EDITORIAL

Capital Market scenario is changing. Financial Services are showing tremendous growth. Management of risk has become an area of strategic concern. The present issue focuses on the issues like Impact of IPO Scam, Management of Risk and Return and Trends in Financial Services. Corporate dividend trends show the empirical study of dividend companies as presented by Mr. Dhiraj Sharma. Equity rating in India is being presented by Mr. Renu Singh and Dr. M.B. Shukla. Mr. Gangadhar and others have talked about IPO Scam impact on capital market. The issues of risk management are analysed by Mrs. Martina and J.P. Singh. Loyalty Test of dividend has been analysed by Dr. Sanjeevaiah. Schematic approach to variance analysis is put in a different way by R.K. Shah. Vinitaa Agrawal has given vivid distribution of plastic cards. As-17 and social accounting were presented and analysed by Miss Neha and Miss Renu Jatana. Sunita Mehta and Hanuman Prasad have analysed Indian Primary Market.

Date: 31.12.2006

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IMPACT OF IPO SCAM ON CAPITAL MARKET

*V. Gangadhar
**G. Naresh Reddy

ABSTRACT

The recent IPO Scam indicates that even a highly automated system will not prevent malpractices, if there is laxity. In the process of IPO Scam the scamsters have opened large number of demat accounts with various depositories on benamies with a view to get allotment of shares of different companies by cheating the retail investors, DPs and the regulator. They make huge profits by selling such allotted shares in the block deals or in the secondary market. Refinement of Know Your Customer (KYC) always plays a prominent place for control of IPO Scams. The persons handling demat account-opening applications should act in a more responsible way. Crooks will always find a loophole to beat the system. Further, DPs should be asked to conduct regular verification on continuous basis and provide the data on demat accounts. This will indicate the unusual number of demat accounts to the NSDL and SEBI for taking necessary measures to prevent reoccurrence of IPO Scams.

Scams are not a new phenomenon in our country. Scams have become common and heard them quite often. But the latest scam to hit the primary market is mind boggling and starkly exposes the deficiencies in the system. At times, there were allegations that allotments under Qualified Institutional Buyers (QIBs) quota smacked of favoritism while allotments to QIBs was discretionary. Due to this undue favoritism, many of the QIBs, despite bidding for large number of shares, failed to get good allotment of shares. Hence, after the due pressure from the right quarters, the QIB allotment procedure has been changed to proportionate allotment. The changed system has helped for the IPO scam in the retail category, where few individuals came together to hijack the allotment process itself. They have cornered a large chunk of shares from the retail category and made crores of rupees overnight. And the worst part is that the money has been made by elbowing out genuine retail investors. The real problem

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in the IPO scam over retail share allotments begins not with the equity markets but with the banking system. In all the major stock market scams - Harshad Mehta (1992), Ketan Parekh (2001), et al - there were two common features: collusion of banks with the brokers and poor surveillance. Before we proceed further, let us now discuss the meaning of the following concepts:

a) **Initial Public Offering (IPO)** is the selling of securities to the public in the primary market. When an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities for the first time to the public is known as IPO. This paves the way for listing and trading of the issuer's securities. The sale of securities can be either through book-building or normal public issue.

b) **Scam** is an illegal plan for making money. On the other hand a scam is a business opportunity that does not act on promises made, uses false advertising to lure you to join their program, does not pay you for your services or work you have done or takes your money but does not send you information or products you purchased. Scam is a two way process (i) Scam against Individuals or (ii) Scam against Industry.

c) **IPO Scam** is that the openings of multiple demat accounts in order to comer a large number of shares with a motive to make huge money thereby cheating the retail investors and regulators alike.

The study aims to analyze the process adopted by Scamsters in IPO Scam and to study the impact of IPO Scam on the Primary Market and Secondary Market.

**SCAMSTERS AND THE PROCESS OF THE IPO SCAM**

The scamsters led by Roopalben Panchal, Sugandh Estates, Purshottam Budhwani, Manojdev Seksaria and a few others, opened thousands of fictitious/benami demat accounts with common last names (Table-1) such as Patel, Gandhi, Rathod, Pandya, Desai, Pathak, Bhatt, Trivedi, etc. The banks accounts were opened with Bharat Overseas Bank, HDFC Bank, Vijaya Bank, ING Vysya Bank, Indian Overseas Bank and demat accounts were opened with Karvy Depository Participant and Pratik Stock Vision Depository Participant. To open the benami/fictitious accounts, the scamsters used photographs of thousands of people who have nothing to do with the scam. The scamsters reportedly lured these people by giving advertisements in some local dailies in Gujarat offering free passport size photographs to promote a studio. Thousands of people turned up to get themselves photographed and while they got two to three copies of their photographs at free of cost as promised, they also unknowingly provided the scamsters with their photographs to open the fictitious bank and demat accounts. Over a period of time, the scamsters built a library of over one-lakh photographs using the free photo scheme. After getting their photographs, these scamsters gave names of their choice to these people. As for furnishing addresses of these people on the bank and demat application forms, the scamsters provided addresses of premises owned/leased by others (Table -2). The process adopted by scamsters in the transfer of shares was presented in the Chart-1.
Table-1
Surname that have been used most in Fictitious Applicaions

<table>
<thead>
<tr>
<th>Surname</th>
<th>Barot</th>
<th>Bhatt</th>
<th>Desai</th>
<th>Gandhi</th>
<th>Pandya</th>
<th>Pathak</th>
<th>Patil</th>
<th>Ranka</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Times Used</td>
<td>1,000</td>
<td>977</td>
<td>1,000</td>
<td>991</td>
<td>1,000</td>
<td>975</td>
<td>976</td>
<td>936</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Surname</th>
<th>Rathi</th>
<th>Rathod</th>
<th>Trivedi</th>
<th>Vala</th>
<th>Vania</th>
<th>Varma</th>
<th>Zaia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Times Used</td>
<td>999</td>
<td>987</td>
<td>995</td>
<td>999</td>
<td>976</td>
<td>1,000</td>
<td>996</td>
<td>14,807</td>
</tr>
</tbody>
</table>


Table-2
No. of Demat Accounts opened with Karvy having Identical Addresses

<table>
<thead>
<tr>
<th>Date</th>
<th>20/06/03</th>
<th>27/06/03</th>
<th>06/11/03</th>
<th>16/12/03</th>
<th>17/12/03</th>
<th>5/1/04</th>
<th>6/1/04</th>
<th>16/02/04</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Accounts</td>
<td>125</td>
<td>196</td>
<td>575</td>
<td>517</td>
<td>753</td>
<td>1088</td>
<td>1135</td>
<td>1543</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>18/02/04</th>
<th>16/08/04</th>
<th>17/08/04</th>
<th>18/08/04</th>
<th>19/07/05</th>
<th>20/07/05</th>
<th>21/07/05</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Accounts</td>
<td>58</td>
<td>2729</td>
<td>195</td>
<td>59</td>
<td>1001</td>
<td>1525</td>
<td>758</td>
<td>12257</td>
</tr>
</tbody>
</table>


Chart-1
Mechanics of IPO Scam


IMPACT OF IPO SCAM ON THE PRIMARY MARKET

Some of the demat accounts that were used to manipulate allotments in the initial public offer of 'Yes Bank' and 'IDFC' were opened during 2003, but not in the year 2005 as was earlier believed. The first IPO in which the key operators have participated was that of Maruti Udyog Limited in June 2003. According to SEBI, the number of fictitious demat accounts opened were not high. The SEBI's investigation has now pegged that a "total of 24 key operators have indulged in irregular practices in respect of 21 IPOs". The impact of IPO Scam on the Primary Market was studied by examining the trend in IPOs over a period of four years beginning from the year 2002-03 to 2005-06. The relevant data is presented in Table-3 and 4.

### Table-3

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Issues</th>
<th>Annual Growth Rate (%)</th>
<th>Amount (Rs. Crore)</th>
<th>Annual Growth Rate (%)</th>
<th>BSE Sensex</th>
<th>Annual Growth Rate (%)</th>
<th>NSE S&amp;P CNX Nifty</th>
<th>Annual Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>14</td>
<td></td>
<td>3,639</td>
<td></td>
<td>3,049</td>
<td></td>
<td>978</td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>35</td>
<td></td>
<td>22,265</td>
<td>512</td>
<td>5,591</td>
<td>83</td>
<td>1,772</td>
<td>81</td>
</tr>
<tr>
<td>2004-05</td>
<td>34</td>
<td>-3</td>
<td>24,640</td>
<td>11</td>
<td>6,493</td>
<td>16</td>
<td>2,036</td>
<td>15</td>
</tr>
<tr>
<td>2005-06</td>
<td>102</td>
<td>200</td>
<td>23,169</td>
<td>-6</td>
<td>11,280</td>
<td>74</td>
<td>3,403</td>
<td>67</td>
</tr>
<tr>
<td>Total</td>
<td>185</td>
<td>347</td>
<td>73,713</td>
<td>517</td>
<td>26,413</td>
<td>173</td>
<td>8,189</td>
<td>163</td>
</tr>
<tr>
<td>Average</td>
<td>46</td>
<td>116</td>
<td>18,428</td>
<td>172</td>
<td>6,603</td>
<td>58</td>
<td>2,047</td>
<td>54</td>
</tr>
</tbody>
</table>


### Table-4

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Company</th>
<th>Times Subscribed</th>
<th>Price Band (Rs.)</th>
<th>Issue Price (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India Infoline Ltd.</td>
<td>7</td>
<td>70-80</td>
<td>76</td>
</tr>
<tr>
<td>2</td>
<td>Allsec Technologies Ltd.</td>
<td>4</td>
<td>135-162</td>
<td>135</td>
</tr>
<tr>
<td>3</td>
<td>Shrinagar Cinemas Ltd.</td>
<td>2</td>
<td>47-53</td>
<td>53</td>
</tr>
<tr>
<td>4</td>
<td>Allahabad Bank</td>
<td>9</td>
<td>75-82</td>
<td>82</td>
</tr>
<tr>
<td>5</td>
<td>Gokaldas Exports Ltd.</td>
<td>47</td>
<td>375-425</td>
<td>425</td>
</tr>
<tr>
<td>6</td>
<td>3i Infotech Ltd.</td>
<td>5</td>
<td>90-100</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>Jai Prakash Hydro-Power Ltd.</td>
<td>7</td>
<td>27-32</td>
<td>32</td>
</tr>
<tr>
<td>8</td>
<td>Gateway Distriparks Ltd.</td>
<td>28</td>
<td>60-72</td>
<td>72</td>
</tr>
<tr>
<td>9</td>
<td>UTV Software Comm. Ltd.</td>
<td>26</td>
<td>115-130</td>
<td>130</td>
</tr>
</tbody>
</table>

Contd.
<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>IPOs</th>
<th>Issue Price (Rs.)</th>
<th>Allotment Price (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Jet Airways India Ltd.</td>
<td>16</td>
<td>950-1125</td>
<td>1100</td>
</tr>
<tr>
<td>11</td>
<td>Indoco Remedies Ltd.</td>
<td>61</td>
<td>220-245</td>
<td>245</td>
</tr>
<tr>
<td>12</td>
<td>Bharati Shipyard Ltd.</td>
<td>72</td>
<td>55-66</td>
<td>66</td>
</tr>
<tr>
<td>13</td>
<td>Deccan Chronicle Holdings Ltd.</td>
<td>9</td>
<td>162-194</td>
<td>162</td>
</tr>
<tr>
<td>14</td>
<td>SAL Steel Ltd.</td>
<td>59</td>
<td>12-14</td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>NTPC Ltd.</td>
<td>13</td>
<td>52-62</td>
<td>62</td>
</tr>
<tr>
<td>16</td>
<td>India Bulls Fin. Serv. Ltd.</td>
<td>18</td>
<td>16-19</td>
<td>19</td>
</tr>
<tr>
<td>17</td>
<td>Tata Consultancy Services Ltd.</td>
<td>8</td>
<td>775-900</td>
<td>850</td>
</tr>
<tr>
<td>18</td>
<td>NDTV Ltd.</td>
<td>37</td>
<td>63-70</td>
<td>70</td>
</tr>
<tr>
<td>19</td>
<td>Datamatics Tech. Ltd.</td>
<td>27</td>
<td>101-110</td>
<td>110</td>
</tr>
<tr>
<td>20</td>
<td>Dishman Pharm. &amp; Chem. Ltd.</td>
<td>38</td>
<td>155-175</td>
<td>175</td>
</tr>
<tr>
<td>21</td>
<td>ICICI Bank Ltd.</td>
<td>5</td>
<td>255-295</td>
<td>280</td>
</tr>
<tr>
<td>22</td>
<td>Biocon Ltd.</td>
<td>32</td>
<td>270-315</td>
<td>315</td>
</tr>
<tr>
<td>23</td>
<td>ONGC Ltd.</td>
<td>2</td>
<td>680-750</td>
<td>750</td>
</tr>
<tr>
<td>24</td>
<td>Petronet LNG Ltd.</td>
<td>3</td>
<td>13-15</td>
<td>15</td>
</tr>
<tr>
<td>25</td>
<td>Power Trading Corp. of India Ltd.</td>
<td>43</td>
<td>14-16</td>
<td>16</td>
</tr>
<tr>
<td>26</td>
<td>Gas Authority of India Ltd.</td>
<td>7</td>
<td>195</td>
<td>195</td>
</tr>
<tr>
<td>27</td>
<td>Dredging Corp. of India Ltd.</td>
<td>18</td>
<td>385-400</td>
<td>400</td>
</tr>
<tr>
<td>28</td>
<td>IBP Company Ltd.</td>
<td>3</td>
<td>620</td>
<td>620</td>
</tr>
<tr>
<td>29</td>
<td>India Petrochem. Corp. Ltd.</td>
<td>5</td>
<td>170</td>
<td>170</td>
</tr>
<tr>
<td>30</td>
<td>CMC Ltd.</td>
<td>10</td>
<td>485</td>
<td>485</td>
</tr>
<tr>
<td>31</td>
<td>Patni Computer systems Ltd.</td>
<td>20</td>
<td>200-230</td>
<td>230</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>641</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Average</strong></td>
<td><strong>21</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: www.nseindia.com

Based on the data we made following observations:

a. Lowest and highest number of IPOs at 14 and 102 was recorded in the year 2002-03 and 2005-06 respectively. The maximum amount of IPOs was at Rs. 24,640 crores in the year 2004-05.

b. Number of IPOs has recorded an increasing trend over the period of study except in the year 2004-05. However, the amount of IPOs has recorded a positive trend in the same period. This indicates that the decline in the number of IPOs has not shown same tendency for the decline in the amount in the year 2004-05. Thus there was no impact of IPO Scam on primary market. Because, the investors' attitude to invest in the new issues was not affected by the IPO scam.

c. The last year of the study i.e. 2005-06 has shown the strong interest of investors' community to invest in the new issues because and the growth in the number of IPOs was at 200 percent. With this trend we can conclude that the interest of investors' in the new issue market has been increasing from time to time. This is a positive trend for growth oriented matured Indian capital market which is also attracting the FIIs.
d. On the other hand, the investors' overwhelming response to the new issues caused for over subscription of IPOs ranging between 2 to 72 times.

e. The average number of over subscription was 21 times. From the data it is evident that 15 companies IPOs were over subscribed by less than 15 times and the remaining companies were oversubscribed by above 15 times.

f. We also noticed that in the last two years of the study almost all the public issues were over subscribed.

IMPACT OF IPOS SCAM ON THE SECONDARY MARKET

Indian equity markets are in a jubilant mood. With enthusiastic investors (whether domestic or foreign) happily pouring tons of money, the benchmark indices such as BSE SENSEX and NSE NIFTY keep conquering new peaks on a continuing basis. The buoyant secondary market will have its significant effect on primary capital market also. In fact, during the last two years, the primary capital market in India has seen a lot of activity. As compared to the secondary market, the mood in the Indian primary market has been very vibrant and volatile. From the data of the Table-3 we have drawn following observations:

a. Trends in the secondary market indices were studied by selecting BSE Sensex and NSE S&P CNX NIFTY from the capital market over a period of four years.

b. Lowest and highest stock market indices were recorded in the first and last years of the study respectively.

c. We also noticed the similar rate of increasing trend in the two indices. But there is an extra trivial growth rate recorded on the BSE Sensex.

d. Market players remain bullish on the future prospects irrespective of IPO scam. They felt that the good numbers are on their way from some large cap companies, which have the potential to drive the market to reach new heights.

e. On the mid cap segment, players opined that selective buying will happen, as there are still a lot of success stories hidden away in the plethora of companies available for investment.

f. The IPO scam did not really manipulate the market price of the shares. It was on account of bullish trend in a large number of shares of blue chip companies.

MEASURES TO CONTROL THE IPO SCAM

We recommend the following measures to minimize the IPO Scams:

a. Categorize customers into high, medium and low risk levels on the basis of their business, location, mode of payment, social and financial status.

b. Do not open or close an account without due diligence.
c. Spell out the circumstances under which a person is allowed to act on behalf of another person.

d. Pay special attention to unusually large transactions or patterns.

e. Maintain records of all cash transactions of Rs. 10 lakh and above at the bank branches.

f. The governing body of the SEBI must ensure that all the offenders must have given severe punishment which would create a strong fear in the minds of those contemplating such moves and stop them from committing any such act in the future.

g. Need stringent provisions and a disciplinary mechanism for investors, besides strict surveillance on all market intermediaries.

h. The inspection of depository accounts must be done on continuous basis with the help of professionals. Bankers should be asked to concentrate on the core banking business and other capital market related activities ought to be separated from the regular banking business.

i. The practice of bankers being brokers and depository participants should also be reviewed and disconnected.

j. Providing finance to apply for IPOs or capital market activities from the bank or branch where broking/demat account is maintained should be prohibited. There is a need to strictly adhered to the ceiling of 20 demat accounts one can have with one or more DPs.

k. Bank and demat accounts should not be activated unless Know Your Customer (KYC) norms are adhered to. There is also a need to monitor off-market transactions and money transfers. This would happen if the PAN is made mandatory.

l. Providing each market player, including investors, with a Unique Identification Number (like MAPIN) to check many market evils. The number must be mandated in all primary and secondary market deals, bank accounts, high-value transactions, property registration, vehicle registration, and so on. Only then, the regulators can check bogus transactions and book fictitious persons. It is also worthwhile to exploring the electronic filing of IPO applications, so that cheques are not required and investors' bank accounts automatically get debited or credited.

m. NSDL was aware of the irregularities in connection with the opening of accounts from the year 2003 and has not employed any system to detect such accounts and take appropriate action.

n. SEBI should do away with the reservation for retail investors. This measure may be heeded only if the institutional investors are prepared to don the robes of venture capitalists and agree to bide their time before booking their profits, besides agreeing to subject themselves to other disciplines that characterize venture capital financing.
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PLASTIC CARDS:
REFLECTIVE CLAIMS VS EMPIRICAL FINDINGS

*Vinitaa Agrawal

ABSTRACT

One of the major providers of the financial services is commercial banking system and plastic cards are being prominently popularized for rendering its financial services. As such, in this paper, an effort has been made to understand the pertinent dimensions of the usage of plastic cards claimed in theory and to know the Empirical experiences of the customers in proper perspective.

Credit cards specifically provide credit facility to the users. But apart from providing credit facility, the organizations issuing these plastic cards provide many additional facilities and services to the users of these cards which have made these cards very attractive and persuasive. The various services and facilities attached with these cards can be briefly enumerated as follows:

- Credit facility and increase in credit line.
- Emergency cash withdrawal facilities.
- Traveling advantages (Mobility)
- Phone Banking / Service over phone.
- 24 hour services.
- Shopping convenience.
- Safety (They replace carrying cash)

The usages of plastic cards have made financial transactions much easier and convenient but their use is not free from difficulties. There are some problems and risks attached with their use like:

- Usage problems as they are technology dependent.
- Security problem i.e. the user faces danger of fraud.
- Validity period problem and renewal of expired cards.
- Wastage of money (If the card was not properly utilized).
- Thoughtless Buying i.e., encourages impulsive purchasing.
- Costly (high interest rates and service charges).

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Financial problems (customer may overdraw the account).
Acceptance problems (not acceptable by all merchants).
Non-disclosure of detailed billing procedure by banks also proves problematic to customers.

The customers are getting good and bad experiences too. In this context, one would like to examine the theoretical claims of the various types of cards in the real life situation. For this, a descriptive survey has been conducted to find the empirical evidences in this context.

DESCRIPTIVE SURVEY OF CROSS SECTIONS OF CUSTOMERS

In order to know the aforementioned dimensions, claims, etc. of the plastic cards used for financial services in real life situation, a quick descriptive survey of 50 respondents of Rajkot city using the cards was conducted by administering structured questionnaire. The respondents belonged to cross-sections of the society in terms of sex, age, education, income status and employment. For, 80% of the respondents were male while 20% female; 14% belonged to the age group between years 15-20, 26% between 20 to 30 while 30% each to 30-40 years and 40 years and above; 22% were students, 12% professionals, 36% business people and 30% service class; 12% had education up to H.S.C., 56% graduates and 32% post graduates; and 18% had Income below Rs. 50,000, 14% between Rs. 50,000 to Rs. 1,00,000, 38% between Rs. 1,00,000 to Rs. 2,50,000, 18% between Rs. 2,50,000 to Rs. 5,00,000 and the remaining 12% of respondents had income level above Rs. 5,00,000. The major findings of this descriptive survey are not far to seek.

FAMILIARITY AND USAGES OF PLASTIC CARDS

The familiarity of the respondents for various types of plastic cards and their usage pattern were found as given in table 1.

<table>
<thead>
<tr>
<th>Type of Cards</th>
<th>% of respondents familiar with the cards</th>
<th>% of respondents using the cards</th>
<th>Difference between Column 2 and 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>Credit Card</td>
<td>94</td>
<td>64</td>
<td>30</td>
</tr>
<tr>
<td>Visa Card</td>
<td>90</td>
<td>46</td>
<td>44</td>
</tr>
<tr>
<td>ATM Card</td>
<td>100</td>
<td>90</td>
<td>10</td>
</tr>
<tr>
<td>Gold Card</td>
<td>34</td>
<td>10</td>
<td>24</td>
</tr>
<tr>
<td>Business Card</td>
<td>30</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>International Card</td>
<td>40</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>Master Card</td>
<td>68</td>
<td>18</td>
<td>50</td>
</tr>
<tr>
<td>Debit Card</td>
<td>84</td>
<td>68</td>
<td>16</td>
</tr>
<tr>
<td>Prepaid Card</td>
<td>52</td>
<td>20</td>
<td>32</td>
</tr>
<tr>
<td>Smart Card</td>
<td>30</td>
<td>18</td>
<td>12</td>
</tr>
</tbody>
</table>
Agrawal

From Table 1, it was found that the respondents were very much familiar with ATM Card, credit card, visa card, debit card, master card and prepaid card while less number of persons were familiar with other types of cards mentioned in the table. As against their familiarity, the uses of the cards were limited to ATM Card, Debit Card and Credit Card only, while other cards were used by them less in number. When compared the usages with the familiarity, ATM Card, Debit Card, International Card, Gold and Business Cards were found more prominent. Relatively speaking, the respondents’ usages of the cards in relation to their familiarity were found less in the cases of master card, visa card, prepaid card and credit card.

TYPE OF FACILITIES AND SERVICES ATTACHED TO THE CARD

The respondents used these cards for availing of the financial services with specific facilities and services attached to them, as shown in Table 2.

Table 2

<table>
<thead>
<tr>
<th>Facilities and Services</th>
<th>No. of respondents giving Ranks</th>
<th>Total of Rank Values</th>
<th>Average Value</th>
<th>Adjusted Average Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Privileges</td>
<td>I 11 II 9 III 7 IV 9 V 5</td>
<td>111</td>
<td>2.70</td>
<td>0.24 (2)</td>
</tr>
<tr>
<td>24 hour Services</td>
<td>I 22 II 10 III 4 IV 5 V -</td>
<td>74</td>
<td>1.80</td>
<td>0.08 (1)</td>
</tr>
<tr>
<td>Credit Line Increase</td>
<td>I 2 II 1 III 4 IV 2 V 5</td>
<td>49</td>
<td>3.50</td>
<td>1.75</td>
</tr>
<tr>
<td>Ease in Payment</td>
<td>I 6 II 11 III 7 IV 8 V 4</td>
<td>101</td>
<td>2.80</td>
<td>0.46 (4)</td>
</tr>
<tr>
<td>Emergency Cash Withdrawal</td>
<td>I 8 II 14 III 11 IV 9 V 1</td>
<td>110</td>
<td>2.55</td>
<td>0.31 (3)</td>
</tr>
<tr>
<td>Discount facilities</td>
<td>I 3 II 3 III 5 IV 1 V 5</td>
<td>53</td>
<td>3.11</td>
<td>1.03</td>
</tr>
<tr>
<td>Service Over Phone</td>
<td>I 2 II 5 III 4 IV 2 V 1</td>
<td>37</td>
<td>2.64</td>
<td>1.32</td>
</tr>
<tr>
<td>Shopping Convenience</td>
<td>I 6 II 1 III 6 IV 5 V 17</td>
<td>131</td>
<td>3.74</td>
<td>0.62 (5)</td>
</tr>
</tbody>
</table>

Figures in brackets denote overall ranks given to various facilities.

On the basis of the rank order method, the respondents revealed their preferences for the different facilities and services attached to the use of the plastic cards for financial services as follows: (1) 24 Hour Service, (2) Travel privileges, (3) Emergency Cash Withdrawal, (4) Ease in Payment, (5) Shopping Convenience

PROBLEMS BEING FACED IN THE USAGE OF THE CARDS

But the respondents experienced different types of problems while using these cards and their responses were shown in Table 3.
Table 3
Ranking of Problems Faced by the Respondents while using Various Types of Cards

<table>
<thead>
<tr>
<th>Problems</th>
<th>No. of respondents giving Ranks</th>
<th>Total of Rank Values</th>
<th>Average Value</th>
<th>Adjusted Average Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Memorizing the PIN</td>
<td>10 11 7 4 2</td>
<td>79</td>
<td>2.32</td>
<td>0.23 (3)</td>
</tr>
<tr>
<td>Danger for Fraud</td>
<td>14 11 6 5 5</td>
<td>99</td>
<td>2.41</td>
<td>0.17 (2)</td>
</tr>
<tr>
<td>Disposal and renewal of expired cards</td>
<td>2 5 11 10 9</td>
<td>130</td>
<td>3.51</td>
<td>1.75 (5)</td>
</tr>
<tr>
<td>Usage problems</td>
<td>- 8 8 8 5</td>
<td>97</td>
<td>3.34</td>
<td>Infinite</td>
</tr>
<tr>
<td>Costly</td>
<td>16 8 2 4 5</td>
<td>79</td>
<td>2.25</td>
<td>0.14 (1)</td>
</tr>
<tr>
<td>Acceptance problems</td>
<td>7 15 5 3 5</td>
<td>64</td>
<td>1.82</td>
<td>0.26 (4)</td>
</tr>
<tr>
<td>Problem in locating ATM centers at New Places</td>
<td>- - 3 2 2</td>
<td>17</td>
<td>2.42</td>
<td>Infinite</td>
</tr>
</tbody>
</table>

Figures in brackets represents overall ranks to the various problems.

As per Table 3, the respondents revealed the seriousness for the problems being faced by them in using various plastic cards in descending order as follows: (1) Costly, (2) Danger for fraud, (3) Memorizing the PIN, (4) Acceptance problems, (5) Disposal and renewal of expired Cards.

DISCONTINUATION OF THE USE OF THE CARDS

Since the respondents experienced various types of problems and difficulties in using these cards, some of the respondents discontinued the use of these cards for availing of financial services through them. In this survey, 34% of the respondents stopped the use of the cards and the reasons of their stoppage were revealed as per details given in Table 4.

Table 4
Ranking of Various Reasons for Stopping the use of Various Cards

<table>
<thead>
<tr>
<th>Reasons</th>
<th>No. of respondents giving Ranks</th>
<th>Total of Rank Values</th>
<th>Average Value</th>
<th>Adjusted Average Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste of Money</td>
<td>1 3 2</td>
<td>13</td>
<td>2.16</td>
<td>2.16</td>
</tr>
<tr>
<td>Costly</td>
<td>3 2 3</td>
<td>16</td>
<td>2.00</td>
<td>0.66 (3)</td>
</tr>
<tr>
<td>Financial Problems</td>
<td>1 1 1</td>
<td>6</td>
<td>2.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Thoughtless Buying</td>
<td>3 1 1</td>
<td>8</td>
<td>1.60</td>
<td>0.53 (2)</td>
</tr>
<tr>
<td>Difficulty in Maintaining Cards</td>
<td>7 1 1</td>
<td>12</td>
<td>1.33</td>
<td>0.19 (1)</td>
</tr>
<tr>
<td>Some bad experience like losses</td>
<td>2 2 1</td>
<td>9</td>
<td>1.80</td>
<td>0.90</td>
</tr>
<tr>
<td>Risky</td>
<td>1 3 1</td>
<td>13</td>
<td>2.16</td>
<td>2.16</td>
</tr>
</tbody>
</table>

Figures in brackets represents overall ranks.
As per Table 4, the respondents who stopped the use of the cards revealed the seriousness of the reasons in descending order as under: (i) Difficulty in maintaining the Cards, (ii) Thoughtless Buying, (iii) Costly.

The losses suffered due to the use of the cards discouraged the respondents to continue their usage further. The prominent nature of the losses were to include.

- Withdrawal of money by outsiders without the card,
- Adverse impact on the life style; and
- Unnecessary extra and penal charges.

About 26% of the respondents lodged complaints to the manager of the banks or to the head offices of the banks. However, 39% of the respondents lodging complaint could not get their grievances resolved at all while the remaining percentage of the respondents could get their grievances resolved fully or partly.

SUGGESTIONS FOR THE SAFE AND SECURE USE OF THE CARDS

In the light of the responses revealed by the respondents in this quick descriptive survey, the following suggestions may be given for making the use of these cards more effective, facilitating and convenient:

- The use of cards even with zero balance facility should be allowed.
- The introduction of one universal card in place of multiple cards should be made. This card may contain tailor-made chips to the requirements applied by the customers.
- The statement facility should be made available through internet too.
- The detailed transaction statement should be made available to the customers.
- The withdrawal by the cards not only with the password but with the signature of the customers should be started. This will go a long way in preventing the usage of the cards by the unscrupulous people.
CORPORATE DIVIDEND TRENDS:
AN EMPIRICAL STUDY OF SENSEX COMPANIES

*Dhiraj Sharma

ABSTRACT

The present empirical study focuses on the dividend trends of selected Indian firms. The principal objective of the present paper is to judge whether the Indian companies are paying dividends or the dividends are out of fashion and simultaneously, to judge the applicability of dividend relevance school of thought as far as the corporate dividend trend is concerned. The present study also attempts to judge the applicability of Tax-effect theory in the Indian context. The results of present study find a strong confirmation for the signaling theories of Bhattacharya (1979), Miller and Rock (1985), Ambrish, John and Williams (1987), and Sharma and Narayan Rao (1992). The present study also gives mixed and inconclusive results about the Tax-effect theory which is not applicable on the selected Indian firms thus indicating that the change in the tax structure does not have substantial effect on the dividend behaviour of firms.

INTRODUCTION

The dividend decision is one of the most difficult and controversial issues in modern corporate finance. This has resulted into a number of competing theoretical explanations for dividend policy. Yet, no consensus has emerged for a single theoretical explanation for dividend policy despite several decades of research. A range of firm and market characteristics have been proposed as potentially important in determining dividend policy. The attempt to test these competing models and refine them has in turn spawned a vast empirical literature. The empirical work on dividend policy has, however, generally been focussed on developed stock markets such as the UK and US. The research on dividend policy in emerging stock markets has, until recently, been much more limited. So, far very less work has been done in India as far as dividend policy is concerned. This is a major motivation for the present paper. This study seeks to add to that literature by providing an analysis of the corporate dividend behaviour in India. Consequently, the findings of such a study could form the basis of future comparative research into other emerging markets.

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REVIEW OF RELEVANT LITERATURE

International Scenario

Despite extensive research on these theories, consensus is still lacking about which theory best explains dividend policy. Lintner (1956) conducted an empirical research over dividend pattern of 28 companies for the period of 1947-1953. He surveyed corporate chief executive officers and chief financial officers and found that dividend policy is an active decision variable because managers believe that stable dividends lessen negative investor reactions. Quite contrary to this, Miller and Modigliani (1961) advanced the view that the value of firm depends solely on its earnings power and is not influenced by the manner in which its earnings are split between dividends and retained earnings. Miller and Modigliani view dividend payment as irrelevant. Fama and Babiak (1968) studied the determinants of dividend payments by individual firms during 1946-64. The study concluded that net income seems to provide a better measure of dividend than either cash flow or net income. Baker and Powell et al. (2002) in their pioneering study investigated the dividend puzzle from the point of view of perception of dividend rather than through the complex statistical analysis of market data and concluded that there cannot be a single dividend model for all firms and that optimal models should fit a group of firms, given their temporal and spatial circumstances. Jensen and Meckling (1976) found that information asymmetry between agents (managers) and principals (equity shareholders) may also lead to agency cost. One of the mechanisms of reducing expropriation of outside shareholders by agents is high payout (dividend). Murray (1981) used non-capital market data to test the theoretical implication that dividend payout is negatively correlated with earning uncertainty. The study concluded that earnings uncertainty is a determinant of the corporate dividend decision. Rozeff (1982) was among the first to explicitly recognize the role of insiders in monitoring the managers. He finds that firms with higher levels of insider holdings have less need to signal firm value through dividends than comparable firms with lower levels of insider holdings. Miller and Rock (1985) found that the dividend announcement provides shareholders and the marketplace the missing piece of information about current earnings upon which their estimation of the firm's future (expected) earnings is based. Ambrish, John and Williams (1987) found that since the tax on dividends is not significant, the dividend itself is not an economical signal. By combining the dividend signal with other signals such as debt or investment changes, the firm may be able to obtain a less-costly signaling mix. Kim (1987) found that the transaction costs and agency costs are likely to influence company's dividend policy. Frankfurter and Lane (1992) states that dividend payouts can be viewed as the socio-economic repercussion of corporate evolution-the information asymmetries between managers and shareholders cause dividends to be paid to increase the attractiveness of equity issues. Hansen, Kumar, and Shome (1994) in a study of electric utilities, focused on the role that dividends play in the monitoring process to reduce equity agency costs. Their paper concludes that the use of higher payout raises the likelihood of monitoring by both management and the regulatory authority. Fenn and Liang (2001) find that managerial stock incentives mitigate the agency costs for firms with excess cash flow problems. They also find a strong negative
relationship between dividends and management stock options. *Fama and French (2001)* demonstrated that the proportion of dividend paying firms has declined by 65% over the twenty years period ending in 1998, regardless of firm characteristics. Opposite to this, *DeAngelo et al. (2004)* found that the firms with high earnings (greater cash flows) have the tendency to pay high dividends.

**Indian Scenario**

*Bhattacharya (1979)* in his pioneering work derived the existence conditions for a non-dissipative signaling model and show that dividends are signals for future cash flows. *Sharma and Narayan Rao (1992)* attempted to identify the signalling aspects of corporate dividend policy. They concluded that the dividends are perceived as signals from Management's point of view, Performance point of view, and also market's point of view. *Karak (1993)* concluded that management in India, as a rule, has recently followed conservative policies with regard to dividends. There is an increasing tendency on their part to finance the expansion out of internal resources as far as possible. On the contrary, *Bhat and Pandey (1994)* find that payment of dividends depend on current and expected earnings as well as the pattern of past dividends, dividends are used in signaling the future prospects, and dividends are paid even if there is profitable investments opportunity. *Mohanthy (1999)* finds that most of the companies either keep the same dividend rate after the bonus payment or decrease it less than proportionately (after considering bonus payment) thereby increases the cash flows to the shareholders. *Reddy (2002)* examines the dividend behaviour and attempts to explain the observed behaviour with the help of a trade-off theory and signaling hypothesis. The paper supports earlier findings that dividends have information content about future earnings, but do not find any evidence in support of the tax-preference theory. In other words, dividend tax has no implications on corporate financial policies. Taxation policy is assumed as a major determinant of dividend payout in developed countries. In case of India, the tax policy is different from those of developed countries. In India, dividends have been taxed at a rate of 10% for quite some time, which has been removed totally in the year 2003.

The review of relevant research literature particularly on corporate dividend policies shows that, till date, the controversy surrounding the issue of dividend policy remains unresolved. As far as India is concerned there is a dearth of empirical work in this area. The present study is a modest effort to fill this knowledge gap.

**OBJECTIVES AND SCOPE OF THE STUDY**

The principal objective of the present paper is to find out: "Are dividends still in fashion as far as the Indian corporate sector is concerned?" and simultaneously, to judge the applicability of dividend relevance school of thought as far as the corporate dividend trend is concerned. The present study also attempts to judge the applicability of Tax-preference theory in the Indian context. The dividend behaviour of Indian companies have been analysed from the period of
1990-2005. The study does not cover the cases of share buybacks and bonus issues; only the trends of cash dividends have been undertaken and analysed. The scope of the study is confined to Indian Sensex Companies (30 in number).

OBSERVATIONS
a) Dividend Trends in India

The present study observes the dividend behaviour of selected Indian firms (specifically Sensex 30 firms) with the help of signaling hypothesis and tax-effect theory for the period 1990-2005. Table 1 displays the list of the companies under study.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Company Name</th>
<th>Sr. No.</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>Oil &amp; Natural Gas Corporation Ltd.</td>
<td>20.</td>
<td>Cipla Limited</td>
</tr>
<tr>
<td>7.</td>
<td>Satyam Computer Services Ltd.</td>
<td>22.</td>
<td>Bharat Heavy Electricals Limited</td>
</tr>
<tr>
<td>8.</td>
<td>Tata Consultancy Services Ltd.</td>
<td>23.</td>
<td>Hindalco Industries Limited</td>
</tr>
<tr>
<td>10.</td>
<td>ICICI Bank Limited</td>
<td>25.</td>
<td>Associated Cement Companies Ltd.</td>
</tr>
<tr>
<td>12.</td>
<td>HDFC Bank Limited</td>
<td>27.</td>
<td>ITC Limited</td>
</tr>
<tr>
<td>14.</td>
<td>Larsen &amp; Toubro Limited</td>
<td>29.</td>
<td>Corporation Limited</td>
</tr>
<tr>
<td>15.</td>
<td>Tata Motors Limited</td>
<td>30.</td>
<td>Tata Steel Limited</td>
</tr>
</tbody>
</table>

Table 2 displays the increasing pattern of total dividend payout in the study period of the last 16 years. Quite clearly the results of the study show that the firms paying dividends during the study period has followed continuous progressive trend. In the recent years, companies in the growth sector like Software firms have paid greater dividends as compared to other sector firms. In general, the level of dividend payout has increased substantially from Rs.167.97 Crores in the year 1990 to Rs.13602.70 Crores in 2005 which is approximately 8000 % increase. In the same fashion, the level of Average Dividend has also gone up from Rs. 6.46 Crores in 1990 to Rs.523.18 Crores in 2005.
Indian Journal of Accounting

Table 2
Dividend Payout of Sensex 30 Companies

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Payout (Rs. Cr.)</th>
<th>Average Dividend</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>167.97</td>
<td>6.46</td>
<td>-</td>
</tr>
<tr>
<td>1991</td>
<td>356.31</td>
<td>13.71</td>
<td>112.23</td>
</tr>
<tr>
<td>1992</td>
<td>429.62</td>
<td>16.52</td>
<td>20.50</td>
</tr>
<tr>
<td>1993</td>
<td>546.56</td>
<td>26.02</td>
<td>57.50</td>
</tr>
<tr>
<td>1994</td>
<td>890.42</td>
<td>34.25</td>
<td>31.63</td>
</tr>
<tr>
<td>1995</td>
<td>1297.21</td>
<td>49.89</td>
<td>45.66</td>
</tr>
<tr>
<td>1996</td>
<td>1854.14</td>
<td>71.31</td>
<td>42.94</td>
</tr>
<tr>
<td>1997</td>
<td>2244.30</td>
<td>86.32</td>
<td>21.05</td>
</tr>
<tr>
<td>1998</td>
<td>2443.93</td>
<td>94.00</td>
<td>8.90</td>
</tr>
<tr>
<td>1999</td>
<td>3236.00</td>
<td>124.46</td>
<td>32.40</td>
</tr>
<tr>
<td>2000</td>
<td>3885.60</td>
<td>149.45</td>
<td>20.10</td>
</tr>
<tr>
<td>2001</td>
<td>5121.05</td>
<td>196.96</td>
<td>31.79</td>
</tr>
<tr>
<td>2002</td>
<td>6860.70</td>
<td>263.87</td>
<td>33.97</td>
</tr>
<tr>
<td>2003</td>
<td>10684.04</td>
<td>410.93</td>
<td>55.73</td>
</tr>
<tr>
<td>2004</td>
<td>11768.33</td>
<td>452.63</td>
<td>10.15</td>
</tr>
<tr>
<td>2005</td>
<td>13602.70</td>
<td>523.18</td>
<td>15.59</td>
</tr>
</tbody>
</table>

Though the dividend behaviour has followed a continuous up trend, there have been variations in each year's payout pattern. In the year 1998 the level of dividend payout fell down drastically due to tax imposition on the payer (in the year 1997) by the Indian government. Similarly, the year 2000 and 2004 witnessed low dividends in comparison to the previous years due to the unstable political environment and volatile market conditions.

The dividend yield is the dividend payment to a shareholder divided by the current market price of the share and it is expressed as a percentage. This is a simple measure telling the investor what the return will be from owning a stock irrespective of any capital gain or loss. It is worth mentioning here that new companies either do not pay dividend or pay a small one. The underlying notion is that they are investing in the future of the business rather than returning cash to shareholders. Only the mature and old companies pay a high yield. In the present study, the Average Dividend Yield has grown from 5.65% in 1990 to 17.5% in 2005 which is a 210% increase. Thus, it can be inferred from Table 3 that the dividend yield has increased over the years showing that more income has been generated per share by the companies as we move from year 1990 to 2005.
Table 3
Dividend Yield of Sensex 30 Companies

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Yield (%)</th>
<th>Average Dividend Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>454.95</td>
<td>17.50</td>
</tr>
<tr>
<td>1991</td>
<td>274.87</td>
<td>10.57</td>
</tr>
<tr>
<td>1992</td>
<td>427.46</td>
<td>16.44</td>
</tr>
<tr>
<td>1993</td>
<td>317.34</td>
<td>12.21</td>
</tr>
<tr>
<td>1994</td>
<td>311.23</td>
<td>11.97</td>
</tr>
<tr>
<td>1995</td>
<td>239.04</td>
<td>9.19</td>
</tr>
<tr>
<td>1996</td>
<td>360.25</td>
<td>13.86</td>
</tr>
<tr>
<td>1997</td>
<td>251.74</td>
<td>9.68</td>
</tr>
<tr>
<td>1998</td>
<td>274.68</td>
<td>10.51</td>
</tr>
<tr>
<td>1999</td>
<td>242.48</td>
<td>9.35</td>
</tr>
<tr>
<td>2000</td>
<td>223.89</td>
<td>8.61</td>
</tr>
<tr>
<td>2001</td>
<td>157.47</td>
<td>6.06</td>
</tr>
<tr>
<td>2002</td>
<td>185.60</td>
<td>7.14</td>
</tr>
<tr>
<td>2003</td>
<td>88.23</td>
<td>3.40</td>
</tr>
<tr>
<td>2004</td>
<td>301.10</td>
<td>11.58</td>
</tr>
<tr>
<td>2005</td>
<td>146.99</td>
<td>5.65</td>
</tr>
</tbody>
</table>

However, the growth has not followed a consistent pattern and, as clear from a brief analysis of Table 3, there have been substantial variations in the shareholder's dividend yield. Since dividend yield is not only a function of dividend payout but also of market price of the stock. The fluctuations in the yield can be ascribed to the volatility in stock prices. From the trends in payout it is apparently conspicuous that the Indian firms under study are distributing dividends consistently. It implies that the market does recognize and favours the dividend distribution decision of a firm. The fact that such a large proportion of firms are paying dividends and also there have been continuous progressive up trend show that 'Dividend decision is relevant' and as far as the Indian firms under study are concerned 'Dividends are still in fashion in India.' This confirms the signaling theories of Bhattacharya (1979), Miller and Rock (1985) and Sharma and Narayan Rao (1992).

b) Taxation and Dividend Trend

Firms pay differential rate of corporate tax on their profits and shareholders pay income tax on the dividend income received. This leads to double taxation of profits earned by the firm, one in the hands of company through corporate tax and other in hands of investors, in the form of income tax. In such a case an investor should prefer to get less dividends paid and earnings to be retained by firm, as they can always get the amount by selling the shares in equity market, in form of 'home made dividend' (Black 1976). In 1997 the tax structure was changed and the dividend payment was made taxable in the hands of the payer (the company) and not in the hands of the investor receiving them. Also, in the same year the capital gains tax
was amended and dividend income under Section 80L of the Income Tax Act, 1961 was made tax-exempted. Another major change was introduced in the year 2003 when dividend income (in the hands of receiver) was made tax-free. The present study attempts to judge whether these tax changes have any effect on the dividend behaviour of the firms.

For the purpose of present study, dividends paid by the companies under study have been analysed with reference to the major tax-changes of 1997 and 2003. For this, a period of three years preceding and proceeding the year 1997 has been taken respectively and T-test has been applied (See Table 4) to see the effect of tax-changes on dividend behaviour of Indian firms.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>N</th>
<th>p value</th>
</tr>
</thead>
<tbody>
<tr>
<td>After Average Dividend %</td>
<td>0.66146</td>
<td>30</td>
<td>0.000</td>
</tr>
<tr>
<td>Before</td>
<td>0.39257</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

It is quite apparent that the difference in the Average Dividend before and after the change in the tax regime is significant at all levels. Thus, from this it can be inferred that the change in tax structure has direct effect on the dividend payout of the companies. But contrary to this result, in the year 2003 when dividend income (in the hands of receiver) was made tax-free the level of dividend payout did not rise substantially, as logically expected, in the year 2004. The year 2003 showed an increase of 55.73% in the Average Dividend payout over the previous year (i.e. 2002) whereas the increase in the year 2004 over previous year, contrary to the expected level, was just 10.15% and 15.59% in the next year i.e. 2005. Therefore, it can be inferred from the present study that there is inconclusive evidence to say that the changes in tax structure has any significant effect on the dividend payout of the companies.

CONCLUSION

The present study observes the dividend behaviour of Indian firms with the help of signaling hypothesis and tax-effect theory for the period 1990 - 2005. Quite clearly the study shows that the firms paying dividends during the study period has followed continuous progressive trend. The level of dividend payout has increased substantially from Rs.167.97 Crores in the year 1990 to Rs.13602.70 Crores in 2005. The level of Average Dividend has also gone up from Rs. 6.46 Crores in 1990 to Rs.523.18 Crores in 2005. Though the dividend behaviour has followed a continuous up trend, there have been variations in each year's payout pattern. The present study does not hold good for the tax-effect theory as the analysis shows mixed results. In the year 1998 the level of dividend payout fell down drastically due to tax imposition on the payer by the Indian government in 1997 but unlike this, the year 2004 did not show any substantial increase in the dividend payout behaviour of companies even after the withdrawal of taxes in the hands of shareholders in the year 2003.
REFERENCES


21
SCHEMATIC APPROACH TO
VARIANCE ANALYSIS

*Ramakant Shah

ABSTRACT

As standard costing is a part of the cost control system, accurate and proper computation of variances (difference of actual costs and standard costs of actual output) is a very significant aspect for performance evaluation and control of costs. It also indicates the areas where remedial measures are required and a need to revise certain standards in the light of prevailing ground realities which are not expected to change during the next accounting period. Schematic approach (line-by-line approach) to compute and interpret variances is nothing but a modified version of formulae method of computation of variances. The purpose of this article is to explain the schematic approach to variance analysis. The way of presentation is specifically presented in this paper.

To compute any variance under schematic approach, we have to begin with the actual cost/revenue data and gradually start converting it into standard data. There are two basic factors of any variance. First factor is price and second factor is quantity. In case of labour and variable production overhead quantity means efforts (efficiency) put in terms of hours, days etc. It is interesting to note that both the methods use the same notations for computation of variances and still the formulae method is not self-explanatory. On the other hand the schematic approach provides and explains the logic behind each subsequent step. The present paper presents in detail the process of calculating and processing material variances in detail.

DIRECT MATERIAL VARIANCES

The structure for other variances is shown to have a total understanding of schematic approach.

Direct material total cost variance

Direct material total cost variance is a measurement of the difference between the standard material cost of the output achieved and the actual material cost incurred.

*Retired Professor, H.A.College of Commerce, Ahmedabad
In a simple situation where only one item of raw material input is required to get finished output, we have to consider only two basic factors to compute material cost variances. These factors are: Quantity of input of raw materials and its price per unit of material.

Direct material price variance
It is that part of total direct material cost variance which represents the difference between the actual price paid for materials consumed \((AQ \times AP)\) and standard cost of such consumption \((AQ \times SP)\).

Direct material usage variance
It is that part of total direct material cost variance which measures efficiency in the use of material, by comparing the standard cost of material actually used \((AQ \times SP)\) with the standard material cost of what output has been produced \((SQ \times SP)\).

Input of two or more items of materials
If two or more items of raw material ingredients are required to get finished output, we have to look to three factors to compute material cost variances. These factors are: Quantity of input of raw materials, Mixture of these raw materials and the Price of various items of raw materials. Under the schematic approach, we first find the actual cost of actual input of materials in actual proportion used.

Note: Arrange all the actuals in the order of Quantity, Mix and the Price and then start converting only one factor at a time from right to left.

Step 1: \((AQ \times AM \times AP)\) = Total actual material cost incurred

Where, \(AQ\) = Actual quantity of input of materials consumed
\(AM\) = Actual mixture of various items of materials
\(AP\) = Actual price incurred per unit of materials

Now, we want to know to what extent the purchase department is responsible for an adverse or favourable price variance. Remember that the purchase department has “no say” in the internal matters of the production department where the decisions regarding mixture and quantity to be used are taken. Purchase officer has to try to procure the items of raw materials at the standard prices determined in advance. He has to make purchases as instructed by the production department. If a price variance occurs because a request was made for a rush order the production department could be responsible as this may be the result of poor production scheduling.

It means that to compute the Price Variance, we change only the price factor when we move to Step 2 \((SP \text{ instead of } AP)\) to know what would have been the total material cost, had the purchase department bought them at the standard prices set in advance. Other two factors \((AQ \text{ and } AM)\) would remain the same (unchanged).
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Step 2: \( (AQ \times AM \times SP) = \) Total standard material cost of actual input (quantity) in actual mix.

Where, \( SP = \) Standard price per unit of materials.

If we compare these two steps, we come to know that the difference in the costs calculated under these steps is neither due to the quantity factor nor due to the mixture. It is only because of the price factor.

\[
\begin{array}{ccc}
\text{Step 1} & \text{Step 2} & \text{Difference} \\
(AQ \times AM \times AP) & (AQ \times AM \times SP) & \text{Price variance} \\
\end{array}
\]

Once the responsibility of purchase department is fixed, we would like to know the responsibility of the production department. This department is supposed to get raw materials at standard price and hence to fix up its responsibility only standard price is relevant. The departmental manager has to take care of other two factors, namely total quantity to be used and its proportion. If any change is made in the proportion of various items of raw materials used, it is going to affect the total material cost and hence the next step will focus on this angle only.

Step 3: \( (AQ \times SM \times SP) = \) Total standard material cost of actual input (quantity) in standard mix.

Where, \( SM = \) standard mix

\[
\begin{array}{ccc}
\text{Step 2} & \text{Step 3} & \text{Difference} \\
(AQ \times AM \times SP) & (AQ \times SM \times SP) & \text{Mix Variance} \\
\end{array}
\]

The next step is to find out the difference arising on account of more or less quantity of material used (in total) in comparison to standard quantity allowed for the actual output obtained.

Step 4: \( (SQ \times SM \times SP) = \) Total standard material cost of actual output had they used standard quantity in standard mix at standard price.

Where, \( SQ = \) Total standard quantity allowed for actual output obtained.

\[
\begin{array}{ccc}
\text{Step 3} & \text{Step 4} & \text{Difference} \\
(AQ \times SM \times SP) & (SQ \times SM \times SP) & \text{Yield variance} \\
\end{array}
\]

Note: The gradual changes made in these steps have been underlined.
Shah

Now we can arrange the above steps in the following chart:

Ex. 1: Vinak Ltd. produces an article by blending two basic raw materials. It operates a standard costing system and the following standards have been set for the raw materials:

<table>
<thead>
<tr>
<th>Material</th>
<th>Standard Mix</th>
<th>Standard price per Kg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>40%</td>
<td>Rs. 4.00</td>
</tr>
<tr>
<td>B</td>
<td>60%</td>
<td>Rs. 3.00</td>
</tr>
</tbody>
</table>

The standard loss in processing is 15%.
During April, 2006, the company produced 1,700 Kgs. of finished output.
The position of stocks and purchases for the month of April, 2006 are as under:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>35</td>
<td>5</td>
<td>800</td>
<td>3,400</td>
</tr>
<tr>
<td>B</td>
<td>40</td>
<td>50</td>
<td>1,200</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Calculate the following variances:
**Solution 1:**

### Direct Material Cost Variance Chart

<table>
<thead>
<tr>
<th>ITEM</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AQ X AM X AP</td>
<td>AQ X AM X SP</td>
<td>AQ X SM X SP</td>
<td>SQ X SM X SP</td>
<td>DM COST</td>
<td>VARIANCES</td>
<td>PRICE</td>
<td>MIX</td>
</tr>
<tr>
<td>A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kgs.</td>
<td>830</td>
<td>830</td>
<td>808</td>
<td>800</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note</td>
<td>(1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>=3.520</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,190</td>
<td>1,190</td>
<td>1,212</td>
<td>1,200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note</td>
<td>(1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>=2.970</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-320 kgs.</td>
<td>-320 kgs.</td>
<td>(in SM) of</td>
<td>(in SM) of</td>
<td>-300 kgs.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(40:60)</td>
<td>(40:60)</td>
<td>Std</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-320 kgs.</td>
<td>-320 kgs.</td>
<td>loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>act. loss</td>
<td>act. loss</td>
<td>(15%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,700 kgs.</td>
<td>1,700 kgs.</td>
<td>1,700 kgs.</td>
<td>1,700 kgs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

Where, AQ = Total Actual quantity consumed  
AM = Actual mix  
AP = Actual price per kg.  
SQ = Standard quantity for actual output  
SM = Standard mix  
SP = Standard price per kg.

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Note 1

<table>
<thead>
<tr>
<th>Material A</th>
<th>Material B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Op. Stock 35 kgs x S.P. Rs 4 = Rs. 140</td>
<td>40 kgs x S.P. Rs 3 = Rs. 120</td>
</tr>
<tr>
<td>+ Fresh Purchases 800 kgs = Rs. 3,400</td>
<td>1,200 Kgs = Rs. 3,000</td>
</tr>
<tr>
<td>835 kgs = Rs. 3,540</td>
<td>1,240 Kgs = Rs. 3,120</td>
</tr>
<tr>
<td>-CI Stock 5 kgs x S.P. Rs 4 = Rs. 20</td>
<td>50 kgs x S.P. Rs. 3 = Rs. 150</td>
</tr>
<tr>
<td>Consumption 830 kgs = Rs. 3,520</td>
<td>1,190 kgs = Rs. 2,970</td>
</tr>
</tbody>
</table>

Note 2

As the std. loss is 15% of input
To get an output of 85 kgs
: To get an output of 1,700 kgs
\[
\begin{align*}
\text{Total SQ.} & \quad \text{Total SQ.} \\
\text{Total SQ.} & = \frac{100 \times 1,700 = 2,000 \text{ Kgs}}{85}
\end{align*}
\]

DIRECT LABOUR VARIANCES

Direct labour total cost variance indicates the difference between the standard direct labour cost of the output which has been achieved and the actual direct labour cost incurred. The process of computing and presenting labour variances will be similar to material variances. Hence, the structure is given as follows:

\[
\begin{align*}
(1) & \quad (AH \text{ paid} \times \text{AR}) \quad \text{Rs.} \\
(2) & \quad (AH \text{ paid} \times \text{SR}) \quad \text{Rs.} \\
(3) & \quad (AH \text{ worked} \times \text{SR}) \quad \text{Rs.} \\
(4) & \quad (SH \times \text{SR}) \quad \text{Rs.}
\end{align*}
\]

\[
\begin{align*}
\text{DL Rate variance Rs.} & \\
\text{DL Idle time variance Rs.} & \\
\text{DL Rev. efficiency variance Rs.} & \\
\text{DL Total efficiency variance Rs.} & \\
\text{Total labour cost variance Rs.} &
\end{align*}
\]

Ex. 2: The details regarding the composition and the daily wage rate of labour force engaged on a job scheduled to be completed in 30 days are as follows:

<table>
<thead>
<tr>
<th>Category of Workers</th>
<th>Standard No. of Labourers</th>
<th>Daily Std. wage rate per labourer Rs.</th>
<th>Actual No. of labourers</th>
<th>Daily act. Wage rate labourer per Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled</td>
<td>75</td>
<td>60</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Semi-skilled</td>
<td>45</td>
<td>40</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Unskilled</td>
<td>60</td>
<td>30</td>
<td>80</td>
<td>20</td>
</tr>
</tbody>
</table>

The work is actually completed in 32 days.

Calculate the various labour cost variances:
### Solution 2

**Direct Labour Cost Variance Chart**

<table>
<thead>
<tr>
<th>Category of Workers</th>
<th>(1) AD x AM x AR</th>
<th>(2) AD x AM x SR</th>
<th>(3) AD x SM x SR</th>
<th>(4) SD x SM x SR</th>
<th>(5) DL Cost Variance Rate</th>
<th>(6) Mix</th>
<th>(7) Revised Efficiency</th>
<th>(8) Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervised</td>
<td>Days X Rs. 60</td>
<td>Days X Rs. 60</td>
<td>Days X Rs. 60</td>
<td>Days X Rs. 60</td>
<td>(1-2) Rs.</td>
<td>(2-3) Rs.</td>
<td>(3-4) Rs.</td>
<td>(1-4) Rs.</td>
</tr>
<tr>
<td>Workers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>70 Workers</td>
<td>2,400 days</td>
<td>2,400 days</td>
<td>2,400 days</td>
<td>2,400 days</td>
<td>(1-2) Rs.</td>
<td>(2-3) Rs.</td>
<td>(3-4) Rs.</td>
<td>(1-4) Rs.</td>
</tr>
<tr>
<td>X 32 days = 70</td>
<td>X Rs. 60</td>
<td>X Rs. 60</td>
<td>X Rs. 60</td>
<td>X Rs. 60</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>= 1,56,800</td>
<td>= 1,44,000</td>
<td>= 1,44,000</td>
<td>= 1,44,000</td>
<td>= 1,35,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi-Skilled</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 Workers</td>
<td>960 days X Rs. 40</td>
<td>1,440 days X Rs. 40</td>
<td>1,440 days X Rs. 40</td>
<td>48 days X Rs. 40</td>
<td>(1-2) Rs.</td>
<td>(2-3) Rs.</td>
<td>(3-4) Rs.</td>
<td>(1-4) Rs.</td>
</tr>
<tr>
<td>X 32 days = 30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>= 48,000</td>
<td>= 38,400</td>
<td>= 54,000</td>
<td>= 54,000</td>
<td>= 54,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Un-Skilled</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>80 Workers</td>
<td>2,560 days X Rs. 30</td>
<td>1,920 days X Rs. 30</td>
<td>60 workers X Rs. 30</td>
<td>51,200 days X Rs. 30</td>
<td>(1-2) Rs.</td>
<td>(2-3) Rs.</td>
<td>(3-4) Rs.</td>
<td>(1-4) Rs.</td>
</tr>
<tr>
<td>X 32 days = 2,560</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>= 51,200</td>
<td>= 76,800</td>
<td>= 58,400</td>
<td>= 58,400</td>
<td>= 58,400</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>Total act. days</th>
<th>Rs. 2,56,000</th>
<th>Total act. wages for 13,000 actual output job paid</th>
<th>Rs. 2,49,800</th>
<th>Total act. days (in SM) 5,760 days (5:3:4) for actual output job</th>
<th>Rs. 2,59,200</th>
<th>Total Std. days (in SM) 6,400 days (5:3:4) for actual output job</th>
<th>Rs. 2,43,000</th>
<th>DL cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,760 days for 13,000 actual output job</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Where**

- **AD** = Total actual days
- **AM** = Actual mix of various types of labourers
- **AR** = Actual daily wage rate
- **SD** = Total Standard days for actual output (the job)
- **SM** = Standard mix of various types of labourers = 75:45:60 (5:3:4)
- **SR** = Standard daily wage rate

**Total Effi. Variance**

Rs. -6,600
Variable Production Overhead Variance

Variable production overhead total cost variance represents the difference between the amount of variable production overhead which has been absorbed by output and the actual variable overhead cost incurred. The structure of this variance is as follows:

\[
\begin{align*}
(1) & \quad (AH \times AR) \quad Rs. \\
(2) & \quad (AH \times VOAR) \quad Rs. \\
(3) & \quad (SH \times VOAR) \quad Rs. \\
\downarrow & \quad \downarrow & \quad \downarrow \\
\text{VOH Expenditure variance} \quad Rs. & \quad \text{VOH Efficiency variance} \quad Rs. & \quad \text{Total variable overhead cost variance} \quad Rs.
\end{align*}
\]

Fixed production overhead variance

Fixed production overhead total cost variance represents the difference between the amount of fixed production overhead which has been absorbed by output, and the actual fixed production overhead costs incurred.

The structure is as follows:

\[
\begin{align*}
(1) & \quad \text{AC (actual fixed overhead cost incurred) Rs.} \\
(2) & \quad \text{BC (budgeted fixed overhead cost) Rs.} \\
(3) & \quad (AH \times \text{FOAR}) \quad \text{Rs.} \\
(4) & \quad (SH \times \text{FOAR}) \quad \text{Rs.} \\
\downarrow & \quad \downarrow & \quad \downarrow & \quad \downarrow \\
\text{FOH Exp. variance Rs.} & \quad \text{Capacity variance Rs.} & \quad \text{FOH Efficiency variance Rs.} & \quad \text{Volume variance Rs.} \\
\downarrow & \quad \downarrow & \quad \downarrow & \quad \downarrow \\
\text{Fixed overhead total cost variance Rs.}
\end{align*}
\]
SALES VARIANCE

Under the schematic approach, we have to first find the total actual margin \((A\bar{M})\) from actual quantity sold in actual proportion used.

**Step 1:** \((AQ \times AM \times A\bar{M}) = \) Total actual margin.

Where, \(AQ\) = Actual quantity sold
\(AM\) = Actual mixture of various items of products sold.
\(A\bar{M}\) = Actual margin per unit (of each item of products).

**Step 2:** \((AQ \times AM \times S\bar{M}) = \) Total standard margin from actual sales in actual mix.

Where, \(S\bar{M}\) = Standard margin per unit of each item of product

If we compare these two steps, we come to know that the difference in the margins calculated under these steps is neither due to the quantity factor nor due to the mixture. It is only because of the price factor (because the difference in margins is due to difference in selling prices).

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Step 2</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>((AQ \times AM \times A\bar{M}))</td>
<td>((AQ \times AM \times S\bar{M}))</td>
<td>Price variance</td>
</tr>
</tbody>
</table>

**Step 3:** \((AQ \times SM \times S\bar{M}) = \) Total standard margin from actual sales (quantity) in standard mix.

Where, \(SM\) = standard mix

<table>
<thead>
<tr>
<th>Step 2</th>
<th>Step 3</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>((AQ \times AM \times S\bar{M}))</td>
<td>((AQ \times SM \times S\bar{M}))</td>
<td>Mix Variance</td>
</tr>
</tbody>
</table>

**Step 4:** \((SQ \times SM \times S\bar{M}) = \) Total standard margin from total budgeted sales in standard mix.

Where \(SQ\) = Total budgeted sales of various products.

<table>
<thead>
<tr>
<th>Step 3</th>
<th>Step 4</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>((AQ \times SM \times S\bar{M}))</td>
<td>((SQ \times SM \times S\bar{M}))</td>
<td>Quantity variance</td>
</tr>
</tbody>
</table>

**Note:** The changes made gradually in these steps have been italicized
Now we can arrange the above steps in the following chart:

Note: As the purpose of variance analysis is to know its effect on originally budgeted profit we have to calculate profit variance, which is the net result of cost variance and revenue (sales) variances.

Therefore, Actual profit = Originally budgeted profit ± Profit variance
Profit variance = Total cost variance ± sales margin variance

Ex.3: Modern Toys Ltd. had budgeted the following sales for March, 2006:
Toys A : 900 units @ Rs. 50 per unit.
Toys B : 650 units @ Rs. 100 per unit.
Toys C : 1,200 units @ Rs. 75 per unit.

As against this the actual sales were:

Toys A : 1,000 units @ Rs. 55 per unit.
Toys B : 700 units @ Rs. 95 per unit.
Toys C : 1,100 units @ Rs. 78 per unit.

The standard costs per unit of A, B, and C were Rs. 45, Rs. 85 and Rs. 65 respectively.

Compute the different variances to explain the difference between the budgeted and actual profit.
## Solution 3

### Sales Margin Variance Chart

<table>
<thead>
<tr>
<th>Product</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>Rs.</td>
<td>Units</td>
<td>Rs.</td>
<td>Units</td>
<td>Rs.</td>
<td>(1-2)</td>
<td>(2-3)</td>
</tr>
<tr>
<td>Toy A</td>
<td>1,000</td>
<td>1,000</td>
<td>916</td>
<td>900</td>
<td>900</td>
<td>-5,000</td>
<td>+420</td>
<td>+80</td>
</tr>
<tr>
<td>X Rs. 10</td>
<td>X Rs. 5</td>
<td>X Rs. 5</td>
<td></td>
<td>X Rs. 5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toy B</td>
<td>700</td>
<td>700</td>
<td>662</td>
<td>650</td>
<td>650</td>
<td>-10,500</td>
<td>-9,750</td>
<td>+570</td>
</tr>
<tr>
<td>X Rs. 10</td>
<td>X Rs. 15</td>
<td>X Rs. 15</td>
<td></td>
<td>X Rs. 15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toy C</td>
<td>1,100</td>
<td>1,100</td>
<td>1,222</td>
<td>1,200</td>
<td>1,200</td>
<td>-14,300</td>
<td>-12,220</td>
<td>+3,300</td>
</tr>
<tr>
<td>X Rs. 13</td>
<td>X Rs. 10</td>
<td>X Rs. 10</td>
<td></td>
<td>X Rs. 10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL</th>
<th>Total act. sales of all products</th>
<th>Rs. 31,300</th>
<th>Rs. 26,500</th>
<th>Rs. 26,730</th>
<th>Rs. 26,250</th>
<th>Rs. 4,800</th>
<th>-230</th>
<th>+480</th>
<th>+5,050</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Std. sales (in std. mix of 900:650:1200)</td>
<td>2,800 units</td>
<td>2,800 units</td>
<td>2,800 units</td>
<td>2,800 units</td>
<td>2,800 units</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total budgeted profit</td>
<td>2,800 units</td>
<td>2,800 units</td>
<td>2,800 units</td>
<td>2,800 units</td>
<td>2,800 units</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Where,

- **AQ** = Total actual quantity sold
- **AM** = Actual mix of various products sold
- **AM** = Actual Margin (profit/contribution) per unit
- **SM** = Standard (Budgeted) mix of Various Products
- **SM** = Standard Margin (Profit/contribution) per unit.
EQUITY RATING IN INDIA: PROBLEMS AND PROSPECTS

*Mrs. Renu Singh
**M.B. Shukla

ABSTRACT

Security rating is a symbolic indicator of the current opinion of a rating agency, of the willingness and relative capacity of an issuer of debt instrument to pay interest and repay principal, as per the terms of the contract. A rating agency assigns, quality ratings that measure the default (or bankruptcy risk) of a security and sells the rating to their subscribers. The default risk is primarily determined by the amount of funds available to the issuer relative to the amount of funds to be paid to the security holders. The ability to pay is evaluated by financial ratios. Ratio analysis is used to analyze the present and future earning power of the company issuing the security. Ratio analysis of the issuers' financial statements yields insights about the strengths and weaknesses of the company. The security rating agencies have written guidelines about what values particular ratios should have in order to earn each different quality ratings. The present paper discusses problems and prospects of equity rating in India.

The primary market deals with the raising of fresh capital either for cash or for consideration other than cash by companies, government and semi-government bodies, public enterprises etc. and including all institutions dealing in the issue of fresh claims. The forms in which these claims are incurred are equity shares, preference shares, debentures, rights, bonus, deposits, miscellaneous loans etc. In order to encourage initial public offerings (IPO's), the existing SEBI norms for IPO was relaxed by stipulating "ability to pay" in place of "actual payment of dividend".

Keeping in view the changes in capital market flowing from free pricing of shares and free access to market for funds, SEBI dispensed with the requirement to issue shares with a fixed par value of Rs. 10 or Rs. 100 and gave freedom to companies to determine the par value

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**Dean, Director and Head, Faculty of Commerce and Management Studies, M.G. Kashi Vidyapith, Varanasi. He is also President, Indian Accounting Association and President, Indian Commerce Association.
of shares issued by them in accordance with Section 13 (4) of the Companies Act, 1956. Companies with dematerialised shares have been allowed to alter the par value of a share indicated in the Memorandum and Articles of Association. The existing companies, which have issued shares at Rs. 10 or Rs. 100 can avail of this facility by consolidating/splitting their existing shares. The SEBI has already finalized the Regulations for Credit Rating Agencies (CRAs). These define a promoter as anyone holding 10 percent or more of share capital of a CRA, and outline the categories eligible to promote CRAs, etc. With a view to popularize the book building mode of public issues, SEBI prepared a modified framework, which provide an alternative to the existing guidelines. It is optional for investors to use either the existing framework or the modified framework. With a view to facilitating regulation of Collective Investment Schemes (CIS), the Securities Laws (Amendment) Bill passed by the Parliament in December 1999 to incorporate units of CIS also in the expanded definition of securities under the SCRA.

Credit rating in India is mandatory for the issuance of debt instruments viz., debentures with conversion/redemption period; commercial paper issued by corporate and public deposits of all NBFCs with net owned funds above Rs. 50 lakhs. The rating industry in India was ushered in 1988 with setting up of Credit Rating and Information Services of India Limited (CRISIL) followed by setting of three more agencies viz., Investment Information and Credit Rating Agency (ICRA), Credit Analysis and Research Limited (CARE) and Fitch Rating agency, the latest entirely devoted to rating NBFCs. The industry is sustained by mandatory requirements for rating debt instruments. Credit rating agencies are regulated by SEBI since 1999. A credit rating agency can be promoted by a financial institution or company with a net worth of Rs. 100 crore. Credit rating agencies should have a minimum net worth of Rs. 5 Crore. Credit rating agencies are prohibited from rating instruments of their promoters.

NEED FOR IPO RATING

Titanic waves on waves on stock prices have demonstrated and unfolded the wealth of Indian corporate over the three years. This strength of the Indian Stock market has been reflected with drive in capital issues in the primary market, which mopped up Rs. 25,964 crore during the first 11 months of 2005-06 as compared to Rs. 22,916 crores during the period of 2004-05 and Rs, 23,272 crore during 2003-04. Contrary to such robust capital mobilisation, corporate raised only Rs. 6-7 thousand crore per year from 1999-2000 to 2002-03. There are several factors that are responsible for such stellar performance of the primary market. First, boom in the secondary market for more than two years encouraged both issuers as well as investors to enter the primary market. There is a countrywide enthusiasm in the community of entrepreneurs to enlarge and modernize manufacturing capacity to meet domestic as well as external demand. The rate of return has been substantially higher on investment equities, while interest rates on deposits have declined to an unattractive levels. FII inflows and mutual funds have been contributing on an ever-increasing scale. Besides real fundamentals like GDP growth rate
(around 7%) and a projected growth rate of 8% of 2005-06, low inflation rate, rise in domestic saving rate to 29% and favorable government policies have made it attractive for corporate to raise resources from the market.

Although SEBI has successfully investigated 105 IPOs floated between 2004 and 2005 and punished 24 intermediaries but that is not enough. The issue activity has enlarged its pace by covering more and more industry segments. IPOs have become the easiest and quickest source of raising capital. Investors in the capital market constitute 35 per cent of retail investors double as venture capitalists. In the US, a company which does not have a track record of profits, cannot access public funds but has rely upon venture capitalists to a great extent for equity support.

Indian economy witnessed a lot of structural changes and reforms, change in policy framework, scams bead by Harshad Mehta & Ketan Parikh and UTI affairs. The most important factor responsible for erratic trend in Indian primary market was due to the fact that during the last 15 years, public issues in India have mopped up a total of Rs. 60,000 crore through 5,600 issues. The last decade saw two primary market booms in India. The first, from 1992 to 1996, when over 4,000 companies raised a cumulative Rs. 38,664 crore and second during the IT boom of 1999-2001, when 170 companies raised approximately Rs. 5,500 crore from the market. The year 2003-04 has evidenced the highest amount of fund Rs. 20,000 crore raised from the primary market while huge fund was raised from primary market in the year 2004-05 which was Rs. 40,000 crore from approximately 56 issues.

ANALYTICAL FRAMEWORK

Exhibit shows the historical trend and the present circumstances of resource mobilization through IPOs in the primary market of past 17 years. From the figures it can be inferred the there was a fluctuating trend in the Indian primary market. The highest number of public issues was reported in 1995-96 when it was 1,423. The amount raised by this issue was about 8,882 crores. In this context it is important to note that the highest amount was raised in 2003-04 of about 20,000 crores. But the number of issues meant for the amount was only 23. In 1994-95 13,312 crores were augmented with the help of 1343 issues. During 2001-02 & 2002-03, the number of issues was reported 6 in both the years but amounts come to 1,082 and 1,039 crores respectively. On the basis of above analysis, we can say that there was an erratic trend in number of issues and the amount raised through them. The primary market shows a fluctuating trend of ups and downs.
### Exhibit

**Issue of IPOs in Primary Market in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Issues (IPOs)</th>
<th>Amount (Rs. Crore)</th>
<th>% Growth in No. of IPOs</th>
<th>% Growth in Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>186</td>
<td>2,522</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1990-91</td>
<td>140</td>
<td>1,450</td>
<td>-24.73</td>
<td>-42.51</td>
</tr>
<tr>
<td>1991-92</td>
<td>195</td>
<td>1,400</td>
<td>39.29</td>
<td>-3.45</td>
</tr>
<tr>
<td>1992-93</td>
<td>526</td>
<td>5,651</td>
<td>169.74</td>
<td>303.64</td>
</tr>
<tr>
<td>1993-94</td>
<td>765</td>
<td>10,824</td>
<td>45.44</td>
<td>91.54</td>
</tr>
<tr>
<td>1994-95</td>
<td>N.A.</td>
<td>13,312</td>
<td>75.56</td>
<td>22.99</td>
</tr>
<tr>
<td>1995-96</td>
<td>1,423</td>
<td>8,882</td>
<td>5.96</td>
<td>-33.28</td>
</tr>
<tr>
<td>1996-97</td>
<td>740</td>
<td>4,671</td>
<td>-47.99</td>
<td>-47.41</td>
</tr>
<tr>
<td>1997-98</td>
<td>58</td>
<td>1,132</td>
<td>-92.16</td>
<td>-75.77</td>
</tr>
<tr>
<td>1998-99</td>
<td>22</td>
<td>504</td>
<td>-62.07</td>
<td>-55.48</td>
</tr>
<tr>
<td>1999-00</td>
<td>56</td>
<td>2,975</td>
<td>154.545</td>
<td>490.28</td>
</tr>
<tr>
<td>2000-01</td>
<td>115</td>
<td>2,479</td>
<td>105.35</td>
<td>-16.67</td>
</tr>
<tr>
<td>2001-02</td>
<td>06</td>
<td>1,082</td>
<td>-94.78</td>
<td>-56.35</td>
</tr>
<tr>
<td>2002-03</td>
<td>06</td>
<td>1,039</td>
<td>0</td>
<td>-3.97</td>
</tr>
<tr>
<td>2003-04</td>
<td>23</td>
<td>20,000</td>
<td>283.33</td>
<td>1824.93</td>
</tr>
<tr>
<td>2004-05</td>
<td>23</td>
<td>12,382</td>
<td>0</td>
<td>-61.52</td>
</tr>
<tr>
<td>2005-06</td>
<td>79</td>
<td>10,918</td>
<td>71</td>
<td>-13.40</td>
</tr>
</tbody>
</table>

Source: www.sebi.gov.in

In 1990-91 the number of public issues and initial public offerings has declined by 24.73% while the fund raised by these issues has declined by 42.5%. Further in 1991-92 the number of issues has increased by 39.29% over the last year but the amount raised by issues was still declining by 3.45%. The period of 1991-92 to 1994-95 has been evidenced as the period of first boom in the primary market. In this period, both the number of issues and fund raised by them had increasing trend. In this period sector specific IPOs have dominated as cement and steel in 1991-93, floriculture, aquaculture and financial services between 1993 and 1995. In the year 1992-93 the number of IPOs has increased by 169.74% while the amount raised by the IPOs was increased by more than three times. In the year 1993-94 the number of issues and amount both have increased but at declining growth rate. While the number of issues has the increment of 45.44% the percentage growth in raised amount is 91.54%. The peak year in terms of volume for the issues was 1994-95 but the relative growth rate was highest in the year 1992-93. If we analyse the information given in the exhibit it also seems that there was declining trend in 1991 but it improved considerably in 1991-92. However declining trend was continued this year also. The same declining trend in terms of number of IPOs was also reported in 1996-97 to 1998-99. In 1995-96 and it again continued upto 1998-99 During 2000-2001 to 2002-03 declining trend was again available but had an erratic trend. In 2005-06, primary market sustained momentum backed by buoyant secondary market and improved macro-economic fundamentals. During 2005-06, 79 IPO raised Rs. 10,919 crore compared to 23 IPO mobilizing Rs.12,382 crore
during 2004-05. All the IPO issues were by the private sector companies in 2004-05, except that of Gujrat State Petronet Ltd. In April 2006, there were 6 public issues, which raised 8,923 Crore. Of these Six, 5 were IPO which raised 8,791 crore. There were two mega issues during April, viz., Reliance Petroleum Ltd. (Rs. 8100 Crore) and SUN TV Ltd. (Rs. 603 Crore). The Reliance Petroleum Ltd. was one of the largest IPO in the recent years in Indian primary market.

PROBLEMS IN IPO RATING

SEBI has put in place a mechanism for rating of public issues of companies in consultation with stock exchange. The project was taken up on a pilot basis for a year and it was financed through the investment protection fund in stock exchange. The rating would be optional for the companies but once agreed for carrying out rating, the companies will have to disclose them in the offer documents. The financing is now to be done from investment protection fund after Ministry of Company Affairs rejected the proposal to fund the pilot project from its Investor Education and Protection Fund as its purpose is something else. The alternative source of funding is also required in the face of apprehensions that such grading would raise the costs of IPOs. There is, however, no proposal for compulsory rating of IPOs since nowhere in the world public issues of equities are rated this way. It is the debt, which is rated worldwide and not equities. In fact, it was SEBI board's decision that did not require the Ministry's approval. The proposal was mooted by SEBI to ensure that investor don't get confused by an array of public issues hitting the market. It is important to note that the equity investment by nature is a risky business. No rating agency could be sure about how the issues are going to cost in future. As such, disclosure norms set by SEBI provide sufficient guidance to investors to know about the company. Based on these disclosures investors make their own judgment, but at the same time the situation has entirely changed from pre-1991 time when Controller of Capital issues used to determine the prices of shares. Now the pricing of public issues is entirely disclosures based. So, the ratings would only confuse the investors instead of enlightening them but the Securities and Exchange Board of India (SEBI) is trying to take them into confidence.

While debentures and deposits, are amenable to credit rating, shares by their very nature are not. A great deal of subjectivity, is involved in rating of IPO so much that rating by two different accredited agencies could well be diametrically opposite. Long-term outlook for the industry, the global market players, the nature of consumers, taxation policy and a host of other factors impinge on rating of an IPO, defying scientific rating. SEBI skillfully tackled the problem by mandating publication of all the ratings when multiple rating is resorted to:

The four agencies approved by SEBI for rating of IPOs are CRISIL, Fitch Ratings, ICRA and CARE. They received only handful of enquiries from the companies though there had been a large number of enquiries from merchant bankers seeking to know various details of the rating exercise. The major factors that are considered by the rating agency while rating a corporate body can be broadly be classified into two, the external and the internal factors. The external factors include the industry and economic/business environment for the issuer. The internal factors include competence and effectiveness of the management, profile of promoters,
marketing strategies, size and growth of revenues, competitive edge, technology, operating efficiency, liquidity, asset quality, accounting quality, profitability and hedging of risks.

PROSPECTS OF IPO RATING

The primary market can contribute tremendously to capital formation and growth of the economy if foreign participation in equity can be liberalized further, in all industries. Many new industries such as entertainment, healthcare and advertisements are entering the primary market to raise capital. Banks, financial institutions and finance companies mobilized about 50% during 2004-05 and 2005-06. In 2005-06, electronics, engineering, entertainment, information technology, healthcare, textile and power industry together mobilized more than 30%. The information and power industry mopped up Rs. 7,000 crore and Rs. 8,000 crore respectively over past two years. While banks and financial institutions mobilized large amount of resources to meet capital adequacy, manufacturing industry like electronics, engineering, chemical, food processing power, textile and so on displayed a propensity for direct capital formation. Companies that can promote infrastructure development in the country can be set up with 75% of foreign direct investment. There is a move in the economy to attract foreign investment in retail industry but many other areas like ports, airports, power generation, hospitals, and roads for commercial use, which need significant infusion of funds must not be overlooked. The funds can be brought jointly by Indian companies and foreign investors through equity participation. However, the government has to formulate enabling policies and support quick action strategies to attract foreign equity participation. Besides, intermediaries in the capital market-merchant bankers, depositaries, broking services and so on-have to be streamlined so that the IPO scam, which happened recently, is not repeated again. Another indicator of strong growth of primary market over the past three years is dominance of premium equity issues. In 2004-05 and 2005-06, 99% of capital issues were premium shares as compares to 74% in 2000-01. This trend underscores improvement in the confidence level of investors. But it needs to be noted that institutional investors like FIIs, mutual funds and to some extent banks and domestic financial institutions have been the main contributors for investment in premium issues with high over subscription. Moreover, the financial markets have been flush with liquidity on account of large FII inflows, and a steep rise in domestic savings. The initial public offer has been playing a significant role in raising the capital. In 2003-04 IPOs contributed 15% to total capital raised, in 2004-05 their share increased to 56% though it declined to 40% in 2005-06, the other feature that can be distinguished very clearly is the increase in average size of IPOs. In 1999-2000, the average size of IPOs was 100 crore but it increased to Rs. 700 crore by 2005-06. On the other hand the average size of issue, including listed as well as IPO increased from Rs. 94 crore to Rs. 497 crore. The massive IPO activity induced by new and young corporate with high profitability is a reflection of their better and competitive future performance. This is the outlook which have incentivised them to enter the market. Takeover and mergers of foreign companies by Indian giants in the US, Germany, Austria and many other countries have also emboldened the Indian investor. In terms of business, India is becoming a centre of consolidation on the international map, and that is precisely why FII have been rushing to invest in IPOs.
CONCLUDING REMARKS

Equity rating is taken mainly for the protection of interest of investor. It gives investor a guidance regarding their investment plan. The risk and return analysis of each IPO enables the investor to choose the best issue according to his requirement. Share is not the same as debentures or deposit. The Securities and Exchange Boards of India is ushering in an optional regime of rating IPOs. It should not only be optional but made mandatory. This will be an excellent bulwark against the empty boasts of promoters, which, coupled with glossing over the real risk factors with the concomitant highlighting of frivolous ones, often characterize IPOs. Second, the government should pioneer the concept of interest or user charges on the premium part of the equity capital. It is all well to contend that investors in equity cannot be expected to earn fixed returns. A mandatory interest of 10 per cent on premium would have a chastening effect on companies, besides giving the investors some reward on a part-which these days in sizable given the fact that the premium invariably is several times the face value of their investments. A user charge always has a disciplining effect in every walk of life- be it use of water or electricity or for that matter capital. It is all fine, one again, to content that investors in equity should collect their rewards from the market. While the market indeed should provide the exit opportunity, it doesn't mean the company, which lays its hand on huge capital, should be left severely alone.

A modicum of guidance would be of immense help to them, especially when there is an indiscriminate scramble for IPOs and companies are walking way with the prices discovered through the book-building process. The rating, if and when ushered in, should mandate use of clear language like 'Recommended', 'highly recommended', not recommended etc., rather than use cryptic alphanumeric symbols. As it is IPOs are carried through untrammeled by a company in league with its merchant bankers, which practically is its handmaiden. The presence of a dispassionate observer-the rating agency-would halt promoters on the rampage in their tracks. In fact, SEBI should insist on multiple rating of an IPO precisely to even out the element of subjectivity, which admittedly could bedevil the rating exercise.

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SEGMENT REPORTING (AS 17): A SURVEY OF FOREIGN BANKS WORKING IN INDIA

*Neetu Prakash

ABSTRACT

Present study is based on identification of annual reports of thirty six foreign banks operating in India and shows that segment-reporting practices of these units have taken a new turn after the implementation of AS-17. Although, the attempts made by the foreign banks are highly appreciable, yet more efforts are required to make segment reporting more meaningful and purposeful, since there is a significant difference in the segment reporting discolor practices in the banking units. There is a need of uniform set of guidelines, as well as uniform format so that an international understanding in the banking world may develop.

INTRODUCTION

Under segment reporting, companies/banks, particularly, those are multi product and multi location are required to disclose their segment wise operations in their annual reports as well as in their quarterly reports. The segment reporting information is a place where an investor can find the performance of the company's/bank's individual divisions and judge the impact of their managerial decisions. The presentation of segmental information, as an integral part of financial statements becomes more essential to provide useful information for economic decisions.

In India, the Council of the Institute of Chartered Accountant (ICAI) issue AS17 Segment Reporting. AS 17 comes into effect in respect of accounting periods commencing on or after 01.04.2001 and is mandatory in nature from that date in respect of the following:

(a) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the Board of Directors resolution in this regard.

(b) All other commercial, industrial and business reporting enterprises whose turnover for the accounting period exceeds Rs. 50 crores

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LITERATURE REVIEW

The concept of segment reporting in a formalized form is almost 32 years old. It was in 1974 when the FASB (Financial Accounting Standard Board) of USA issued SFAS 14: Financial reporting for segments of a business enterprise. It was strongly encouraged by the financial analyst community, and that was the beginning of segment reporting. After this International Accounting Standards Committee issued IAS-14 Reporting Financial Information by Segment in 1981. Both SFAS 14 and IAS 14 were revised to make segment reporting more informative. SFAS 14 was revised by FASB with the issue of SFAS 131 in 1997 whereas IAS 14 was revised in 1998. IAS 14 is effective for periods beginning on or after July 1, 1998. The basic features of SFAS 131, IAS 14 and AS 17 are almost similar. Now, several countries through the standards issued by their respective nation's institutions have made the segment reporting mandatory. There countries are: Australia, Austria, Bahamas, Belgium, Botswana, Canada, Cyprus, Fiji, Finland, Germany, Ghana, Hong Kong, Hungary, Ireland, Italy, Japan, Malawi, Malaysia, Netherlands, New Zealand, Norway, Pakistan, Singapore, South Africa, Sri Lanka, Sweden, Taiwan, Thailand, United Kingdom, United States, Zimbabwe, etc.

In India, very few studies have been conducted in this regard, as presented below:

Krishnan A (2001) studied the segment reporting of Nestle India Limited. The study observed that Nestle has adopted a comprehensive explanation of its segmentation of business and has disclosed the revenue and profits based on its domestic and export business classification, but did not provide it on the basis of individual product lines. Bardia, S. (2002) studied the segment reporting practices of four Indian companies, namely, Hindustan Lever Limited (HCL), Global Tele System Limited (GTL), Satyam Computer Service Limited (SCSL), Infosys Technologies Limited (ITL) during the period 2001-02. The study showed that ITL has disclosed segment reporting in detailed followed by GTL, HLL and SCSL respectively. Aravanan S (2002) studied the reportable segment of five corporates as per AS-17, namely UTI Bank, Tube Investment of India Limited, Himat Singhka Seide Limited, Tata Co-Offee Limited and Jindal Steel and Power Limited for the period 2001-02. The findings of the study showed that the segment reporting is definitely a right step in the right direction towards improving the quality of financial statements. There will be problems of both orientation and implementation but gradually the teething problems would disappear and segment reports would serve the purpose for which they are advocated. Banergee and Sen (2004) studied the segment reporting practices in the corporate sector of BSE Sensex companies for the year 2001-02. They examined the reporting practices both in respect of primary and secondary segments, and the nature, number, size and the items disclosed are analysed with respect to each. The findings of the study showed that 24 (80%) out of 30 companies have given segment information in their Annual Reports by reporting that they have segmented their business into more than one segment. They found that no specific relationship has been seen between the nature of industry and the number of segments disclosed Dilipan A (2005) observed that the MNCs and the diversified companies have been under pressure to disclose more segment information, and the core issue lies in the fact that companies are reluctant to disclose more on those lines.
and hence, have always been resistant to such increases disclosures. The factors behind the resistance may be fear of cutthroat competition, compiling costs, fear of misinterpretation of information by investors. Shukla W (2005) studied the segment reporting practices of 49 Indian Companies (as per AS-17) falling under different categories such as banks, chemicals, pharmaceuticals, textile, software, etc. The findings of the study showed that almost all the units have disclosed details of business segment where as the details of their geographical segments disclosed by 72% of the units. An interesting finding was observed that only one unit of the sample company has disclosed details about the inter-segment transfer of goods.

OBJECTIVES OF THE STUDY

A review of these studies indicates that no attempt has been made yet to present the segment reporting practices of banking sector especially foreign banks so the present research work is conducted to provide evidence on segment reporting practices and policies of foreign banks by considering all the variables for the period 2005-6.

Specifically, the objectives of the study are as follows:

i. to examine the percentage of banks implementing AS-17 in their annual reports,

ii. to examine what specific items banks are disclosing for primary segments,

iii. to examine what specific items banks are disclosing for secondary segments.

DATA SOURCE AND RESEARCH METHODOLOGY

For the said purpose, the annual reports (as on 31st March 2001 and as on 31st March 2006) of 36 foreign banks (annexure-I) were selected randomly. AS a part of the study, 12 parameters have been selected for primary segment where as 4 parameters for secondary segment on the basis of required disclosure made by AS-17, and the annual reports have been identified or the basis of these parameters, which are given below:

I. Parameters selected for primary segment.

These are as below:

\[ P_1 = \text{Business segment} \]
\[ P_2 = \text{Segment revenue} \]
\[ P_3 = \text{Segment result} \]
\[ P_4 = \text{Segment asset} \]
\[ P_5 = \text{Segment liability} \]
\[ P_6 = \text{Segment expense} \]
\[ P_7 = \text{Basic of transfer for inter segment transfer} \]
\[ P_8 = \text{Provision and contingencies} \]
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P9 = Segment operating / net profit
P10 = Depreciation
P11 = Non cash Items other than depreciation
P12 = Addition to fixed asset

II. Parameters selected for secondary segment

Four parameters are identified which are given below:
P13 = Geographical segment (GS)
P14 = Segment revenue (SR)
P15 = Segment asset (SA)
P16 = Segment liability (SL)

The basic assumption for the study is that all the foreign banks working in India have same segment disclosure practices. The statement of null hypothesis is; "There is no significant difference in the segment disclosures among foreign banks working in India". The alternative hypothesis is, "There is significant difference in the segment reporting disclosures practices among foreign banks working in India.

ANALYSIS AND INTERPRETATION

This section presents the major observations which have been identified from the financial statements of foreign banks operating in India as given below

An Analysis of Primary Segment

Following observations have been noticed.

(I) It is observed from the financial statements of 36 foreign banks operating in India that 33 (91.66%) banks have given segment information in their annual reports. These units have reported that they have segmented their business into more than one segment (except Antwerp Diamond Bank, Barclays Bank PLC and Krong Thai Bank Limited.). The reason for not disclosing description of business segment is explain below.

a. Barclays Bank PLC. disclosed that the branch in Mumbai is mainly engaged in treasury operations and there is to other significant operations, that why financial statements pertain to one business segment only i.e. treasury operations.

b. Antwerp Diamond Bank disclosed that the Mumbai branch is mainly engaged in financing diamond exports and it has no other significant banking operations that's why all the financial records regarding segment reporting protein only to on business segment i.e. financing of demand export.
Krong Thai Bank Ltd. has not disclosed any information regarding segment reporting, and even the reason for not disclosing segment information is not mentioned in its financial statement.

Table 1

Summary of all parameters disclosed for primary segment by the sample units.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Parameters</th>
<th>No. of companies</th>
<th>%age</th>
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<td>1.</td>
<td>Description of business segments</td>
<td>33</td>
<td>91.66</td>
</tr>
<tr>
<td>2.</td>
<td>Segment revenue</td>
<td>33</td>
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</tr>
<tr>
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<td>Segment result</td>
<td>31</td>
<td>86.11</td>
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<td>Segment asset</td>
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</tr>
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<td>5.</td>
<td>Segment liability</td>
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</tr>
<tr>
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<td>05</td>
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<tr>
<td>7.</td>
<td>Inter segment transfers and basis</td>
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<td>8.</td>
<td>Provision and contingencies</td>
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<td>10.</td>
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<td>11.</td>
<td>Non cash items other than depreciation</td>
<td>01</td>
<td>2.77</td>
</tr>
<tr>
<td>12.</td>
<td>Addition to fixed and</td>
<td>01</td>
<td>2.77</td>
</tr>
</tbody>
</table>

Source: Computed from the published financial records of sample units.

All the banking units showing segment reporting have chosen business segment as their primary segment. It is also observed that 91.66% units of the sample have segmented their business in treasury operations followed by other banking operations 86.18 per cent, residual operations 16.67 per cent and consumer banking 8.33 per cent. In others category, five units have been adjusted. Two units namely, Bank of Behran and Kuwait and Citi Bank disclosed about corporate banking while information regarding Bullion operations, Scotia Bank, ABN-Amro Bank NP and Atwerp Diamond Bank disclosed financial markets and financing of diamond export respectively. All these facts have been verified from the table 2.

Table 2

Description of business segment disclosed by foreign banks

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Description of segments</th>
<th>No. of companies</th>
<th>%age share</th>
</tr>
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<tr>
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<td>Residual operations</td>
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<td>Corporate Banking</td>
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</tr>
<tr>
<td>5.</td>
<td>Others</td>
<td>5</td>
<td>13.88</td>
</tr>
</tbody>
</table>

Source: Computed from the published records of sample units.
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(II) 91.66 per cent units of the banking sample have disclosed about their segment revenue, segment assets and segment liabilities. A very interesting point is observed in this case is that although 91.66 of the banking units disclosed about segment assets but information regarding addition to fixed assets during the year was reported by just one unit only i.e. City Bank.

(III) 31 units (86.11%) have disclosed that information about their segment results. While identifying financial statements, it is also observed that in segment results only two units i.e. Mizuho Corporate Bank Ltd. and ABM Amro Bank disclosed about their segment operating profit while segment net profit was disclosed by only one unit i.e. American Express Bank.

(IV) Allocation of segment wise expenses was disclosed by only five foreign banking units, namely, American Express Bank, City Bank, DBS-Bank India. Chong Bank and Bank International Indonesia.

(V) Inter-segment transfer was disclosed by four units, namely, American Express Bank, Oman International Bank, City Bank and BNP Parihas.

(VI) It is also observed from the table 1 out of the survey of 36 banks, Bank of Behran and Kuwait, City bank and Oman international have disclosed about provision and contingencies towards bad -debt, taxes, deprecation and other emergences.

Let us see the overall picture of the disclosure of segment reporting practices of foreign bank operating in India. These are 36 foreign bank which are covered for the study and the Citi Bank is rated higher in the study followed by American Express Bank, Bank of Bahran and Kuwait and Oman international bank for their segment reporting disclosure. The overall results of all the parameters are given below:

a  91.66 per cent units of the sample disclosed about business segment, segment revenue, segment assets and segment liabilities.

b  86.11 per cent units of the sample disclosed about segment result.

c  13.88 per cent units of the sample disclosed about segment expenses.

d  11.11 per cent units sample disclosed about inter segment transfers.

e  8.33 per cent units of the sample disclosed about segment net profit/and operating profit.

f  5.55 per cent units of the sample disclosed about depreciation.

g  2.77 per cent units of the sample disclosed about non-cash items and addition to fixed asset during the year.
As basic hypothesis of the study is that all the foreign banks operating in India have equal disclosure for segment information and this is tested by the statistical tool 't' distribution test. The observations from table 3 have been mentioned in Annexure I and in light of these data, the hypothesis is tested. It is observed from the table 3 that the calculated value of 't' is 4.678 where as the table value of 't' is 2.207 at 5% level of significance. It is respectfully submitted that the null hypothesis is rejected and the alternative hypothesis holds.

Analysis of Secondary Segment

As far as geographical i.e. secondary segment is concerned, all the foreign banks operating in India have mentioned that they are working in India as Indian branches and they don't have any overseas operations why its is considered to operate only in demonstrate segment.

MAJOR FINDINGS

Segment reporting practices of foreign banks working in India (as revealed from the disclosure of 36 units in the previous text) have undoubtedly took a new turn after the implementation of AS-17. It is observed from the previous text that 91.66% units of the sample banks have disclosed about their business segment. The other parameters like as segment revenue, segment result, inter segment transfers, segment assets, segment liabilities, etc have also been disclosed by the banking sector.

Although, the attempts made by these units regarding segment reporting is highly appreciable, yet more efforts are required to make segment reporting more meaningful and purposeful, since there is a significant difference in the segment reporting disclosure practices in the banking units (as proved in the previous test). There are various reasons, as given below:

(i) The ICAI has not explained any specific guidelines for defining a particular business line For e.g. a bank is providing retail banking like housing finance, personal loan, education loan, etc considers one business segment that is " retail segment " and dose not make any disclosure for their business lines. In such a case, segment information provided by the bank is not so meaningful.
As we know that human resource play a very important role for the success of a business and it is equally important to find out what quality of human resources are employed in a one business segment which has led to the growth of overall organization. Unfortunately this issues has not been considered. The UN proposal has also recommended disclosure of number of employees and their quality in a particular business line / business segment in 1988.

The AS-17 mentioned that are the common costs, which are not apportioned in a one particular segment such as legal expenses, general administration expenses, etc are to be apportioned on what the bank management believes in a reasonable basis. In such a case the management of the banks can make misleading apportionment of the common cost for their own benefits.

Allocation of overheads for various segments is a big problem for the management.

The AS-17 requires that the segment to be identified on the basis of total turnover/revenue including inter segment transfers. The recording of inter segment transfers is based on the various methods of transfer pricing such as market value, full cost, marginal cost, etc. In practice, this varies from bank to bank; resulting segment reporting cannot be comparable among the different units operating under same industry.

As we know that AS-17 requires that banks/corporate must publish segment wise quarterly reports of their businesses. It is also possible that management of few banks/corporate can improve the performance of their loss making unit or declining profit segment by making some manipulations, to create a trust worthy image before their investors as well as their customers.

At present intangible assets play a very important role in increasing revenues but it is a matter of fact composition of segment assets is rarely reported by the banking sector. This phenomenon can misguide the investors.

REFERENCES


### Annexure - I

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MANAGEMENT OF RISK AND RETURN: A CASE STUDY

*Mrs. Martina. R. Noronha

ABSTRACT

The Indian mutual fund industry has witnessed major transformation and structural changes during the past two decades. Mutual fund industry is one of the most preferred investment avenues in India. However, with a plethora of schemes to choose from, the retail investor faces problems in selecting funds. Factors such as investment strategy and management style are qualitative, but the funds record is an important indicator too. Though past performance alone cannot be indicative of future performance, it is, frankly, the only quantitative way to judge how good a fund is. Return alone should not be considered as the basis of measurement of the performance of a mutual fund scheme, it should also include the risk taken by the fund manager because different funds will have different levels of risk attached to them. The present study is an attempt to examine the investment performance of mutual funds of the various (18) debt based schemes of three Asset management companies with the help of ratios and various statistical measures for three years (April 2002-March 2005). This study has been conducted with a view to develop insights for comparing the performance of different funds.

Broadly mutual funds can be classified into equity, debt and balanced funds. Debt funds are schemes that invest only in fixed-income instruments. Their objective is to generate steady returns while preserving the capital, a feature that makes them worthy investment options for that portion of savings on which safety is paramount. Debt funds can be Income Schemes, Monthly Income Plan, Short Term Plan, Floating Rate Schemes, Liquid Schemes and Gilt Schemes.

MODELS FOR EVALUATION OF MUTUAL FUNDS

Return alone should not be considered as the basis for measuring the performance of a mutual fund scheme. It should also include the risk taken by the fund manager because different funds have different levels of risk attached. Risk associated with a fund can be

*Vice-Principal, S.P.B. English Medium College of Commerce, Surat, Gujarat
defined as variability or fluctuations in the returns generated by it. Higher the fluctuations in the returns during a given period, higher is the risk associated with it. In order to determine the risk-adjusted returns of investment portfolios, several eminent authors since 1960s have developed composite performance indices to evaluate performance of mutual funds. Some of the commonly used methods are:

1. **Relative-To-Benchmark method:** Under this method, a comparison is made between the returns given by a market index and the fund over a period of time. If the returns generated by the fund (changes in NAV over a period of time) are greater than those generated by the benchmark, then the fund is said to have outperformed the market portfolio.

2. **Sharpe's Model:** This measure uses standard deviation as a measure to evaluate a fund's risk-adjusted returns. Standard deviation, a measure of dispersion, for a mutual fund depicts how widely the returns vary over a period of time. When a fund has a high standard deviation, it implies greater volatility. The higher a fund's Sharpe ratio, the better it is. This measure adjusts the performance for risk as well uses the capital market line as the benchmark. Symbolically, it can be written as:

   \[ S.I = \frac{T.R. - R.F.R}{S.D.} \]

   where,

   \( T.R. = \) Total Returns, \( R.F.R. = \) Risk Free Rate of Return (on the Treasury Bills), \( S.D. = \) Standard Deviation. A positive Sharpe Ratio shows a superior risk-adjusted performance of a fund. Higher the Sharpe measure, larger the excess return per unit of standard deviation.

3. **Treynor's Model:** This index is a ratio of return generated by the fund over and above risk free rate of return, during a period and systematic risk associated with it (beta). Beta determines the volatility, or risk, of a fund in comparison to that of its index or benchmark. A fund with a beta very close to 1 means the fund's performance loosely matches the index or benchmark. Betas less than 1 indicate less volatility than the benchmark. Symbolically, it can be represented as:

   \[ T.I. = \frac{(T.R. - R.F.R)}{\beta_i} \]

   where,

   TR represents return on fund, RFR is risk free rate of return and Bi is beta of the fund.

   Treynor index measures the excess return per unit of risk taken. A high and positive Treynor's Index shows a superior risk-adjusted performance of a fund.

4. **Jensen's Model:** This measure involves evaluation of the returns that the fund has generated vs. the returns actually expected out of the fund given the level of its systematic risk. The surplus between the two returns is called Alpha. Alpha is the measure of a mutual fund's risk. Required return of a fund at a given level of risk (Bi) can be calculated as:

   \[ R_i = A_i + \beta_i (R_m - R_f) \]

   where,

   Rm is average market return during the given period. Higher alpha represents superior performance of the fund. An alpha of 1.0 means the fund outperformed the market.
Noronha

RESEARCH METHODOLOGY

The present study compares 18 debt based schemes of three Asset Management Companies on the basis of calculation of ratios and various statistical measures for three years i.e. from April 2002 to March 2005. The Asset Management Companies are selected on the basis of their performance and the financial services provided by them. The companies selected are, Templeton Asset Management Company, HDFC Asset Management Company and Prudential ICICI Asset Management Company.

OBJECTIVES OF THE STUDY

This study has been conducted with a view to develop insights for comparing the performance of different debt funds with the help of different risk - return models and statistical measures.

PERFORMANCE EVALUATION

1. Income Funds

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratios</th>
<th>Templeton India Income Fund</th>
<th>HDFC Income Fund</th>
<th>PRU ICICI Income - LT</th>
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53
## Gilt Funds

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<td></td>
<td></td>
<td>Templeton India Gsec Composite</td>
<td>HDFC Sovereign GILT Investment</td>
<td>PRU ICICI GILT Invt. Plan</td>
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<td>2002-2003</td>
<td>Sharpe's Ratio</td>
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<td></td>
<td>Treynor's Ratio</td>
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<td>Jensen's Ratio</td>
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### OBSERVATIONS

1. Among Income funds, the performance of HDFC Income Fund was better than Templeton India Income Fund and PRU ICICI Income-LT. However the performance of the market was superior. Sharpe's index showed a gradual decline in all the three years of all Income Funds. Treynor's index too revealed a decline in the return. Jensen's index showed a negative return for all three years.


3. In case of Short Term Plans the performance of Templeton STP was good in the year 2002-2003 and 2003-2004 but it declined the year 2004-2005. In the year 2004-2005 all the funds gave negative return but HDFC STP Premium Plan gave the lowest negative return but the market index was superior to the fund.

4. In case of Floating Rate Fund, Templeton Floating Rate Income gave good return in 2002-2003, it even outperformed the benchmark indices but in the consequent year its performance was very inferior as it gave negative returns. The returns of HDFC Floating Rate-LT and PRU ICICI Floating Rate Fund were negative in all the three years.
On analyzing the Liquid funds it can be seen that only PRU ICICI Institutional & Growth fund gave good returns. It even outperformed market benchmark in 2003-2004. There was a continuous negative return of liquid funds in all the three years showing an inferior performance.

In case of GILT funds the returns of Templeton India Gsec Composite Plan were better than HDFC Sovereign Gilt Investment Plan and PRU ICICI Gilt Investment Plan but the market outperformed the funds return.

**CONCLUSION**

Income funds in the short run cannot generate higher returns because of the constant interplay between interest rates and bond prices. But in the long run, over a period of three years or more, an investor gets an advantage of return. When the market is weak, an MIP might lower or even skip dividends but when the share prices are on an ascent, it's likely that the same MIP will more than make up for the earlier shortfalls. An investor who wants to earn higher return and less risk can go for Short Term Plans while those seeking higher returns from debt fund should go in for floating rate funds. Investors seeking security should go in for liquid funds while those ready to take risk can go in for GILT Funds. The alpha looks at excess returns over the index while the beta looks at excess risk over the index. **Betas and alphas go hand in hand. An ideal fund has a low beta and a high alpha.**

**REFERENCES**

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Marathe Ujwal [2005], Investing in Mutual funds, Utkarsh Prakasahan, Pune.
INDIAN PRIMARY MARKET: EMERGING SCENARIO

*Sunita Mehla
**Hanuman Prasad

ABSTRACT

On the recommendations of the Narasimhan Committee, the regulatory functions of the Controller of Capital Issues (CCI) were transferred to Securities and Exchange Board of India (Sebi) on 30 January 1992, by a special enactment SEBI Act 1992. The primary role of the board was of market regulator, with a purpose to protect the interest of investors and to create an environment that could facilitate the mobilization of adequate resources from capital market. The present study has been carried out to study the various regulations framed by Sebi for the revival of primary market during the period 1992-2004 and an attempt has been made to study the impact of reforms on the growth of public and rights issues.

The avg. annual capital mobilization in the primary market which used to be merely Rs.700million in the 60s and 900 million in the 70s, shot up to many fold in the 80s with the amount raised in 1989-90 to the tune of Rs.64.73 billion (Facts & Figures, 1995). This dramatic growth was almost unparalleled in the history of any nation. This trend of unprecedented boost continued in the early 90s also, with the amount of capital rising sharply to Rs.264.17 billion in 1994-95. The offerings were heavily oversubscribed and led to an increase in the liquidity and broadening the investors' base of the Indian securities market (Facts & Figures, 1993). Further, the number of listed companies rose from 2265 in 1980 to over 6800 at the end of 1993 (Facts & Figures, 1995). With this voluminous and unidirectional growth of securities market, the investors soon started feeling uncomfortable. On the recommendations of the Narsimhan Committee, the regulatory functions of the office of the Controller of Capital Issues (CCI) was transferred to Securities and Exchange Board of India (Sebi) in 1992. The main objective for establishing Sebi was to undertake the role of market regulator and ensure the smooth operation of market on the basis of well laid down principles and guidelines rather than replacing the restrictive role of CCI.
(RBI Annual Report, 1991-92). Sebi came out with a series of guidelines covering various aspects of its jurisdiction and responsibility, which have far reaching implications on the investing behavior of the investors. The study aims to study critically the primary market reforms introduced by Sebi and to know the status of new capital raised by non-government public limited companies. The present study is based on secondary data collection.

PRICING THE NEW ISSUES

A crucial reform in liberalizing the primary market was the departure from age old CCI's pricing method and introduction of free pricing for new issues. All the players in the capital market generally welcomed it. The public issues witnessed new heights in terms of number of issues and amount raised through them. The number of public issues climbed to 1415 in 1995-96 from just 531 in the 1992-93 (Table I). The historic development was recorded in the year 1994-95 when Rs26417cr (Table II) were mobilized from 1678 issues which included 1328 public issues and 350 rights issues. However, the investors soon felt the pinch of the pitfalls in the free pricing of shares. The investors were rendered in the pool to face the high risk in the totally unregulated atmosphere of freedom for issuers to price their issues. Thus, free pricing criterion of issues exposed the investors to exploitation, as some of the companies started charging unjustified premia on new issues that often had no relation with the inherent values of the shares.

To curb such manipulations in issue pricing and protect the interests of investors, Sebi, then, in the year 1994, introduced a provision of price band of 20 percent on the issue price. This guideline simplified the task of merchant bankers on pricing of issues and also brought down the risk element of the promoter in issue pricing, as now, issue price will be finalized just before the issue opens (The Economic Times, 1995)

IPOs AND BOOK-BUILDING PROCESS

Sebi, in order to bring more transparency in the offer pricing for IPOs introduced a new method, called book-building. The earlier method of offering shares at a price fixed by the issuers was not efficient in the sense that it does not take into account the investors' demand. The book-building method, on the other hand, explicitly uses investors' demand for shares at various prices as an important input to arrive at an offer price (Indian Securities Market-A Review, 1998) In October 1997, Sebi had issued guidelines for book-building which were applicable for issues above Rs100crs and for cent percent of the issue size. To encourage the use of this facility, the guidelines were revised subsequently by reducing the limit to issues of Rs25 crs. Surprisingly, there was not even a single issue that has priced its IPO through book-building. The guidelines were further relaxed in October 1999, to make them more attractive (Indian Securities Market-A Review, 1999). Under it, an issuer has been given an option to book-build either 90 percent or 75 percent of the net offer to the public and the balance issue is offered to the public at a fixed price determined through book-building route (SEBI Annual Report, 1999-00).
Moreover, to streamline the allotment of the shares and their refunds, the time span for finalizing the allotment has been reduced from 30 days to 15 days in book-build issues. Hughes Softwares was the first issue to offer its shares through book-building (The Economic Survey, 2000-01).

It is still not very clear as to whether the book-building system can be a good price discovery mechanism as in quite a few cases the post listing prices are significantly lower than the prices arrived at by the book-building mechanism. The companies like Cine vista, Shree Ram Multi Tech and Cadila Healthcare, had fixed their prices at Rs300, Rs 120 and Rs250 on the basis of book-building but were quoted at Rs293, Rs100 and Rs130 respectively on listing (Dalal1, 2001). Whereas the offer price for HCL Technologies, Mascot System Ltd and Balaji Telefilms Ltd were Rs580, Rs480 and Rs130 respectively but were quoted at Rs1150, Rs575 and Rs171 respectively on the day of listing. The Hughes Software issue opened at a high of over Rs 1800 as against the offer price of Rs 650 (Dalal2, 2001).

Thus, the modified criterion inflicted the investors to higher risk than the traditional fixed price method. The immediate risk to the IPO subscribers is that the market may fall in the post issue period. The issue price determined through book-building is by definition, "highest which the market can bear" at a particular time i.e. the issue is "fully priced". Further, such issues are usually accompanied by a lot of hype and manipulation to push up the price through heightening the investors' interest as much as possible. For these reasons, the issue price arrived at through the book-building route tends to be artificially high. Consequently, there is a high probability of the market price falling in the post issue period. Thus, it seems that the fixed price method provides some cushion to absorb the post issue jerks in price whereas the book-building method provides no such cushion (Gupta, internet).

In 2000, Sebi with an objective of widening the investors' base has dispensed with the requirement of standard denomination of Rs10 and Rs100. This decision was in conformity with the recommendations made by the Informal Group of Primary Market. It has given freedom to companies to price their IPOs below Rs10 and thus is an extension of free pricing (SEBI Annual Report, 1999-00)

**TRACK RECORD**

Sebi tightened its noose on the entry norms for new companies proposing to make the first equity offer to public in 1996. The new companies intending to tap the capital market must have track record of paying dividend in the immediate three years of the preceding five years and the threshold limit of paid up capital should be Rs.5 crore.

The entry norms favoured the banking sector. Both the private sector and the state owned banks need not to have the three years dividend track record to make foray into capital market. The new private banks for making premium offerings, must have three years profitability record. But Sebi had shown liberal attitude towards the public sector banks by allowing them for premium issue if they have two years profitability track. Further, the new private banks can venture into IPOs at par only just after one year of their operation.
The dividend criteria as entry norms for companies with new issues certainly reduced the possibility of dubious companies entering the market. As a result, the number of new issues recorded an unprecedented fall from 1,677 in 1995-96 to 842 in 1996-97. The gloomy period in IPOs continued in 1997-98 as it registered a fall of 87.89 percent in the number of new issues (Table I) and the total amount mobilization also fell short by 69.89 percent compared to previous year (Table II).

The depressive mood in the capital market continued unabated in the year 1998-99 with number of issues plummeting to 48 only constituting 24 public issues and 24 right issues. But this year has shown a revival in terms of amount mobilized, registering an increase of 59.75 percent over that of year 1997-98. This upsurge, however, could be attributed to the two bond issues by IDBI and five bond issues by ICICI, which together mobilized Rs750cr. and Rs1600cr. Respectively (Economic Survey, 1998-99).

The stringent entry regulations enacted by Sebi, undoubtedly, improved the quality of public offerings. A company with three year track record has higher credibility; chances of investment getting sour become less and were in a better position to provide return to the investors (The Economic Times, 1996). But this provision hurted the profit making closely held companies which prefer to plough back profits than declaring dividends. In 1999-00, Sebi changed the criteria from "actual payment of dividend" to "ability to pay dividend" and further, the companies coming out with IPOs should have minimum pre-issue networth of Rs.1cr.in three out of preceding five years (SEBI Annual Report,1999-00). Moreover, different yardsticks for making issues at par and at premium were also merged to create common set of requirements (The Economic Times, 1999). The impact of above guideline, modified for closely held companies, was clearly visible in the year 1999-00 and 2000-01 as, there was a strong upslide in the number as well as the amount raised through public issues.

The minimum percentage of securities to be offered to the public for the purpose of listing was brought down to 25% from 60% of the equity base in 1993-94 and later to 10% in December 2000, subject to a minimum number of 20 lakh securities and a minimum net offer value of Rs 100crs (Sharma, 1999-00). The main objective of this provision was to check the misuse of high valuation of IT industry by some unscrupulous promoters who charged unreasonably high premium from the investors. But, on the other hand, the shrinkage in the public offer from earlier 60% to 25% and then to 10% has given a set back to the spread of equity cult. It induces the companies to seek listing, which in reality do not need additional capital. Promoters also scout for private placement on a large basis among their friends and relatives with an offer either at par or a lower premium and later offer only 25% or 10% of the capital to the public on a higher premium (The Economic Times,1995). There is already a diminution in the interest of small investors in the new issue market and above relaxation are likely to erode further the interest of small investors in equities.

There has been a boom in the primary market in the years 2003-04 and 2004-05 depicting a rise of 200 percent and 51 percent respectively in the number of issues over that of previous year (Table I) and the same trend is supported by the amount raised by these issues witnessing
a upslide of 70.87 percent in the year 2003-04 and 300 percent in the year 2004-05 as compared to previous year (Table II). Listing for small companies by BSE may be one of the reasons for the revival of new issues market. Sebi needs to enhance its focus on encouraging the initial public offerings by small and medium sized companies.

CONCLUSION

The strict entry norm for companies presented a depressive mood in the number as well as amount mobilized from the public and rights issues in the later years. The massive fall in the amount raised to 3138 cr in the year 1997-98 and number of issues plummeting to 48 in the year 1998-99 became a cause of consternation. This deceleration continued in the later years too. Although, level of market transparency, discipline and efficiency of the capital market has improved over the years but Sebi has to work out a proper balance between the protection of investors and interest of the promoters. There is a need for institutional restructuring of new issue market. The regulators need to ensure a ring fence of regulations, which must be constantly reviewed (Malegam, 2001). Right implementation of the guidelines is the only way to lure investors back to the market.

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Malegam YH "Empower Sebi to Enforce Orders" The Economic Times, Feb 5, 2001
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### Table 1

**Number of Public & Rights Issues**

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<thead>
<tr>
<th>Year</th>
<th>Public Issues</th>
<th>Rights Issues</th>
<th>Total</th>
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<td></td>
<td>No. of Issues</td>
<td>% increase over previous year</td>
<td>No. of Issues</td>
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<tr>
<td>1992-93</td>
<td>531 (51.20)</td>
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<td>1993-94</td>
<td>757 (66.64)</td>
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<td>1994-95</td>
<td>1328 (79.14)</td>
<td>6.55</td>
<td>350 (20.86)</td>
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<td>1995-96</td>
<td>1415 (84.48)</td>
<td>-48.41</td>
<td>262 (15.62)</td>
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<td>1996-97</td>
<td>730 (86.70)</td>
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<td>1997-98</td>
<td>54 (52.94)</td>
<td>-55.56</td>
<td>48 (47.06)</td>
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<td>24 (50.00)</td>
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<td>118 (84.89)</td>
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<td>14 (73.68)</td>
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<td>5 (26.32)</td>
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<td>6 (66.67)</td>
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<td>28 (54.90)</td>
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CAGR: -34.14 - 32.38 - 33.77

Source: RBI Bulletin of respective years

### Table 2

**Amount Raised Through Public & Rights Issues (Amt. In crores)**

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<tr>
<th>Year</th>
<th>Public Issues</th>
<th>Rights Issues</th>
<th>Total</th>
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<td></td>
<td>No. of Issues</td>
<td>% increase over previous year</td>
<td>No. of Issues</td>
</tr>
<tr>
<td>1992-93</td>
<td>7034 (35.48)</td>
<td>66.92</td>
<td>12792 (64.52)</td>
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<td>1993-94</td>
<td>11741 (60.20)</td>
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<td>7761 (39.80)</td>
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<td>1994-95</td>
<td>19677 (74.49)</td>
<td>-47.09</td>
<td>6740 (25.51)</td>
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<td>1995-96</td>
<td>10411 (64.38)</td>
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<td>7760 (74.45)</td>
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<td>1411 (44.96)</td>
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<td>1999-00</td>
<td>4026 (78.17)</td>
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<td>2000-01</td>
<td>4362 (89.20)</td>
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<td>528 (10.80)</td>
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<td>2001-02</td>
<td>4980 (87.49)</td>
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<td>2002-03</td>
<td>1407 (74.92)</td>
<td>92.96</td>
<td>471 (25.08)</td>
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<td>2003-04</td>
<td>2715 (84.61)</td>
<td>247.37</td>
<td>495 (15.39)</td>
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<td>2004-05</td>
<td>9431 (73.42)</td>
<td>-20.73</td>
<td>3415 (26.58)</td>
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CAGR: -9.63 - 20.73 - 13.48

Source: RBI Bulletin of respective years
SOCIAL ACCOUNTING: A LANGUAGE OF SOCIETAL CONCERNS

*Renu Jatana

ABSTRACT
The role of accounting activity is not limited to debits and credits of financial transactions of the business. In course of time, it was realized that decision making in such business entities did have an impact on the society in terms of cash and benefits which are of vital concern to community welfare. The sociological analysis have popularised the view that different institutions of the society are closely interlinked and they effect one another. A change in one institution invariably promotes change in other institutions as well. The resources they make use of are not limited to that of the proprietors and the impact of their operations is felt also by many people who are in no way connected with the enterprises. Thus the modern business is regarded as an integral part of society and must have society's approval to function successfully.

SOCIAL ACCOUNTING
Accounting's often described as a science of measurement of income and wealth. In other words, social accounting may be described as a science of measurement of income and wealth of the nations in broader perspective. According to Prof. G.C. Maheshwari "Corporate Social reporting is an act of reporting by a business corporation about its social activities having a bearing on such issues such as ecology, working condition environment and the quality of life of the society at large and is in the social accounting concept have macro as well micro dimensions".

HISTORICAL BACKGROUND
The idea of social accounting was introduced first in 1758 in France by De Quency in a very vague manner. Lavoisier has developed accounting for Paris municipality. Latter on that concept was further developed by researchers of USA, UK and other countries. Prof. Hicks has suggested to include this concept in the study of economics. The other prominent experts were Bedford (1970), Estes (1978), Gambling (1976) Camerran (1979), Rutherford (1977), Gray (1980) and Mclray (1983). Elliot employs the term "Social Responsibility accounting which means a

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systematic assessment of and reporting on those parts of a company's activities that have a social impact.

The efforts of all such leading personalities have emerged the new literature concerning the impact of social change on accounting and make certain reforms in accounting in the light of societal concerns. The following discussion have been divided in two parts:

(A) National Accounting - Macro
(B) Enterprise Accounting - Micro

NATIONAL ACCOUNTING (MACRO)

Social accounting at the macro level is known as a national accounting. It is accounting of national welfare as reflected in the national income production, consumption, savings and national wealth. The recording of all these transactions are highly difficult and require more research in the area of accounting. However, the following dimensions may be included in national accounting -

(i) Estimation of national income and its accounting
(ii) Functional accounting - production, consumption, capital formation and external account.
(iii) Sectoral accounting - Business enterprise, household, Government and rest of the world.
(iv) National Balance Sheet.

The problems faced by national accounting are as follows:

(1) The simple double entry system cannot be applicable in national accounting for the following reasons:
   (a) opening statements of affairs cannot be prepare correctly as valuation of national assets and national liabilities are difficult,
   (b) large scale day to day transactions make impossible task,
   (c) stable money measurement principle cannot be applied as the value of money is constantly changed in national accounting,
   (d) external accounting may be in different currencies.

(2) The estimation of national income is also difficult. However by aggregating the national production can find out national income.

ENTERPRISE ACCOUNTING (MICRO)

The social accounting is popularly known as a social disclosure of business entity. The performance appraisal of enterprise lead to the social obligations and social responsiveness of firm. Now-a-days corporate sector is not simply profit making device, but it plays an important socio-economic role. In light of this, the government of India has issued guidelines for the public sector to exhibit expenditure on social overloads over and above the formal accounts. The private sector companies also prepare social balance sheet and social income statement for better corporate reporting.
Indian Journal of Accounting

The rational behind the concept is that the profit is not the sole criteria for evaluation of the firm. A firm may be considered efficient and viable if it 'contributes' to the society although it may or may not reflect a 'profit'. A non-profit firm is only ('sick' but a firm not making any contribution to the society may be termed as a 'social parasite'). This philosophy has advocates the social accounting for any enterprises. The problems faced by enterprise accounting are as follows:

(i) The business transactions have different characteristics and therefore it is difficult to decide separately social income and expenditure.

(ii) There is a legal compulsion on part of business unit to incorporate certain matters in a corporate reporting. It may create duplication of work for preparing final accounts.

SOCIAL CONCERNS

In the Indian context, the operation of Social Responsibility by the business organizations presents a mixed picture. There are certain large-sized professionally managed and progressive business entities owned by Tatas, Birlas and Ambanis etc which although aim for higher profiles, social responsibility is being pursued by them as a Corporate philosophy thereby they are serving the society in very many ways in the form of donations to institutions involved in the welfare of disabled, orphans and old age etc and also by directly involving themselves in taking up housing projects for poor and downtrodden, helping the masses - financially or otherwise - at times of calamities like floods, cyclones and earthquakes etc. Further, the Community Development/Social Welfare of Adivasis, Youth Clubs and setting up of training centres of allied vocations as also programmes like smallpox eradication, flood relief, drought and cyclone relief in Orissa, relief work in cyclones in Andhra Pradesh, Relief work during civil disturbances in Bihar and other similar activities which were undertaken by TISCO, certainly portray the Company's commitment towards the Societal Responsibility. It is also worth mentioning here that Banks like Central Bank of India have been in forefront in this noble task for which the timely actions like contributions to Prime Ministers' Relief Fund (PMRF) at times of Gujarat and Maharashtra earthquakes and Orissa Floods etc., manifest their commitment towards solving the problems of the society.

On the other hand, there are many business organizations, which do not look beyond their profit objective. Hence, it is the values, attitudes and basic philosophy which the organization imbibes and nurtures, that guides them towards the positive, neutral, or negative direction on social responsibility.

For rapid industrialization in the country we have adopted the socialist pattern of planning since Independence. At present India is in the liberalization and globalization for entering into 21st Century. The corporate sector is now more responsible to the society. The government of India have made several enactments for societal concerns. Some of these are as follows:

(1) The Indian constitution provides for the nationalization of any business enterprise in the public sector.
The Companies Act, 1952 provides that the Financial Statements of the company should exhibit true and fair view of the concern.

The manufacturing and other Companies (Auditors Report) Order 1975 has emphasized more detailed audit of the company which is popularly known as a social audit.

The Companies Amendments Act, 1988 has provided that the directors' report should include a report on the conservation of energy, technology absorption, foreign exchange earnings and outfox etc.

Labour legislations, economic legislations and other have highlighted social obligations. The SEBI and the Environment production Act also in same direction.

Procter and Gamble has a rich history of social endeavour over the last few years beginning with "Project Peace", an environmental education programme; 'Future Focus' the first ever career guidance service; Project 'Drishti' with the National Association for the Blind (NAB), a sight restoration project where they helped 150 girls their vision back; project open minds - a project with UNIVEF aimed at education of working children; 'Project Poshan' with UNICEF, to combat malnutrition and a partnership with Swayam Shikshan Prayog to open seven community resource centres to generate self-employment, education and micro-credit for the Kutch earthquake victims.

In today's competitive Scenario brand visibility, recognition, and awareness among the stakeholders can be achieved through a good CSR plan in place. 90 Pfizer employees participated in the 7 km Dream Run of the 2006 Mumbai Marathon.

Over and above the legal compulsion, some leading private sector and public sector companies provide social accounting, auditing and reporting in their annual reports. The most prominent are RELIANCE, TISCO, BHEL, HAL, ONGC, MMIC, H.MT, CSI, VOLTAS, BATA, COLGATE PALMOLIVE, GSFC, EXCEL, MADRAS REFINERY etc. They exhibit Social Income Statement, Social Balance Sheet, Social Overheads Value Added Statement, Human Resource Accounting and others as a social disclosures.

TISCO (1980) was the pioneer company in India for social audit. The three members committee (Justic Kotval, Prof. Kothari and Prof. Mavlankar) has submitted social report divided in five spheres, viz. (i) consumers, (ii) employees (iii) shareholders (iv) society and (v) local community. UTI has also formed a five member social audit committee to evaluate its social responsibility performance. In respect of public sector, the government of India, Ministry of Finance has issued the guidelines for inclusion of social overheads as a separate accounts, vide O.M. No. BPE-1 (17)/ADVCF 69 dt. 5-3-69. Therefore, it is true to say that the corporate giants of India are taking keen interest in the development of the society.

CONCLUSION

At last, let me make it very clear, the acceptance of social responsibility concept is not because of change in philosophy by businessmen, but it is purely and simply self-safety oriented movement. According to western economists and thinkers if the social responsibilities are not
accepted by the business, the state and the society will force it down. The selection of an economic activity need not necessarily be guided by profit motive alone, but the activity selected should be such that it benefits some sections of the society apart from the gain to the company. Such a change in attitude will help in building up goodwill and prestige for the company in the given society. The corporate sector can grow with the approval of the society.

As declared by the President of India, Dr. A.P.J. Abdul Kalam, the mission of our country being that by the year 2020, the India should become the 'Economic Super Power' in the entire World. This clarion call of the nation leads to a direction that by that time the Country should be free from all ills - be it Social, Economic or Cultural - and be self-sufficient in all walks of our life. In order to achieve this objective, every citizen of our Country has a constructive role towards the society. In this sacred mission, the business organizations have a greater role to play by owing social responsibility as one of its Corporate Objectives.

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LOYALTY TEST OF DIVIDEND: DOG INVESTING STRATEGY IN INDIAN CONTEXT

*Balappa Kanahalli  
**B.C. Sanjeevaiah

ABSTRACT

Investment in equity stocks by retail investors has been emerging in large scale in India due to reforms in capital market. Most of the investors of equity stocks have burnt their fingers in capital market on account of lack of knowledge about the strategies of investment to be followed in picking the stocks. Generally investment in stocks has been guided by ratios like P/E, PEG, D/Y etc. In American capital market, divided yield strategy of investment has worked wonders. Therefore, in Dow Jones market, it is being called as 'Dividing - Dog investing strategy'. Knowing this fully well, in India also Birla, Tata, HDFC, UTI and other mutual fund companies have launched their funds on 'Divided yield' format. Simple dividend yield, now-a-days has turned out to be the investment mantra of the market. Theoretically, such a strategy should not work in the market place at all. This is because the stock price captures the potential for total return from an investment, and dividends especially historical ones, should not matter. The market place, however, usually makes a mockery of such theories. This paper uses the name 'Dividend - Dog' s proxy for 'dividend yield' and makes an attempt to test the performance of dividend - yield investing strategy in comparison with indices and mutual funds in Indian context and also offers suggestion to retail investors.

INTRODUCTION

Investment in equity stocks by retail investors has been emerging in large scale in India due to reforms in capital market. Most of the investors of equity stocks have burnt their fingers in capital market on account of lack of knowledge about the strategies of investment to be followed in picking the stocks. Generally investment in stocks has been guided by ratios like P/E, PEG, D/Y etc. In American capital market, divided yield strategy of investment has worked wonders. Therefore, in Dow Jones market, it is being called as 'Dividing - Dog investing strategy'.

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TERMS USED

The following terms have been used in this paper.

1. **Return**: \( R = D_t + (P_t - P_{t-1}) / P_{t-1} \times 100 \)
   
   Where, \( R \) = Return in percent.
   
   \( D_t \) = Annual income/ cash dividends at the end of time period, \( t \).
   
   \( P_t \) = Security price, at the time period, \( t \) (closing / ending security price).
   
   \( P_{t-1} \) = Security price at time period, \( t-1 \) (opening / beginning security price).

2. **Dividend yield**: \( DY = \text{Dividend per share} / \text{Current market price of the share} \times 1000 \)

3. **Average return**: \( R = \Sigma R / N \)
   
   When, \( R \) = Average return, \( \Sigma \) = Summation operator, \( N \) = Number of years.

4. **Risk Adjusted Rate of Return (RAR)**: When the rate of return per unit of risk is expressed in terms of percentage, then it is called as Risk Adjusted Rate of Return (RAR). This could be calculated in two ways, those are as follow:

   a) On the basis of Standard Deviation (SD)
   
   \( \text{RAR} = \text{ARR} - \text{RRR} / \text{SD} \)
   
   Where, \( \text{ARR} \) = Actual rate of return.
   
   \( \text{RRR} \) = Required rate of return = \( \text{Rf} + \beta \times (\text{Rm} - \text{Rf}) \)
   
   Where, \( \text{Rf} \) = Risk - free rate of return
   
   \( \beta \) = Beta
   
   \( \text{Rm} \) = Market return.
   
   \( \text{SD} \) = Standard Deviation.

   b) On the basis of Beta (\( \beta \))

   \( \text{RAR} = \text{ARR} - \text{RRR} / \beta \)

   Where,

   \( \text{ARR} \) = Actual rate of return

   \( \text{RRR} \) = Required rate of return

   \( \beta \) = Beta.

5. **Small cap company**: It is a company whose market capitalizations less than 100 crores.

6. **Mid cap company**: It is a company whose market capitalization is more than 100 crores and less than 1000 crores.

7. **Free cash flow**: It is the difference between cash in flows after tax and additional working capital and capital expenditure required. Symbolically;

   Free cash flow = CFAT - Net current assets - Cap Ex.
8. **Bull market:** It is a market trend of rising prices.
9. **Beer market:** It is a market trend of falling prices.
10. **Price Earning Multiple:** It is the link between current market price of the share (CMP) and Earnings per share (EPS). Symbolically it is shown below:
    \[ P/E = \frac{\text{Current Market Price}}{\text{Earnings per share}} \]
11. **Price Earnings Growth (PEG):** It is the ratio between Price Earnings Multiple and Earnings Growth rate.
    Therefore, \( \text{PEG} = \frac{\text{Price Earning Ratio}}{\text{Growth Rate}} \)

**OBJECTIVES**

The following objectives have been set out for this:

i. To determine the average one-year return of the top-ten dividend yield stocks,
ii. To compare the average one-year total return of the top ten stocks with that of various indices and top-five performing equity funds,
iii. To see whether the investment in top-10 dividend yield stocks protect investors or not.
iv. To ascertain whether the superior return are attached only to top dividend stocks or not.

**METHODOLOGY**

The methodology adopted for this study is as follows:

First, top-10 stocks have been ranked on the basis of their respective dividend yields and allocation of capital is done in an equal manner. For instance the total of Rs. 100000 was allocated in 10 stocks of Rs. 10000 each. Second, the total average return is calculated for the stocks as well as for the indices using the following formula.

\[ \text{Return} \ (\bar{R}) = \frac{D_t \ (P_t - P_{t-1})}{P_{t-1} \times 100} \]

And the Average return \((\bar{R})\) is calculated using the following,

\[ \text{Average return} \ (\bar{R}) = \frac{\text{Total return of the specific stocks for the years}}{\text{No. of years}} \]

And finally, Average return \((\bar{R})\) calculated for the entire portfolio is compared with market return, return of various indices like BSE-100, CNX-500 etc, to understand the performance of dividend yield investing strategy.

**SOURCES OF INFORMATION**

Information for this study was gathered form secondary sources. Specifically from the following websites.

- National stock exchange  www.nseindia.com
- Bombay stock exchange  www.bseindia.com
- Association of material funds  www.amfindia.com
- and, business news paper like the Hindu business line, Business standard and the Economic times.
COVERAGE

Coverage of the study categorized into the following.

a. **Indices coverage:** BSE-100, CNX-500, Nifty, CNX-mid cap were considered for analysis and their composition was ascertained at the end of September each year from 1999-2004.

b. **Stocks coverage:** The top-tern dividend yield stocks at the end of September were identified for each of the indices.

c. **Mutual funds coverage:** The five top-performing equity mutual funds considered for analysis and comparison were Franklin India Bluechip, Franklin India Prima, Templeton Indian Growth, HDFC Equity and HDFC Top-200.

ANALYSIS

**Table 1**

Showing Top-Ten dividend yielding stocks

<table>
<thead>
<tr>
<th>Year</th>
<th>Indices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In BSE-100</td>
</tr>
<tr>
<td>Sept 2001- Sept2002</td>
<td>32.7</td>
</tr>
<tr>
<td>Sept 2002- Sept 2003</td>
<td>128.4</td>
</tr>
<tr>
<td>Sept 2003- Sept 2004</td>
<td>26.1</td>
</tr>
<tr>
<td>Average Annual Return (R)</td>
<td>34.5</td>
</tr>
<tr>
<td>Risk Adjusted Return (RAR)</td>
<td>0.6</td>
</tr>
</tbody>
</table>

**Table 2**

Showing indices performance in terms of return

<table>
<thead>
<tr>
<th>Year</th>
<th>Sensex</th>
<th>Nifty</th>
<th>BSE-100</th>
<th>BSE-200</th>
<th>CNX-500</th>
<th>CNX-Mcap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept 2000- Sept 2001</td>
<td>-31.3</td>
<td>-28.1</td>
<td>-36.8</td>
<td>-34.8</td>
<td>-36.9</td>
<td>-34.5</td>
</tr>
<tr>
<td>Sept 2001- Sept2002</td>
<td>6.4</td>
<td>5.4</td>
<td>12.3</td>
<td>22.6</td>
<td>18.4</td>
<td>31.3</td>
</tr>
<tr>
<td>Sept 2002- Sept 2003</td>
<td>48.9</td>
<td>47.1</td>
<td>57.0</td>
<td>62.1</td>
<td>64.8</td>
<td>78.8</td>
</tr>
<tr>
<td>Sept 2003- Sept 2004</td>
<td>25.9</td>
<td>23.5</td>
<td>29.6</td>
<td>27.6</td>
<td>29.4</td>
<td>56.2</td>
</tr>
<tr>
<td>Average Annual Return (R)</td>
<td>7.1</td>
<td>7.6</td>
<td>11.2</td>
<td>12.8</td>
<td>13.2</td>
<td>23.3</td>
</tr>
<tr>
<td>Risk Adjusted Return (RAR)</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.5</td>
</tr>
</tbody>
</table>

From the above, it is clear that the average annual total return for the five year period form Sept. 1999 to Sept.2004 (for the dividend dogs' portfolio) was higher than that of return form these indices themselves. Moreover, the average return was also higher than that of the average for the five top-performing equity mutual funds.
Kanahalli and Sanjeevaiah

The strategy based on investing in the CX-500 dividend dogs would have however, produced the best results. Such a strategy would have lost very little value in the period Sept.1999 to Sept.2000, which was similar to the performance of the top performing equity mutual funds in that period. In contrast, strategies based on the BSE-100, and the BSE-200 lost considerable value in that period. These two strategies also had a modest run from Sept. 2003 to Sept.2004. This is, however, compensated completely by the higher returns obtained in three out of the five years. Moreover, the CNX-500 strategy had the least annual fluctuation in returns.

The annual fluctuation in return was comparable to the volatility in annual return of the Nifty index. The average annual returns were, however, nearly six times higher than that of Nifty. On the parameter of fluctuation in returns, the BSE-100 index performed rather badly. The performance of BSE-200 was, however, better it was comparable to the equity funds.

Dividend yield strategy is usually compared to a race in which one of the participants has a head start. With a head start, you would naturally finish at the head of the pack. Indeed, this was true of the strategy only between Sept. 1999 and Sept.2001.

Since then, stocks with high dividend yields have delivered superior total return. The proportion of dividends in the total returns has declined. Consider 1999-2000. In that period, in term of prices, the top ten dividend yielding stocks of CNX-500 lost 15 per cent. The dividend yield was, however, significant at about 8.4 per cent. This brought down the average loss to about 3.7 per cent - a commendable performance for that year. Consider 2000-2001 average price gain -8.6 per cent, dividend yield-13.5 per cent. This catapulted the average total return to 26.4 per cent- an exceptional performance for that year, and the reason was dividends.

In contrast, in 2003.04, it was: price gains:52.7 per cent, dividend yield:10.2 per cent, total return :62.9. This strategy would have out performed even with out the dividend yield. Dividends were less important in 2001-2002 and 2002-2.3 too. What these signify is that dividend yields emerged as powerful tools to unearth value stocks in the past three years.

It would, however, be better to not to lay too much emphasis on this strategy's ability to deliver super-normal profits. There are two reasons; one, the superior returns may be explained equally well by small-cap investing. Investing in small-caps. The strategy of investing in the dividend dogs of CNX-500 essentially involves the same- investing in small caps.

In each of the 5 years, the market cap of five of the ten stocks chosen was less than Rs.100 crore. So, it can be argued that the returns were not due to dividends but due to the small cap bias. Second, the mid cap and small-cap stocks have been in the midst of a huge bull run since Sept.2001. Between Sept. 2001 and now, the sensex has appreciated almost 100 per cent. In the same period, CNX mid cap has delivered return of 266 per cent. This could explain the superior performance of the strategy.

Despite all these caveats, the strategy is attractive and may even be an indispensable tool for the retail investor. One, it could be sued to gain exposure to small cap stocks. That is important, because mutual funds avoid small cap stocks. Direct investing in small cap stocks is the only way to gain exposure.
Second, it protects you from downside in a bear market. For instance, between Sept. 2000 and Sept. 2001, the market lost value considerably- the Nifty shed a whopping 28 percent and other indices lost more. The dividend dogs' strategy, however, delivered significant positive returns. Small cap or not downside protection is valuable, especially when we are on top of a bull market.

The strategy can be improvised using subjective judgments. If you pick and choose form stocks boasting of high dividend yields rather than blindly invest, in the top dividend dogs, you may even generate better returns.

This way, we can even counter some of the bias inherent in any data analysis based on part price movements. This is precisely what equity mutual funds have in mind when they launch dividend yield funds.

One way of achieving that could be look into the company's cash flows. Add depreciation to net profits and deduct capital expenditure and change in net current assets. This would get you free cash flows. See if this has remained stable or rising. See if the dividends as a proportion of the cash flows are not substantially high. If the conditions are satisfied, you can then proceed to invest in the stocks. Alternatively, if you are not game for such mathematical drudgery, you can blindly use the 'dividend dogs' strategy as long as it is loyal to you. Why we make such a conclusion in fine, is that the loyalty of dividend dogs have been tested even in UK and USA.

LIMITATIONS

Despite, the best results, this study suffers from the following limitations;

1. Performance test of investing on other parameters like P/E multiple, PEG, Market value to book value per share (MVPS.BVPS) would have been carried out in comparison with dividend dogs investing strategy, but has not been done.
2. No primary sources of information like opinion of brokers and investors is used to reinforce the truth.
3. No separate attempt was made to calculate the returns of the bull or bear phase for the stocks and indices.
4. No other supporting techniques to see the risk level are used to test the loyalty of dividend dogs in minimizing the risk.
5. The study was restricted only to 5 years period.

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MANAGING RISK IN BANKING INDUSTRY: MAPPING THE CHANGING CONTOURS

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*K. K. Jaiswal
*B. K. Singh
*G.C. Jaiswal

ABSTRACT

A sound and safe banking system is a prerequisite for the sustained growth of any economy. It is because of this the banking system of any economy is believed to be the mirror of that economy. On the same token, a sound and safe banking system depends heavily on the forces of environment that abound the economy and the business therein. If the forces of environment are sound, resilient and favourable, the banking system is bound to be sound, resilient and favourable to the sustained economic development. The paper makes an attempt to review the process of managing risk in Banking industry. It has also mapped the changing contours in this regard.

During the last one and a half decade, the Indian banking system witnessed a number of reforms which have not only changed the face of the Indian banking system but have more importantly stimulated high trajectory growth in banking business.1 Reforms and opening up of the economy has integrated India with global markets and market players. Since the reforms were enunciated in 1990, the Indian banking industry, even though slowly, has been undoubtedly imbibing the sound global practices to become resilient and financially stronger so as to withstand the rising risk threats emanating from rapidly changing business contours and paradigms.2 No denying, the risk has always been there in the banking business. But, the issue of effective management of risk in banks has gained prominence only lately. More so, in the sequel of earlier reforms, the policy planners and scholars are working on full capital account convertibility propositions. The economy is keenly awaiting the policy framework in this regard. Certainly, this will put the Indian banks on urgency for upgrading and strengthening their financial health and I.T. capabilities. The banking industry has to read the writing on the wall

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and should realise that the growing deregulation of the economy and its gradual integration with global markets have widened and deepened the risk horizon and thus there is a greater need for a focussed strategy on risk management in banks.³

2. THE BRICS CONCEPT AND EMERGING RISK AREAS

In the recent past, the world economic power has witnessed a paradigm shift; a shift from the developed countries to the emerging economies popularly known as BRICS economies. BRICS represents the BRAZIL, RUSSIA, INDIA, CHINA and SOUTH AFRICA. The Goldman Sachs Report, highlights the inherent potential and strength of the BRICS for sustained growth in future. The report accords the pride of place to India and sees India on a high growth trajectory with potential to register fastest growth within the group.⁴ The growth potential of the Indian economy presents an equally bright opportunity for Indian banks to grow and develop at a faster pace. Catching pace with the high trajectory growth of the economy, the Indian banking industry can unfold its own growth potential while realising and sustaining the growth potential of the economy.

Let us now touch upon the 'changing face of the Indian banking industry'⁵ so as to develop a better understanding about the risk threats emanating from the rapidly changing world order. Consider, for example, the infrastructure financing. India has been a poor economy in infrastructure. However, there has been a welcome change in the recent past. Now, in the post reform era, infrastructure development is one of the key drivers of economic development. There has been substantial investment in development of infrastructure in the economy. Power generation, telecom, highways with widened and increased lanes, better roads, new ports, and airports matching with international standards are a few areas which have been receiving huge investment from banks and financial institutions.

Though agriculture constitutes only 20% of the India's GDP, the rural economy contributes about 50% of GDP. The Rural Economy is backed with a consuming population size of about 780 million people. As of today these people have limited access to financial services and banks. Population per bank branch comes out to be 22,793. Therefore, still today a high proportion of agricultural lending is from informal sources. Since the predominantly agriculture dependent 'Rural Economy' (including agriculture and other than agriculture sectors) contributes significantly to the country's GDP, the Indian banks are now concentrating on this sector.⁶ Being convinced that lending in rural economy is a profitable proposition, the banks are keen to play a greater role there by extending finance directly or through micro financing institutions. They are viewing the potential rural prosperity that they can harvest by pumping in funds to their development needs.

Like infrastructure and rural economy, the other sectors of the economy have also changed. These have led to a significant change in the banking business environment and have thrown open the banking sector to several challenges and risks. Briefly, the challenges and risks faced by Indian banks⁷ today may be listed as follows:
1. Poor credit culture in the economy,
2. Highly unpredictable market behaviour of players,
3. Lack of product expertise,
4. A limited range of products,
5. Concentration on corporate and big clients,
6. Rigid and non-innovative practices,
7. Retail and structured finance,
8. Small transaction sizes, Poor and less efficient distribution expertise,
9. Reliance on branch channel and human intervention
10. High unit cost of delivery,
11. Poor corporate governance practices in banks as revealed by mounting NPAs and wilful defaulters,
12. Technology poor for both customers and internal functions, and
13. Capital allocation and channelling mechanism is inefficient.

Developing a better understanding about the risk threats will enable a more efficient and effective management of risk. Only then the Indian banks and the financial institutions can come up to the expectations and play a greater and pivotal role in unfolding and realising the confidence posed in it by the believers of the BRICS story.

THE RISK MANAGEMENT PREMISE FOR BANKS

1. **Building a Robust Business Platform**

   In view of the changing face of the Indian banking industry and the challenges and risks faced by Indian banks, the banks must build a Robust Platform which is Strong enough to withstand Risk:

1. Acquire market knowledge and be aware of changes taking place in the market,
2. Deep penetration of the market,
3. Acquire product knowledge,
4. Develop multiple product portfolio,
5. Building strong and efficient distribution system,
6. Using a combination of channels to completely cover selected areas,
7. Going beyond branch coverage,
8. Focus on enhancing efficiency,
9. Reducing the average operating costs
10. Efforts to economise cost-to-serve,
11. Improve capital allocation mechanism,
12. Manage innovation, develop new products and associated risks,
13. Develop the learning organisation,
14. Not only manage the change, strive for leading the change,
15. Ability to manage the increasingly complex environment,
16. Using technology for ensuring increased returns on investment 9,
17. Develop a flexible model for operation,
18. Leaving rigidity tapping the Low-income customers even of the rural economy,
19. Multiple channels,
20. Branch expansion only at selected locations,
21. Novel ways of doing business such as Franchisees, Internet kiosks, MFI partners, etc.,
22. Flexibility to rapid scale up and scale down.

2 Division of Risk and the Three Pillars to Bear the Three Risks 10

Having built the robust platform for doing business on sound footing, banks should resort to double-pronged approach to manage the risk. First, it should explore and identify the probable dangers and risk areas. The effort should be like a fine scanner of the forces which define the business game plan. Second, depending on the nature of activity, the risk segments should be strictly classified into three distinct categories, i.e., (I) Credit Risk, (II) Market Risk, and (III) Operational Risk. Third, the banks should develop three risk bearing pillars, i.e., (I) the pillar of Minimum Capital, (II) the pillar of Supervisory Control and Review, and (III) the pillar of Market Discipline.

Division of Risk

The division of risk into three broad categories- Credit Risk, Market Risk, and Operational Risk- forms the basic super structure of a healthy, sound, consistent and proactive Risk Management System not only for banking business, but for all business entities. In simple terms, Credit Risk emanates from the chances of default of the loan taker and of the counter party in respect of various funded and non-funded exposures and treasury operations.

The Market Risk for a bank arises primarily when the market variables in the form of liquidity constraints, prices, exchange rates etc. change adversely.

Operational risk differs from other banking risks. This risk is not directly taken in return for an expected reward. It is taken as implicit in the ordinary course of corporate activity, which has the potential to affect the risk management process. Precisely, the operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition of operational risk includes legal risk, but
excludes strategic and reputational risks. According to Basel Committee, the operational risk consists of the following seven types: (i) internal fraud; (ii) external fraud; (iii) employment practices and workplace safety; (iv) clients, products and business practices; (v) damage to physical assets; (vi) business disruption and system failures; and (vii) execution, delivery and process management.

Thus, operational risk for a bank is an omnibus risk and contains the ingredients of Credit Risk and Market Risk as well. It should be remembered that the significance of the trio of risks (Credit Risk, Market Risk and Operational Risk) in banking business is not one and the same. It varies considerably from bank to bank in view of their respective size, complexity, risk philosophy, and appetite for risk. Some scholars and experts, as a rough guide, divide the risk composition for a bank as 95% for Credit Risk, 4% for Market Risk, and remainder 1% for Operational Risk. This percentage division of risk is only indicative and may vary widely from one banking environment to other banking environment as also from one bank to other bank. What is important to note is the fact that in banking business highest amount threat is there from Credit Risk and therefore the managerial focus should be placed on it. The managerial focus should then be on managing the Market Risk and finally on Operational Risk.

The Pillars to Bear the Three Risks

A house is built on load bearing pillars. The strength, safety, and longevity of the house is determined by the Pillars of the house. So is the case with Risk Management in banks. The three pillars, as we have noted earlier, deliver the positive strength to the Risk Management System. The Pillar I in the name of Minimum Capital provides the much needed shock-absorbing cushion capability to bank to bear the jolts of uncertainty. In case the business is faced with rough weather and faces the risk of any form, the Capital Pillar is there to bear this shock. It is for this reason the banks should maintain a minimum component of capital over and above the legal needs. This capital pillar will work like insurance cover for any vagaries in business environment. The bank should assess its Credit Risk, Market Risk, and Operational Risk, and based on that it should develop the Minimum Capital Pillar to bear them successfully.

The second pillar of sound risk management for banks should come up in the form of a strong Supervisory Review Process. The supervisory process should be based on certain key principles. These key principles are as follows:

(1) Banks should develop a proper system for assessing their overall capital adequacy in relation to their risk profile.

(2) Banks should have a strategy for maintaining their capital levels in relation to their risk profile.

(3) The supervisory aim should be to relate the capital to the level of risk. Therefore, the Supervisors should review and evaluate banks' capital adequacy assessments on a continuous basis. As and when the Supervisors find themselves not satisfied, they should take appropriate action.
Supervisors should ensure that banks operate with a capital above the minimum regulatory capital. Capital levels should include a buffer for uncertainties surrounding the banks.

Supervisors should ensure that that capital does not fall below the minimum level in any case. They should be in a position to intervene at an early stage so that they are enabled to prevent the capital from falling below the minimum levels.

The onus for supervisory function is vested with RBI which performs this job being external to banks. But, what is important to note is the fact that an external supervisory process can assess the risk when it has already crept in. By this time the damage would have taken place. Therefore, the moot suggestion is towards the development of internal supervisory mechanism for monitoring and control of risk within the bank. This twin pronged system of supervisory and review process on one hand provides for necessary actions by the RBI as the Central Bank of the economy, and on the other hand it provides for due safeguards internally on an on-going basis through a system of internal supervision and control. This will ensure that any sudden hiccups will not find strength to go beyond unmanageable propositions and thus cannot cause serious damage to the system.

The third pillar of sound and healthy risk management premise should be there in the name of Market Discipline. The market discipline refers to full disclosure and transparent operations of banks. Banks should operate with transparency and full disclosure to the Public. This implies that a bank should adhere to sound governance and ethical practices and must be fully market discipline oriented. Risk culture in the bank should be developed so that the bank remains fully market disciplined with all its employees functioning in full transparency.

6. CONCLUSION

The Basel II Accord does provide a good risk management guideline for banks. Even though the guidelines are comprehensive, they do not cover many of intrinsic risk issues. Indian banking system is in a phase of rapid change. More often than not the risk profile of banks change and the issues defining them are not well understood by the bank management. More so, the bank management in India has always been at a distance from risk profiling, and rarely the bank management’s prepared risk inventory. Thus, their efforts to manage risk have seldom been exact and effective. Therefore, increased capital, as suggested in Basel II Accord, does provide a very effective risk management framework for banks. However, it should not be viewed as the only and ultimate option for risk management. For effective risk management in banks, besides the provisions of Basel II Accord, other means must also be considered. Even if the individual risks are well managed the same may not be sufficient to mitigate the composite risk profile of the bank as a unit on enterprise-wide frame. Therefore, a composite risk-view should be developed for the bank as a whole. While individual risks require risk-specific understanding and more typical skills to manage them, the composite risk perspective requires strategic understanding and projective skills for risk profiling.
REFERENCES

1. With the Indian economy, the Indian banking system too witnessed rapid transformation through deregulation and various liberalisation measures. Many of the reforms relating to banking and financial sector were recommended by the Narasimham Committee, which resulted into greater deepening and widening of the sector embedding in it a greater flexibility and thus a greater exposure to risk. According to RBI Report on Trend and Progress of Banking in India, 2004-05, the robust macroeconomic environment continued to underpin the financial performance of Indian banks during 2004-05, with major bank groups successfully weathering the impact of an upturn in interest rate cycle. Banks continued to earn sizeable profits. Asset quality of scheduled commercial banks improved further. Capital base of banks kept pace with the sharp increase in risk-weighted assets. - Report on Trend and Progress of Banking in India 2004-05, Website Copy, p. 3

2. It is worth mentioning here that the reforms in financial sector have saved the day for India when our country emerged as a dominant one of the few which escaped the South Asian meltdown unscathed.

3. The banks operate with the resources of the society- the resources that they get as deposits from people at large. People transfer their small savings to banks in utmost trust. Therefore, the banks are primarily under moral and ethical obligation to ensure safety of funds while deploying these resources for maximum benefit of their owners.

4. India is presently the sixth largest economy in foreign exchange reserves and is poised to become the third largest economy in PPP by the year 2025. The world is identifying India as the hub for world manufacturing. The size of the Indian banking sector has also registered a welcome rise. It has gone up from Rs.5,984 billion in 1995 to over Rs.36,105 billion in 2006; a rise of over six times.

5. According to latest reports on Trend and Progress of Banking in India, there are over 200 commercial banks in India. Of the total banks, over 130 are Regional Rural Banks. The banks are operating with about 68,000, of which about 70% are in rural/semi-urban areas.

6. The future belongs to those banks which visualise the rural economy correctly and take the first mover advantage by striving to capture the vast but yet untapped market.

7. India has over six lakh villages which are yet not adequately represented by banks. About 60% of the Indian population is still outside the banking fold. This undoubtedly reveals the failure of the Indian banking. But, at the same time, it also presents the growth potential that the Indian banks can tap and realise.

8. The nitty-gritty of the process of managing risk under the premise suggested is not discussed here in this paper, as this demands an exhaustive analysis depending on the nature of bank and its scale of operation.

9. Technology has now become a Key Success Factor (KSF) for banking business in India. Instead of being business enabler, technology has now become a business driver. As such, intelligent use of modern technology in banks will help cut the costs significantly. Technology by its very nature drives product innovation irrespective of industry in which it is being used. It also makes the organisation more agile, swift, and nimble.
10. The discussion in this section is based on the propositions laid down in the Basel II Accord. "Given the financial innovations and growing complexity of financial transactions, the Basel Committee on Banking Supervision released the New Capital Adequacy Framework (Basel II) on June 26, 2004 which is based on three pillars of minimum capital requirements, supervisory review and market discipline. The revised framework has been designed to provide options to banks and banking systems, for determining the capital requirements for credit risk, market risk and operational risk and enables banks/supervisors to select approaches that are most appropriate for their operations and financial markets. The revised framework is expected to promote adoption of stronger risk management practices in banks." - Report on Trend and Progress of Banking in India 2004-05, Website Copy, p. 31

11. Supervisory Review Process recognises the responsibility of bank management in developing an internal capital adequacy assessment process and setting capital targets that are commensurate with bank's risk profile and control environment. Supervisors are expected to evaluate how well banks are assessing their capital needs relative to risk and to intervene where appropriate.
MARKET ORIENTED ACCOUNTING

*Kamran Sultan
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ABSTRACT

Our present scenario of accounting education needs a new look. The need has come to develop market oriented accounting.

Our present scenario of accounting education and profession is quantitatively rich. We have two national level professional institutes - ICAI established in 1948 and ICWAI in 1959. Both of them are of international repute. In addition, we produce sizeable number of accounting graduates and post graduates through our universities and affiliated colleges with their B.Com. and M.Com. degrees. Besides, we have specialised department of accounting imparting education for M.Com. (Accounting) in almost all the universities of Rajasthan. Further, we have All India bodies of Indian Commerce Association and Indian Accounting Association (having hosted around 25 and 50 conferences respectively) to promote qualitative deliberations in accounting education and profession. Moreover, CFA and CS are two other professional degrees attracting large number of students having the orientation of accounting. The paper makes an attempt to review accounting education in the changed scenario.

PRESENT SCENARIO

The present structure of accounting education and profession has the following features:

A few students of Commerce after doing Higher Secondary or 10+2 examination generally opt for professional courses. They treat B.Com. as second grade degree (only for making them eligible for various competitions). Almost 20 to 30% of the students who are doing B.Com. at present from various universities and colleges are enrolled for professional courses.

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Our post graduate degrees in commerce are in a very bad shape. They cannot be used as terminal degree. Even for teaching positions also, teaching degrees of B.Ed. and Ph.D. are required. Only 5 to 10% of commerce graduates join the P.G. Programme. This has forced the university administrators to open this course to the students of other discipline. Thus a commerce post graduate gets a degree which do not have any relevance in job market.

There is lot of repetition of curricula from 10+2 course to degree and P.G. levels. The topics like funds flow, cash flow, ratio analysis are taught to the students at all levels. Even the syllabus of CA and ICWA have more than 80% contents common, Accounting, Taxation, Law, Cost Accounting and Management Programmes have identical curricula in both the courses. Even the course contents CS have also more than 60% common vis-à-vis there courses.

Except C.A., all other courses in accounting lack practical orientation. Due to this, industries and business do not have any preference for commerce graduates. Even post graduate in commerce feels uncomfortable in filling a loan application form from bank. In most of the cases, science graduates are preferred for accounting work due to these scientific temperament.

Most unfortunate part about our accounting education is that they lack freshness and newness in tune with the needs of present day environment. For the sake of refinements, some batches are to be put in existing curricula. However, this process has overloaded the existing 'syllabus. For example, royalty accounts, entries relating to issue of shares and debentures etc. have lost much of their relevance. This over loaded syllabus has affected the quantum and quality of practical knowledge.

Collaboration amongst the professional bodies and academic institutions is very insignificant. Except for Ph.D. registrations (69 universities for CA and 32 including three IIM universities for ICWA) and organisation of seminars, the collaborative agreements between professional bodies and academic institutions are rare.

Accounting as a course is being taught in management, commerce and engineering. In these disciplines, the pedagogy used will be different and the expectations from the course are also different.

MARKET ORIENTED ACCOUNTING

The existing accounting education has been structured by keeping in mind the controlled regime, mixed economy and progressive role of the public sector. Formerly, our graduates used to get jobs in banks, insurance sector, railways, posts & telegraphs, public enterprises and a few private establishments Chartered Accountants and Cost Accountants used to go for tax audit and cost audit. Accountants having P.G. Degree used to get teaching jobs, research positions and higher accounting positions in private organisations. Now, many of these positions have exhausted. We have to find newer places for the accountants. We have to restructure our
accounting education to suit the newer requirements of changed environment. The new environment expects the contribution of accountants mainly in the following areas:

- Computerised Accounting System.
- Environmental Accounting and Auditing,
- International Accounting.
- High Tech Audit.
- Accounting System for SS1 Units and Agriculture.
- Social and Human Resource Accounting.
- Security Market and Portfolio Management.
- Merchant Banking and Financial Services.
- Mergers, Amalgamations, Absorptions and Reconstructions.
- Consultancy in Control and Decision making.

Gone are the days when accountants were regarded as mere book keeper. Finance, Audit, Security Analysis, Tax along with Globalised accounting (FAST-C) is the need of the hour. Audit will go hi-tech as the professionals will have to evolve newer strategies for tackling scams and financial scandals. For giving a market orientation, our degrees should have the thrust in the following areas.

- Under graduate degree in Accounting
- At least 40% Input of Computer
- Diplomas in Accounting (Entry 10+2)
- SSI and Agriculture
- Post Graduate Degree in Accounting
- International Accounting, Human Resource accounting and Environment accounting.
- P.G. Diploma in Environmental Accounting and Audit
- Environmental Accounting and Audit
- C.A.
- More towards consultancy and High Tech Audit.
- Certificate Courses in Accounting
- Should come out modules for Security Analysis, International Accounting and Taxation.
- ICWA
- More towards Management Accounting, control accounting and MIS.

Our undergraduate course should be redesigned so that we may have Diplomas in Merchant Banking, Security Analysis, Taxation and International accounting to meet the job requirements at lower level. UGC has already introduced a few vocational courses in the sphere of sales management, income tax etc. In order to make our courses market oriented, there is a need to introduce practical orientation in all the courses. Even today also, CA is the most prized accounting degree due to its emphasis on practical orientation.
BOOK REVIEWS

Financial Policy and Management Accounting
Publisher: Prentice-Hall of India Private Limited, New Delhi

This edition is completely revised, updated and reorganised version. It contains 14 chapters synthesising the two disciplines. Some basic concepts of finance, comprising time value of money and Risk Return Analysis in Section I and II are the distinguishing features of this book. The impact of AS-3 (Revised) on the cash flow analysis has been discussed with proper explanations and illustration in chapter 6. Indian Practices in Financial Management and Management Accounting have been cited at appropriate places. Chapterwise answers of Exercises, Worked out problems, Lucidly written concepts and theories, Chapterwise references are the strengths of this book. This book will be useful to the Undergraduate and Postgraduate students of Commerce, Management and Professional Courses like ICWA and CA.

Dr. Nageshwar Rao, JNIBM, Vikram University, Ujjain

Taxmann's Corporate Financial Reporting: Theory and Practice (CA/M.Com./MBA/ICWA/ICSI)
Publisher: Taxmann Allied Services (P.) Ltd., New Delhi

This book has been divided into three parts. Part one has three chapters, Part two has eight chapters, Part three has 10 chapters. It provides comprehensive, updated, balanced coverage to help the CA, M.Com., MBA, ICWA and ICSI programme students in understanding accounting environment, accounting theories, approaches and methodologies, financial statement components and contemporary issues in company financial reporting. This book has got a clear concise and student-friendly presentation.

Dr. M.B. Shukla, M.G. Kashi Vidyapeeth, Varanasi

Advanced Management Accounting: Text and Cases
Publisher: S. Chand & Company Ltd., New Delhi
Author: Prof. Jawaharlal, Edition 2006, Price: Rs. 325

Managers in all types of organisations - profit, not-for-profit, service depend on management accounting. This test structured in six parts contains 'Specialised topics' such as Balance Score Card, Target Costing Kaizen Costing, Life-cycle costing, Theory of Constraints, Bench Marking, Activity Based Management, JIT etc. This book also contains managerial cases as well as self-assessment/multiple choice and discussion questions. This book is an ideal text for M.Com. and MBA students. It will be equally useful to the students of CA, ICWA, CFA and ACSI. The book can also be used by practicing managers and professionals.

Dr. Asha Ram Tripathi, BHU, Varanasi
Book Reviews

Advanced Financial Accounting
Publisher: Sultan Chand & Sons, New Delhi

This book lucidly and comprehensively covers 41 chapters in five sections with a total 724 solved illustrations. Accounting Standards AS-16 to AS-29 have also been included in this. A total of 1956 knowledge packed pages provides rich contents.

Dr. D. Mehta, Senior Lecturer, Pt. JNIBM, Vikram University, Ujjain

Principles and Practice of Insurance
Publisher: Sharda Pustak Bhawan, Allahabad
Author: Dr. M. Motihar, Second Revised Edition, 2007, Price: Rs. 280, Pages: 768

Insurance has one basic principle. In recent times several changes have taken place in the field of insurance business. This book has been divided into 28 distinct chapters. The former group of chapters are introductory and conceptual while the latter group of chapters give a detailed analysis of several insurance contracts under various circumstances. The book also discusses the scientific phases of life insurance with risk-measurement, rate-making principles, surplus etc. Considerable attention has been given to health insurance, group insurance, pension plans etc. Recent insurance legislations have also been incorporated. This book is useful to undergraduate, graduate and postgraduate Commerce/Management/Insurance students and practicing insurance personnel.

Dr. J.S. Panwar, Vallabhvidyanagar Anand

Corporate Accounting: Volume I (Text) and Volume II (Assignment Material cum Scanner Cum Solutions...... etc.)
Publisher: Sultan Chand & Sons, New Delhi

Volume - I contains 17 chapters with a total of 269 illustrations. This volume also incorporates the changes necessitated by recent regulations of IRDA. Every chapter has learning objectives at the outset. Volume - II provides a scanner of past 25 examinations of B.Com. and B.A. corporate secretaryship. Problems have been arranged under suitable sub-heading detailed answers have been also given, with the hints and/assumptions given at the end of tricky problems. The 'Scanner' in Volume - II deals with topics like - amalgamation, absorption consolidates Balance Sheets, company Final A/cs, and Bank A/c etc. These volumes are highly useful of first degree level students.

Dr D. Prabhakar Rao, Vizag

Back Volumes of INDIAN JOURNAL OF ACCOUNTING

Back Volumes of the last four years are available at a discounted and concessional price of Rs. 2000. Amount be paid by Demand Draft to “IAA - Chief Editor, Indian Journal of Accounting” payable at Ujjain.
IAA NEWS

Seminars Organised by IAA (Gwalior)
"Employment Opportunities for Commerce Graduates"

A one day seminar on "Employment Opportunities for Commerce Graduates" organised on September 14, 2006 at S.L.P. Govt. College, Morar under the auspices of Indian Accounting Association (Gwalior Branch). The objective of the seminar was to acquaint students regarding the career opportunities in commerce and management field. The function was presided over by the principal of S.L.P. College Dr. V.M. Sahai and Prof. Umesh Holani, Dean, Institute of Commerce and Management, Jiwaji University and Secretary, Gwalior Branch adorned the dais as chief guest. Prof. Umesh Holani underpinned some of the key steps for the over all development of personality of the students. He emphasised their key role in the overall development of the country. Dr. Yogesh Upadhyay, Reader, Institute of Management, Jiwaji University who was the main speaker on the occasion elucidated the career opportunities in the field of commerce and management. The programme was attended by a large number of students. They felt highly enlightened by the discourse. At the end of the programme Prof. M.R. Sahu, President, Gwalior Branch proposed vote of thanks.

"Historical Development of Accounting"

A one-day seminar was organised by Indian Accounting Association (Gwalior Branch) on November 06, 2006 on "Historical Development of Accounting" at Man Singh College, Gwalior. The seminar was presided by Prof. S.S. Rajput, Principal, Man Singh College and the Key Note speaker was Prof. Umesh Holani, Dean, Institute of Commerce and Management, Gwalior. Veteran Prof. Holani enunciated in detail the historical development of accounting situating it in the contemporary context. The occasion was attended by large number of academicians, practitioners, research scholars and students. The audience felt elevated by the seminal discourse at the seminar. At the end of the programme Prof. M.R. Sahu, President, Gwalior Branch proposed vote of thanks.

"Emerging Issues in Accounting and Commerce"

A one day seminar on "Emerging Issues in Accounting and Commerce" was organised on December 03, 2006 at Madhav College, Gwalior under the auspices of Indian Accounting Association (Gwalior Branch). The seminar was a resounding success as 96 delegates participated in the proceedings and about 40 quality research papers were presented in the two technical sessions. The programme was inaugurated by hon'ble Vice Chancellor of Jiwaji University Prof. O.P. Agrawal and was presided over by Prof. Nageshwar Rao, Chief Editor, Indian Journal of Accounting. Prof. M.R. Sahu, President, Gwalior Branch, Prof. Umesh Holani, Secretary, Gwalior Branch, Dr. S.K Singh, Joint Secretary, Gwalior Branch etc. were present along with other luminaries. Chairman for the Technical sessions were Prof. Navlekar and Prof. Umesh Holani respectively and subject expert was Prof. R.S. Sharma. Prof. Nageshwar Rao in the valedictory session exalted the accomplishments of Gwalior Branch in a very short time span. He applauded that Gwalior Branch has created a history by making more than 50 members within few months of its coming into existence. Rapporteurs for the sessions were Dr. Yogesh Upadhyay, Reader, Institute of Commerce and Management, Gwalior, Dr. R.C. Gupta, Asst. Prof., M.L.B. College, Gwalior and Dr. S.K. Shrivastava, Asst. Prof. S.L.P. College, Gwalior. At the end of the programme Prof. M.R. Sahu, President, Gwalior Branch proposed vote of thanks.
Report on the XXIX All India Accounting Conference and International Seminar on Accounting Education & Research
Organised under the Joint auspices of Delhi Branch of the Indian Accounting Association and Delhi University, Delhi, during 22-23, Dec. 2006.

The XXIX All India Accounting Conference and International Seminar on Accounting Education and Research was held during 22-23, Dec. 2006 in the University of Delhi. Prof. Deepak Peefal, the Vice-Chancellor of Delhi University graced the Inaugural Session as the Guest of Honour while Dr. Montek Singh Ahluwalia, Deputy Chairman, Planning Commission served as the Chief Guest. Prof. Shyam Sunder, President of American Accounting Association, USA, delivered the Key-Note Address while Prof. M.B. Shukla, the President of IAA, delivered the Presidential Address. The Chief Guest released the Souvenir of the Conference, while the copies of the Souvenir were distributed to all the delegates. Prof. J.L. Gupta, the Vice-Chancellor of Gurudaspur University has graced the Valedictory Function as the Chief Guest. The Valedictory session was concluded with a vote of thanks proposed by Prof. Shirin Rathore on behalf of the host institution and by Prof. D. Prabhakara Rao on behalf of the Indian Accounting Association.

The International Seminar on Accounting Education and Research was chaired by Prof. B. Banerjee of the University of Calcutta and Prof. Sugan Chand Jain of the University of Rajasthan. Prof. Rajendra P. Srivasthava of the University of Kansas, USA, enlightened the delegates about XBRL framework and its applications. A number of thought provoking research papers were presented followed by a discussion. The First Technical Session on Accounting for Service Sector was chaired by Prof. M. Srinivas of Osmania University. The Second Technical Session on Managing Risk and Return was chaired by Prof. B. Ramesh of Goa University. The Third Technical Session on Cost Management in the Competitive Environment was chaired by Prof. Dinesh K. Gupta of Punjab University, Chandigarh. All the sessions witnessed keen participation by the delegates and contributed several new ideas.

The General House elected Prof. D. Obul Reddy, Prof. Y. P. Singh, Prof. Prasanth Kumar, Dr. Muniraj and Dr. Vijay Batasa to the Executive for a period of three years. The Executive Committee resolved to coopt Prof. M. Srinivas; Dr. Lalit Gupta; Dr. K.Ch. AVSN Murthy; Dr. Anil Kumar, Dr. PK Bhandgar, Prof. M. Sulochana, Dr. Sanjay Bhayani, Prof. NC Tripathy, Dr. H.S. Ozia, besides Dr. G.L. Dave the 30th Conference Secretary, to the Executive for a period of one year. The proposals of Bhushavals, Ahmedabad and Jodhpur to host the 30th Conference are considered while approving in favour of Jodhpur Branch, with Prof. G.L. Dave, Head-Dept. of Accounting, JN Vyas University, Jodhpur, as the Conference Secretary. The General House approved the following topics and Chairmen for the 30th Annual Conference: International Seminar: Accounting Education and Research in the Competitive Environment with Prof. K. Eresi as Chairman; Technical Session-I: Transfer Pricing with Dr. Amarjeet Chopra as the Chairman; Technical Session-II: Accounting for Small and Medium Enterprises with Prof. Gulab Jaiswal as the Chairman; Technical Session-III: Shareholder Value Creation with Prof. R.K. Mittal as the Chairman. Members specially marked the occasion as Prof. MB Shukla is the President for both Indian Accounting Association and the Indian Commerce Association this year. Prof. M.B. Shukla is going to Preside over the 59th All India Commerce Conference to be held at the Department of Commerce & Management Studies, Andhra University, Visakhapatnam during 28-30, Dec. 2006. As a whole the 29th All India Accounting Conference was highly successful. The delegates expressed high degree of delight with the rich academic contributions in the Conference. Members expressed satisfaction at the arrangements made by the Conference Secretariat while thanking the first lady Conference Secretary of IAA Prof. Shirin Rathore, the Director of Colleges, Delhi University.

- Dr. D. PRABHAKARA RAO, General Secretary - IAA
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