**Competitive Analysis of Capital Structure:**

**A Study on Some Private Banks**

Submitted To:

Controller of Examination

National University

Gazipur-1704

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LETTER OF TRANSMITTAL

 Date: 25thMarch 2015

 Controller of Examination

National University

Gazipur-1704,

Dhaka, Bangladesh

Subject: Submission of Study Report.

Dear Sir,

It is a great pleasure and privilege to present the study report titled “This is assigned to me as partial requirement for the competition of BBA program.

Throughout the study I have tried with the best of my capacity to accommodate as much information and relevant issues as possible and tried to follow the instructions you have suggested. I tried my best to make this report as much informative as possible. I sincerely believe that it will satisfy your requirements. However sincerely I believe that this report will serve the purpose of my project submission program.

I am grateful to you for your guidance and kind cooperation at every step of my endeavor on this report. I will remain deeply grateful if you kindly take some pan to go through the report and evaluate my performance.

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CERTIFICATE OF SUPERVISOR

This is to certify that, Tofael Ahammed, student of BBA, Roll: 1062442, Reg. : 1067200, Daffodil Institute of IT, Dhakaka,Bangladesh, has completed his Internal Study Report **“Competitive Analysis Of Capital Structure : A Study On Some Private Banks”** He has completed this project satisfactorily under my supervision as he partial fulfillment for the award of BBA degree.

He has done his job according to my supervision and guidance. He has tried his best to do this successfully. I think his study will help him in future to up build his career.

I wish him every success in life.

…………………………………….

DR. Mostafa Kamal

Advisor, Daffodil Institute of IT (DIIT)

Director, Permanent Campus

Daffodil International University

DECLARATION

I hereby declare that the Study Report on **“Competitive Analysis Of Capital Structure: A Study On Some Private Banks”** includes the results of my own works, pursued under the supervision of Mohammed DR. Mostafa Kamal, Advisor, Daffodil Institute of IT (DIIT) Further affirmr that the work presented in this report is original and no part or whole of this report has been submitted to, in any from, any other Unvarsity or Institution for any degree or any other purpose.

…………………………….

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At first would like to thank Almighty ALLAH who gave me to prepare this term paper. This report has created a deal of interest to me.

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I would like to thank the authority to the Daffodil Institute of IT (DIIT) for allowing me to do my report here.

**CHAPTER: 1**

**GENERAL PART**

**INTRODUCTION**

The term capital structure is used to represent the proportionate relationship between debt and equity. Equity includes paid-up capital, share premium and reserves and surplus (retained earnings). The various means of financing represent the financial structure of an enterprise. The financial structure of an enterprise is shown by the left-hand side (liabilities plus equity) of the balance sheet. Traditionally, short-term borrowings are excluded from the list of methods of financing the firm’s capital expenditure and therefore, the long-term claims are said to form the capital structure of the enterprise.

The term “capital structure” represents the total long term investment in a business firm. It includes funds raised through ordinary and preference shares, bonds, debentures, terms loans from financial institutions, etc. Any earned revenue and capital surpluses are included. The capital structure is made up of debt and equity securities which comprise a firm’s finance of its assets. It is the permanent financing of a firm represented by long-term debt, plus preferred stocks and net worth. The determination of the degree of liquidity of a firm is no simple task. In the long run, liquidity may depend on the profitability of a firm; but whether it survives to achieve long-run profitability depends to some extent on its capital structure. This includes only-term debt and total stockholders’ investment. It may be defined as one including both short-term and long-term funds.

The capital structure of bank is still relatively under-explored area in the banking literature. There is no clear understanding on how banks choose their capital structure and what factors influence their corporate financing behavior. It is seen that lending of large banks is less subject to changes in cash flow and capital. It is also seen that sifts in deposit supply affect lending at small banks that do not have access to the large internal capital market. The fact that large banks tend to decrease their capital and increase their lending after merger. Due to these relevant aspect that the present study will try to provide indebt knowledge to the concepts.

Capital composition matters to most firms in free markets but there are differences. Companies in non-financial industries need capital mainly to support funding such as to buy property and to build or acquire production facilitates and equipment to pursue new areas of business. While this is also true for banks, their main focus is somewhat different. By its very nature, banking is an attempt to manage multiple and seemingly opposing weeds Banks provide liquidity on demand to depositors through the current account and extend credit as well as liquidity to their borrowers through lines of credit. Owing to these fundamental roles, banks have always been concerned with solvency and liquidity. Given the central role of market and credit risk in their core business, the success of banks depend on their ability to identify assess, Monitor and mage these risks in sound and sophisticated way. The competitive and regulatory pressures are likely to reinforce the central strategic issue of capital and profitability and cost of equity capital in shaping banking strategy.

In order to assess and manage risks banks must have effective ways of determining the appropriate amount of capital that is necessary to absorb un expected losses arising from their market, credit and operational risk exposures. The profits that arise from various business activities of the banks need to be evaluated relative to the capital necessary to cover the associated risks. These two major links to capital – risk as a basis to determine capital and the misplacement of profitability against risk-based capital allocations-explain the critical role of capital as a key component in the management of bank portfolio. The capital structure of bank is still relatively under-explored area in the banking literature. There is no clear understanding on how banks choose their capital structure and what factors influence their corporate financing behavior. It is seen that lending of large banks is less subject to changes in cash flow and capital. It is also seen that sifts in deposit supply affect lending at small banks that do not have access to the large internal capital market. The fact that large banks tend to decrease their capital and increase their lending after merger. Due to these relevant aspect that the present study will try to provide indebt knowledge to the concepts. Companies’ short and long term debt is considered when analyzing capital structure. A method of analyzing the impact of alternative possible capital structure choices on a firms credit statistics and reported financial results, especially to determine whether the firm will be able to use projected tax shield benefits fully. There are different method of analyzing capital structure of the bank are ratios, trend analysis, common size statements, comparative statements. In this study the analysis of capital structure of some private commercial bank is done through ratios.

**OBJECTIVE OF THE STUDY**

The objective of the study is to comparatively analyze the capital structure position of some selected private commercial bank in Bangladesh. The above objective has been approached by analyzing the various ratios of the banks which include debt equity ratio, funded debt to capitalization ratio, solvency ratio, interest coverage ratio, capital gearing ratio, proprietary ratio. Other objectives are to examine the bank policy regarding capital structure and the effect of capital structure on the profitability of the companies in relation of various ratios.

The area of the study had remained an unexplained field in Bangladesh as for as in the depth study was concern; therefore the thesis will bridge the gap as it is useful to all these banks which are associated with the present study. This will also serve as a literature in the field of banking. It will also help the professionals, academicians who have a better understanding of the relevance of capital structure of banks. The study covers the depths knowledge on the role of capital structure in banks which are fast changing fact of the economy.

The importance of capital structure in banking companies become helpful in development of industries, as provision of rupee and foreign currency loans, subscription to share and debentures, underwriting of share and debentures guaranteeing of deferred payments and loans are the important types of financial assistance provided by institutions. Development of entrepreneurship through training and motivation, assistance in project identification feasibility of studies and preparation of project reports, technical and managerial consultancy seed/risk capital assistance etc.

The present study will be helpful for the society in view of various scheme as acceptance of deposits, provide facility of insurance mutual fund management, long-term pension fund and provide consumer loan for various purpose as housing loan, car loan, educational loan etc. and it also provide electronic banking facilities which save the important time of consumer.

**RESEARCH METHODOLOGY**

This paper reviews the literature on the basis of both primary and secondary data .Primary collected from the sources of descriptive Research such as by meeting the managers of banks. Secondary data were collected from the sources of articles, research papers, annual reports, sustainability reports, company’s official websites, etc. For analyzing the capital structure of private commercial banks 6 banks were selected.

**METHODOLOGY**

**Study Area**: The present study has been conducted in the some private commercial banks of Bangladesh.

**Collection of Data**: The study has incorporated both primary and secondary data. Primary data have been collected by meeting the managers of banks. Secondary data were collected from annual reports of banks.

**Research Instruments**:

 Balance sheet of banks

 Income statements of banks

 Changes in Equity statement

 Other statements and financial data

**Duration of the collection of data:** Data have been collected during the period From January 2015 to February 2015.

**Secondary Data**: Secondary information have been collected from different relevant Books, Journals, published Reports of the banks and other reliable agencies. Information also has been collected from different websites for the study.

**Technique of analysis of Data:** Here 6 ratios were calculated i.e. Debt-Equity Ratio, Capitalization Ratio, Solvency Ratio, Interest Coverage Ratio, Gearing Ratio and EPS.

**Limitations**: I have to face the following limitations at the time of preparing the report :

* Lacks Of sufficient Budget and information.
* Maintaining secured IT infrastructure for banking operations.
* Data Protection and the need for a legal and regulatory framework
* Working of highly complex technology.
* I did not talk with all bank’s manager
* I did not get all the information from managers
* Experts opinion are not received
* Investor’s opinion are not taken about their investment in the banks .
* Avoiding fractional value

**LITERATURE REVIEW**

Capital structure is the combination of a firm’s long-term debt, specific short Term debt, common equity, preferred equity and retained earnings which are used to finance its overall operations and growth .Capital structure is a very important financial decision as it is directly related to the risk and return of a firm. Any immature capital structure decision can result in high cost of capital; thereby lowering firm’s value while effective capital structure decision can do the opposite. Some scholars also defined capital structure in their own ways.

The term ‘capital structure’ is defined by **Weston and Brigham (1979)** as the permanent financing of the firm represented by long-term debt, preferred stock and net worth.

According to **Van Horne and Wachowicz(1995),** capital structure is the mix of a firm’s permanent long-term financing represented by debt, preferred stock, and common stock equity. From the above discussion, it is clear that capital structure combines mainly equity and long-term debt. Traditionally capital structure does not consider short-term debt, but in our study we do consider it.

However, it is not yet possible to provide financial managers with a precise Methodology for determining a firm’s optimal capital structure (**Gilman &Zutter**, **2010**). After MM propositions, many studies were focused in finding the optimal Capital structure.

All researches suggests that there is an optimal Capital structure; the one that maximizes the value of the firm and simultaneously minimizes the cost of capital us striking a balance between risk and return.

**Chapter: Two**

**Overview of the Organizations**

**BANK ASIA LIMITED**

Bank Asia has been launched by a group of successful entrepreneurs with recognized standing in the society. The management of the Bank consists of a team led by senior bankers with decades of experience in national and international markets. The senior management team is ably supported by a group of professionals many of whom have exposure in the international market. It set milestone by acquiring the business operations of the Bank of Nova Scotia in Dhaka, first in the banking history of Bangladesh. It again repeated the performance by acquiring the Bangladesh operations of Muslim Commercial Bank Ltd. (MCB), a Pakistani bank. In the year 2003 the Bank again came to the limelight with oversubscription of the Initial Public Offering of the shares of the Bank, which was a record (55 times) in our capital market's history and its shares commands respectable premium. The asset and liability growth has been remarkable. Bank Asia has been actively participating in the local money market as well as foreign currency market without exposing the Bank to vulnerable positions. The Bank's investment in Treasury Bills and other securities went up noticeably opening up opportunities for enhancing income in the context of a regime of gradual interest rate decline. Bank Asia Limited started its service with a vision to serve people with modern and innovative banking products and services at affordable charge. Being parallel to the cutting edge technology the Bank is offering online banking with added delivery channels like ATM, Tele-banking, SMS and Net Banking. And as part of the bank's commitment to provide all modern and value added banking service in keeping with the very best standard in a globalize world.

**AB BANK LIMITED**

Introducing Bangladesh to its very first private sector bank; AB Bank Limited was incorporated in 31st December, 1981. Arab Bangladesh Bank as formerly known started its effective operation from 12th April, 1982 with the mission to be the best performing bank of the country. With an ambition to secure its place as the leading service provider, creating lasting value for its clientele, shareholder, and employees and particularly for the community it operates in, AB has formulated a golden heritage and an envious legacy that may not be imitated by many. Achieving plenty of milestones and incorporating numerous changes over the last 32 years, AB has always been authentic to its desire of being the technology driven innovative bank of Bangladesh. To excel this new era of technological triumph, AB has successfully introduced internet banking, SMS banking, cutting edge ICT, state-of-art network solution, 24/7 ATM service and many other e-products. AB has extensively widened its services over the last three decades in both home and abroad. The bank opened its very first branch at Karwan Bazar on 12th April 1982 and now has a successful footprint of 93 branches including one overseas branch in Mumbai, India and 239 ATMs spread across the country as on 31st December 2014; it has associated 6 subsidiary companies including one exchange company in UK, Off-shore Banking Unit and Custodial services with its core banking activities. The Bank opened its Representative Office at Yangon, Myanmar and at London UK for extending its foreign operations.

**PRIME BANK LIMITED**

In the backdrop of economic liberalization and financial sector reforms, a group of highly successful local entrepreneurs conceived an idea of floating a commercial bank with different outlook. For them, it was competence, excellence and consistent delivery of reliable service with superior value products. Accordingly, Prime Bank was created and commencement of business started on 17th April 1995. The sponsors are reputed personalities in the field of trade and commerce and their stake ranges from shipping to textile and finance to energy etc. As a fully licensed commercial bank, Prime Bank is being managed by a highly professional and dedicated team with long experience in banking. They constantly focus on understanding and anticipating customer needs. As the banking scenario undergoes changes so is the bank and it repositions itself in the changed market condition. Prime Bank has already made significant progress within a very short period of its existence. The bank has been graded as a top class bank in the country through internationally accepted CAMELS rating. The bank has already occupied and enviable position among its competitors after achieving success in all areas of business operation. Prime Bank offers all kinds of Commercial Corporate and Personal Banking services covering all segments of society within the framework of Banking Company Act and rules and regulations laid down by our central bank. Diversification of products and services include Corporate Banking, Retail Banking and Consumer Banking right from industry to agriculture, and real state to software. Prime Bank, since its beginning has attached more importance in technology integration. In order to retain competitive edge, investment in technology is always a top agenda and under constant focus. Keeping the network within a reasonable limit, our strategy is to serve the customers through capacity building across multi-delivery channels. Our past performance gives an indication of our strength. We are better placed and poised to take our customers through fast changing times and enable them compete more effectively in the market they operate.

**MUTUAL TRUST BANK LIMITED**

The Company was incorporated as a Public Limited Company in 1999, under the Companies Act 1994, with an Authorized Share Capital of BDT 1,000,000,000 divided into 10,000,000 ordinary shares of BDT 100 each. At present, the Authorized Share Capital of the company is BDT 10,000,000,000 divided into 1,000,000,000 ordinary shares of BDT 10 each.

The Company was also issued Certificate for Commencement of Business on the same day and was granted license on October 05, 1999 by Bangladesh Bank under the Banking Companies Act 1991 and started its banking operation on October 24, 1999. As envisaged in the Memorandum of Association and as licensed by Bangladesh Bank under the provisions of the Banking Companies Act 1991, the Company started its banking operation and entitled to carry out the following types of banking business:

**BRAC BANK LIMITED**

The Company was incorporated as a Public Limited Company in 1998, under the Companies Act 1994. Its total paid up shares are 709,287,321 where general public hold 354,638,693(50%) shares, BRAC hold 316,598,451 (44.61%) shares, International Finance Corp holds 38,002,483(5.36%) shares and rest amount of shares hold by some persons. It focuses on building profitable and socially responsible financial institution focused on Market and Business with Growth potential, thereby assisting BRAC and stakeholders to build a just, enlightened, healthy democratic and poverty free Bangladesh.

**SOUTHEAST BANK LIMITED**

Southeast Bank Limited is a scheduled Bank under private sector established under the ambit of bank Company Act, 1991 and Incorporated as a Public Limited Company under Companies Act, 1994 on March 12, 1995. The Bank started commercial banking operations effective from May 25, 1995 during this short span of rime the Bank had been successful to position itself as a progressive and dynamic financial institution in the country. The Bank had been widely acclaimed by the business community, from small entrepreneur or large traders and industrial conglomerates, including the top rated corporate borrowers for forward-looking business outlook and innovative financing solutions Thus within this very short period of time it has been able to create an image for itself and has earned significant reputation in the country's banking sector as a Bank with vision. Presently it has Eighty four branches in operation.

Southeast Bank Limited has been awarded license by the Government of Bangladesh as a Scheduled Bank in the private sector in pursuance of the policy of liberalization of banking and financial services and facilities in Bangladesh.

**Chapter: 3**

**The Concepts and Model Theory of Capital Structure**

**Theories of Capital Structure**

In the past, several significant theories of capital structure in financial management have emerged. But before we discuss these theories, you should know what is capital structure. A firm’s Capital structure is the relative proportions of debt, equity, and other securities in the total financing of its assets. A business needs to plan its capital structure to optimize the application of the funds and to be able to adjust easily to the changing environments.

Theories of Capital Structure in Financial Management are followings:

1. Modigliani And Miller’s Theory
2. Trade-Off Theory
3. Pecking Order Theory
4. Market Timing Theory
5. Net Income Theory
6. Net Operating Income Theory

**Modigliani and Miller’s Theory:**

Decisions related to an optimal capital structure have irritated theoreticians for many years. The early work made quite a few assumptions in an effort to simplify the problem and assumed that both the costs of debt as well as the cost of equity were separate from capital structure and that the appropriate figure for consideration was the net income of the firm. Using these suppositions, the average cost of capital reduced by using leverage and the value of the firm (the value of the debt and equity combined) improved while the value of the equity remained the same. Modigliani and Miller revealed that this could not be the truth. Their argument was that 2 similar businesses, varying only in their capital structure, should have identical total values. If they did not, individuals would engage in arbitrage and create the market forces, which would make the 2 values equal.

This theory starts by assuming that the business has a certain set of predicted cash flows. When a business prefers a certain percentage of financial debt and equity, it simply divides the cash flows between investors. Investors and corporations are assumed to have similar access to financial markets. According to this theory, the market value of a business is based on its earning power and by the potential risk of its main assets. Moreover, the value of the business is not dependent on the way it selects to finance its investments or distribute dividends.

**Trade-Off Theory:**

The term trade-off theory is commonly used to describe a group of associated theories. In all these theories, a decision maker examines the different costs and advantages of alternative leverage plans. The tradeoff theory assumes that you can get benefits to leverage within a capital structure until the optimum capital structure is achieved. The theory acknowledges the tax advantage from interest payments. This theory mainly refers to the two concepts – cost of financial distress and agency costs. A major objective of the trade-off theory is to explain the fact that businesses generally are funded partially with debt and partially with equity.

**Pecking Order Theory:**

According to pecking order theory (pecking order model), companies show a distinct preference for utilizing internal finance (as retained earnings or excess liquid assets) over external finance. If internal funds are insufficient to finance investment opportunities, a company might obtain external financing but it will choose among the various external finance sources in a manner as to minimize additional costs. This theory regards the market-to-book ratio as a way of measuring investment opportunities. This theory is made popular by Myers and Majluf as he claims that equity is a significantly less favored way to raise capital because when managers issue fresh equity, investors feel that managers think that the company is overvalued and managers are taking advantage of this over-valuation. Because of this, investors will place a reduced value to the new equity issuance.

**Market Timing Capital Structure Theory:**

This theory of capital structure states that companies time their equity issues in a way that they issue fresh stock when the stock prices are overvalued, and buy back shares when they are undervalued. As a result, variations in stock prices influence firm’s capital structures. Companies do not usually care whether they finance with debt or equity; they simply pick the type of financing which, at that point in time, appears to be more valued by financial markets.

**Net Income Theory:** According to this theory, the cost of debt is recognized as cheaper source of financing than equity capital. The more use of debt in the capital structure lowers the total cost of capital. Debt is less expensive source of financing due to the fact that its interest is deductible from net profit before taxes. Following deduction of interest, a business has to pay reduced tax and therefore, it will reduce the weighted average cost of capital. The value of the business is higher in the case of lower overall cost of capital because of more use of leverage in the capital structure.

**Net Operating income Theory:**

According to this theory, the value of a company is not impacted by the alteration of debt in the capital structure. It assumes that the gain that a company gets by infusion of debt is negated by the rise in the required rate of return by the stockholders. With rise in debt, the bankruptcy risk also increases and such a risk perception increases the expectations of the equity holders.

**CHAPTER: FOUR**

**ANALYTICAL PART**

**ANALYSIS OF THE STUDY**

The finding is achieved after analyzing the following capital structure ratios of selected private commercial Bank. These ratios are as follows:

* Five years analysis of debt and equity ratio
* Five years analysis of funded debt to total capitalization ratio
* Five years analysis of solvency ratio
* Five years analysis of interest coverage ratio
* Five years analysis of capital gearing ratio
* Five years analysis of earning per share

The financial position of the firms can be studied and analyzed in two perspectives i.e., the short term financial position and long term financial position. The long term financial position, its composition and implications have been considered. The long term source of funds for any firms are comprising of the shareholder’s funds and long term resources of funds may consists of the following:

* The Preference share capital.
* The equity share capital.
* The accumulated profit
* The long term debt.

The debt position of the firm indicates the amount of loans and borrowings used in generating profits. If the raised from debts earn more than the cost of these funds, then the surplus ultimately belongs to the equity shareholders. As the debt involves firm’s commitment to pay interest over the long run and eventually to repay the principles amount, the financial analyst, the debt lender, the preference shareholders and the management will all pay close attention to the degree of indebtedness and capacity of the firm to serve the debt. The more the debt a firm use, the higher is the profitability that the firm may be unable to fulfill its commitments towards its debt lenders. The position of the debt and its implications can be analyzed in two different ways:

* As degree of indebtedness.
* As the ability to service the debt.

**MEASURES OF THE DEGREE OF INDEBTEDNESS**

The measures of identifying the degree of indebtedness attempt to establish the relationship of the total liabilities or only long term liabilities with the shareholders’ funds or total assets of the firm.

**Analysis of Debt-Equity Ratio**

This ratio indicates the relationship between loan and the net worth of the company, which is known as gearing. If the proportion of the debt to the equity is low, a company is said to be low geared, and vice-versa. A debt equity ratio of 2:1 is norm accepted. The higher the gearing, the more volatile the return to the shareholders. It is calculated to measure the extent to which financing has been used in business. The objective is to provide a security to outsiders on liquidation of the firm. An appropriate mix of the debt and equity improves the value of the firm. Usually in calculating the ratio, the preference share capital is excluded from debt, but if the ratio is to effect of use of fixed interest sources on earnings available to the shareholders then it is included. On other hand, if the ratio is to examine financial solvency, then the preference shares shall form part of capital.

**Debt-Equity Ratio= Long Term Debt/ Shareholders funds**

**Table -1: Debt - Equity Ratio**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Prime Bank** | **AB Bank** | **Bank Asia** | **MTB** | **BRAC Bank** | **South East Bank** |
| **2009** | 10.39 | 8.84 | 11.51 | 12.459 | 9.529 | 8.556 |
| **2010** | 12.30 | 7.92 | 12.96 | 12.171 | 10.130 | 6.340 |
| **2011** | 10.56 | 8.51 | 7.72 | 14.063 | 11.230 | 7.149 |
| **2012** | 9.62 | 8.96 | 8.77 | 17.19 | 14.201 | 8.069 |
| **2013** | 10.43 | 10.14 | 9.30 | 17.32 | 12.039 | 8.461 |

**Graph: Debt-Equity Ratio**

**Interpretation:** As per table-1 Debt-Equity ratio of Prime Bank is 10.39 in 2009, 12.30 in 2010, and 10.56 in 2011, 9.62 in 2012 and 10.43 in 2013. It reflects that there is no stability in Debt of Prime Bank and No positive relationship between Debt and Equity.

On the other hand, Debt-Equity ratio of AB Bank is 8.84 in 2009, 7.92 in 2010, and 8.51 in 2011, 8.96 in 2012 and 10.14 in 2013. It reflects that Debt-Equity ratio of AB Bank is increasing continuously except year 2010. In the year 2010 it falls to 7.92 but in year 2011 it increases to 8.51.It reflects that AB Bank does not have stability in their Debt and positive relationship between Equity and Debt as well.

On the other hand, Debt-Equity ratio of Bank Asia is 11.51 in 2009, 12.96 in 2010, and 7.72 in 2011, 8.77 in 2012 and 9.30 in 2013. It reflects that Debt-Equity ratio of Bank Asia is increasing continuously except year 2011. In the year 2011 it falls to 7.72 but in year 2012 it increases to 8.77.It reflects that Bank Asia does not have stability in their Debt and positive relationship between Equity and Debt as well.

On the other hand, Debt-Equity ratio of MTB is 12.459 in 2009, 12.171 in 2010, and 14.063 in 2011, 17.19 in 2012 and 17.32 in 2013. It reflects that Debt-Equity ratio of MTB is increasing continuously except year 2010. In the year 2010 it falls to 12.171 but in year 2011 it increases to 14.063. It reflects that MTB does not have stability in their Debt and positive relationship between Equity and Debt as well

On the other hand, Debt-Equity ratio of BRAC Bank is 9.529 in 2009, 10.130 in 2010, and 11.230 in 2011, 14.201 in 2012 and 12.039 in 2013. It reflects that Debt-Equity ratio of BRAC Bank is increasing continuously except year 2013. In the year 2013 it falls to 12.039 from 14.201 was in 2012. It reflects that BRAC Bank does not have stability in their Debt and positive relationship between Equity and Debt as well.

Debt-Equity ratio of South East Bank is 8.556 in 2009, 6.340 in 2010, and 7.149 in 2011, 8.069 in 2012 and 8.461 in 2013. It reflects Debt-Equity ratio of South East Bank is increasing continuously except year 2010. In the year 2010 it falls to 6.340 but in year 2011 it increases to 7.149. It reflects that South East Bank does not have stability in their Debt and positive relationship between Equity and Debt as well.

**Analysis of Funded Debt to Total Capitalization Ratio**

The funded debt to total capitalization ratio establishes the relationship between the long term fund raised from outsiders and total long term funds available from the owners of the business. Funded debt to total capitalization is also one of the important ratios that explain the capital structure position of the company. There is no standard rule for the ratio but normally the smaller the ratio the better it will be

**Total capitalization = Total Debt + Equity**

**Table -2: Debt – Total Capitalization Ratio**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Prime Bank** | **AB Bank** | **Bank Asia** | **MTB** | **BRAC Bank** | **South East Bank** |
| **2009** | 0.905 | 0.906 | 0.928 | 0.930 | 0.914 | 0.899 |
| **2010** | 0.890 | 0.895 | 0.933 | 0.927 | 0.919 | 0.870 |
| **2011** | 0.904 | 0.902 | 0.894 | 0.937 | 0.928 | 0.877 |
| **2012** | 0.912 | 0.908 | 0.907 | 0.948 | 0.942 | 0.896 |
| **2013** | 0.905 | 0.919 | 0.911 | 0.946 | 0.931 | 0.901 |

**Graph: Debt – Total Capitalization Ratio**

**Interpretation:**

As per table-2 capitalization ratio of Prime Bank is 0.905 in 2009, 0.890 in 2010, 0.904 in 2011, 0.912 in 2012 and 0.905 in 2013. It shows that ratio more or less stable over the years except in 2012 which is good for the company itself. The dependence of Prime Bank Ltd. on outsider’s long term fund is stable, so high, which is the financial burden on firm.

Capitalization ratio of AB Bank is 0.906 in 2009, 0.895 in 2010, 0.902 in 2011, 0.908 in 2012 and 0.919 in 2013. It shows that ratio is not stable in the years which are not good for the company itself. The dependence of AB Bank Ltd. on outsider’s long term fund is not stable, so high, which is the financial burden on firm.

Capitalization ratio of Bank Asia is 0.928 in 2009, 0.933 in 2010, 0.894 in 2011, 0.907 in 2012 and 0.911 in 2013. It shows that ratio more or less stable over the years except in 2011 which is good for the company itself. The dependence of Bank Asia Ltd. on outsider’s long term fund is stable, so high, which is the financial burden on firm.

Capitalization ratio of MTB is 0.930 in 2009, 0.927 in 2010, 0.937 in 2011, 0.948 in 2012 and 0.946 in 2013. It shows that ratio more or less stable over the years except in 2012 which is good for the company itself. The dependence of MTB on outsider’s long term fund is stable, so high, which is the financial burden on firm.

Capitalization ratio of BRAC Bank is 0.914 in 2009, 0.919 in 2010, 0.928 in 2011, 0.942 in 2012 and 0.931 in 2013. It shows that ratio more or less stable over the years except in 2012 which is good for the company itself. The dependence of BRAC Bank on outsider’s long term fund is stable, so high, which is the financial burden on firm.

Capitalization ratio of South East Bank is 0.899 in 2009, 0.870 in 2010, 0.877 in 2011, 0.896 in 2012 and 0.901 in 2013. It shows that ratio is not stable in the years which are not good for the company itself. The dependence of South East Bank on outsider’s long term fund is not stable, so high, which is the financial burden on firm.

**Analysis of Solvency Ratio**

Solvency ratio is a variant of proprietary ratio. It shows the relationship between total liabilities to outsiders to total assets. It provides a measurement of how likely a company will be continue meeting its debt obligations. Acceptable solvency ratios will vary from industry to industry. Generally it is observed that the lower ratio i.e. outsiders liabilities in the total capital of company the better is the long term solvency of the company.

**Table -3: Solvency Ratio**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Prime Bank** | **AB Bank** | **Bank Asia** | **MTB** | **BRAC Bank** | **South East Bank** |
| **2009** | 0.887 | 0.873 | 0.914 | 0.922 | 0.901 | 0.888 |
| **2010** | 0.872 | 0.859 | 0.921 | 0.922 | 0.905 | 0.857 |
| **2011** | 0.891 | 0.868 | 0.883 | 0.932 | 0.913 | 0.864 |
| **2012** | 0.903 | 0.878 | 0.903 | 0.945 | 0.933 | 0.889 |
| **2013** | 0.900 | 0.895 | 0.906 | 0.942 | 0.923 | 0.891 |

**Graph: Solvency Ratio**

**Interpretation:**

As per table-3, the solvency of Prime Bank is continuously rising except in the year 2010 in which it decreased to 0.872 from 0.887 in 2009. The ratio was 0.891 in 2011, 0.903 in 2012 and 0.900 in 2013.

On the other hand, the solvency ratio of AB Bank is highly volatile. In year 2009 it was 0.873 but in 2010 it decreases to 0.859 again in 2011 it increases to 0.868, in 2012 it was 0.878 and in 2013 it was 0.895.

The solvency ratio of Bank Asia was 0.914 in 2009, 0.921 in 2010, 0.883 in 2011, 0.903 in 2012 and 0.906 in 2013. It means the solvency ratio of Bank Asia is moderately volatile.

The solvency ratio of MTB was 0.922 in 2009, 0.922 in 2010, 0.932 in 2011, 0.945 in 2012and 0.942 in 2013. It means the solvency ratio of MTB is stable except the year 2011 which increases to 0.932 from 0.922 of last two years.

The solvency of BRAC Bank is continuously rising except in the year 2013 in which it decreased to 0.923 from 0.933in 2012. The ratio was 0.901 in 2009, 0.905 in 2010 and 0.913 in 2011.

The solvency of South East Bank is continuously rising except in the year 2010 in which it decreased to 0.857 from 0.888 in 2009. The ratio was 0.864 in 2011, 0.889 in 2012 and 0.891 in 2013.

**It clearly shows that all the banks have greater dependence on external sources of finance thereby resorting to the favorable financial device of trading on equity.**

**Analysis of Interest Coverage Ratio**

The employment of debt financing by firm should be examined not only in relation to the shareholders’ funds, but equally important is the consideration of the firm’s ability/capacity to services the debt. The ability to service the debt refers to how easily and readily the firm will be able to meet its commitments in respect of contractual interest payment and repayment schedule. The firm’s ability to service the fixed liabilities can be measured with the help of coverage ratios. The coverage ratios establish the relationship between fixed claims and the firm’s profitability out of which these claims are to be paid. So, this measure tries to relate profitability to the level of debt payments to assess the degree of comfort with which the firm can meet these payments. The interest coverage ratio help to analyze the firm’s ability to service the fixed interest claims.

**Interest Coverage Ratio= EBIT/Interest**

**Table -4: Interest Coverage Ratio**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Prime Bank** | **AB Bank** | **Bank Asia** | **MTB** | **BRAC Bank** | **South East Bank** |
| **2009** | 1.544 | 1.84 | 1.51 | 1.408 | 1.353 | 1.440 |
| **2010** | 1.720 | 3.47 | 1.66 | 1.377 | 1.508 | 1.649 |
| **2011** | 1.534 | 1.28 | 1.42 | 1.201 | 1.368 | 1.369 |
| **2012** | 1.306 | 1.25 | 1.28 | 1.103 | 1.203 | 1.234 |
| **2013** | 1.194 | 1.21 | 1.31 | 1.158 | 1.282 | 1.351 |

**Graph: Interest Coverage Ratio**

**Interpretation:**

As per table-4, Interest coverage ratio of Prime Bank was 1.544 in 2009 but it increases to 1.720 in 2010 again it decreases to 1.534 in 2011, 1.306 in 2012 and 1.194 in 2013

Interest coverage ratio of AB Bank was 1.84 in 2009 but it increases to 3.47 in 2010 again it decreases to 1.28 in 2011, 1.25 in 2012 and 1.21 in 2013

Interest coverage ratio of Bank Asia was 1.51 in 2009 but it increases to 1.66 in 2010 again it decreases to 1.42 in 2011, 1.28 in 2012 again it increases to 1.31 in year 2013 .

Interest coverage ratio of MTB is continuously decreasing except the year 2013. In the year it increases to 1.158 from 1.103 that was in the year 2012. But the ratio was 1.408 in 2009, 1.377 in 2010 and 1.201 in 2011.

Interest coverage ratio of BRAC Bank was 1.353 in 2009 but it increases to 1.508 in 2010 again it decreases to 1.368 in 2011, 1.203 in 2012 again it increases to 1.282 in 2013.

Interest coverage ratio of South East Bank was 1.440 in 2009 but it increases to 1.649 in 2010 again it decreases to 1.369 in 2011, 1.234 in 2012 again it increases to 1.351 in 2013.

**This is clearly showing that the Banks have no stability in interest coverage. But Prime Bank and AB Bank has earnings increased the interest to be paid whereas Bank Asia, MTB, BRAC and South East Bank has earnings decreased due to interest to be paid. This is clearly showing that Prime Bank and AB Bank have balance earning to be paid to shareholders thereby increasing their returns. While Bank Asia, MTB, BRAC and South East Bank having balance earning to be paid to shareholders thereby decreasing their returns.**

**Analysis of Capital Gearing Ratio**

Financial institutions and banks in banks in India also focus on debt –equity ratio in their lending decision. The First two measures of financial leverage are also measures of capital gearing. The First two measures of financial leverage can be expressed either in terms of book value or market value. The market value to financial leverage is theoretically more appropriate because market value reflects the current attitude of investors but it is difficult to get reliable information on market value in practice. The market value of securities fluctuates quite frequently. They are static in nature as they show borrowing position of the company at a point of time these measures thus failed to reflect the level of financial risk which inherent in the position failure of the company to pay interest and repay debt.

**Table -5: Capital Gearing Ratio**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Prime Bank** | **AB Bank** | **Bank Asia** | **MTB** | **BRAC Bank** | **South East Bank** |
| **2009** | 0.096 | 0.104 | 0.078 | 0.075 | 0.094 | 0.112 |
| **2010** | 0.081 | 0.116 | 0.072 | 0.073 | 0.087 | 0.149 |
| **2011** | 0.094 | 0.107 | 0.119 | 0.067 | 0.077 | 0.139 |
| **2012** | 0.103 | 0.102 | 0.102 | 0.055 | 0.062 | 0.116 |
| **2013** | 0.095 | 0.089 | 0.098 | 0.057 | 0.067 | 0.110 |

**Graph: Capital Gearing Ratio**

**Interpretation:**

As per table-5, Capital gearing ratio of Prime Bank was 0.096 in 2009, 0.081 in 2010, 0.094 in 2011, 0.103 in 2012 and 0.095 in 2013.

Capital gearing ratio of AB Bank was 0.104 in 2009, 0.116 in 2010, 0.107 in 2011, 0.102 in 2012 and 0.089 in 2013.

Capital gearing ratio of Bank Asia was 0.078 in 2009, 0.072 in 2010, 0.119 in 2011, 0.102 in 2012 and 0.098 in 2013.

Capital gearing ratio of MTB was 0.075 in 2009, 0.073 in 2010, 0.0.067 in 2011, 0.055 in 2012 and 0.057 in 2013.

Capital gearing ratio of BRAC Bank was 0.094 in 2009, 0.087 in 2010, 0.0.077 in 2011, 0.062 in 2012 and 0.062 in 2013.

Capital gearing ratio of South East Bank was 0.112 in 2009, 0.149 in 2010, 0.139 in 2011, 0.116 in 2012 and 0.110 in 2013.

**Analysis of Earning per share**

The profitability of the shareholders’ investment can also be measured in many other ways. One such measure is calculated earning per share. EPS calculations made over years indicate whether or not the form’s earning power on per share basis has changed over that period. The EPS of the company should be compared with the industry average and the earning per share of other firms. EPS simply shows the profitability of the firm on a per share basis; it does not reflect how much is paid as dividend and how much is retained in the business. But as a profitability index, it is a valuable and widely used ratio.

**Table -6: Earning per share**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Prime Bank** | **AB Bank** | **Bank Asia** | **MTB** | **BRAC Bank** | **South East Bank** |
| **2009** | 7.83 | 13.113 | 6.19 | 4.65 | 6.098 | 5.46 |
| **2010** | 5.69 | 10.030 | 4.59 | 3.04 | 5.05 | 3.77 |
| **2011** | 4.70 | 3.600 | 3.65 | 2.50 | 5.15 | 2.34 |
| **2012** | 2.88 | 2.890 | 1.31 | 1.21 | 1.14 | 1.90 |
| **2013** | 1.78 | 2.030 | 2.10 | 2.07 | 2.81 | 3.83 |

**Graph: Earning per share**

**Interpretation**

As per table-6, Earnings per share ( EPS ) of Prime Bank was 7.83 in 2009, 5.69 in 2010, 4.70 in 2011, 2.88 in 2012, 1.78 in 2013.

Earnings per share ( EPS ) of AB Bank was 13.113 in 2009, 10.030 in 2010, 3.60 in 2011, 2.890 in 2012, 2.030 in 2013.

Earnings per share ( EPS ) of Bank Asia was 6.19 in 2009, 4.59 in 2010, 3.65 in 2011, 1.31 in 2012, 2.10 in 2013.

Earnings per share ( EPS ) of MTB was 4.65 in 2009, 3.04 in 2010, 2.05 in 2011, 1.21 in 2012, 2.07 in 2013.

Earnings per share ( EPS ) of BRAC Bank was 6.098 in 2009, 5.05 in 2010, 5.15 in 2011, 1.14 in 2012, 2.81 in 2013.

Earnings per share ( EPS ) of South East Bank was 5.46 in 2009, 3.77 in 2010, 2.34 in 2011, 1.90 in 2012, 3.83 in 2013.

**It is showing that earnings per share (EPS) of all the banks decreasing from 2009 to till 2012. Then again EPS is increasing from 2013. It the effect of access investments of banks in capital market in the year 2009. Then the banks reduce their investment in capital market their EPS also decreased.**

**CHAPTER: 5**

**FINDING, RECOMMENDATIONS**

**AND**

**CONCLUSION**

**Findings:** Findings of the analysis are given below:

* From the analysis it is seen that Debt-Equity ratio of Prime bank is going high except 2012 and Debt-Capitalization is going down. At the same time its Solvency ratio, Interest coverage ratio, Capital Gearing ratio and EPS is also going down. All these indicate that the bank is depended on debt capital financing. The bank’s earning is related to situation of capital market.
* From the analysis it is seen that Debt-Equity ratio of AB bank is going up continuously except 2010 and Debt- Capitalization ratio and solvency ratio is also going up. But its Interest Coverage ratio, Capital Gearing ratio and EPS is going down. All these indicate that AB is increasing its Equity capital and decreasing its debt capital. It had a large investment in the capital market.
* From the analysis it is seen that Debt-Equity ratio, Capitalization ratio, Interest Coverage ratio and Solvency ratio of BANK ASIA is going high except 2011. Its Capital Gearing ratio is also going high except 2011 and 2013. But its EPS is going down except 2013. These indicate that the bank is depended on debt capital financing. The bank’s earning is related to situation of capital market.
* From the analysis it is seen that Debt-Equity ratio, Capitalization ratio of MTB is going high except 2010. But its Interest Coverage ratio, Solvency ratio, Capital Gearing ratio and EPS is going down except 2013. These indicate that the bank had dependence on debt but now it’s increasing Equity capital. The bank’s earning is related to situation of capital market.
* From the analysis it is seen that Debt-Equity ratio, Capitalization ratio and Solvency ratio of BRAC bank is going high except 2013. Its Interest Coverage ratio is going down except 2010. Capital Gearing ratio and EPS is going down except 2013. These indicate that BRAC Bank has too much dependence in debt financing. But it has also ability to repay the debt. Its financial position is being affected by situation of capital market.
* From the analysis it is seen that Debt-Equity ratio, Capitalization ratio and Solvency ratio of South East bank is going high except 2010. Interest Coverage ratio is going down except 2010 and 2013. Capital gearing ratio is going down except 2010. EPS is going down except 2013. These indicate that its dependence on debt financing is increasing.