FEN-INDIA -JUNE 2017

[Modelling Stock Returns in India: Fama and French Revisited](https://mail.google.com/mail/u/0/#m_-5644158921351401587_paper_2991128)

[Rajeev Kumar Upadhyay](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1545290&partid=22912&did=346561&eid=535021), Delhi University Enclave, Department of Commerce

Since reforms, Indian security market has gone through significant changes and as result the efficiency of many models developed earlier might have been affected. The same may be true with three factors CAPM. This study aims to test the validity of three factors CAPM model proposed by Fama and French (1993) in changed Indian context. For the study, assessment period is 1999-2013 and BSE-500 has been taken as proxy for market. Results show that in Indian market, no size effect and a weak value effect exists but size or value of stocks cannot discriminate stocks robustly. Beta is significant and none of the three factors alone can explain the variations in the expected return but two or three factors together can explain to some degree. The ability of three factors CAPM in explaining the expected return increases during low GDP growth period and falls during high GDP growth period.

[Stock Market Efficiency Around Private Placement Announcements in India](https://mail.google.com/mail/u/0/#m_-6425733247275766905_paper_2989625)

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This study examines the stock price reactions around private placements announcement in India. The sample consists of information technology and infrastructure sector from India. Event study methodology is used to analyze the announcement impact of private placements. Results suggest that Information technology firms on an average, yield positive average abnormal returns around private placement announcement. During the announcement window (one day before and after the announcement), firms reflect negative abnormal return. The study supports signaling hypothesis and concludes that Indian stock market is semi-strong form efficient as the news induced in the stock market is reflected in the stock prices. These results are consistent with studies conducted in United States, Sweden, Canada, and New Zealand.

[Role of Commodity Futures on Indian Agricultural Commodity Market"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2988672&partid=22912&did=346331&eid=309351) Free Download

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Against the well-established fact that the usefulness and suitability of futures trading in developing the underlying agricultural commodity market, especially in an agriculture-based country like India are been questioned by various bodies. Through this work, it has been analyzing the role of futures trading on agricultural commodities. The effect of futures trading may be of two kinds, that is by way of hedging the price risk and the other way is through price discovery. The data collected for the analysis are the daily price history of spot and futures of five major agricultural commodities (Castor Seed, Chana, Chilli, Jeera, and Wheat) for a period of 7 years started from 2007 to 2014. Here it is revalidated the relationship between price movements of agricultural commodity futures and underlying spot prices by applying econometric analysis tools like Unit Root Test, and Engel-Granger test of Cointegration. The empirical findings proved that an existence of interrelationship between futures price movement and respective underlying spot prices in Indian agricultural commodity market.

c[A Non-Parametric Approach to Estimate Profit Efficiency of Indian Banks"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2988920&partid=22912&did=345977&eid=1578729) Free Download

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This study attempts to analyse the profit efficiency of Indian banks during 2008-2012 to offer an understanding of their business performance and trends during the period. The extant literature suggests that conventional ratio-based performance measures are inadequate to address the different issues related to the scope of activities of modern banking, viz. resource allocation, optimal strategy selection, inefficiencies associated with revenue side of banking operations. Sophisticated performance measurement techniques would be required to provide useful insights about the effectiveness, efficiency and stability of the banks. Hence, to examine the importance of these aspects for Indian banks, this study employs non parametric approach to estimate profit efficiencies of Indian banks. We use Data Envelopment Analysis (DEA), a non-parametric, mathematical programming technique, to estimate profit efficiency (PE) of 66 Indian banks (26 public, 19 private and 21 foreign banks). Profit efficiency is estimated by employing DEA at variable returns of scale (VRS). The study reinforces the use of DEA for measurement of the profit efficiency of Indian banks to get better insight about the banking operations. The study reports that large public, private and foreign sector banks were more profit efficient than small and medium banks in their respective groups. The outcomes point towards different ways of managing bank resources for improving efficiency of operations in terms of both input (cost) and output (revenue).

[Stock Market Reactions to India's 2016 Demonetization: Implications for Tax Evasion, Corruption, and Financial Constraints"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2983965&partid=22912&did=345114&eid=952306) Free Download

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On November 8, 2016, the Indian government made a surprise announcement that certain currency notes (representing 86% of the currency then in circulation) would no longer be legal tender (although they could be deposited in banks over a limited period). The stated reason for this sudden “demonetization” was to combat tax evasion and corruption associated with “unaccounted-for” cash. We compute abnormal returns for firms on the Indian stock market around this event, and compare patterns of abnormal returns for different subsamples of firms defined by industry, ownership structure, and other characteristics. There is little evidence that sectors thought to be associated with greater tax evasion or corruption experienced significantly different returns. However, we find substantial positive returns for banks and for state owned enterprises (SOEs), implying market expectations that are puzzling in some respects. The bank results appear to indicate a market expectation of a persistent increase in financial depth. We also find a pattern of higher returns for industries that are characterized by a greater dependence on external finance, possibly suggesting an expectation of an easing of financial constraints. The returns for SOEs may be due to possible indirect effects of the announcement on perceptions of future corruption among these firms.

[Financial Regulation and the Courts: A Comparative Study of Judicial Approach in India, the United States of America, and the United Kingdom"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2983606&partid=22912&did=344949&eid=847191) Free Download

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Financial regulation is a much debated topic for some time. The history of financial instruments started at a time when people started giving value to physical objects over and above its inherent utility. Right from the very beginning of their existence, it has been acknowledged that financial instruments are risky. There have been several legislative and regulatory attempts to regulate financial instruments. But every time the human ingenuity ensured that financial instruments remain afloat. Financial derivatives are a sub species of financial instruments No internationally accepted principles for regulation of financial instruments, especially financial derivatives exist. This article makes a comparative study of the approach taken by judiciary regarding the regulation of financial instruments in general and financial derivatives in particular. The US, UK and India are taken as sample countries, but major context is the Indian regulatory scenario.

["Commodity Options in India – The Way Forward"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2984494&partid=22912&did=344909&eid=820685) Free Download

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Financial Derivatives comprising mainly of futures and options have been around in India since a long time. Though both equity and currency options have been in existence in India for quite some time now, it is only recently that commodity options have been sought to be introduced in our country. This paper attempts to study the rationale for such a move at this point in time and the way forward. It is hoped that this paper will go a long way in adding to the current debate on whether this is indeed the correct stage in the Indian financial system to commence commodity options. Second and more importantly, we study the critical issue of determining the underlying for commodity options. Specifically, we examine how commodity options should devolve – whether on futures, spot (physical commodity) or be settled in cash and offer a few suggestions.

[Stock Returns, Aggregate Earnings Surprises, and Behavioural Finance - An Empirical Study on Indian Market](https://mail.google.com/mail/u/0/#m_7417311487383609286_paper_2981682)

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[Debt Financing and Shareholders’ Return: A Study of BSE 500 Companies](https://mail.google.com/mail/u/0/#m_7417311487383609286_paper_2982396)

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The main objective of the present paper is to review the field of behavioral finance, its new area, the Neuro finance, research carried out in this area. In order to achieve this goal, behavioral finance, its characteristics and Neuro finance are briefly presented. After that, a part of the research conducted on this new field will be discussed. Behavioral finance is one of the new fields of financial issues which is a combination of finance and psychology. The aim of behavioral finance is to study the behavior of investors and financial markets. It is concluded that the behavioral finance can explain some certain capital market behaviors that cannot be explained by existing theories. In recent trend the Carbon financing is an innovative funding tool that places a financial value on carbon emissions and allows companies wishing to offset their own emissions to buy carbon credits earned from sustainable projects. This allows for the financing of innovative projects that bring sustainable energy solutions to people living in developing countries worldwide this provides a means of increasing the use of fuel-efficient stoves which can help reduce tensions between refugees and host communities over competition for scarce natural resources, and the risk of respiratory infections caused by indoor air pollution.

[Do Indian Professional Investors Beat the Market?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2981655&partid=22912&did=344526&eid=517043) Free Download

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Is professional investing a loser’s game? Many studies were conducted to answer this question. In developed markets most of the studies conclude that professional investors are unable to beat the market or expectations of the investors. These results led to the creation of large passive investment market in developed markets. But, in case of emerging markets there is scope for generating better than market/expected returns through professional investment management. Existence of information asymmetry between management and market enables professional investors to beat the market/expected returns. The objective of this study is study if Indian professional investors (fund managers) earn return in excess of benchmark returns over different time periods. The study is based on the sample of 40 growth schemes of 15 fund houses that have been in existence for at least 15 years. Results of the study shows that the sample funds earned average excess returns over benchmark returns of 0.02% over 5 year period and 0.01% over 15 years period. These funds also have lower risk-return ratio compared to the same for benchmark portfolio. It seems Indian professional investors are able to beat the market.

[Pricing of Rainfall Derivatives Using Generalized Linear Modelling of Daily Rainfall Process"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2978611&partid=22912&did=343812&eid=1387769) Free Download

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The structure of a typical rainfall insurance is complex; the payoffs are based on many parameters such as rainfall volume, rainfall distribution (number of consecutive dry days), number of days with excess rainfall etc. Such a complex insurance structure is essential to minimize the basis risk and amply compensate a farmer for the loss of crop yield due to the rainfall weather event. To price such rainfall insurances and to trade any financial instrument based on rainfall index on the capital markets, the underlying daily rainfall process needs to be modelled. The daily rainfall modelling is essential because the trading of any financial instrument based on the rainfall index requires the pricing of the instrument contingent on the daily rainfall information as it becomes available.  
  
In this work, we price a rainfall derivative by modelling the underlying daily rainfall process using the generalized linear models (GLMs). The rainfall occurrence process is modelled using a binomial GLM and the rainfall intensity process is modelled using a quasi-likelihood GLM with gamma, Pareto and lognormal distribution assumptions. Though all the three distributional models simulate comparable means, the simulated standard deviation, skewness and excess kurtosis of the monsoon rainfall distribution is much higher than that obtained using the burn analysis. While the simulated standard deviation of total payoff of the derivative using the three models is comparable to the burn analysis, the total payoff computed using only the gamma model is comparable to that calculated using the burn analysis.

[Ownership Contingent Influence of Governance Structure on CEO Compensation: Need for Change in Governance Paradigm"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2975677&partid=22912&did=343284&eid=957156) Free Download

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The study examines the need for changes in the standard governance structure through investigation of the moderating effect of ownership identity and ownership concentration on the influence of standard governance structure on CEO compensation in companies with dominant owners in control.  
  
Using data from companies listed on the National Stock Exchange (NSE) of India that were a part of the diversified 100 stock index for the period 2007-2012, we find that the influence of standard governance structure on CEO compensation is indeed contingent on identity of the owner and concentration of ownership. Duality is the only governance measure that directly influences CEO compensation in family owned domestic private companies. Gender diversity and proportion of non-executive independent directors directly influence CEO compensation in corporate owned foreign private companies. The direction of influence of non-executive independent directors however supports the possibility of board capture by CEOs. In case of government companies, none of the governance measures directly influences CEO compensation. The key finding of the study are the meagre and in one instance an inappropriate (from governance point of view) influence of standard governance measures. As the decision on CEO compensation in case of companies with dominant owners in de facto control of board and executive management implies ‘principal-principal’ rather than ‘principal-agent’ conflict of interest, the results from the study suggest a re-think on the standard governance framework that is designed to deal with the latter conflict. A 2013 legislative initiative disenfranchising interested shareholders from voting on related party transactions including CEO compensation is a step in the right direction but much else remains to be done.  
  
Corporate governance frameworks across the world are derived from the frameworks proposed in the US and UK context of dispersed ownership. The framework is designed to deal essentially with ‘principal-agent’ conflict of interest. This ‘one size fits all’ approach may not ensure governance effectiveness in several situations that arise in functioning of organizations that require dealing with ‘principal-principal’ conflict. Our study on CEO compensation in the Indian context underlines the need for governance based on minority-shareholder-centered governance framework.

["Institutional Investors and the Indian Stock Market"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2975936&partid=22912&did=343275&eid=941749) Free Download

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An attempt is made in this paper to analyze and compare the different institutional investors’ investments in the Indian stock market. The chief categories of institutional investors considered in the study are Foreign Portfolio Investors (FIIs), Domestic institutional investors (DIIs) and Participatory Note investors (PNIs). The results of the study indicate that DIIs are negatively correlated with both PNIs and FIIs while there is a positive correlation between FIIs and PNIs. Further both FII and P-Note investors’ behavior is alike and they are predominantly short-term return seeking investors and fundamental factors are not found to be significantly explaining the changes in these inflows. The INR-USD exchange rate appeared to be the chief determinant of the PNIs and PNIs Granger causes FIIs. However in the case of domestic institutional investments are not influenced by the exchange rate. Further DIIs are not Granger caused by P-Note investments and FII investments. Therefore, it can be concluded that not all institutional investors act alike and the presence of DIIs in Indian market appears to be providing a kind of stability that is much needed in case of a sudden flight of foreign investments triggered by global events