

IMPACT OF CAPITAL STRUCTURE ON PROFITABILITY OF DABUR NEPAL PRIVATE LIMITED

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Abstract

These studies investigate the Impact of capital structure and the Profitability of Dabur Nepal Private Limited. Data analysis was complete using descriptive statistics, Pearson correlation, regression analysis, and t-test. The secondary data used to analyze one (1) sample size, out of ten which, has been found to be covering the period 2013-2022 of private multinational manufacturing companies in Nepal. The capital structure represents the variables of the Debt - Equity Ratio (DER), Debt to Capital Ratio (DCR), Debt to Total Assets Ratio (DTAR), Equity to Total Assets Ratio (ETAR), Short-term Liability to Total Assets ratio (SLTA) and the profitability including Return on Assets (ROA). The findings of the study have a R square value of 0.537, meaning that 53.7% of the variation in the dependent variable is explained by the independent variables while 46.3% is explained by other variables outside the model and also showed that there is a lower positive correlation between the dependent variable and the set of independent variables. The result showed that there is an insignificant impact of DER, DCR, DTA, ETA, and SLTA on ROE of Dabur Nepal Pvt. Ltd.

Key words: Capital structure, Debt, Equity, Total Assets, Short term liability

INTRODUCTION

As a consequence of the liberalization and globalization of economic policies around the world, investment opportunities and financing alternatives have increased, as has reliance on capital markets. A new business requires capital, and expansion necessitates additional capital. The necessary funds may come from a diversity of sources and take many different forms. Debt or equity may be used to finance a company's assets. The optimal choice is a mix of debt and equity. The connection between capital structure (cs), the combination of debt and equity financing, and stock prices is one of the most perplexing issues financial managers face.

The capital structure of a company is the mix of debt and equity capital used to finance its assets. The process of generating funds for the acquisition of assets, ongoing operations, or anticipated expansion is known as financing. Debt or equity may be used to finance a company's assets. Therefore, capital structure is the sum of net worth, preferred stock, and long-term debts. In addition to these capital sources, companies may also issue hybrid securities like income bonds. These hybrid securities have characteristics of both equity and debt. The capital structure decision is crucial because it impacts investors' return on investment. Therefore, it is the responsibility of the company's management to establish a capital structure that safeguards the interests of its investors.

The capital structure decision of a manufacturing company is the most crucial decision made by the company's management in order to maximize profits and minimize capital costs, thereby maximizing stockholder wealth. There are fundamentally two primary funding sources. External financing consists of debt, while internal financing is comprised of equity. The majority of companies have a capital structure comprised of both equity and debt. Capital structure was defined by Modigliani and Miller (1963) as the combination of debt and equity that a company uses to operate. They also demonstrated the relationship between firm performance and capital structure. Following Modigliani and Miller, Jensen and Meckling (1976) discussed the relationship between capital structure and firm performance. In addition, numerous studies have demonstrated the impact of capital structure on firm performance in both developed and developing countries. Tailab (2014) conducted energy research in the United States. Tifow and Sayilir (2015) conducted research on Turkish manufacturing firms and small and medium-sized enterprises (SME) in the United Kingdom's manufacturing sector. Since 2013, the preponderance of research on capital structure has centred on developing countries. Ogebe et al. (2013) conducted research regarding the effectiveness of Nigerian businesses. Mwangi, et al. (2014) conducted research on the performance of Kenyan non-financial listed companies. Kajanathan and Nimalthasan (2013) conducted research on Sri Lankan manufacturing firms. Zeitun and Tian (2014) conducted research on Jordanian non-financial listed firms, while Akeem et al. (2014) investigated the performance of Nigerian manufacturing firms. Despite this, numerous researchers are endeavouring to establish

a more robust relationship between capital structure and firm performance. Therefore, this study will aid all financial specialists in comprehending the impact of capital formation on the profitability of a company. In addition, this research will aid the company manager and other stakeholders in understanding the influence of capital structure and the sensitivity of debt and equity on the operations of the company. It will serve as a guide for the financial manager to create a more efficient capital structure in order to reduce capital costs, increase firm profitability, and ultimately maximise shareholder wealth. In addition, this study can assist investors in determining the optimal capital structure by enhancing their comprehension of the impact of capital structure choice on return.

The critical issues of this research work are:

- How does the impact of capital structure on the profitability of Dabur Nepal Pvt. Ltd?
- What is the relationship between capital structure and profitability of Dabur Nepal Pvt. Ltd?

The specific objective of this research work is:

- To analyze the impact of capital structure on the profitability of Dabur Nepal Pvt. Ltd.
- To evaluate the relationship between capital structure and profitability of Dabur Nepal Pvt. Ltd

REVIEW OF LITERATURE

The Effect of Capital Structure on the Profitability Performance of ICT Firms, Kim, Jung, and Kim, 2023. Companies in the information and communication technology (ICT) face the difficulty of maximizing firm value (FV) with limited resources and enhancing shareholder interests while pursuing constant innovation to remain competitive. However, capital structures have a significant impact on FV, and the literature remains divided regarding the optimal capital structure for specific markets and nations. In this study, data envelopment analysis is used to evaluate the FV of ICT companies based on their profitability and effectiveness. The Tobit regression and Kruskal-Wallis one-way ANOVA are also employed to determine the effects of leverage, liquidity, and company size, which are significant capital structure elements influencing FV. The investigation discloses three noteworthy findings. In the ICT sector, small and medium-sized enterprises are typically more profitable and efficient than businesses of other sizes. Second, the current ratio has no effect on the profitability efficacy of small and medium-sized ICT manufacturing companies. Thirdly, the debt-equity ratio has a positive effect on the profitability effectiveness of only mid-sized service businesses. The findings have policy and practise implications for FV, an IT and telecommunications company.

Habibniya, et al. (2022) conducted research on the impact of capital structure on profitability. Debt financing is typically associated with financial risk when used as a source of funding, but it is also viewed as a source of higher profitability in the context of typical business operations. Finding the optimal debt-equity ratio has never been simple. The ratio of total liabilities to total assets was disproportionately high in the US telecom industry sample under consideration. It is therefore inclined to investigate how capital structure (CapSt) affects the profitability of businesses. Using annual data from the telecom industry in the United States from 2012 to 2020, pooled panel regression, univariate analysis, correlation, and descriptive statistics models were applied to unbalanced cross-sectional data (panel data) consisting of 421 firm-year observations for 72 firms. The impact of CapSt (Total Liabilities to Total Assets (TLsTAs) and Total Equity to Total Assets (TETAs)) on the profitability (Return on Assets (ROA) and Return on Equity (ROE) of companies in the United States' telecommunications industry was analyzed. The results indicate that both the ratio of TLsTAs to TETAs and TETAs have a significant impact on ROA. TLsTAs and TETAs have no effect on ROE, however.

Amoa-Gyarteng and Dhliwayo, in their research titled The Impact of Capital Structure on the Profitability of Emerging Small and Medium-Sized Enterprises in Ghana, published their findings in 2022. The significance of small and medium-sized businesses cannot be overstated, but the overwhelming majority fail in their early stages. Small enterprises that are profitable have a greater chance of surviving. This study investigates the capital structure and profitability of Ghana's developing small and medium-sized enterprises. The sample for this study comprises of

1106 SMEs operating for less than five years and registered with the Ghana Enterprises Agency. Using regression analysis, the functions that relate return on assets (ROA) and return on equity (ROE) to capital structure measures such as the debt ratio, equity ratio, and debt to equity ratio are estimated. The results indicate that the equity and debt-to-equity ratios have strong positive correlations with both profitability measures. Alternatively, a negative correlation was discovered between the debt ratio and profitability. The study suggests that emerging small and medium-sized enterprises (SMEs) should rely on internal equity for profitability and use debt only in conjunction with equity.

Co, Uong, and Nguyen (2020) conducted research on The effect of capital structure on a firm's profitability: a case study of the Vietnamese rubber industry. This study aims to analyse and quantify the relationship between capital structure and the profitability of businesses in emergent markets. The research cohort consists of 18 rubber companies listed on the Vietnam Stock Exchange between 2015 and 2019. The study data were gathered and then entered into Excel to determine the criteria of the research model. The study selected a data processing model and evaluated the applicability of the regression analysis model using Stata 16 software. The return on equity (ROE) of listed rubber companies in Vietnam has a positive correlation with the debt-to-asset ratio but a negative correlation with the long-term debt-to-asset ratio, according to the findings of this study. In addition, the results indicate that firm size and revenue growth have a positive impact on profitability, while liquidity and the ratio of tangible fixed assets to total assets have no effect. These results are consistent with the vast preponderance of previously published studies. In contrast to many prior studies, our research demonstrates that the long-term debt-to-assets ratio has a negative effect on profitability, whereas the debt-to-assets ratio has a positive effect on profitability. This is consistent with the characteristics of long-term debt usage in emerging markets.

Endri et al. (2021) conducted research on the relationship between capital structure and profitability: evidence from Indonesian mining enterprises. This research examines the connection between firm performance and capital structure. The investigation was conducted using panel data for a sample of 42 Indonesian mining companies listed between 2014 and 2018 on the Indonesian Stock Exchange. As dependent variables, the study employs three performance measures: return on equity (ROE), return on assets (ROA), and earnings per share (EPS). Five measures of capital structure are the ratio of debt to assets (DAR), the ratio of debt to equity (DER), the ratio of long-term debt to total capital (LDTC), the ratio of long-term debt to total equity (LDTE), and growth as an independent variable. LDTE has a significant positive correlation with ROE, but none with ROA or EPS. DER has no correlation with ROA and EPS, but a negative impact on ROE. ROA has a significant negative correlation with LDTC, while ROE and EPS do not. There are positive correlations that are statistically significant between growth, ROA, ROE, and EPS.

Fekadu (2020) Conducted research on Impacts of capital structure on the profitability of construction companies in Ethiopia, Capital structure decisions are essential for all company endeavours because they have a significant impact on the value and expense of businesses. The majority of previous studies in Ethiopia focused on identifying and evaluating problems in the finance and other sectors rather than the construction industry. The primary purpose of this research is to examine how the capital structure of Ethiopian construction firms affects their profitability. This study acquired secondary time series data from a sample of 30 grade one construction firms in Ethiopia between 2011 and 2015 in order to test the hypotheses. Using multiple regression models with random effects, the relationship between capital structures and their underlying causes was analysed. There is a significant positive relationship between the return on equity (ROE) and return on assets (ROA) of the sampled construction companies, as measured by debt to equity and long-term debt to total assets, respectively. Nonetheless, there is a considerable negative relationship between the ROE and ROA of the tested Ethiopian construction firms and the capital structure, as measured by the debt-to-assets ratio. Since this is the author's original work, it is guaranteed that it has never been done or published in a journal before.

Akinleye and Akomolafe (2019) conducted research on the relationship between manufacturing firms listed on the Nigerian Stock Exchange and their capital structure and profitability. This study investigates the capital structure

and profitability of publicly traded Nigerian manufacturing companies. The study analysed the impact of debt financing (short-term debt and long-term debt) and equity financing (share capital and share premium) on profit after taxes. Using panel data estimators including the aggregated OLS estimator, the fixed effect estimator, the random effect estimator, the Hausman test, and the Pesaran test of cross sectional dependence, secondary data were collected from annual reports of sampled enterprises over a decade (2008-2017). An estimated coefficient of 0.578289 ($p=0.0001 < 0.05$) indicates that long-term debt has a significant positive impact on profit after taxation. In contrast, the estimated coefficient for the positive impact of short-term debt on net income after taxes is 0.114985 ($p=0.5890 > 0.05$). The estimated effect of share capital on after-tax profit is 0.784525 ($p=0.0000 < 0.05$), while the effect of share premium is -0.000395 ($p=0.9924 > 0.05$). The study concludes that short-term debt has a negative impact on the profitability of manufacturing firms in the country, whereas long-term debt financing enhances the rate of profitability. Clear term disaggregated debt finance subsets have a significant impact on the profitability of the sampled companies in this study. In contrast, dividing equity finance into share capital and share premiums reveals that share capital has a substantial positive effect on profit after tax, while share premium has a negligible negative effect on profit after tax.

Akhter (2018) Conducted research on Impact of Capital Structure on Profitability: An Empirical Analysis of Listed Companies in India, Using a sample of 35 Indian pharmaceutical firms listed on the Bombay Stock Exchange (BSE) between 2012 and 2016, this study empirically investigates and analyses the effect of capital structure decisions on the profitability of the firm. Using regression analysis, the strength and nature of the association are determined. LDA (long-term debt to assets), SDA (short-term debt to total assets), and DA (total debt to total assets) ratios were the capital structure variables of the study, while Return on Equity (ROE) was used to measure profitability. In addition, the control variables Firm Size (SIZE) and Sales Growth (GROW) are utilised. SDA and DA have a positive impact on ROE, whereas LDA has a negligible to nonexistent impact.

Kalyani and Mathur (2017) conducted research on the Impact of Capital Structure on Profitability: with specific reference to companies in the Indian Oil and Natural Gas Industry. Given that a company's capacity to develop and survive is contingent on sustained increases in profitability, a discussion of the relationship between capital structure and profitability is essential. This study seeks to ascertain how capital structure affects a company's overall profitability. On Oil and Natural Gas Industry firms in India, the influence of independent variables including Sales of a firm, Total Assets of a firm, Debt Service Capacity, Dividend Pay-Outs, Degree of Financial Leverage, and Degree of Operating Leverage was selected for analysis. Return on Assets (ROA) and Net Profit Ratio are used to evaluate the financial performance of a company, which is represented by the dependent variables. This study employs the financial information of seven companies listed on the NSE and BSE between 2005 and 2015, drawn from a sample of seven companies. This investigation uses the non-random sampling technique of Judgement Sampling to select samples. The correlation and regression analyses were employed to estimate the profitability functions as measured by Return on Assets, Net Profit Ratio, and capital structure. When the dependent variables are ROA and log assets, financial leverage, log sales, operating leverage, and asset growth are significant determinants of profitability. There is a significant correlation between log sales, operating leverage, and asset growth and the net profit ratio of designated Oil and Natural Gas firms in India.

Revathy and Santhi (2016) conducted research on the effect of capital structure on the profitability of Indian manufacturing firms. This study examines the relationship between Indian manufacturing firms' capital structure and their profitability. It also seeks to validate the hypothesised relationship between the degree to which various capital structure variables affect business revenues and the profitability of those revenues. This study was conducted after classifying the selected manufacturing firms into three groups based on two characteristics (stages and time period). First, manufacturing companies are divided into three phases based on their stages of development: pioneering, expansion, and consolidation. The second objective of this study is to demonstrate the connection between capital structure variables and the profitability of Indian manufacturing firms by separating them into pre- and post-merger groups. A sample of seventy enterprises was chosen using multistage sampling techniques. According to the study,

there is a significant one-to-one correlation between capital structure variables and profitability, and increasing the debt-to-equity ratio has a negative effect on the profitability of Bombay Stock Exchange-listed manufacturing companies in India.

Ali et al. (2016) conducted research on the influence of capital structure on profitability: a comparative analysis of Pakistan's cement and automobile industries. This study seeks to establish a relationship between profitability and capital structure. Several variables, including short- and long-term debts to assets ratios, funded capital ratios, funded debt ratios, current debt ratios, funded asset ratios, sales growth, and return on assets, can be used to determine the relationship between capital structure and profitability. As a sample, 28 firms from the Pakistan Stock Exchange's Cement & Automobile industry were selected at random. Seven years of secondary data were collected using audited consolidated financial statements and then analysed using correlation and regression statistical techniques. The Housman test was used to select models. The findings demonstrate both positive and negative relationships between variables in the cement and automobile industries. The research contributes to the body of financial knowledge, especially in the context of developing nations like Pakistan.

Yapa, (2015). Carried out research on the topic of Capital structure and profitability: An empirical analysis of UK SME's. From 1998 to 2008, this study investigates the relationship between capital structure and profitability for nonfinancial SMEs in the United Kingdom. The results of Two Stage Least Squares (2SLS) indicate a significant negative correlation between capital structure and profitability. In SMEs in the United Kingdom, company scale appears to be a more important factor in determining profitability. Consistently, a positive correlation has been established between magnitude and profitability. According to the study's findings, the capital structure of a company has a significant effect on the profitability of small and medium-sized enterprises (SMEs) in the United Kingdom. Specifically, the ratio of long-term debt to total assets correlates negatively with profitability, indicating that small and medium-sized businesses are hesitant to deploy additional equity due to a loss of control.

RESEARCH METHODOLOGY

Research design

A descriptive and causal-comparative research design has been used for the research work.

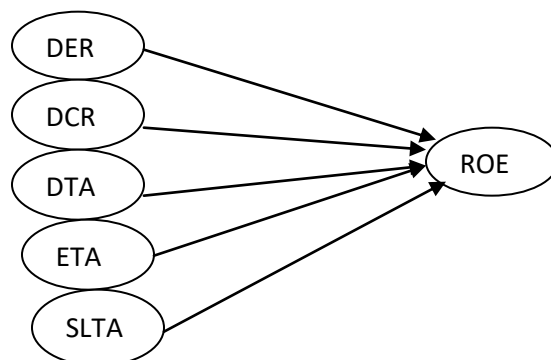
Population and Sample size

One multinational manufacturing company is taken out of 20 multinational companies as a sample for the study. Independent variables and dependent variables are taken from the websites of Dabur Nepal Pvt. Ltd.

Data Collection Tools and Process

Secondary data are collected from the annual report of websites of Dabur Nepal Ltd. The data are taken for ten years from fiscal year 2012-013 to 2021-022. Various statistical tools like Descriptive Statistics, Correlation Analysis, Regression analysis, t-test, are applied using software application SPSS.

Conceptual frame work, Figure: 1



Hypothesis formulation

- H1: There is a significant impact of DER on the profitability of Dabur Nepal Pvt. Ltd.
- H2: There is a significant impact of DCR on the profitability of Dabur Nepal Pvt. Ltd.
- H3: There is a significant impact of DTA on the profitability of Dabur Nepal Pvt. Ltd.
- H4: There is a significant impact of ETA on the profitability of Dabur Nepal Pvt. Ltd.
- H5: There is a significant impact of SLTA on the profitability of Dabur Nepal Pvt. Ltd.

Multiple Regression model

$$ROE^{it} = \alpha_0 + \beta_1 DER^{it} + \beta_2 DCR^{it} + \beta_3 DTA^{it} + \beta_4 ETA^{it} + \beta_5 SLTA^{it} + \epsilon^{it}$$

Where,

α_0 = constant

$\beta_1, \beta_2, \beta_3, \dots, \beta_5$ = slope of independent variables

ϵ = error term

ROE = Return On Equity

DER = Debt Equity Ratio

DCR = Debt to Capital Ratio

DTA = Debt to Total Assets

SLTA = Short-term Liability to Total assets

DATA ANALYSIS AND EMPIRICAL RESULTS

Descriptive statistics and Correlation

The descriptive statistics and correlation for the dependent variable, ROE and the independent variables DER, DCR, DTA, ETA, and SLTA is described in Table no 1. Mean, standard deviations and Correlation are used as he descriptive statistics and Correlation.

Table 1

Descriptive statistic and Correlations								
	Mean	S.D.	ROE	DER	DCR	DTA	ETA	SLTA
ROE	0.153	0.0542	1					
DER	1.0941	0.4268	.429	1				
DCR	0.5039	0.102	.445	.992**	1			
DTA	0.505	0.1037	.446	.994**	1.000**	1		
ETA	0.4967	0.1008	-.445	-.992**	-1.000**	-.999**	1	
SLTA	0.5	0.1063	.443	.995**	1.000**	1.000**	-.999**	1

** Correlation is significant at the 0.01 level (2-tailed).

Table 1 shows the relationship between the capital structure and profitability of Dabur Nepal Pvt. Ltd.. The average value of ROE is 0.153 with a standard deviation of 0.0542. The average value of DER is 1.0941, with standard deviation of 0.4268. The average value of DCR is 0.5039 with standard deviation of 0.102. The average value of DTA is 0.505 with a standard deviation of 0.1037. The average value of ETA is 0.4967 with a standard deviation of 0.1008. The average value of SLTA is 0.5 with a standard deviation of 0.1063.

It is found that there is an insignificant and low degree positive correlation between DER and ROE (r=0.429) and risk can be diversified away. The relationship between DCR has been found to be a low degree a positive correlation, and insignificant for ROE (r= 0.445) and risk can be minimized through changes in a proposition. DTA are has a lower degree of positive correlation and insignificant correlation (r=0.446) risk can be diversified away. ETA is associated with low negative and insignificantly (r= -0.445). The relationship between SLTA has been found to be low degree positive correlation and insignificant of ROE (r= 0.443), and risk can be minimized through changes in a proposition.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.887 ^a	.537	-.373	.06347

a. Predictors: (Constant), SLTA, DER, ETA, DTA

The value of $F=5.388$ is significant at a 5 percent level of significance. Hence a significant model has emerged from the regression analysis. The study reveals that the independent variables, DER, DCR, DTA, FTA, and SLTA, have insignificant influence on ROE. The value for R-squared is high in the case of extrinsic variables ($R^2 = 0.537$). It means 53.7% of total variation in the dependent variable is due to independent variables, and 46.3% is due to other factors of Dabur Nepal Limited.

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.910	7.603		-.120	.909
DER	-.099	.582	-.783	-.171	.871
DCR	2.125	5.26	27.132	1.197	2.97
DTA	6.305	14.428	12.075	.437	.680
ETA	.776	7.452	1.445	.104	.921
SLTA	-4.795	14.421	-9.409	-.333	.753

Dependent variable is ROE

All five explanatory variables (DER, DCR, DTA, ETA, and SLTA) are found to be insignificant at a level of significance less than or equal to 5%. As shown in the table of regression results, the relationship between ROE and DER is negative and insignificant at the 5% significance level. The outcome is consistent with the agency cost theory, which states that a large quantity of free cash flow reduces a firm's profitability because managers may use it for their own purposes and suggests debt finance as a disciplinary tool. Prior empirical investigations, such as Graf (2010) and Saleem & Rahman (2011), have taken a similar approach. The results indicated that DTR, DER, DTA, ETA, and SLTA have a negligible effect on Dabur Nepal Pvt. Ltd.'s ROE.

DISCUSSION

Based on the key findings of this investigation, the following recommendations were made to the relevant parties: There is a significant positive relationship between capital structure and profitability in Nepalese private multinational manufacturing firms, so they must seek for the optimal capital structure for their respective businesses. The static trade-off theory predicts a positive correlation between profitability and capital structure, given that high-performing firms are anticipated to incur lower bankruptcy costs. Nonetheless, the query "what proportion is optimal?" exists. According to Brigham and Gapenskiz (1996), a company's administrators should be able to recognise when the optimal capital structure has been attained and strive to maintain it. However, when searching for the optimal capital structure to reduce capital costs, financial managers must consider the risk of bankruptcy cost that may result from an excessive reliance on debt financing. After achieving an optimal capital structure, Nepalese private multinational manufacturing firms should seek out variables with negligible positive effects on their profitability. The results indicated that DTR, DER, DTA, ETA, and SLTA have a negligible effect on Dabur Nepal Pvt. Ltd.

CONCLUSION

The present research work is performed to study the impact of capital structure on the profitability of Dabur Nepal Private Limited. The above discussions show the results that there is a positive relationship between the capital structure and the profitability of Dabur Nepal private limited. It is suggested that managers of the firm should develop an optimal capital structure in order to achieve a higher level of profitability and performance by proper use of the above variables from the above study. The results indicated that DTR, DER, DTA, ETA, and SLTA have a negligible effect on Dabur Nepal Pvt. Ltd.'s ROE.

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