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## **Assessing Bank Productivity Using the Malmquist Approach: A Case of Rajasthan and Undivided Andhra Pradesh RRBs**

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The paper endeavors to analyze the 'inter temporal' variations in 'Total Factor Productivity' (TFP) in regard to financial efficiency and financial inclusion among the Regional Rural Banks (RRBs) in Rajasthan and Un-divided Andhra Pradesh across the period of their amalgamation (1999-2011).

The study considered suitable proxies for 'financial efficiency (fe)' and 'financial inclusion' from the annual RRB balance sheet(s) data. It estimates Total Factor Productivity (TFP) of 'RRB's in regard to 'financial efficiency' and 'financial inclusion' across the period of their amalgamation using the 'Data Envelopment Analysis' (DEA) technique. The TFP estimates for the sample RRBs were computed using FEAR (Wilson, 2009a) program in R.

The findings of the study reveal that impact on the RRB amalgamation on TFP has been largely indifferent in regard to financial efficiency and financial inclusion among the sample RRBs of Rajasthan and Undivided AP. Such indifference could be attributed to the frequent, wavering state policy-revisions over the 2000s in the norms pertaining to bank-intermediation in general, and priority sector lending in particular (Srinivasan 2016). Such revisions had virtually vitiated the prospects of sustainable branch-level lending for RRBs as evidenced from the wide-ranging fluctuations in TFP apart from negative rates of TFP (for certain years) in regard to financial efficiency and inclusion as in case of Rajasthan RRBs.

## **Emerging Risks in Lease Rental Discounting Transactions**

*Kalpita Oza*

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With Real Estate Investment Trusts (REITs) failing to take off as an attractive funding alternative for commercial assets in India and other emerging markets, lease rental discounting (LRD) has emerged as the preferred method for funding of commercial (office and retail/mall) projects. Apart from becoming the preferred option for the borrowers, LRD is also perceived to be a low risk instrument for the lenders. This paper explores how over the past several quarters, certain structural changes are altering the risk profile of the LRD transactions, belying the perceived low risk nature of the instrument. The paper explores the sensitivity of LRD transaction to its major risk drivers viz. tenor and

interest rate through assumptions of a standard LRD model. It demonstrates the impact of these risk drivers and other factors like margin on rentals, TDS, property tax, etc. on the eligibility. It also demonstrates the impact of a rising interest rate and increasing tenor on the future security cover of the transaction. Further, the paper discusses about the possibility of a rental shortfall and implausibility of refinancing options in case of rising interest rate scenario from current levels. Finally, the paper provides recommendations for financing norms so as to mitigate these aforementioned risks in the portfolio.

## **Real Earnings Management: A Critical Review of Literature**

*Karan Gandhi*

The objective of this paper is to review contemporary studies examining Real Earnings Management (REM) and to synthesize the contributions made to this domain. It structures the review around the questions which are likely to be of interest to researchers. This study reviews and synthesizes ten-year literature, and also presents research issues and limitations.

The review identifies two significant advancements in REM literature, viz., identification of firms which might have managed real activities and the impact of corporate governance mechanisms on REM practices. Further, it presents various research issues: (i) to identify the most appropriate approach for identification of firms which are likely to engage in REM, (ii) to identify most appropriate model for estimation of normal level of discretionary expenses, (iii) to explore the perceptions of non-finance executives also, who have more direct influence on real activities of critical importance, (iv) to examine management of specific discretionary expenses, (v) to examine impact of International Financial Reporting Standards (IFRS) adoption, and change in governance regimes on choice of earnings management strategies, and (vi) to examine existing evidences on REM practices with meta-analysis technique. Lastly, this study also discusses few limitations of existing literature on REM.

The present study draws attention to the unaddressed research issues and explains how to better identify susceptible REM firms. This study also underscores the issues in REM literature which not only extends the frontiers of this domain but is also likely to increase the power of statistical tests in the future REM research.

## **Capital Adequacy of Indian Commercial Banks under Basel Regime – An Empirical Study**

*Ratna Barua*

Basel capital regulations rely on higher capital adequacy ratios as one of the key prudential tool. Indian banking sector had been able to comply with the minimum capital requirement as per the Basel I and Basel II norms. The minimum capital requirement of Indian banks has increased substantially under Basel III regime due to introduction of Capital Conservation Buffer. Indian banking sector has been going through a challenging phase with higher level of non-performing assets, lower profitability and erosion of capital since introduction of Basel III. Banks have been finding it difficult to meet statutory regulatory capital requirement. Therefore, the objective of this paper is to identify the factors determining the capital adequacy ratio of Indian banks. The study

empirically analyses the impact of profitability, risk management capacity and of macroeconomic factors on capital adequacy ratio of Scheduled Commercial Banks in India (SCBs) for the period 1999-2016. The study finds that bank specific variables like profitability, credit risk, capitalisation, leverage, credit growth are the most important determinants of capital adequacy of Indian banks. Macroeconomic variables also play a major role in determining capital adequacy of Indian banks.

## **Book Review**

### **Financial Economy: Evolutions at the Edge of Crisis**

**Smita Roy Trivedi and Sutanu Bhattacharya**

New York, Routledge, Taylor & Francis Books India Pvt. Ltd., 2018, pg. xiii+281, Rs. 795.

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