International Journal on Economics, Finance and Sustainable Development (IJEFSD)

e-ISSN: 2620 – 6269
p-ISSN: 2615 - 4021

Volume: 6 Issue: 11 | November 2024

https://journals.researchparks.org/index.php/IJEFSD

Article

Analyzing the Impact of Capital Structure on Stock Returns: A Study of NEPSE-listed Companies

Jai Kumar Mahato

Lecturer, Faculty of Management, Tribhuvan University, MMAMC Campus Biratnagar, Nepal
* Correspondence: jaiaspire@gmail.com

Abstract: This study delves into the intricate relationship between capital structure and stock returns, focusing on companies listed on the "Nepal Stock Exchange" (NEPSE) during the period from 2016 to 2020. Capital structure, a critical facet of financial management, entails the strategic mix of equity and debt employed to fund a company's operations. The study aims to contribute valuable insights to managerial decision-making and policymaking by investigating the implications of various capital structures on stock returns.Financial managers are tasked with striking a delicate balance between potential gains and losses while formulating the optimal capital structure. Debt, often considered a cost-effective alternative to equity financing, presents additional benefits such as tax deductions. The complexity of this decision-making process lies in the profound impact that the chosen capital structure can have on the overall worth of the company. Drawing on secondary data derived from the financial filings of NEPSE-listed companies, this research employs correlation and regression analyses to unravel the intricate dynamics between capital structure and stock returns.

Keywords: Stock returns, Nepal Stock Exchange, Corporate Finance and Market Dynamics

1. Introduction

This dynamic relationship between a company's capital structure and its stock returns has been a topic of ongoing fascination and relevance in the landscape of financial markets, which is always shifting and evolving. When it comes to determining a company's overall financial health and performance, the capital structure, which is really the composition of a company's funding via a combination of stock and debt, is of the utmost importance. When both managers and policymakers are navigating the complex landscape of financial decision-making, it is essential for them to have a solid understanding of how the distribution of capital affects the returns on stock investments.

From the perspective of the **"Nepal Stock Exchange"** (NEPSE), the purpose of this research is to investigate the complex link that exists between capital structure and stock returns for businesses that are listed on this dynamic market(Adami et al., 2010). An exciting background for investigating how choices about financing affect the financial performance of businesses that fall within the scope of the NEPSE is provided by the NEPSE, which acts as an essential centre for trade and investment in Nepal.

Decisions regarding the capital structure require striking a delicate balance between stock and debt, and the goal of financial managers is to maximise the effectiveness of this combination in order to enable the firm to accomplish its operational goals (Bhandari, 1988). In addition to having an effect on the risk and return profile of the company, the decisions that are taken regarding the capital structure have repercussions for the shareholders and investors of the company. Concerns about risk tolerance, the cost of

Citation:. Jai Kumar Mahato. Analyzing the Impact of Capital Structure on Stock Returns: A Study of NEPSE-listed Companies. International Journal on Economics, Finance and Sustainable Development (IJEFSD) 2024, 6(11), 278-291.

Received: 10th Agt 2024
Revised: 11th Sep 2024
Accepted: 24th Oct 2024
Published: 27th Nov 2024

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capital, and the possible tax benefits connected with debt financing are taken into account when determining how to distribute financial resources.

When compared to equity financing, debt financing is sometimes considered to be a more cost-effective technique, including the additional benefit of tax deductions. This is because debt financing is an alternative to equity financing. Due to the fact that decision-makers are required to assess the advantages of tax shields against the possible hazards of financial leverage, striking the appropriate balance between these two components is a complex and difficult undertaking (Babalola, 2013). This research investigates the complex link that exists between various methods of funding and the influence that they have on the stock returns of firms that are listed on the NEPSE.

In light of the fact that several studies published in the worldwide financial literature have provided contradictory conclusions about the connection between capital structure and stock returns, it is of the utmost importance to contextualise these correlations within the framework of the dynamics that are specific to the firms that are listed on the NEPSE (Dimitrov & Jain, 2005). An in-depth examination of the Nepalese market is required because of the intricacy of this connection, which is influenced by a variety of factors like the size of the firm, the features of the industry, and the subtleties of the location.

In this study, correlation and regression analyses are used to find patterns and trends that provide light on the connection between capital structure decisions and stock returns. The research draws on well-established financial theories as well as actual data. In order to provide insights that may help guide policymakers in designing policies that are conducive to maximising stock returns for NEPSE-listed businesses, this research aims to contribute to the knowledge of these dynamics (Banchuenvijit, 2012). These insights can then be used to advise management choices. By conducting an investigation into the years 2016 to 2020, the purpose of this study is to provide a comprehensive comprehension of the ways in which choices regarding capital structure influence the financial performance of businesses that are functioning within the specific setting of the **"Nepal Stock Exchange"**.

Objectives of the study

1. To analyse the capital structure of certain firms listed on NEPSE.
2. To analyse the stock returns of certain firms listed on NEPSE.
3. To analyse the influence of capital structure on stock returns, choose specific firms

2. Materials and Methods

A ll of the information originated from "the Annual Balance Sheets of the businesses that were listed on the **"Nepal Stock Exchange"** between the years 2016 and 2020. This information was acquired from the firms. With the exclusion of organisations operating in the banking, insurance, and financial sectors, the study takes into account the largest twenty publicly traded companies based on their market value (Fama & French, 1992). The concepts of correlation and regression are used in the process of building an analytical model. Both the annual reports that were just recently made public and the website of the NEPSE were consulted in order to compile the yearly financial statistics and information of the companies. There is a theoretical connection between capital structure and stock returns, and the Regression Model is used in order to investigate this connection from a theoretical standpoint. For the purpose of carrying out the analysis, the statistical software known as SPSS was also used (Yang et al., 2010).

Regression model

$SRit = \beta 0 + \beta 1 LEV\ it \beta 2 SZit + \beta 3 PFit + \beta 4\ GWit + \beta 5\ LQit$

SRi_{it}= Stock Returns at time t

LEV_{it}= Leverage at time t

SZ_{it}= Size of Company at time t

PF_{it}= Profitability at time t

GW_{it}= Growth of Company at time t

LQ_{it}= Liquidity Ratio at time

Independent variables	Stock Return	(Stock Price$_{t}$-StockPrice$_{t-1}$) /Stock Price $_{t-1}$
Dependent Variables	Leverage	(Short Term Borrowing + Long Term Borrowing)/Total Assets
control variables	Liquidity	Current Assets/Current Liabilities
	Size	Log (Total Assets)
	Growth	(Total Assets $_{t}$ – Total Assets$_{t-1}$)/ Total Assets$_{t-1}$
	Profitability	Net Income /Average Total Assts.

3. Results

Table: 4.1 Descriptive Statistics

Descriptive Statistics	Stock Return	Capital Structure	Liquidity	Size	Growth	Profitability
Mean	0.156	0.589	2.058	2.937	2.764	-13.755
Standard Deviation	0.773	1.509	1.976	0.916	2.783	120.524
Minimum	-0.895	-3.83	0	0.663	-0.081	-1046.45
Maximum	4.905	5.95	11.11	5.326	17.762	31.56
Sum	15.862	58.87	205.67	293.551	276.184	-1375.86
Count	100	100	100	100	100	100

Table 4.1 describes the particular companies that have a mean value for stock returns of 0.156 and a standard deviation of 0.773 were chosen. Over the course of the time, the market had a range of stock returns, with the best being 4.905 and the lowest being -0.895 returns. A mean value of 0.589 and a standard deviation of 1.509 are characteristic of the capital structure. Between the two extremes, the capital structure ranges from -3.83 to 5.95. The mean value of the liquidity ratio is 2.058, and the standard deviation is 1.976 of the value (Haugen & Baker, 1996). There was a mean value of 2.937 for the size of a company, and the standard deviation was 0.916 throughout that range. 2.764 is the mean value of the Growth, while 2.7803 is the standard deviation of the Growth. The figure that is as high as 17.762 and as low as -0.081 is available. A mean value of -13.755 is associated with profitability, while the standard deviation is 120.524. When compared to the lowest value, which is 1046.45, the maximum value is 31.56."

Table: 4.2 Correlations in the year 2016 for select firms

		Stock Return	Capital Structure	Liquidity	Size	Growth	Profitability
Stock Return	Pearson Correlation	1	-.073	-.202	.349	-.092	.202
	Sig. (2-tailed)		.765	.395	.132	.697	.396
Capital Structure	Pearson Correlation	-.073	1	-.326	.423	-.018	-.283
	Sig. (2-tailed)	.765		.157	.063	.937	.225
Liquidity	Pearson Correlation	-.202	-.326	1	-.417	.044	-.114
	Sig. (2-tailed)	.395	.157		.067	.856	.629
Size	Pearson Correlation	.349	.423	-.417	1	-.006	-.059
	Sig. (2-tailed)	.132	.063	.067		.977	.805
Growth	Pearson Correlation	-.092	-.018	.044	-.006	1	.614**
	Sig. (2-tailed)	.697	.937	.856	.977		.003
Profitability	Pearson Correlation	.202	-.283	-.114	-.059	.614**	1
	Sig. (2-tailed)	.396	.225	.629	.805	.003	

*. Correlation is significant at the 0.05 level (2-tailed).

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

Table 4.2 shows the positive correlations exist between stock return and size, growth, and profitability; however, negative correlations exist between stock return with capital structure and liquidity. "The correlation between stock return and these factors is positive. The nature of the connection between the two is made abundantly evident by this detail. While there is a negative link between capital structure and liquidity and growth, there is a positive correlation between capital structure and other components for other variables. This is because capital structure is closely related to growth and liquidity (Hall & Weiss, 1967). There exists an inverse proportionate link between the size of a company, its growth, and its profitability. Growth and profitability have a positive connection, which is inversely proportional to one another.

Table: 4.3 Regression Results for year 2016

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.517[a]	.269	.0061	1.1732	.441	2.483

a. Predictors: (Constant), profitability, size, liquidity, capital structure, growth

b. Dependent Variable: stock return"

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.977	1.237		-0.786	0.445
	Capital Structure	-0.144	0.263	-0.154	-0.542	0.597
	Liquidity	-0.089	0.139	-0.016	-0.063	0.93
	Size	0.575	0.363	0.422	1.587	0.133
	Growth	-0.092	0.086	-0.327	-1.067	0.305
	Profitability	0.055	0.047	0.383	1.164	0.264

The empirical findings illustrate "the relationship between stock returns and capital structure of certain enterprises in the NEPSE. A regression study was conducted to examine the relationship between stock return and capital structure, along with other control variables. Table 4.3 displays the results of the regression analysis, revealing a model that accounts for about 26.9% of the variability in the endogenous variable. Furthermore, this suggests that there are other factors that account for the remaining 73.1% of the fluctuation in stock returns. The F statistic for stock return is 441. The study revealed that the magnitude of the corporation and its financial success had a substantial and favourable impact on the composition of its capital, as assessed by the returns on its stocks (Korteweg, 2004). It is crucial to acknowledge that the impact of capital structure, liquidity, and growth on stock return is negative, but not significant. Rejecting the null hypothesis is not feasible due to the P value of 2.483, which exceeds the significance level of 0.05. This indicates that there is insufficient evidence to reject the null hypothesis." Our analysis revealed that the capital structure of some corporations had little impact on the stock return of these companies for the whole duration of 2016.

"Table: 4.4 Correlations in the year 2017 for select firms

		Stock Return	Capital Structure	Liquidity	Size	Growth	Profitability
Stock Return	Pearson Correlation	1	-.146	-.083	-.084	.017	.356
	Sig. (2-tailed)		.538	.725	.729	.945	.124
Capital Structure	Pearson Correlation	-.146	1	-.377	.422	-.021	-.326
	Sig. (2-tailed)	.538		.097	.066	.936	.165
Liquidity	Pearson	-.083	-.377	1	-.525*	-.174	.087

	Correlation	.725	.097		.018	.466	.716
	Sig. (2-tailed)						
Size	Pearson Correlation	-.084	.422	-.525*	1	.041	.068
	Sig. (2-tailed)	.729	.066	.018		.869	.979
Growth	Pearson Correlation	.017	-.021	-.174	.041	1	.773**
	Sig. (2-tailed)	.945	.936	.466	.869		.001
Profitability	Pearson Correlation	.356	-.326	.087	.068	.773**	1
	Sig. (2-tailed)	.124	.165	.716	.979	.001	

The information shown in table 4.4 illustrates that "the capital structure, liquidity, and size of a firm have a negative link with stock return. On the other hand, growth and profitability have a positive correlation with stock return of a company. At the same time as there is a positive correlation between capital structure and size, there is a negative correlation between capital structure and liquidity, growth, and profitability. There is a negative correlation between a company's expansion and size and its liquidity, however there is a positive correlation between profitability and your company's liquidity (Khan et al., 2013). There is a positive correlation between increased size and growth, as well as profitability. There is a positive correlation between growth and profitability, and growth drives profitability."

Table: 4.5 Regression Results for year 2017

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig
1	.695[a]	.484	.296	.41491	2.605	.0723

a. Predictors: (Constant), profitability size, capital structure, liquidity, growth

b. Dependent Variable: stock return"

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.073	0.496		2.157	0.047
	Capital Structure	0.081	0.092	0.225	0.916	0.374
	Liquidity	-0.109	0.055	-0.504	-2.03	0.061
	Size	-0.226	0.137	-0.413	-1.645	0.124
	Growth	-0.162	0.056	-1.033	-2.895	0.011

Profitability	0.077	0.025	1.274	3.399	0.039

a. Dependent Variable: stock return

In the study that was carried out in "the year 2017, it was discovered that there is a correlation between the capital structure of chosen companies in the NEPSE and the stock returns of individuals in such companies. An analysis of the relationship between the measure of stock return and the measure of capital structure was carried out, and control variables were also included at various points along the process. It is clear that the model is responsible for about 48.4 percent of the variation in the endogenous variable, as shown by the presentation of the outcomes of the regression analysis in Table 4.5. The conclusion that can be drawn from this is that the remaining 51.6% of the volatility in stock returns is attributable to other causes. The F statistic for stock return is 2.605, which suggests that profitability has a significant positive effect on capital structure as measured by stock return (Masulis, 1983). This is the conclusion that can be drawn from the fact that the F statistic is 2.605. On the other side, liquidity, size, and growth all have a negative influence on stock return, but this impact is not very large as a whole. The null hypothesis cannot be rejected because the P value is.0723, which is more than 0.05. This indicates that there is insufficient evidence to contradict the null hypothesis, which is the reason why the null hypothesis cannot be rejected." The capital structure of the business in issue did not have a substantial impact on the stock returns of a number of companies for the whole of the year 2017.

"Table: 4.6 Correlations in the year 2017 for select firms

		Stock Return	**Capital Structure**	**Liquidity**	**Size**	**Growth**	**Profitability**
Stock Return	Pearson Correlation	1	-.173	-.341	.085	-.032	.122
	Sig. (2-tailed)		.468	.137	.727	.899	.604
Capital structure	Pearson Correlation	-.173	1	-.403	.345	-.036	-.331
	Sig. (2-tailed)	.468		.076	.138	.875	.153
Liquidity	Pearson Correlation	-.341	-.403	1	-.227	.625**	.587**
	Sig. (2-tailed)	.137	.076		.333	.004	.008
Size	Pearson Correlation	.085	.345	-.227	1	.172	.194
	Sig. (2-tailed)	.727	.138	.333		.464	.415
Growth	Pearson Correlation	-.032	-.036	.625**	.172	1	.781**
	Sig. (2-tailed)	.899	.875	.004	.464		.000
	Pearson	.122	-.331	.587**	.194	.781**	1

Profitability	Correlation	.604	.153	.008	.415	.000	
	Sig. (2-tailed)						

*. "Correlation is significant at the 0.05 level (2-tailed).

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

The data shown in table 4.6 reveals that the capital structure, liquidity, and growth of a business all have a negative link with stock return. On the other hand, the amount of money that the firm earns and its profitability have a positive correlation with stock return at the same time. In contrast, there is a negative link between capital structure and liquidity, growth, and profitability, among other characteristics. On the other hand, there is a positive relationship between size and capital structure itself. While there is a positive connection between growth and profitability and liquidity, there is a negative correlation between maturity and liquidity. Growth and profitability are both positively associated with liquidity (Pastor & Stambaugh, 2003). There is a positive correlation between the size of a company and its growth opportunities and profitability. One of the positive aspects of the connection between growth and profitability is that it is inverse.

Table: 4.7 Regression Results for year 2018

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.622[a]	.388	.165	.26431	1.753	.185

a. Predictors: (Constant), profitability, size, capital structure, liquidity, growth

b. Dependent Variable: stock return

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.487	0.266		1.827	0.088
	Capital Structure	-0.079	0.062	-0.374	-1.307	0.213
	Liquidity	-0.123	0.049	-0.862	-2.656	0.018
	Size	-0.028	0.084	-0.095	-0.367	0.719
	Growth	0.034	0.053	0.255	0.613	0.552
	Profitability	0.013	0.013	0.324	0.796	0.441

a. Dependent Variable: stock return"

In the year 2018, the study illustrates the empirical relationship that exists between the capital structure of chosen firms in the NEPSE and the stock returns of such companies. This link is shown when the research is conducted. Using the measure of stock return in combination with the measure of capital structure and control components, a regression analysis was carried out on the data. In Table 4.7, the results of the regression analysis are shown. "This table reveals that the model is responsible for about 38.8 percent of the variation in the endogenous variable. This leads one to the conclusion that other factors

are responsible for the remaining 61.2% of the volatility in stock returns. This is the conclusion that can be concluded from this. Stock return is represented by the F statistic, which has a value of 1.753. Growth and profitability have been shown to have a strong beneficial effect on capital structure, as measured by stock return, according to the research. On the other side, it has been established that the capital structure, liquidity, and size of a company all have a negative influence on the return received by the stock. The null hypothesis should not be rejected since the P value is.185, which is more than 0.05. This indicates that there is insufficient evidence to reject the null hypothesis; hence, the null hypothesis should not be rejected. Over the course of the year 2018, the capital structure of some firms did not have a significant impact on the stock return performance of such organisations.

Table: 4.8 Correlations in the year 2019 for select firms

		Stock Return	Capital Structure	Liquidity	Size	Growth	Profitability
Stock Return	Pearson Correlation	1	-.016	.118	-.319	-.174	.011
	Sig. (2-tailed)		.945	.626	.173	.463	.966
Capital Structure	Pearson Correlation	-.016	1	-.142	.154	.056	.266
	Sig. (2-tailed)	.945		.558	.514	.814	.258
Liquidity	Pearson Correlation	.118	-.142	1	-.142	.527*	.288
	Sig. (2-tailed)	.626	.558		.548	.017	.218
Size	Pearson Correlation	-.319	.154	-.142	1	.427	.422
	Sig. (2-tailed)	.173	.514	.548		.062	.067
Growth	Pearson Correlation	-.174	.056	.529*	.427	1	.421
	Sig. (2-tailed)	.463	.814	.017	.062		.064
Profitability	Pearson Correlation	.011	.266	.288	.422	.421	1
	Sig. (2-tailed)	.966	.258	.218	.067	.064	

*. Correlation is significant at the 0.05 level (2-tailed).

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

The data found in table 4.8. The data indicate that there is a negative association between stock return with capital structure, size, and growth. On the other hand, there is a positive correlation between stock return and liquidity and profitability. Another factor that is associated with growth is the capital structure. While there is a positive link between

capital structure and size, growth, and profitability, there is a negative correlation between capital structure and liquidity characteristics. Nevertheless, there is a positive relationship between each of these factors. On the other hand, there is a negative link between maturity and liquidity than there is between growth and profitability and liquidity. Growth and profitability are positively correlated with liquidity. There is a positive correlation between the size of a company and its growth as well as the levels of profitability it achieves (Strong & Xu, 1997). There is a positive correlation between growth and profitability, which is an inverse connection.

"Table: 4.9 Regression Results for year 2019

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.377[a]	.145	-.164	.781	.468	.795

a. Predictors: (Constant), profitability, size, capital structure, liquidity, growth

b. Dependent Variable: stock return"

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.316	0.817		1.608	0.14
	Capital Structure	0.005	0.096	0.013	0.043	0.967
	Liquidity	0.063	0.168	0.125	0.354	0.727
	Size	-0.222	0.255	-0.293	-0.869	0.398
	Growth	-0.072	0.138	-0.17	-0.53	0.612
	Profitability	0.002	0.003	0.173	0.562	0.582

a. Dependent Variable: stock return

According to the results of "the study that was carried out in the year 2019, the return on stock capital was regressed against capital structure in addition to control variables. A demonstration of the model's ability to account for about 14.5% of the variability in the endogenous variable is shown in Table 4.9, which contains the results of the regression analysis. It is possible to reach the conclusion that other factors are responsible for the remaining 85.5% of the volatility in stock returns. This is the conclusion that can be derived from this. When it comes to stock return, the value of the F statistic is 468 units. The liquidity of the capital structure and profitability were shown to have a strong positive effect on the capital structure as measured by stock return. On the other hand, the size of the company and its growth were found to have a negative impact on stock return. That the P value is.795 and that it is more than 0.05 demonstrates that there is insufficient evidence to reject the null hypothesis; hence, the null hypothesis should not be rejected since it is not supported by sufficient evidence". To a certain extent, the capital structure of some organisations does not have a significant impact on the stock return of such corporations throughout the 2019 fiscal year.

"Table: 4.10 Correlations in the year 2020 for select firms

		Stock Return	Capital Structure	Liquidity	Size	Growth	Profitability
Stock Return	Pearson Correlation	1	.363	-.107	.097	.258	.098
	Sig. (2-tailed)		.118	.656	.676	.273	.684
Capital Structure	Pearson Correlation	.363	1	-.111	.387	.161	.187
	Sig. (2-tailed)	.118		.645	.093	.502	.426
Liquidity	Pearson Correlation	-.107	-.111	1	.088	.376	.263
	Sig. (2-tailed)	.656	.645		.709	.103	.262
Size	Pearson Correlation	.097	.387	.088	1	.244	.532*
	Sig. (2-tailed)	.676	.093	.709		.303	.017
Growth	Pearson Correlation	.258	.161	.376	.244	1	.374
	Sig. (2-tailed)	.273	.502	.103	.303		.107
Profitability	Pearson Correlation	.098	.187	.263	.532*	.374	1
	Sig. (2-tailed)	.684	.426	.262	.017	.107	

*. Correlation is significant at the 0.05 level (2-tailed).

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

According to the data that is shown in table 4.10. However, the data indicate that capital structure, size, growth, and profitability all have a positive relationship with stock return. Liquidity, on the other hand, has a negative association with stock return." There is a positive link between capital structure and the variables of size, growth, and profitability; nevertheless, there is a negative correlation between capital structure and liquidity. There exists a positive correlation between the size, growth, and profitability of a firm and its liquidity (Saliha & Abdessatar, 2011). This link is very beneficial. It has been shown that growth, profitability, and size all have a positive correlation with one another. Growing a business is directly related to increasing its profitability.

"Table: 4.11 Regression Results for year 2020

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.454[a]	.207	-.081	.474	.723	.617

a. Predictors: (Constant), profitability, size, capital structure, liquidity, growth"

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.083	0.456		0.182	0.85
	Capital Structure	0.099	0.077	0.328	1.246	0.232
	Liquidity	-0.047	0.071	-0.174	-0.656	0.523
	Size	-0.041	0.135	-0.095	-0.324	0.753
	Growth	0.093	0.092	0.284	1.043	0.314
	Profitability	5.123	0.002	0.025	0.087	0.932

a. Dependent Variable: stock return

In the study that was carried out in the year 2020, the link between stock return and capital structure was investigated, and control considerations were also taken into consideration. It can be seen from the results of the regression analysis, which are shown in Table 4.11, that the model is responsible for about 20.7% of the variability in the endogenous variable. The fact that this is the case suggests that other factors are responsible for the remaining 79.3 percent of the volatility in stock returns. 0.723 is the value of the F statistic for stock return. Based on the findings of the research, it was discovered that capital structure, growth, and profitability have a substantial impact on capital structure with regard to stock return. On top of that, it was discovered that both liquidity and size had a negative impact on the return on stock investments. The significance threshold is set at 0.05, and the p-value is 0.617, which is higher than that. There is a lack of substantial evidence that supports the null hypothesis; hence, the null hypothesis cannot be dismissed from consideration (Shepherd, 1972). At the end of the year 2020, the capital structure of certain companies does not have any impact on the stock return of such companies.

4. Conclusion

In conclusion, the purpose of this research was to conduct an in-depth investigation of the factors that influence the link between capital structure and stock returns among firms that are listed on the "Nepal Stock Exchange" (NEPSE) between the years 2016 and 2020. These results provide light on crucial concepts that have substantial consequences for those who manage financial resources, those who make policy decisions, and those who invest.

The study sheds light on the significant part that capital structure plays in determining the profits on stock investments. One of the most important aspects that managers need to successfully negotiate is the delicate balance that exists between equity and debt within the framework of a company's financial structure. According to the findings of the research, the widely held belief that debt, which is a more cost-effective

method of financing than equity, may lead to increased stock returns, in part due to the benefit of tax deductions, is supported by the findings of the study.

Specifically, the study reveals a complex environment in which the influence of capital structure on stock returns is multifarious. This is an important finding. Even though there is a positive connection between stock returns and profitability and growth, there is a negative association between stock returns and the size of the firm. The implication of this is that a capital structure strategy that is universally applicable may not be relevant at all, and that financial choices have to be adjusted to the particular features and requirements of each individual business.

In addition, the research places an emphasis on the global aspect of this connection, recognising the impact that variables such as the dynamics of the sector, geographical location, and other contextual considerations have on the optimum capital structure. It highlights the need for managers and policymakers to adopt a holistic approach, taking into consideration the specific conditions that may influence the choices that were made regarding funding for firms that are listed on the NEPSE.

Furthermore, the study is consistent with the existing body of literature, drawing similarities with other studies that have investigated the complex relationship that exists between capital structure and stock returns of various companies. The contradictory findings that have been found in the study literature highlight the intricacy of this connection and highlight the significance of taking into consideration a variety of aspects, such as the methodology used and the variances in the samples, when interpreting the results of investigation.

Taking into consideration the various results, this research makes a significant contribution to the body of knowledge that may direct management decision-making. Using these insights, financial managers are able to make educated decisions about the composition of their company's capital structure, with the goal of maximising stock returns while simultaneously minimising possible risks. This study may also be useful to policymakers in the process of establishing measures that support the development of a favourable financial environment for firms that are listed on the NEPSE.

In conclusion, the research contributes to the existing body of information on the complex dynamics that exist between capital structure and stock returns, making it an important resource for both academics and practitioners. It presents practical implications that may guide financial strategies and policies in the context of NEPSE-listed firms, and it provides a framework for future research that can be used to guide such plans and policies.

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