

A Study of Mutual Fund Investors' Expectations and Investment Decisions—An Indian Evidence

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Abstract—Mutual funds in India have become an increasingly important investment vehicle for individual investors. The number of funds operating in the country and the schemes offered by them backed by stringent monitoring have increased manifold. Unfortunately, the growth in mutual fund assets has not been paralleled by an ensuing focus on the factors which influence mutual fund investor's decision making. The economic slowdown and declining stock market has further led to a progressive deterioration of the investment scenario. Against this background, a sincere attempt has been made in this paper to identify the fund expectations of an investor. This study also provides a set of pragmatic results that shed new light on the role of investor expectations in individuals' investment behaviour. Overall this study aims to improve our understanding of how individuals make their investment decisions with the help of a survey. Preliminary analysis of the survey shows investors' investment decisions are directly affected by their expectations. Based on the findings of the study, the implications for mutual fund companies are also discussed.

Keywords: Mutual Funds, Investment, Investors, Expectations, Decisions

Applicability of Black Scholes Model in Indian Capital Markets

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Abstract—The pricing of options is one of the most complex areas of applied finance and has been a subject of extensive study. Model based pricing started in the 1970s with the seminal work of Black-Scholes-Merton. In India, option trading was formalised in mid 2000. This paper examines if the Black-Scholes model is a good descriptor of option pricing in the Indian context. Literature review shows that empirical study of Black Scholes model has been conducted on various stock exchanges across the world with mixed findings in terms of its applicability. Modifications in the basic model have also been suggested.

The research involves an empirical study conducted on 10 most active stocks (of National Stock Exchange) of 2010-11. The sample for the study involved call options during the 2-year period from 24th December, 2009 to 23rd December, 2011. The entire data set has been divided into 9 blocks with moneyness and time to maturity as filters. Then Black Scholes model has been operationalised using Historical volatility. A comparison of this theoretical price to the market price is done using t-test.

The results highlight that call option pricing with B-S model involves a significant degree of mispricing. The deviation from the market price follows a pattern with respect to moneyness and time to maturity of the option.

Understanding the intricacies of this pricing and the trends therein is absolutely essential for anyone associated with options trading. This work will contribute to the options market literature; especially for an emerging market. It will also be pertinent for academicians, market practitioners and financial regulators.

Keywords: Black Scholes Model, BSE, option pricing, moneyness, time to maturity

Transmission of Monetary Policy in a Globalised World—A Case of India

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Abstract—After the hyperinflationary era of the 1970s, policymakers worldwide have progressively recognized the importance of a sound institutional framework for macroeconomic performance, in particular the role of central bank in achieving and maintaining price stability. In case of India, there have been significant changes in the structure, formation and environment in which monetary policy operates, since 1991.

The global credit crisis of 2007-2008 should be treated as an opportunity, which adds more value to the transmission of monetary policy in this globalised world. In a nutshell, the slowdown in the US housing market, coupled with a mix of troubled banking practices, regulatory blind spots, and absolute faith in the market mechanism, led to a financial crisis in advanced economies. The globalization of financial services allowed the stress in the advanced countries credit and financial markets to spread to the rest of the globe very swiftly, in turn engulfing the entire world economy.

Globally, the task for the central bank policy makers has become tougher to safeguard interest of domestic economy without hurting interest of global players who plays key role in domestic economy in this globalised world. However, for a central bank with a dual mandate of price stability and maintaining stable economic growth, it might be very difficult to adhere to the limits of what it can do-or rather not do

This paper has intention to discuss the changes seen in RBI's monetary policy during last decades with reference to the rapid growing space of globalization, rising global imbalances and crisis.

The paper will verify the significance of single objective monetary policy with multiple objectives through inputs from advanced country's monetary policies.

The paper is an attempt to check whether, RBI has been burdened with managing objectives which has overlapping consequences like price stability and growth. The paper will cross check global landscape on this ground before final remarks/ solutions.

Keywords: monetary policy, inflation, crisis, transmission, growth.

Credit Appraisal, Risk Analysis & Decision Making using IRB

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Abstract—This paper describes the method of building evolutionary default prediction model for “Gems & Jewellery Industry” using logistic regression. Logistic regression has fewer assumptions as compared to conventional method of model building using multidiscriminant analysis and hence logistic regression can be applied to our data set which would provide reliable results.

Need of the Project

The project was meant to provide improvements in default prediction accuracy and better risk management by trying to explain and ways to remove certain fallacies that banks inadvertently make while implementing risk management policies & procedures. This project also highlights the demerits of adopting standardized approach (of Basel II) by banks and suggests the need for IRB approach for credit appraisal.

Objective

There are three main objectives of this report:

- To explain the process of making evolutionary default prediction model using logistic regression technique
- To explain the proposition that single generic rating model (like ICRA Rating Model) cannot be used to rate firms of different industries (in other words, standardized approach is not a suitable method for credit appraisal of firms belonging to different industries)
- To justify the proposition that MSMEs should be given different level of treatment as compared to their larger counterparts because of different credit risks associated with each group

Methodology

The empirical work of this report is limited to the data collected from Bank of India, Seepz Branch. A total of 99 financials are analyzed and used to make default prediction model using logistic regression. To cater to second and third objective of study, results of logistics regression & Basel II framework is used. Softwares used to accomplish data analysis were SPSS 17.0 and Microsoft Excel.

Results, Conclusions & Recommendations

Firstly, a default prediction model was created for “Gems & Jewellery Industry”. This model tries to eliminate some of the drawbacks that conventional model (i.e. ICRA rating model) of “Bank of India” has. For example, Gems & Jewellery firms, because of their high working capital intensity would tend to have high WC/TA ratio. Hence, inclusion of WC(working capital)/TA(Total Assets) to estimate credit rating would be wrong as it would give very optimistic estimate of probability of default. This can be eliminated by non-inclusion of working capital in this predictive model made through logistic regression.

Secondly, treating G & J firms like large corporate leads to higher capital requirements. This paper confirms, to some extent that small and medium sized enterprises are significantly different from large corporate from a credit risk point of view. Hence minimum capital requirements can be reduced by adopting Advance IRB approach that can have its input from evolutionary model built using logistic regression.

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A Study of Ownership Structure and Value of the Firm

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Abstract—The Corporate Governance model that is very popularly adopted in India is based on Anglo-American models. While adopting the present model of Corporate Governance there was discussions over its suitability for a country like India. The reason being, the structure of Corporations in western economies is completely different from the structure of Companies in India, and these differences interest all stakeholders and researchers.

One such important issue is the shareholding pattern and ownership structure in Indian companies. In India (whether it is public sector company, multinational or the private sector), the ownership structure is dominated by promoters and other insiders where as individuals are the minority shareholders. This structure raises many doubts such as, is the interest of the minority shareholders and interest of the firm as a whole is protected? Are the decisions taken by the management and board (who also happen to be the majority shareholders) always to increase the value of the firm? Does the capital market give any incentives to companies who have lesser promoter shareholding and more percentage of free float? Is there any relationship between key market and accounting performance indicators of the firm (EPS, P/E ratio, ROA, ROE etc) with the shareholding pattern of the firms?

Objective of the Paper

This paper aims to address the relationship between the shareholding pattern and performance of the firm. The paper will therefore attempt to: study the shareholding pattern of selected sample size study the percentage of free float and restricted shares in these companies analyze the relationship between market performance indicators and shareholding pattern, analyze the relationship between the accounting performance indicators and shareholding pattern offer appropriate findings with respect to above objectives by application of statistical tools.

Research Design and Methodology

The sample will be drawn from the BSE (30 listed companies). A comprehensive analysis of the shareholding pattern of these companies will be conducted and findings will be provided. Appropriate statistical tools (standard deviation, mean, chi-square test and correlation) will be conducted to arrive at appropriate conclusion.

The shareholding pattern and other details like market based ratios will be gathered from a detailed study of the annual reports of the companies as well as other literature available.

Keywords: Corporate Governance, Valuation of firm, Performance measurement, Shareholding pattern, Market based ratios.

Financialization: In Search of a New Normal

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Abstract—The global financial crisis starkly revealed the punishing downside of Financialization. It also highlighted its role in boom-bust cycles as asset prices wielded a secularly increasing dominance over real economy and influenced policy thinking as well as household and corporate behavior. This paper highlights the broad contours of financialization and their evolution over last few decades. It also examines the role of financialization in exacerbating turbulence in financial markets.

Following the advent of Anglo Saxon capitalism, financial superstructure of advanced economies kept on rising in relation to the stagnant production system underlying it. Empirical evidence explains how more and more economic activity was geared not to production but to the pursuit of paper claims to wealth. The tipping point came in 2007-08 as this engrossing wave of financialization finally overwhelmed the global financial system and led to an inevitable collapse in asset markets across the board.

Evolving global macroeconomic structure and the inevitable transfer of wealth and resources from advanced economies to emerging Asia indicate that financialization in these economies is likely to be the single most critical factor determining longer term growth prospects for the entire globe. The paper argues that given the experience of last three years, it is clear that the process of household and business deleveraging in advanced economies is likely to continue well into the current decade.

This means that prospects of a heightened credit filled boom in emerging economies, particularly Asia over next few years are very high and its sustainability would depend upon how financialization improvises itself after debacle of 2008. The demographics and low consumption levels in these countries could complicate such booms further. The paper sums up how financialization needs to evolve in a new normal in light of experiences in last few years and avoid previous policy mishaps.

Keywords: Financialization, world economy, crisis, emerging economies, banking

Loan Portfolio Risk Prediction using Mont-Carlo Method (Case Study)

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Abstract—Nowadays models of the credit risk of loan portfolios are of great importance. This paper presents a method to calculate credit risk of portfolio. A value-at-risk (VaR) measure is constructed using individual default risk estimates.

In this paper credit risk of a bank's corporate loan portfolio is measured. Firms from 5 different business sectors namely, Agriculture, Manufacturing and mining, Construction and housing, Exports, Trade services and miscellaneous selected. Credit loss distributions of each business sector are used in a Monte Carlo simulation process to generate the loss distribution of the portfolios. Required data is supplied by a major Iranian bank. Data is provided on a monthly basis, over a 36-month period, comprising corporate loans and defaults across values sectors. 1,500 times of Monte Carlo simulation generated a nicely shaped distribution. Simulation Results provide the expected sectoral default rates which in turn are multiplied by the expected sectoral default rates matrix to obtain the total amount of the bank's credit risk and capital requirement.

Keyword: IRB approach, Risk management, Default rate, Credit risk, Value at Risk

Relation of Various Macro-Economic Variables with the Exchange Rate

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Abstract—As the global economy converges financially, exchange rate management assumes a crucial role in the macro-economic policy of any country. In the aftermath of the Bretton Woods system, countries have adopted a floating exchange rate regime. But some countries like India, have adopted a managed floating exchange rate regime, which involves the intervention of the Central Bank in managing the exchange rate.

The study analyzes the relation of various macro-economic variables with the exchange rate. It seeks to determine the effectiveness of intervention by the Reserve Bank of India in the USD-INR market using the Generalized Auto Regressive Conditional Heteroskedasticity (GARCH) and GARCH-in-Mean (GARCH-M) models. The daily data is categorized from 1st August, 2001 to 31st May, 2007 and 1st June, 2007 to 31st August, 2011. This categorization has been made to study the turbulence post subprime crisis. The monthly data is from August 2001 to August 2011.

The GARCH model (daily) shows that intervention has an increasing impact on volatility and more significantly post subprime crisis. The GARCH model (monthly) shows that intervention has a decreasing impact on volatility though very insignificantly. The GARCH-M model (daily) shows that intervention has a significant increasing impact on volatility. The GARCH-M model (monthly) shows that intervention has an increasing impact on volatility, though insignificantly.

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Analysis of Tracking Economic Impact on Gold Market in India

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Abstract—Gold's appeal as an inflation hedge has been one of the primary reasons for the rise in prices in many instances in history. Gold is no doubt a preferred asset during times when investors fear sustainable inflation to erode their wealth; the reverse scenario, particularly in the presence of a strong equity market, renders gold less attractive to investors. However, the relationship between inflation and gold prices has been historically unsystematic. The economy has been under pressure for quite some time, and gold has performed very well in the past few years. Showing stability when all other financial assets seemed to be falling, gold was the go to option for many investors. Physical gold has traditionally been one of the best assets to own because it has been prized by many societies throughout the ages. While gold is commonly used in jewelry making and other industries, it has made a mark on the investment world in the past few years. This study investigates the nature of the causal relationships between gold demand and the key macro economic variables representing real and financial sector of the Indian economy. People use various economic indicators to make economic decisions that influence their wealth. It is critical to use accurate economic indicators of the conditions that influence wealth. An ounce of gold today is the same as an ounce of gold yesterday. Remember, it is not the dollar price that makes gold a measure. Using both static and dynamic analysis this study examined to what extent there is a relationship between economic variables and gold.

Keywords: gold, inflation, economic variables, interest rate, consumption, deflation

Eurozone Crisis: Does It Made or Marred BFSI Stocks

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Abstract—Economic crisis mostly bring enormous disaster not only in the economy where it is born but also the other economies of the globe by assuming a contagious effect. Once such recently seen crisis was the global economic crisis and now another we are witnessing is the Eurozone crisis. The crisis triggered from combination of complex factors such as the globalization of finance, easy credit conditions during the 2002-2008 period that resulted into high risk lending and borrowing practices, international trade imbalances, real estate bubbles that have since burst, slow economic growth etc.

Any financial or economic crisis certainly exert a tremendous impact on stock performance as there exists an inter-relation between the crisis and the stocks represented by various sectors. In this paper, we intend to study the performance of BFSI stocks. To put in a broader way, this paper will analyze the performance of BFSI stocks by taking the stock performance of various banks, insurance companies and asset management companies. The purpose of this analysis is to come out with an opinion that whether investment in BFSI stocks post Eurozone crisis will improve or harm the financial health of an investor. The tools that will be used to conduct the analysis are: standard deviation, extrapolation and necessary financial tools.

Keywords: Eurozone crisis; Impact on banking stocks; Impact on insurance stocks; Impact on AMCs/Mutual Fund stocks

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Performance of Indian Banking Sector Post Economic Crisis

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Abstract—The paper provides us the information about the structure of Indian Banking Sector and aims to analyze the performance of Indian Banking Sector, including Commercial and Corporate Banks, post economic crisis, covering the period 2009-2010. The paper attempts to shed some light on the important factors, like change in base rate which has affected Indian Banking Sector post economic crisis. This impact on Indian Banking Sector caused big corporate to spend more as compared to their interest payment expenditure when sub-base rate exists. Biggest gainers will be small and medium firms who were getting raw deal earlier from banks. So, this paper also checks how the loan interest rates will change with a change in base rates. The actual lending rate charged to borrowers would be the base rate plus borrower-specific charges including operating costs. The new base rate system is intended to allow cuts in interest rates by banks to be passed on to all customers rather than a few large corporate clients. This paper would also check the impact of saving rate deregulation on the performance of Indian Banking Sector. The impact of increase in saving rate on return on equity has also been studied in the paper.

Keywords: Banking, Base Rate, Saving rate deregulation

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Financial Sector Reforms and Productivity of Indian Banking Sector: An Assessment

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Abstract—A sound financial system is a pre-requisite of economic development of a country because it helps in mobilizing the funds and channelizing the savings into investments. More is the channelization of funds, economic development is bound to be more. A financial system composed of different types of institutions, like commercial banks, NBFCs, mutual funds, insurance and development financial institutions, but among these commercial banks are the one which plays a pivotal role for the economic development of a country. Although, Indian banking sector

started evolving since independence but it witnessed a revolutionary change in July 1969 with the nationalization of 14 major commercial banks and 6 others in April 1980. Apart from this, the Indian Banking Sector witnessed another structural change with the wave of globalization and liberalization, since 1991. The liberalization process brought several structural changes in the financial sector and therefore the banking sector cannot remain in isolation. Before 1991, the Indian banking sector was living in a protected era and enjoying a lower degree of competition, but the scenario changed drastically thereafter and degree of competition had increased very much, in fact it is increasing day by day. To survive in such a competitive environment one has to be competitive and this is applicable to the banking sector as well. The present study intends to assess the efficiency of Indian banking sector, especially in the post-liberalization era. Here entire banking sector has been classified into public sector banks, private sector banks and foreign banks, and a comparative study has been performed to analyze the efficiency/productivity of these categories of banks. Advantage of categorizing the entire banking sector into three different categories is that, it gives a clear picture about the productivity of a particular category which in-turn helps in understanding the functioning of as well as helps in policy formulations for banks. Apart from comparative analysis of different parameters, econometric technique has also been used to analyze the efficiency of the banking sectors. The findings show that overall the efficiency of the Indian banking sector has improved over the period of time but not in the same fashion for all the categories of banks.

Keywords: Banking Sector, Financial Liberalization, Productivity

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Value Creation and Distribution by Service Sector Companies

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Abstract—The paper explores the quantum of value created by service sector companies and how this value is distributed amongst the companies' stakeholders. Service sector companies are chosen as the object of study because of their large and growing share in the gross domestic product (GDP) of the economy.

The objective of the paper is to measure how equitable, or inequitable, are the service sector companies in the distribution of value created by them. Another objective is to observe the differences, if any, amongst companies belonging to different industries within the service sector. Value creation is measured by calculating the excess of revenue earned by the company over its brought out materials. The distribution of value is studied preparing value added statements. Although, some experts have been writing obituaries of the value added statement, it is very much alive as seen by the great number of companies who voluntarily disclose such information in their annual reports.

The object for the study comprises the population of service sector companies listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). These companies are engaged in business as diverse as in media and entertainment, retail, computer software, and telecommunications. The source of data is the annual report published by these companies in compliance with the requirements of the Companies Act, 1956, and their listing agreement with the stock exchanges. The methodology includes normalizing the financial data presented by the target companies and applying statistical techniques such as analysis of variances (ANOVA). The hypotheses will be tested using inferential statistics.

The study aims at making a contribution to knowledge about service sector companies, the value created by them and more importantly how this value is distributed amongst their shareholders.

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An Investigation into Acceptance of E-Tax Return Filing in India

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Abstract—Purpose: Information communication technology is being integrated to deliver better and more efficient services under various e-governance initiatives worldwide. Filing tax-return online is one such remarkable initiative. However, less than one percent individual tax-payers utilize this facility in filing their return. The purpose of this paper is to empirically investigate the key factors that determine tax-payers attitude in adoption of such information system.

Research Methodology/Approach: The survey was administered over 108 tax-payers, selected randomly from National Capital Region of Delhi. A close ended structured questionnaire was developed to collect the primary data from the respondents. The study employed Factor Analysis and Multiple Regression Model to test the stated hypothesis.

Key Findings

The reliability of the data was checked by using Cronbach's alpha which demonstrated an alpha value over 0.8 in case of all the constructs. An exploratory factor analysis was conducted to identify key variables that influence the adoption of this information system. The Kaiser- Meyer- Olkin (KMO) measures of sampling adequacy indicated a practical level of common variance of 0.833 and identified seven major factor categories. The relative order of preference of predictive factor over the acceptance of tax return filing was found statistically significant in case of Perceived Ease of Use (β 0.47), Perceived Usefulness (β .278), Perceived Credibility (β .246) and Computer Awareness (β .161). The value of Perceived Social Pressure (β .038), Perceived Cost (β .052) and Perceived Risk (β 0.31) was found insignificant in determining the acceptance of e-tax return filing among the respondents.

Managerial Implications

The study provides a conceptual and theoretical framework to identify, analyze and understand various issues which affect the acceptance of e-tax return filing in India. The parsimonious nature of this study is useful to develop suitable mechanism to improve the adoption of this information system significantly. It also provides input to tax authorities, software developer, tax- payers and others who got an interest on this issue to develop appropriate strategic framework to sensitize the adoption of this information system.

Keywords: E-Tax Return Filing, Factor Analysis, Perceived Ease of Use, Perceived Credibility

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Managerial Efficiency as a Key Driver towards the Profitability of Indian Commercial Banks—An Assessment in Turbulent Time

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Abstract—In the present dynamic global environment; banking sector has faced various downturns right from liberalization to globalization and recent recession. Four trends have changed the banking industry world over, viz. Consolidation of players through mergers and acquisitions, Globalization of operations, Development of new technology and Universalisation of banking. This paper tends to evaluate the impact of managerial efficiency as a key driver has towards the profitability of the commercial banks in such a scenario. Profitability is considered as an indicator of efficiency of banks. In the present paper we are trying to find out the relationship between the Managerial Efficiency and various Human resources Management aspects having its impact on the profitability of Indian commercial banks.

Non probabilistic sampling technique has been applied for taking a sample of 15 commercial banks, 5 each in public sector, private sector and foreign sector banks operating in India on the basis of their business mix (Deposit and Advances) for the year 2011. The profitability variables, rationalization of employees cost and Reduction in operating cost are found to have a good impact on the managerial efficiency of employees in banks. Profitability has been evaluated on the basis of selected ratios. Both the qualitative and quantitative aspects are considered. The in-depth interview of selected bank managers has been conducted with the help of structured questionnaire. Further we are trying to build up a model relating various aspects of profitability, managerial efficiency and ultimately the human resources management practices that can lead Indian banks towards effectiveness in dynamic scenario.

Keywords: Managerial efficiency, Profitability, rationalization of employees cost, commercial banks

Analysis of Cashflow Statement—Use in Banking Industry for Appraisal of Loans and Advances

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Abstract—The contribution of banking industry in Indian economy is huge and growing. The Government policies encouraging financial inclusion and growth in technology in banking are expected to be the major drivers of this growth. This growth will be manifested in growth in deposits as well as in loans & advances.

The main source of revenue of banks is Interest Income on loans and advances and the main assets of the banks are loans & advances. The RBI regulation requires strict monitoring of “Income Recognition and Asset Classification.”

While granting the loans and advances to various borrowers, banks scrutinize all relevant documents and information. The parameters related to loan (including restructuring of loans) i.e. amount, period of lending and other terms and conditions are also decided based upon this scrutiny. Almost all banks have standard procedure for this.

The bank scrutinizes financial statements and financial information of its customers before lending. The scrutiny includes verification of Income Statement and Balance Sheet, Cash flow Statement and relevant financial data.

This article attempts to analyse the present practices related to loan appraisal and addresses how to make the best use of analysis of cash flow statement in appraising and monitoring the loans & advances. We have explored the way this analysis should be done, various techniques of analysis of cash flow statement, unusual trend analysis and related banking guidelines. We have suggested classification of borrowers into risk classes based on cash flows. This will be helpful in final evaluation of borrower’s capacity to repay loan over a project period and in improving the process of appraisal related to loans & advances.

Keywords: Banking, Appraisal, Cash-flow statement analysis, Risk classification of borrowers.

Foreign Exchange Exposure of the Indian Listed Non-Financial Companies & Impact of Introduction of Currency Derivatives on It

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Abstract—In recent years, foreign trade has grown at a pace greater than that of the world economy, a trend that is likely to continue. Exports during August 2010 were US \$ 16644 million which was 22.5 per cent higher in Dollar terms than the level of US \$ 13586 million during August 2009. Imports during August 2010 were US \$ 29679 million representing a growth of 32.2 per cent in Dollar terms over the level of imports valued at US \$ 22449 million in August 2009. During the same period, however, the nominal effective exchange rate (NEER) of the Indian Rupee registered an increase of 6.06%. It is a well known fact that risks and rewards go hand-in-hand. This globalization has thus resulted in companies facing some additional risks like currency risks. It is thus essential for companies to manage their exposure to such risks and prevent themselves and their shareholders from any unanticipated losses.

This paper aims to study the extent of foreign exchange exposure of the non-financial companies listed on the National Stock Exchange (NSE) and determine the impact of the introduction of the currency derivatives by NSE on the exposures of these companies. A sample of 50 non-financial companies listed on the NSE was examined for a period of 8 years from August 2002 to May 2010. This period was divided into four sub-periods of two years each. Financial companies were excluded from the study as it would be difficult to establish homogeneity between financial and non-financial companies in terms of their international transactions, exports and imports etc. all of which are necessary variables in establishing their level of exposure to exchange risk.

The level of exposure was obtained from time-series regressions between monthly returns on shares of the companies as dependent variable and monthly returns on the Nifty50 and the NEER change of the Indian Rupee as independent variables. The exposure was estimated for each of the sub-periods in case of each company of the sample in order to determine any significant changes in its exposure over a reasonable span of time. Also, the exposure coefficients before and after the introduction of currency derivatives on the NSE were compared using the paired sample t-test to determine whether the exposure of the companies has undergone any significant changes as a result of the introduction and utilization of these instruments by the companies.

The results indicate that the introduction of currency derivatives has not brought about any significant changes in the foreign exchange exposures of the companies in the sample. This indicates that these non-financial companies are able to hedge their exposures probably by various techniques other than derivatives and thus pave the way for further investigation in this field.

Keywords: Foreign exchange exposure, hedging, currency derivatives

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Performance Analysis of Indian Banks Post Basel-II Implementation: With Special Reference to Credit Risk Management

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Abstract—Indian banking industry has undergone tremendous changes since the implementation of Basel I & II framework in strengthening the financial system. In response to this, commercial banks have universally embarked upon an upgrading of their risk management and control systems. Among all, Credit risk is intrinsic in banking which emanates from banks dealings with an individual, corporate, bank, financial institution and sovereign. The up gradation in the credit risk management has a significant impact on the performance of Indian banks. The implementation of Basel II has provided the Indian banks the opportunity to significantly reduce their credit risk weights and their required regulatory capital, if they suitably adjust their portfolio by lending to rated but strong corporate, increase their retail lending and provide mortgage under loans with higher margins.

The present paper is designed to study the impact of the credit risk management practices on the performance of Indian Banks in terms of profitability, Return on Assets, NPA, capital adequacy and credit deposit ratios. The research is an attempt to examine and identify the credit risk management framework of those banks which can be benchmarked in pursuance to Basel Accords. The research study is both exploratory and descriptive in nature comprising the scheduled commercial banks in India. To achieve the objectives of the study research would resort to sampling techniques and accordingly the data would be collected through field survey and using structured questionnaire facilitating face to face interviews with banks officials and other persons connected with credit risk operations. Statistical tools and techniques like chi-square and t-test shall be applied to examine the responses.

Keywords: Basel-II, credit risk, performance analysis, profitability

Relevance of Knowledge Management Systems in Banking in Turbulent Times

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Abstract—

Background/ Rationale

An evaluative analysis of knowledge management framework; designed as appropriate for a leading commercial bank in India. The framework envisages an incremental and evolutionary transition of organizational structure to cater to a broadband delivery platform of universal banking services, from the traditional deposit-taking and core lending model. The liberalisation of financial markets has compelled bankers to be knowledge-based and be more efficient in managing knowledge in their banking operations. Banks have understood the importance of interpreting and disseminating critical tacit knowledge to organizational performance. New private sector banks have adopted Knowledge Management Systems to create new delivery channels, offer a unique product portfolio to assume strategic leadership and thus maximize shareholder value. Such adoption has been generally weaker and slower in the old private sector and PSU banks. The focus of this paper is to discern the systemic trends and suggest structural improvements. Simulated structural models to strategically align organizations have been outlined in this context.

Research Methodology

Research being qualitative, the paper incorporates an analysis of 'Expert Opinion Surveys' of senior members of bankers, corporate customers and policy-makers, to elucidate the reasons for this systemic limitations as also evolve a superior and aligned structural model.

Findings

The findings of the study are as follows:

- Appropriate Knowledge Management Systems add demonstrable value in creation and delivery of a comprehensive suite of banking service offerings
- Broadly, while new private sector banks excel, PSU banks and old private sector banks, fall short—in that order- generically across key parameters. Creation and utilization of IT platforms also displays a decreasing level of efficacy, in like manner
- The level of optimality can be measured, monitored and enhanced utilizing key metrics presented in this paper

Keywords: Simulated structural Models, Replicability, Addressability, Processual-fidelity, Competitive Intelligence interdependencies

Financial Liberalization and Corporate Capital Structure: Indian Experience

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Abstract—Debt and equity are the two major sources for a firm to raise its capital. Firms select their sources of finance depending on the various cost and benefits associated with them. Before 1980's, debt was used as a major source of finance due to its low cost, tax advantages and the complicated procedures in generating equity capital. More debt in company's financial structure often gives a negative signal and impairs the competitive edge. In 1991, liberalization removed some constraints and encouraged the economic development for further "opening up" of the

economy to foreign capital and investments. This gave Indian firms an opportunity to raise funds through equity, from both domestic and foreign markets. A change was observed in the firm's capital structure. The present paper intends to analyze the impact of financial liberalization on the capital structure of Indian companies, specifically on four different sectors namely Banking and Finance, Software/IT, Pharmaceutical and Infrastructural. The reason behind selecting these sectors is that it covers different types of business like Banking & Finance and Software/IT belongs to the service sector, Pharmaceuticals belong to production and Infrastructure belongs to heavy industry. Different techniques have been used to study the changes in the capital structure of the companies of these sectors. The comparative study on these four sectors gives an idea about the pattern and trend of capital structure. The result shows an interesting swift in the pattern of capital structure across all the sectors.

Keywords: Financial Liberalization, Capital Structure

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Price Bubbles and Financial Policies

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Abstract—The term speculative bubble is often used to describe persistent market overvaluation followed by market collapse. Bubbles arise when assets consistently sell at prices in excess of what is deemed an asset's fundamental value. Some researchers have defended the idea that it is possible that asset price bubbles moderate the effects of financial market frictions, like credit constraints and improve the allocation of investment, despite the occasional busts. Since asset prices affect the real allocation of an economy, it is important to understand the circumstances under which these prices can deviate from their fundamental. Strong regulatory and supervisory institutions are always the best line of defence. In this context, maintaining the credibility and reputation of the central bank so that it will be able to carry out its core function maintaining macroeconomic stability is essential.

Keywords: Asset price bubbles, Financial policies, expectations, Macroeconomic.

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Sub Prime Crisis and Portfolio Diversification a Study of the BRIC and U.S. Economies

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Abstract—The economic environment has been time and again struck by repercussions that have plummeted financial markets. The high degree of globalization has increased the influence of crises attributable to the contagion theory. This adversely affects the risk of portfolios that are diversified across global markets triggering a need to study the impact of this phenomenon on the portfolio performance.

This study investigates the co-movements between the BRIC economies and the U.S markets in light of the sub-prime crisis based on the concept of *co-integration* and *variance decomposition*. We also examine its impact on the risk of an international portfolio diversified across these markets. The long term co-integration results indicate that there is a high degree of integration thus reducing the benefits of diversification. The test for integration in the short run indicates weak integration during the pre crisis periods, an increase during the crisis, and a fall post crisis. The effect of U.S markets on the BRIC economies is minimal during the entire period. The increase during the crisis period is not as significant as seen in other baskets of emerging markets which means that even a crisis does not diminish portfolio diversification benefits in the short run for these markets.

The *Markowitz minimum variance portfolio* indicates that the crisis has adversely affected the role of U.S as a low risk haven for investments. The BSE on contrary turned out to be a safe bet during the period.

Keywords: Sub-prime crisis, Co-integration, Variance decomposition, Minimum variance portfolio, Financial contagion
