors influencing capital structure	293
6.31	Firm characteristics factors influencing capital structure	294
6.32	Other external characteristics factors influencing capital structure in Nepalese companies	295
6.33	Capital structure improves investors' earnings	296
6.34	Higher ratio of long - term debt to equity causes firms to reduce their profitability	296
6.35	Factors influencing firm's profitability in Nepalese companies	297
6.36	Proper debt level in firm's capitalization will result in lower overall cost of capital	298
6.37	Frequency in estimating company's cost of capital	298
6.38	Methods to estimate before tax cost of debt	299
6.39	Methods for estimating cost of equity	300
6.40	Weighting factors used in computing weighted average cost of capital	300
6.41	Further adjustment on estimated cost of capital to reflect the risk of individual investment	301
6.42	Cost of capital used for purposes other than project analysis	301
6.43	Firm's market value is directly related to its choice of capital structure	302
6.44	Excessive amount of debt will eventually result in market price be affected	302
6.45	Leveraged capital structure has high market value than firms with equity capital	303
6.46	Most appropriate proxy (measure) for firm value	304
6.47	Debt-equity mix is as a determinants for market value in Nepal	304
6.48	Maximizing a firm's market value as the main focus in deciding of capital structure	305

LIST OF FIGURES

Figure No.	Title	Page No.
2.1	Conceptual framework of capital structure and its determinants	84
2.2	Average debt to total assets ratios across years	98
3.1	Conceptual framework of capital structure and profitability	149
3.2	Average EBIT to total assets ratios across years	158
4.1	Conceptual framework of capital structure and cost of capital	190
4.2	Average values of COC (%) across years	201
4.3	Average values of COE (%) across years	202
5.1	Conceptual framework of capital structure and firm value	226

ACRONYMS

A D	Anno Domini
Adj.	Adjusted
AGROW	Assets Growth
ANOVA	Analysis of variance
ASE	Amman Stock Exchange
ATO	Assets Turnover
Avg	Average
BBCL	Bishal Bazaar Company Limited
BNL	Bottlers Nepal Limited
BNTL	Bottles Nepal (Terai) Limited
BRISK	Business Risk
BS	Bikram Sambat
CA	Current Assets
CBS	Central Beauru of Statistics
CEOs	Chief Executive Officers
CFOs	Chief Financial Officers
CL	Current Liabilities
COC	Cost Of Capital
COE	Cost Of Equity
Corr.	Correlation
DSE	Dhaka Stock Exchange
DW	Durbin Watson
e.g.	Example
EBIT	Earnings Before Interest and Taxes
EPS	Earnings Per Share
FHL	Fleur Himalayan Limited
GDP	Gross Domestic Product
GLCs	Government Linked Companies
GROW	Growth
GRUL	Gorakhkali Rubber Udyog Limited
GSE	Ghana Stock Exchange

HDL	Himalayan Distillery Limited
IPO	Initial Public Offerings
KUL	Khadya Udyog Limited
LDR	Long-term Debt Ratio
Lev	Leverage
LIQU	Liquidity
LISREL	Linear function of leverage in Linear Structural Relationship
Lnasset	Natural logarithm of assets.
LTL	Long Term Leverage
MM	Modigliani and Miller
NBBUL	Nepal Bitumen & Barrel Udyog Limited
NBGUL	Nepal Banaspati Ghieu Udyog Limited
NDTS	Non Debt Tax Shields
NEPSE	Nepal Stock Exchange Limited
NLOL	Nepal Lube Oil Limited
NM	Net Margin
NPV	Net Present Value
NS	Not Significant
OHL	Oriental Hotels Limited
OLS	Ordinary Least Square
OM	Operating Margin
P/E	Price Earnings Ratio
PICs	Property Investment Companies
PROF	Profitability
PTCs	Property Trading Companies
R&D	Research and Development
RI	Residual Income
ROA	Return On Assets
ROCE	Return on Capital Employed
ROI	Return On Investment
S.D.	Standard Deviation
SDR	Short-term Debt Ratio
SEBON	Security Board Of Nepal

SHL	Soaltee Hotel Limited
Sig.	Significance
SMEs	Small Medium Enterprises
SPSS	Statistical Package for Social Sciences
SRJML	Shree Raghupati Jute Mills Limited
SSML	Shree Ram Sugar Mills Limited
STC	Salt Trading Corporation
STL	Short Term Leverage
TANG	Tangibility
TL	Total Leverage
TRHL	Taragaun Regency Hotel Limited
TSE	Taiwan Stock Exchange
TSX	Toronto Stock Exchange
TURN	Turnover
UAE	United Arab Emirates
UK	United Kingdoms
UNL	Unilever Nepal Limited
US	United States
USA	United States of America
VIF	Variance Inflation Factor
YAYHL	Yak and Yeti Hotel Limited