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A Unified Credit Risk Model for Predicting Default

Vandana Gupta

Credit Rating Agencies (CRAs) play a pivotal role in the assessment of credit risk of issuers of debt instruments. However, there is a growing need for models which can quantify this risk using accounting information and market data. Through 690 public limited companies in India over ten years, this study attempts to combine financial variables and the market-based default drivers in a hybrid form to predict corporate default. The structural model is a forward looking model, and being mathematical, the probability of default can be directly computed. For the reduced-form model, two different types of logistic regression are estimated: (a) model based on net worth, and (b) model based on ratings. The findings and results largely support the hypothesis that adding the accounting ratios as predictors significantly increases the predictive ability of the models. It is recommended that the theoretical KMV and reduced model together provides a more refined measure of the credit quality of a company. The logit model can forewarn a corporate distress in the future. The study identifies the significant ratios common across the models which can be used by financial institutions as key ratios for measuring default risk. Furthermore, the results show that the reduced-form statistical model based on net worth demonstrates highest predictive ability of default estimation.

Testing the Pecking Order Theory in the Indian Context: An Empirical Investigation

Madhumita Chakraborty

The pecking order hypothesis argues that there is a hierarchy in which firms meet their financing needs. They first resort to internal sources of funds, followed by debt and finally raise equity. The study attempts to test the validity of pecking order hypothesis in the Indian context. The data for the study covers the non-financial firms falling under BSE 500 index and the time period spans over 2002 to 2010. The evidence provided in this study supports the hypothesis in its semi-strong form for the whole sample period from 2002 to 2010 and does not indicate any change in pattern during the first and second parts of the total period. The hypothesis conjectures that small firms suffer from more information asymmetry, and therefore, should issue more debt in case of need. Testing this shows much poorer results for smaller firms than larger firms, thereby rejecting the pecking order hypothesis for the smaller firms.

Financial Development and Economic Growth: Evidence from India

Suresh Chand Aggarwal
Yogieta S Mehra

The relationship between financial development and economic growth remains an enigma for the economists. Extensive review of the literature points out conflicting empirical evidence. Results also vary depending on the choice of indicators, stage of development of the economy and kinds of tests used.

The present paper has explored the complex relationship between financial development and economic growth in India. The Indian banking sector is now well developed and the stock market also competes well with leading economies in terms of technological development, timely settlements, etc. However, it is still not clear whether India is integrated with the world financial markets or it is decoupled from it; as was experienced during the 2008 US financial crises.

The paper has used appropriate indicators of financial development and the real economy to understand the relationship. The data has been analyzed using appropriate econometric techniques after testing for stationarity and cointegration. ECM has also been conducted to explore the direction of relationship between indicators of economic growth and financial development.

Learning Organization: Scenario in Indian Banks

Rita Basu
Anjali Ray

In the emerging business environment the concept of a learning organization is increasingly becoming relevant for the banking system seeking to deal with complex external as well as internal challenges. Realizing the fact, the present researchers were interested to study the nature and characteristics of the Learning Organization in Indian banks. Objectives of the study were to identify the learning organization dimensions as perceived by the bank officers of nationalized and private sector banks, the relative importance of the components of Learning Organization of Indian banks and the nature of learning organization dimensions of the bank officers with respect to their perceived level of learning organization dimensions high and low. Results indicated marked specificity in the characteristics of Learning Organization for nationalized and private sector banks with significantly better perception by the nationalized banks. It was also observed that there exist significant indicators for level of perception of Learning Organization profile.

Book Reviews

Using SPSS – An Interactive Hands-on Approach

James B Cunningham
James O Aldrich

New Delhi, Sage Publications India Pvt. Ltd., 2012, xx+237 pp, Price: Rs. 350.00.

Reviewed by ***Dr Dhananjay Bapat,*** *Assistant Professor,* National Institute of Bank Management, Pune.

Money Matters: Macroeconomics and Financial Markets

Murali Iyengar

New Delhi, Sage Publications India Pvt. Ltd., 2012, xii+245 pp, Price: Rs.395.00.

Reviewed by ***Dr S V Kuvalekar****, Associate Professor* National Institute of Bank Management, Pune.