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Introduction:

The financial sector reforms in India are now about seventeen years old an appropriate time to make a medium term appraisal. Moreover having initiated fundamental changes, the financial sector, particularly the banking sector is now under an obligation to demonstrate the efficiency of the reforms undertaken so far. Especially banking sector gives a new vision to Indian economy. Banking industry is a part of the changing business paradigms across the globe. In a market driven banking sector, competition is the most dynamic elements. Due to market competition in Indian banking industry, the pattern of banking business is changing phenomenally. Moreover banks have to provide a world class services to the customer to their door. Due to this type of quality services and facilities, income is increasing day to day.

In the tertiary sector, Banks play a very useful and dynamic role in the economic life of the country. Banks are the pivot of the modern commerce. Industrial innovations and business expansions become possible through finance provided by banks. Capital is the main factor of modern production and entrepreneurs are help without adequate funds. Banks help them. Today's banks are not just financial institutions but much more than that they are serving as catalysts in the development process of the country. They are sources of new dimensions of economics and trade. The last decade has seen many positive developments in the Indian banking sector. India's banking industry must strengthen itself significantly if it has to support the modern and vibrant economy. So measurement the performance of banks and the study of capital structure of banks is an interesting area for the researcher.

Title of the Problem:

My research topic is on the basis of Indian banking industry. Now-a-days in India, banking sector plays a very important role in the growth of Indian economy. Indian banking industry have been running and working successfully and providing a world class services to the customer at their door. I have to study all these aspect very deeply and clearly which is related to capital structure and profitability. My topic is on the basis of…

"An Analytical Study of Capital Structure Vis-A-Vis Profitability of the Banking Industry in India"

Data Collection:

The data collection is very important task for the researcher for the research study. This research study is mainly based on secondary data. The secondary data shall be collected from the records, documents, related subject matter and related websites. Besides, the researcher shall collect and analyze published data as per the requirement.

As such the universe of this research study is restricted with the reference to selected banks, which are providing services in India. So, researcher has selected 5 public sector banks and 5 private sector banks. The data regarding selected banks have been obtained and collected from the annual report of the banks and related websites.

Scope of the Study:

The scope of this research study is as under.

Functional Scope:

Functional scope of this study is to analyze profitability and capital structure of Indian banking industry.

Geographical Scope:

In this study researcher selected 10 banks, which are providing services in India. So, whole India is geographical criteria for this research study.

Research Design:

According to Claire Selltiz, "Research Design is the arrangement of the conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure Architects ‘Design’ a plan before constructing a building baring well in mind the purpose for which the building is to be used. The architect takes decisions such as, how long the building will be, how many rooms it will have, how these rooms does all this before the actual construction begins. The proceeds in this manner because he wants to get a picture which helps him to visualize clearly the difficulties and inconveniences that would face in future. The research design is also same process. Well structured research design protect researcher against difficulties and inconveniences. In other words, decisions regarding what, where, when, how much, by what means concerning an inquiry or a research study constitute a research design.

Sample Design:

The researcher has selected 5 public sector banks and 5 private sector banks are listed in Indian stock exchanges.

Public Sector Banks:

State Bank of India
Bank of India
Bank of Baroda
Canara Bank
Dena Bank.

Private Sector Banks:

HDFC Bank
Kotak Mahindra Bank
UTI(AXIS) Bank
Ing Vysya Bank
Yes Bank.

Objectives of the Study:

Objective is a base for any work. The objectives determine the future and outcome of the research. No one work is started without any objectives. The present research work has also some objectives.

1. To evaluate selected bank's annual accounts through appropriate ratios.
2. To examine income and expenditure trends of banks.
3. To examine profitability of bank through different ratios.
4. To examine capital structure of selected banks.
5. To examine the impact of capital structure on the overall profitability of the selected banks.
6. To suggest the appropriate capital structure for banks.

Hypothesis of the Study:

In present study an analytical study of capital structure vis-a-via profitability is based on some of the hypothesis which is explained as below.

Null Hypothesis:

1. There is no significant difference between the Return on Equity Ratio of the units under study.
2. There is no significant difference between the Net Profit Margin Ratio of the units under study.
3. There is no significant difference between the Interest Spread Ratio of the units under study.
4. There is no significant difference between the Return on Long Term Fund Ratio of the units under study.
5. There is no significant difference between the Earning Per Share Ratio of the units under study.
6. There is no significant difference between the Net Profit to Total Fund Ratio of the units under study.
7. There is no significant difference between the Total Income to Capital Employed Ratio of the units under study.
8. There is no significant difference between the Debt to Total Assets Ratio of the units under study.
9. There is no significant difference between the Debt to Owners Fund Ratio of the units under study.

Alternative Hypothesis:

1. There is significant difference between the Return on Equity Ratio of the units under study.
2. There is significant difference between the Net Profit Margin Ratio of the units under study.
3. There is significant difference between the Interest Spread Ratio of the units under study.
4. There is significant difference between the Return on Long Term Fund Ratio of the units under study.
5. There is significant difference between the Earning Per Share Ratio of the units under study.
6. There is significant difference between the Net Profit to Total Fund Ratio of the units under study.
7. There is significant difference between the Total Income to Capital Employed Ratio of the units under study.
8. There is significant difference between the Debt to Total Assets Ratio of the units under study.
9. There is significant difference between the Debt to Owners Fund Ratio of the units under study.

Period of the Study:

This research study covered the data of last five years of the functioning of the selected banks. A longer period could have been still better but due to time and resource constraints, the last five years not very short period has been taken for analyzing the data of research program. The study period is 5 years, starting from year 2007-08 to 2011-12.

Significance of the Study:

Significance of this study is as under.

Contribution to the knowledge:

1. Through this research study the knowledge of researcher particularly regarding statistical tools and technique and statistical test will improve.

2. The knowledge regarding capital structure and profitability will be improved.

Contribution to the Society:

1. Through this research study society will able to know the real situation of Capital Structure and Profitability of the banking sector.
2. Through this study creditors and other parties can take proper decision.
3. Employees will be able to take proper decision regarding job.

Contribution to the Industry:

1. Banking industry may be able to know the financial efficiency with the help of appropriate capital structure.
2. Banking industry will try to improve their financial performance.
3. Banking industry may able to set up appropriate capital structure.

Statistical Techniques:

The main base of the study is to analyzed profitability and capital structure of the selected banks. Verifying and testing this hypothesis, some techniques have been used. Here, mainly applied test or techniques are as under.

Average/Mean:

The most commonly used average is the arithmetic mean, briefly referred to as the mean. The mean can be found by adding all the variables and dividing it by total number of the years taken. It gives a brief picture of a large group which is represents and gives a basic of comparison with other groups**.**

The Standard Deviation:

The Standard deviation concept was introduced by Karl Pearson in 1823. It is by far the most important and widely used measure of studying dispersion. Standard deviation is also known as root mean square deviation for the reason that it is the square root of the mean of the square deviation from arithmetic mean.

F-test OR ANOVA (Analysis of Variances):

F-test is also known as ANOVA, means analysis of variances. Where the sample is subdivided amongst more than two groups at that time ANOVA used.

F = MSB/MSW

MSB = Mean Square between Groups

MSW = Mean Square within Groups

Correlation Analysis:

The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables. Correlation analysis attempts to determine the degree of relationship between variables. One very convenient and useful way of interpreting the value of coefficient of correlation between two variables is to use the square of coefficient of correlation, which is called coefficient of determination. The coefficient of determination thus equals r^2. If the value of r= 0.9, r^2 will be 0.81 and this would mean that 81 percent of the variation in the dependent variable has been explained by the independent variable.

Limitations of the Study:

Each study can not be free from limitations. Some limitations like wise, the limitation of time, areas, economic, efforts, scope as well as the method of the study. Some limitations for present research work are as under.

1. Scope of this study is wider but sample size is limited to only 10 banks. From the 10 banks, 5 are Public sector and 5 are Private sector banks are covered in this study only.
2. This research study based on secondary data collected from annual reports of various banks and related websites. The limitation of the secondary data and its findings depend entirely on the accuracy of such data.

3. The data, which is used for his study is based on annual report of the bank and secondary data collected from published reports from time to time. Therefore the quality of this research depends on quality and reliability of data published in annual reports.
4. Results of this research are confined and limited to the selected banks.
5. The study is limited to five years (2008 to 2012) only.
6. In this research only selected public and private sector banks are covered. Co-operative banks and foreign banks are working in India could not covered. So, it is very difficult to come proper conclusion regarding whole banking sector.

Plan of the Study:

The entire research study will be present in six chapters.

1. Introduction:

In this chapter, Meaning and Definition of the Bank, History and evolution of banking in the world. History of banking in India, Development of banks in India, Banking system in India, Functions of bank, Types of banks, Role of banks in the growth of Indian economy, Present scenario of banking in India, Global challenges in banking sector in India, Innovative services provided by the banks in India and introduction to research problem are included.

2. Research Methodology and Review of literature:

In this chapter, Introduction and profile of the researcher briefly mentioned previous research conducted by them.

3. Conceptual Framework of Capital Structure and Profitability:

In this chapter, meaning and definition of Capital Structure, Types of Capital Structure**,** Meaning and definition of Profitability, Various types of profitability ratios mentioned.

4. Profile of Sampled Banks:

In this chapter, brief profiles of 10 sampled banks are described. From the 10 banks, 5 are Public Sector Banks and 5 are Private Sector Banks.

5. Analysis and Interpretation of Capital Structure Vis – A - Vis Profitability:

As the title state, this chapter covers the analysis of the results obtained with the started research methodology. Various statistical tools and techniques are used. Comparison, Analysis and deep study has been done and at last result should be received. This chapter also covers the broader hypothesis testing and the conclusion drawn on the basis of the analysis.

6. Findings, Suggestions and Conclusion

This chapter covers major findings and suggestions for the Capital Structure and Profitability. So, we can say that this chapter provides solid and useful information to the banking industry. And at last conclusion of this research study will be included.

Review of Literature

O.B. Sayeed (1974) in his Ph.D. research examined correlates of organizational health productivity and effectiveness in the SBI. The 90 study is related to productivity and effectiveness. It is focus on the psychological aspect. There is neither a single comprehensive study on “Critical Evaluation of Indian Banking Sector (with reference to Private Sector and Public Sector Banks)” (1998-99 to 2002-03) nor any attempt has been made to analyse contents of its profitability, productivity and financial efficiency after the new generated private banks arrived. Hence present study is a humble effort to bridge the gap in the existing literature.[1]

S.G. Shah (1979) in his paper analysed weakness of the banks and pointed out the specific areas where action could be taken to improve profitability. He revealed that rising expense and overheads increase in wasteful work practices, declines in productivity were major weakness. He suggested these following areas for improving profitability of bank

(i) To evolve measures that could widen the spread between the cost of funds, services, and administration and the return on them.

(ii) To developed supplementary sources of income.

(iii) To find profit centers and cost centers in the bank

(iv) To assess the extent to which these elements of the structure could be influence by policy and planning or by changing the nature of operations.

(v) To recognize the element that controls or settles the income and cost structure at each such center and for the bank as a whole.[2]

Makrand (1979) studied the performance of public sector banks. He selected six quantitative indicators for performance index. Which were branch expansion priority sector lending, deposit mobilization export credit net profit to working funds and wages and cost of business development? The main recommendations of his study were (i) counseling and expert opinion to the priority sector lending on diversified activities is needed. (ii) The lower level staff should also actively be involved in priority sector lending activities. (iii) Necessary lending power should be vested with the branch managers.[3]

M.R. Vyas (1991) studied financial performance of regional rural banks in Rajasthan. He analysed the financial performance with the help of quick ratio, credit deposit ratio, and profit to proprietor's capital ratio and working capital analysis. He concluded that regional rural banks had a bright future as an effective instrument in the economic growth and up-liftment of down trodden sections of Indian society particularly in rural area.[4]

M.N. Mishra (1992) in his paper evaluated the profitability of scheduled commercial banks taking into account the interest and non - interest income and interest expenditure, manpower expenses and other expenses. The Author has identified that the growing pre emption of funds in the form of statutory liquidity ratio, cash reserve ratio, faster increase of expenses as compared to the income, advances, and total investment than interest income and few more factors have contributed to the declining profitability of Indian commercial banks.[5]

Subramanian and Swami (1994) in their paper, **Comparative performance of publc sector banks in india" Prjanan,** have analyzed and compared the efficiency in six public sector banks, four private sector and three foreign banks for the year 1996-97. Operational efficiency is calculatedin terms of total business and salary expenditure per employee. The analysis revealed that higher per employee salary level need not result in poor efficiency and business per employee efficiency co-efficient was also calculated. Among the PSBs, Bank of Baroda registered the high efficiency and operating profit per employee. Among the private sector banks Indus Bank followed by Citibank Registered highest and second highest operating profit per employee respectively. However, among the Nationalized Banks there existed wide variations in efficiency.[6]

S.G. Hundekar (1995) studied the productivity aspects of the regional rural banks. He examines growth and working of regional rural banks. He studied operational efficiency, profitability and productivity in rural oriented Bijapur gramin bank. He concluded that Bijapur gramin banks operating profitability has been very poor over the study period because of its ineffectiveness in controlling the burden.[7]

Zacharias Thomas (1997) studied on 'Performance effectiveness of Nationalized Bank- A Case Study of Syndicate Bank' Thesis studied the performance effectiveness of Nationalized Bank by taking Syndicate Bank as case study in his Ph.D. thesis. Thomas has examined various aspects like growth and development of banking industry, achievements of Syndicate Bank in relation to capital adequacy, quality of assets, Profitability, Social Banking, Growth, Productivity, Customer Service and also made a comparative analysis of 'the performance effectiveness of Syndicate Bank in relation to Nationalized bank. A period of ten years from 1984 to 1993-94 is taken for the study. This study is undertaken to review and analyze the performance effectiveness of Syndicate Bank and other Nationalized banks in India using an Economic Managerial- Efficiency Evaluation Model (EMEE Model) developed by researcher. Thomas in this study found that Syndicate Bank got 5th Position in Capital adequacy and quality of assets, 15th in Profitability, 14th Position in Social Banking, 8th in Growth, 7th in Productivity and 15th position in Customer Service among the nationalized banks. Further, he found that five nationalized banks showed low health performance, seven low priority performance and eleven low efficiency performance in comparison with Syndicate Bank.[8]

Berry Wilson (1997) Has studied on "Bank Capital and Bank Structure: A Comparative Analysis of the US, UK and Canada" This study investigates a 100-year history of the asset-risk and capital structure choices of the publicly-traded banks located in the UK, Canada and US. These three countries were chosen because their diverse regulatory and banking structures, while sharing common legal and cultural institutions. For example, the US has historically fostered small banks, and a regulatory system split between national and state regulators. In contrast, Canada has sought financial-sector stability through a small number of large nationally-branched banks that have acted cooperatively with bank rescues during periods of crisis, prior to the presence of their central bank. Finally, the UK established an early tradition of internationally-diversified banking assets and developed a "life-boat" support system orchestrated by the Bank of England. These differences in bank structures and regulatory framework form the basis of our analysis.[9]

V.K. Bhatasana (1999) studied the appraisal of financial performance of State Bank of India (1980 – 1995) particularly productivity and profitability of State Bank of India during the study period, he observed adequacy of capital fund, growth in deposits, branch expansion in rural area and less borrowing from Reserve Bank of India in this study period of State Bank of India improved the productivity & profitability of State Bank of India among public sector banks.[10]

SBI Research Department (2000) “Performance analysis of 27 Public sector banks” Economic Research Department of State Bank of India, is to analyze the Performance of the 27 Public Sector Banks for the year 1999-2000 vis-a-vis the preceding year. Selecting four different categories of indicators-Business Performance, Efficiency, Vulnerability and labor productivity indicators, carried out the analysis. Altogether, 39 indicators were selected for this purpose. For the purpose of analysis, 27 PSBs disaggregated into four groups, namely, the SBI, ABs (7), the SBGs (8), the NBs (19). During 1999-2000, the PSBs exhibited better show in terms of several parameters studied above. Nevertheless, the problems of NPAs and capital adequacy remain to be taken care of. Researchers in this paper opinioned that greater operational flexibility and functional autonomy should be given to PSBs especially to strengthen their capital base. Further, they felt that since net interest margin will continue to remain compressed in a deregulated interest rate regime, a lot of effect would have to be made to mitigate this through generation of non-interest income. As far as NPAs are concerned, they believe' that, the outdated laws and regulations that pose hindrance to banks in getting back their dues need to be suitably amended.[11]

Prashanta Athma (2000) "Performance of Public Sector Banks – A Case Study of State Bank of Hyderabad" made an attempt to evaluate the performance of Public Sector Commercial Banks with special emphasis on State Bank of Hyderabad. The period of the study for evaluation of performance is from 1980 to 1993-94, a little more than a decade. In this study, Athma outlined the Growth and Progress of Commercial Banking in India and. analyzed the trends in deposits, various components of profits of SBH, examined the trends in Asset structure, evaluated the level of customer satisfaction and compared the performance of SBH with other PSBs, Associate Banks of SBI and SBI. Statistical techniques like Ratios, Percentages, Compound Annual rate of growth and averages are computed for the purpose of meaningful comparison and analysis. The major findings of this study are that since nationalization, the progress of banking in India has been very impressive. All three types of Deposits have continuously grown during the study period, though the rate of growth was highest in fixed deposits. A comparison of SBH performance in respect of resource mobilization with other banks showed that the average growth of deposits of SBH is higher than any other bank group. Profits of SBH showed an increasing trend indicating a more than proportionate increase in spread than in burden. Finally, majority of the customers have given a very positive opinion about the various statements relating to counter service offered by SBH.[12]

I M Pandey (2001) "Capital Structure and the Firm Characteristics: Evidence from an Emerging Market"**.** This study examines the determinants of capital structure of Malaysian companies utilizing data from 1984 to 1999. We classify data into four sub-periods that correspond to different stages of Malaysian capital market. Debt is decomposed into three categories: short-term, long-term and total debt. Both book value and market value debt ratios are calculated. The results of pooled OLS regressions show that profitability, size, growth, risk and tangibility variables have significant influence on all types of debt. These results are normally consistent with the results of fixed effect estimation with the exception that risk variable loses its significance. Unlike the evidence from the developed markets, investment opportunity (market-to-book value ratio) has no significant impact on debt policy in the emerging market of Malaysia. Our results are generally robust to time periods, but the significance of some variables changes over time. Profitability has a persistent and consistent negative relationship with all types of debt ratios in all periods and under all estimation methods. This confirms the capital structure prediction of the pecking order theory in an emerging capital market.[13]

RadhaT. (2002), in her Ph D Thesis, titled, "Impact of banking sector reforems on the performance of commercial banks in India, in Andhra University, Visakhapattanam, was to critically evaluate the impact of Banking Sector Reforms on the performance of Commercial Banks in India. In this Study, Radha analysis the magnitude of deposits and borrowings, and trends in branch expansion, advances and 48 investments, trends income and expenditure and also studied the magnitude of achievements in priority sector advances, capital adequacy, CD ratio, staff position in different bank groups and individual banks within the group. This study covered the period 1989-90 to 1998-99. Simple statistical techniques like percentages and growth rates were used in this study. Major findings of the study are..: (i) Total Deposits of all Commercial Banks put together may be divided as SBI (21.5 per cent), Associate Banks (6.6 per cent), Nationalized Banks (58.6 per cent), Private Banks (6.9 per cent) and Foreign Banks (6.3 per cent) respectively, (ii) In the total borrowings of SCBs, Nationalized banks, on an average, accounted for 39.42 per cent followed with 22.77 per cent by Foreign Banks, 23.54 per cent by SBI, 7.76 per cent by Private Banks and 3.47 percent by associate banks, (iii) In Branch expansion, Indian Private Sector Banks, registered 21.36 per cent growth rate which is highest amongst SCBs, during the study period, followed by Foreign Banks with 16.96 per cent, Associate Banks with 12.77 per cent, Nationalized Banks with 11.36 per cent, SBI with 6.23 per cent, (iv) Total investments of Commercial Banks in India increased to Rs. 346271 Crore in 1998-99 from Rs. 97,199 Crore in 1989-90, (v) Priority Sector advances as proportion of net bank credit after exceeding the target of 40 percent in 1991 has been continuously falling short of target up to 1999, (vi) Foreign Banks in India as a group achieved highest capital adequacy ratio among all groups of SCBs, (vii) Among all Indian banking groups, Indian private sector banks recorded highest CD ratio with 67.06 'per cent.[14]

Saumitra N. Bhaduri (2002) "Determinants of capital structure choice: a study of the Indian corporate sector" Existing empirical research on capital structure has been largely confined to the United States and a few other advanced countries. This paper attempts to study the capital structure choice of Less Developed Countries (LDCs) through a case study of the Indian Corporate sector. The objective is to develop a model that accounts for the possibility of restructuring costs in attaining an optimal capital structure and addresses the measurement problem that arises due to the unobservable nature of the attributes influencing the optimal capital structure. The evidence presented here suggests that the optimal capital structure choice can be influenced by factors such as growth, cash flow, size, and product and industry characteristics. The results also confirm the existence of restructuring costs in attaining an optimal capital structure.[15]

Narayan Rao sapar & Jijo Lukose (2002) "An Empirical Study on the Determinants of the Capital Structure of Listed Indian Firms" This study presents empirical evidence on the determinants of the capital structure of non-financial firms in India based on firm specific data. A comparative analysis is done for pre-liberalization and post-liberalization periods. The study period and sample firms for pre-liberalization period are 1990-1992 and 498, respectively. The same for post-liberalization period are 1997-1999 and 1411. Empirical results imply that tax effect and signaling effect play a role in financing decisions whereas agency costs effect financing decision of big business houses and foreign firms. It is also revealed that size of the firm and business risk became significant factors influencing the capital structure during post-liberalization period.[16]

Ram Mohan TT (2003) "Long run performance of public and private sector bank stocks" has made an attempt to compare the three categories of banks-Public, Private and Foreign-using Physical quantities of inputs and outputs, and comparing the revenue maximization efficiency of banks during 1992-

2000. The findings show that PSBs performed significantly better than private sector banks but not differently from foreign banks. The conclusion points to a convergence in performance between public and private sector banks in the post-reform era, using financial measures of performance.[17]

Singh R (2003) “Profitability management in banks under deregulate environment” has analyzed profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has declined in the deregulated environment. He emphasized to make the banking sector competitive in the deregulated environment. They should prefer noninterest income sources.[18]

ICRA (2003),In a the paper titled “comparative study on Indian banking”, tried to analyse the fast-changing environment, the **Indian Bank's Association (IBA) has Commissioned ICRA Advisory Services (ICRA)** to carry out a study to benchmark the strengths and weaknesses of Indian Banks against those of select international banks. The scope of work for the study is to benchmark the performance of Indian Banks vis-a-vis select global banks along three dimensions-structural factors, operational factors 44 and efficiency factors. As suggested by IBA, 21 Indian Banks (those with asset over Rs. 20,000 Crore as on 31st March, 2003) and Seven International Banks have been selected for the study. The parameters, which have been used for benchmarking, are Risk weighted capital norms, Income Recognition norms, asset classification norms, provisioning norms, which come under "Structural Parameters". Return on Assets, Return on Equity, Net interest margin, Operating expense ratio and Asset quality are concerned with "Operational Parameters". Business per employee, Business per branch, Operating expenses per Branch, Establishment expenses per employee, profitability per employee, profitability per Branch are 'Efficient Parameters'. ICRA Limited, in this study, found that the profitability of Indian Banks in recent years compares well with that of the global benchmark banks primarily because of the higher share of profit on the sale of investments, higher leverage and higher net interest margins. However, many of these drivers of higher profits of Indian Banks may not be sustainable. To ensure long-term profitability, ICRA Ltd. suggest that Indian Banks should diversify their loans across several customer segments; they should introduce robust risk scoring techniques to ensure better quality of loans; they should reduce their operating expenses by upgrading banking technology and they should improve the management of market risk.[19]

Simon H. Kwan (2003) investigated operating performance in Asian countries. After controlled for loan quality, liquidity, capitalization, and output mix, per unit banks operating costs are found to vary significantly across Asian countries and over time. His further analysis reveals that the country rankings of per unit labour and physical capital costs are highly correlated, suggesting that there exist systematic differences in bank operating efficiency across Asian countries. However, this measure of operating efficiency is found to be unrelated to the degree of openness of the banking sector. His research also identified that Asian banks' operating costs were found to decline from 1992 to 1997, indicating that the banks were improving their operating performance over time.[20]

Keshar J. Baral (2004) *"*Determinants of Capital Structure: A Case Study of Listed Companies of Nepal" In this paper, an attempt has been made to examine the determinants of capital structure -size, business risk, growth rate, earning rate, dividend payout, debt service capacity, and degree of operating leverage-of the companies listed to Nepal Stock Exchange Ltd. as of July 16, 2003. Eight variables multiple regression model has been used to assess the influence of defined explanatory variables on capital structure. In the preliminary analysis, manufacturing companies, commercial banks, insurance companies, and finance companies were included. However, due to the unusual sign problem in the constant term of the model, manufacturing companies were excluded in final analysis. This study shows that size, growth rate and earning rate are statistically significant determinants of capital structure of the listed companies.[21]

Abor (2005) seeks to investigate the relationship between capital structure and profitability of listed firms on the Ghana Stock Exchange and find a significantly positive relation between the ratio of short-term debt to total assets and ROE and negative relationship between the ratio of long-term debt to total assets and ROE.[22]

David Hutchison and Reymond A K Cox David (2006) have been studied on "The Causal Relationship between Bank Capital and Profitability" This paper examines the causal relationship between the return on equity and financial leveragae in the U.S. banking industry. For the periods 1983-1989 and 1996-2002 we find there is a negative connection between bank capital and equity profitability except for the best performing banks.[23]

Singla H.K. (2008) "financial performance of banks in India" has examined that how financial management plays a crucial role in the growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet place, Banks in better position to deal with and absorb the economic constant over a period of time.[24]

Jobin T (2009) "The Determinants of Bank Capital Structure" The paper shows that dispraised deposit insurance and capital regulation were of second order importance in determining the capital structure of large U.S. and European banks during 1991 to 2004. Instead, standard cross-sectional determinants of non-financial firms' leverage carry over to banks, except for banks whose capital ratio is close to the regulatory minimum. Consistent with a reduced role of deposit insurance, we document a shift in banks' liability structure away from deposits towards non-deposit liabilities. We find that unobserved time invariant bank fixed effects are ultimately the most important determinant of banks' capital structures and that banks' leverage converges to bank specific, time invariant targets.[25]

Ugo Albertazzi and Leonard Gambacorta (2009) have been studied on "Bank Profitability and the Business Cycle" An important element of the macro-prudential analysis is the study of the link between business cycle fluctuations and banking sector profitability and how this link is affected by institutional and structural characteristics. This work estimates a set of equations for net interest income, non-interest income, operating costs, provisions, and profit before taxes, for banks in the main industrialized countries and evaluates the effects on banking profitability of shocks to both macroeconomic and financial factors. Distinguishing mainly the euro area from Anglo-Saxon countries, the analysis also identifies differences in the resilience of the respective banking systems and relates them to the characteristics of their financial structure.[26]

Reint Gropp and Florian Heider (2009) "The Determinations of Bank Capital Structure" The paper shows that dispraised deposit insurance and capital regulation were of second order importance in determining the capital structure of large U.S. and European banks during 1991 to 2004. Instead, standard cross-sectional determinants of non-financial firms' leverage carry over to banks, except for banks whose capital ratio is close to the regulatory minimum. Consistent with a reduced role of deposit insurance, we document a shift in banks' liability structure away from deposits towards non-deposit liabilities. We find that unobserved time invariant bank fixed effects are ultimately the most important determinant of banks' capital structures and that banks' leverage converges to bank specific, time invariant targets.[27]

Ade Salman and Riko Hendrawan (2009) Banks were knowned to have volatile capital structure caused by their financial liquidity. This paper aims to examine the impact of capital structure towards performance of two group of banks, conventional and Islamic banks, by using profit efficiency approach. Two stages procedure were employed. In the first stage we measure profit efficiency score for each bank in Indonesia during year 2002-2008 by using distribution free approach (DFA). In the second stage we employ banks' capital ratio to measure their impact towards their performance. Output from the first stage indicate that bank's average profit efficiency scores equal to

0,60. Whereas the maximum score equal to 0,78. So there is still room around 0,18 Indonesian banks to improve their performance. The output also indicate the Islamic banks in Indonesia succeed to place their position at top 20% highest profit efficiency score. Result from the second stage indicate that bank's capital ratio have a negative effect on their profit efficiency. Futhermore, the negative effect happened to be higher for the Islamic bank group compared to conventional bank.[28]

Chowdhury, T. A. & Kashfia, A. (2009) have tried to analyze the development and growth of Selected Private Commercial Banks of Bangladesh.In a developing country like Bangladesh the banking system as a whole play a vital role in the progress of economic development. It is observed that all the selected private commercial banks are able to achieve a stable growth of branches, employees, deposits, loans and advances, net income, earnings per share during the period of 2002-2006. Seven trend equations have been tested for different activities of the private commercial banks. Among them the trend value of branches, employees, deposits and net income are positive incase of all the selected banks. Square of correlation coefficient (r^2) has also been tested for all trend equations. The r ^{2} 2 of branches, deposits and net income is more 15 than 0.5. This shows that branches, deposits and net income collectively influence 50% of the performance of the private commercial banks.[29]

Ebru Caglayan (2010) has studied on "The Determinants of Capital Structure: Evidence from the Turkish Banks" This paper examines the capital structure of banks, from the perspective of the empirical capital structure literature, for non-financial firms by using the panel data analysis method. It investigates which capital structure theories can explain the capital structure choice of the banks. The paper also identifies two sub-periods to determine the differences across determinants of capital structure in the different periods for Turkish banks after the financial crises and restructuring periods. The findings show that size and market to book have positive effects whereas tangibility and profitability have negative effects on the book leverage in all periods. The results of the analysis indicate some evidence of the pecking order theory's expectations.[30]

Gill, Amarjit, Nahum Biger, Neil Mathur, (2011) findings regarding the effect of capital structure on profitability by examining the effect of capital structure on profitability of the American service and manufacturing firms. A sample of 272 American firms listed on New York Stock Exchange for a period of 3 years from 2005 – 2007 was selected. The correlations and regression analyses were used to estimate the functions relating to profitability (measured by return on equity) with measures of capital structure. Empirical results show a positive relationship between short-term debt to total assets and profitability and between total debt to total assets and profitability in the service industry. The findings of this paper show also a positive relationship between short-term debt to total assets and profitability, long-term debt to total assets and profitability, and between total debt to total assets and profitability in the manufacturing industry.[31]

Chandra Sekhar Mishra(2011) This study seeks to identify the determinants of Indian central PSUs' capital structure. This is important since one does not come across many studies related to the PSUs. Moreover in the post disinvestment phase, the PSUs in India have become more market oriented in terms of raising funds. The gradual reduction in the budgetary resources for the PSUs is also one of the reasons. The PSUs have got to depend more on extra-budgetary resources (EBRs) for their needs. PSUs are also different in several ways than their counterparts in the private sector. For this study a sample of 48 profit making manufacturing PSUs is considered for the time period 2006 to 2010. Multiple regression has been used to find out the factors affecting capital structure. The independent variables have been considered keeping in view Agency Theory, Pecking Order Hypothesis and other established capital structure models. The results suggest that the capital structure (Total Borrowing to Total Assets) of the profit making PSUs is affected by Asset Structure (Net Fixed Assets to Total Assets, NFATA), Profitability (Return on Assets, ROA) and Tax. Unlike suggestion of pecking order hypothesis, growth (defined as growth in total assets) is positively related to leverage. As predicted by theory NFATA and ROA are respectively positively and negatively related to leverage. In contradiction to theory tax and leverage are negatively related. Firms with less effective tax rate have gone for more debt. None of the other variables like non-debt tax shield (NDTS), Volatility, Size were found to be significant.[32]

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